Sub-Saharan Africa: Fragmented recovery likely with risks to downside as vaccine roll-out remains slow

CHRIS J FINDLAY
ECONOMIC RESEARCH OFFICE | LONDON
T: +44-(0)20-7577-1712
E: christopher.findlay@uk.mufg.jp

MUFG Bank, Ltd.
A member of MUFG, a global financial group

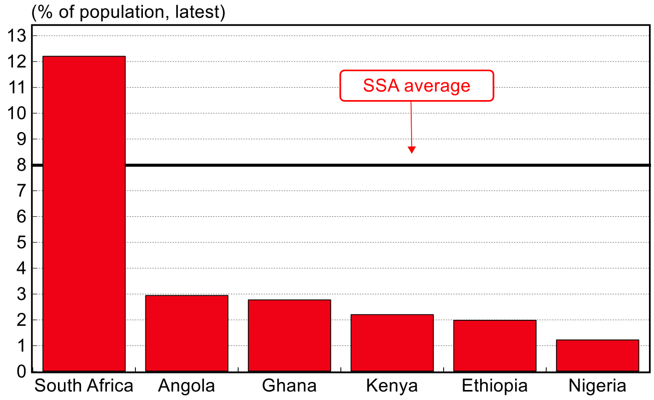
27 AUGUST 2021

Low Vaccination Coverage Weighs on Near-term Outlook

Sub-Saharan Africa (SSA) is likely to remain vulnerable to further waves of COVID-19. The region will face elevated downside risks over 2H 2021 and further ahead while many of the most vulnerable cohorts remain unvaccinated. So far, vaccination progress has been painfully slow. SSA has struggled to get access to predominantly western-made vaccines, and as a result, the region's vaccination roll-out now lags behind all the other regions of the world. Fewer than 20 million people (just 2% of SSA's total population) have been vaccinated with at least one dose of COVID-19 vaccine to date.

Share of Population Who Have Received At Least One COVID-19 Dose in Largest Economies

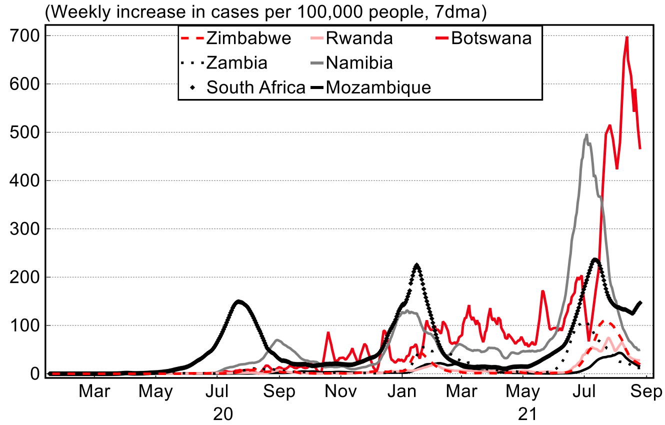
(% of population, latest)



Source: Our World in Data, Macrobond, MUFG Bank Economic Research Office

Biggest Recent COVID-19 Outbreaks in SSA

(Weekly increase in cases per 100,000 people, 7dma)



Source: WHO, Macrobond, MUFG Bank Economic Research Office

Key Metric to Watch is Vaccine *Deliveries* to SSA, rather than Vaccine Pledges

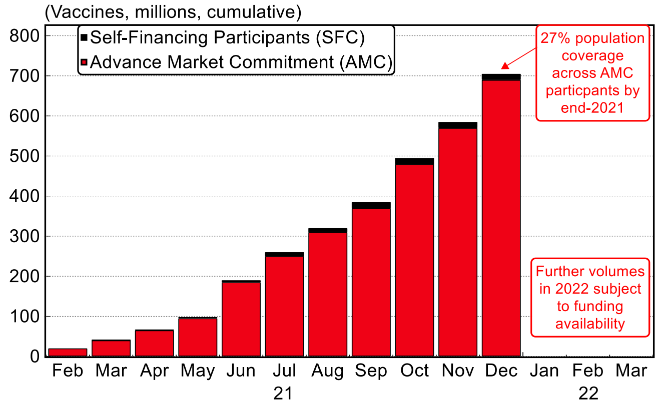
Recent vaccination figures suggest that vaccination programmes are some way off targets set earlier in Q1 2021[1]. Indeed, the IMF notes that "the vaccine rollout in sub-Saharan Africa remains the slowest in the world. Less than 1 adult in every hundred is fully vaccinated, compared to an average of over 30 in more advanced economies". The expectation is that

[1] Previously we had noted that the African Union (AU) had been taking a collective approach to vaccine procurement, managing to secure 300 million doses of Russia's Sputnik V vaccine and 670 million doses of other vaccines, with an extra 600 million doses from the WHO-backed COVAX scheme.

Africa will achieve 30% of its vaccine coverage through COVAX and 30% through the African Vaccine Acquisition Task Team (AVATT). According to the UN, "820 million vaccine doses are needed to reach the target of fully vaccinating 30 per cent of Africa's population by the end of this year" (based on a two-dose schedule).

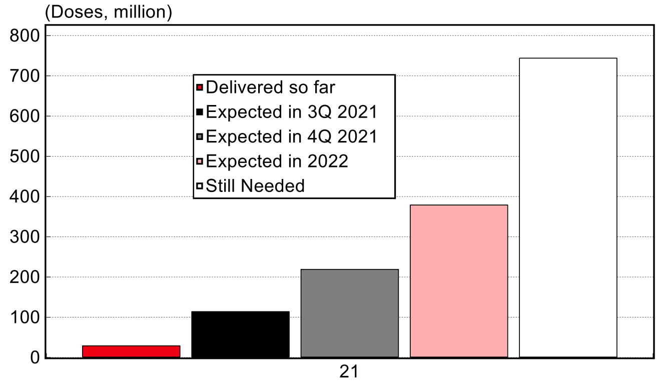
However, while pledges for the COVAX scheme are now around half a billion doses, actual *deliveries* of these doses has been very limited so far. Much of the global supply of vaccines has bought up by developed countries. As a result, most vaccines will not arrive in SSA until 2022. Meanwhile, the IMF notes that USD 2 billion funding is still needed for AVATT, with a further USD 2.5 billion required to ensure healthcare systems can deliver shots effectively.

Vaccine Plans in Q1 2021: African Union COVAX Scheme



Note:From June onwards, just over 70% of monthly totals are secured
Source: CEPI, Gavi, WHO, Macrobond, MUFG Bank Economic Research Office

Latest IMF Projections: Vaccine Doses



Note: Above chart shows doses needed to vaccinate 60% of population with two doses
Source: AirFinity and IMF, Macrobond, MUFG Bank Economic Research Office

So far, only around 20 million doses have been administered, while in June this year just 245,000 doses arrived *for the whole of Africa*. Earlier projections had hoped that by July the COVAX scheme by itself would have given access to 260 million vaccine doses. While recent vaccine arrivals are more encouraging (4 million a week by end of July), clearly further work is required. The roll-out of vaccines is yet to start at all in 11 of the 45 SSA countries. In countries where programmes have begun, the progress made so far has been very uneven, with three countries (South Africa, Nigeria and Ethiopia) accounting for nearly 50% of all jabs administered so far across the region.

The IMF expects a significant step forward with 115 million arriving in 3Q 2021 and 220 million in 4Q 2021, but this would still be some way off the 600 million doses needed to inoculate 20% of SSA's population by the end of 2021. Moreover, 745 million doses are still needed to be able to fully inoculate 60% of the total population of SSA. Even this target, still a long way off, may not be enough. SSA remains a long way behind and any increase in demand from the US and Europe for vaccines this autumn may make it harder for the region to source any extra vaccine deliveries. With few SSA countries having the needed fiscal space to finance unilateral vaccine efforts, international assistance will remain crucial – but we fear that actual vaccine deliveries to the SSA region will continue to disappoint.

Fragmented Recovery Prospects, Potential for Delay in Some Cases

With the spread of more transmissible variants, the risk of further waves of COVID-19 remains high. South Africa has just faced a strong surge of COVID-19 cases while caseloads have also increased in Zambia and Zimbabwe. Governments have responded by tightening some measures. The lockdown stringency index in the largest 5 economies averaged 57.2 in July, from 52.2 in June. However, despite low vaccination coverage, we think that governments are likely to remain reluctant to increase lockdown measures to the levels seen previously given the impact so far on real GDP growth and public finances (which in most cases have deteriorated across the region).

The IMF currently forecasts real GDP growth of 3.4% YoY in SSA in 2021after a dip of 1.9% in 2020. The main drivers of real GDP growth are expected to be stronger external demand in those economies that export commodities (after some of the sharpest falls in real GDP last year due to the oil demand crash), together with private consumption growth. This should help to shield many SSA economies from any shocks such as further waves of COVID-19.

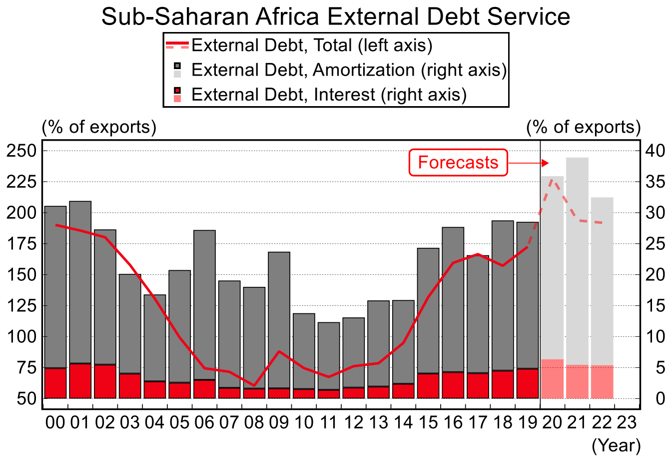
Some economies will be more vulnerable than others to further COVID waves. Domestic demand-led economies will be more resilient to any further waves of COVID-19 as households and businesses have now had more than a year to adapt to the pandemic. But countries with the largest tourism sectors, such as Mauritius and Seychelles, could be most exposed to future waves of COVID-19, especially if international travel restrictions remain in place.

External Pressures likely to rise, Some More Vulnerable than Others

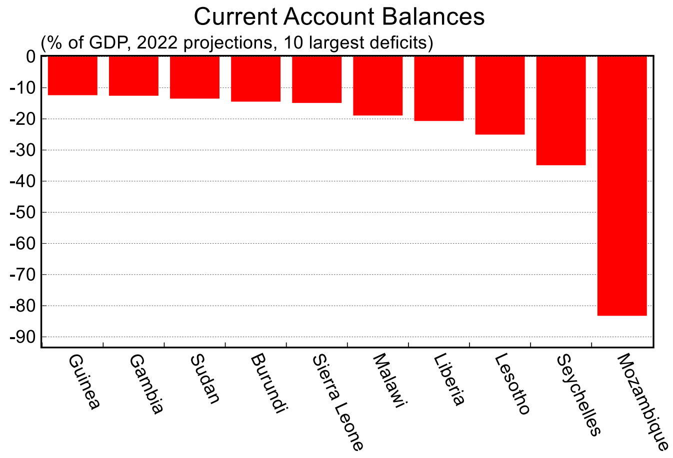
On a more positive note for the region, we note the IMF has recently approved the allocation of Special Drawing Rights (SDRs) of close to USD650 billion (~SDR 456 billion) to boost global liquidity, with USD 275 billion set to go to lower income countries, including SSA countries. As a result, coverage for external financing needs is likely to improve across SSA. For example, Zambia could see its external financing needs to FX reserve ratio fall to 122% from 252% after SDRs are reallocated.

This said, there could also be headwinds on the external side for some economies in SSA further ahead as a more hawkish US Fed could lead to heightened external pressures. On the whole, SSA external debt service will remain elevated by historical accounts in both 2021 and 2022, despite a forecasted reduction from 2020. At the same time, the average current account deficit (CAD) across SSA is forecast to remain elevated at 8.4% in 2021 of GDP and 8.0% in 2022, versus a five-year average of 6.7% of GDP (2015 to 2019) prior to the onset of the COVID-19 pandemic. Despite the overall trend of improvement in current account deficits in 2022 (29 out of 45 will see improvement), some countries will nonetheless remain vulnerable to exchange rate pressures and less benign external financing conditions if they arise.

The amount of official reserves central banks have will be important to managing these risks. IMF programs, greater SDR allocation and membership of regional currency unions should help, especially for those with a more favourable external debt composition with low commercial debt. But, there could be significant risks next year for countries that have a weak track record for prudent fiscal and monetary policies, who do not benefit from greater external demand to developed markets or have a high level of FX-denominated government debt.



Source: IMF, Macrobond, MUFG Bank Economic Research Office



Source: IMF, Macrobond, MUFG Bank Economic Research Office

Indeed, even for countries that has sovereign credit ratings, CDS spreads have not fallen back to their pre-pandemic levels, and in some cases remain some 100 basis points higher than last year. For example in Kenya, the current 5-year CDS stands at 405.5 basis points, from 297.5 in February 2020. According to the IMF, the debt risk status for Poverty Reduction and Growth Trust (PRGT) eligible low income developing countries highlights that in 2020, 12 countries were in high risk category with a further five in distress in SSA, while a further 16 were at moderate risk. As noted, Mauritius and Seychelles are tourism-dependent economies that are likely to continue facing pressures this year given international travel restrictions, but vulnerabilities in other countries in SSA could certainly emerge next year.