

# African Economic Outlook 2020

SUPPLEMENT

Amid  VID-19

HIGHLIGHTS



AFRICAN DEVELOPMENT BANK GROUP

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# HIGHLIGHTS

## MACROECONOMIC PERFORMANCE AND PROSPECTS

### **Africa's economic prospects are weak**

Real GDP in Africa is projected to contract by 1.7 percent in 2020, dropping by 5.6 percentage points from the January 2020 pre-COVID-19 projection, if the virus has a substantial impact but of short duration. If it continues beyond the first half of 2020, there would be a deeper GDP contraction in 2020 of 3.4 percent, down by 7.3 percentage points from the growth projected before the outbreak of COVID-19.

### **Cumulatively, GDP losses could range between \$173.1 billion and \$236.7 billion in 2020–2021**

With the projected contraction of growth, Africa could suffer GDP losses in 2020 between \$145.5 billion (baseline) and \$189.7 billion (worst case), from the pre-COVID-19 estimated GDP of \$2.59 trillion for 2020. Some losses are carried over to 2021, as the projected recovery would be partial. For 2021, the projected GDP losses could be from \$27.6 billion (baseline) up to \$47 billion (worst case) from the potential GDP of \$2.76 trillion without the pandemic.

The most affected economies are those with poor healthcare systems, those that rely heavily on tourism, international trade, and commodity exports, and those with high debt burdens and high dependence on volatile international financial flows. The overall impact of the pandemic on socioeconomic outcomes remains uncertain, however. It will depend crucially on the unfolding epidemiology of the virus, the extent of its impacts on demand and supply, the effectiveness of public policy responses, and the persistence of behavioral changes.

### **The pandemic has triggered a sudden uptick in inflation**

The pandemic has already triggered an increase in inflation in the continent, in some cases by more than 5 percent in the first quarter of 2020. This has mainly been caused by disruptions in the supply of food and energy, the bulk of which are imported. But for many other countries, the drastic fall in aggregate demand due to the lockdown and other containment measures has eased inflationary pressures, especially among non-resource-intensive economies. Overall, although headline inflation, which includes food and basic energy prices, would be expected to rise, core inflation might remain stable until demand picks up after the pandemic.

### **Expansionary fiscal spending could double already high fiscal deficits**

The pandemic and its economic consequences are expected to trigger expansionary fiscal policy responses across all categories of economies in Africa. The implied expansionary fiscal stance would further widen fiscal deficits in the continent. In 2020, deficits are projected to

The spread of the virus in Africa depends largely on the preparedness of countries to separate and treat infected patients

increase twofold, to 8 percent of GDP, in the baseline scenario, and to go as high as 9 percent in the worst-case scenario. This worsening fiscal position would be the result of above-the-line increases in budgetary outlays on COVID-19 related health spending, unemployment benefits, targeted wage subsidies and direct transfers, and tax cuts and deferrals.

### **COVID-19 will add to sovereign debt burdens**

COVID-19 heightens the likelihood of a widespread and far-reaching sovereign debt crisis if debt is not properly managed. Many countries in Africa entered the crisis period with high debt-to-GDP ratios, which are projected to increase further by up to 10 percentage points beyond the pre-COVID trajectory in 2020 and 2021. The sovereign debt buildup is particularly worrisome because of its changing risk structure in Africa as a result of the increasing share of commercial debt—eurobonds and other private creditors—and the high foreign currency denomination of Africa's debt.

### **Remittances and foreign direct investment could plunge**

Remittances took the lead in external financing, up by 7 percent from 2017, to \$82.8 billion in 2018, and increasing further to \$86.2 billion in 2019 on the back of a pickup in global economic growth and rising migration. This has become a vital source of foreign financing for many African economies, accounting for more than 10 percent of GDP of Cabo Verde, Comoros, Gambia, Lesotho, Liberia, and Senegal. In turn, these countries have become exceptionally vulnerable to shocks to remittances caused by COVID-19, especially in high-income economies where migrant jobs and incomes are threatened.

Foreign direct investment—which picked up in 2018 by 10.9 percent, reaching \$45.9 billion, and improved further to an estimated \$49 billion in 2019—is also expected to fall in 2020 as investors reduce or postpone their investments amid uncertainties. Official development assistance, which has risen since 2016 (by 1.2 percent in 2018), could be constrained by the impact of the crisis on advanced economies. And portfolio flows, which have declined since 2017, standing at \$27.1 billion

in 2019 for Africa, are experiencing severe pressures as emerging market capital flows suddenly stop, with forecasts predicting a fall of more than 50 percent in 2020, driven by the COVID-19 shock to global growth and a more risk-averse sentiment among investors.

## **SOCIOECONOMIC IMPACTS**

### **The curve of the pandemic in Africa is flattening gradually**

The number of confirmed cases of COVID-19 in 54 African countries was 304,642 with 8,087 reported deaths as of 22 June 2020. The reported figures are likely to be understated because of the limited testing capabilities in most countries. Countries in North Africa and Southern Africa appear to be the most affected to date, while the number of cases reported in East, Central, and West Africa have been lower. Still, the differences could be due to lags in testing or differences in mitigation approaches.

### **Africa is inadequately prepared to contain the spread of the coronavirus**

The spread of the virus in Africa depends largely on the preparedness of countries to separate and treat infected patients, posing a major risk of a public health emergency because of the region's high vulnerability to disease and low healthcare system preparedness. The Global Health Security Index, a comprehensive assessment of a country's health system capabilities, shows that most African countries are rated as least prepared. Only 21 of 54 African countries are classified as being more prepared from a clinical perspective to deal with epidemic threats with international implications. The other 33 are ill-equipped and least-prepared to respond to the outbreak.

### **Between 28.2 and 49.2 million more Africans could be pushed into extreme poverty**

Although the number of people in extreme poverty in Africa (using the \$1.90 international poverty line) was projected to reach 425.2 million in 2020 under the no-outbreak scenario, COVID-19 could increase it further, to 453.4 million in the baseline

scenario and 462.7 million under the worst-case scenario. In 2021, the number of extreme poor could increase by 34–49.2 million due to the pandemic as GDP growth continues to fall below population growth rates. Nigeria and Democratic Republic of Congo, two of Africa's most populous countries, would record the largest increases—8.5 and 2.7 million respectively in the baseline scenario in 2020, and 11.5 and 3.4 million in the worst-case scenario.

### **An estimated 25 to 30 million jobs could be lost**

About 773.4 million Africans were employed in 2019, projected under the pre-COVID-19 assumptions to grow to 792.7 million in 2020. Under the baseline scenario of a 1.7 percent GDP contraction, employment is projected to decline by 24.6 million jobs in 2020. Under the worst-case scenario of a 3.4 percent GDP contraction, up to 30 million jobs could be lost. The brunt will be mostly felt by the working poor, who account for almost half of the employed. And the crisis would also affect the nature of surviving jobs, since wages and working hours for those in the formal sector could be downgraded, and the number of workers switching to informal sector jobs could increase as a survival strategy to maintain incomes in the face of lockdowns and restrictions.

## **POLICY OPTIONS**

Given the global scale of the COVID-19 pandemic and its repercussions, governments and development partners must respond in a coordinated, targeted, and rapid manner to be effective in limiting its impacts. Across Africa, the response must be well-sequenced and multipronged, involving: a public health response to contain the spread of the virus and minimize fatalities, a monetary policy response to ease liquidity constraints and solvency risks, a fiscal response to cushion the economic impacts of the pandemic on livelihoods and to assist businesses, labor market policies to protect workers and their jobs, and structural policies to enable African economies to rebuild and enhance their resilience to future shocks.

### **Public health responses**

The spread of the virus in Africa depends largely on the preparedness of countries to separate and treat infected patients.

*Develop effective information sharing and communication strategies.* Early dissemination of accurate information on the coronavirus symptoms, prevention, and treatment can contain its spread and reduce public panic and misinformation. Strategic partnerships with the private sector, especially telecommunication firms, can ensure rapid collection and transmission of information for resource planning and testing campaigns.

*Redirect resources to the public health sector and develop sound health emergency plans.* In the short run, African countries should tap into existing resources to invest in health infrastructure for detecting, testing, confining, and treating COVID-19 infected people.

*Invest in health preparedness to update and upgrade healthcare systems.* In the long run, large investments in health preparedness are required to update and upgrade Africa's health care systems. The COVID-19 pandemic should be a wake-up call for African countries to urgently strengthen their health systems and build their resilience against future shocks.

*Increase the number of healthcare workers.* Africa's education systems must change to prioritize public health curricula and improve the quality of the programs offered to students.

*Elevate the health system among development priorities.* Allocating more financial resources to the health system will be fundamental to remedying the structural underinvestment. The health sector would need to become a top priority of African governments in their development agenda, or else the continent will remain unprepared to respond to future health shocks and mitigate their economic impact.

### **Fiscal policy responses**

Governments with fiscal space can help the businesses and households most affected stay afloat through targeted temporary tax relief, cash

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**Governments and development partners must respond in a coordinated, targeted, and rapid manner, limiting the pandemic's impacts**



Governments should address structural bottlenecks that make the continent more vulnerable to future shocks

transfers, and hardship allowances. Governments can support those who have been laid off from their jobs or lost their livelihoods with measures such as:

- Cash transfers, extension of the period for filing taxes for affected businesses, or temporary subsidies to affected industries.
- Temporary extension of eligibility and coverage of social safety net programs such as unemployment insurance and social security in countries with relatively well-functioning social protection programs.
- Relief assistance such as food (rations or vouchers) for low-income households in coordination with mechanisms such as those utilized by nongovernmental organizations.

### Monetary policy responses

Businesses report higher costs of borrowing as banks suspect that firms may not repay loans on time.

*Ease financial conditions.* Central banks should act quickly to counteract tightening financial conditions by cutting interest rates to inject liquidity. Targeted interventions should be implemented for affected firms and sectors.

*Use macroprudential and unconventional monetary policy to support the economy.* Central banks could resort to their own forms of quantitative easing, targeted at funding the most affected sectors such as firms in the hospitality and entertainment industry—airlines, hotel chains, logistics, and sports—by temporarily reprofiling or restructuring their debts. To support vulnerable groups, a program could be targeted to micro enterprises and the unbanked in the informal sector, financed by government and potentially run by other agencies closer to the ground.

### Labor market responses

The impact of COVID-19 on Africa's labor markets will have disproportionate impacts on vulnerable groups, notably youth and women, who are engaged in the informal sector, or with only casual job opportunities in the formal sector.

*Assist vulnerable groups, especially youth and women.* The COVID-19 pandemic can have differentiated socioeconomic impacts due to the

vulnerability of people. This situation requires carefully designed policies targeting people in vulnerable situations:

- For formal sector workers, governments could defer payroll taxes for small and medium enterprises (a third of them being owned by women) or create mechanisms for facilitating commercial credit lines that would be publicly funded.
- For workers in the informal sector, an option is to provide cash transfers by using digital technology tools such as mobile money transfer, but also by proceeding to the distribution of food staples, water, and hygiene products that may reach them faster, particularly if they are not digitally connected.
- Short-term incentives to healthcare and social workers such as bonuses, and in the medium-to-long term measures to address the gender pay gap.

*Pursue active labor market policies to protect workers and their jobs.* Governments should protect workers by encouraging flexible working arrangements such as teleworking and by providing employment retention guarantees, collectively financed paid sick leave, and parental care leave to ensure income security for those who are sick, quarantined, or caring for children. They should extend universal access to collectively financed health services for all, including informal, unemployed, and uninsured workers and their families.

### Structural policies

To prepare for a post-COVID-19 world and greatly increase resilience, governments should address structural bottlenecks that make the continent more vulnerable to future shocks. The policies they put in place in the aftermath of the epidemic will determine their long-term economic trajectories.

*Accelerate structural reforms to rebuild Africa's productive base.* Increasing productivity and addressing obstacles in the business environment requires investing in human capital to build a workforce with the skills for engineering, manufacturing, and construction. Sectors such as agro-processing, digital technologies, ICT-based

services, and trade logistics require government intervention to improve their competitiveness.

*Address obstacles to formalizing the economy.* Easing business registration and adapting tax can encourage informal businesses that now shy away from formalization because they fear being overwhelmed by administrative requirement and large tax bills. Aggressive information campaigns can highlight the benefits of formalization, such as access to capital and greater opportunity to expand operations and boost profits.

*Rethink social protection programs for maximum coverage.* Reform requires innovative approaches that are flexible and adapted to the needs of informal workers, such as allowing workers to contribute voluntarily to a retirement fund.

### **Balancing tradeoffs on when to reopen economies**

Policymakers must evaluate the tradeoffs they face between reopening economies and keeping the coronavirus in check. The aim is to limit both

the economic cost of severe lockdowns and the number of cases, a dilemma. One approach is a more targeted set of measures, such as identifying and protecting people with underlying conditions, and thus with a higher risk of complications from the coronavirus, and those aged above 65 years old—and restricting their mobility during the initial stages of reopening economies.

The recovery is likely to be volatile and uneven, requiring governments to follow a carefully planned and sequenced adaptive strategy that allows for continual adjustment, as new information becomes available and events unfold. Relevant lessons may come from other continents, particularly from those at a more advanced stage of the pandemic timeline. To reopen economies, policymakers must first outline their strategy on the basis of a consistent national framework with effective local implementation and manage associated uncertainty and fears of the public. That requires transparency to build public trust and buy-in for the strategy, especially since the probability of a rebound is likely with the economies reopening.

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To reopen economies, policymakers must first outline their strategy on the basis of a consistent national framework



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This Supplement to the *African Economic Outlook 2020* details the likely macroeconomic and social costs of the COVID-19 pandemic for Africa. It also sets out policy options for countries as they contend with the crisis, face economic slowdowns, and prepare for recovery.

If the pandemic is of short duration, so that countries can lift lockdowns and other severe containment measures by July, real GDP in Africa is projected to contract by 1.7 percent in 2020. If those measures continue beyond the first half of 2020, there could be a deeper GDP contraction in 2020 of 3.4 percent. Cumulatively, GDP losses could range between \$173.1 billion and \$237 billion in 2020–21.

Moreover, with a 1.7 percent GDP contraction, employment is projected to decline by 24.6 million jobs in 2020, and with a 3.4 percent GDP contraction, up to 30 million jobs could be lost. The brunt will be mostly felt by those in the informal sector, who account for more than half of the employed.

The number of extreme poor in Africa was projected to reach 425.2 million in 2020 with no outbreak, but COVID-19 could increase that by 28 million with a 1.7 percent contraction in GDP and by 37.5 million with a 3.4 percent contraction. In 2021, those numbers would increase respectively by 34 million and 49.2 million as GDP growth continues to fall below population growth.

The most affected economies are those with poor healthcare systems, those that rely heavily on tourism, international trade, and commodity exports, and those with high debt burdens and high dependence on volatile international financial flows. The overall impact of the pandemic on socioeconomic outcomes remains uncertain. It will depend on the unfolding epidemiology of the virus, the extent of its impacts on demand and supply, the effectiveness of public policy responses, and the persistence of people's behavioral changes.

Given the global scale of the COVID-19 pandemic and its repercussions, governments and their development partners must respond in a coordinated, targeted, and rapid manner to limit its impacts. Across Africa, the response must be well-sequenced and multipronged, involving a public health response to contain the spread of the virus and minimize fatalities, a monetary policy response to ease liquidity constraints and solvency risks, a fiscal response to cushion the economic impacts of the pandemic on livelihoods and businesses, labor market policies to protect workers and their jobs, and structural policies to enable African economies to rebuild and enhance their resilience to future shocks.

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