COVID-19: Global Economic Outlook and Implications for Sub-Saharan Africa

17 August 2020
Heike Wengert, Munich Re Economic Research
Agenda

1. COVID-19: Global Economic Outlook
2. Implications for Sub-Saharan Africa
3. Q&A
COVID-19: Global Economic Outlook
The world economy in 2020: From positive outlook to severe recession in just a couple of months

- "Global growth is projected to rise to 3.3% in 2020 …"
- "Downside risks … remain prominent, including … further worsening of relations between the US and its trading partners …"

- "The global economy is projected to contract sharply by -3% in 2020, much worse than during the 2008-09 financial crisis."
- "The risks for even more severe outcomes … are substantial."

- "The pandemic has had a more negative impact on activity in 1H 2020 than anticipated, and the recovery is projected to be more gradual …"
- "Fundamental uncertainty … significant downside risks … scenario 2nd outbreak…"
Global outlook for 2020 has deteriorated at an unprecedented speed since mid March… but signs of stabilisation since May

MR Economic Research forecasts for 2020 global real GDP growth since January 2020* (in %)

* Baseline forecasts
Source: Munich Re Economic Research
Economic policy uncertainty reached record levels

Global Economic Policy Uncertainty Index (news-based measure)

Source: www.policyuncertainty.com (last data point: July 2020), Munich Re Economic Research
Stock markets have seen a strong rebound after declines in March – investors looking forward to a recovery of the economy?

Major stock market indices (since January 2020)

Source: Bloomberg (as of 12 August 2020), Munich Re Economic Research
Global economic activity hit a record low in April, contraction was still substantial in May, expansionary territory again in July

Aggregate Composite Purchasing Manager Indices (PMI)

Source: Bloomberg (as of 12 August 2020), Munich Re Economic Research
Lockdown-induced downturn strong in services, manufacturing hurt by supply chain disruptions and lack of demand

Global Purchasing Manager Indices (PMI) – Manufacturing vs. Services

above 50 means expansion

Source: Bloomberg (as of 12 August 2020), Munich Re Economic Research
Extent and speed of worldwide downturn in H1 2020 significantly exceeding developments during the global financial crisis

World real GDP (index, 2019 Q4 = 100)

Multiple negative economic effects resulting from

- Lockdowns / social distancing
- Supply-chain disruptions
- Loss of demand (e.g. travel)
- Sentiment effects (fear / precaution)
- Financial market repercussions

Sectors hit most:

- Hospitality, leisure
- Travel & Tourism
- Personal services
- Transport (airlines, rail)

Source: Oxford Economics, Munich Re Economic Research
All major central banks have enacted unprecedented monetary stimulus

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Source: IHS Markit
Economic policy is doing “whatever it takes” – G20 fiscal response dwarfs global financial crisis and still moves up

Announced fiscal measures (% of GDP)

Source: IMF Fiscal Monitor (database as of June 2020)
Short-term work schemes limit unemployment spikes in Europe, US with extended unemployment assistance to support incomes

Unemployment rate, 2000 Q1 – 2020 Q4e (quarterly average, in %)

Source: Oxford Economics, Munich Re Economic Research
Fall in world trade projected to be in a similar magnitude as in 2009, export-oriented countries highly dependent on global recovery in trade.

Global imports of goods and services (year-over-year real growth, in %)

Exposure to global trade: Exports in % of GDP (in 2019)

Source: Oxford Economics, Munich Re Economic Research
Global recovery in two stages: strong V-shaped rebound in the beginning, but more sluggish recovery afterwards

World real GDP: baseline and distribution of plausible scenarios

- Turning point in Q2 2020: Many countries in lockdown in April, but restrictions in many regions have eased in May and June
- Global economy has since staged a robust rebound (e.g. retail sales in Europe and US)
- But despite a strong initial bounce, high unemployment, surging insolvencies and consumer reluctance will limit the scale of the revival in H2 and beyond
- At least one year of growth needed to get back to pre-crisis peak
- Considerable downside risks remain (e.g. rise in COVID-19 cases in some parts of the world, massive wave of insolvencies)

Source: Oxford Economics, Munich Re Economic Research
Global economic outlook: sharp recessions in 2020 and relatively slow recovery in many large economies in 2021

Annual real GDP growth 2018–2021e (in %)

Source: Munich Re Economic Research (as 21 July 2020)
Under any plausible scenario, inflation in major economies will be very low in 2020 – longer-term outlook poses more uncertainties.

**Annual CPI inflation 2018–2021e (in %)**

Source: Munich Re Economic Research
US and European yields have fallen to new record lows, Treasuries below 1% for first time – safe haven flows continue

10yr government bond yields (in %)

Source: Bloomberg (as of 12 August 2020), Munich Re Economic Research
Implications for Sub-Saharan Africa
The COVID-19 outbreak has set off the first recession in Sub-Saharan Africa in 25 years, yet less severe than in other regions …

Annual real GDP growth 2018–2021e (in %)

Source: Munich Re Economic Research
Real GDP growth in 2020 (in %, Sub-Saharan African and selected other large economies)

-5.4

Vietnam
China
Rwanda
Burundi
Guinea
Ethiopia
Côte d’Ivoire
Ghana
Benin
Kenya
Cameroon
Senegal
Burkina Faso
Nigeria
Australia
Gambia
Turkey
Sub-Saharan Africa
USA
India
Japan
Russia
DCR
Gabon
Canada
Mexico
Brazil
Namibia
Zambia
South Africa
UK
Angola
Italy
Mauritius
Spain
Argentina
Botswana
Congo, Rep.

Source: Oxford Economics, Munich Re Economic Research
COVID-19: The economic impact may be more severe in emerging market economies as they are buffeted by additional pressure.

- Direct effect of containment / mitigation measures
- Commodity markets: drop in demand/prices
- Weak health care systems
- Capital outflows
- Currencies under pressure
- Fiscal stress (lower government revenues, higher expenditure)

Tourism: revenues are plunging

Source: Munich Re Economic Research
Global vulnerability heatmap - Americas flashing red, Sub-Saharan Africa seems less vulnerable, except for South Africa

Overall COVID-19 structural vulnerability

Covid-19 structural vulnerability scorecard

<table>
<thead>
<tr>
<th>Region</th>
<th>Health-related vulnerability</th>
<th>Structural economic vulnerability</th>
<th>Government response</th>
<th>Pandemic prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>4.3</td>
<td>3.8</td>
<td>4.1</td>
<td>3.8</td>
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<tr>
<td>MENA</td>
<td>4.0</td>
<td>3.9</td>
<td>3.8</td>
<td>3.8</td>
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<tr>
<td>Asia</td>
<td>4.3</td>
<td>3.8</td>
<td>4.1</td>
<td>2.4</td>
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<tr>
<td>Latin America</td>
<td>4.4</td>
<td>4.2</td>
<td>4.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4.7</td>
<td>3.5</td>
<td>4.8</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: Oxford Economics, Munich Re Economic Research
The pandemic is still developing with regional differences highly relevant – Surge in Latin America, Africa less affected – so far

Daily deaths of patients diagnosed with coronavirus (7-day rolling average)
Sub-Saharan Africa benefits from a young population, relatively few people are over 60

Population over 60 (in %)

Source: UN, Financial Times (as of 23 July 2020), Munich Re Economic Research
However, the scope for the pandemic to spread as aggressively as elsewhere remains a very real threat, especially in South Africa.

Daily new confirmed COVID-19 cases (rolling 7-day average)

Source: European CDC (last updated: 16 August 2020)
Many African countries were quick to react to the pandemic, despite few cases; but economies cannot afford long lockdowns.

### COVID-19 government response stringency index (starting January 1, up to July 17)

<table>
<thead>
<tr>
<th>Measures in Sub-Saharan Africa</th>
<th>No. of countries</th>
</tr>
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<tbody>
<tr>
<td>Quarantine and self-quarantine</td>
<td>44</td>
</tr>
<tr>
<td>Travel restrictions and border closure</td>
<td>43</td>
</tr>
<tr>
<td>Cancellation of public gatherings</td>
<td>42</td>
</tr>
<tr>
<td>Closure of school and universities</td>
<td>36</td>
</tr>
<tr>
<td>Shelter in place and lockdown</td>
<td>34</td>
</tr>
<tr>
<td>Remote work</td>
<td>25</td>
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Many Sub-Saharan economies have reopened before the infection has peaked.
Sub-Saharan countries dependent on commodity exports and tourism are hit most

IMF real GDP growth forecasts for Sub-Saharan Africa (in %)

Source: IMF (June 2020), Munich Re Economic Research
Commodity markets: widespread rally recently, with demand (China) and supply factors playing a role, yet oil prices still far down.

Commodity price indices (31.12.2019 = 100)

Source: Bloomberg (as of 12 August 2020), S&P GSCI, Munich Re Economic Research

Oil price, Brent (in USD per barrel)

Spot price (August 11, 2020): USD 37.2

Source: Bloomberg (as of 12 August 2020), S&P GSCI, Munich Re Economic Research
The fall in tourism is a key vulnerability for some countries in Sub-Saharan Africa

Travel & Tourism (direct spending of residents and non-residents % of GDP in 2019)

Source: World Bank, Munich Re Economic Research
Sub-Saharan countries eased macroeconomic policies in response to the crisis, yet are constrained by vanishing fiscal space …

Policy rates (cumulative change since end 2019, in %)

Fiscal response (additional resources in % of GDP)

Source: IMF (as of June 2020)
… and deteriorating financing conditions: capital outflows, a sharp widening of spreads and temporary shut outs from capital markets

Cumulative nonresident portfolio flows to emerging markets (% of 2020 GDP)

Sub-Saharan Africa bond index spread (change in basis points relative to start)

-1.5 -1 -0.5 0

Other EMs
South Africa
Ghana
Ivory Coast
Namibia
Kenya
Rwanda
Zambia
Nigeria

Mar - April 2020 Since April 2020

Source: IMF (June 2020)
Exchange rate risks and debt sustainability concerns as constant companions of the crisis, much-needed IMF/WB assistance

Exchange rates (per USD; Dec. 2019 = 100)

Government debt (in % of GDP)

Source: Bloomberg (as of 12 August 2020)
Good news: PMIs back in the green, but uncertainties linger and South Africa gives cause for concerns

- SSA PMI’s expanded in July as expected, with activity benefitting from post lockdown domestic and external demand recovery
- Labour markets, which remain under pressure, and rising infections may limit pace of normalization
- Improvement was broad-based, led by Kenya (easing of travel restrictions), Nigeria and Uganda

### GDP weighted Sub Saharan composite PMI

<table>
<thead>
<tr>
<th>Date</th>
<th>Ghana</th>
<th>Kenya</th>
<th>M’bique</th>
<th>Nigeria</th>
<th>Uganda</th>
<th>Zambia</th>
<th>S’Africa</th>
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<tr>
<td>Jul-2019</td>
<td>51.2</td>
<td>54.1</td>
<td>52.8</td>
<td>54.6</td>
<td>58.2</td>
<td>44.4</td>
<td>48.4</td>
</tr>
<tr>
<td>Aug-2019</td>
<td>50.7</td>
<td>52.9</td>
<td>51.8</td>
<td>56.4</td>
<td>57.5</td>
<td>46.0</td>
<td>49.7</td>
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<tr>
<td>Sep-2019</td>
<td>51.4</td>
<td>54.1</td>
<td>51.1</td>
<td>57.1</td>
<td>55.7</td>
<td>48.8</td>
<td>49.2</td>
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<tr>
<td>Oct-2019</td>
<td>50.1</td>
<td>53.2</td>
<td>50.3</td>
<td>56.9</td>
<td>56.3</td>
<td>48.3</td>
<td>49.4</td>
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<tr>
<td>Nov-2019</td>
<td>52.4</td>
<td>53.2</td>
<td>50.7</td>
<td>57.7</td>
<td>58.6</td>
<td>48.7</td>
<td>48.6</td>
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<td>Dec-2019</td>
<td>52.7</td>
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<td>50.8</td>
<td>56.8</td>
<td>57.7</td>
<td>46.9</td>
<td>47.6</td>
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<td>Jan-2020</td>
<td>50.7</td>
<td>49.7</td>
<td>50.4</td>
<td>55.9</td>
<td>58.8</td>
<td>47.5</td>
<td>48.3</td>
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<td>Feb-2020</td>
<td>52.6</td>
<td>49.0</td>
<td>51.6</td>
<td>55.0</td>
<td>56.2</td>
<td>48.5</td>
<td>48.4</td>
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<td>Mar-2020</td>
<td>41.4</td>
<td>37.5</td>
<td>49.9</td>
<td>53.8</td>
<td>45.3</td>
<td>44.7</td>
<td>44.5</td>
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<td>Apr-2020</td>
<td>31.7</td>
<td>34.8</td>
<td>37.1</td>
<td>37.1</td>
<td>21.6</td>
<td>37.3</td>
<td>35.1</td>
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<td>May-2020</td>
<td>46.7</td>
<td>36.7</td>
<td>40.0</td>
<td>40.7</td>
<td>41.9</td>
<td>34.8</td>
<td>32.5</td>
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Source: IHS Markit, JP Morgan, Munich Re Economic Research
South Africa: The pandemic is evolving at a challenging time

COVID-19:
Total confirmed cases per million people, still rising

GDP growth
- Below potential in last decade
- Stagnation in 2019
- Deep recession in 2020
- Slow recovery
- High risk for even worse outcome

Drivers of recession: Decline in external demand from Asia (already in Jan/Feb) and Europe (March), own nationwide lockdown end of March, current re-tightening of restrictions

Key sectors of the economy, such as mining, manufacturing and construction, were effectively halted, services set to join

Ongoing electricity supply issues

Confidence of 12-month recovery from COVID19 crisis below other Sub-Saharan countries

Significant financing needs led to request for IMF support

Source: IHS Markit, Munich Re Economic Research
Overall, Sub-Saharan Africa is expected to recover a bit faster than other emerging / frontier regions, yet downside risks remain high …

Real GDP growth (q-t-q, in %, 4Q 2019 = 100)

Source: Munich Re Economic Research
... and the crisis impact could wipe out almost 10 years of progress in development

Real GDP per capita (2000–20, index 2000 = 100)

Source: IMF
The Great Reset? Do we have to expect paradigm shifts due to COVID-19? Can Sub-Saharan Africa benefit from a reset?

- Deglobalisation?
- Geopolitical tensions?
- Digitalisation?
- Restructuring of supply chains?
- Global power shift?
- Financial stability?
- Larger role of governments?
- Climate policies?
- Distributional conflicts?

Source: Munich Re Economic Research
Thank you very much for your attention!

Heike Wengert (HWengert@munichre.com)