ESW
INVESTMENT GROUP

Covid 19 Impact on Regional Growth

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1. Executive Summary

The global economy has been grossly affected as the COVID-19 pandemic is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus. The health crisis is therefore having a severe impact on economic activity. As a result of the pandemic, the global economy is projected to contract sharply by 3% in 2020, much worse than during the 2008–09 financial crisis. In a baseline scenario, which assumes that the pandemic fades in H2:20 and containment efforts can be gradually unwound, the global economy is projected to grow by 5.8% as economic activity normalises, helped by policy support

2. Global Economic Developments

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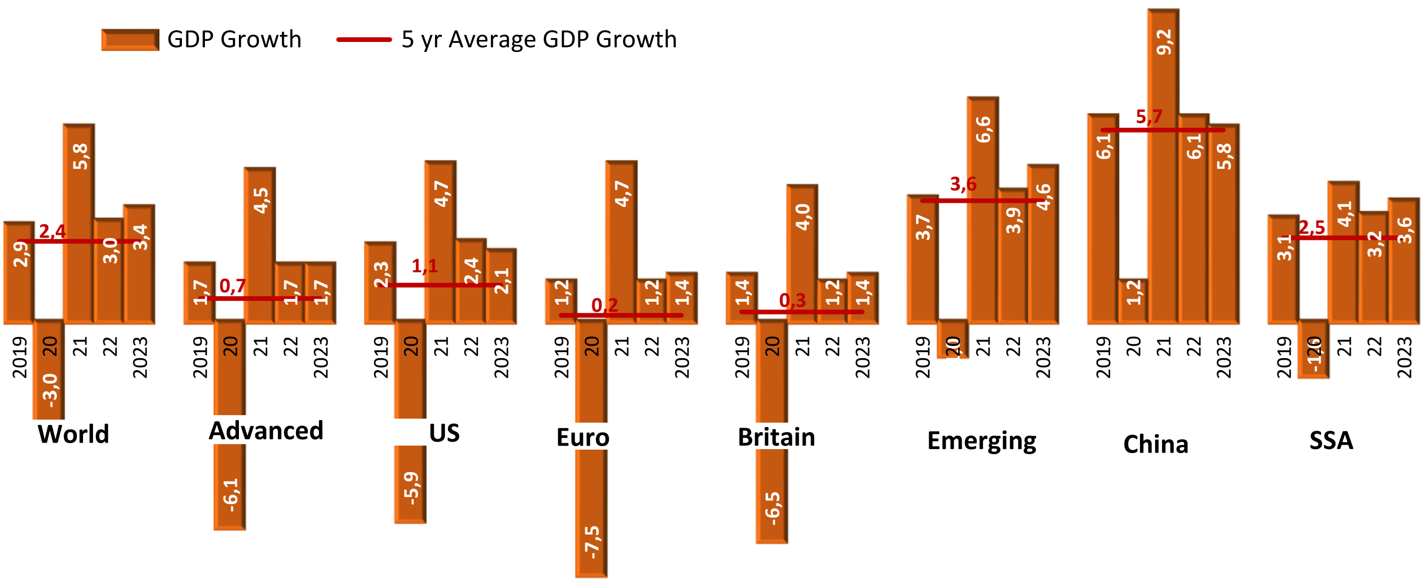
Figure 1: Global Economy (%)



Source: IMF, World Bank, ESW

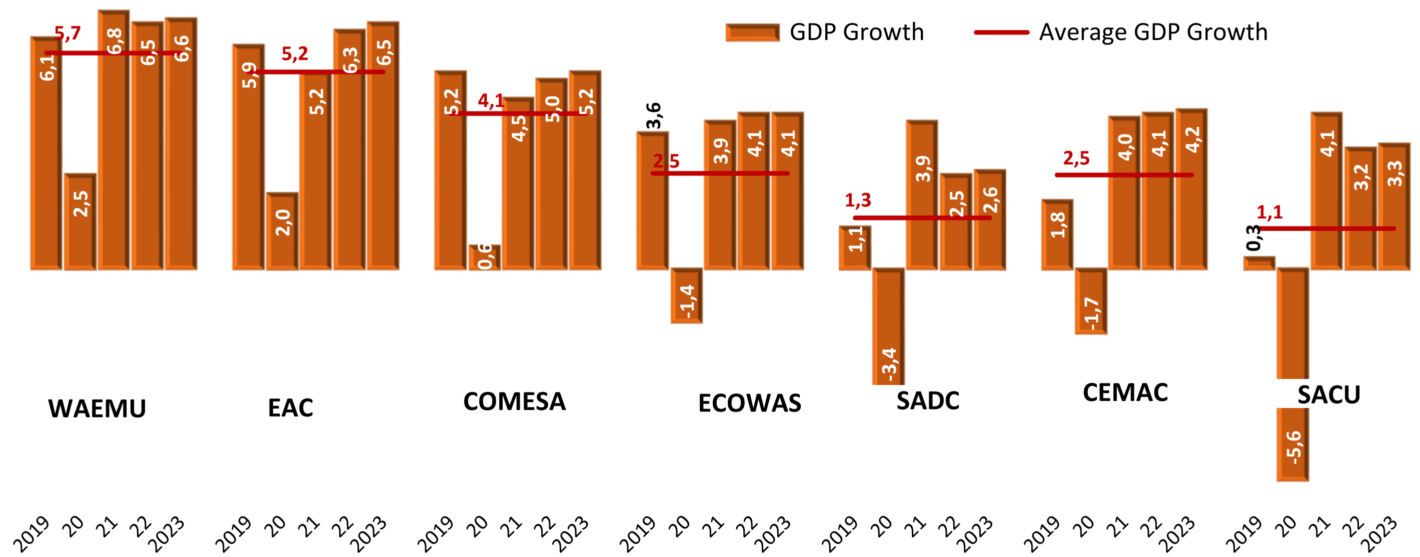
In the baseline scenario, the pandemic is assumed to fade in H2:20, allowing for a gradual lifting of containment measures. However, there is extreme uncertainty around the global growth forecast. ***The economic fallout depends on factors that interact in ways that are hard to predict, including the pathway of the pandemic, the intensity and efficacy of containment efforts, the extent of supply disruptions, the repercussions of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioral changes (such as people avoiding shopping malls and public transportation), confidence effects, and volatile commodity prices.*** Many countries face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, capital flow reversals, and a collapse in commodity prices. Risks of a worse outcome predominate and chances of reoccurring of the pandemic may not be washed away.

3. Sub Saharan Africa Economic Growth

In sub-Saharan Africa (SSA), despite a late arrival, the COVID-19 virus has spread rapidly across the region. Economic growth in Sub-Saharan Africa will decline from 3.1% in 2019 to between -1.6% to -5.1% 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 has mostly affected 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%, 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. This has affected the SADC and SACU region given the dominance of South Africa in that region. WAEMU and EAC regions are expected to continue enjoying high growth rates. These regions have developed in terms of economic integration and have graduated to trade and monetary union.

Figure 2: Economic Growth per Regional Economic Grouping (%)



The West African Economic and Monetary Union **(WAEMU)**	East Africa Community **(EAC)**	Common Market for Eastern & Southern Africa **(COMESA)**	Economic Community of West African States (**ECOWAS**)	Southern African Development Community (**SADC**)	Economic & Monetary Community of Central African States (**CEMAC**)	Southern Africa Customs Union (**SACU**)
Benin Burkina Faso Côte d'Ivoire Guinea-Bissau Mali Niger Senegal Togo	Burundi Kenya Rwanda Tanzania Uganda	Burundi Comoros DRC Eritrea **Eswatini** Ethiopia Kenya Madagascar Malawi Mauritius Rwanda Seychelles Uganda Zambia Zimbabwe	Benin Burkina Faso Cabo Verde Côte d'Ivoire Gambia, The Ghana Guinea Guinea-Bissau Liberia Mali Niger Nigeria Senegal Sierra Leone Togo	Angola Botswana Comoros DRC **Eswatini** Lesotho Madagascar Malawi Mauritius Mozambique Namibia Seychelles South Africa Tanzania Zambia Zimbabwe	Cameroon CAR Chad Congo Equatorial Guinea Gabon	Botswana **Eswatini** Lesotho Namibia South Africa

Source: IMF, World Bank, ESW

WAEMU, EAC and COMESA of which the region's largest economies (Nigeria, South Africa and Angola) are non-members are the the only regions that will record a positive growth in 2020. All other regions are expected to contract.

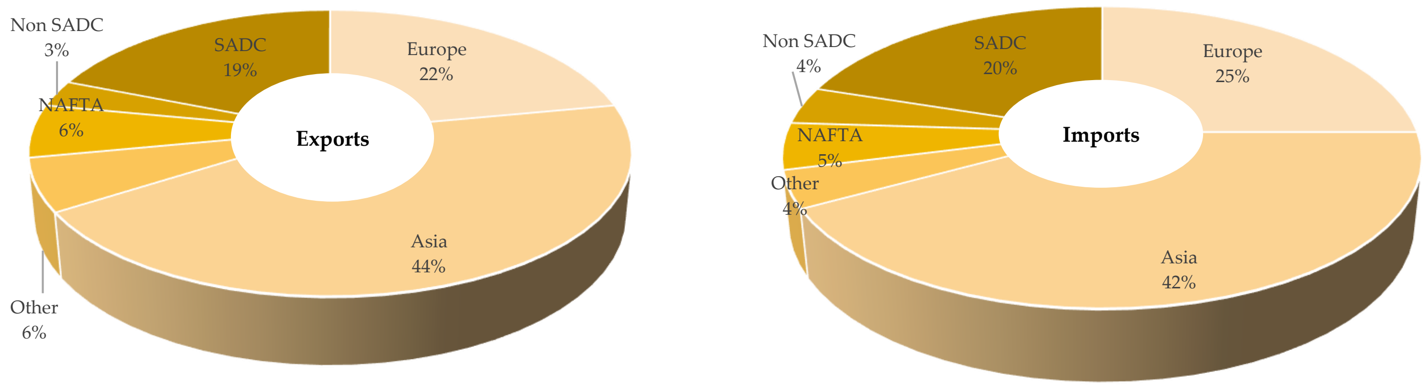
4. Covid-19 Impact on SADC

The SADC region has a diverse set of trading partners in which the EU and China are the main trading partners. Slower growth in these regions could reduce demand for many Southern Africa's export and import products (especially, intermediate). As the most industrialised African region, SADC has been adversely impacted as factories closed throughout the world and manufacturing (e.g. auto sector), mining and other commodity supply chains are being disrupted.

As an exporter of diverse commodity products (e.g. iron ore, aluminum, chrome, manganese, copper, gold, diamond, palladium, platinum, coal and oil) countries will be impacted differently. For instance, a run for safe commodities will benefit gold exporters such as Zimbabwe and South Africa even if the metal makes a tiny contribution to the overall GDPs;

and the sharp drop in oil will benefit most countries but hurt Angola (with 92.4% of export earnings from oil in 2018 and China being Angola's largest oil importer). For South Africa, China is a key market for chrome, iron-ore, manganese and metallurgical coal.

Figure 3: Southern Africa Export & Import Distribution

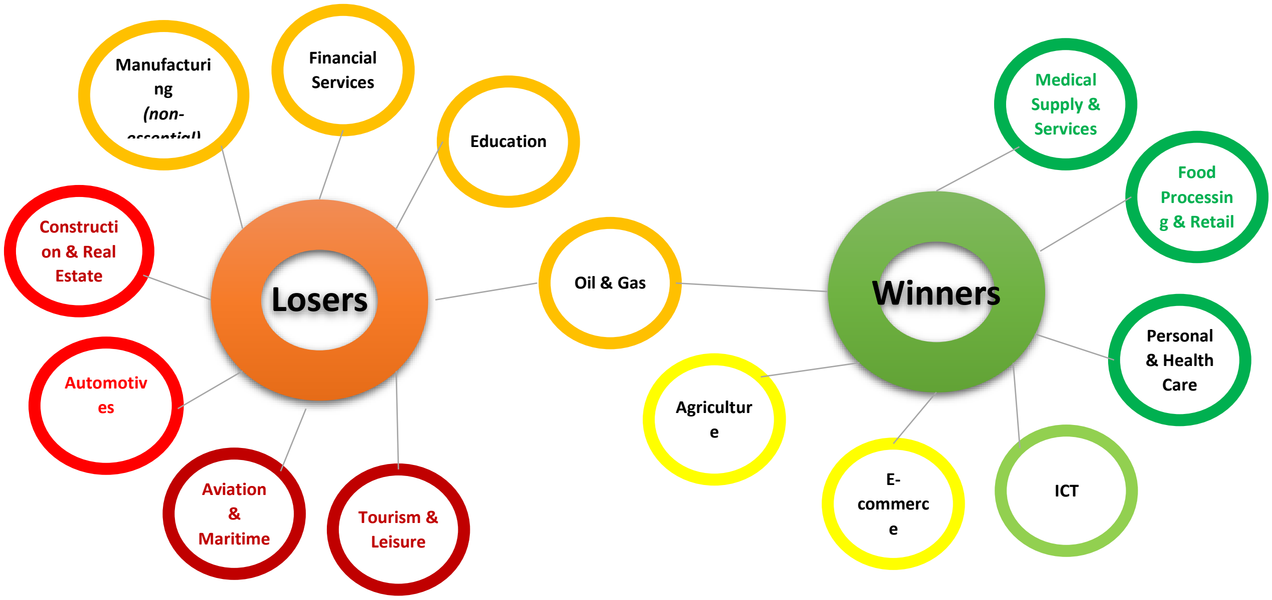


Source: International Trade Centre, ESW

Overall, as the global demand for both manufactured goods and mineral resources drops, economies in Southern Africa will suffer, with less diverse economies (e.g. Zambia and Botswana) even more so. ***As a major tourist destination (for nature, sport, recreation and conferencing), Southern Africa is feeling the impact, with Seychelles, Mauritius, South Africa, Zambia and Zimbabwe recording sharp drops in tourist arrivals.*** ESW Investment Group estimates that 1,000 tourism related jobs in SA alone are threatened in a country with already close to 30% unemployment rate. In Livingstone and Victoria Falls, hotel occupancy rates are as low as 20% as tourists have cancelled bookings, short-term/contract staff have been laid-off. Zimbabwe and Zambia which co-host Victoria Falls have seen tourism receipts falling to closer to zero. While Zambia has taken a more relaxed approach in terms of implementing lockdowns, this may have a negative impact in terms of international arrivals through Zambia. Eswatini, Zimbabwe, South Africa, Namibia and Botswana on the other hand implemented complete lockdowns which are being relaxed in a phased approach.

In recent years Southern Africa has attracted most FDIs in the continent, but globally UNCTAD expects these inflows to fall by 5-15% in 2020. In South Africa the business confidence in all key sectors (manufacturers, building contractors, retailers, wholesalers and new vehicle dealers) has gone below 50 – i.e. negative – indicating that business conditions are deemed unsatisfactory. Countercyclical policies to boost economies are hampered by overall low growth (the region is growing the slowest of all African major regions) and high levels of public debt. While central banks have soften the pandemic blow, monetary policy alone is ineffective in encouraging economic activity in the face of limited fiscal policy capacity. Also, countercyclical policies have limited ability to mitigate supply side impacts, for example, they cannot make up for the absent workers dragging on the economy's productive capacity.

Figure 4: Decoding the Economics of Covid19



Source: ESW

Across the region, the most affected sectors are tourism and leisure together with the transport sectors, particularly the aviation industry. Medical supplies industry and the food processing and retail sectors emerge as the winners***. Dramatic decline in commodity prices especially non-precious metals will hamper export earnings, leading to some mining companies going into care and maintenance.*** It is worth noting that base metals such as copper, nickel, iron, aluminum relies much on the health of the global economy particularly construction activity. It will take longer for construction activity to revamp as most countries have redirected spending from capital and infrastructure activity to social spending. ***Even if lockdowns restrictions are lifted, the psychological impact of the pandemic will continue to negatively disrupt trade.*** Zimbabwe, Malawi and other major tobacco growers in the region are currently in their selling season. Activity at auction floors is very low when compared to previous years as movement of both people and goods remain restricted.

Some countries in the region such as Tanzania, Zambia and Malawi did not implement strict lockdowns regulations given their high level of economic informalisation. Others that are broadly informal such as Zimbabwe, the Covid-19 induced lockdown took a toll on many businesses which survive from hand to mouth. ***Increased credit risk also could result in deterioration in loan quality in the banking sector. The lockdown has brought to the fore the need for banks to have reliable digital platforms to customers to enable them access to their finances.***