Rowing in the same direction

How the three largest African economies respond to Covid-19

The economic response of Africa's three largest economies to Covid-19 and the implications for international Trade and Investment, especially in relation with Europe.

Article summary

Covid-19 is the world's largest health pandemic in recent times and will have significant economic ramifications. Last year, the Dutch private sector chose fifteen African countries, including the continent's three largest economies, to focus on for the coming ten years. The governments of those countries face diverse economic challenges and are addressing them with various fiscal measures, but unfortunately there is no safety net to speak of for the most-affected citizens. In order for those countries to recover quickly and for the Netherlands and Europe to stay relevant as one of Africa's key development partners, it is imperative to recognise the following five issues:

1. Africa's private sector is key
2. AfCFTA will gain more prominence in continental and regional economic policies
3. Remittances as a stimulant for recovery, growth and development
4. Need for stronger regional currencies and better monetary policies
5. the Netherlands and Europe need to unlearn the old, and learn new ways to deliver aid and partner in trade

Preface

Covid-19 is the world's largest pandemic in decades and its effects on people's lives, health and incomes will have far-reaching consequences for generations to come. With deference and respect to all healthcare workers globally at the forefront of fighting this pandemic, and the impact it has had and will continue to have on people's lives, we focus attention on this pandemic's impact on economies in Africa. As part of the world slowly comes to terms with the idea of opening up certain parts of their economies this article looks into the economic impact of Covid-19 on national economies and international trade and investments between Africa and Europe. Prior to the pandemic, on 27 November 2019, the Chairman of the Dutch employers association officially handed over the "Africa Strategy" to Dutch Prime Minister Mark Rutte, which expressed the Dutch private sector's intention to focus for the coming ten years on the fifteen African[1] countries listed[2] in three groups, i.e. the top three (South Africa, Nigeria and Egypt), the next five (Ivory Coast, Kenya, Algeria, Ethiopia and Morocco) and the potentials (Ghana, Tunisia, Tanzania, Mozambique, Senegal, Rwanda and Uganda). In this article we focus on the top three countries, which are also Africa's three largest economies, i.e. Nigeria, South Africa, and Egypt. We address two fundamental questions:

1. What could the impact of Covid-19 be on each economy?
2. What are the implications for international trade and investment, especially with Europe and the Netherlands in particular?

The world response to the Covid-19 pandemic was initially nationalistic and protectionist as countries fought to secure essential supplies and pump money into their economies to aid struggling businesses (understandably so). It was only a few weeks ago that discussions emerged on a more collective approach toward managing the recovery after the Coronavirus pandemic. Likewise, for Africa, many of the governments initially had to rely on their own resources and take primarily fiscal measures to ease the economic impact Covid-19 would have on their economies. The table below shows the measures, grouped into two major categories, i.e. fiscal measures, and measures to provide a safety net, taken by Africa's three largest economies in this regard. This is not a comparison between countries, rather a description of each country's efforts.

Figure 1: Countries' responses to the Pandemic

Country	South Africa	Nigeria	Egypt
a) Fiscal incentives (Tax Incentives)			
	• Tax subsidy of SAR 500 per month for four months for private sector employees earning less than SAR 6,500. • Delay of PAYE liabilities for tax-compliant businesses with turnover of less than SAR 50 million (will benefit over 75,000 SMEs). • Monetary policy easing, SARB (South Africa Reserve Bank) cut repo rate by 100bp to 5.25%. • Suspension of UIF (Unemployment Insurance Fund) contribution. • Exempting banks from the Competition Act to enable a coordinated response.	• Extension of timeline for filings for value added tax and withholding tax from the twenty-first day to the last working day of the month following the month of deduction. • Extension of the due date for filing of corporate income tax (CIT) returns by one month. Use of electronic platforms for payment of taxes and processing of tax clearance certificates. • Filing of tax returns by taxpayers without audited financial statements which must be submitted within two months of the revised due date of filing. • Proposed creation of a portal where documents required for desk reviews and tax inspections can be uploaded by taxpayers for online access by the tax authority. • Submission of tax returns online by taxpayers via efiling.firs.gov.ng or by	• Reduce interest rates on bank loans by 3%. • Three-month delay for property tax on factories and tourist facilities. • Reduction of the stamp tax on equities investments to ETB 1.25 per thousand pounds for non-residents and to ETB 0.5 per thousand pounds for residents, instead of ETB 1.5. • It also halved the dividends tax rate for companies listed on the stock exchange to 5%.

[1] They include: South Africa, Nigeria, Egypt, Ivory Coast, Kenya, Algeria, Ethiopia, Morocco, Ghana, Tunisia, Tanzania, Mozambique, Senegal, Rwanda and Uganda.

[2] https://www.vno-ncw.nl/sites/default/files/2611_brochure_afrikastrategie_webversie.pdf (In Dutch. An English translation will soon be provided)

	• A SAR 33 billion industrial funding package. • An extra SAR 200 million is available for tourism-related companies. • Use of Temporary employer / employee relief scheme to avoid layoffs for a period of six months (allows employees to receive 75% of their wages). • Debt relief fund and business resilience facility for SMEs.	designated email accounts published by the FIRS. • Additional moratorium of one year on CBN intervention facilities. • Interest rate reduction on intervention facilities from 9% to 5%. • Granting regulatory forbearance to banks to restructure the terms of facilities in affected sectors. • Improving FX supply to the CBN by directing oil companies and oil servicing companies to sell FX to the CBN rather than the Nigerian National Petroleum Corporation. • NGN 1 trillion in loans to boost local manufacturing and production across critical sectors. • Reduction of petrol pump price from NGN 145 to NGN 125 /litre by the Federal Government.	
b) Safety net[3]			
	• Use of compensation fund for workers falling ill due to exposure to Covid-19 in the workplace. • Possible use of the UIF to support workers in SMEs and other vulnerable firms.	• Creation of NGN 50 billion target credit facility for affected households and small-to-medium sized enterprises. • Granting regulatory forbearance to banks to restructure the terms of facilities in affected sectors.	• Six-month delay for payments on consumer loans, except for credit card bills. • The government is currently working on a plan to support labourers and entrepreneurs by compensating them for loss of income. The details are not known yet.
c) Other			
	• National fund for emergency response support (Donations from organisations, individuals and international community). • Price hikes prohibited on basic goods.	• Identification of a few key local pharmaceutical companies that will be granted funding facilities to support the procurement of raw materials and equipment required to boost local drug production. • Additional NGN 100 billion intervention fund for healthcare loans to pharmaceutical companies and healthcare practitioners intending to expand / build capacity.	• Reduction in prices for power for heavy industry and natural gas for the entire country. • Special fund for exporters. The funds will be used to reduce their obligatory dues, with 10% of those dues to be paid by the government.

South Africa

South Africa, Africa's second largest economy, has been on lockdown since Thursday, 26 March 2020. When announcing the lockdown, President Ramaphosa also gave details of a comprehensive package of policies. Even ahead of the government's decision to lock the country down for three weeks, GDP growth looked set for a huge and unprecedented knock in Q2 20 of about -17% q/q saar (seasonally adjusted annual rate), with only slow recovery to follow. Mining and manufacturing are likely to suffer, as their work generally cannot be done remotely, unlike many white-collar jobs in some services sectors, such as finance.

Forecasting the magnitude and severity of this pandemic for South Africa's GDP is exceptionally challenging, in part because no one knows for sure how the pandemic will play out. Notwithstanding the exceptional

[3] In recognition of the role of government as spender of last resort. Safety net refers to measures taken to provide some form of financial security to businesses and people affected by the Covid-19 pandemic.

uncertainty, ABSA research indicates that South Africa could be set for a record GDP contraction of about 23.5% q/q saar in Q2, equivalent to a year-on-year decline of 7.4%, assuming the full lockdown would not be extended beyond three weeks. However, the lock-down has been extended by two more weeks, and very slight signs of easing measures only started late April. A modest recovery could commence in Q3, provided the Covid-19 epidemic is under control by then. This outlook equates to a 3% GDP fall in 2020.

A GDP fall of this magnitude would raise exceptional challenges for South Africa, with its high unemployment rate, pressing socio-political issues and ballooning fiscal deficits. Tax receipts are likely to collapse in 2020/21 as the economy grinds to a halt and existential spending pressures surge. The National Treasury's February forecast of a main budget deficit of 6.8% of GDP now looks unattainable. Further credit rating blows loom in the wake of the downgrading announced by Moody's on 27 March. Against the backdrop of sharply weaker growth, ABSA now expect the SARB (South Africa Reserve Bank) to cut the repo rate further by 50bp at the next MPC (monetary policy committee) meeting. It would be difficult to predict the effects on trade, but it is, however, sensible to expect that the effects would vary between sectors. South Africa's main exports in value terms, i.e. platinum, cars, iron ores, gold and coal, will take a hit, but fruit and nuts, accounting for 3.8% of total exports, could stay positive. Of concern would be how to mitigate against extreme reliance on extractive industries going forward.

Nigeria

Africa's largest economy has been on lockdown since 30 March. Given Nigeria's reliance on oil, the country was still recovering from the 2014 energy crisis prior to the Covid-19 outbreak. Chukwuka O and Mma A. Ekeruche, in an article[4] for the Brookings Institute, indicate that Nigeria's debt profile was already a concern for many, as the debt service to revenue ratio was at 60%, which will likely worsen given falling oil prices globally. They further indicate that Nigeria's government has increased spending and cut taxes for companies in recent times. Nigeria's public expenditure budget of 11% of national GDP will put a heavy burden on any recovery efforts. The once burgeoning middle class in Nigeria will see disposable incomes shrink and the large number of Nigerians living in poverty will be severely affected by the expected loss of income.

The Nigerian government had already made significant inroads to toward reducing the country's oil dependency. Those efforts were coupled with various initiatives and policies for increasing total national production, with disincentives for importing finished goods, in a drive to boost local production and other local industries. A continuation of those efforts would be required as the economy works toward post-crisis recovery.

Egypt

Egypt is quite a diverse economy. Looking at the short term, the aviation and tourism sectors will be the most severely affected in Egypt by the Covid-19 crisis. Egypt's tourism sector recently achieved its highest revenues since 2010, with an estimated USD 16.5 billion (Egypt had 13 million tourists in 2019). Tourism will take time to recover as the world adjusts to the new economy and ways of doing things.

In the medium term, the impact of the crisis on multiple economic sectors will decrease significantly, especially with the measures taken by the government to support various economic sectors. The effects of those measures will be reflected in the medium term, both in terms of low interest rates and their encouraging investment or supporting the most-affected sectors, such as tourism and industry, and exports. As for the long term, it is believed that the Egyptian economy will witness a strong recovery, especially as it was on the verge of achieving the highest rates of economic growth since 2010 before the pandemic. The robust informal economy will help support a strong recovery.

Egyptian trade relations and European supply lines are among the most influential in Egyptian industry and trade in general. Taking measures that protect Egyptian-European trade lines is, therefore, a major factor for successful economic recovery. The EU is facing a real crisis and its supply chains have become highly volatile, so Egypt is taking measures to reduce its dependence on European and East Asian supply chains. The most important implication is the increased effort in Egypt's industrial sector to provide alternatives to European-sourced supplies. In general, Egyptian-European investments and trade lines will be greatly affected by the

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[4] https://www.brookings.edu/blog/africa-in-focus/2020/04/08/understanding-the-impact-of-the-covid-19-outbreak-on-the-nigerian-economy/

pandemic crisis. A good recovery of Egypt's economy in the medium and long terms will be a strong incentive for European investors to do business with Egypt.

Africa's private sector is key

Africa's private sector has and will continue to play an important and integral role in Arica's recovery post-pandemic. This role and the speed with which companies can effect change must be recognised in any support for those economies. The efforts of companies such as Naspers[5] and UBA Bank[6] with regards to Covid-19 speak to the level of engagement, speed and commitment present amongst African companies to resolve issues affecting the countries in which they are based. To a great extent and in light of public finance constraints, it is thanks to the efforts mobilised by private sector players in many countries across Africa that protective gear is being provided, food supply-chains continue to function and children are able to engage in e-learning. Any substantive response from multilateral development banks (MDB), DFIs, donors and any other development partners must intentionally include Africa's private sector in any of interventions and / or programmes for aid and / or trade with African economies post-pandemic. Developing closer ties with the private sector will guarantee proximity to the intended beneficiaries and the relevance of any proposed intervention or programme.

AfCFTA will gain more prominence in continental and regional economic policies

In 2020 Africa is expected to experience its first recession in 25 years and intra-regional trade flows, which currently account for a mere 16%, are expected to slow down. This is expected to bring many African countries to realise the urgent need to develop local economies, enhance value chains and capitalise on the advantages offered by the AfCFTA. Efforts from the EU and the Netherlands towards expediting such a process in collaboration with the signatories, AU and other stakeholders will have a lasting impressions as to the seriousness and level of commitment EU and or the Netherlands has to Africa's desire for substantive economic independence.

Remittances as a stimulant for recovery, growth and development

Federica Cocco et al in article[7] in the Financial times, August 2019, address the significance of remittances as the hidden engine for globalisation. Remittances, especially in times of economic downturn, natural disaster or political crisis, are the first form of help to arrive and they keep rising, whereas private capital tends to leave and even official aid is hard to administer. According to McCormack of Fitch ratings, the current account positions for countries such as Egypt and Nigeria would be much weaker in the absence of remittance flows. Remittances as a share of GDP vary per country and could account for approximately 0.1% to 25% of total GDP. Unfortunately, approximately 1.5% to 30% of the total value of remittances (USD 689 billion in 2019) goes toward transfer fees. The World Bank estimates that a 5% reduction in transfer fees could lead to USD 16 billion more reaching recipients[8] each year. Remittances cannot be aggregated to tackle specific economic issues collectively, though we (EU and or the Netherlands) could work toward reducing the cost of remittances to ensure migrants continue sending money and that a larger share of the monies transferred actually reaches the intended recipients, and is not 'used up' in fees. A temporary stay or reduction in fees would help build a, currently non-existent, safety net for recipients in Africa.

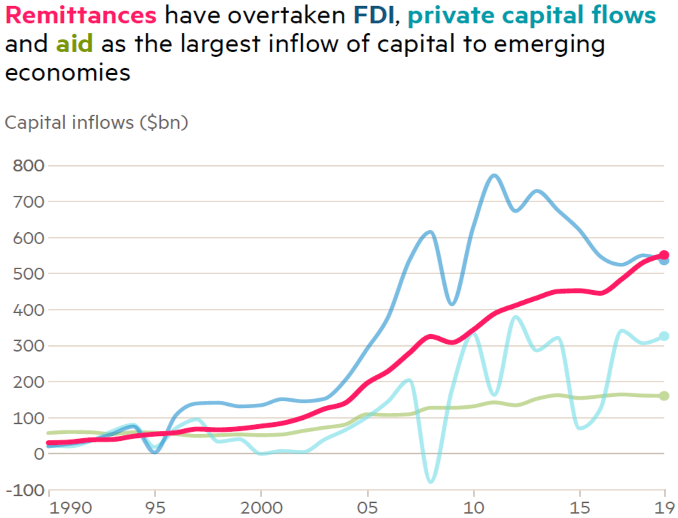
[5] https://www.naspers.com/news/naspers-commits-zar-1,5-billion-to-south-africa%E2%80%99s

[6] https://www.ubagroup.com/UBA-to-provide-fourteen-million-US-dollars-to-COVID-19-relief-support-across-Africa

[7] https://ig.ft.com/remittances-capital-flow-emerging-markets/

[8] https://remittanceprices.worldbank.org/en/about-remittance-prices-worldwide

Figure 2: Remittances flows in comparison to FDI, Private capital flows and aid



Source: FT based on World Bank and IMF data

Need for stronger regional currencies and astute monetary policies

With the drying up of US dollars to service debts and pay for imports, monetary policies will play a significant role in the recovery efforts. The need for stronger and more stable currencies will increase. In the context of the regional economic blocs, various discussions have taken place around common currencies that should be expedited in the coming years. Supporting institutions and regional bodies in realising common currencies, to the extent possible, within the various already-defined economic blocs would bode well for the long-term growth and strength of African economies.

Unlearn the old and learn new ways to deliver aid and partner in trade

The growth and developments that have taken place in Africa in recent years has helped reshape perceptions of a once impoverished continent in need of aid to that of a dynamic region in search of strategic collaboration. What Africa looks for today are partnerships that foster innovation and favour transfers of skills and know-how. There is a need to unlearn what we know on aid and delivery and learn new ways to be more efficient in partnership with African economies in aid and trade. The Netherlands, the EU and the world in general need to take on board the lessons of failures in the 1980s, 1990s and early 2000s of the systems and organisations engaged in delivering aid, so as not to fall into the same traps now. After the current coronavirus pandemic, the healthcare, agribusiness, energy, water, urban planning (in the context of smarter cities) and education sectors will require significant attention as drivers for sustainable growth and recovery going forward. Embedding the aid and trade agenda into these sectors will be imperative for a successful partnership with African governments and the private sector. The trade and aid agenda for Africa during and post-pandemic will have to look vastly different (with a need to unlearn traditional aid and trade delivery schemes, and learn new ways to deliver aid and conduct trade)

There is an African (Swahili) saying, "*Chombo hakiendi ikiwa kila mtu anapiga makasia yake"*, which directly translates as a boat does not go forward if everyone is rowing their own way. This is a pandemic that we, as the world, need to face together. Trade will pick up subsequently and, in order to spur more intensive collaboration in trade and investment for growth and development across Africa, the Netherlands and Europe in general must rethink its approach to development cooperation in collaboration with Africa.

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