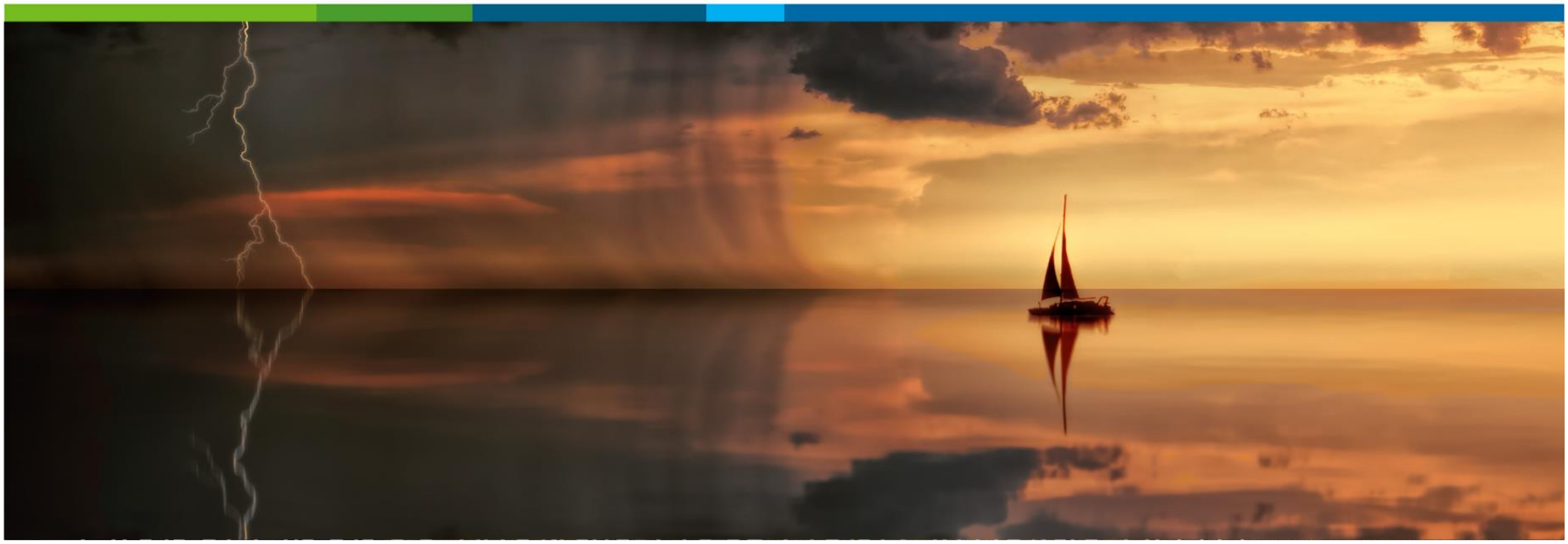

Africa: Testing times

In Sub-Saharan Africa (SSA), COVID-19 has added to the economic stress caused by the recent oil price shock. We expect the region's 2020 growth rate to be even weaker than it was in the immediate aftermath of the global financial crisis.

At the time of writing, a number of economies in the region have imposed lockdowns of key cities, border closures or countrywide states of emergency. Restrictions are likely to become even tighter over the coming weeks.

In their policy response, SSA central banks have relied heavily on macro-prudential measures to support lending, easing monetary policy with rate cuts and lower reserve requirements.

Debt considerations loom large: there are growing calls for a moratorium, at least on near-term debt service owed to multilaterals, up for deliberation at the IMF/World Bank Spring Meetings, now to be held in a virtual format on 17 – 19 April.

We highlight the impact of the COVID-19 outbreak on some of the key markets in the region.

In their policy response, SSA central banks have relied heavily on macro-prudential measures to support lending, easing monetary policy with rate cuts and lower reserve requirements.

Kenya – a looming lockdown

Currently in a partial lockdown, with a 7 pm to 5 am curfew and all international flights cancelled, our 2020 GDP forecast for Kenya now stands at 2 per cent, significantly lower than our original prediction of 5.8 per cent. Kenya's key foreign exchange earners, tourism and horticulture, have been dealt a blow by the measures necessary to contain the spread of COVID-19.

While disruptions to supply chains from China (activity at Kenya's ports was already reported to be sharply lower earlier in the year) and lower oil prices will see imports fall considerably, export earnings are also likely to decline.

Policy response: delayed fiscal consolidation

Kenya will likely see a much larger fiscal deficit due to weaker growth and revenue momentum, and rising healthcare expenditure. President Kenyatta announced relief measures to exempt Kenyans earning less than USD226 (approx.) from paying income tax, as well as a reduction in VAT from 16 per cent to 14 per cent.

Fiscal measures have also been complemented by monetary easing. The Central Bank of Kenya (CBK) cut its interest rate by 100bps to 7.25 per cent at its March meeting, more than the 25bps cut we had forecast earlier in the year.

The CBK has also implemented liquidity release as well as changes in loan provisioning regulations aimed at supporting bank lending.

Currency outlook

Rising global risk aversion and a stronger USD have impacted the Kenyan shilling (KES). Looking ahead, weak export earnings and risk sentiment should bring a gradual move higher in USD-KES.

Nigeria – oil price shock

Following the collapse of OPEC+ negotiations in early March, and a now more severe COVID-19 threat to the economy, we have lowered our Nigeria GDP projections from 2.5 per cent to 0.2 per cent in 2020. With lockdowns extending to more parts of the country, we expect an annual 1 per cent contraction in the non-oil economy.

While a modest increase in oil production for the full year may push headline GDP into very marginally positive territory, 2020 will seem like a recession as the contracting non-oil economy makes up 90 per cent of GDP.

Recovery in sight?

We forecast recovery to 1.6 per cent in 2021, driven by measures such as a more accommodative monetary policy, and Central Bank of Nigeria's (CBN) efforts to encourage lending.

Almost 46 percent of Nigeria's external debt is owed to multilateral creditors, so it stands to benefit from any debt-service relief offered to low-income IDA-eligible countries, which will be decided at the IMF/World Bank Spring Meetings. This is likely to improve investor sentiment.

Policy response: fiscal adjustment

We do not expect policy easing just yet, with the CBN relying on macroprudential policy to support activity. As Nigeria emerges from its lockdown, we see cuts in the Monetary Policy Rate of 50bps each at the July and September MPC meetings, taking the year-end rate to 12.5 per cent.

Nigeria's 2020 budget will now be reformulated, with a lower oil benchmark price, a 25 per cent cut to recurrent expenditure, and a 20 per cent cut to capital expenditure. Due to pressure on both oil and non-oil revenue, we forecast a larger budget deficit widening to 7.5 per cent in 2020 and 6.0 percent of GDP in 2021 (from 3.0 per cent previously forecast for both years).

Currency outlook

We expect the CBN to oversee gradual Nigerian naira (NGN) depreciation, accounting for the oil price shock and measures to contain the spread of coronavirus.

South Africa: state of disaster

We now expect South Africa's economy to contract 2.7% in 2020, after a previous forecast of 1 per cent GDP growth. The impact of coronavirus on the domestic economy is the main driver of this change, alongside the expected global recession.

Can it pull through?

The picture is bleak for the near future: we have lowered our 2021 GDP growth forecast to 1.2 per cent from 2.0 per cent, given the lagged effect of the COVID-19 crisis on employment growth and business activity. Weaker demand in the rest of the world is also likely to impact exports.

Household consumption is set to contract, despite more accommodative monetary policy. Investment is also likely to contract, even with looser regulations on self-generation of power and a continued shift towards renewables.

On a slightly more positive note, we forecast a very gradual recovery to 2.0% in 2022.

Policy response: Moody's downgrade to set tone

Moody's downgraded South Africa to sub-investment grade on 27 March, leading to likely World Government Bond index (WGBI) exclusion at the end of April. Expected outflows from passive WGBI trackers starting in May could preclude further South African Reserve Bank (SARB) easing near-term, even as the economic contraction deepens.

We instead expect the SARB to continue to focus on prudential measures to ease the economic impact of the virus. The fiscal relief measures announced initially amount to about 0.2% of GDP, according to IMF estimates. Additionally, relaxing minimum capital requirements for banks may be more effective than policy easing to cope with the current crisis. Banks are also encouraged to offer payment holidays to stressed borrowers.

South Africa has limited room for fiscal stimulus; we expect the FY21 deficit to widen to 9.4 per cent of GDP, largely due to a deterioration in revenue.