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**COVID-19 pandemic and the African economy: The spillover effects**

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**Abstract**---The quick transformation of a health challenge caused by the outbreak of the Covid-19 pandemic that originated in Wuhan, China sometime in 2019 to a financial and economic crisis is intriguing. What is more disturbing is the speed at which lives are being lost and the spillover effects that are impacting the world economy and indeed African economies at this age and time with the advancement in technology and medical expertise? The spread of the pandemic is swift because of its crippling impact on the lives of citizens and the economies of nations. The paper adopted content analysis as a methodology in the study. And the study reveals how the spread of the Covid-19 pandemic has infected over 150 countries of the world and has had serious spillover effects on the economies of many African countries and responses to the pandemic are varied by various countries on the continent to contain the virus, to save lives and safeguard their economies. The study recommends African countries should vigorously carry out tests and treat infected patients quickly and also provide palliatives to the weakest members of the society to cushion the effects of the pandemic and tax payments by the small and medium scale enterprises should be suspended to support the businesses amongst others to safeguard their economies.

**Keywords**---COVID-19, coronavirus, pandemic, financial crisis, spillovers.
Introduction

The economies of many countries in the world have continued to be buffeted and depressed by a myriad of factors and African countries are not immune to these vagaries; notable amongst these factors recently are the US-China trade war, Brexit and the American presidential elections. On the heels of the above, the International Monetary Fund (IMF) had predicted global growth of 3.4 percent for the year 2020.

However, the advent of coronavirus, otherwise known as Covid-19, changed the outlook suddenly. The virus is said to be caused by SARS-COV-2, a novel strain of Corona-Virus from the SARS species. According to the World Health Organization (2020), the virus has now been detected in over 150 countries with more than 3 million people infected and more than 200 thousand people killed globally. Though Africa remains one of the regions with the fewest cases as of 24th, April 2020, Africa has reported 16,829 people infected, 714 recovered and 748 deaths.

Several efforts are on all over the world to curtail the spread of both infection and the rate of deaths which is essentially driven by human-to-human transmission. Much more than the certain and unfortunate tragic health hazard the pandemic portends for the world at this time, the attendant economic crisis, and the disruptions that are bound to follow may be at a huge cost to the world’s fragile economy. It is estimated by the United Nations Trade and Development Agency (UNCTAD) that the Covid-19 pandemic cost may at the end of the day exceed US$2 trillion by the end of 2020 (UNCTAD, 2020). Also, some financial experts, financial analysts, and Apex Banking institutions around the world are comforting themselves in the prediction of a possible temporary impact of the pandemic and perhaps a quick return to normalcy. The reasoning behind this is informed by the lessons of the recent world financial crisis of 2007. It should, however, be noted as some suggest the events of the 2007 financial crisis may not be compared with the present crisis in terms of scope and management. This is because, from the spread and the impact of the present Covid-19 seen so far, it may have more serious consequences that will probably be with us much more beyond the year 2020. The fallout of the Covid-19 outbreak the world over has led to a serious slowdown in the world economy and a lockdown that has impacted general oil demand and we have just started from what we are experiencing. This present challenge is also coming at a time there is a price war between the OPEC Cartel spearheaded by Saudi Arabia and Russia on the decision to cut output, with the resultant effect of a decrease in oil price. AfDB (2020)

Spillover effects on continents or country’s sectors may vary in impact. For instance, the result of the pandemic outbreak leading immediately to lockdown will easily be felt in world tourism and aviation since there is a halt and restriction on global travel. The direct implications of this are the loss of millions of jobs in the hospitality industry, aviation, and cruise companies due to a decline in demand and cancellations which will possibly continue for some time to come. AfDB (2020)
It is also important to note as part of the fallout is the impact on the demand side which will come because of measures taken that will lead decline in consumption such as reduction in spending, social distancing with consumers staying at home while on the supply side, plants are closed or in many cases cutting down their production and hence output, while in some cases factories are shutting down or cutting down production and output, while in other instances, employees work from home to reduce physical contact among staff.

The relatively low figures of reported cases in the continent so far are cheering news, analyst is quick to warn African leaders and policymakers should not be complacent but rather be proactive by initiating policies to not only protect their fragile economies but more importantly, protect the lives of their citizens. Achieving the above objectives, without doubt, will entail a two-prong approach: The first approach is to urgently contain the spread of the deadly virus as soon as practically possible by (a) carrying out as many tests as they can; (b) swiftly treat the identified cases, and (c) evolve policy measures to curtail both community and hospital transmissions of the virus. The second approach is to cushion the African economies from the crushing effects of the Covid-19 pandemic as quickly as possible.

**Literature Review**

There exist numerous kinds of literature on economic crises experienced by some countries, few of which are noted here. Honkapohja and Koskela (1999) provided an empirical analysis of the experience of Finland in the 1990s. The country’s GDP dropped significantly to less than 15% while its rate of unemployment went to about 20% thereby suffering a deep depression as a result of what analysts called bad policies and bad luck. It was believed that the bad policies happened due to poorly crafted financial regulations and wrong policy reactions to the emergence of the economic challenge. This was coupled with excessive private sector indebtedness, which skyrocketed its structural unemployment and also dried up employment opportunities during the economic recovery that followed. While bad luck was a result of external shocks like the collapse of trade with the former Soviet Union in 1991 (Honkapohja and Koskela, 1999). Also, the economic crisis in Bolivia, as shown in the studies of Morales and Sachs (1989), was due to three major factors that are likely to happen to many countries of the world because of the present COVID-19 pandemic. The factors are the unexpected increase in world interest rates in the 1980s, the decline in Bolivia’s commodity prices in the international market and the cutoff in the lending from the international capital market. The combination of the three events threw the Bolivian economy into serious hyperinflation. The economy of Italy also experienced a crisis during the 2007/2008 global financial crisis. In its analysis, Di Quirico (2010) opined that the experience of Italy was because of the absence of structural reforms in the Italian economy before the crisis. It further explained that the terrible experience came less than two decades after its recovery from political upheavals and economic problems; the 2007/2008 global meltdown further depressed the Italian economic atmosphere.

Moreover, evidence abounds in the literature that notable repercussions usually follow economic crises for any nation. An example is found in the economic
troubles experienced by Portugal. Carneiro et al (2014) observed that the economic crisis in Portugal led to a serious increase in loss of employment because many companies went under and there was a rise in the cases of minimum wage freeze, which led to a sharp rise in the number of casual employees. Giannakis and Bruggeman (2017) noted the resilience of the rural communities to economic shocks far more than urban communities. Soiminen et al (2012) and Khang et al (2005) noted other aftermaths of economic crisis to include alcohol-related challenges, homicide, and the crash of many small and medium scale businesses, among many others. Several other literature such as Gaiotti (2013); Bezemer (2011); Mian and Sufi (2010); Bentolila et al (2018); Bagliano and Morana (2012) all chronicled the clear impact of the economic crisis. However, it is becoming very clear that there would likely be a novel global economic recession engendered by the Covid-19 pandemic. There exists a high possibility that the Covid-19 pandemic will start a completely new kind of recession never seen in human history. For instance, the Asian debt crisis of 1997 was caused by the collapse of the Thai Baht in July 1997, which created a panic that caused a region-wide financial crisis and economic recession in Asia (Radelet and Sachs, 1998). The 2008 global financial crisis, which translated to a recession, was caused by the loose monetary policy which created a bubble, followed by subprime mortgages, weak regulatory structures, and high leverage in the banking sector (Allen and Carletti, 2010). The Greece recession of 2010 was a result of the international financial crisis, poor monetary policy flexibility as part of the Eurozone and structural inefficiency of the Greek economy (Rady, 2012).

In this article, we show how the Covid-19 pandemic led to spillovers in major sectors of the African economy, the policy responses by some African countries to stave off the crushing impact of the pandemic on their economy and efforts to save the lives of their citizens as much as possible. The paper contributes to financial crisis literature by showing how non-economic related factors can substantially instigate financial and economic crises. The remainder of the paper is structured as follows: section 3 gives a breakdown of the spread of the pandemic on a global, regional and African level, section 4 shows the spillover effects on some African economies while section 5 shows the strategic policy responses and section 6 concludes the paper.

**Spread of the Covid-19 Pandemic in Africa as of April 24 at 7:00 GMT**

As of 24th April 2020, Africa has more than 29,000 confirmed cases of coronavirus, more than 1,200 confirmed deaths, 8,172 recoveries while only two countries are virus-free (Lesotho and Comoros), and various African countries have imposed various measures to mitigate and contain the spread of the pandemic. According to the African Center for Disease Control on Covid-19 in Africa and the John Hopkins University, the breakdown remains fluid as countries confirm cases as and when they can. Table 1 shows the North African region is so far more heavily impacted by the virus with Egypt, Morocco and Algeria reporting 2,844, 2,600 and 2,418 confirmed cases respectively. Also, South Africa leads in the south of the Sahara with over 2,700 reported cases followed by Cameroon with a figure of 1,017.
Tables 2 and 3 shows both regional data and global data on the spread of the Covid-19 pandemic as reported by the World Health Organization which reveals as of March 26th, 2020 that Europe had the highest figures of infected cases and closely followed by China, Italy and Iran as at date.

**Spillover Effects of the COVID-19**

**Spillover Effects on African Economies**

Looking at the tragic health hazards and human consequences of the pandemic, likely financial and economic uncertainties and the disruptions that have followed the Covid-19 pandemic and the huge cost to the world economy, the cost of the damages, at the very least, on a global scale has been estimated by the United Nations Trade and Development Agency (UNCTAD) at about US$2 trillion in 2020 (UNCTAD, 2020). Since many economies in the world have started feeling the spillover effects of the Covid-19 pandemic, African economies cannot be immune. Some key sectors in African economies are already experiencing a slowdown because of the pandemic. The tourism industry, air transportation and the oil sector are being impacted already.

The African continent experienced a significant improvement in the decade 2000-2010. Thereafter, events in the international market have cast serious doubts on the ability of the continent to continue on the path of growth for long because of the acute reliance of the continents’ big economies on single products and more importantly, due to the vagaries in unstable international commodity prices. The year 2014 continued to see the reduction of the gains of the earlier decade by the continent of Africa in its economic growth rate. It was kick-started by the reversal of the prices of raw materials in the international market. This halted the high growth rate that started in the year 2000, though has been undulating as graph 2 showed. Thus, the economic growth rate crashed from more than 5% on average in the period of 2000 and 2014 to around 3% between 2015 and 2019 (IMF, 2019). This led to significantly low growth rates that were not capable to match the economic lag.

The AfDB (2019) forecast a 3.4 % African average growth rate given the scenario on the ground. But the impact of the Corona Virus pandemic on key sectors like travel, exports, and tourism will lead to a depleted government revenue which will limit the much-needed resources to finance public investment and thereby fall short of the target growth rates in 2020 and beyond. The impact of the Covid-19 pandemic on African economies as noted earlier is certainly going to worsen the already weakened economies. The interruption in the world value chains and the sudden decrease in commodity prices as well as government revenues and coupled with the enforcement of travel will further lower growth in all African countries, and it is predicted that figures from both export and exports may likely reduce by about 34% of the 2019 figures. (IMF, 2019)

Professor Charles Soludo, a prominent economist and former Central Bank Governor in Nigeria raised very important posers for the African Continent as a response to Covid-19 in Africa. He said, Firstly, that the African countries cannot afford the cost of testing over 1.3 billion people of the continent and the cost of
monitoring the spread required for effective testing. He compared the cost with that of the state of New York in the United States of America with a population of 20 million and a budget of $175 billion, which pleaded for federal assistance to get the needed testing kits because of the cost.

He also posited that achieving social distancing will be an uphill task given African peculiar situations of social clustering and survivalist culture. He also raised the pertinent issue of the cost of lockdown for African countries which he believes they cannot afford to shoulder given the state of their economies. He believes that most of the African population can hardly survive a prolonged lockdown without support from the government and the government itself is already down with many challenges.

**What is Expected from Africans and Africa?**

Soludo, (2020) in his written speech on the Covid-19 response suggested Africans should think African but much more importantly act locally and seize the opportunities availed by the pandemic to not only survive but more critically maximize the world opportunities presented by the crisis. Meaning that solving the pandemic crisis will imply multiple approaches that are well beyond finance and orthodox medicine.

A truly lasting lesson of the pandemic for African Countries will be to public health care more seriously, as this may not be the last we are going to witness in the world. This implies all and sundries must be mobilized to adopt and agree on simple and smart solutions that are compatible with the economic and social realities of our time. While the research institutions and both orthodox and unorthodox medical practitioners should also be mobilized and encouraged to come up with solutions to the scourge.

**Spillover Effects on the Top Five African Economies**

The spillover effects on the five top economies in Africa are better imagined than experienced. The top five African economies, as measured by their Gross Domestic Products (GDP), are Nigeria, South Africa, Egypt, Algeria and Morocco, which represent over 60 percent of African GDP. The combined influence of both tourism and petroleum sectors represent, on average, a quarter of the economy of the countries mentioned.

Following the outbreak of the Covid-19 pandemic, the economies of these countries have received a big blow because they are more affected by the infection in the continent than others. The crash in oil prices is expected to seriously affect the Nigerian and Algerian economies adversely, while the global value chains will also negatively impact the Moroccan automotive industry, which represents about 7 percent of its GDP over the period between 2017 and 2019. The country’s export of phosphates and remittances from its which contribute about 7 percent to its GDP annually will most likely suffer some decline too. The Egyptian factories, which, to a very large extent, rely on raw materials from China, may suffer the inability to meet both domestic and international market demands. The Egyptian remittances which grew to more than US$25 billion in 2018 from US$ 24.7 billion
in 2017 may seriously decline due to the impact of the Covid-19 crisis on its economy.

The remittances into the Nigerian economy were a little above US$25 billion in 2018 and contributed about 6 percent to the nation’s GDP. The two countries account for more than 60 percent of the continent’s remittances inflow in a year. The South African economy’s two main sources of revenue – mining and tourism – are threatened by the Covid-19 pandemic. This is due to disruption in the Chinese market which is going to limit the demand for raw materials like chromium ores, manganese and iron from South Africa. The economy entered recession last year; the present Covid-19 pandemic will certainly further worsen the economic crisis and the level of unemployment.

**Spillover Effects on African Tourism Destinations**

The regulatory body of tourism in the world, the World Travel & Tourism Council (WTTC), revealed that the tourism industry contributed at least 8.5 percent or about US$194.2bn of the African gross domestic product (GDP) in 2018 (AfDB, 2019). It was further reported that the continent is the second-fastest-growing tourism region on the globe at a rate of 5.6% in 2018, which is much higher than the world average rate of less than 4%. African three top tourism destinations are Egypt with a little less than 12 million tourist arrivals each year, followed by Morocco with around 11 million and South Africa with about 10.5 million arrivals each year.

However, the covid-19 pandemic has taken its toll on these destinations starting from the onset of the pandemic, a communique released from IATA shows that international bookings in Africa declined by about 20% in March and April while domestic bookings also declined by about 15% in March and by about 25% in April 2020. (AfDB, 2020) Furthermore, ticket refunds also spiked by more than 75% in 2020 when compared with the same period in 2019. The financial implication of the above is that African airlines have already lost about US$5 billion in revenue by March 2020 due to Covid-19.

The prospects of Africa’s tourism industry, when compared with other regions in the world, were projected to be very strong before the pandemic outbreak. However, due to the lockdown all over the world, unexpected negative growth is possibly expected, like the sacking of hotel workers, travel agencies downsizing, and airlines collapsing among other others. South African Airlines have not made a profit since 2011, is heavily indebted and only survived all along by regular cash injections of over US$1.1 billion from the government. Presently, the government of South Africa is seriously considering replacing the airline with a new one due to the negative impact of Covid-19.

In general, it is expected that the crushing impact of covid-19 on the economies of the top tourism economies to be greater than in all African economies. The tourism industry was reported to have contributed more than 10% to the economies of the top tourist destinations countries, hence they are likely going to experience a negative impact that cannot be less than -8% in the year 2020. (AfDB, 2020)
Strategic Responses to the COVID-19 Pandemic

Response from WHO

The World Health Organization (WHO) in a major strategic response to contain the Covid-19 pandemic outline key objectives: (a) limiting human-to-human transmission to minimize tertiary infections from close contacts and medical health workers. (b) avoid more international transmission of the deadly virus (c) make a strenuous effort to identify, isolate, and treat infected patients early (d) locate and reduce the transmission of the virus from an animal source, (e) reduce social and economic effects through multisectoral partnerships. (f) communicate the critical risk and event information to all communities and counter misinformation.

Strategic Responses from some African Governments

Algeria

The strategic response of Algeria through the Bank of Algeria was to reduce the rate of the reserve by 25 basis points (0.25 %) while the key interest rate was fixed at 3.25%.

Cote d’Ivoire

In response to COVID-19, the Ivorian government provided an intervention fund of US$200 as a crucial way to enhance and support businesses and safeguard the national economy and prevent job loss.

Ethiopia

The Ethiopian government advanced a three-prong approach for the continent to attack the Covid-19 pandemic: (a) it advocated for debt relief and restructuring plan for the poorest poor countries in Africa (b) it also called for an urgent African global Covid-19 emergency financial package of US$150 billion and (c) provision of support to Africa Center for Disease Control and Prevention (CDC) and the World Health Organization (WHO) to boost public health delivery and emergency readiness in Africa. On its part, despite the low confirmed cases in the country, the government provided US$10 million in the first instance to fight against the pandemic.

Ghana

The Ghana government, in one of the biggest responses in Africa to the fight against Covid-19, announced the sum of US$100 million and also introduced the use of medical drones, which is a commendable step. Also, as a measure to help the economy absorb the shock, the Bank of Ghana’s MPC lowered the monetary policy rate by 150 basis points to 14.5 percent. And as a way to support the critical sectors of the Ghanaian economy, the primary reserve requirement was reduced from 10 percent to 8 percent thereby availing the banks more liquidity.
Kenya

The Central Bank of Kenya took several emergency measures to mitigate the crushing effects of the pandemic on the Kenyan economy and its citizens. Notable amongst them are: (a) borrowers of personal loans were given reliefs based on their merit; (b) personal loans extension were also announced though based on applications for a period not beyond 12 months through their respective banks and banks will bear all the costs related to the restructuring and extension of loans to borrowers; (c) loan restructuring for medium-scale enterprises and corporate borrowers after assessment of individual cases based on the pandemic situation.

Nigeria

On the fiscal front, the Nigerian government, through the National Centre for Disease and Control (NCDC), released a sum of US$2.7 million to fight the scourge while an additional US$18 million was allocated for the purchase of medical supplies like testing kits, opening of isolation centres and training of medical personnel. The federal government also release the sum of US$28 million to the nation's epicentre, Lagos State, its commercial capital to fight the pandemic.

Also, on the monetary and macro-financial level, the nation's apex financial bank, the Central Bank of Nigeria (CBN) announced some measures to reduce the impact on the economy, these include: (a) lowered interest rates on all CBN interventions from 9 per cent to 5 percent with a 12-month moratorium on CBN intervention facilities; (b) created a US$139 million targeted credit facility; (c) facilitated a liquidity injection of 2.4 percent of the nation's GDP into the banking system with additional support to key sectors in the economy like health sector and manufacturing, worth over 100 millions of dollars to cushion the impact on the economy, especially in the short time.

South Africa

As one of the hardest-hit countries on the continent, the South African government announced a plan of more than US$56 million mainly to support small-scale businesses during the pandemic outbreak while the South African Reserve Bank also cut interest rates.

Uganda

The Bank of Uganda made a critical intervention in the foreign exchange market to reduce the excess volatility from the international financial markets. The Bank also decided to waive limitations on the restructuring of credit facilities in Ugandan financial institutions to reduce the risk of doing business.

Conclusion and Recommendations

The study concludes that the Covid-19 pandemic has become a serious challenge at international, regional and national levels. The aftermath of the crisis is hard
to calculate at the moment, but clearly, it is expected to be far-reaching, especially by the rate of the spread of the pandemic and the different interventions by different countries of the world.

Based on the foregoing, this study will like to suggest the following recommendations to mitigate the anticipated severe impact of the Covid-19 pandemic on Africans and the African economy, in the very immediate:

1. Vigorously and systematically carry out tests and treat infected patients and contact trace all infected people and isolate them.
2. Severally restrict movement of people within international, national, state and community boundaries, to limit transmission of the deadly virus.
3. African governments should transparently monitor the crisis and work assiduously with World Health Organization and the African Centers for Disease Control and Prevention. Funds should urgently be provided and channeled to the health sector to provide medical supplies (medical testing reagents, testing centres, isolation centres, ventilators etc.), personal protective equipment, pharmaceutical supplies
4. Adequate support should also be given to academics to fund research to find an urgent solution in the form of vaccines and drugs that can combat the virus in time.
5. All interest payments on loans whether personal or corporate organizations should be waived at this time
6. Palliatives should be given to the weakest members of the society to cushion the effects of the pandemic and tax payments for small and medium scale enterprises should be suspended to support other businesses.

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