

The Economic Impact of COVID-19 in Ethiopia

Mebtu Melaku Alehegn

Lecturer, Department of Economics, Mekdela Amba University, Ethiopia

Email: mebtumelaku7@gmail.com

Abstract

As in most low and middle-income countries, the paucity of timely economic data in Ethiopia makes it difficult to understand the economic impacts of the COVID-19 pandemic. To address this some of the research works targeted at low and middle-income countries have switched to phone surveys and/or google search data. The objective of this study is to summarize the impact of Covid-19 on macroeconomic variables and key economic sectors and its predicted future impact. The method used to conduct the study was to draw conclusions from related research in the field. Literature shows that the pandemic is likely to have a substantial impact on macroeconomic variables like public finance, unemployment, and inflation. Similarly, the sectoral impact on the manufacturing and service sectors is high while the impact of the agricultural sector is low.

Key words: COVID-19, Economy, Impact, Ethiopia, Review

1. Introduction

The COVID-19 pandemic has spread to the Ethiopian economy through multiple international and domestic channels. In Ethiopia, COVID-19 may lead to a collapse in GDP by 11.2 percent in the 2020/2021 fiscal year. The economic impact of COVID-19 includes the increased price of basic foods, rising unemployment, slowdown in growth, and increase in poverty (World Bank, 2020). The pandemic can affect the economy in three mechanisms.

Firstly, through the direct effect related to the containment ways; secondly, it affects the economy through the indirect impact coming from the global economy through the balance of payment; thirdly through the shift in limited resource from other economic activities to the prevention of the pandemic (Alemayehu, 2020). (Lulit et al., 2020) defined the main channels through which the COVID-19 affects the economy as domestic transmission channels which include reduced labor market participation, lower productivity, and rising domestic trade costs. External channels include higher international trade costs, a drop in export demand, lower import supply, a reduction in foreign direct investment (FDI), reduction in remittances, and lower import price of oil.

Furthermore there is uncertainty on the duration of the pandemic in Ethiopia and worldwide. This implies that recovery may not come as quickly as would be anticipated putting the Ethiopian economy closer to the severe scenario rather than the mild case. Government support is much needed not only by increasing its spending under the COVID-19 response plan, but by creating an enabling environment that would allow businesses to thrive and social safety nets to share the burden(Lulit et al., 2020).

The objective of this study is to summarize the impact of Covid-19 on macroeconomic variables and key economic sectors and its predicted future impact. Although there are limited studies in this field, they are limited to one or two sectors. That is why it is important to explore all sectors. The method used to conduct the study was to draw conclusions from related research in the field.

2. Literature Review

2.1. Macro-Economic Effect

Fiscal Deficit

The COVID-19 pandemic is likely to have a substantial effect on public finance. Fiscal deficit is likely to widen in absolute terms and in percentage of GDP. Government revenue would decline. At the same time, expenditure would increase to deliver emergency health care services and food assistance, and increase containment efforts, all of which will widen fiscal deficit (Lulit et al., 2020).

Unemployment

Employment is likely to be hit hard by the Covid-19 pandemic. The employment level is between 8.6 percent and 16.5 percent lower than the baseline. Job losses would be severe in all the export-oriented sectors (Lulit et al., 2020).

Most Ethiopians reside in rural areas and the majority of the workforce is engaged in agriculture, which is largely based on family labor. Considering this, the employment impacts of the pandemic are likely to remain small in rural Ethiopia. In urban areas, the concern about negative employment effects is more real (Hirvonen, 2020).

Job losses were highest in hospitality, construction, and wholesale/retail sectors and were most likely to be reported by casual workers, private sector employees, and self-employed people (Wieser et al. 2020a). However, the overall decline in employment rates seems to have been short-lived. Already in May, the World Bank surveys document considerable improvements in employment rates, though they remained slightly below pre-pandemic levels (Wieser et al. 2020b).

Inflation

In recent years, Ethiopia has been battling with double-digit inflation rates. Just before the pandemic began, annual food inflation was 21 percent (New Business Ethiopia 2020). The latest inflation estimates from July 2020 puts year-on-year food inflation at 24 percent,

suggesting that food prices have risen somewhat faster during the pandemic than before (Addis Fortune 2020).

2.2. Sectoral Effect

Although Covid-19 pandemic is expected to have damaging effects on the Ethiopian key economic sectors, its adverse effect is different based on the type of the sector. The crisis with higher contraction of manufacturing activities followed by agriculture (Lulit et al., 2020).

The transmission mechanisms for sectorial impact are the supply side and the demand side. On the supply side the pandemic affects the sectors via the domestic and imported imputes and factors. On the demand side the domestic and foreign markets are the mechanisms of transmission.

The forward and backward linkages of production, which are interrelated to each other, can explain the sectoral impact. On the backward linkage the fall in demand for intermediate imputes has an impact on the producers of those imputes. In case forward linkages the decline in the supply of outputs which can be used as impute by the others affects the production of producers who use this intermediate imputes.

Consumption linkage is the other transmission mechanism of the sectoral effect, in which a reduced factor income leads to a fall in consumption demand.

Agriculture

Although its share is declining agriculture is the larger contributor of Ethiopian economy. Its contribution to GDP was 33 percent in 2018/19 fiscal year. Due to the adverse impact of COVID-19 pandemic the agricultural sector will fall by 1.6 Percent in 2020 (Alemayehu, 2020). The effect on agriculture is much larger when we introduce a disruption in import supply of fertilizer and other chemicals and a reduction in export demand for Ethiopian coffee(Lulit et al., 2020).

On the production stage shortage of labor and delay in distribution of agricultural imputes are the adverse impacts of the pandemic on the sector. On the other hand the agro-processing industries are facing both positive and negative impacts. The diary and fish products have faced a decline in demand due to the pandemic. On the other hand fresh meat exports are positively affected by the pandemic due to increased meat demand in the Middle East countries (Fersido et al., 2020).

Manufacturing

Theoretically a growth in manufacturing sector is taken as a key indicator of economic growth. According to (Alebel and Tasew, 2020); the manufacturing sector is highly affected by the pandemic since most Ethiopian strategic countries like South Korea and China cut production. Since 75% - 80% of the raw materials for manufacturing industries are imported abroad it is not surprising to recognize these foreign economy impact on domestic economy.

(Lulit et al., 2020) also indicated that export intensive industries such as textile and leather manufacturing, export-oriented agriculture, transportation services, accommodation and food services are likely to be hit the hardest.

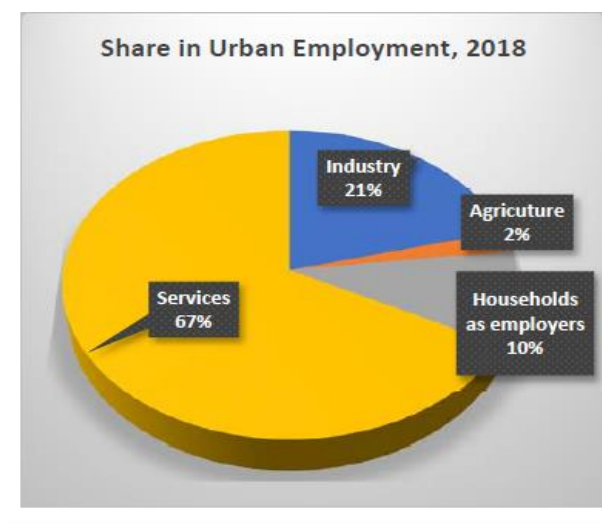
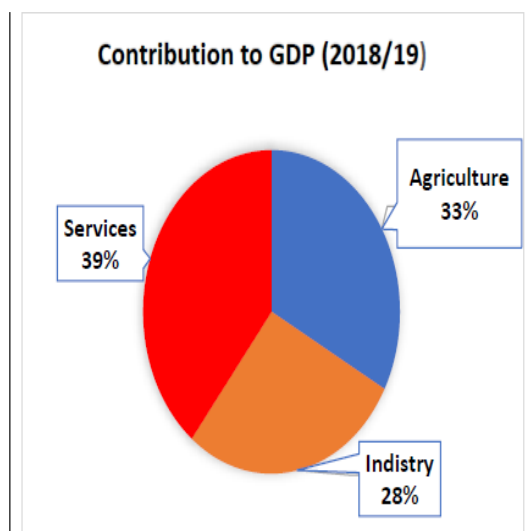
According to a forecast by (Alemayehu, 2020) the manufacturing sector is to contract by 17% in 2020/19 fiscal year. More than 329,000 laborers are working in large and medium scale manufacturing sector as of 2017 (CSA, 2018). Thus if the manufacturing sector reduce workers it will have an adverse long run economic impact. The construction sector also suffers from the investment reduction.

Service

Ethiopian urban economy is largely dependent on the service sector, contributing 39 percent of the GDP and 69 percent of urban employment in the year 2018/19. Thus the impact of COVID-19 on the service sector means a loss in GDP performance and urban employment.

Fig 1: Sectoral share of GDP,

Fig 2: Sectoral share of urban employment



Source: (Alemayehu, 2020)

Source: (Alemayehu, 2020)

(Alemayehu, 2020) predicted that the service sector will decline by 15.6 percent in 2018/19 fiscal year. Hotels, transport tourism sector have contracted. A ten percent increase in confirmed weekly cases in Ethiopia is found to lead to a 1.1 and 6.8 percent reduction in demand for hotels in the long and short run, respectively. This reduction becomes 8.5 percent for restaurants in the short run. Similarly, the demand shock effect of a 10 percent weekly increase in the confirmed cases on reducing the demand for air travel is found to be about 14.2 percent in the long run. The effect of a 10 percent increase in a weekly confirmed case is also found to reduce demand in the tourism sector by about 15 to 17 percent in the short run.

On the positive side ICT services have expanded significantly the social distancing measures taken and the related condition of working at home has led to a surge in demand for ITC services in Ethiopia. A a ten percent increase in confirmed weekly cases leads to about 5.6 percent increase in demand for Zoom services both in the short and in the long run.

This effect became 1.1 and 2.5 percent increase in demand for Skype services in the short and long run, respectively. Zoom seems twice popular compared to skype in Ethiopia (Alemayehu, 2020)

3. Conclusion

Given the multifaceted nature of COVID-19 induced challenges facing the country, a recovery and response plan is urgently needed to achieve dual objectives of mitigating further economic contraction and of stimulating the economy. The recovery and response plan shall target and safeguard sectors essential for food security, job creation and sustainable and inclusive growth. The plan needs to take into account the differentiated impacts of the pandemic on different activities and households.

Shielding the most vulnerable groups from the pandemic is crucial to limit the populations that would fall (or back) into poverty. It is necessary to expand the existing social assistance programs such as rural and urban safety nets to protect the most vulnerable segments of the population.

Reference

Addis Fortune. 2020. "Cost of vegetables, cereals increase as inflation creeps higher." Addis Fortune.

Central Statistical Agency (2018) (CSA, 2018). The 2015/16 Ethiopian Household Consumption Expenditure (HCE) Survey. Statistical Report. Addis Ababa. Available from: www.csa.gov.et/ehioinfo-internal?download=854:hce-2016-statistical-report-country.

Fersido SF, Mitiku F, Lemessa F, Tolermariam T, Belew D, Berecha G, Garedew W, Bekele Y, Geda F, Enyew Y, (2020). COVID-19 probable impacts on Ethiopian agriculture

and potential mitigation and adaptation measures: No food no health no life. Gimma university Ethiopia.

Geda, A. (2020, April 01). The Macroeconomic and Social Impact of COVID-19 in Ethiopia and Suggested Directions for Policy Response. Retrieved November 24, 2020.

Hirvonen K., (2020). Economic impacts of COVID-19 pandemic in Ethiopia a review of phone survey evidence. Strategy Support Program; Working Paper 151; the federal democratic republic of Ethiopia Policy studies institute.

Lulit Mitik Beyene, Tadele Ferede and Getachew Diriba, (2020). The economywide impact of the COVID-19 in Ethiopia: Policy and Recovery options. Policy Working Paper 03/2020 July; Ethiopian Economics Association.

New Business Ethiopia. 2020. Ethiopia food inflation rate reaches 21 percent.

Weldessilasie, A., & Weldehanna, T. The Economic Implications of COVID - 19 in Ethiopia and Policy Measures. Online retrieved Retrieved November 24, 2020.

Wieser, C., A. A. Ambel, T. Bundervoet, and A. H. Tsegay. 2020a. Monitoring COVID-19 Impacts on Households in Ethiopia: Results from a High-Frequency Phone Survey of Households. Report #1. Washington D.C.: The World Bank.

Copyright © 2021 Mebtu Melaku Alehegn, AJRSP. This is an open-access article distributed under the terms of the Creative Commons Attribution License (CC BY NC).