

African economies in free fall as coronavirus pandemic worsens

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The number of confirmed COVID-19 cases on the African continent has risen above 12,000, with over 500 deaths. Although the number of confirmed cases has not yet surged to levels in the advanced countries, the impact of the global economic turmoil is rapidly being felt across the continent.

Africa, integrated into the global economy both as a supplier of raw materials and as an importer of finished goods, could never escape the economic fallout from the COVID-19 crisis.

As the *Financial Times* pointed out, while in the US and Europe the coronavirus has produced an economic and social disaster, “In much of the developing world, the sequence has happened in reverse, with the economic devastation of coronavirus arriving before the epidemic itself.”

The United Nations has warned that Africa could fall into recession, with growth estimates for 2020 revised down to 1.8 percent from an earlier 3.2 percent. Bartholomew Armah, head of the UN Economic Commission for Africa’s head of macroeconomics and governance division, told Bloomberg that he expects a recession, “Our previous forecast should be seen as conservative because it was done at a time when the actual number of [coronavirus] cases in Africa was low.”

The World Bank reports an equally grim situation, estimating \$37 billion to \$79 billion in losses due to the pandemic. Trade and value chain disruption and a seven percent fall in food production due to transport blockages could see food imports decline by a massive 25 percent. The World Bank projects that Africa’s economy will shrink 2.1-5.1 percent this year.

An African Union (AU) study predicts that some 20 million jobs are at risk in Africa due to the impact of the pandemic. Sub-Saharan Africa’s biggest oil producers, Nigeria and Angola, stand to lose \$65 billion in revenues due to the collapse in oil prices and the fall in demand as a result of the looming slump. Their deficits are likely to double, while their economies will shrink by an average of three percent.

The study estimates that continent’s tourism and travel sector, a major foreign currency earner for many countries, could lose at least \$50 billion and two million tourism and related jobs. Thus, countries dependent upon tourism are expected to see their economies shrink by an average of 3.3 percent, with major tourist destinations such as the Seychelles, Cape Verde, Mauritius and Gambia shrinking by at least seven percent.

Africa’s largest economy, Nigeria, with a population of 200 million, is already badly affected by the coronavirus. The country has recorded the highest number of cases in sub-Saharan Africa, 288, with seven deaths.

Nigeria’s Finance Minister Zainab Ahmed has warned the economy could contract by 3.4 percent this year. The Brookings Institute had warned even before the virus outbreak that the economy was struggling, “grappling with weak recovery from the 2014 oil price shock,” and sluggish GDP growth of 2.3 percent. The IMF had revised its estimate for 2020 GDP growth rates down from 2.5 percent to 2 percent because of the falling price of oil, which constitutes the main source of revenues.

Despite the government cutting its budget, crowding out vital health care and social assistance spending, its borrowings are set to increase as foreign currency earnings and reserves fall. Yet Nigeria’s five richest men, with a combined wealth of US\$29.9 billion, own as much as the country’s entire national budget.

South Africa, the second largest economy, saw prices for its metal exports fall by eight percent between December and March, prompting a downgrade to junk rating by Moody’s, 25 years after being awarded investment grade rating. This follows a negative rating last November and subinvestment status by the other two major ratings companies. Moody’s cited “unreliable electricity supply” and “longstanding structural labor market rigidities”—despite the African National Congress government and the trade unions having enforced ever deeper attacks on wages and working conditions.

Tshepo Moahloli, acting head of asset and liability

management at South Africa's National Treasury, seized on the downgrade as the pretext for further measures that would increase the country's social and economic polarisation, saying, "We take this downgrade as an opportunity do the right thing ... an opportunity to do the things we are supposed to do."

However, the National Treasury was not so optimistic, saying, "The decision by Moody's could not have come at a worse time." Its concern lay not with the impact on South African workers and their families but on "South African financial markets."

Yet the money and resources are there. According to the most recent statistics from the World Inequality Database, South Africa's top one percent take home almost 20 percent of all income in the country, while the top 10 percent take home 65 percent, with the remaining 90 percent getting just 35 percent of total income. Similar inequality dominates every country on the resource-rich continent.

Ethiopia, sub-Saharan Africa's third most populous state, has been hugely impacted by the crisis. Ethiopian Airlines, the country's flagship carrier, which uses its capital Addis Ababa as a hub connecting Europe and Asia with Africa, has reported operating at only 10 percent capacity with a loss of \$550 million in the months of January to April 2020. Its flower export industry, like that of neighbouring Kenya, has been hit by plummeting European demand, with flower prices falling by more than 80 percent, putting some 150,000 jobs at risk.

All of Kenya's main foreign currency earners, including tourism, flower and horticultural exports, have been affected, under conditions where informal labourers account for 83.6 percent of the total workforce.

Many African countries, in the wake of the US Federal Reserve's decision to cut its main interest rates to near zero, have sought to stem economic decline, brought on by lockdowns and reduced trade, by taking similar measures in a bid to woo business and investors.

Egypt's central bank slashed rates by 300 basis points at an emergency meeting in March. Ghana and Kenya both cut their key interest rates to an eight-year low, and Mauritius, Uganda and Namibia reduced their benchmark rates to record lows—2.85 percent, 8 percent and 5.25 percent, respectively—with Namibia cutting its rate by 100 basis points.

At least 10 central banks, including in Botswana, South Africa, Kenya and Malawi, have announced lower reserve or liquidity requirements for commercial lenders to encourage more lending.

The African Development Bank issued the world's biggest dollar social bond by selling \$3 billion notes. The bank has since received \$4.6 billion in bids for its "Fight COVID-19

social bond." At least 37 percent of the bonds were allocated to European institutions, 36 percent to US and 17 percent to Asian investors.

Goldman Sachs recently noted that \$75 billion in funding was required to save the continent's ailing economies, most of which would go to the local oligarchs and into the pockets of CEOs and top executives. In reality, African governments are asking for very much more.

Ethiopian Prime Minister Abiy Ahmed has asked G-20 leaders to assist Africa with \$150 billion, much of it directed to the corporations and the wealthy, and to write off or convert debts of low-income countries, in effect waiving the debts of African corporations. This is because Moody's estimates that \$115 billion of foreign currency debts are held by corporations, accounting for a significant share of 21 of Africa's 54 countries' foreign debt.

But with government deficits rising all over the continent, even middle-income countries are spending 20 percent or more of their revenues on debt service, making it impossible to provide much-needed health, education, and infrastructure.

According to the *Financial Times*, "Tidjane Thiam, former chief executive of Credit Suisse, is among several prominent Africans pressing for a two-year moratorium on \$115bn of sovereign African debt owned by the private sector in what, under normal circumstances, would be considered a default."

Such desperate economic conditions, even before the pandemic hits Africa with full force, make clear the need for an international socialist strategy for the working class. The wealth of the ruling elite must be expropriated and used to meet the urgent economic, social and health care needs of workers and poor farmers. This requires the building of a revolutionary leadership in the working class to wage an intransigent struggle against the diktats of the banks, corporations and world imperialism and their local agents on the continent.



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