



United Nations
Economic Commission for Africa

Prepared by the
Sub-Regional Office for Eastern Africa

Economic Effects of the COVID-19 on The East Africa Community (EAC)

April 2020



OUTLINE

1. **Macroeconomic Indicators**
2. **External Sector Indicators**
3. **Social Indicators**
4. **Regional Integration Performance in the EAC**
5. **Conclusion and Policy Suggestions**

1. MACROECONOMIC INDICATORS

Economic Growth Forecasts

- COVID-19 crisis, which has already had a high impact on the level of economic activities, is expected to cause a significant slowdown in **economic growth** in 2020.
- Estimates for 2021 envisage a **possible recovery**.

Recent growth estimates report that while the world and Sub-Saharan African economies will contract by -1.6 percent in 2020, most EAC economies will continue to expand, albeit at a lower rate, despite the harsh economic context.

Real GDP Growth Rates

(in percentage)

| | Pre-COVID estimates | | New estimates | |
|-------------|---------------------|------|---------------|------|
| | 2020 | 2021 | 2020 | 2021 |
| South Sudan | 8.2 | 5.0 | 4.9 | 3.2 |
| Uganda | 6.2 | 6.1 | 3.5 | 4.3 |
| Rwanda | 8.1 | 8.2 | 3.5 | 6.7 |
| Tanzania | 5.7 | 6.0 | 2.0 | 4.6 |
| Kenya | 6.0 | 5.8 | 1.0 | 6.1 |
| Burundi | 0.5 | 0.5 | -5.5 | 4.2 |
| EAC-5 | 6.0 | .. | 2.0 | 5.2 |
| SSA | 3.6 | 3.7 | -1.6 | 4.1 |
| World | 3.4 | 3.6 | -3.0 | 5.8 |

Source: IMF WEO October 2019 and April 2020

In contrast, new per capita growth estimates forecast contractions in two of the EAC's biggest economies with a significant recovery in 2021

Real per capita GDP growth (in percentage)

| | Pre-COVID estimates | | New estimates | |
|-------------|---------------------|------|---------------|------|
| | 2020 | 2021 | 2020 | 2021 |
| South Sudan | 5.0 | 1.9 | 1.7 | 0.1 |
| Rwanda | 5.6 | 5.8 | 1.1 | 4.2 |
| Uganda | 2.6 | 3.0 | 0.0 | 1.2 |
| Tanzania | 2.6 | 2.9 | -0.9 | 1.5 |
| Kenya | 3.2 | 3.0 | -1.7 | 3.3 |
| Burundi | -2.4 | -2.4 | -8.3 | 1.2 |
| SSA | 0.9 | 1.1 | -4.1 | 1.5 |

Source: IMF WEO October 2019 and April 2020

Debt and Fiscal Sustainability Trends

- **Increased social support** to assist populations cope with the effects of the pandemic will affect government revenues through loss of tax and commodity exports revenue
- There have been calls for **debt relief** to free up scarce resources for the fight against COVID-19 and its impacts

Fiscal and debt pressures are expected to worsen this year for most EAC member states except South Sudan

Government Debt (as percentage of GDP)

| EAC Countries | 2015 | 2016 | 2017 | 2018 | 2019 | 2020* | 2021* |
|---------------|------|-------|------|------|------|-------|-------|
| Burundi | 39.6 | 45.3 | 48.6 | 53.4 | 59.4 | 67.7 | 68.0 |
| Kenya | 51.4 | 54.5 | 55.2 | 60.1 | 60.8 | 64.5 | 66.8 |
| Rwanda | 27.2 | 29.3 | 32.3 | 34.8 | 38.6 | 55.1 | 57.1 |
| South Sudan | 60.3 | 115.1 | 82.8 | 57.7 | 41.8 | 35.3 | 30.5 |
| Tanzania | 37.1 | 37.0 | 37.7 | 38.6 | 38.1 | 40.0 | 41.8 |
| Uganda | 29.0 | 31.4 | 33.7 | 35.6 | 40.0 | 46.3 | 50.7 |

Source: IMF

Economic and social policy measures adopted as a result of the pandemic will most likely widen fiscal deficit in most EAC countries

Government Overall Fiscal Balance

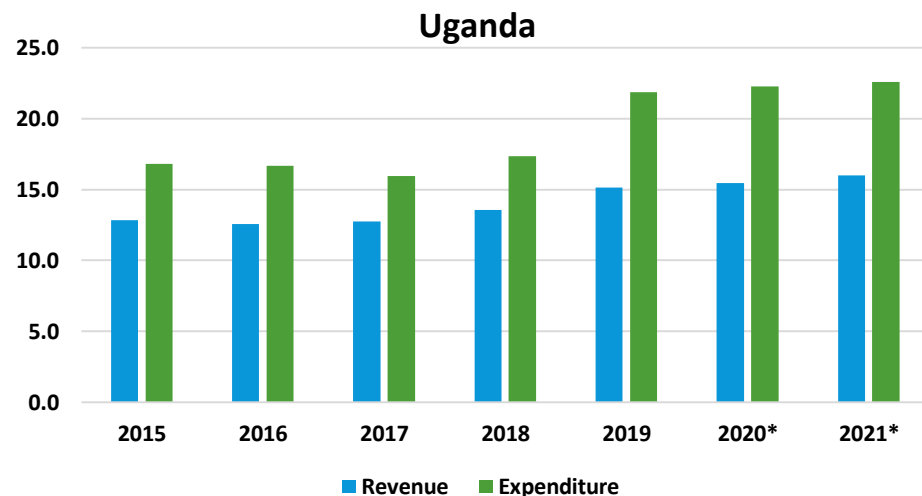
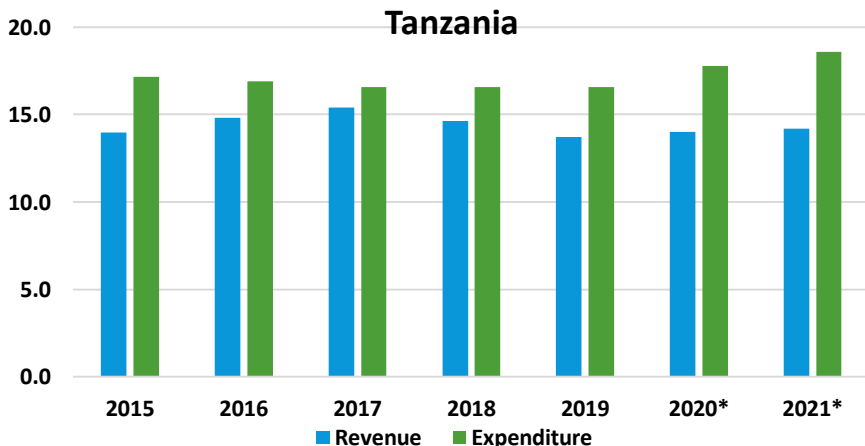
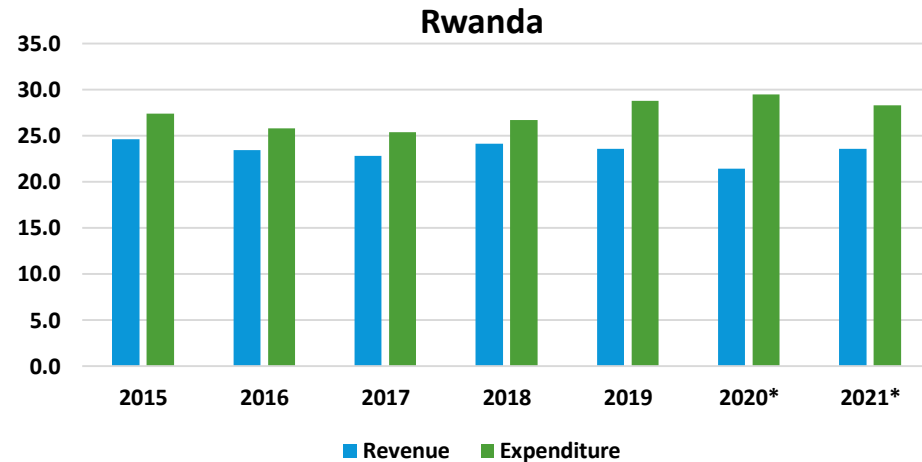
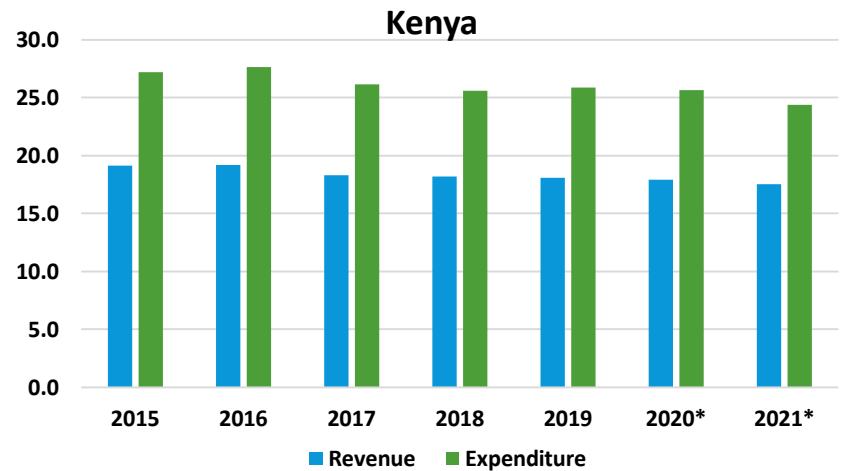
(as percentage of GDP)

| EAC Countries | 2015 | 2016 | 2017 | 2018 | 2019 | 2020* | 2021* |
|---------------|-------|-------|------|------|------|-------|-------|
| Burundi | -5.4 | -6.9 | -7.2 | -5.3 | -6.0 | -9.0 | -6.8 |
| Kenya | -8.1 | -8.5 | -7.9 | -7.4 | -7.8 | -7.7 | -6.9 |
| Rwanda | -2.8 | -2.3 | -2.5 | -2.6 | -5.2 | -8.1 | -4.6 |
| South Sudan | -17.4 | -15.5 | 3.3 | -0.6 | -0.3 | -2.7 | -1.2 |
| Tanzania | -3.2 | -2.1 | -1.2 | -1.9 | -2.9 | -3.8 | -4.4 |
| Uganda | -3.9 | -4.1 | -3.2 | -3.8 | -6.7 | -6.8 | -6.6 |

Source: IMF WEO, REOs April 2020

The revenue expectations in the EAC are mixed, while most governments will see an increase to expenditure-to-GDP ratio this year

Government revenue and expenditure (as percentage of GDP)

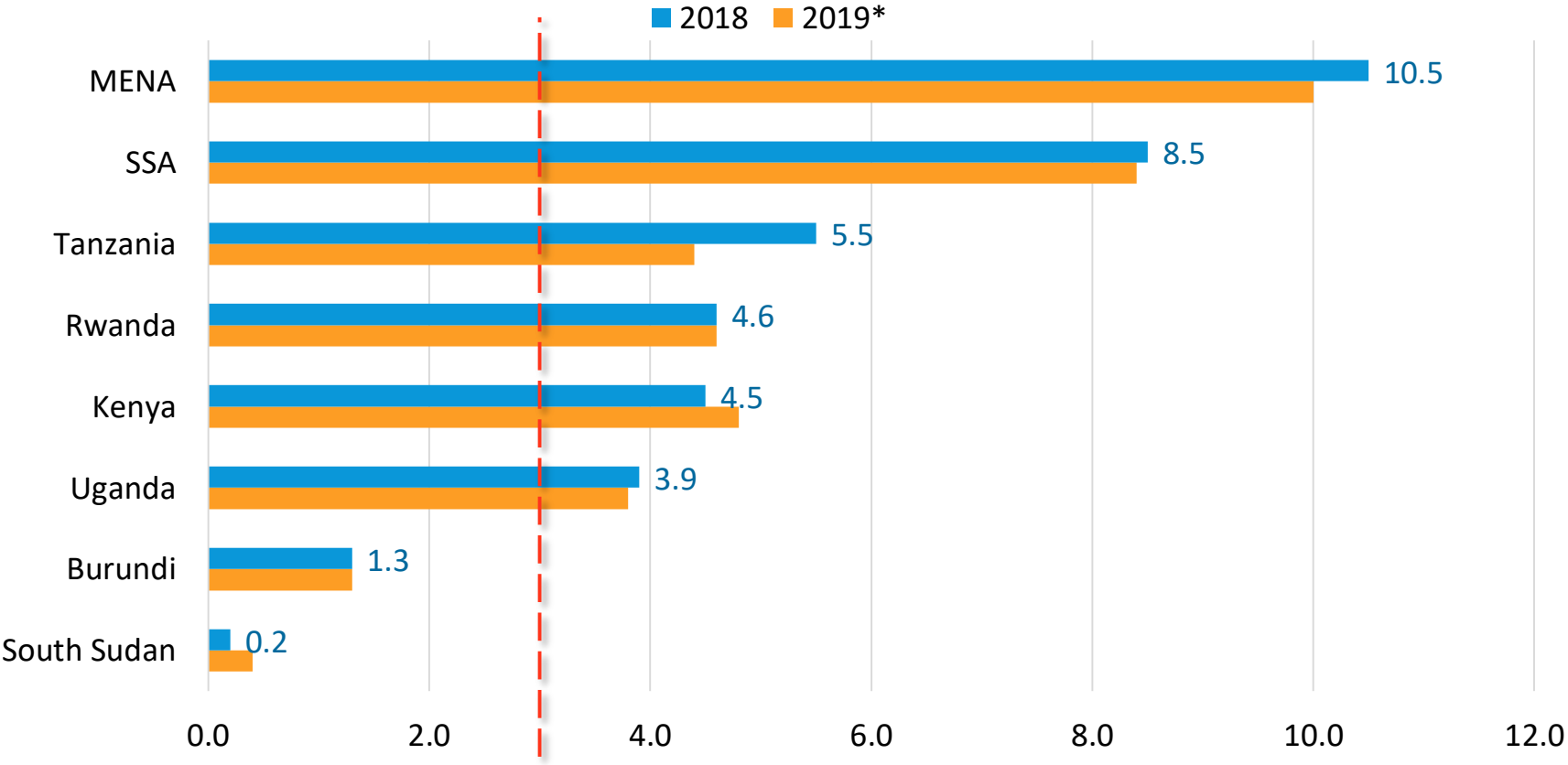


*Note: 2020 and 2021 are projections

Source: IMF WEO, REOs April 2020

Import covers in the EAC countries fall far below regional averages; but are mostly above the global benchmark

Official FX reserves, 2018 - 2019e *(in months of imports)*



Global Benchmark = 3 months

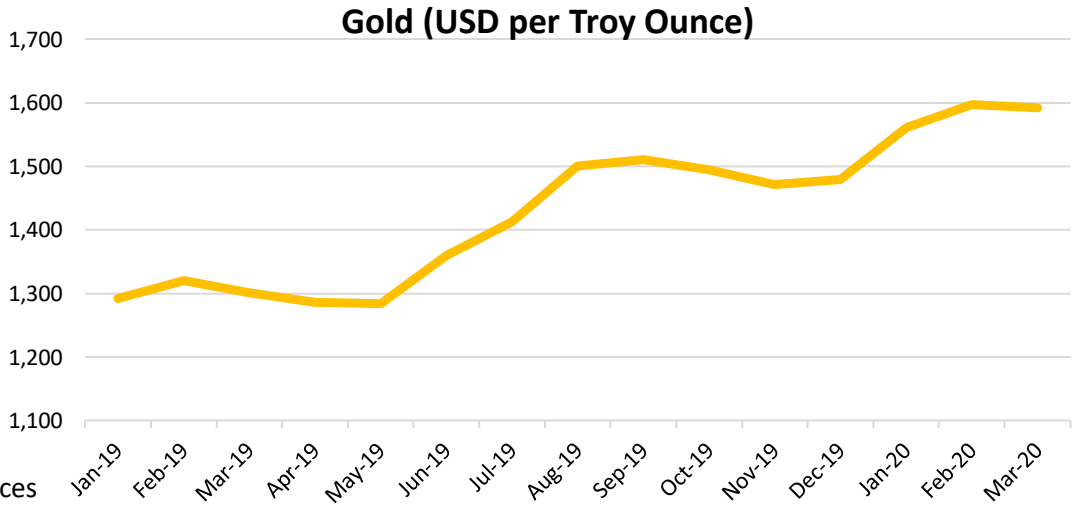
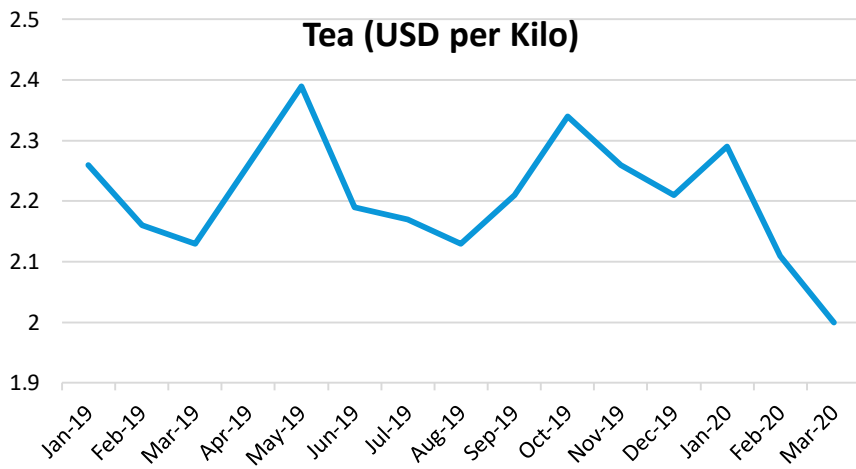
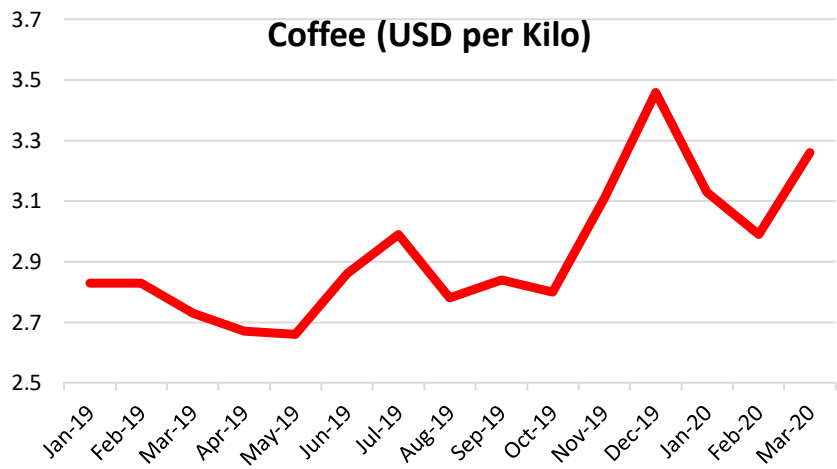
Source: IMF REOs

Price trends

- COVID-19 has sent the prices of most commodities **plummeting**
- However, it is still **too early** to see the impact of the pandemic on the general price level in EAC member states

The loss in revenue from the fall in the price of tea could be partially offset by better prices of gold and coffee exports.

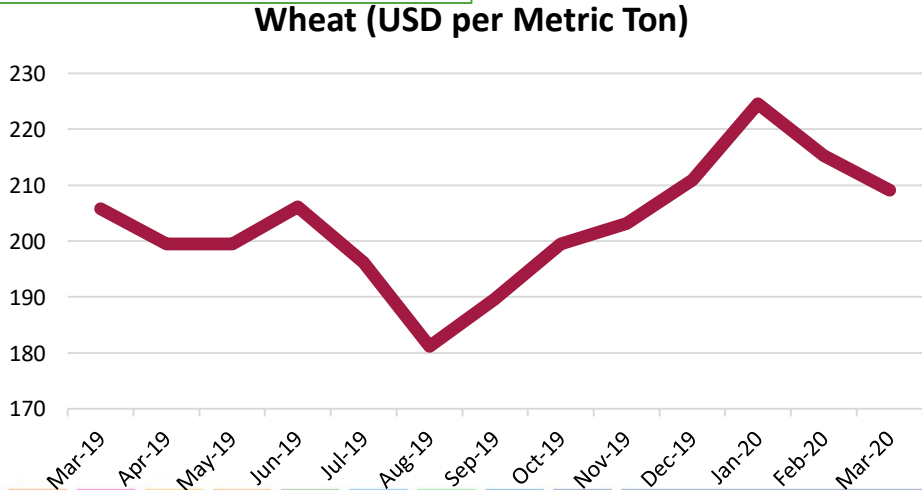
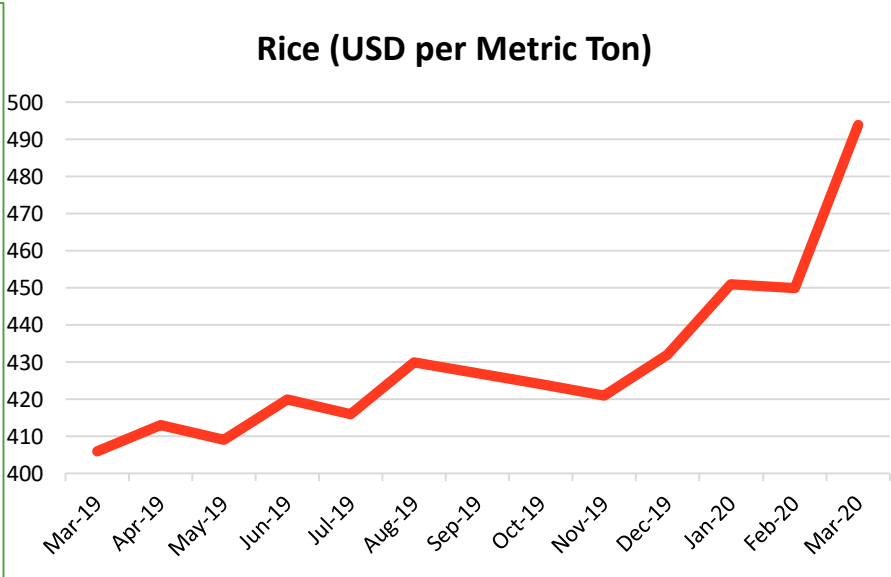
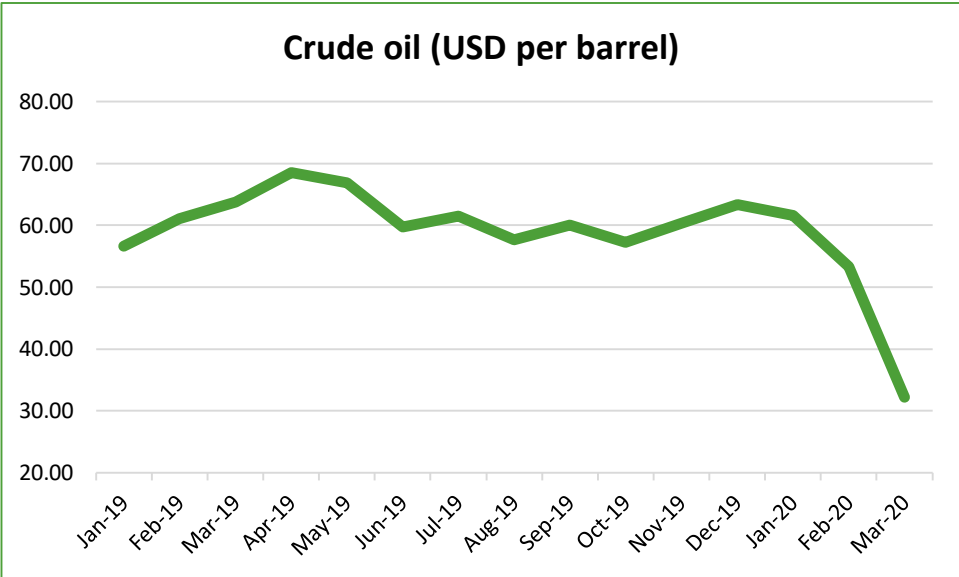
Prices of selected EAC traditional exports, January 2019 – March 2020



Source: Official national sources

At the exception of South Sudan, the bloc stand to get significant relief from the fall in the price oil

Prices of main commodity imports, January 2019 – March 2020



Source: Official national sources

There have not been any significant changes recorded in general price levels since the beginning of the crisis

Month-on-Month Change in Prices (%)

| Country | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Burundi | 0.8 | 0.9 | 0.5 | 0.7 | 1.5 | .. | .. | .. |
| Kenya | 0.2 | 0.2 | 0.3 | 0.5 | 0.6 | 0.5 | 0.7 | 0.2 |
| Rwanda | 0.8 | 0.9 | 0.7 | 1.8 | -0.3 | 0.7 | 1.5 | .. |
| South Sudan | 4.2 | 14.2 | 3.5 | 0.0 | .. | .. | .. | .. |
| Tanzania | -0.5 | -0.1 | -0.1 | 0.5 | 0.6 | 0.4 | 1.1 | .. |
| Uganda | 0.4 | 0.7 | 0.2 | 0.3 | 0.4 | 0.1 | 0.2 | 0.1 |

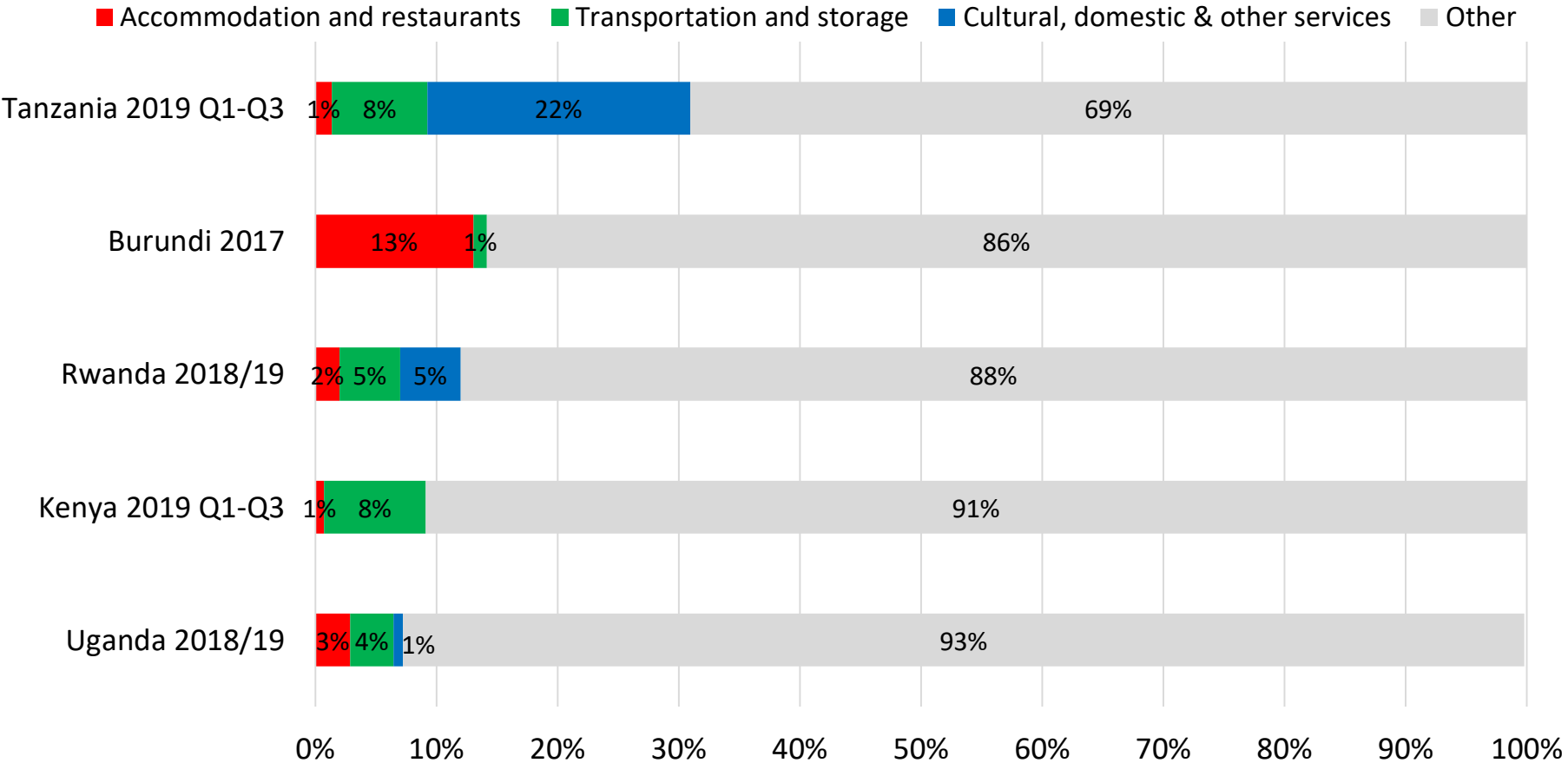
Source: Official national sources

Tourism and Transport Trends

- COVID-19 crisis is expected to cause sharp declines (or full disruptions) in **trade** and **tourism**
- Promoting regional **trade** and **tourism** could help to catalyze recovery of these industries

Activities linked to tourism and trade contribute between 8% to 31% of EAC economies

GDP by Economic Activity



Source: National statistical agencies

Intra-regional travel and tourism should be promoted as a means to help the industry recover

Recent Industry Trends

| | Travel and Tourism Contribution to 2019 GDP <i>(Direct and Indirect)</i> | Travel and Tourism Contribution to 2019 Employment <i>(Direct and Indirect)</i> | Top 3 Regional Source Markets in 2017 |
|----------|---|--|--|
| Burundi | 4.9% | 4.4% | Africa (46%); Middle East (18%); East Asia and the Pacific (14%) |
| Kenya | 8.2% | 8.5% | Europe (52%); Africa (20%); Americas (12%) |
| Rwanda | 12.8% | 11.1% | Africa (89%); Europe (5%); Americas (3%) |
| Tanzania | 10.1 | 9.3% | Africa (45%); Europe (34%); Americas (9%) |
| Uganda | 5.6% | 5.8% | Africa (80%); Europe (8%); Americas (6%) |

Some of the main tourist destinations rely heavily on **non-regional source markets**

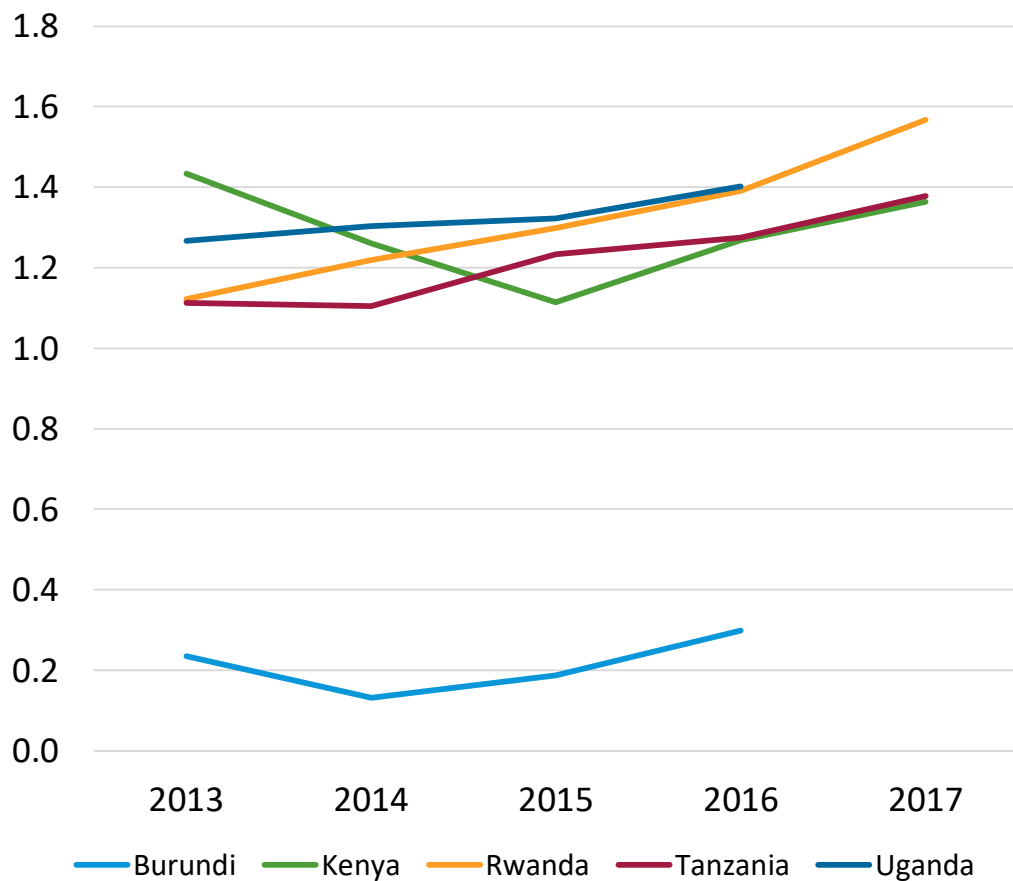
COVID-19 crisis likely to have a **longer term impact on extra-regional travel** than on travel within the region

Intra-regional tourism will account for a greater share of activity in the industry, and governments should increase efforts on promotion

Source: WTTC, UNWTO

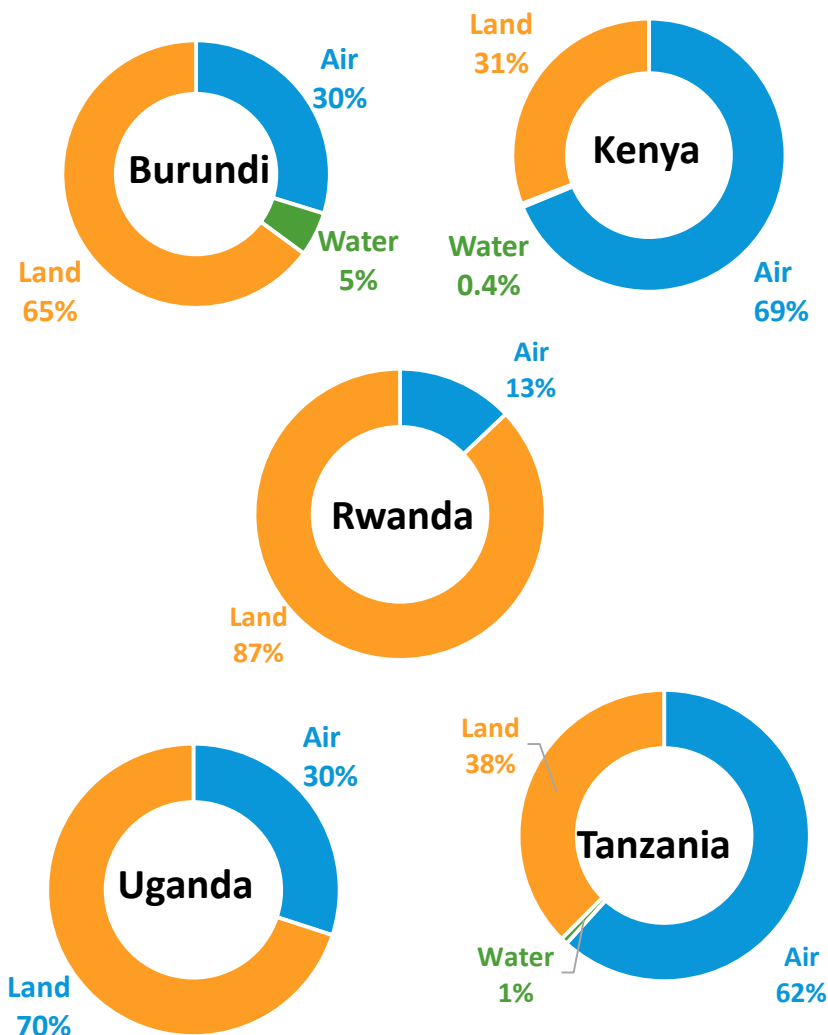
In recent years, overnight tourist arrivals rose in most of the main destination countries in EAC

Tourists (overnight) arrivals (million)



Mode of Arrival

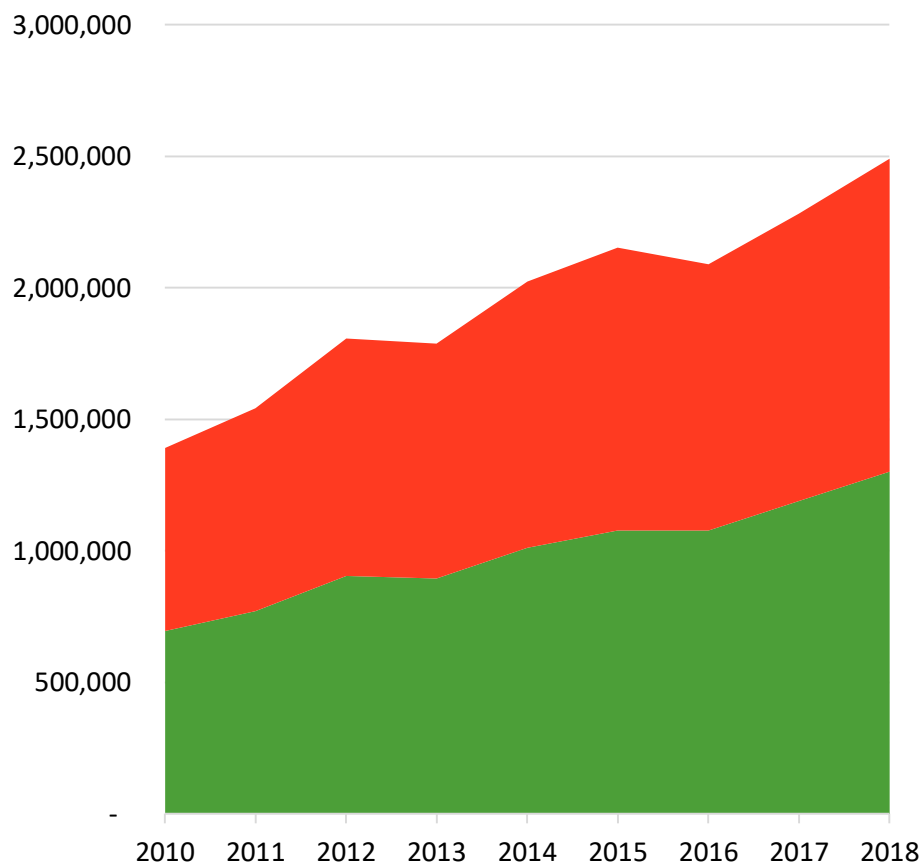
Most recent year available



Source: UNWTO

The expected slowdown in regional trade will derail the positive trajectory of traffic through the Mombasa and Dar Es Salaam ports

Annual container port throughput (TEUs)



Tanzania

+71%

from 2010 to 2018

Kenya

+87%

from 2010 to 2018

Early COVID-19 Impact

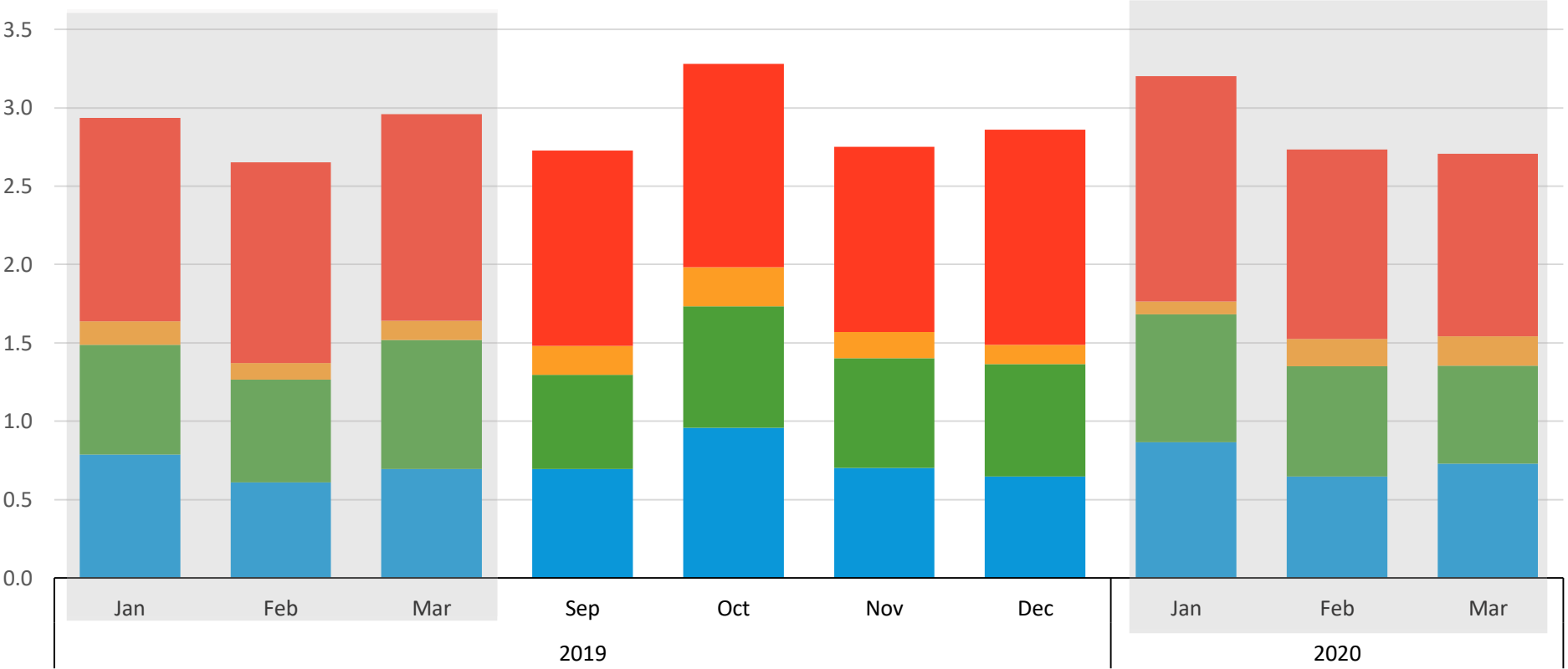
- Port currently operational
 - Accounts for 90% of Tanzanian trade
 - is the access route to six landlocked countries including Burundi, Rwanda. Traffic will also depend on them.
-
- Port currently operational
 - Several ship cancellations reported, particularly from East Asia and Europe
 - Revenue shortfalls may impact loan servicing

Source: UNCTAD, local/regional news sources

As at March, cargo throughput in the Mombasa port had not yet reflected anticipated trade declines

Mombasa Port Monthly Cargo Throughput (in million metric tonnes)

■ Dry Bulk ■ Liquid Bulk ■ Conventional ■ Containerized

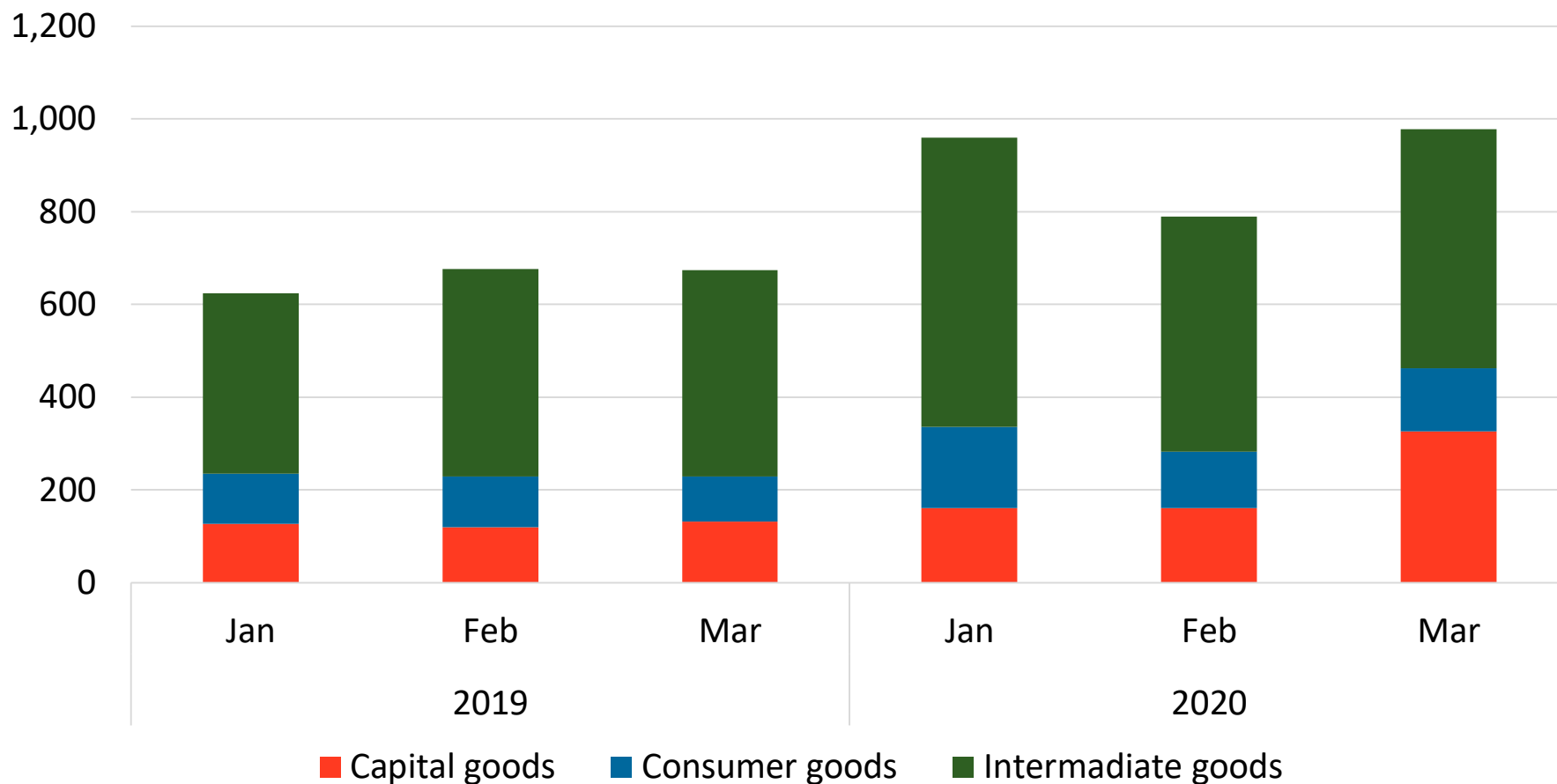


Source: Kenya Port Authority

Similarly, cargo throughput in the port of Dar Es Salaam has shown an increase in the first quarter of the year compared to the same period last year

Monthly cargo throughput at the Port of Dar Es Salaam

(in million metric tonnes)



Source: Tanzania Revenue Authority

2. EXTERNAL SECTOR INDICATORS

Trade Trends

- All countries operate under **trade deficits**
- Overall, the region is heavily dependent on **commodity exports** (which may be impacted by depressed global demand) and **merchandise imports** (which may be impacted by supply chain disruptions)

Most EAC countries have recurring current account deficits

Current Account balances in the EAC, 2018-2019

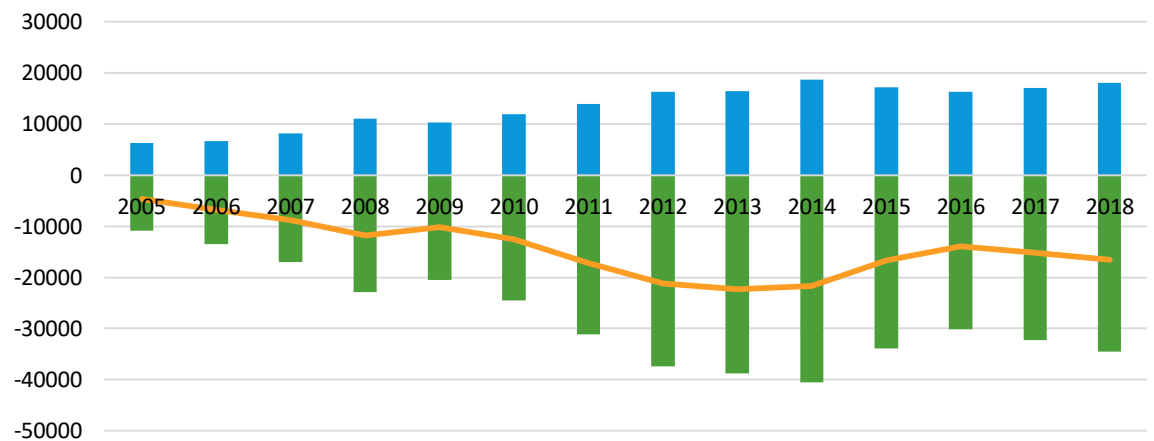
(as a percentage of GDP)



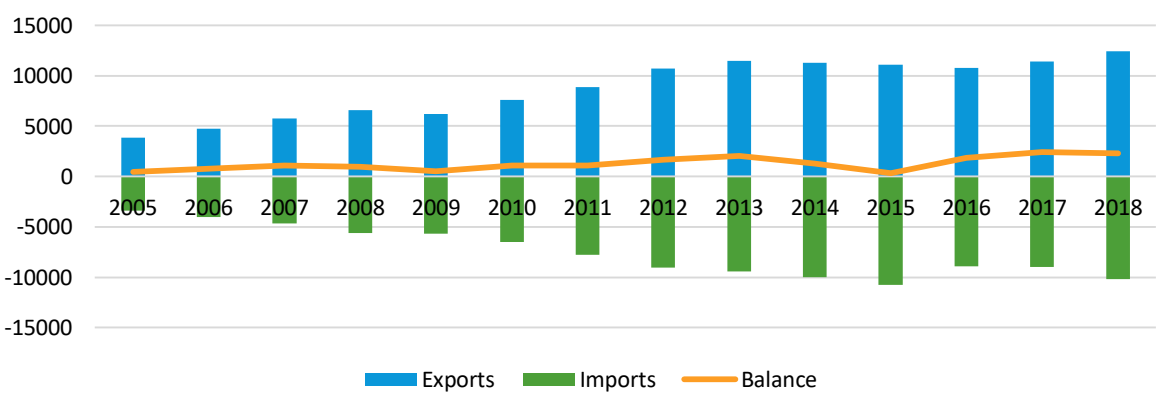
Source: IMF REOs

As opposed to its consistent merchandise trade deficit, the EAC has sustained service trade surpluses in recent years

EAC Trade in Goods
(in USD billion)



EAC Trade in Services
(in USD billion)

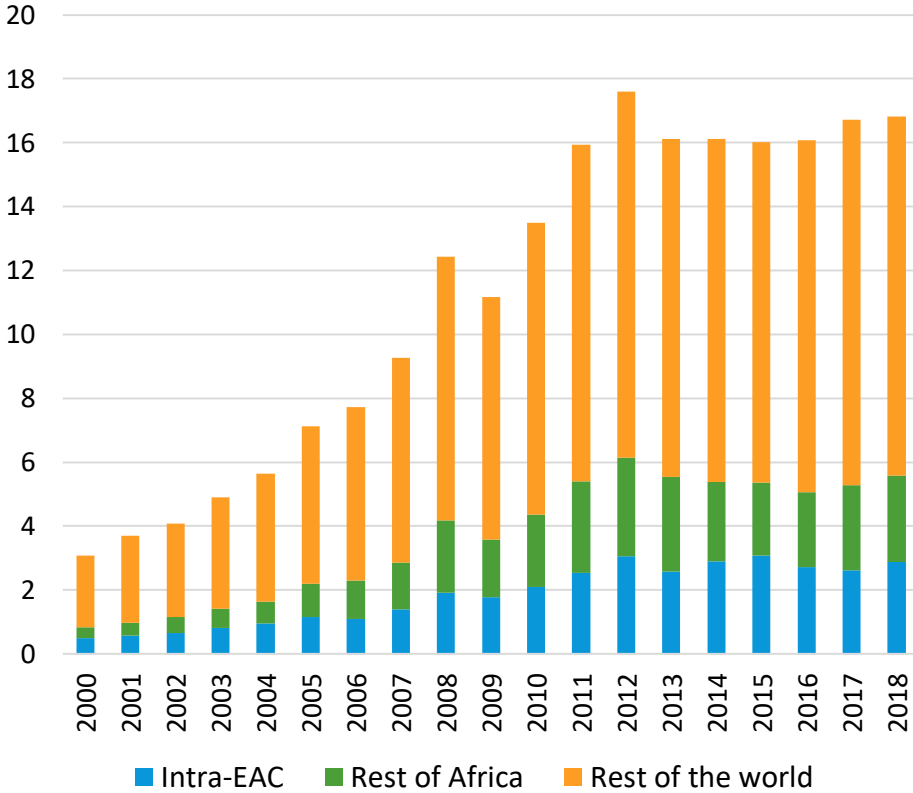


Oil exports have enabled **South Sudan's** positive merchandise trade balance – the only EAC country to achieve this

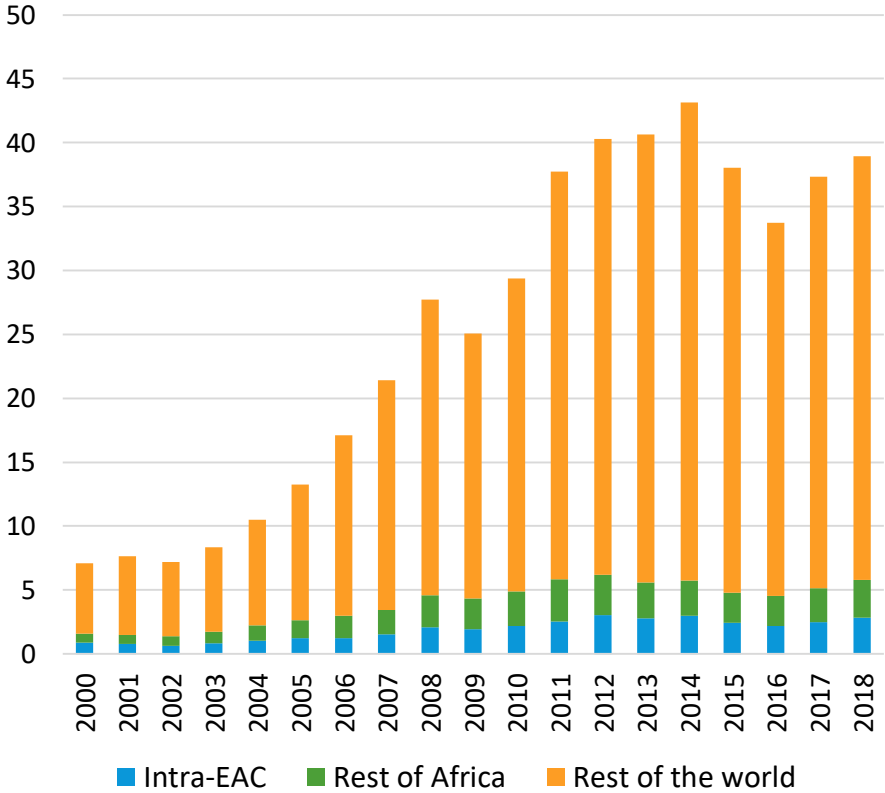
Source: UNCTAD

Intra-EAC trade accounts for 20% of merchandise exports and 8% of merchandise imports in the bloc

EAC Exports by Destination
(USD billion)



EAC Imports by Origin
(USD billion)



Source: UNCTAD

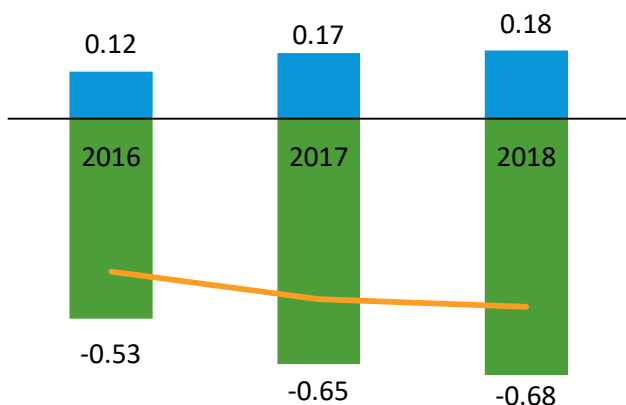
Overall trade performance has been mixed across EAC states

Goods and Services Trade, 2016 – 2018

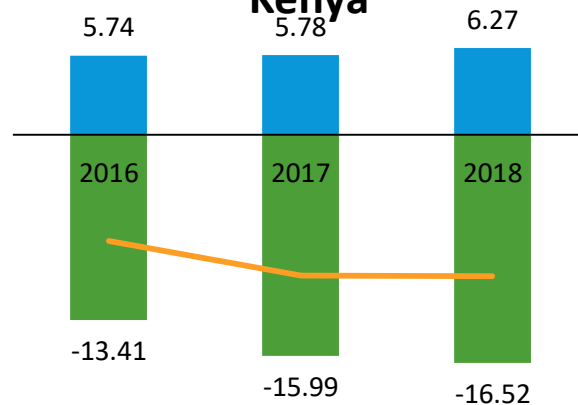
(USD billion)

Exports Imports Balance

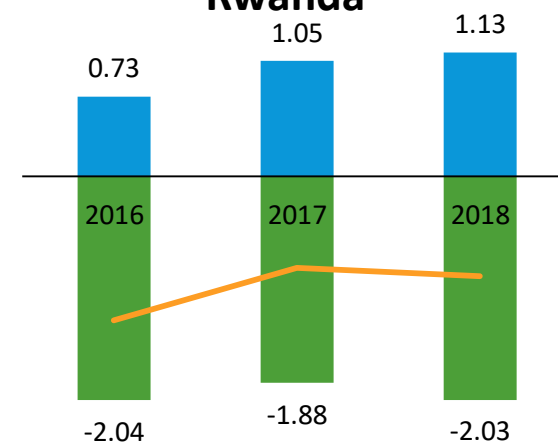
Burundi



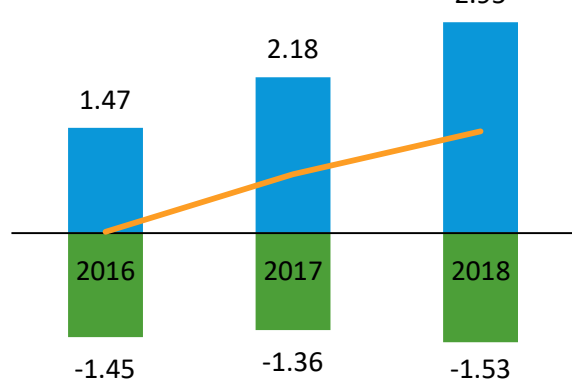
Kenya



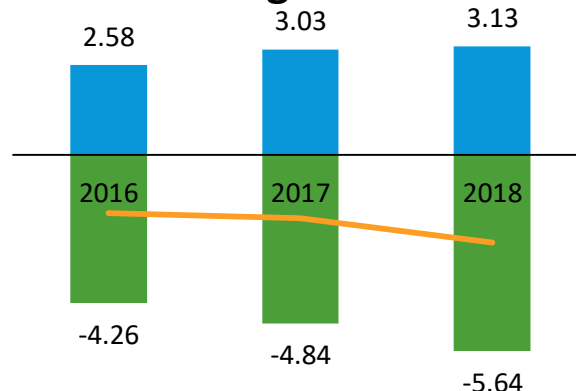
Rwanda



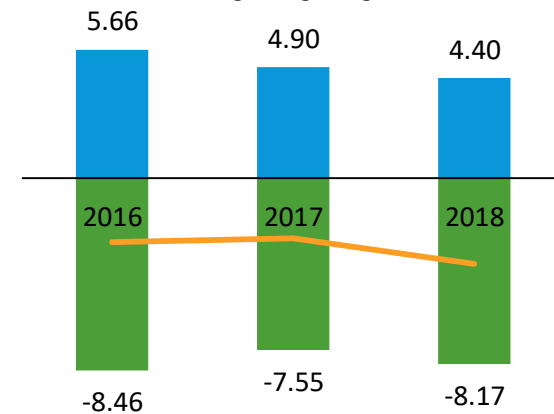
South Sudan



Uganda



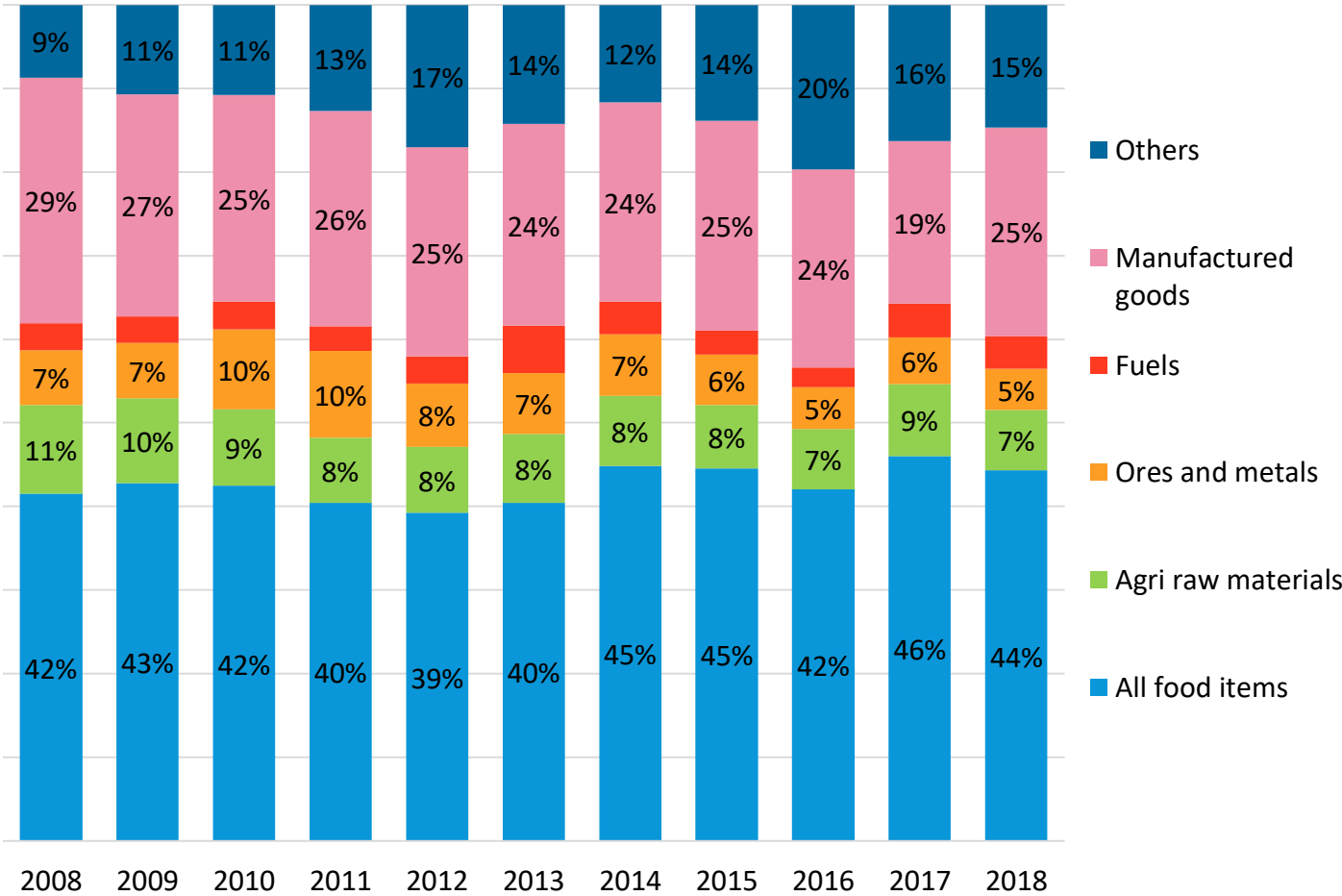
Tanzania



Source: UNCTAD

Most EAC countries primarily export food products, and are susceptible to global demand

Composition of Merchandise Export, 2008-2018



Food items and manufactured goods accounted for almost **70% of EAC exports** in 2018

Slower growth in destination countries and rising transport costs due to shut downs in export markets could negatively impact external demand, and export revenues.

Source: UNCTAD

Despite some diversification in destination, exports may fall as national lockdowns continue in major trading partners

Destination Markets for Exports from selected EAC economies, 2019

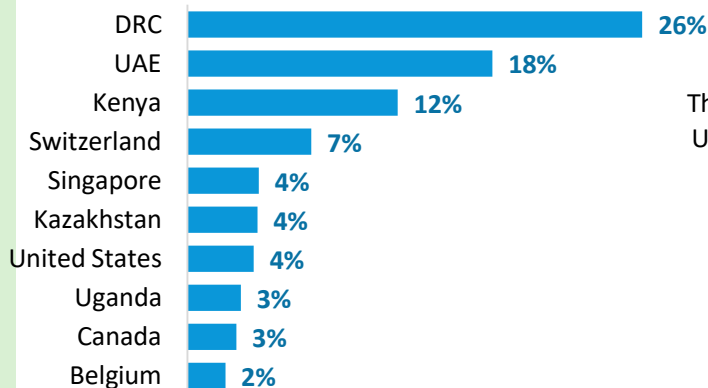
Export partners are relatively diverse in the main EAC economies

However, national lockdowns may reduce demand in most countries

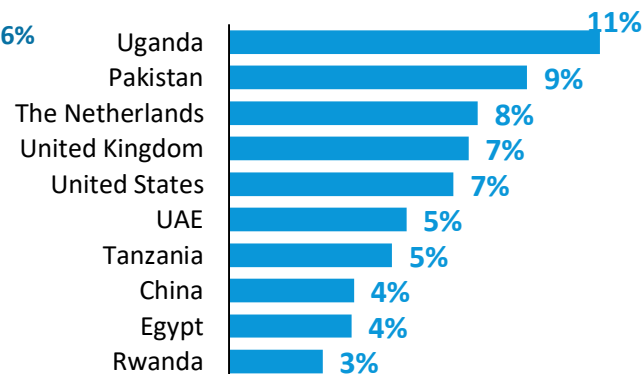


EAC exports to these countries may slow down leading to increased currency pressures

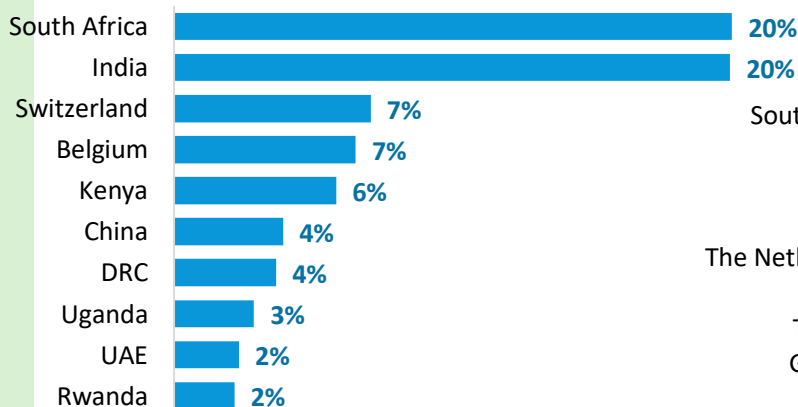
Rwanda Share of Exports to:



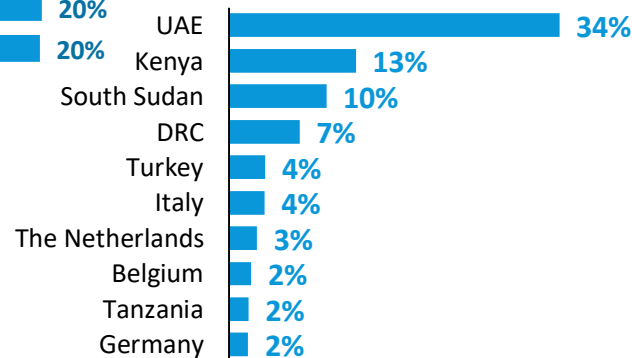
Kenya Share of Exports to:



Tanzania Share of Exports to:



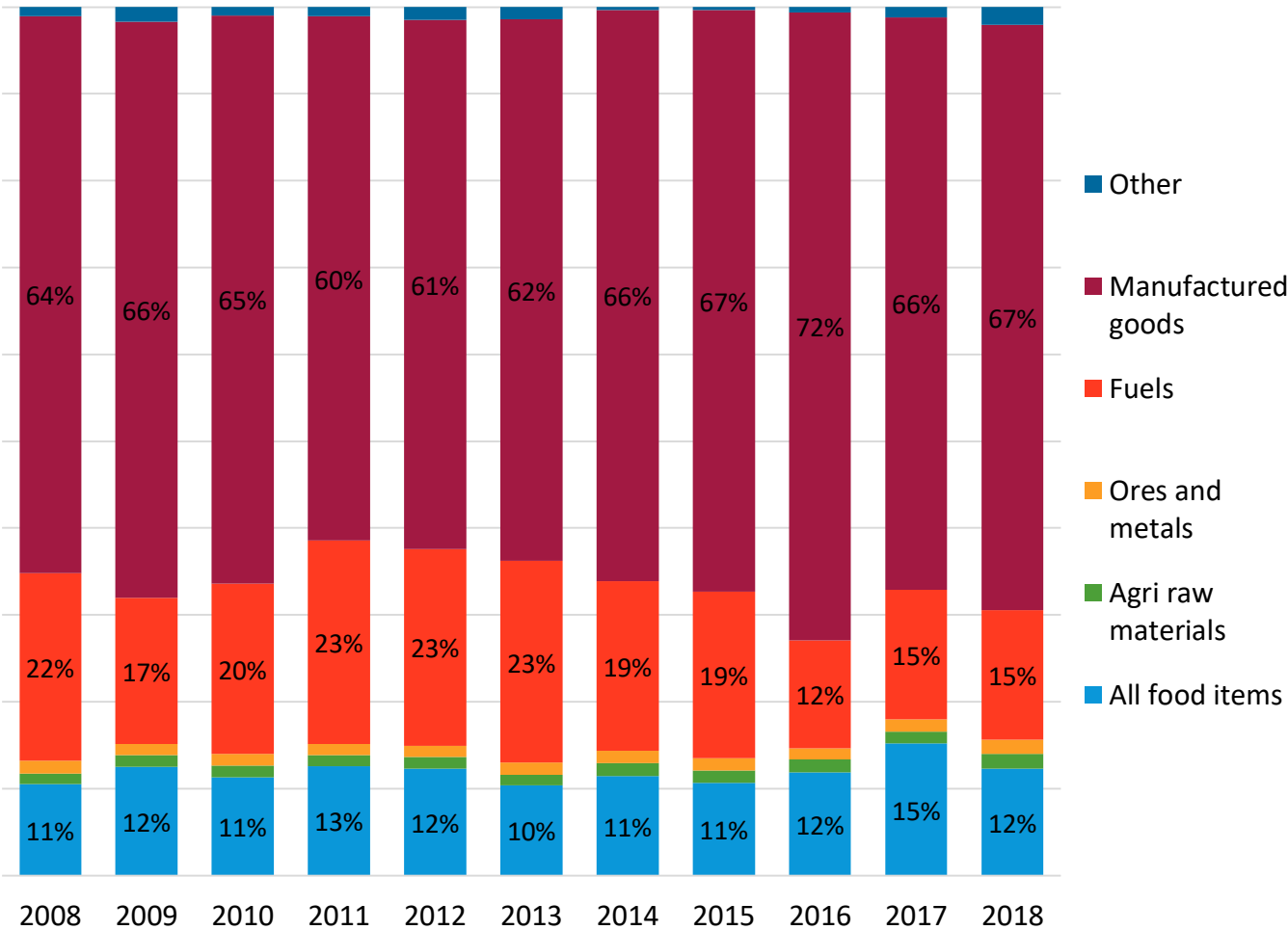
Uganda Share of Exports to:



Source: IMF DOTS

EAC imports mainly manufactured goods, which will get more expensive as COVID-19 disrupts global supply chains

Composition of Merchandise Export, 2008-2018



Manufactured goods and fuels accounted for **over to 80%** of EAC imports in 2018

Global supply chain pressures will cause the price of manufactured goods to rise – leading to **imported inflation**

Source: UNCTAD

EAC heavily relies on imports from countries that are currently on national lockdowns due to COVID-19

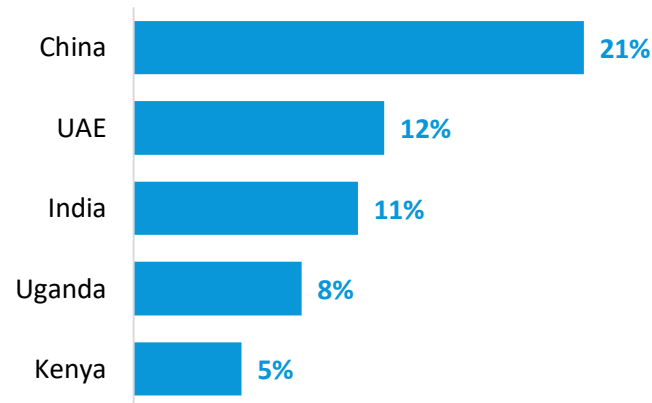
Asia and the Middle East are the main source markets for EAC imports. National lockdowns may **disrupt supply** from these countries



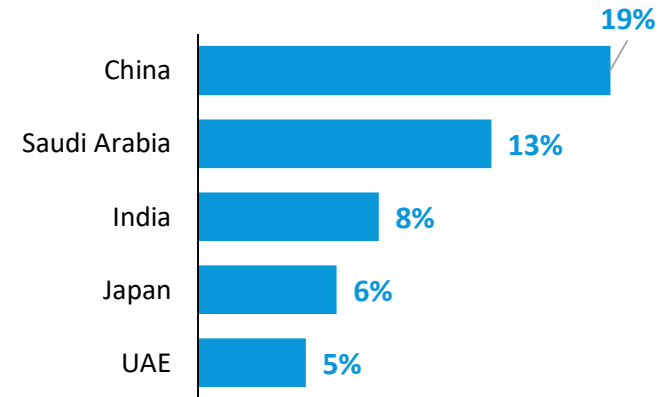
EAC imports from these countries may see increased prices, leading to **increased inflation**

Origin of imports into selected EAC economies, 2019

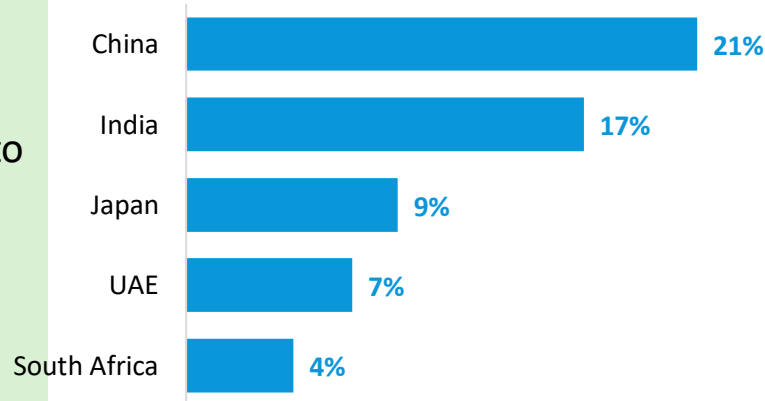
Rwanda Share of import from:



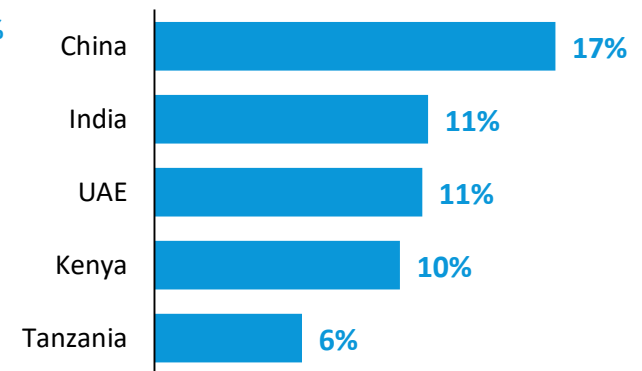
Kenya Share of Imports from:



Tanzania Share of imports from:



Uganda Share of Imports from:



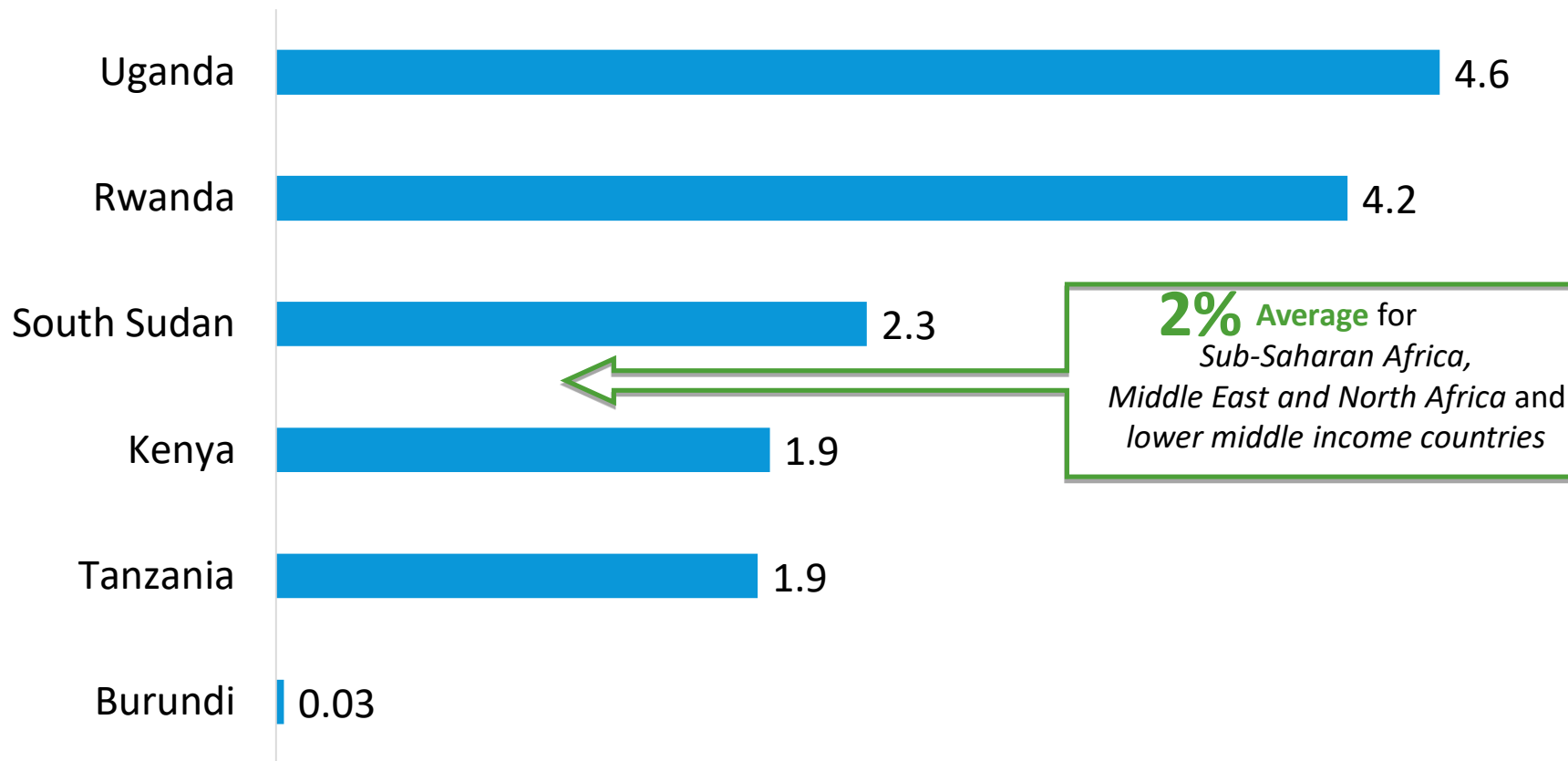
Source: IMF DOTS

Investment Trends

- Overall FDI inflows to the EAC were **on the rise since 2016**
- The COVID-19 crisis may disrupt this trend

Despite efforts to improve the business climate, the FDI share of GDP for all EAC countries has remained considerably low

FDI net inflows, 2018
(as a percentage of GDP)



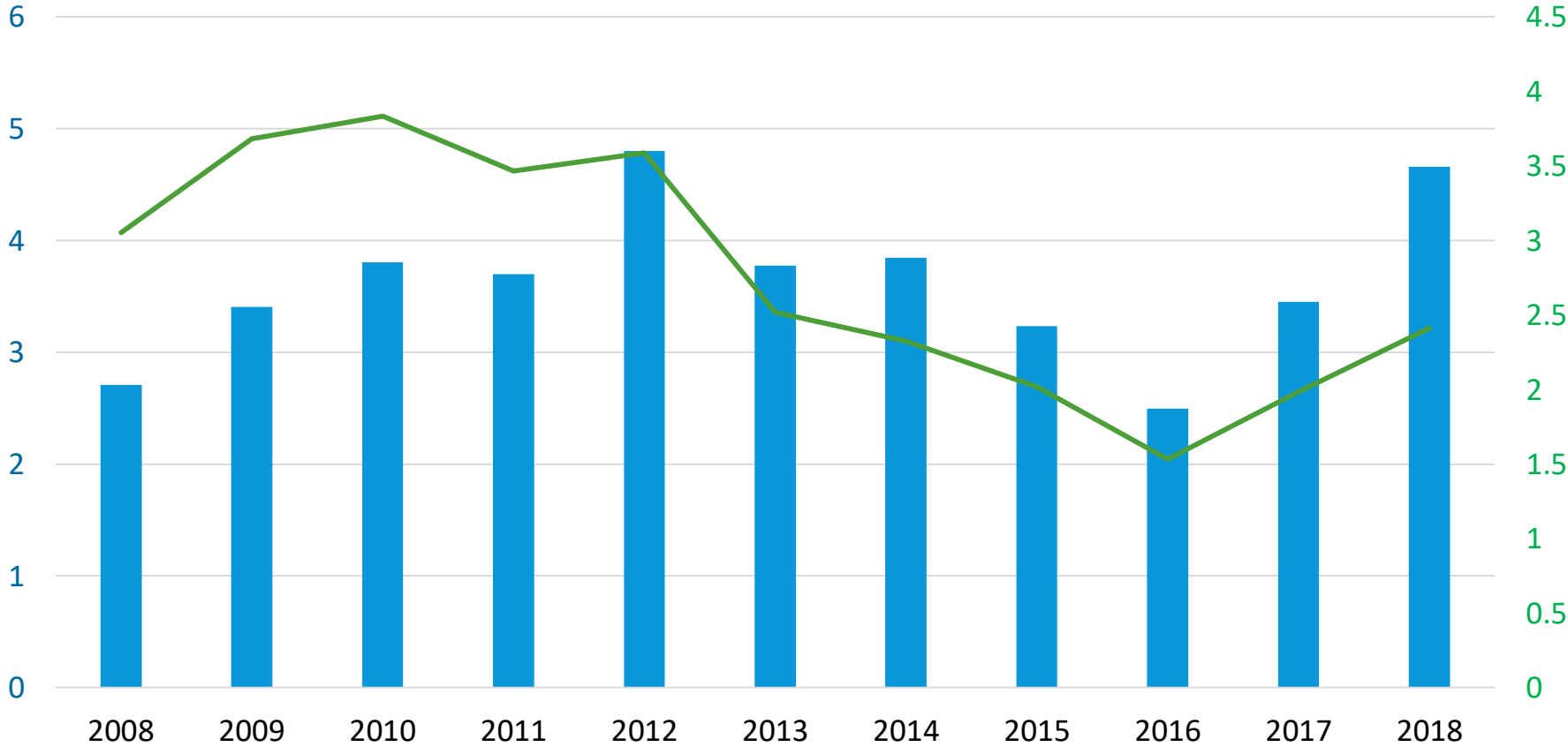
Notes: Data unavailable for Eritrea and South Sudan

Source: World Bank

The trend of FDI flows into the EAC has been positive in the past three years, but the COVID-19 crisis may change this

FDI Inflows, 2008 - 2018

Current USD billion (left) and Share of GDP (right)



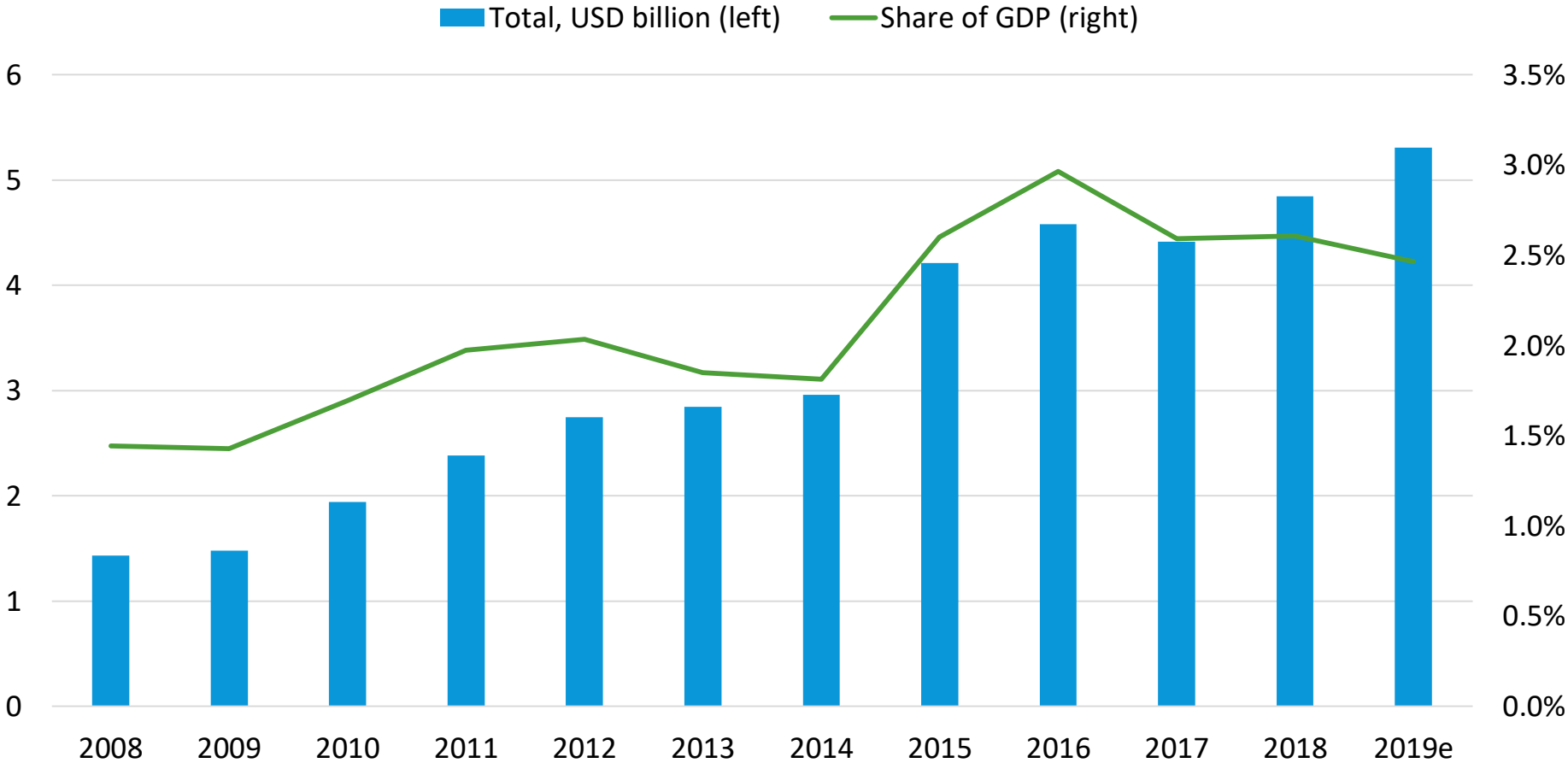
Source: UNCTAD

Remittance Trends

- Aggregate remittances into EAC has considerably increased in recent years
- However, COVID-19 could, in the short term, **reduce the flow of remittances** in the region and affect living standards

In recent years, aggregate personal remittances repatriated to The EAC has risen in absolute and as a share of total GDP

Remittance inflows, 2008 - 2019

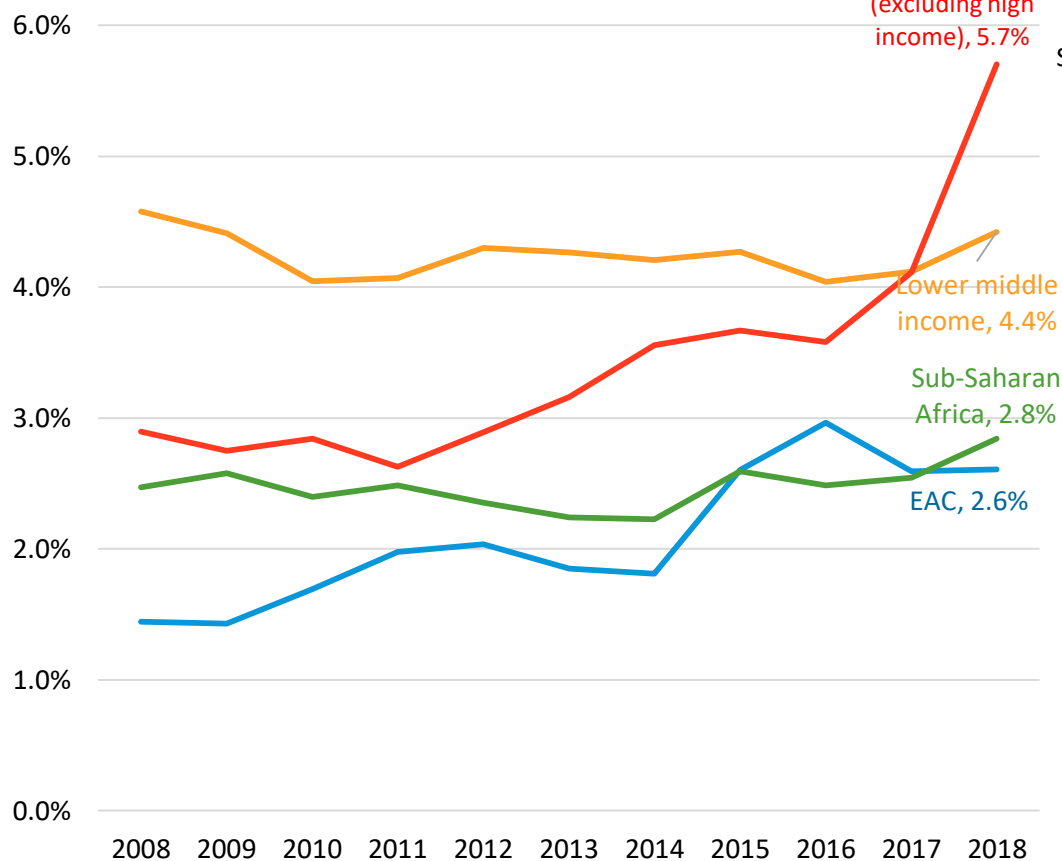


Notes: Share of GDP is across all IGAD, except for 2019e which is a weighted average

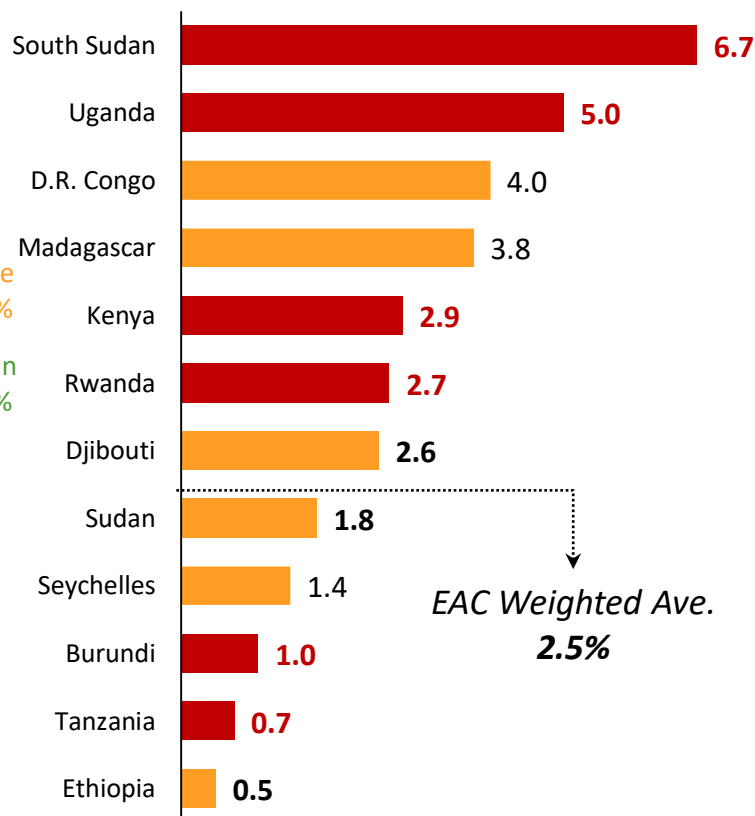
Source: World Bank Migration and Remittances Data

The EAC has a low dependence on remittances, compared to the wider region and other low-middle income states

Personal remittances received, 2008 – 2018
(share of GDP)



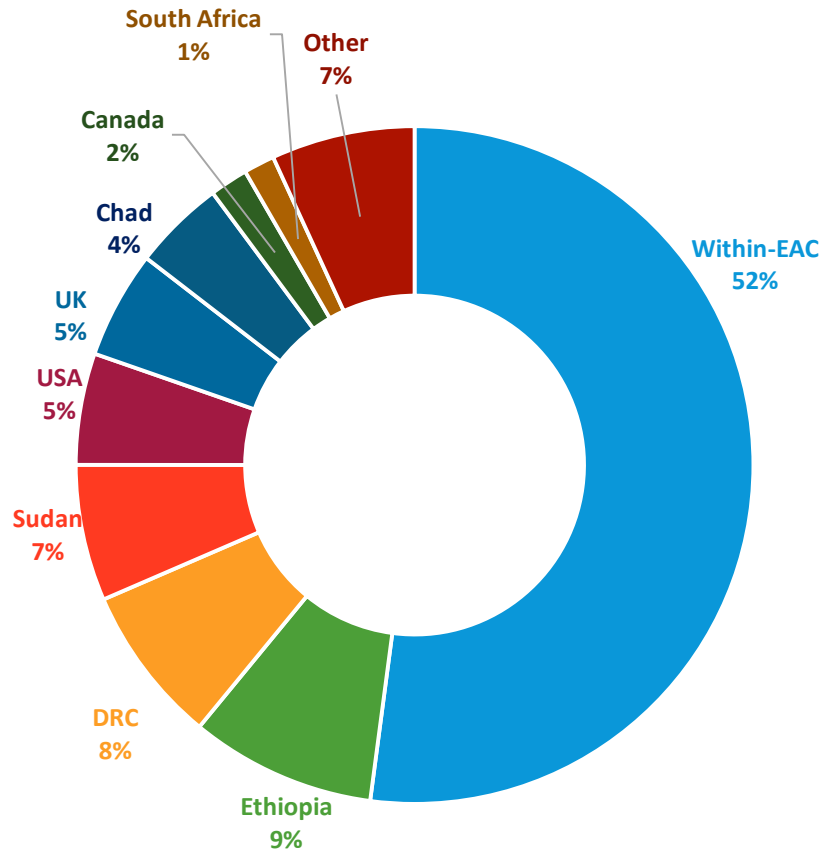
Personal Remittances Received in 2019
Share of GDP (%)



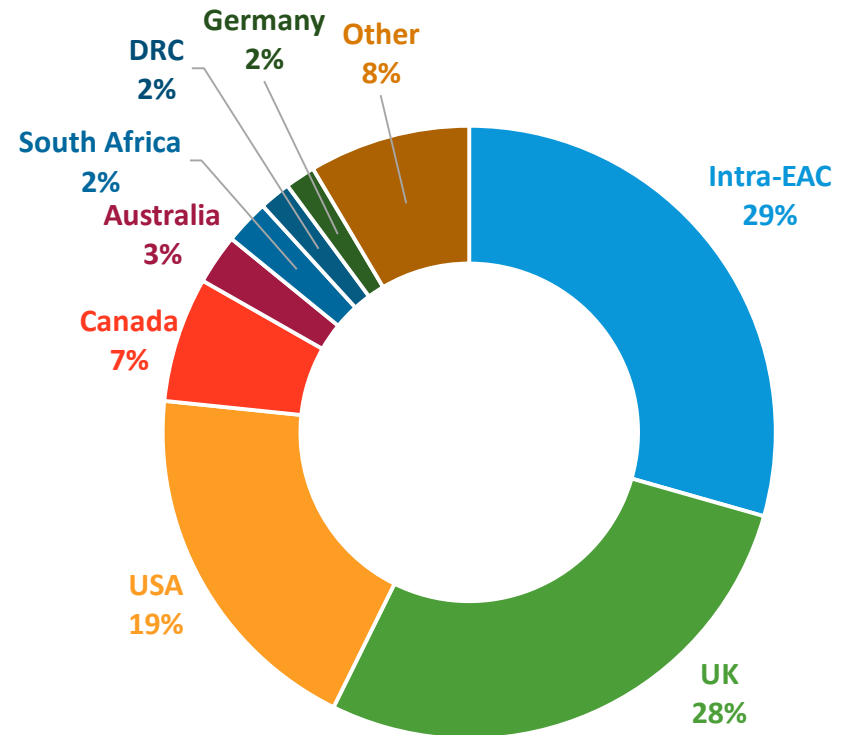
Source: World Bank Migration and Remittances Data

Migrants to the UK and US accounted for almost half of remittance inflows in 2017, despite constituting only 10% of all EAC emigrants

EAC Outward Migrant Stock, by Destination (2017)



EAC Remittance Inflow by Origin (2017)



Source: World Bank Migration and Remittances Data

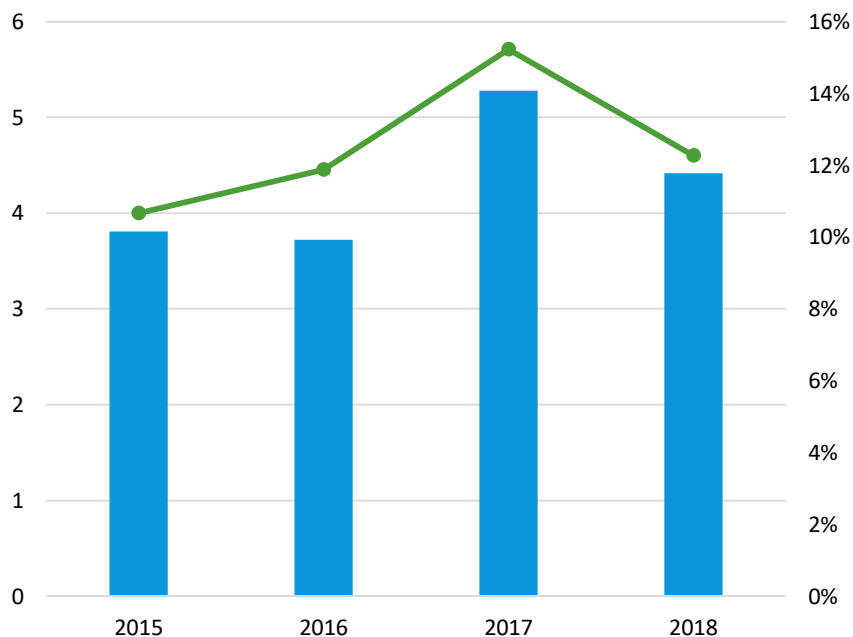
3. SOCIAL INDICATORS

Food Security Trends

Food and pharmaceuticals account for a modest share of merchandise imports across the EAC

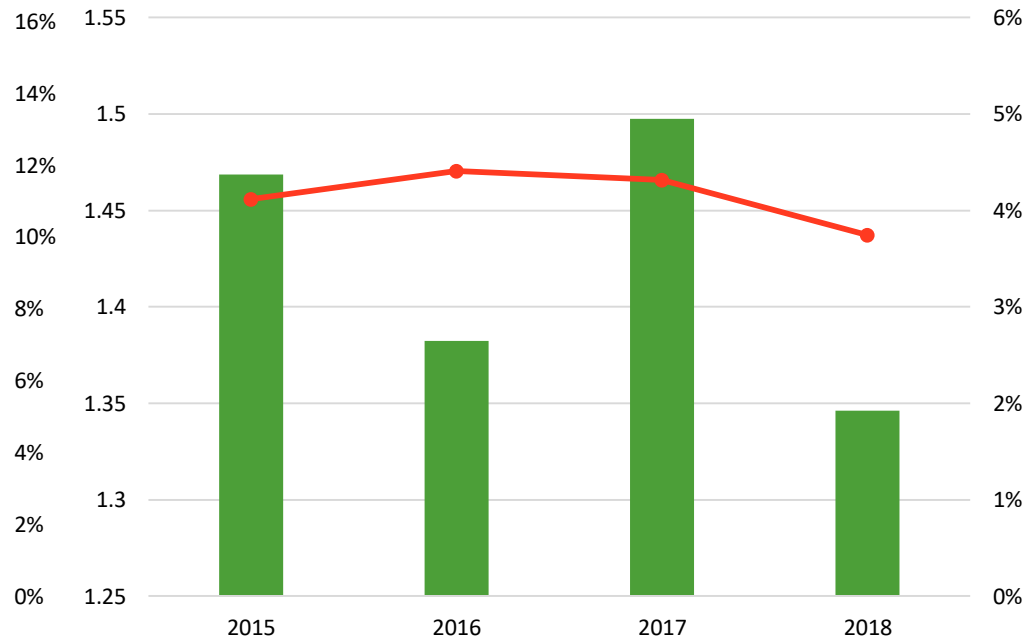
EAC Food Imports

USD billion (left); Share of Product Imports (right)



EAC Pharmaceuticals Imports

USD billion (left); Share of Product Imports (right)



At the country level, the highest food bill share of imports in 2018 was in **Burundi (17%)** and **Rwanda (16%)**

It was lowest in Tanzania (9%)

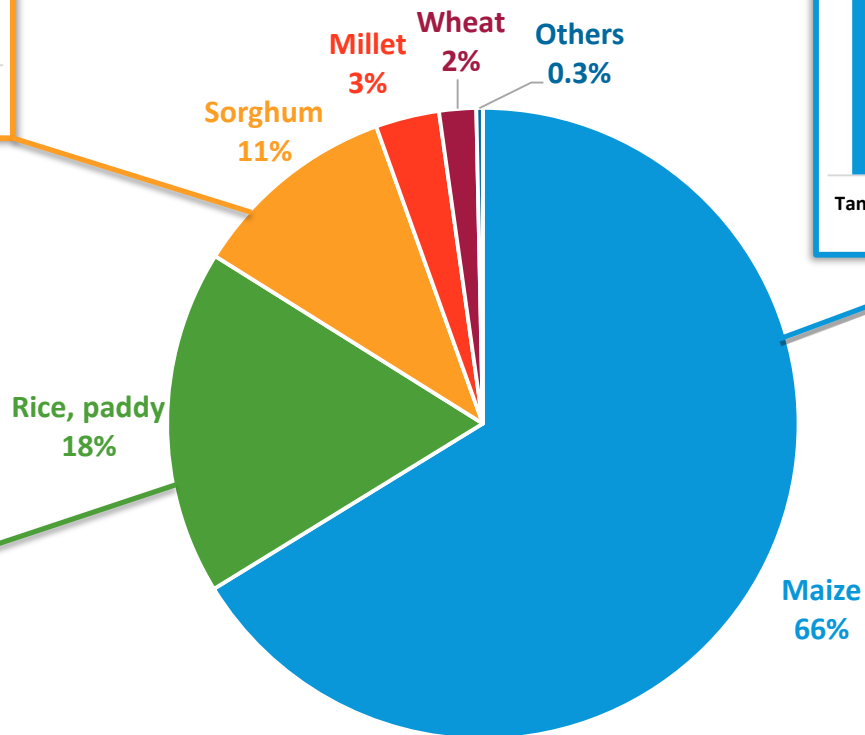
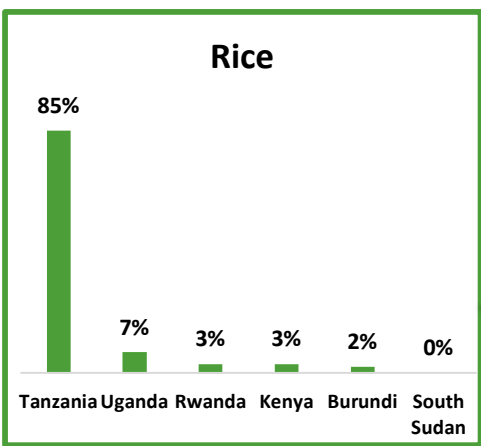
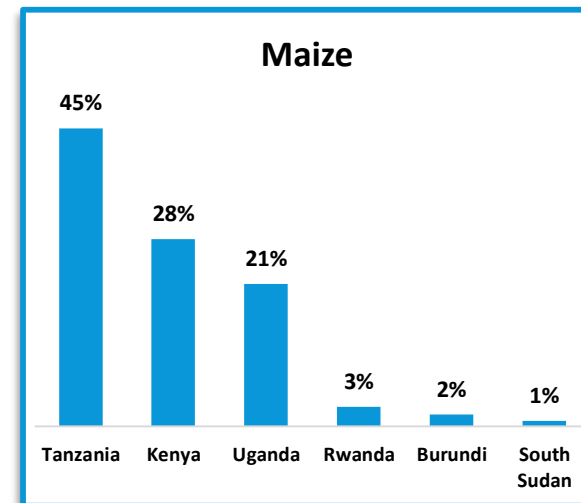
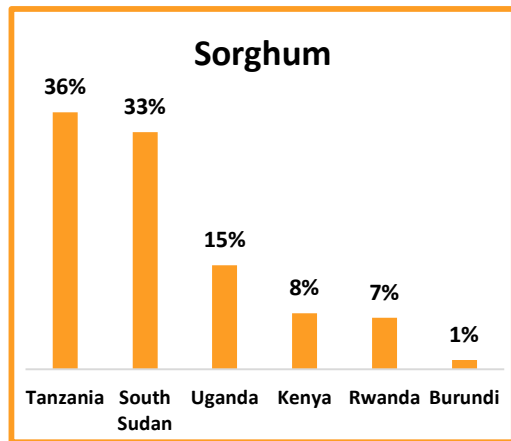
At the country level, the highest pharmaceuticals share of imports in 2018 was in **Burundi (8%)** and **Uganda (6%)**

It was lowest in Tanzania and Kenya (3%)

Source: UNCTAD

Between 2015 and 2018, Tanzania accounted for more than half of the EAC cereals production, primarily composed of maize, rice and sorghum

EAC Cereal Production, 2015 – 2018
(annual average = 20 M Tonnes)

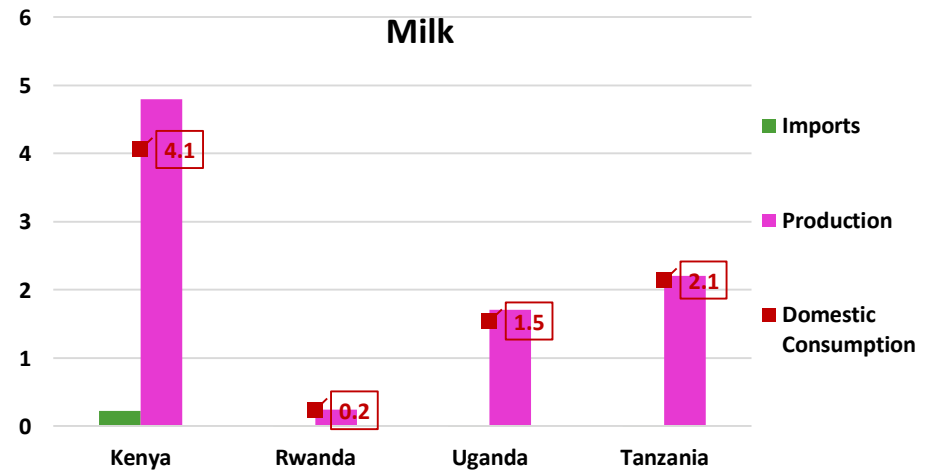
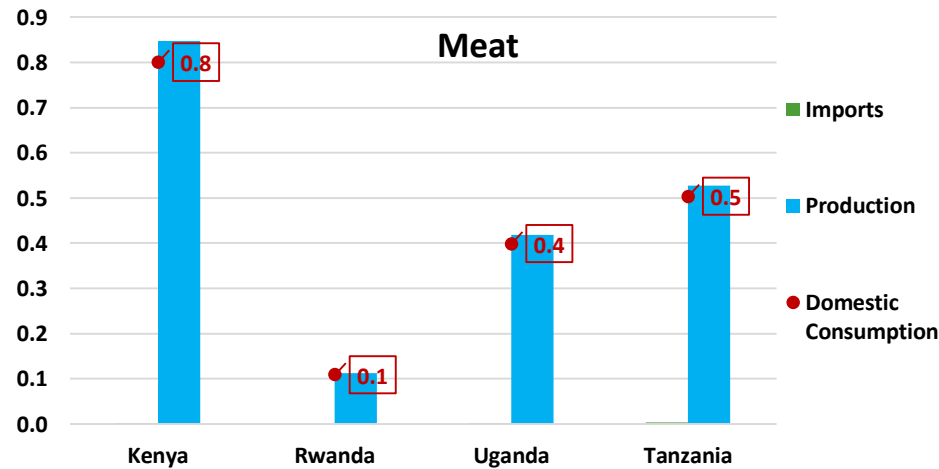
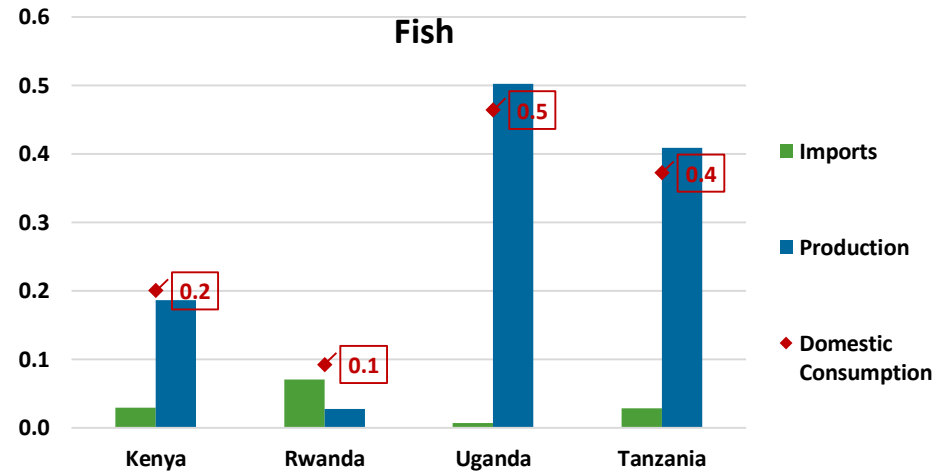
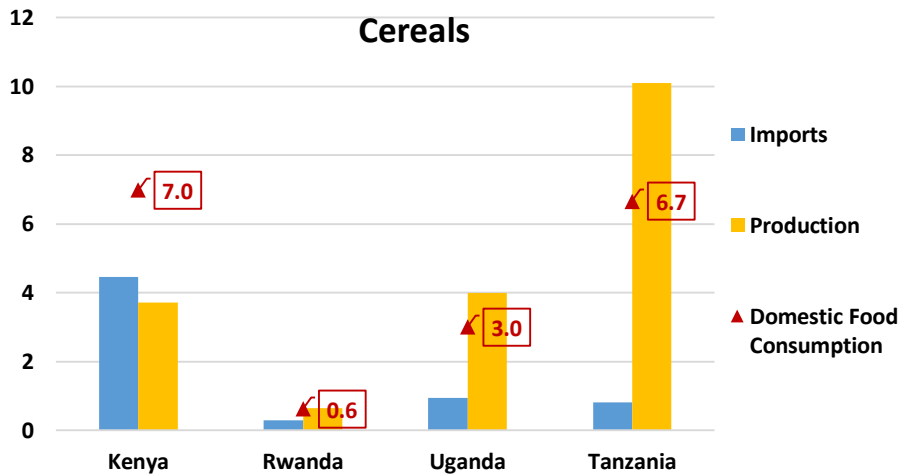


Source: FAO

For most of the basic food groups, a large share of domestic consumption has so far been satisfied by local production.

Food consumption vs production, 2017

(in million tonnes)

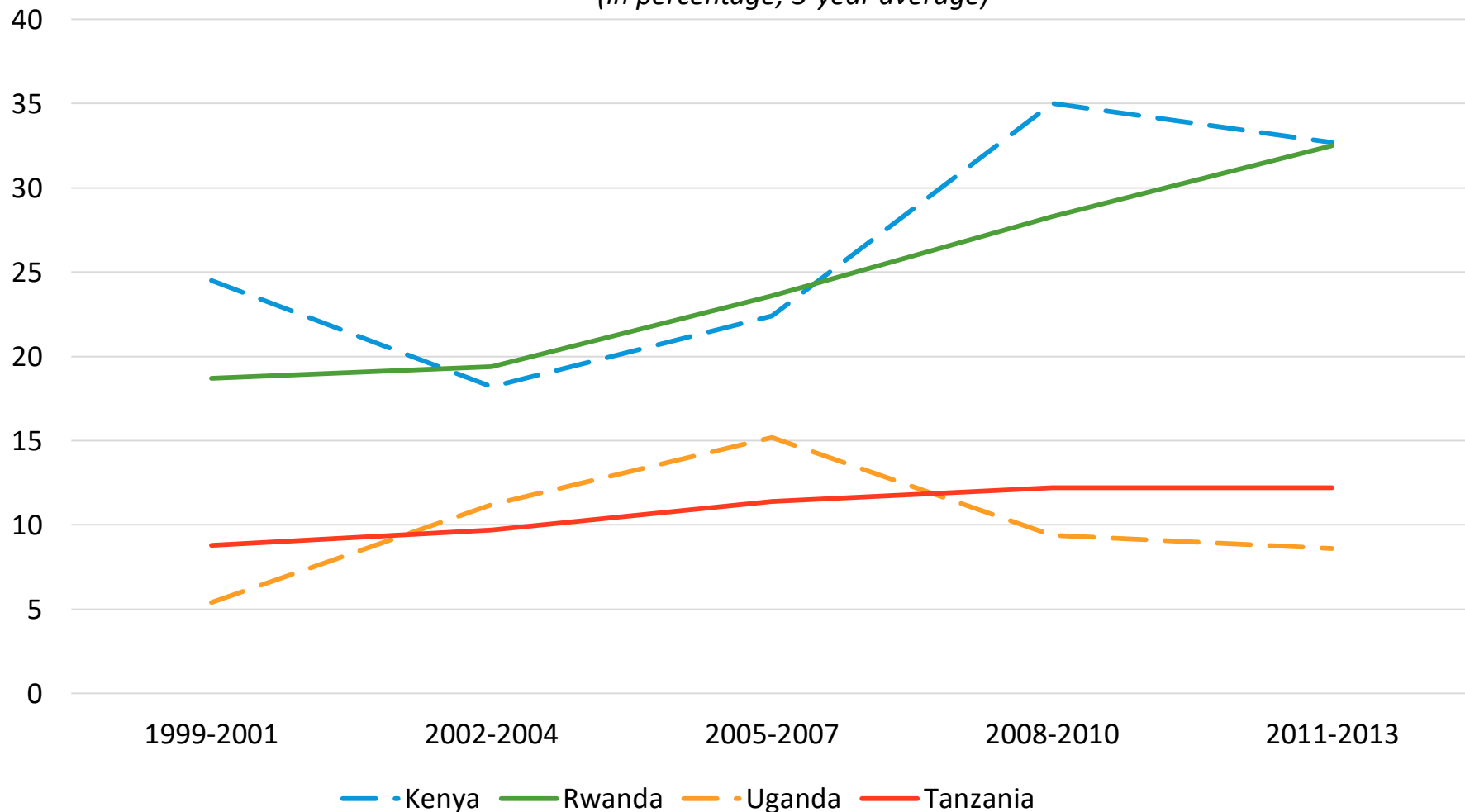


Source: FAO

However, Kenya and Rwanda have been increasingly dependent on cereal imports

Cereal Import Dependency Ratio

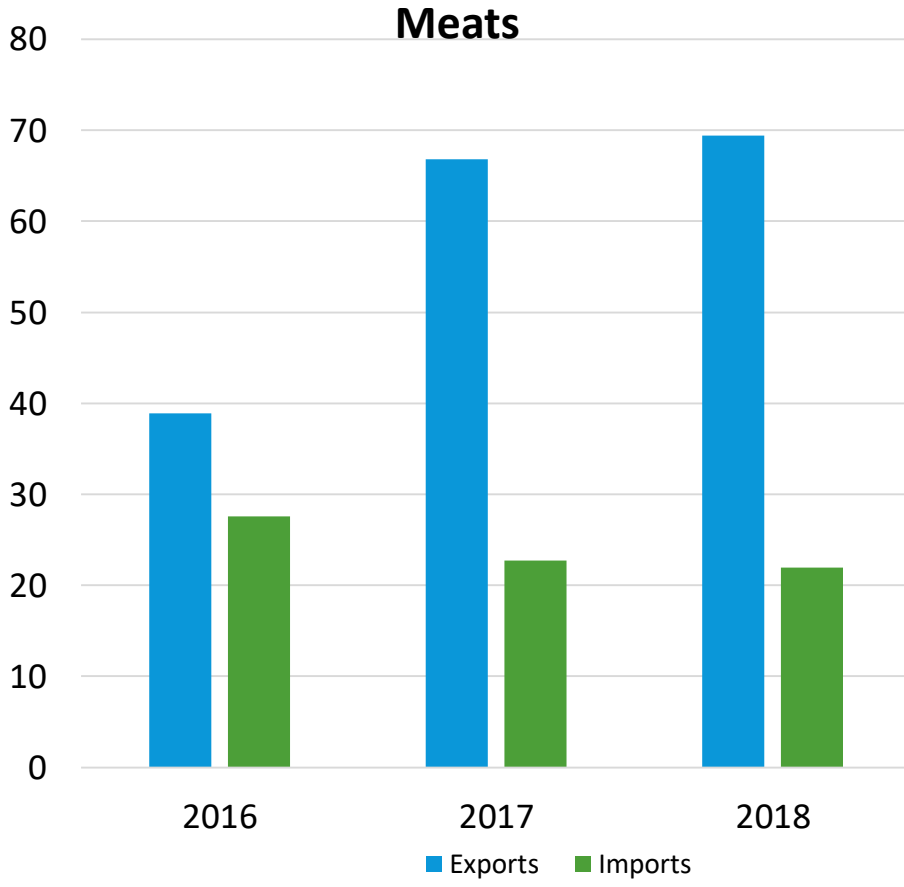
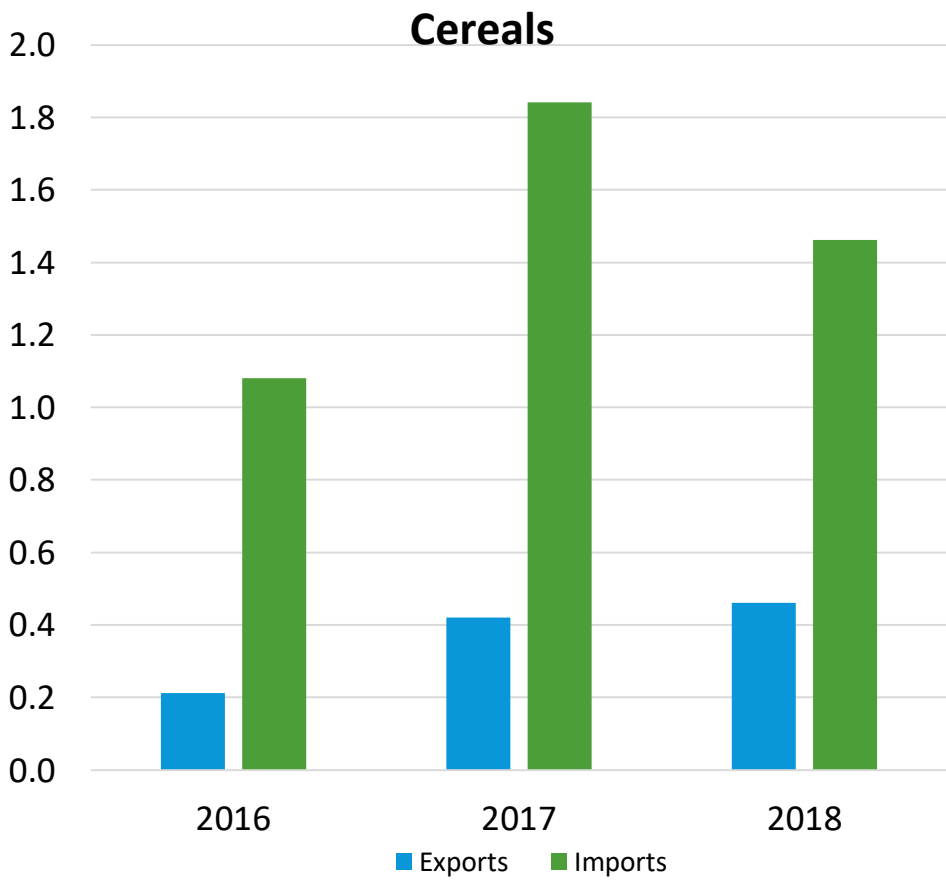
(in percentage; 3-year average)



Source: FAO

Overall, while the EAC imports far more cereals than it exports, its meat exports exceeds by far its imports.

EAC Trade in Cereals and Meat, 2016 – 2018

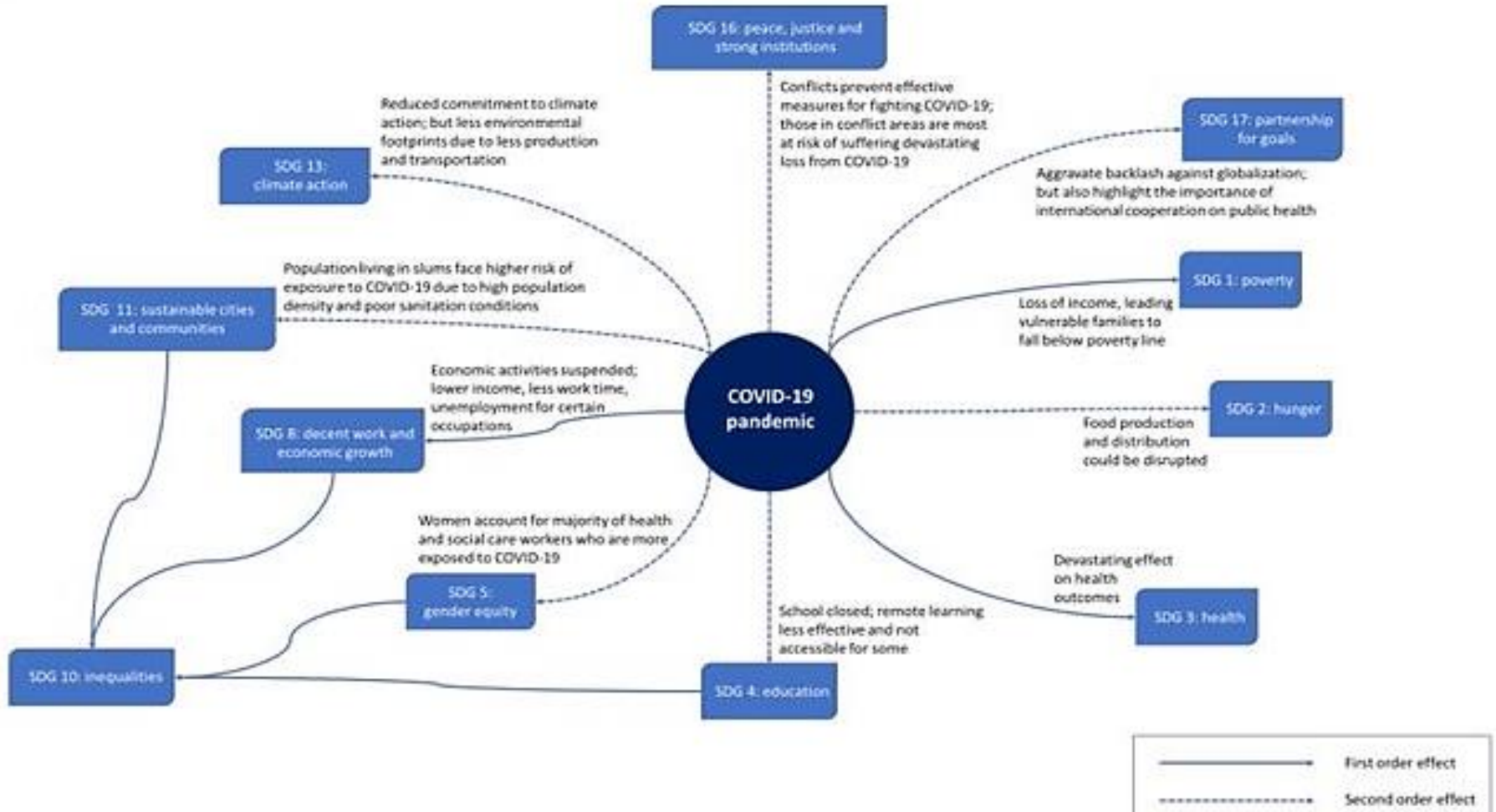


Source: UNCTAD

The SDGs

- COVID-19 has triggered an **economic and social crisis**, particularly in countries with high poverty, poor infrastructure, and insufficient safety nets
- COVID-19 crisis will also negatively impact progress towards the SDGs

COVID-19 is impacting all SDGs



Source: UNDESA

Example SDG4: Apart from Burundi, all the other EAC countries have closed schools nationwide, impacting over 51 million learners

| Country | Total Affected learners | | | Breakdown by school type | | | |
|----------------------|-------------------------|-------------------|-------------------|--------------------------|------------|------------|-----------|
| | Total | Females | Males | Pre-primary | Primary | Secondary | Tertiary |
| Kenya | 15,257,191 | 7,436,884 | 7,820,307 | 21% | 54% | 21% | 4% |
| Rwanda | 3,464,409 | 1,743,196 | 1,721,213 | 7% | 72% | 19% | 2% |
| South Sudan | 1,548,811 | 630,498 | 918,313 | 7% | 82% | 11% | .. |
| Tanzania | 13,683,005 | 6,859,854 | 6,823,151 | 10% | 74% | 16% | .. |
| Uganda | 9,614,958 | 5,287,676 | 4,327,282 | 6% | 92% | .. | 2% |
| EAC Aggregate | 43,568,374 | 21,958,108 | 21,610,266 | 13% | 71% | 14% | 2% |

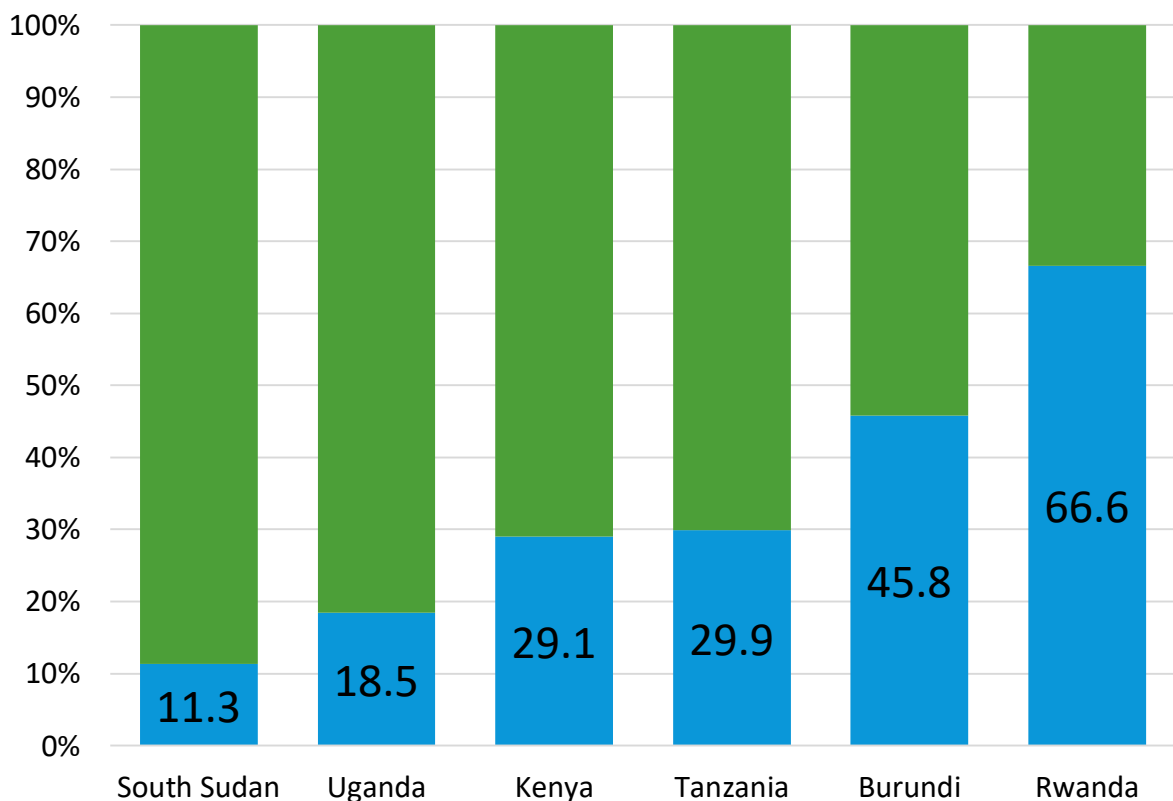


84% of affected learners are primary school-aged or younger, which may slow progress to **SDG 4** if alternative channels are not explored.

Source: UNESCO

Example SDG6: In most EAC countries, less than half of the population has access to basic sanitation services

Share of the Population Using at Least Basic Sanitation Services in 2017



Hand hygiene is essential to containing the spread of **COVID-19**. Slow progress on **SDG 6** counteracts this.

This is particularly challenging in some EAC countries where the vast majority of the population has limited access to **basic sanitation services**.

Source: World Bank

However, many governments have initiated or planned social protection measures in response to COVID-19

Example Government Interventions

| | |
|---------------|--|
| RWANDA | <ul style="list-style-type: none">• <i>Financial waivers:</i> Fee waivers on mobile money transactions, all transfers between bank account and mobile wallets, and on payments for all contactless point of sale transactions were approved.• <i>In-kind Support:</i> food distribution scheme providing for the most vulnerable people starting with the urban poor who are unable to work and have no garden to get food from during the lockdown. |
| KENYA | <ul style="list-style-type: none">• <i>Cash Transfer:</i> The National Treasury appropriated an additional Ksh10B for supporting the elderly, orphans and other vulnerable members.• <i>Utilities:</i> Fee waivers on person-person mobile money transactions on M-PESA were approved.• <i>Financial waivers:</i> Fee waivers on person-person mobile money transactions on M-PESA were approved. A 100% tax relief for persons earning less than Ksh.24,000 is planned. |
| UGANDA | <ul style="list-style-type: none">• <i>Financial waivers:</i> The National Social Security Fund is allowing employers facing economic distress due to COVID-19 to reschedule NSSF contributions for the next 3 months without accumulating a penalty. |

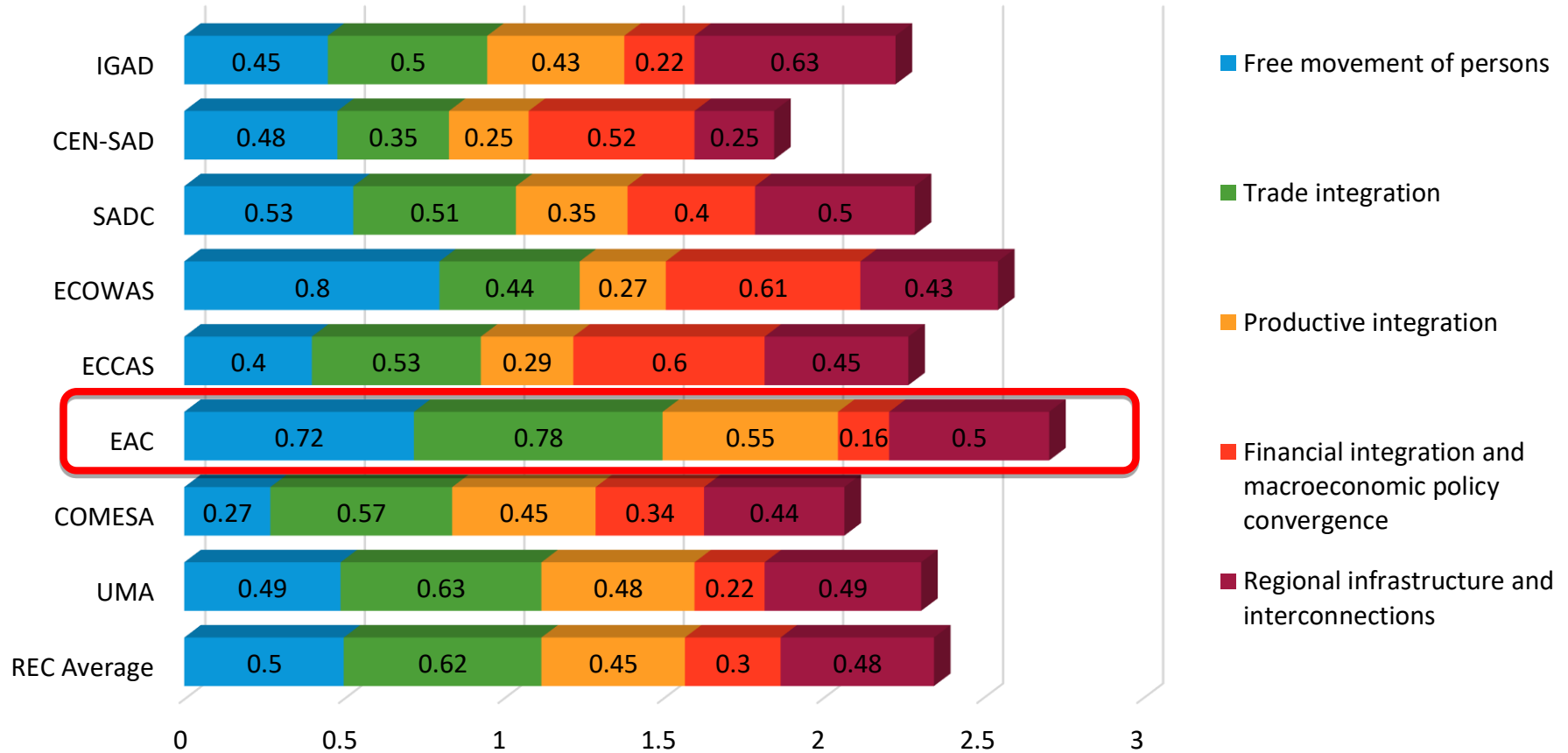
Source: Local sources

4. Regional Integration performance in the EAC

Regional integration will be useful to attenuate COVID effects and **will have to be enhanced in order to limit dependency on the rest of the world and strengthen economic resilience**

EAC is the best performer in 3 dimensions of Regional Integration (i.e. Free movement of persons, trade and productive)

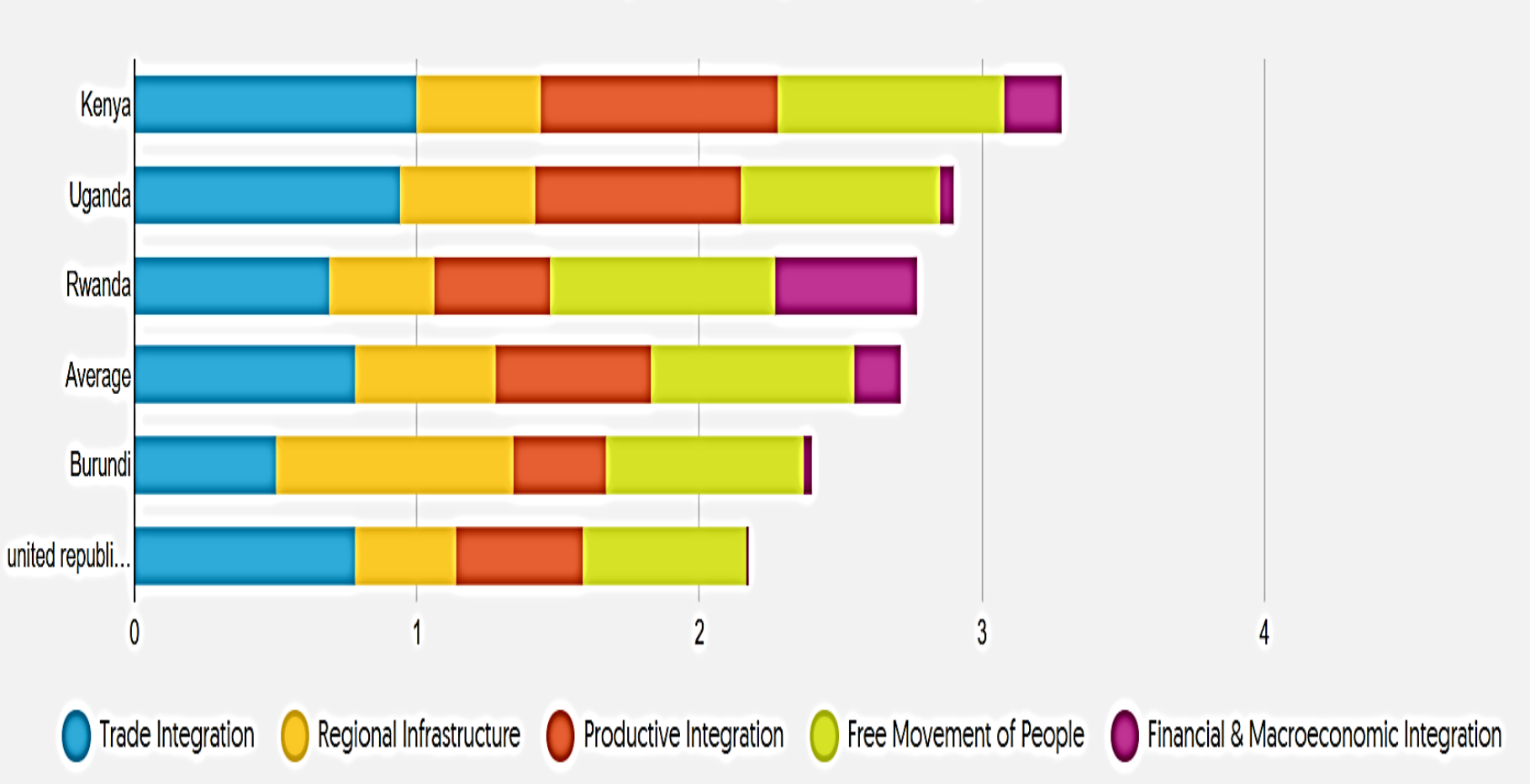
RECs regional integration scores by dimension



Source: Africa Regional Integration Index

Among all EAC Member States, Kenya is the top performer in terms of overall regional integration

Country level regional integration performance, by dimensions



Source: Africa Regional Integration Index

5. Conclusions and Policy Suggestions

Conclusions

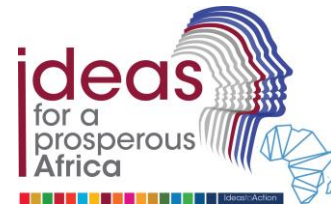
- **Having already strongly hit major trading partner for Africa including China, Europe, the US, COVID-19 will inevitably impact EAC trade;**
- **The services sector (especially tourism and transport) revenues may shrink due to COVID-19, which is already slowing economic activities of the major EAC trading partners (e.g. China);**
- **Under the worst case scenario, the EAC could witness significant drop in GDP growth due to the pandemic.**
- **In short run, EAC may experience reduction in FDI and remittances, with adverse effects on living standards.**

Recommendations

- **Review and revise national budgets to reprioritize spending towards mitigating expected negative impacts from COVID-19 on the economy;**
- **Prepare fiscal stimulus packages with support to businesses to maintain jobs; and support to vulnerable households to support consumption;**
- **Central banks to support government efforts in easing access to credit for both public and private sectors**
- **Explore debt payment rescheduling or Debt relief possibilities for both public and private actors**

Recommendations

- **As a safety net, providing incentives for food importers to quickly forward purchase to ensure sufficient food and medicines reserves in key basic items;**
- **Main port countries (Kenya and Tanzania) should coordinate with other EAC members on COVID response measures, in order to limit impact of COVID through utilization of the Ports;**
- **In the medium term the intra-African market could help mitigating some of the negative effects of COVID-19) through limiting dependence on external partners (e.g. pharmaceuticals, basic food) and diversifying economies; this is vital beyond COVID-19 and re-emphasizes the need for urgently implementing the AfCFTA.**



THANK YOU!