

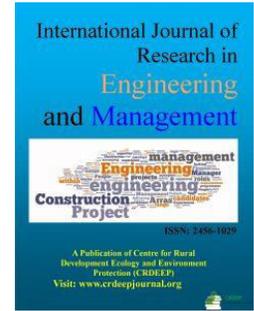
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Review Paper

The Impact of COVID-19 Outbreak on Ethiopian Economy: Which Sectors are More Vulnerable to the shock? A Preliminary Review

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ABSTRACT

The Covid-19 crisis is affecting the entire world economy and that of Ethiopia as well. COVID-19 virus has caused extraordinary restrictions not only on the movement of people but also on a range of economic activities of the country. Due to this, growing restrictions on the movement of people and lockdowns in the country some key sectors of the economy such as service sector, financial sector, and manufacturing sectors are already experiencing a slowdown as a result of the pandemic, particularly industries that involve physical interactions such as retail trade, hospitality, tourism and transportation services are getting hard hit by the pandemic. However, the magnitude of the economic impact will depend on how the outbreak evolves, which remains highly uncertain. Thus, the main objective of the paper is to examine how Coronavirus will affect the Ethiopian economy, and to identify the major economic sectors affected by the virus so called COVID-19. Given the misfortune of data generation in the time of lockdown, the paper was a review study, which used database available on websites of recognized institutions in the country and systematically studied literatures that are relevant to the study topic. The result of review indicates that, the effect of decline in economic growth would make massive disruption in supply and demand. So, as a measure the government should Mobilize available public resources to supplement what private citizens are doing to help the poor and vulnerable; working on some of the national macro-economic devices to sustain businesses; and discussing with international creditors about cancelling or rescheduling-repayments, of some of the country's debts.

Introduction

A new coronavirus disease (previously 2019-nCoV), now known as COVID-19, was first identified in Wuhan city in Hubei province of China in December 2019. Warwick M. and Roshen F. (2020) This highly contagious disease is currently spreading across the world, with a daily increase in the number of affected countries, confirmed cases and infection-related deaths. At the time this article is composed, the number of cases of COVID-19 around the world rose to 3,139,415 on April, 29, 2020, while the number of fatalities rose to 218,456 according to aggregated data from Johns Hopkins Whiting School of Engineering's Centers for Systems Science and Engineering. At least 947,504 people around the world have recovered from the novel coronavirus. (<https://www.arcgis.com/apps/opsdashboard>)² Corona virus a pandemic disease is now causing large-scale loss of life and severe human suffering globally. It is the largest public health crisis in living memory, which has also generated a major economic crisis, with a halt in production in affected countries, a collapse in consumption and confidence, and stock exchanges

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responding negatively to heightened uncertainties. OECD, (2020)³ IMF highlighted that compared to the 2008 global financial crisis, this time the decline in services appears much greater, reflecting the consequences of lockdowns and social distancing, especially in urban settings. (<https://blogs.imf.org/2020/03/09/limiting-the-economic-fallout-of-the-coronavirus>)⁴ In order to mitigate the effect of the crisis on the societies, governments of different countries are designing a wide range of policy responses. However, the impact of the pandemics and the containment measures implemented by the governments to slow down contagion will inevitably affect levels of economic activity. Ethiopia has identified the first victim of the virus on March 13, 2020. By the time this article was poised (on April 29, 2020); the total number of confirmed COVID-19 cases has reached 130 of which two have passed away, while 58 have recovered so far. Since reporting its first coronavirus case on March 13, Ethiopia, a major transport hub, has closed land borders and schools, freed thousands of prisoners to ease

overcrowding, sprayed main streets in the capital with disinfectant, and discouraged large gatherings. But Abiy said over the weekend that a harsher lockdown would be unrealistic given that there are "many citizens who don't have homes" and "even those who have homes have to make ends meet daily." (<https://www.aljazeera.com/news/2020/04/ethiopia-declares-state-emergency>)⁵ And also the Government of Ethiopia has ordered 30 days (2X15days) of prohibition on meetings, sporting events and school. However, because of the coronavirus pandemic is getting worse, the Ethiopian government has decided to declare a state of emergency under Article 93 of the constitution, on April 8, 2020. Prime Minister Abiy Ahmed said in a statement on April 8, "I call upon everybody to stand in line with government bodies and others that are trying to overcome this problem," he added, warning of "grave legal measures" against anyone who undermines the fight against the pandemic. It was not immediately clear how the state of emergency would affect day-to-day life in Ethiopia. Besides this, authorities have already taken a series of measures to stem the spread of the virus, including closing schools, banning public gatherings and requiring most employees to work from home. Maybe that's partly why there is not an immense amount of infections case in the country. But, this is not the only reason other reason may be there is no too much testing has been done, nonetheless the government has steadily increased that, accrediting other laboratories to do so. Whatever the case, compared to other countries in Africa, the case, quarantine and death were lower. Even though Ethiopia has achieved important gains in improving its fortification system, the COVID 19 outbreak is expected to challenge the nation's public health preparedness and response systems and negatively impact the economy.

Current status of COVID-19 Case in Ethiopia

Like other Africa country, covid-19 cases were increasing with increasing rate in Ethiopia. As of May 9, Ethiopia had recorded 210 cases; it means that it took a week for the next 100 cases to be registered. The index case was recorded on Mar 13; it took 25 days for the 50th case to register on April 7. The next eleven days produced a further 50 cases as the 100 mark was hit by April 18. In three weeks (21 days) on May 9, the 200th mark was reached and in seven days the 300 mark crossed. However, Ethiopia remains with one of the lowest infection rates in the East / Horn of Africa region. (<https://www.africanews.com/2020/05/19/ethiopia>).¹⁴ with respect to the current economic impact, given this comparatively limited spread of the virus to date, compared to other East Africa, the initial economic impacts are concentrated in a few sectors of the economy; namely the hospitality industry, Aviation, exporters (flowers/textiles), some manufacturers, and financial institutions. However, even with just the present subdivision of affected sectors, the economic impacts will be significant: for instant as the estimate made by Cepheus research team, growth will be 2.5 percentage points lower next year (falling to 5 percent) and net balance payments impacts close to \$1.5 billion. If a wider and more adverse domestic virus spread scenario is assumed, and should the global recovery be prolonged, macro impacts would be several orders of magnitude larger than is presented here. Cepheus research report, (2020).¹⁵ Therefore, the purpose of this article is to examine the impact of COVID-19 on Ethiopian Economy, identify the most vulnerable

economic sector and forward some measures to mitigate the economic effect of the pandemic.

Methodology

This is the review study, Owing to the trouble of data generation at this time of lockdown to conduct firsthand paper. Thus, the paper used database available on websites of recognized institutions in the country and systematically studied literatures that are relevant to the study topic. In addition, a review of scientific literature on other countries and international organizations are also conducted. The reviewed literature have examined on the basis of the objectives of the study.

How coronavirus outbreak affects Ethiopian Economy?

There are several ways the coronavirus pandemic affects the Ethiopian economy as of other countries, on both the supply and demand sides. On the supply side, production is affected because companies experience a reduction in the supply of labour, as workers are unwell or need to look after children or other dependents while schools are closed and movements of people are restricted. Measures to contain the disease; by lockdowns and quarantines lead to further and more severe drops in capacity utilization. Furthermore, supply chains are interrupted leading to shortages of parts and intermediate goods. Beside this, Ethiopia as an import dependent and supply constrained economy, one major channel through which the pandemic will be affecting the economy is through affecting imports. As of now, China, the manufacturing center of the world and the number one import sourcing country for Ethiopia, is trapped. Middle Eastern countries, European Union and North America have also imposed their own flight restrictions. This means that importers could no more travel to make orders, freight forwarders could not effectively facilitate trade as they would normally do. On the demand side, consumers experience loss of income, fear of contagion and heightened uncertainty, which in turn reduces spending and consumption. These effects are compounded because workers are laid off and firms are not able to pay salaries. Some sectors, such as tourism and transportation, are particularly affected, also contributing to reduced business and consumer confidence. Other way that COVID-19 affects the economy is through causing financial distress due to the country mobilize the available financial resource towards combating this pandemic; In countries like Ethiopia with a high exposure to foreign debt, be it private or public, these trends put massive pressure on their debt sustainability, by undermining future access to refinancing outstanding external debt obligations while driving up their value in foreign currency. According to the report of UNCTAD, (2020), developing countries also face a wall of repayments due on foreign-currency denominated public debt over this year and the next. As Per the report, the total amount of sovereign debt repayments due at the end of 2021 is \$2.7 trillion (\$1.62 trillion in 2020 and \$1.08 trillion in 2021). Of this, \$562 billion are due for repayment by governments in low- and middle-income countries, with the bulk of this amount due this year (\$415 billion in 2020 and \$147 billion in 2021). In "normal" times, much of this debt would be rolled over, adding to future debt burdens but providing vital breathing space to honor overall obligations. But with sudden stops to external refinancing possibilities, suspending sovereign debt repayments due over this and the next year, at the very least for low- and

middle income developing countries, is key to averting immediate and wide-spread debt crises. UNCTAD, (2020).⁶

Lastly, Inflation caused by simulated supply shortage due to deliberated act of wicked or immoral trader and increased demand of the community owing to the perception about the disease. As soon as the first case of COVID-19 was reported in Ethiopia, the price of some goods started to increase. It began with medical kits including sanitizers, disinfectants, antibiotics, face masks, and rubbing alcohol. After a short while, the price of consumable goods such as oil, rice, teff, and other crops showed an increase. Finally, following the rumors about plants that can help fight the virus, there was a price increase in traditional and spiritual herbs, fruits, vegetables, and crops. The sudden inflation had no justification because there was no shortage and no increase in production costs. The only variable to consider is both the rational and irrational panic of the people due to COVID-19. The price increase could be justifiable for medical equipment since there may be a shortage leading to inflation. However, even this doesn't justify the substantial increase and withholding of medical supplies. Moreover, the price increase on consumable goods and on the various plants considered to be traditional medicines is unjustifiable.

The government reported in mid-March that it took measures on over 7, 400 businesses that chose to exploit the situation by increasing prices and engage in various illegal activities. In addition the ministry has continued to take action this month as well after more than 7500 traders were found to be involved in several illegal activities. Totally "The government has taken several measures on 15,000 businesses after they were found involved in illegal business practices," said Wondmu Filate, spokesperson of the Ministry. Hundreds of them are now serving time in prison, according to reports. (<https://ethiopianmonitor.com/2020/04/05/covid-19-ethiopia-continues>)⁷.

These businesses were closed down following a recently formed task force had raided their shop suspected of price escalation, hoarding and other related activities. The prices of commodities, in some cases, were increased by up to 100 percent, as per their report. These commodities include cereals, pepper, lemon, onion, pharmaceutical products like sanitizer and medical mask. Officials also accused these businesses of engaging in adulteration, hoarding, tempering with the quality of their product as well as working with bogus vouchers, among others. Even though, the action taken by the officials looks like right; shutting down 7, 400 businesses by itself will result in economic down turn unless other measure is taken.

Major Economic Sectors Affected by Coronavirus outbreak

All businesses, regardless of size, and nature are facing serious challenges because of COVID-19, especially those in the aviation, tourism and hospitality industries, with a real threat of significant declines in revenue, insolvencies and job losses in specific sectors. However, in this article the following four economic sectors are briefly reviewed:

Service sector

One major side of the economy that will be hit hard by the pandemic and its resultant outcome is the service sector. This

constitutes airlines, hotels, restaurants, event management, and tourism among others. The coronavirus outbreak led the governments of many countries to impose restrictions on nonessential travel to countries affected by COVID-19, indefinitely suspending tourism travel, work visas and immigrant visas. According to projections by IATA, the global airline industry will see a passenger business loss amounting to between US\$63 billion and US\$113 billion due to the pandemic. (<https://airlines.iata.org/news/potential-for-revenue-losses>)⁸ Africa's largest Airline, *Ethiopian*, has got itself into serious austerity measures, including cost savings, staff hour optimization, diversification of earnings and possible reduction in work force. Generally speaking, the aviation industry is passing through unprecedented crisis caused by the COVID-19 and Ethiopian Airlines is not an exception. Ethiopian Airlines is losing significant part of its regular revenue. Ethiopian Airlines CEO, Tewelde Gebremariam, on April 7, 2020, stated that the airline had lost 550 million dollars in revenue due to the Coronavirus pandemic. The revenue loss has caused the national carrier to cut 90% of international flights. Meanwhile, the airline has currently, suspended commercial flights to 90 percent of its international destinations, which means that it is flying only to 10 percent of its international destinations i.e. flying to only 19 international destinations out of 110 destinations that the airline used to fly to pre-COVID 19 times. (<https://borkena.com/2020/04/07/ethiopian-airlines>)⁹

Hospitality industry, businesses have been affected during the pandemic mainly through the government announced 'stay-at-home policy' and 'social distancing' movement restriction imposed by the government. Hotels are seeing considerable cancellations, while tour and travel agents are also feeling the hit. Reduced public gatherings mean reduced rate of eating out, lesser events and lower tickets to facilities, such as parks and museums. Sports and other events industry was hit financially by a large number of cancellations- football league, runs, exhibitions, live music shows, conference, weddings, parties, corporate events, trade shows, and other. These all will add up to considerable reduction in service sector earnings, growth and jobs. According to Cepheus research report, (2020), This sector is facing an almost complete loss of customers, with lots of evidence throughout Addis Ababa of near-empty hotels, restaurants, bars, barbers/salons; of taxis barely finding riders; and of tourist sites experiencing major cancellations for the next 3-6 months. Occupancy rates are reportedly at just a few percent of capacity (consistent with Bole Airport entry figures of as low as 50-100 per day). Many hotels have started giving workers mandatory leave (some paid, some unpaid) on the expectation that this will be temporary, but if conditions persist for many months a large share of those staff may be laid off (potentially affecting tens of thousands of workers). Cepheus research report, (2020).¹⁵

Financial sector

The macroeconomic slowdown led to a rise in nonperforming loans or results in the highest exposure to credit risk in the banking sector. This, Nonperforming loans arose from loans issued to small and medium scale enterprises (SMEs), airlines, hotels, tour operators, restaurants, retail, construction and real estate businesses from their inability to pay the loan owing to

Slowdown in their tradable activities. This in turn results the bank in liquidity problem or cash short to meet withdrawal demand. As a measure to tackle this problem, according to Prime Minister Dr. Abiy Ahmed announcement, NBE allotted 15 billion Ethiopian birr to commercial banks as short term liquidity measure and to give relief for bank customer. However, based on the report of Cepheus research (2020), as banks already had outstanding short-term loans due to NBE from recent borrowings (which added up to Birr 14.5bn from emergency loans given out in January and February 2020), most of the fresh funds made available as part of the corona response may effectively be absorbed by those repayments, leaving banks and hence their customers with much fewer net resources. Cepheus research report, (2020).¹⁵ Beside this, the increasing cost of living and higher health care costs will also mean lower savings going to the banking sector. No doubt that this will add to the pain the sector has been feeling from the liquidity crunch, largely caused by unbelievably high loan to asset ratio.

Manufacturing Sector

Manufactures especially those dependent on foreign inputs from China (which supplies 26% of Ethiopia's total imports), are reporting delays in getting critical inputs, machinery, raw materials or accessories. Manufacturers are also having problems with travel interruptions affecting incoming/existing expatriate staff. Such supply chain interruptions are particularly severe for import-dependent manufacturers (a significant share in Ethiopia), and this could reduce or completely stop their operations for several quarters if the Chinese recovery is slow to pick up. In addition, at Hawassa Industrial Park, 14,000 workers have been given paid leave as manufacturers assess how to protect workers from infection and adjust to reduced orders. Still, a flower exporter said on 1 April they were still producing at 70 percent of their capacity and had retained all employees, although other floriculture companies were operating at less than a third of their capacity. (<https://www.ethiopia-insight.com/2020/04/01/ethiopias-covid-19-quandary>)¹⁰ In addition, The ILO conducted 20 semi-structured interviews with managers from garment and textile factories in Ethiopia from 1-3 April 2020 and the result from the survey indicate that, in line with global trends, most garment manufacturers in Ethiopia are experiencing a production downturn in Quarter 1, 2020 due to COVID-19 disruptions. The average reported capacity utilization rate decreased by 30% in Quarter 1 of 2020, relative to the same period in 2019, of the average capacity utilization rate for Quarter 1, 2020 was 52.5%, as compared to a utilization rate of 75% in the same quarter in 2019. (<https://www.ilo.org/empent/whatsnew>).¹³

Investment

The potential impact of COVID-19 on investment in Ethiopia like any other African country could be massive. These effects would arise from anticipated drops in Foreign Direct Investment (FDI) and portfolio investment, capital flight, a squeeze in the domestic financial system and fewer funding avenues from foreign sources. The United Nations Conference on Trade and Development (UNCTAD) has estimated that global FDI could decline by 5% to 15% in 2020 as a consequence of the Coronavirus outbreak.

(<https://unctad.org/en/pages/newsdetails.aspx?>)¹¹ Nonetheless, these projections have changed drastically more recently. UNCTAD's latest estimates are that global FDI flows could fall by between 30% to 40% because of the spread of COVID-19. This significant change from the earlier estimates are a result of earnings revisions confirming the rapid deterioration of global prospects, global demand shock's impact on sales and global supply chain disruptions. (<https://www.tralac.org/blog/article/14496-covid-19-impact>)¹² Therefore, it's no doubt that investment activities of our country will be affected. To sum up, assessing the scale of the economic damage is made more difficult because no one knows how long the restrictions on activities will last. Even if the scale and nature of the pandemic and associated economic downturn are difficult to quantify, there is little doubt that there is a real risk of a nasty downward of economy nationally as well as globally.

Conclusion

The severity and duration of the short term demand and supply impacts depends on the measures the governments take to contain the spread of the virus. If the pandemic shows signs of spreading rapidly as it doing in Europe and the USA, it's palpable that the economic impact in our country is so serious. The effect of decline in economic growth would make massive disruption in supply and demand. The supply shock aspects of COVID-19 i.e. factory closures, travel bans, border closings and the like will reduce exports of the Country. Supply shocks in one industry within a country, may become a supply shock in other industries when the thing being supplied is an input into the making of something else. The supply-side shock can quickly turn into a demand-side shock. In addition loss of income, fear of contagion (e.g. stay-at-home), and heightened uncertainty will make people spend less which consequently reduce overall demand. On the contrary to supply side shock, the demand shock of COVID-19 will result in fall of imports.

What measures might be taken to mitigate Socioeconomic impact COVID-19?

- The principal strategic to mitigate COVID-19 for countries like Ethiopia is, **Contain the spread of the virus:** Because of our country has relatively weak health care systems, proactive measures to prevent the spread of the virus will be critical. So, the government should step up campaigns to educate the public on best practices, including promoting good hygiene and social distancing, discouraging large public gatherings, and encouraging employers to protect the jobs of employees who require quarantine or treatment. Since, in this way we can minimize the economic effect of the Pandemic even if we can't avoid.
- Mobilizing available public resources to supplement what private citizens are doing to help the poor and vulnerable; working on some of the national macro-economic devices to sustain businesses.
- Renegotiate external or international debt payment plans and conditions: discussing with international creditors about cancelling or rescheduling-repayments, of some of the country's debts.
- Waive both principal and interest payments on local credits/loan: Commercial banks should allow customers and

enterprises to delay payments, and at the same time increase liquidity in the system by reducing the deposits commercial banks are required to hold with the national bank as a reserve requirement. National bank also needs to cut interest rates and require commercial banks to make corresponding decreases in interest rates on outstanding loans to consumers and businesses.

- Central banks and ministries of finance also need to recognize that devaluation of the currency may be necessary to keep them competitive in the face of falling global demand.
- Specially to tackle economic problems of more vulnerable groups; Private charity, civil society organizations, NGOs, mosque or church and other religious groups tends to rise sharply to help the society in situations like this. Due to, these organizations have capacities to reach the poorest, and are already well on the way to set up food distributions and other relief systems in both rural and urban area.
- Finally; the collective interest of the global community or international/national cooperation is best and impressive for fighting the pandemic if information on good practices on fighting the pandemic is shared widely. And also Promote transparent sharing of information to inform citizens and limit the spread of falsified information (“fake news”).

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