COVID-19 PANDEMIC | FINANCIAL POLICY INTERVENTIONS IN AFRICA IN THE LIGHT OF THE ECONOMIC IMPACT

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Introduction

In response to the COVID-19 pandemic, unprecedented government interventions have been witnessed throughout the world. This intervention polices, while heterogeneous across countries and regions, all aim to reduce the population contact rates and thus mitigate the virus transmission. On the other hand, there is an inevitable trade-off between the disease control outcomes and economic consequences, since prolonged government interventions have a large downside impact on the overall economic and social well-being, including escalated unemployment rates and business bankruptcies.

The objective of this paper is to present the interventions made as regards monetary and fiscal policies in some African countries. The first part of the paper discusses the economic policy responses to mitigate the impact of the pandemic. The second part will briefly describe the possible risks which could be incurred in the financial sector due to the pandemic. The third part briefly describes the roles of fiscal and monetary policies in combating the pandemic. The fourth part presents some of the financial interventions at continental, regional and country levels in Africa to mitigate the impact. Finally, key recommendations will be provided for the way forward.

Economic Policy Response

Dell'Ariccia and others at the International Monetary Fund1 in their Blog as part of a special series on the response to the Corona Virus indicated that unlike other economic downturns, the fall of output in this crisis is not driven by demand. It is an unavoidable consequence of measures to limit the spread of the disease. The role of economic policy is hence not to stimulate aggregate demand, at least not right away. Rather, the policy has three objectives:

i. Guarantee the functioning of essential sectors. Resources for COVID-19 testing and treatment must be boosted. Regular health care, food production and distribution, essential infrastructure, and utilities must be maintained. It may even involve intrusive actions by the government to provide key supplies through recourse to wartime powers with prioritization of public contracts for critical inputs and final goods, conversion of industries, or selective nationalizations. France's early seizing of medical masks and the activation of the Defense Production Act in the United States to ensure the production of medical equipment illustrate this. Rationing, price controls, and rules against hoarding may also be warranted in situations of extreme shortages.

ii. Provide enough resources for people hit by the crisis. Households who lose their income directly or indirectly because of containment measures will need government support. Support should help people stay at home while keeping their jobs (government-funded sick leave reduces the movement of people, hence the risk of contagion). Unemployment benefits should be expanded and extended. Cash transfers are needed to reach the self-employed and those without jobs.

iii. Prevent excessive economic disruption. Policies need to safeguard the web of relations among workers and employers, producers and consumers, lenders and borrowers, so that business can resume in earnest when the medical emergency abates. Company closures would cause loss of organizational know-how and termination of productive long-term projects. Disruptions in the financial sector would also amplify economic distress. Governments need to provide exceptional support to private firms, including wage subsidies, with appropriate conditions. Large programs of loans and guarantees

1. IMF Blog, Giovanini Del ariccia, etal, "Economic Policies for the COVID 19 War" A part of a special series on the Response to the Corona Virus.

have already been put in place (with the risks ultimately borne by taxpayers), and the EU has facilitated direct capital injections into companies by relaxing its stateaid rules. If the crisis worsens, one could imagine the establishment or expansion of large state holding companies to take over distressed private firms, as in the United States and Europe during the Great Depression.

Covid-19 and Impact on the financial Sector[2]

The following are the possible impacts of COVID 19 on the financial sector:[3]

a. Reduction of bank credit due to both supply and demand factors;

b. Banking sector will likely face elevated credit risk;

c. Reduction in the volume of world trade and trade finance;

d. Increasing risks of SMEs failure;

e. Collapse of borrowers' repayment capacity leading to non-compliance with certain prudential ratios;

f. Increase in non-performing loans leading to a reduction in profitability;

g. Drastic drop in capital flows limiting the possibilities of mobilizing additional resources for public spending and for the private sector;

h. Some banking systems may require recapitalization or restructuring.

Roles of Fiscal and Monetary policies in Combating Negative Impacts of COVID 19

Fiscal Policy has the following three roles in combating the impacts pf COVID 19

- The first is infection fighting, spending as much as needed both to deal with the infection now and to give incentives to firms to produce tests, drugs, and vaccines, so that the pandemic can be both brought and kept under control.
- The second is disaster relief, providing funds to liquidity-constrained households and firms. Many households do not have the cash to survive the next few months without financial help. Many firms do not have the cash to avoid bankruptcy without some help. Providing financial relief is essential to avoid extreme suffering and permanent damage to the economy.
- The third is the support of aggregate demand, to make sure that the economy operates as close to potential as it can, recognizing that potential is, for the moment, profoundly impaired by the health measures needed to decrease the infection rate.

Monetary Policy has the following roles in combating the effects of COVID 19

- Support liquidity and financing conditions to households, businesses and banks, which will help to preserve the smooth provision of credit to the economy.
- Ensuring that all sectors of the economy can benefit from supportive financing conditions that enable them to absorb the Covid-19 shock.
- Ensure flexibility of regulatory framework in order to overcome financing pressure faced by firms and households while also ensuring financial stability

Regional and Continental measures[4]

The Bureau of the Assembly of the Union: Agreed to establish a continental anti-COVID-19 Fund to which member states of the Bureau agreed to immediately contribute US $12, 5 million as seed funding. Member States, the international community and philanthropic entities are urged to contribute to this fund and to allocate $4.5 million to boost the capacity of the Africa CDC. As well, it called on the international community to encourage open trade corridors, especially for pharmaceuticals and other health supplies. In addition, the Union urged the G20 to immediately provide African countries with medical equipment, testing kits, protective gear to combat the COVID-19 pandemic and an effective economic stimulus package that includes relief and deferred payments. Besides, called for the waiver of all interest payments on bilateral and multilateral debt, and the possible extension of the waiver to the medium term, in order to provide immediate fiscal space and liquidity to governments. In parallel, urged the World Bank, International Monetary Fund, African Development Bank

2. Making Finance Work for Africa-Webinar Series " COVID 19-DFI's Response in Support of the African Financial Sector.
4. African Union " Impact of the CORONA Virus (COVID 19) on the African Economy. Pp26-27

and other regional institutions to use all the instruments available in their arsenal to help mitigate against the scourge and provide relief to vital sectors of African economies and communities.

African Ministers of Finance: The policy Statement co-signed by numerous African finance ministers announced that the continent needs US$100bn to defend healthcare systems and counter the economic shock caused by the disease.

African Development Bank: AfDB has raised an exceptional $3 billion in a three-year bond to help alleviate the economic and social impact the Covid-19 pandemic will have on livelihoods and Africa's economies. The Fight Covid-19 Social bond, with a three-year maturity, garnered interest from central banks and official institutions, bank treasuries, and asset managers including Socially Responsible Investors, with bids exceeding $4.6 billion.

African Export-Import Bank (Afreximbank): Has announced a US$3bn facility to help its member countries weather the economic and health impacts of Covid-19. As part of its new Pandemic Trade Impact Mitigation Facility (PATIMFA), Afreximbank will provide financial support to more than 50 nations through direct funding, lines of credit, guarantees, cross-currency swaps and other similar instruments.

Economic and Monetary Commission of Central African States (CEMAC): The finance ministers have taken measures. Regarding monetary policy and the financial system, it was decided to approve the use of the envelope of $152.345m made available to the Development Bank of Central African States (BDEAC) by the Central Bank of African States (BEAC), for the financing of public projects relating to the fight against the Covid-19 pandemic and strengthening national health systems. They also recommended to the States to negotiate collectively and to obtain the cancellation of all their external debts to give them budgetary margins allowing them to face at the same time the pandemic of the coronavirus and the revival of their savings on a healthy basis.

Central Bank of West African States (BCEAO): The first three (out of 8) measures taken by the BCEAO include: (i) Increase of countries Central Banks weekly allocation from $680million to $9bn to ensure continued financing of businesses in the Member States; (ii) Inclusion of a of list 1,700 private companies whose effects were not previously accepted in its portfolio. This action will allow banks to access additional resources of $2bn. (iii) Allocation of $50 million to the subsidy fund of the West African Development Bank (BOAD) to allow it to grant an interest rate subsidy and increase the amount of concessional loans it will grant to governments to finance expenditure investments and equipment in the fight against the pandemic.

Country Level Financial Interventions in Some African Countries[5]

Many African countries are opting for a combination of emergency fiscal and monetary policy actions with many central banks in the continent taking important actions like cutting interest rates and providing extraordinary liquidity assistance. Some of the policy measures are:

- Bank of Algeria decided to reduce the rate of compulsory reserve of 10 to 8% and to lower by 25 basis points (0.25%), the key rate of the Bank of Algeria to fix it at 3.25% and this from March 15, 2020.
- The government of Cote d'Ivoire announced $200m as a Covid19 response. The establishment of a Fund to boost the economic activities, support affected businesses in order to mitigate jobs cut.
- The Ethiopia government has announced that it has allocated $10 million to the fight against the pandemic and put forward proposals on how G20 countries can help African countries cope with the coronavirus pandemic by calling for a $150 billion aid package (Africa Global COVID-19 Emergency Financing Package), implementing debt reduction and restructuring plans, and provide support to the World Health Organization (WHO) and Africa Centers for Disease Control and Prevention (CDC) to strengthen public health delivery and emergency preparedness on the continent.
- The Equatorial Guinea government committed to contribute $10 million to the special emergency fund.
- The Central Bank of Eswatini announced to reduce the interest rate from 6.5% to 5.5%.
- Central Bank of The Gambia decided to reduce the Policy rate by 0.5 percentage point to 12 percent.
- The Ghanaian government announced $100 million to enhance Ghana's COVID-19

5. Ibid pp 27-29

preparedness and response plan. While the Bank of Ghana's MPC has decided to lower the Monetary Policy Rate by 150 basis points to 14.5 percent.

- Central Bank of Kenya to help alleviate the adverse effects, the following emergency measures will apply for borrowers whose loan repayments were up to date as at March 2, 2020. Banks will seek to provide relief to borrowers on their personal loans based on their individual circumstances arising from the pandemic.
- Bank of Namibia decided to cut the Repo rate by 100 basis points to 5.25 %.
- The government of Niger announced $1.63m to support the Covid19 response.Z
- The Central Bank of Nigeria (CBN) cut monetary policy rate on May 29 to 12.5%. It had introduced additional measures to combat COVID-19, including: (i) reducing interest rates on all applicable CBN interventions from 9 to 5 percent and introducing a one year moratorium on CBN intervention facilities; (ii) creating a N50 billion ($139 million) targeted credit facility; and (iii) liquidity injection of 3.6 trillion (2.4 percent of GDP) into the banking system, including N100 billion to support the health sector, N2 trillion to the manufacturing sector, and N1.5 trillion to the real sector to impacted industries. Regulatory forbearance was also introduced to restructure loans in impacted sectors.
- The Bank of Mauritius five responses to keep credit flowing to the economy by reduction of the Key Repo Rate (KRR) by 50 basis points to 2.85 per cent per annum. Also, a Special Relief Amount of Rs 5.0 Billion through commercial banks to meet cash flow and working capital requirements.
- Bank Al-Maghrib (Moroccan central bank) announced the following: the implementation of the integrated business support and financing program 20, the fluctuation of dirham from ± 2.5% to ± 5% and decided to reduce the interest rate by 25 percentage points base at 2% and continue to monitor all of these developments very closely. Exemption of Enterprises from paying contribution to the pension fund (CNSS) and Debt moratorium as part of measures to offset economic impact of Covid19; $1bn to upgrade health infrastructure and assist affected sectors; Hassan II Fund and regions to allocate $261m to address the impact.
- Central Bank of Rwanda announced the following: Lending facility of around $52 million to commercial banks; lowering reserve requirement ratio effective April 1 from 5% to 4% to allow banks more liquidity to support affected businesses; allowing commercial banks to restructure outstanding loans of borrowers facing temporary cash flow challenges arising from the pandemic.
- The Central Bank of Seychelles has announced the following: Foreign exchange reserve will only be used to procure three items – fuel, basic food commodities and medicines; cut the Monetary Policy Rate (MPR) to four per cent from five per cent; and a credit facility of approximately $36 million will be set up to assist commercial banks with emergency relief measures.
- Central Bank of Sierra Leone took the following actions: Lower the Monetary Policy Rate by 150 basis points from 16.5 percent to 15 percent; create a Le500 billion Special Credit Facility to Finance the Production, Procurement and Distribution of Essential Goods and Services. As well, provide foreign exchange resources to ensure the importation of essential commodities.
- South African Reserve Bank undertook the following: Cut interest rate from 6.25% to 5.25%. The government announced a plan $56.27m to support small businesses during the outbreak.
- Central Bank of Tunisia decided to: provide banks with the necessary liquidity to enable them to continue their normal operations; carry-over of credits (principal and interest) due during the period from the 1st March until the end of September 2020; the possibility of granting new funding to beneficiaries of the deferral of deadlines; and the calculation and requirements of the credit / deposit ratio will be more flexible.
- Bank of Uganda took the following actions: Intervene in the foreign exchange market to smoothen out excess volatility arising from the global financial markets; put in a place a mechanism to minimize the likelihood of

sound business going into insolvency due to lack of credit; provide exceptional liquidity assistance for a period of up to one year to financial institutions supervised by Bank of Uganda that may require it.

- Bank of Zambia decided the following: - to increase the limit on agents and corporate wallets: Individuals Tier 1 from 10000 to 20000 per day (K) and maximum 100,000. Individuals Tier 2 from 20,000 to 100,000 per day (k) and maximum 500,000. SMEs and farmers from 250,000 to 1,000,000 per day (K) and maximum 1,000,000; reduce interbank payment and settlement system (ZIPSS) processing fees.

Recommendations for the Way Forward

The following are key recommendation:

Country Level[6]

(i) Improved regulatory and supervisory environment and better coordination among various regulators in the financial sector during the time of the COVID-19.

(ii) Central banks need to lower the Central Bank Rate to enable commercial banks to access loans at lower rates at Central banks and ultimately lending to private sectors and personal loans at lower lending rates.

(iii) Further lowering the reserve requirement ratio required by Central Banks to boost the liquidity of the commercial banks so that they can have more cash to lend to the private sector.

(iv) Governments through Central Banks to release a Stimulus Fund (lending facility) to Commercial Banks to enable commercial banks to have sufficient funds for lending to the private sector.

(v) Governments to set aside stimulus package for the financial sector in order to bail out financial institutions that may face collapse due to the impact of COVID 19.

(vi) Governments to review fiscal policies impacting negatively on the competitiveness of the financial sector in light of COVID-19.

(vii) Design more incentives that will keep afloat and vibrate the financial sector in light of COVID-19.

(viii) Banks should encourage customers to use digital channels and mobile banking options where possible.

(ix) Businesses should re-forecast trading and cash flows. Revision of assumptions, forecasts, cash flows and downside scenarios will be required to help identify actual and potential financing needs.

Continental Level[7]

(x) Renegotiate external debt payment plans, and conditions to ensure smooth servicing of the debt, including suspension of interest rates payments during the time of the crisis, which are estimated at USD 44 billion for 2020, and possible extensions of repayment periods.

(xi) Negotiations of an ambitious plan for the cancellation of total African external debt ($US236 billion). It is worthwhile to note the call by Ethiopia's Prime Minister Abiy Ahmed for a $150 billion aid package as part of an Africa Global COVID-19 Emergency Financing Package.

(xii) Support countries in their efforts to improve domestic resources mobilization and fight against illicit financial flows.

Contributor's Profile:

Mr. Ibrahim Abdullahi Zeidy is the current Director of the COMESA Monetary Institute. He coordinated the setting up of the COMESA Monetary Institute. Previously, he worked as a Senior Monetary Economist at the COMESA Secretariat, in Lusaka, Zambia for 11 years and as a Director of Research in National Bank of Ethiopia which is the country's Central Bank for 6 years.In both institutions, he worked as a researcher and coordinated research activities. As a Director of COMESA Monetary Institute he also organised many knowledge sharing workshops on monetary and financial integration issues.

In his current role, Mr. Zeidy is responsible for the implementation of the COMESA Monetary Cooperation programme which is aimed at ultimately achieving the COMESA Monetary Union. Mr. Zeidy has M. Phil Degree in Monetary Economics from Glasgow University, with about 30 years of experience on macroeconomic policy and financial sector issues. He participated in many international and regional conference and workshops.

6. East African Business Council. "Impact of COVID 19 on EAC Financial Sector". Issued on 6th April 2020
7. African Union " Impact of the CORONA Virus (COVID 19) on the African Economy. PP31-32