

REOPENING THE WORLD: BEWARE OF FALSE STARTS

Allianz Research
Selin Ozyurt – Senior Economist

Africa Economic Outlook

24 June 2020



© Ekaterina Pokrovsky - stock.adobe.com

GLOBAL ECONOMY: NO RETURN TO PRE-CRISIS GDP BEFORE END OF 2021



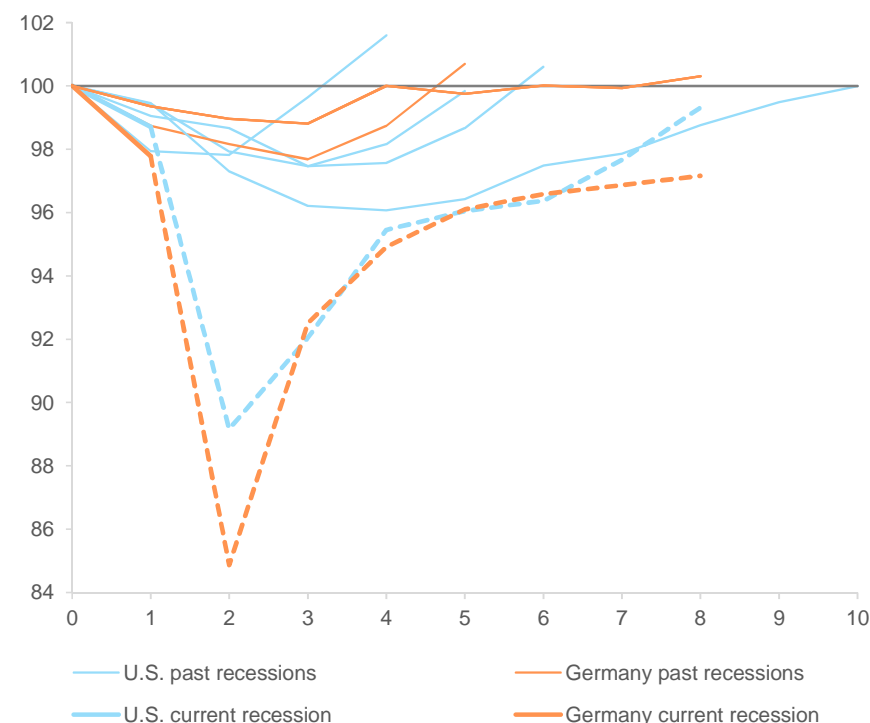
Real GDP growth, %

	2017	2018	2019	2020	2021
World GDP growth	3.3	3.1	2.5	-4.7	4.8
United States	2.4	2.9	2.3	-5.3	3.7
Latin America	1.0	1.0	0.1	-6.8	3.1
Brazil	1.3	1.3	1.1	-7.0	3.0
United Kingdom	1.8	1.3	1.4	-13.3	5.0
Eurozone members	2.7	1.9	1.3	-9.0	6.0
Germany	2.8	1.5	0.6	-7.5	4.5
France	2.4	1.8	1.5	-10.8	7.4
Italy	1.7	0.7	0.3	-11.2	6.6
Spain	2.9	2.4	2.0	-11.0	7.0
Russia	1.8	2.5	1.3	-5.2	3.0
Turkey	7.5	2.8	0.9	-4.7	4.2
Asia-Pacific	5.2	4.7	4.2	-1.3	5.9
China	6.9	6.7	6.1	1.5	7.6
Japan	2.2	0.3	0.7	-5.7	2.2
India	7.0	6.1	4.7	-3.6	7.5
Middle East	1.4	0.9	0.3	-6.3	2.2
Saudi Arabia	-0.7	2.4	0.3	-4.0	2.0
Africa	3.1	2.7	1.9	-3.1	4.0
South Africa	1.4	0.8	0.3	-7.8	5.4

*Weights in global GDP at market price, 2019

Sources: National sources, Euler Hermes, Allianz Research

U.S. and Germany GDP levels, pre-recession = 100



Sources: National sources, Euler Hermes, Allianz Research

TWO SCENARIOS FOR THE POST-COVID RECOVERY

U-SHAPED RECOVERY

PROTRACTED CRISIS

BASE CASE

WORST CASE

SCENARIO

- Drastic confinement measures, taking heavy toll on economy & markets
- Sharp recession in H1 20 across DMs & several large EMs, followed by weak recovery

- Longer health crisis triggers brutal market dive
- Systemic credit event leads to liquidity crisis
- Policymakers unable to restart growth

HEALTH POLICY

- Belated & uncoordinated policies
- Aggressive containment measures; incl. EU border closures

- Reinfections with intermittent domestic confinement
- Borders closed again until end-2020

ECONOMIC POLICY

- Aggressive fiscal & monetary easing
- Direct support measures

- Even more aggressive fiscal & monetary policy
- Not very effective

ECONOMIC IMPACT

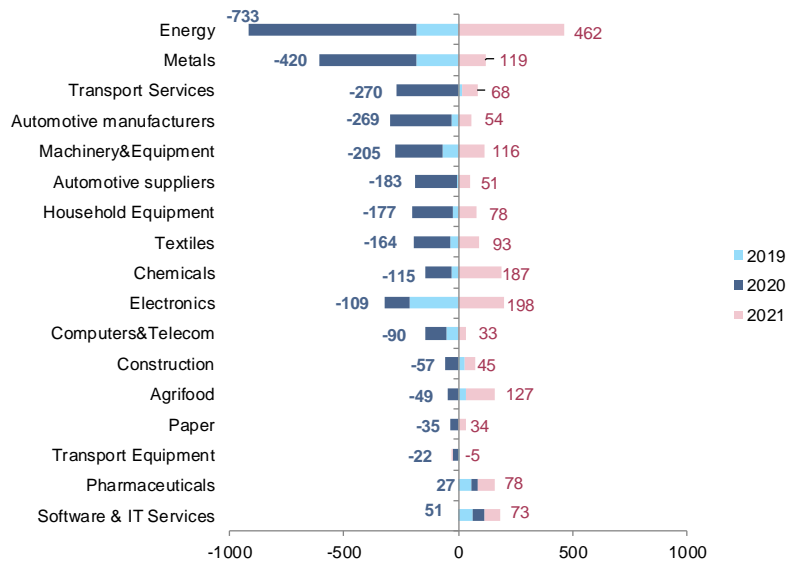
GDP growth, %	2020	2021		2020
World	-4.7	+4.8		
US	-5.3	+3.7	Global trade	-15%
China	+1.5	+7.6		
Eurozone	-9.2	+6.1		
UK ¹	-13.3	+5.0		

GDP growth, %	2020	2021		2020
World	-9.4	-0.5		
US	-12.0	-2.0	Global trade	-30%
China	-6.6	+1.8	Insolvencies	+40%
Eurozone	-20.0	-2.5		
UK ¹	-24.0	-5.0		

Debt will increase, productivity will decrease and governments will take on a larger role in the economy. As a result of these factors, **long-term growth will be lower.**

GLOBAL TRADE: NO COUNTRY AND FEW SECTORS UNSCATHED IN 2020

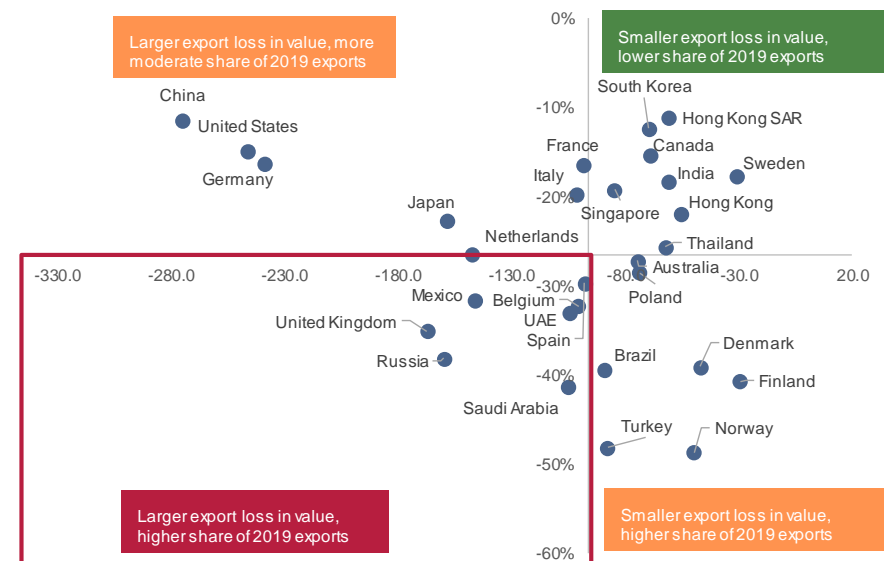
Change in total exports by sector (USD bn)



Sources: UNCTAD, Euler Hermes, Allianz Research

In 2020, we expect the energy sector to be hit the hardest (-USD733bn export losses), followed by metals (-USD420bn) and transport services tied with automotive manufacturers (-USD270bn).

Change in total exports by country (USD bn)



Sources: IHS Markit, Euler Hermes, Allianz Research

The hardest hit in total value of export losses are the largest exporters (China, US, Germany).

AFRICA : GDP TO CONTRACT BY -3.1% IN 2020



COVID-19

Most affected by the sanitary crisis:

Egypt, South Africa, Morocco, Ghana, Nigeria and Algeria

Economic impact by

- Trade channel: Weaker world demand
- Oil and other commodity price (copper and platinum) decline
- Cessation of tourism activity and revenues
- Capital outflows and low remittances
- Disruption of supply chains
- Food shortages and food inflation
- Social unrest

GDP growth (%)

		2019	2020	2021
	Africa	1.9	-3.1	4.0
	Angola	-0.5	-4.7	2.5
Commodity exports > 75%	Algeria	1	-6.7	4.9
	Nigeria	2	-3	2.5
	Gabon	1.7	-1	3
	Mozambique	-2	-1.2	5
	Tunisia	1.2	-3.9	2.7
Services exports > 35%	Namibia	-1	-1.5	2.5
	Morocco	2.4	-3.9	5
Combined external and domestic shocks	South Africa	0.3	-7.8	5.4
	Cote d'Ivoire	7	-1.1	5.7
	Kenya	5.4	1.5	5.4
	Ghana	6.5	-2.5	5
	Egypt	5.6	-0.5	2.2

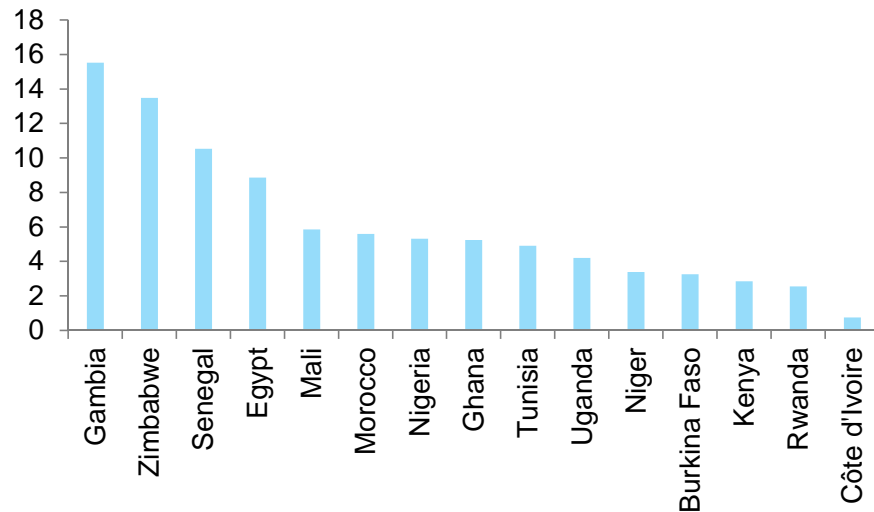
Source: Euler Hermes, Allianz Research

In 2020 we expect the continent to enter into recession -3.1%, for the first time in 25 years. In 2021, we expect the GDP to rebound by +4%.

HISTORICAL DECLINE OF EMIGRANT REMITTANCES IN 2020



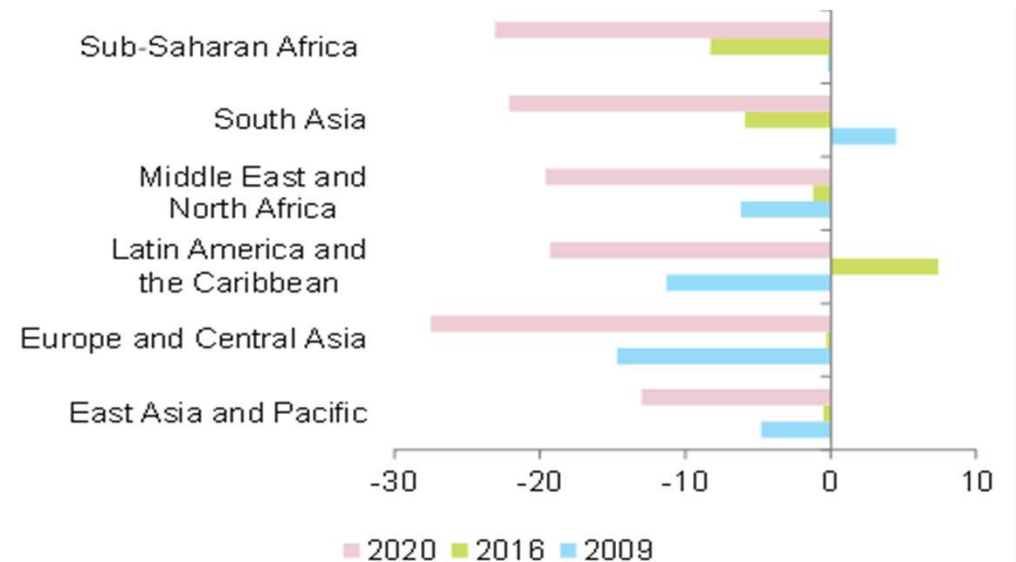
Remittances as a share of GDP in 2019 (%)



Source: World Bank, Euler Hermes

The World Bank estimates that remittances to low and middle-income countries will decrease by -19.7% to \$445 billion in 2020. In 2021, remittances are expected to recover and increase by 5.6% to reach \$470 billion.

Remittances inflows (change in % y/y)



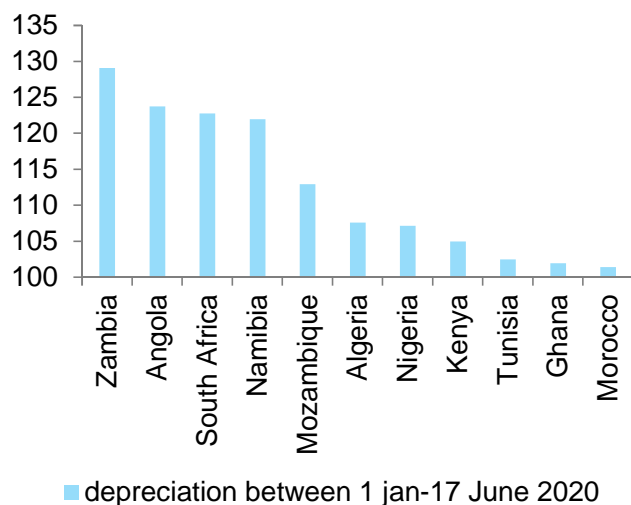
Source: World Bank, Euler Hermes

Emigrant remittance flows should decrease in all regions: Europe and Central Asia (-27.5%), Sub-Saharan Africa (-23.1%), South Asia (-22.1%), Middle East and North Africa (-19.6%), Latin America and the Caribbean (-19.3%), East Asia and the Pacific (-13%).

HEIGHTENED CURRENCY AND EXTERNAL LIQUIDITY RISK



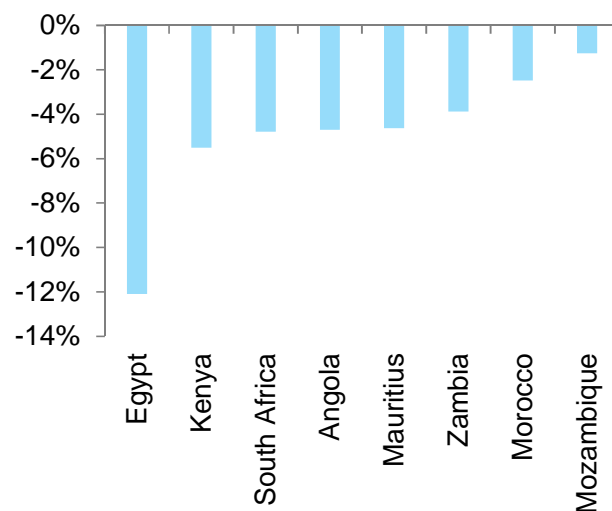
Depreciation vs. USD (Index, jan 2020=100) – Jan 1/June 17 2020



Source: Macrobond, Euler Hermes

In 2020, strong exchange rate depreciations relative to USD hit Zambia, Angola and South Africa.

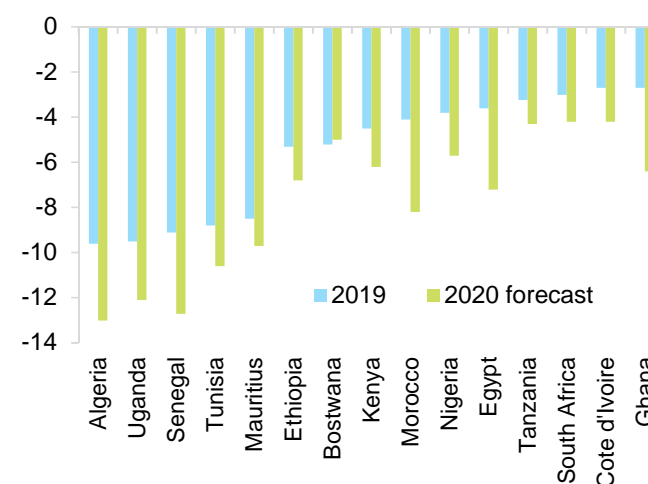
Change in FX reserves in 2020Q1 (q/q, %)



Source: IMF, Euler Hermes

International reserves of Egypt, South Africa, Kenya and Angola has eroded significantly because of Central bank interventions to stabilise the exchange rate.

Current account deficit (% GDP)



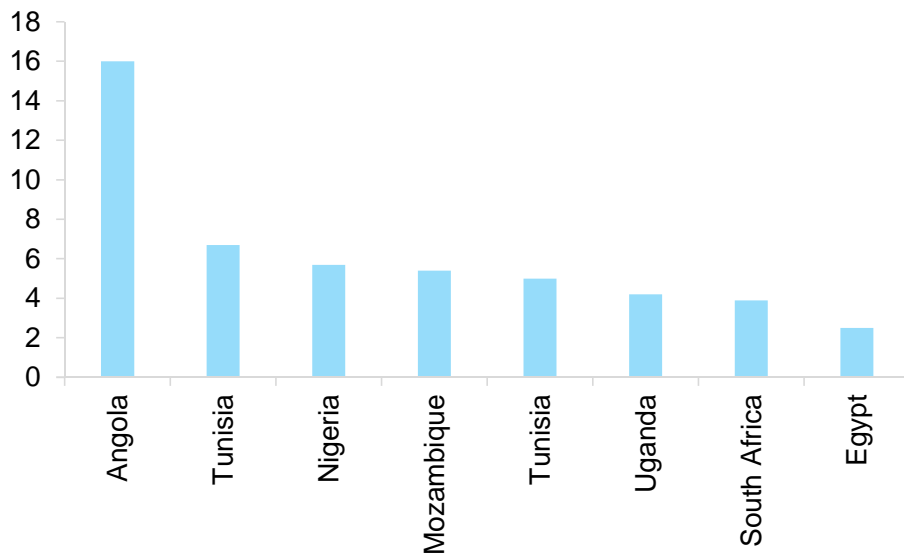
Source: Bloomberg, Euler Hermes, Allianz Research

Falling export demand, low oil prices and loss of tourism revenues are likely to exacerbate external imbalances in 2020.

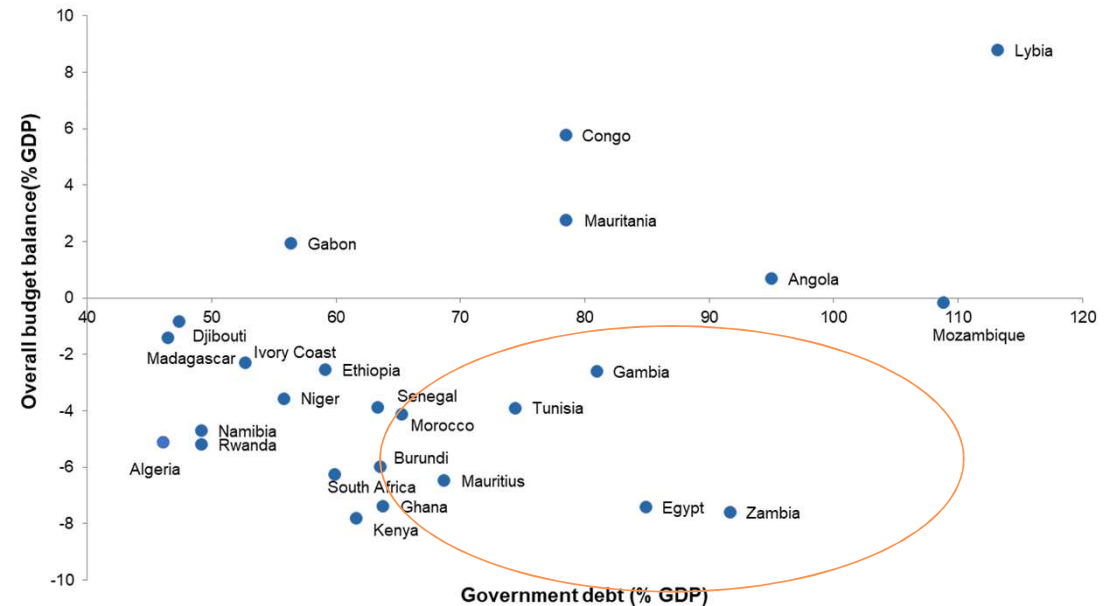
COVID-19 PUTS DEBT SUSTAINABILITY AT RISK



Estimated change in Government debt in 2020 (pts of GDP)



Government debt and overall budget balance (% GDP)



Sources: Euler Hermes, Allianz Research

Angola, Tunisia, Nigeria and Mozambique are the most exposed economies to an increased in public debt in 2020 because of the economic impact of the Covid-19 (oil prices, weak word demand and capital inflows).

Sources: Various sources, Euler Hermes, Allianz Research

Zambia, Egypt, Kenya, Ghana and Mauritius already had high budget deficits before the COVID-19 outbreak.

STRUCTURAL WEAKNESSES FEED SOCIAL TENSIONS



Attention points

- Weak health systems and institutional capacity
- Impossibility of strict confinement due to the heavy weight of informal activity and daily income.
- Disruption to the food supply (rice and cereals) in rural and isolated regions. Egypt, Algeria, Libya, Nigeria and Angola are the largest net importers of food on the continent.
- The crisis has reinforced the feeling of injustice and social exclusion of the poorest.

Social Risk Composite Indicator

Country	Rank 2020 (/102 countries)	Social Risk Index 2020	Social Risk Index, change (2015-20)
NIGERIA	102	19,77	-1,95
ANGOLA	100	25,13	-6,44
CONGO (P. Rep.)	99	27,42	0,35
UGANDA	93	37,16	12,42
CAMEROON	92	37,50	2,04
MOROCCO	91	37,64	3,99
COTE D'IVOIRE	82	40,56	9,06
GABON	81	40,59	-0,09

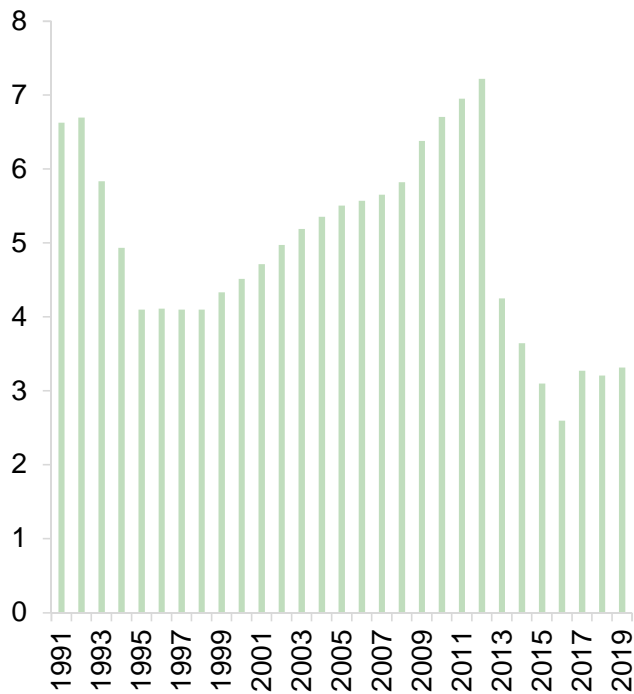
Source: Euler Hermes

In 2020, social risk could deteriorate in already fragile economies, such as Nigeria and Angola, in a context of low oil revenues limiting the support capacities of governments.

COTE D'IVOIRE – THE ECONOMY WAS IN A GOOD SHAPE BEFORE COVID-19

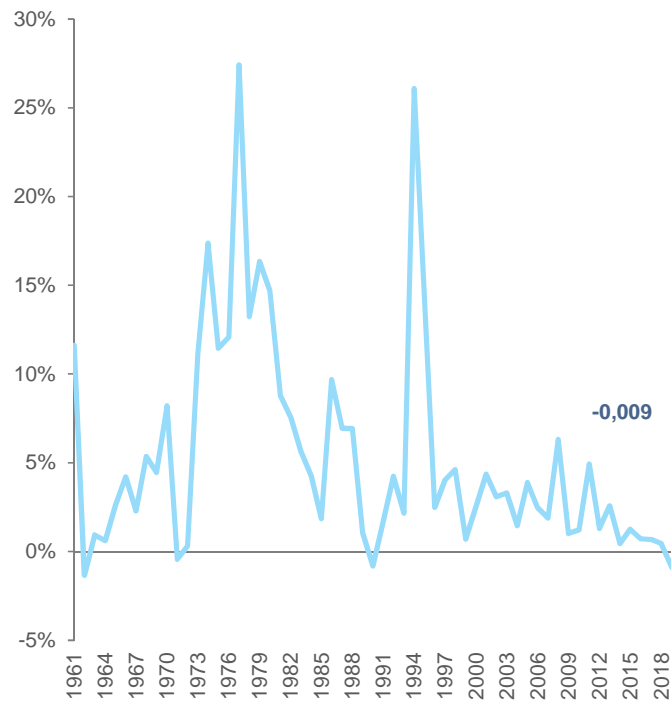


Unemployment rate (%)



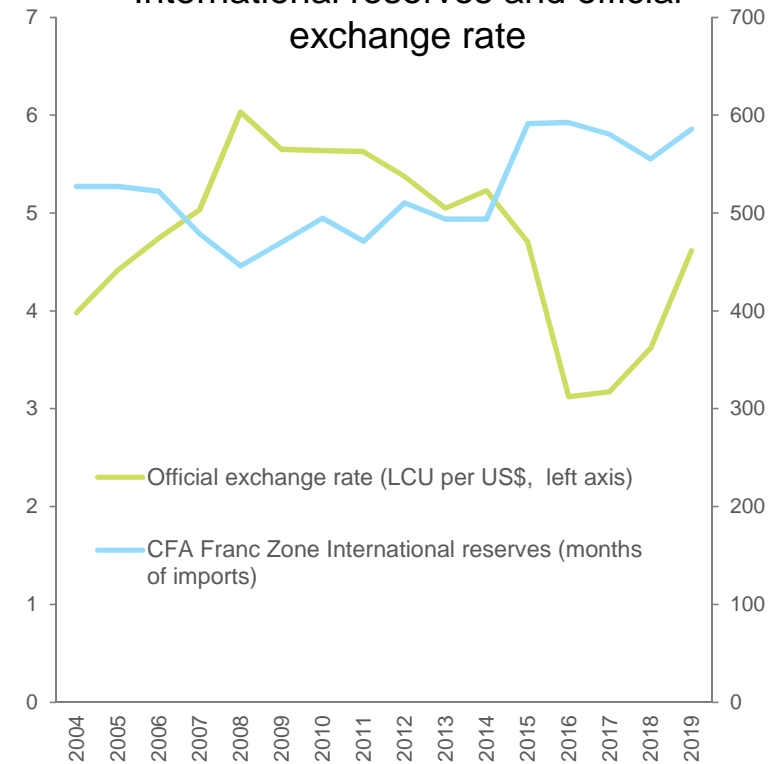
Sources World Bank, Euler Hermes

Total CPI (y/y%)



Sources: World Bank, Euler Hermes

International reserves and official exchange rate

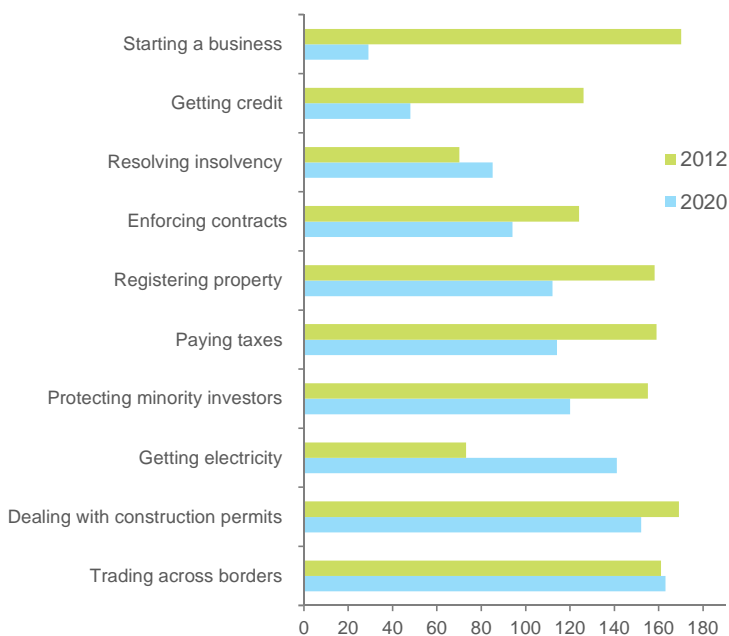


Sources: World Bank, Macrobond, Euler Hermes

BUSINESS ENVIRONMENT – STILL ROOM FOR IMPROVEMENT

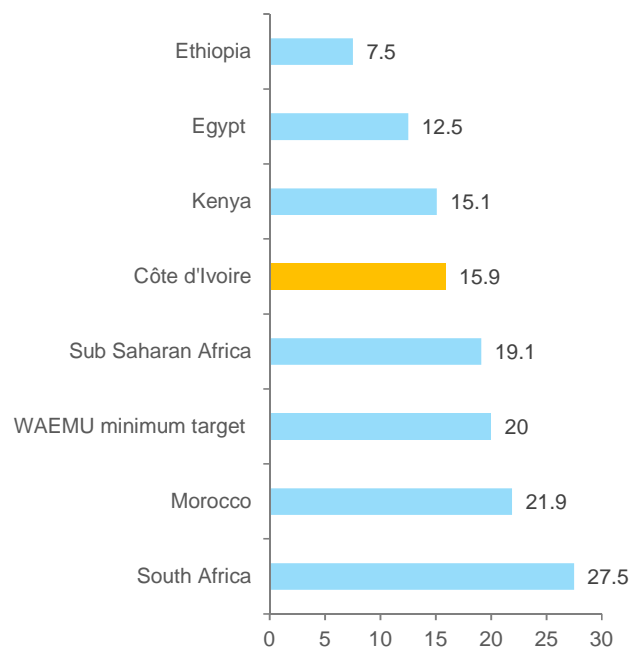


Côte d'Ivoire- Ease of doing business ranking



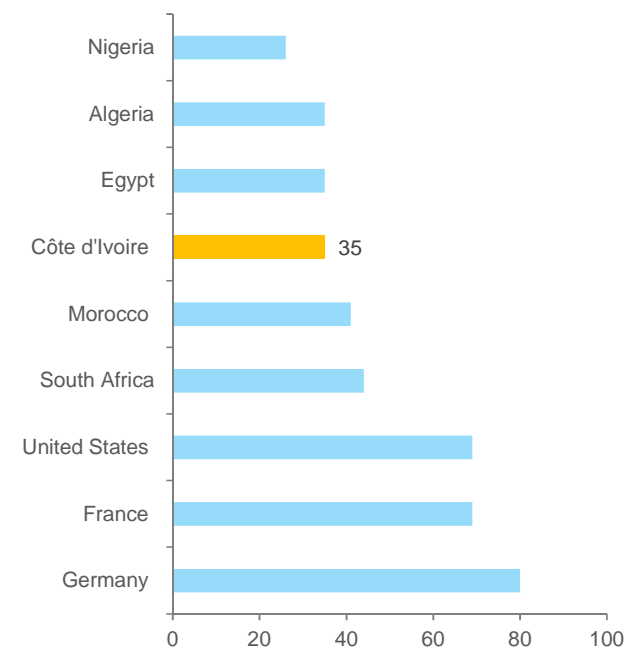
Sources: World Bank, Euler Hermes, Allianz Research

Tax revenue (% GDP)



Sources: World Bank, Euler Hermes, Allianz Research

Corruption perception index



Sources: Transparency international Euler Hermes, Allianz Research

MERCI

Economic, Capital Markets
and Industry Research

Global Economic Outlook

24 June 2020



© Ekaterina Pokrovsky - stock.adobe.com

