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2 The effect of COVID-19 on the economies of Africa

On 14 February 2020, Africa confirmed its first COVID-19 case in Egypt. To date, over 1 million cases have been reported, and there have been cases in every country on the continent. A study in May 2020 from the WHO Africa Regional Office posited that, within the first year of the pandemic, between 83,000 and 190,000 deaths and 5 million related hospitalizations could occur, and a further 29 to 44 million people could be infected if containment measures failed (WHO Africa, 2020). As of 1 December 2020, a total of 2,179,843 COVID-19 cases and 51,915 deaths had been reported in 55 African countries. This makes up 3.5 per cent of all cases reported globally (Africa CDC, 2020).

The African continent is particularly vulnerable to the economic impact of COVID-19. The ILO estimates that over a third of economic activity on the continent is informal (ILO, 2018). Informal employment is very negatively impacted by the social distancing measures and shut-downs which become necessary as a means to prevent the spread of COVID-19. Given these realities, the International Monetary Fund estimates that sub-Saharan Africa and the Middle East and North Africa will experience contractions in GDP growth of -3.0 per cent and -5.0 per cent in 2020, respectively (IMF, 2020).

The World Bank's April 2020 "Africa's Pulse" report (World Bank, 2020a) projected that, as a result of the pandemic, economic growth in sub-Saharan Africa would decline from 2.4 per cent in 2019 to between -2.1 per cent and -5.1 per cent in 2020. COVID-19 would cost the region between US$ 37 billion and US$ 79 billion in terms of output losses for 2020. This underperformance was confirmed by the October 2020 "Africa's Pulse" report (World Bank, 2020b) which predicts that growth in sub-Saharan Africa will fall to -3.3 per cent in 2020. This will have the negative effect of pushing the region into its first recession in 25 years, driving up to 40 million people into extreme poverty across the continent and constitutes a serious setback in poverty reduction taking poverty levels back to where they were around five years ago.

In Africa, the recession is a result of a series of economic shocks including production and supply chain disruptions connected to COVID-19 healthcare measures. Other contributing factors include lower trade and investment from China – a major partner for the poorest countries on the continent – as well as a demand slump from other trading partners, including Europe and the United States, and depressed intra-continental trade.

In April, the WTO forecast two possible paths for world trade in 2020: an optimistic scenario in which the volume of world merchandise trade would fall by 13 per cent, and a pessimistic scenario envisaging a fall of 32 per cent. As of October 2020, the WTO modified this forecast to a 9.2 per cent decline in merchandise trade for 2020, followed by an increase of 7.2 per cent in 2021. Either scenario projects that trade volume growth will remain far below pre-COVID-19 trends.

Initial estimates for the second quarter of 2020, when COVID-19 and the associated lockdown measures were affecting a large share of the global population, indicated a drop of around 18.5 per cent in the volume of merchandise trade in comparison to the previous year. However, ultimately the decline was 14.3 per cent. African economies

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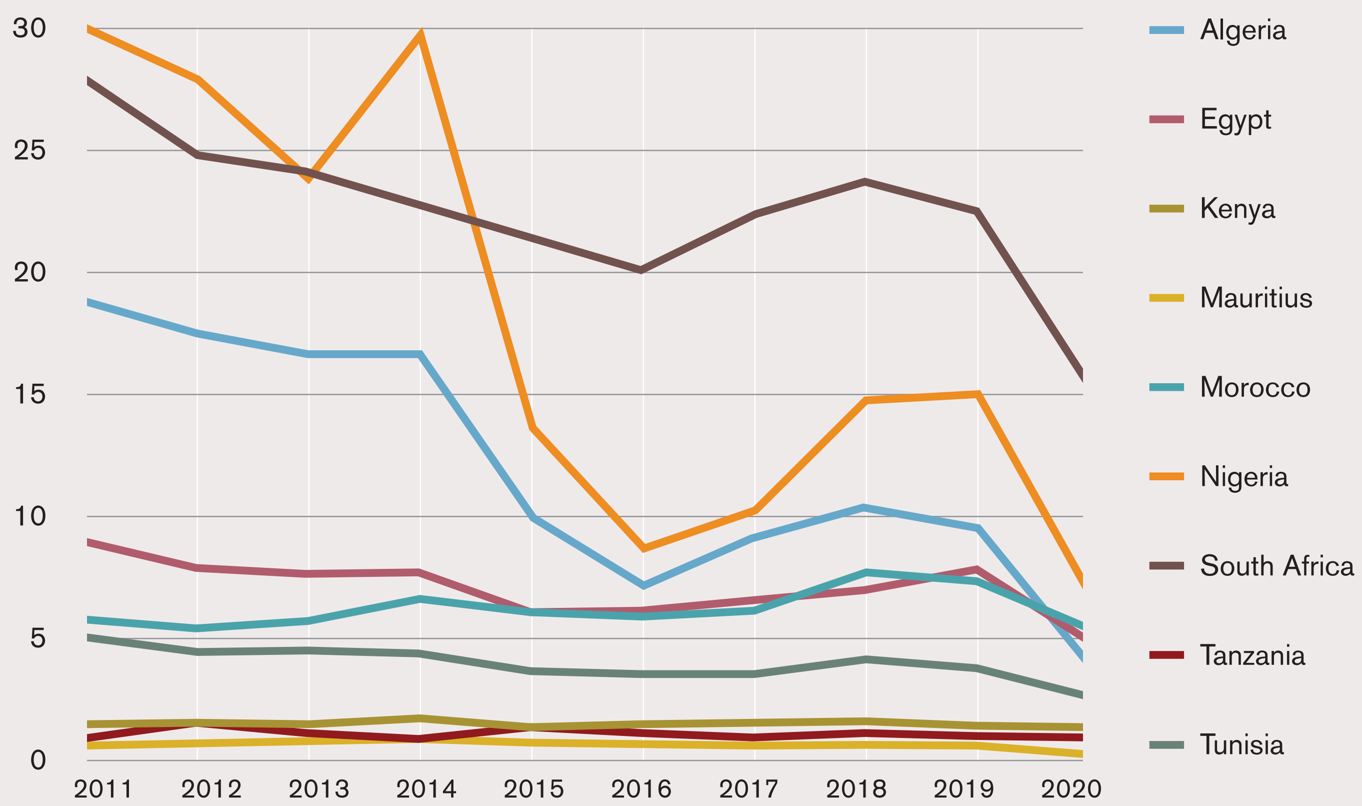
experienced a similar decline. Those for which data is available experienced second-quarter declines of between 58 per cent and 3 per cent compared to the previous year. Figure 1 outlines the decrease in merchandise trade volumes in African countries for which data is available.

In the latest figures available, which are from 2016, 22 African countries had debt-to-GDP ratios of over 61 per cent. At 60 per cent debt-to-GDP, many developed countries find it difficult to make debt payments; thus, this is a level unmanageable for many developing countries. Angola, Cabo Verde, Congo, Djibouti and Egypt all have external debt-to-GDP ratios of over 100 per cent. Since the outbreak of the COVID-19 pandemic, Mozambique's debt-to-GDP ratio, which was 100 per cent in 2018, has increased to 130 per cent, according to the United Nations Africa Renewal. South Africa's debt-to-GDP ratio will top 63.6 per cent this year, up from 56.7 per cent in 2019 (Sguazzin and Naidoo, 2020). According to the IMF, the region faces a four-fold fiscal crisis which, as well as the aforementioned high debt-to-GDP ratio, includes high fiscal deficits, a high cost of borrowing with interest rates of 5-16 per cent of 10-year bonds, and the depreciation of many African currencies, which has triggered inflation.

There have been some concerns about inflation and currency depreciation due to increased demand from loose monetary and fiscal stimuli, as well as supply shocks due to public health closures. Many developing countries have faced COVID-19-triggered depreciation, and African currencies have not escaped this trend (OECD, 2020). The South African rand depreciated by 28 per cent in the first quarter of 2020, before appreciating by 2 per cent in the second quarter, and Nigeria's official exchange rate was adjusted from N307/US$ before COVID-19 to N380/US$ as of November 2020.[1] The depreciation has been a result of declining

Figure 1: Merchandise trade, second quarter year-on-year, 2011-2020
(US$ billion)



Source: WTO Secretariat.

commodity prices, capital flight and strong local demand for the US dollar. The depreciation and inflation have the potential to cause a continental food crisis if not addressed.

Given these fiscal constraints, the international community, including the G-20 and the United Nations (UN), has called for debt suspension. While the G-20 has agreed to suspend debt for the world's poorest 75 countries until the end of 2020 through the Debt Service Suspension Initiative, the United Nations Economic Commission for Africa (UNECA) has called for debt suspension for all African countries for two years. The IMF has modified the Catastrophe Containment and Relief Trust to provide immediate debt service relief for its poorest and most vulnerable members, and has also doubled its emergency lending facilities, and 10 countries in the region have collectively received about US$ 10 billion.

The Africa Centres for Disease Control (ACDC) took early and decisive actions, based on their experience with local disease outbreak. Beginning in January 2020, the ACDC coordinated continental testing, organized high-level coordination of resources, specialist training, and region-specific guidance for governments. The African Union has also been releasing weekly outbreak briefs.

Among the factors that could alleviate the effects of COVID-19 in Africa is the African Continental Free Trade Area (AfCFTA), originally set to be implemented on 1 July 2020. According to the African Development Bank's African Economic Outlook 2020, the African economy grew by 3.4 per cent in 2019, and growth was projected to increase to 3.9 per cent in 2020. The AfCFTA Secretariat has stated that it intends to use the AfCFTA as the economic stimulus package needed by a region lacking the fiscal and monetary space to implement the large policy stimulus packages of the developed world (Ighobor, 2020). The AfCFTA can help African countries establish trade corridors for essential goods, reduce duties on essential products, establish regional value chains, reconfigure supply chains, establish local pharmaceutical production facilities and increase access to medication.

Due to the low levels of domestic resources available, external funding and financial flows will play an important part in African countries' recovery from COVID-19. The WTO and other multilateral institutions recognize that the scale and consequences of the COVID-19-induced economic depression include not only severe supply-and-demand disruptions, but also a severe reduction in the supply of trade finance. This is of particular concern to international organizations, as trade finance scarcity largely affects micro, small and medium-sized enterprises (MSMEs), which account for 90 per cent of businesses and more than 50 per cent of employment worldwide.

Since the start of the pandemic, the World Bank has released a US$ 14 billion COVID-19 crisis response facility, while the International Finance Corporation (IFC) has launched a US$ 6 billion trade and working capital finance initiative. The Asian Development Bank (ADB) has launched a US$ 20 billion comprehensive support package to assist its developing member countries in their fight against COVID-19, and has enhanced an existing US$ 2.45 billion trade and supply chain programme, with particular emphasis on trade finance, to allow countries to access essential medical goods.

The African Development Bank (AfDB) established a US$ 10 billion COVID-19 Response Facility in April 2020 and is providing up to US$ 1 billion in trade finance liquidity and risk mitigation support to local banks in all 54 eligible African member countries.

The Islamic Development Bank (IsDB) Group has pledged US$ 2.3 billion to a COVID-19 economic recovery programme called "The 3Rs (Respond, Restore, and Restart)". The International Islamic Trade Finance Corporation (ITFC) has contributed US$ 850 million to the 3Rs programme, to focus specifically on financing and technical assistance for governments, financial institutions and MSMEs.

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1 IMF Policy Tracker, available at https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19, consulted November 2020.