Socio-economic implications of Covid-19 in Cameroon and proposals to reduce the economic fallout

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SYNOPSIS

The economic impact of COVID-19 will be broad-based, causing wages to fall due to social distancing and quarantine measures on the service sector. While communications and ICT-related sectors will be less affected, transport, entertainment and leisure sectors will be adversely affected, together with exports and domestic demand. Policymakers should utilise the $164 billion availed by international institutions to support SMEs and wages in the informal sector, whilst the 90 billion should be used in other to invest in the physical and digital infrastructure to support educational outcomes and employment over the medium term. Such actionable policies should accompany broader quarantine and social distancing measures.

INTRODUCTION

The coronavirus pandemic (COVID-19) continues to take a toll on most economies on the African continent. There are 69,707 cases, that have been reported, with 2,399 deaths and 24,141 recoveries (Africanews, 2020). The number of reported cases in Cameroon appears to be on an uptrend. Statistics show that the country has recorded 2,800 cases, 136 deaths and 1,543 recoveries (Corona Tracker, 2020). As the country struggles to contain the virus, the economic impact, nonetheless, grows. With all 10 regions adversely affected by the virus, it becomes necessary to access the impact of the virus on the economy of the country. Therefore, this paper seeks to analyse the socioeconomic impact of the virus and posits actionable recommendations that will minimise the impact on the poor and vulnerable group.

DOMESTIC AND FOREIGN DEMAND WILL FALL BECAUSE OF COVID-19

Covid-19 has a profound socio-economic impact on the Cameroonian economy. Firstly, in the short term there is likely to be a sharp drop in domestic consumer demand in most developing countries including Cameroon. Demand for food, medical assistance and other essential items may increase, but this would be more than offset by lower demand for non-essential goods such as apparel and various services. This will be accompanied by falling demand for Cameroonian products abroad.
IMPACT ON REAL ECONOMY: CONSUMER DEMAND AND INCOME

Restaurants, bars, schools, hotels, and transport companies will be affected. Businesses will try to save cost and therefore hire fewer people. Cameroonians will suffer income losses and may tend to consume less expensive products, especially imported ones. Domestic demand is poised to fall as consumers switch to less expensive products such as rice and domestically produced agricultural products. The impact on overall economic growth is contingent on lower incomes as businesses require less labour as their operating cost mount. This is likely to occur due to a lockdown, with service sectors such as restaurants, transport, and leisure negatively affected. Lower incomes will dent domestic consumption and the most disadvantaged in society will see their incomes fall. The secondary sector that is the manufacturing sector also contributes to the GDP, but the greatest contribution comes from the service sector (business services, hotel and leisure, transport, and ICT related services). These will be the most hit sectors except for communication services, ICT, and business services that can move online in some cases.

EXPORTS WILL FALL DUE TO LOWER INDUSTRIAL AND MANUFACTURING ACTIVITIES ACROSS MOST DEVELOPED AND EMERGING MARKET ECONOMIES

The COVID-19 will have adverse implications for Cameroon’s exports. As a commodity exporter, exports of raw materials comprising 69.2% of exports will likely fall, following the trend of falling industrial activity in most advanced and developing economies (Bluedorn, Gopinath and Sandri, 2020). Meanwhile, a recession in global trade and regionalization of supply chains will equally see a dent in intermediate products such as refined sugar, processed petroleum, spinning cotton, and processed tobacco.

The retrenchment in exports will see the economy grow at a slower pace, while a tepid recovery in Chinese industrial activity will likely compensate, somewhat, for the synchronized slowdown in global economic activity. This rationale for this analysis hinges on the dire economic impacts of the virus on our largest trading partners who import the majority of our produce that is Italy (14%), China (12%), France (11%) and the Netherland and Spain with 9.58% and 9% respectively (World Integrated trade solution, April 2020).

A WEAKER CURRENCY IS BAD FOR EXPORTS BUT WORSE FOR CONSUMERS

Due to the noticeable impacts of the virus on the domestic economy, the currency depreciated between January and March 2020 (Fig. 1), which caused prices in the domestic economy to rise. To that regard, data from the main urban centers such as Yaounde and Douala increased by 0.2% after falling in January of -0.2%. In Yaounde, food products and hotels at 4.8% and 3.5% drove the increase in prices from 4.9% and 3.6% in January 2020 (INS, March
Meanwhile, import prices rose 2.8% in Douala, suggesting an increase in the price of imported retail products across the country and a noticeable effect of a weaker currency (INS, 2020).

Figure 1: A weaker currency is causing domestic prices to rise while imports are increasingly expensive

This suggests a faster pace of transmissions from the currency to commodity prices such as cereal, butter, orange juice, and fruits. A broad-based increase in food prices will cause poverty levels to rise, whilst middle-income consumers could reallocate demand away from expensive products towards cheaper products manufactured domestically.

A weaker currency is unlikely to make exports more competitive as global economic activity has waned and domestic demand in most advanced and emerging economies is impeded by countrywide lockdowns. Meanwhile, a majority of our debt, at 38% of GDP, is denominated in foreign currencies such as the Dollar and Euro. When the currency depreciates, public debt levels increase by the same margin, causing the fiscal deficit to increase. Furthermore, the current account and fiscal deficit will worsen on impact by about 0.2% - 0.3% on average in 2020. For example, SONARA’s debt and Cameroon’s IMF debt under the extended credit facility are worth 4.0% of GDP; a weaker currency will raise interest payments on the debt burden. As such, policymakers should take targeted fiscal measures to broaden the tax base. The social impacts include temporary separation from health care workers from their families, with second-round effects for educational outcomes due to the burden of childcare on a single parent. Education and poverty levels will rise in the near term in the absence of targeted measures.

According to the institute for national statistics, the poverty rates currently stands at 37.5%, in Cameroon, and could rise from current levels depending on the extent of quarantine measures. Given over 90% of the workforce is employed in the informal sector across the transportation, tourism, and entertainment, restaurant, and commerce (World Bank, 2012), lengthy, lengthy, and extreme quarantine measures will cause a spike in unemployment within the informal sector. The resulting fall in incomes will cause causing financial strain for households unable to afford rental payments and other
basic goods and services. A quarantine-driven increase in poverty levels will be difficult to reverse due to a lack of working social infrastructure designed to target low-income individuals in any fiscal response.

Similarly, school closures will have a lasting impact on the workforce and lessen educational achievement for the most disadvantaged in society. As such, recent calls to lower internet and communication cost from mobile phone operators by the regulator will go a long way in supporting educational outcomes, whilst improving digital skills and literacy. Furthermore, the demographic dividend suggests the potential workforce will rise in the coming decade, and so paired with needed infrastructure and skills for innovation and technology, the fourth industrial revolution represents a massive opportunity for Cameroon. Nevertheless, power outages and access to communication materials could exacerbate regional imbalances in obtaining vital and critical digital skills. The government’s fiscal response should prioritize access to educational material for all individuals, or risk a skills-divide that will exacerbate socio-economic inequality in the long-run.

WHAT CAN THE GOVERNMENT DO TO REDUCE THE ECONOMIC FALLOUT FROM THE VIRUS

The lockdown is unlikely to be effective unless the government provides incentives for employees to implement social distancing. For example, policymakers should take advantage of the relief fund provided by international institutions to lessen the economic fallout from the virus. The IMF and World Bank have availed $14 billion and $150 billion, respectively, in other to reduce the adverse impacts of the virus on the economy (BEAC, 2020).

Furthermore, under the most recent review of Cameroon’s extended credit facility, the government can borrow up to 300 billion to fund infrastructure (IMF, 2020). This can form the basis for reconstruction in the crisis-hit North West and southwest regions of the country, whilst creating employment to support domestic demand. This will also generate and create jobs and reduce poverty in the process and support a faster economic recovery.

Furthermore, the central bank (BEAC) has cut interest rates by 25 bps to 3.25 bps and injected 240 billion in capital markets to ensure that commercial banks can continue to provide vital services such as credit, deposit, and insurance. While this will not be trickled down to SME’s with no access to banking services, it will lessen the fallout
for larger firms that employ a great number of people.

In order to increase the effectiveness of the lockdown, policymakers should ensure targeted fiscal transfers are provided to informal sector workers belonging to an institution. For example, bike riders and taxi drivers should be given a stipend if a countrywide lockdown persists for more than 2 weeks, while the government can provide necessities such as food and water to individuals via other private networks such as meetings, etc to lessen the socio-economic impacts on the most disadvantaged in society. Such a low-cost approach will improve the effectiveness of social distancing and quarantine measures, and reduce the economic fallout of the virus on citizens.

Finally, policymakers should follow the trend seen in advanced economies such as the United States, Britain, and China by providing grants and loans for registered small and medium-sized enterprises and support operating costs. Not only will such an approach to support employment in the formal sector, but it will also prevent an increase in the number of defaults, which will exacerbate the problem of underemployment.

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