

Impact of Corona Virus on African Economic Growth

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Abstract - The COVID-19 crisis is affecting the entire world economy and that of Africa. Some key sectors of the African economy are already experiencing a slowdown because of the pandemic. Tourism, air transport, and the oil sector are visibly impacted. The exogenous effects come from direct trade links between affected partner continents such as Asia, Europe and the United States; tourism; the decline in remittances from African Diaspora; Foreign Direct Investment and Official Development Assistance; illicit financing flows and domestic financial market tightening, etc. The endogenous effects occur because of the rapid spread of the virus in many African countries. On one hand, they are linked to morbidity and mortality. On the other hand, they lead to a disruption of economic activities. This may cause, a decrease in domestic demand in tax revenue due to the loss of oil and commodity prices coupled with an increase in public expenditure to safeguard human health and support economic activities. This study aims to evaluate the potential impact of the pandemic on various dimensions of African economies, the impact on the African economy is presented, with a discussion of some of the key measures being taken by African Union to mitigate the negative effects.

Keywords: COVID-19, Total Exports, Africa, Health Care, Education, External Trade, Financing, Mass Unemployment

I. INTRODUCTION

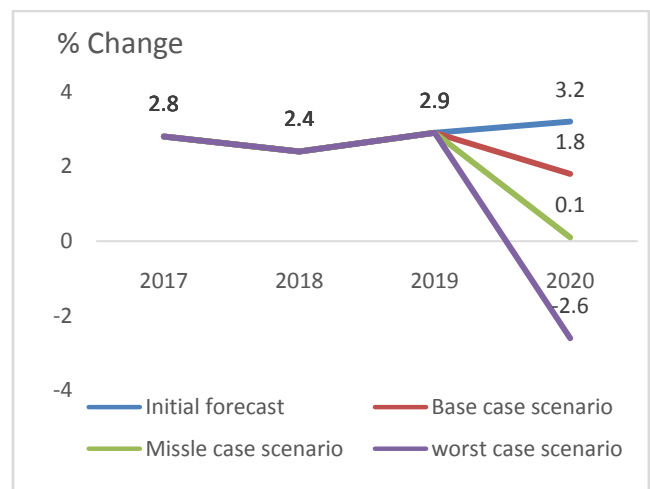
The corona virus pandemic continues to take its toll on the African continent. While the continent still accounts for relatively few deaths from the disease, the numbers are rising, with more than 4,700 confirmed cases and 127 deaths. As countries scramble to contain the virus and are affected by the efforts of other countries to do the same - the economic impacts grow. Amidst the slowing down of the Chinese economy with interruptions to production, the functioning of global supply chains has been disrupted. Companies across the world, irrespective of size, that are dependent upon inputs from China have started experiencing contractions in production. Transport being limited and even restricted among countries has further slowed global economic activities. Most importantly, some panic among consumers and firms has distorted usual consumption patterns and created market anomalies. Global financial markets have also been responsive to the changes and global stock indices have plunged [1].

China is a major exporter of commodities to African countries, and the economic contraction in China is expected to have spillover consequences for African countries through the negative impact on African businesses that rely heavily on China for the supply of primary and

intermediate raw materials. The corona virus crisis is affecting many African countries, and the number of confirmed cases has been rising rapidly with a particularly severe situation in South Africa, Egypt, Algeria, Morocco, and Cameroon.

A. Direct Shock - Economic Impact

COVID-19 is a significant headwind for growth in Africa. The uncertainty around the virus and the consequent policy actions, such as physical distancing and lockdowns, have led to a decline in demand for African products due to a sharp decline in global manufacturing activities, compounded by a decline in economic activity on the continent as the labor force remains at home to combat the virus. Against this backdrop, we estimate that, in a best-case scenario, Africa's average GDP growth will fall 1.4 percentage points, from 3.2 per cent to 1.8 per cent. In the worst-case scenario, Africa's economy could contract by up to 2.6 per cent in 2020 [2].



Source: ECA estimates, 2020

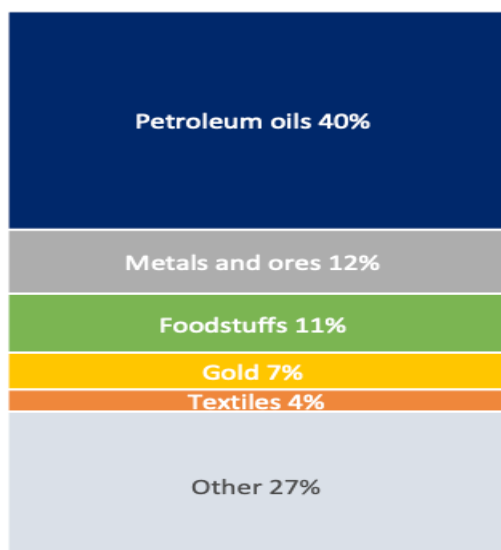
Fig. 1 Expected drop in growth from COVID-19 impact, ECA estimates

II. COMPOSITION OF AFRICA'S TOTAL EXPORTS

A. Indirect Shock – Ripple Effects

As the severity of COVID-19 emerged in February and March 2020, commodity prices plummeted for more than 67 per cent of African exports. The price of petroleum oils, which account for 40 per cent of African exports and about 7.4 per cent of total GDP in Africa, crashed more than 50

per cent to their lowest levels since 2003. Metal prices are down 20 per cent on December-end values, the FAO food price index lost 5 per cent in that period, while cotton – as proxy for textiles – fell 26 per cent. The exception is gold, an investment haven, which is up by 5 per cent.



Source: Based from ITC Trade Map Data, 2016- 18 average

Fig. 2 Composition of Africa’s total exports

The crashing of oil prices has considerable fiscal and exchange rate implications for Africa’s many fuel-oriented economies. We estimate a \$65 billion loss to fuel revenues, at a minimum, for 2020. Large gold exporters, such as Ghana, South Africa and Guinea, which account for 20 per cent, 17 per cent and 9 per cent of Africa’s gold exports, respectively, will experience a small compensatory benefit from the rise in the price of gold.

B. Impact on the Health Care Sector

The health systems in African countries are fragile and highly vulnerable to an outbreak compared to the health

systems of developed countries, there are concerns that the rising corona virus cases will overwhelm Africa’s fragile health infrastructure, and that many more Africans will die of diseases left untreated than from the virus or its complications.

C. Impact on Debt-Laden and Oil-Dependent African Countries

The immediate shock to African countries resulted from the global supply chain disruptions due to the lockdown in China and due to the falling oil price that hurt oil-dependent African countries such as Nigeria and Angola. For instance, during the corona virus crisis, Nigeria was exposed to a significant drop in oil prices which hit the Nigerian economy hard as it could not sell its oil to foreign buyers, and this led to loss of oil revenue to Nigeria.

D. Impact on Education

The government of many African countries temporarily closed all educational institutions to contain the spread of the COVID-19 pandemic, the nationwide school closures in many African countries are impacting over 85% of the Africa’s student population. Also, the closure of schools can lead to an increase in crime rate by the youth population. The fewer number of people on the street of African countries will decrease crimes such as burglaries but other types of crimes will increase such as break-ins or vandalism of offices and small businesses, increase in online fraud and increase in domestic violence due to the stay-home policies [3].

E. External Trade of Africa

The continent’s exports are dominated by raw materials, which subjects it to low offers from European, Asian, and American industries. The fall in crude oil prices and demand contraction also directly affect the growth of African countries.

TABLE I EXTERNAL TRADE OF AFRICA

African Exports	African imports
Moreover, these countries will need significant resources to fight the Covid-19 pandemic health and economic impact, about 70 percent of the April-loading cargoes of crude oil from Angola and Nigeria were still unsold, and other African oil exporters such as Gabon and Congo also have difficulty finding buyers. South Sudan and Eritrea are also affected by the collapsing trade and broken supply chains in China. China purchases account for 95 percent of all South Sudan’s exports and 58 percent of Eritrea’s.	Africa’s imports are hit by the Covid-19. The drop-in imports and the shortages of basic consumer goods imported from China have increased inflation in South Africa, Ghana, etc. Rwanda has recently imposed fixed prices for basic food items such as rice and cooking oil. Many small poor importers, traders and consumers in Nigeria, Uganda, Mozambique, and Niger are seriously affected by the crisis as they earn their livelihood trading Chinese products such as textiles, electronics, and householders’ goods.

Source: African Union, (2020), Impact of the Corona virus (COVID-19) on the African Economy policy, pp.1-30

F. Africa’s External Financing

The potential losses in tax revenues and external financing due to the disruption of economic activities will restraint the

capacities of African countries to finance their development and lead to the external value of the local currency falling and depreciation.

G. Mass Unemployment

In many African countries, up to 90% of the labor force is in informal employment. Nearly 20 million jobs, both in the formal and informal sectors, are threatened with destruction on the continent if the situation continues. The destruction of value chains, the lockdown of the population and the closing of restaurants, bars, retailers, informal commerce

etc. would lead to a disruption in many in- formal activities. Underutilization of capacity takes place due to factory closures (workers stay home, leaving capital and natural resources idle) as well as social distancing forcing workers to stay at home. Due to higher rates of contagion, immediate unemployment consequences of COVID-related business closures and negative demand shock.

TABLE II SUPPORTING EMPLOYMENT AND INCOMES

Premise/Concerns	Recommended Actions
Informal economic units and households Loss of demand for goods and services as well as disruptions in supply chains will lead to loss of employment and income, temporarily or long periods. For employees holding informal jobs in or for formal enterprises.	Economic units affected by shutdown could be compensated. Other measures include temporary exemptions from tax payments, remissions, discounts, deferred payments, advance or accelerated repayments, accelerated depreciation, etc.)

Source: International labor organization (ILO), 14 / April / 2020, The impact of the COVID-19 on the informal economy in Africa and the related policy responses, prepared by Annamarie K. Kiaga, ILO Specialist on Informal Economy in DWT Pretoria, based in CO-Harare, Frederic Lapeyre, Senior

H. Impact on the Biggest African Economies

The top five African economies (Nigeria, South Africa, Egypt, Algeria, and Morocco) represent more than 60% of Africa’s GDP. The level of the impact of Covid19 on these 5 economies will be representative for the whole of the African economy. Covid19 outbreak has taken a heavy toll on these economies, as most of them have the highest level of infection cases. Growth is expected to drop drastically in all of them.

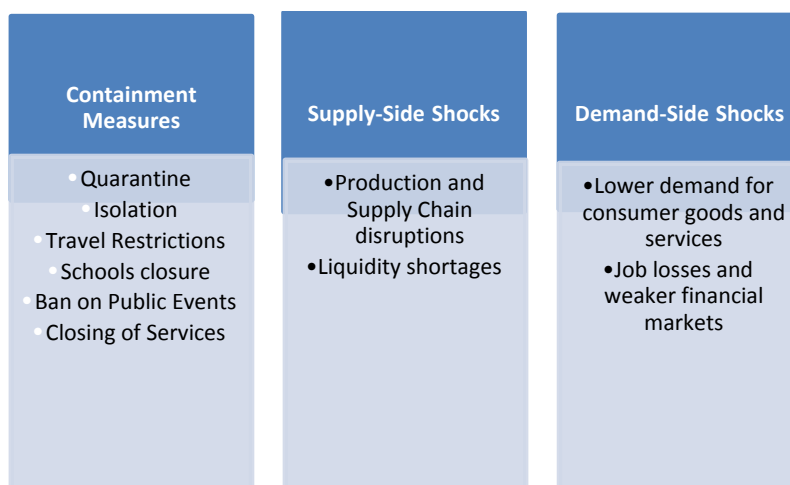
way, poverty can impact contagion, and contagion can impact poverty.

J. Impacts of the Containment Measures on African Economies

The containment measures following Covid19 are essential to flattening the Covid-19 curve but inflict both a demand- side and supply-side shock to economies worldwide. As shown in figure, on the supply-side, production and supply chain disruptions are causing an impact together with liquidity shortages. On the demand-side, lower global demand for consumer goods and services along with job losses and weaker financial markets are causing a negative impact [4]. Some major contributors to Africa’s GDP include agriculture, forestry & fishing, tourism, industry and manufacturing, mining, and the financial sector. Many of these sectors are now exposed due to the supply-side and demand-side shocks.

I. Social Impacts

The labor force of the continent, with an informality level over 80 %, often lack insurance for lost income. As schools, government institutions and businesses are shut down, many people are forced to go home with no alternative source of income, which constitutes a risk for increased poverty on the African continent. The lack of alternative sources of income also means a higher risk that people will not adhere to social distancing policies in African countries. In this

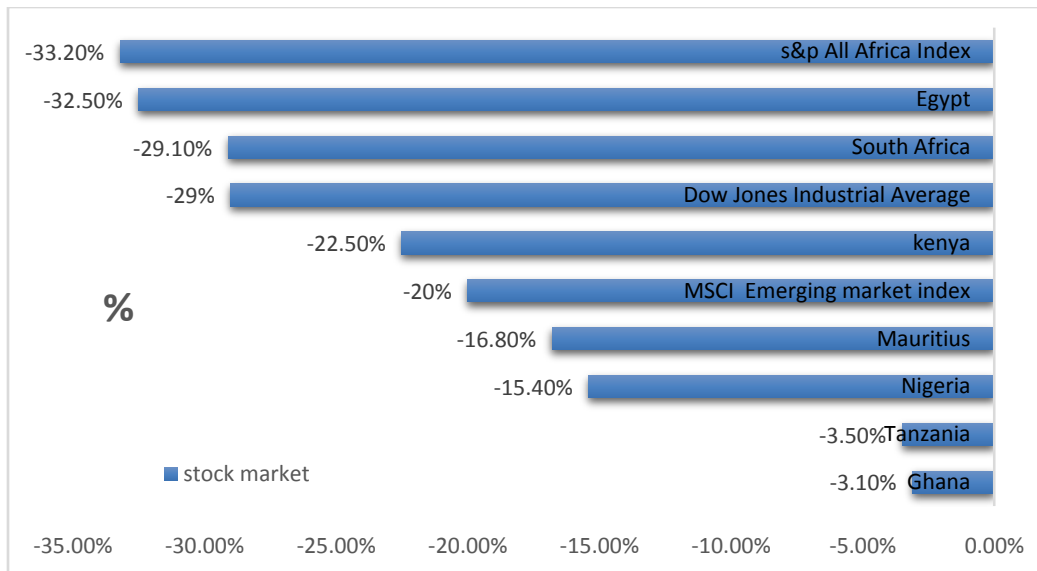


Source: African Development Bank (AfDB), 2020. African Economic Outlook: Developing Africa’s Workforce for the Future

Fig. 3 Containment Measures Causing Supply-Side and Demand-Side Shocks

In many of these sectors, workers cannot work from home, which increases job losses. In total, many companies are

threatened in Africa and bankruptcy or closure would lead to widespread job losses.



Source: UNHAPITAT, 09 April 2020, Covid-19: Socioeconomic Impacts on Africa, Discussion Paper, pp. 3-4

Fig. 4 Select Stock Market Equity Index Year to Date Returns

K. Tighter Financial Conditions

African equity markets have not been immune, with S&P All Africa index returns dropping by 30 percent since the beginning of the year, and large drops in Egypt, South Africa, Kenya, Mauritius, and Nigeria. The pullback from African markets as well as a projected decline in export revenues has led to depreciations of local currencies. These exchange rate depreciations will push up local inflation and trigger monetary policy and financial tightening.

In addition, exchange rate depreciations inflate local currency values of foreign currency debt and make debt management and servicing more challenging, a particular

threat in Africa, where an estimated one-third of countries are either in or at high risk of debt distress [5].

III. PROTECTION MEASURES AGAINST THE SPREAD OF THE VIRUS

Governments must prioritize mitigating the virus. On health systems, several policies are to be considered. One is to establish ICT application to monitor spread of COVID-19. Another is to consider preparing retired doctors and nurses to act in case of emergency, and support to affected areas. As well as, the government must make a plan to control the corona virus pandemic through as shown in graph.

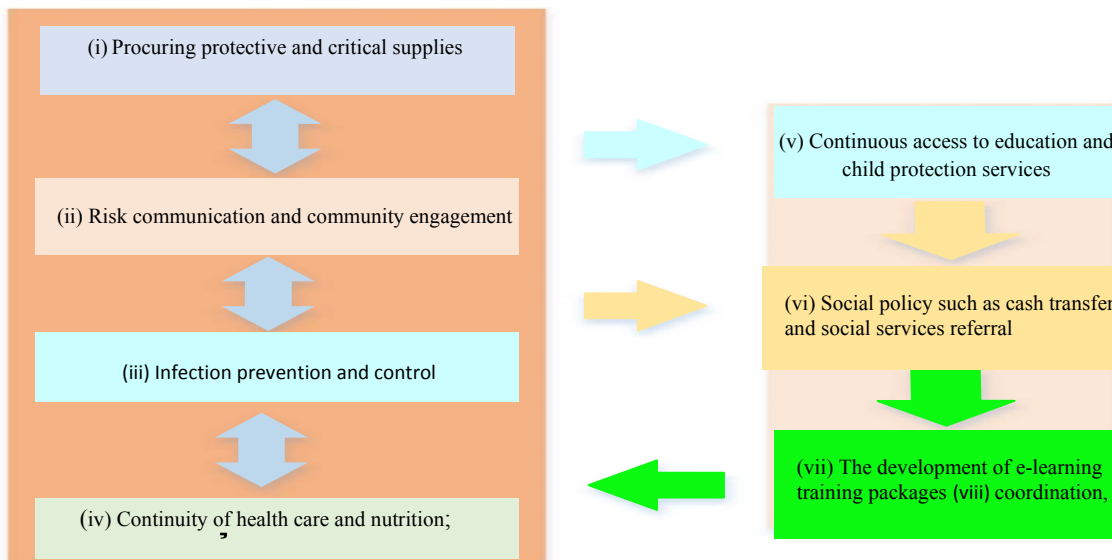


Fig. 5 The Plan Government to Control the Corona virus

IV. CONCLUSION

The effects of the virus have brought economies to an abrupt halt and will affect the possibility to achieve many of the Sustainable Development Goals in Africa. Further, with the per capita expenditure of African local authorities being the lowest in the world at \$26, many local authorities are poorly resourced and less able to contend with the onslaught of COVID-19. Alarming also the likely fall in revenue streams for local authorities due to COVID-19 curtailing their already limited ability to respond to this crisis. And therefore, African governments must consolidate efforts and define stimulus measures to mitigate national and regional economic impacts.

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