Executive Summary

► The COVID-19 pandemic has taken a toll on human life and brought major disruption to economic activity across the world. The impact of this unprecedented crisis on human life and the global economy reflects the speed and magnitude of the contagion, greater global integration, and the major role that China plays in global supply chains, travel, and commodity markets.

► Despite a late arrival, the COVID-19 virus has spread rapidly across Sub-Saharan Africa in recent weeks. As of April 7, 5,425 cases of COVID-19 have been confirmed in 45 of the 48 countries in Sub-Saharan Africa. The insufficient testing capacity in many countries in the region suggests that these figures most likely understate the true number of infections.

► We project that economic growth in Sub-Saharan Africa will decline from 2.4 percent in 2019 to -2.1 to -5.1 percent in 2020, the first recession in the region in 25 years. It will cost the region between US$37 billion and US$79 billion in terms of output losses for 2020. The downward growth revision in 2020 reflects macroeconomic risks arising from the sharp decline in output growth among the region’s key trading partners, including China and the euro area, the fall in commodity prices, reduced tourism activity in several countries, as well as the effects of measures to contain the COVID-19 global pandemic.

► The COVID-19 shock is hitting the region’s three largest economies—Nigeria, South Africa, and Angola—in a context of persistently weak growth and investment, and declining commodity prices. The prices of crude oil and industrial metals have fallen sharply (by 50 and 11 percent, respectively, between December 2019 and March 2020). Model simulations suggest that, compared with a no-COVID base case, average real gross domestic product (GDP) growth in these countries could be reduced by up to 6.9 percentage points in 2020 in the baseline scenario, and by up to 8 percentage points in the downside scenario. South Africa has the largest number of confirmed cases in the region, and strict measures to contain and mitigate the spread of the virus are weighing on the economy.

► More generally, countries that depend on oil exports and mining would be hit the hardest. Growth could fall by up to 7 percentage points in oil-exporting countries and by more than 8 percentage points in metals exporters compared with the no-COVID base case.

► In non-resource-intensive countries, growth is expected to slow but remain positive. Growth will weaken substantially in the two fastest growing areas—the West African Economic and Monetary Union where outbreaks are spreading rapidly and the East African Community—due to weak external demand and disruptions to supply chains and domestic production. Activity in tourist-dependent countries is expected to contract sharply in response to severe disruption to travel and tourism activities.

► In the baseline and downside scenarios, growth will fall well below the regional average population growth rate of 2.7 percent, indicating that, in the absence of appropriate measures to mitigate its effects, the COVID-19 outbreak will severely impact the welfare of large numbers of individuals in the region.

► The negative impact of the COVID-19 crisis on household welfare would be equally dramatic. In the optimistic scenario, welfare losses amount to 7 percent relative to the no-COVID scenario in 2020. The welfare loss would be 10 percent greater than in the no-COVID case in the event of a lengthy crisis. The lower terms of trade (as a result of the plunge in commodity prices) coupled with lower employment result in a pronounced welfare loss for households.
Policy responses that result in sub-regional trade blockages will increase transaction costs and lead to even larger welfare losses. In Africa, a region dependent on agricultural products, these policies will disproportionately impact household welfare as a result of price increases and supply shortages.

Welfare losses amount to 14 percent relative to the no-COVID scenario if countries were to close their borders to trade. Border closings would disproportionately affect the poor, particularly agricultural workers and unskilled workers in the informal sector. In this context, African countries need to take this opportunity to strengthen regional value chains in the context of the African Continental Free Trade Area.

The COVID-19 crisis is also contributing to increased food insecurity as currencies are weakening and prices of staple foods are rising in many parts of Africa. This is compounded by other existing crises in many countries, including the desert locust emergency, drought, climate change, fragility, conflict, violence, and underdeveloped food markets. While global food stocks are plentiful and many commodity prices are stable, the prices of other staples (such as wheat and rice) are rising when many countries’ currencies are weakening. These two factors lead to spikes in consumer prices and contribute to increased food insecurity, particularly for food importers. Household incomes are also falling, reducing demand and contributing to food insecurity for the near poor, poor, and vulnerable, such as refugees and internally displaced persons (IDPs).

Local agri-food supply chains are already experiencing disruptions, including reduced access to inputs and services, labor movement, transport and roadblocks, and credit or liquidity. This comes on top of the global supply chain disruptions such as export bans that affect local African food security in importing countries. There is an urgent need for coordinated, evidence-based policy responses and financing to prevent a major food crisis in Africa resulting from COVID-19.

The COVID-19 crisis has the potential to create a severe food security crisis in Africa. Agricultural production is likely to contract between 2.6 percent in the optimistic scenario and 7 percent in the scenario with trade blockages. Food imports also decline substantially (from 13 to 25 percent) due to a combination of higher transaction costs and reduced domestic demand.

These findings reflect the multiple channels of transmission of COVID-19 on economic activity in Sub-Saharan Africa. The first is the disruption in trade and value chains, affecting commodity exporters in the region (as the international prices of oil, minerals, and metals collapse) and countries with strong value chain participation (such as Ethiopia and Kenya). The second is the reduced foreign financing flows in the form of lower foreign direct investment (especially in extractives and infrastructure investments), foreign aid, remittances, tourism revenues, as well as capital flight (such as the US$1.75 billion in portfolio outflows in South Africa during March). The third channel of transmission is the health channel, the direct impact of COVID-19 on economic activity from a wider spread of the virus in the region (the number of infected people and the number of fatalities). The fourth channel includes disruptions caused by containment and mitigation measures imposed by governments and the response of the citizens. Combined, the weak external demand, the accompanying sharp fall in commodity prices, and the disruption in tourism that COVID-19 is causing will negatively affect economic activity in Sub-Saharan Africa.

Current account deficits in the region are set to widen as trade balances deteriorate due to falling exports. Heightened risk sentiment has weakened African currencies and amplified fiscal risks. This has been reflected in sharply higher sovereign spreads in some countries (say, Angola, Zambia). In Nigeria, pressures on foreign reserve buffers prompted the central bank to let the naira
weaken against the U.S. dollar for the first time since mid-2016. Inflation has remained in single digits in most countries, allowing central banks to cut interest rates to support their economy. Low levels of capital inflows could force some countries to finance their current account deficit through reserve drawdowns, exposing them to further currency depreciation, which could generate inflationary pressures.

- **Fiscal deficits are projected to widen amid falling government revenues.** The deterioration of fiscal balances is expected to be greater in commodity exporting countries and those that are dependent on tourism revenues. Oil abundant countries are currently revising their 2020 national budgets as their price assumptions are higher than the average crude oil price.

- **At the global level, incoming data suggest that the economic disruption from the COVID-19 outbreak is extensive, and the global economy is falling into recession.** Industrial production, investment, retail sales, and services production contracted sharply in China in 2020Q1. Contractions of a similar magnitude are expected to follow in other countries, including the United States and the euro area, as localized outbreaks combined with strict containment measures weigh on activity.

- **The prices of most commodities have been declining, with prices of crude oil and industrial metals falling sharply.** Further, global equity markets have been volatile and plummeting in response to uncertainties around the duration and effects of the COVID-19 outbreak. Spreads on higher-risk borrowing have widened, and the currencies of emerging markets and developing economies (EMDEs) have rapidly depreciated. In March 2020, the pace of capital flows out of EMDEs exceeded the worst period of the 2008 global financial crisis, with the bulk of these outflows coming from non-China EMDEs.

**POLICY RESPONSE TO COVID-19**

*Much Needed: A Differentiated African Policy Response*

- **Customizing the policy response to reflect the structural features of African economies and the peculiar constraints that policy makers face, including much less fiscal space and much less operational capacity to respond.** Several African countries have reacted quickly and decisively to curb the potential influx and spread of the COVID-19 virus very much in line with emerging international experience. As the situation evolves, there are more questions about the suitability and likely effectiveness of some of these policies, such as strict confinement. The large size of the informal sector (89 percent of total employment); the precariousness of most jobs; the limited coverage of pensions and unemployment insurance schemes; and the predominance of micro, small, and medium-size enterprises in business activity (90 percent) all need to be factored in, as they may make aggressive containment measures less effective. Protecting vulnerable groups, ramping up testing, and promoting the wearing of masks may be better options. Equally important is the need to differentiate the monetary policy response due to the weak monetary transmission in countries with underdeveloped financial markets. Because of the reduced monetary policy effectiveness, the policy response will be mostly fiscal.

- **Focusing on the dual objectives of saving lives and protecting livelihoods.** This requires a combination of short-term relief measures and stimulus measures to keep the economy running. Policies should aim at strengthening health systems, providing (income and in-kind) support to (formal and informal) workers, and providing liquidity support to viable (formal and informal) businesses while guaranteeing the provision of public services.
Given the fiscal constraints, priority should be put on strengthening public health human and technical capabilities to respond to the COVID-19 crisis. Resources should be directed toward protecting health workers, equipping them with all the necessary protective gear to avoid a depletion in the already scarce stock of medical personnel. Efforts need to be deployed to scaling up testing and, as much as possible, implementing surveillance testing including in rural areas. At the organizational level, setting up a national-level command center led by highly respected scientists, and ensuring coordination within the government (top executive, Health, Economics and Finance as the core), and with private sector organizations, will be critical for success.

There are important lessons from the Ebola crisis management experience. Massive community engagement that ensured credible flows of information to the population was crucial. Beyond cities, solving problems at the village level, including organizing to get water and soap for handwashing and practicing social distancing, will be key to success. Community-level problem solving played an important role in Liberia at the height of the Ebola crisis. This is especially true in countries where the central government lacks or has lost credibility with the population.

Implementing social protection programs to support workers, especially those in the informal sector. Cash transfers are the most used instrument in the majority of developing countries, including some Sub-Saharan African countries. Some of the measures being implemented include online payments, in-kind transfers (food distribution), social grants to disabled people and the elderly, wage subsidies to prevent massive layoffs, and fee waivers for basic services (such as electricity tariffs and mobile money transactions).

Minimizing disruptions in critical intra-African food supply chains and keeping logistics open to avert a looming food crisis in the region. Government action to reduce international and domestic trade barriers and ensure that food system workers can go to work without problems is critical. Funding for agriculture and agribusiness needs to be protected. Digital technologies can help anticipate problems and smooth temporary shortages as well as build the resilience of food chains. Early warning systems for food shortages, and associated emergency food provisioning systems, will have to be adjusted to increase attention on rural and urban areas.

Regional coordination can enhance the policy response. At a time when countries are choosing national solutions, autarkic policies, or have non-coordinated efforts across states, Africa needs to intensify its efforts on economic integration and deepening regional cooperation. Existing pre-COVID priorities, including implementing the African Continental Free Trade Area (AfCFTA), increasing intraregional trade, building regional markets in energy, and digital and financial inclusion would be critical.

Overall, the policy response to the COVID-19 crisis in Africa needs to be differentiated. Policies tailored for aging advanced countries are not necessarily suitable for poor and young low-income countries. A collapse in economic activity that results from the containment measures and macroeconomic instability will increase poverty and endanger lives and livelihoods.

Sowing the seeds of future resilience. It is a condition sine qua non to avoid another lost decade in African development. Beyond the much-needed quick fixes, the policy response should consider strategies to boost water and sanitation, address the human capital crisis especially in the health sector, leverage digital technologies for trade and government effectiveness during confinement and beyond, maintain a healthy level of investment for analog complements such
as electricity, and foster intra-African value chains under the umbrella of the AfCFTA for import substitution. Policy makers and development partners need to think ahead and be mindful of economic policies that build greater resilience and boost productivity, thus allowing African economies to recover faster and thrive after COVID-19. Although it may seem counterintuitive in periods of emergency, this long view could be decisive for African countries. These and other policies may shorten the recovery time and put Africa on a path of economic transformation with more, better, and inclusive jobs.

Finding the Fiscal Space to Fight Covid-19 Amid Heightened Public Debt Vulnerabilities

► **Due to deteriorating fiscal positions and heightened public debt vulnerabilities, Sub-Saharan African governments do not have much wiggle room in deploying fiscal policy to address the COVID-19 crisis.** The fiscal crunch, as a result of dwindling revenues, is reducing African countries’ fiscal space. The reference commodity prices and growth rates in the government budgets are being significantly revised downward. The problem is compounded by the larger and riskier debt positions and an increase in external borrowing costs—which will further worsen debt sustainability prospects. Conducting effective policies while preserving macroeconomic stability in the region during the COVID-19 crisis will require massive international coordination and support. Financial assistance from multilateral organizations and official bilateral creditors will be needed. The International Monetary Fund, in its stabilization mandate, is stepping up efforts and availing resources to support balance of payments. The World Bank Group has created a new US$14 billion fast-track facility and availed US$160 billion in overall resources to respond to the crisis over the next 15 months. A first wave of 25 projects providing grants, credits, and loans of US$2 billion to assist countries (of which 10 are in Africa) was approved by the World Bank Group on March 27. While laudable, these efforts may fall short without global action on debt.

► **Temporary debt relief will be necessary for fighting COVID-19 while preserving macroeconomic stability in the region.** External debt service paid by the region to official bilateral creditors in 2018 amounted to US$9.4 billion (0.6 percent of the Sub-Saharan Africa’s GDP). In a region that may need emergency economic stimulus of US$100 billion—which includes an estimated US$44 billion waiver for interest payments to multilateral, bilateral, and private creditors in 2020—a debt moratorium would immediately inject liquidity and enlarge the fiscal space of African governments. A debt moratorium granted by official creditors to Angola represents US$4.1 billion (4 percent of GDP), while the resources released for Kenya would total US$675 million (0.8 percent of GDP) if the suspension of debt payments comes from official bilateral creditors. African leaders are beginning to call for a larger resource flow from the global community, including international financial institutions, bilateral official creditors, and the private sector. The World Bank Group and the International Monetary Fund have called for a “Debt Standstill.” Such an initiative should be an important part of the global response to soften the impact of COVID-19 on Africa’s poor.