

The Coronavirus Pandemic and Fiscal Sustainability in Nigeria

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Abstract

The study will examine the impact of the coronavirus pandemic on Nigeria's fiscal sector. This was undertaken on the premise that the sector is the lifeline of a developmental state like Nigeria which needs to deliver dividends to her citizens after two decades of uninterrupted democratic governance. The specific objectives of the study are to (i) examine the effect of the coronavirus pandemic on government revenue, expenditure and debt management in Nigeria. (ii) assess the government's response in managing the COVID-19 effect on the fiscal sector in Nigeria and (iii) set the agenda for the post COVID-19 strategy for recovery and fiscal sustainability in Nigeria. The study adopted an exploratory data analysis approach, where it obtained secondary data for the period Q1 2016- Q2 2020 from publications of the National Bureau of Statistics, Central Bank of Nigeria, and National Council for Disease Control and the World Health Organization, Descriptive Statistical tools was used to analyze the data. The findings of the study revealed expected declines in total gross revenue, total federal expenditure, external reserves and GDP growth rates, but unexpected declines in Deficit financing and foreign debt servicing. There was increase in total public debt. So, the study makes the following recommendations; The growth in non-oil revenue must be sustained. Government must have to change its expenditure framework to ensure that capital expenditure is more than revenue expenditure. External reserve should be shored up immediately to a level that can sustain the economy for a reasonable period of time. The decline in deficit financing should be sustained by engaging in realistic budgeting. Foreign Debts should be used mostly for capital expenditure that will finance itself in the long run. Debt servicing strategies should be properly streamlined not to become a burden on the economy. Total public debts should not be allowed to grow beyond sustainable threshold.

Background to the Study

The World Health Organization (WHO) declared the coronavirus disease (COVID-19) which manifested in the Wuhan area of Hubei Province in China a global pandemic on 30 January 2020, it is an indication that no country in the world is immune to the devastating health and socio-economic effect it creates. As at 19th October, 2020, the number of confirmed cases is 39,801,612 and 1,110,908 deaths have been recorded in 235 countries, areas or territories globally (WHO, 2020). In Nigeria, the confirmed cases are 61,440 and the number of deaths is 1,125 for the same period (NCDC, 2020). The intensity of the pandemic has generated restrictions not only on the movement of people, but also on a range of economic activities resulting in the declaration of national emergencies in 235 countries including Nigeria. The pandemic brought on Nigeria a hard punch which has jeopardized in no small measure the fiscal sustainability of the country. It involves a combination of international oil price collapse which has implications fiscal sustainability and the debilitating consequences of a viral global health pandemic, The potential outcomes of the different scenarios of the pace of recovery from the pandemic leaves the world and Nigeria in a pool of uncertainty.

The COVID-19-induced economic crisis magnified by the dramatic collapse of global oil prices shrinks the fiscal space for Nigeria. Meanwhile, the exigencies of the health and economic calamities require the government to ramp up spending to stave-off a possible depression notwithstanding the dwindling revenues. This asymmetry between revenue prospects and expenditure demands portends rising fiscal deficits and soaring debt. This is the reason this study is examining the coronavirus pandemic and economic sustainability in Nigeria. This is undertaken on the premise that the sector is the lifeline of a developmental state like Nigeria which needs to deliver democratic dividends to her citizens after two decades of un-interrupted democratic governance.

The specific objectives of the study are to (i) examine the effect of the COVID-19 pandemic on government revenue, expenditure and debt management in Nigeria. (ii) assess the government's response in managing the COVID-19 effect on the fiscal sector in Nigeria and (iii) set the agenda for post COVID -19 strategy for recovery and fiscal sustainability in Nigeria. The study utilized exploratory data analysis using descriptive tools. It obtained secondary data for the period Q1 2016- Q2 2020 from publications of the Central Bank of Nigeria, National Council for Disease Control and the World Health Organization. The study consists of five sections, this section one is followed by section two which examined preCOVID-19 fiscal sector growth trajectory in Nigeria for the period from 2016 to 2020. Section three looked at the effect of COVID-19 pandemic on Nigeria's fiscal sector, while section four reviewed the efforts at managing the effect on the fiscal sector in Nigeria. Finally, in section 5, the study set the strategy for fiscal sustainability for post COVID-19 economic recovery and growth in Nigeria. This study is justified on the grounds that as the global science communities are searching for a vaccine, so are the governments across the globe finding ways to curtail (flatten the curve) the spread of the disease with socio-economic implications. Most Central Banks, Finance Ministries and Independent economic experts around the world have taken solace in the

prediction that the impacts might be sharp but short-lived, and economic activities would return to neo-normal thereafter. So, Nigeria needs to proactively strategize for the post COVID-19 period, as there are feasible signs of vaccine production, lifting of lockdowns and the picking up of global economic activities which will usher in the neo-normal as the world learns to live and manage the coronavirus disease.

Outlook of Nigeria's Fiscal Sector Pre-COVID 19

In the lead up to the economic recession in 2016, the Nigerian economy recorded strong oil revenue with the export price of crude oil at \$113.9 per barrel in q4 2011, with export quantity of 2.3 million barrels per day resulting in a fairly stable GDP growth, this dwindled to \$45.2 per barrel in q1 2016 and export quantity of 1.47 million barrels per day, so the country witnessed a declining gross revenue of N422.99 Billion which plunged the country into recession. After five consecutive quarters of negative growth that began in q1 2016, a coordinated approach by the fiscal and monetary authorities supported a rebound in Nigeria's economy during q2 2017 (Figure 3). This is when revenue generation bounced back in q3 2017 to 805.67 Billion with oil and non-oil revenue contributing N495.92 and N309.75 Billion respectively. This recovery was driven largely by improved non-oil activities especially the agriculture and manufacturing sectors which expanded consistently by about 3.5–4.3% reflecting government's efforts at gradually diversifying the economy. This was also reinforced by the pickup in the oil sector as oil prices rallied in q2 2017. This growth trajectory rallied at an average of between N650 and N700 Billion until q3 2019 when it was N790 Billion with oil revenue dominating in its contribution, this declined slightly in q4 2019 to N684.73 Billion. An interesting finding is that in q2 2019, non-oil revenue posted a higher contribution than oil revenue, grossing N358.21 Billion as against the latter's N318.69 Billion. The pace of quarterly GDP growth improved from 0.72 percent in the q2 2017 to 2.38 percent in q4 2018. The short-term outlook continued to strengthen with average growth projections of about 2.55% for q4 2019. Going into this COVID-19 outbreak, there were tentative signs of slow economic growth in Nigeria given that global economic conditions were improving especially in countries with trade relations with Nigeria following a period of weaker growth over much of 2019 (see Table 1 on Appendix 1).

By q3 2019, the non-oil sector recorded a positive revenue growth for the third consecutive quarters spurred by multi-sectoral growth in the economy. In line with revenue generation, government expenditure at q4 2016 was relatively high at N794.97 Billion with capital and recurrent expenditures at N401.73 Billion and N393.24 Billion respectively, a rare occurrence in government's fiscal expenditure in Nigeria, perhaps a spur that ended the recession in q2 2017. Another period that witnessed high level of capital expenditure was q4 2019, when it was N435.44 Billion as against the recurrent expenditure of N542.18 Billion. At all other periods, recurrent expenditure component dominated government expenditure. This was financed by fiscal deficits that hits its highest level of N796.66 Billion in q1 2017. Another high point was in q4 2019 where fiscal deficits was N572.44 Billion. These fiscal deficits were financed by debts obtained from both domestic and foreign creditors, both of which were on an upward trajectory for the entire period of the study q1 2016 to q2 2020, with economic implications for debt servicing, export growth, exchange rate and economic growth.

The improvement in the performance across several other macro-indicators and the Gross Domestic Product suggest that the economy was on track for a broad-based recovery, this growth was expected to pick up over a short forecast period, supported by improved revenue projections with the introduction of the Fiscal Act 2020, the expansionary 2020 Budget and the Government's investment in productivity-enhancing infrastructure. Accommodating monetary policy and a lower Naira exchange rate were also expected to support this pick-up in economic growth. This was the economic outlook before the Nigerian economy was struck by the coronavirus disease in Q1 2020.

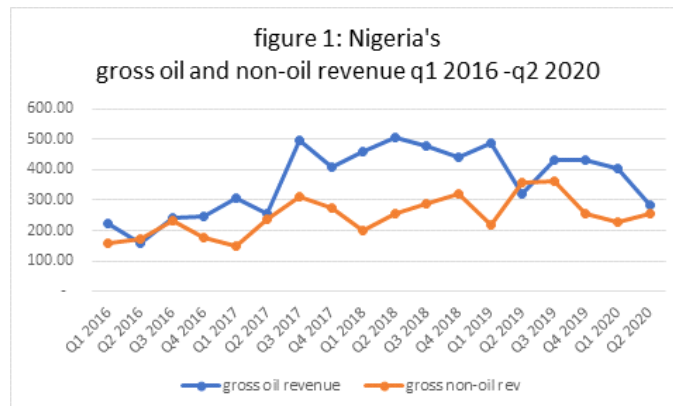
The effect of Coronavirus Disease Pandemic on Nigeria's Fiscal Sector

From a global perspective, COVID-19 generally sparked a shutdown of economies, induced negative shocks to capital flows, dampened public revenue and heightened public debts which weakened economic growth. This was projected to fall significantly, beating initial estimates as it is still evolving in multiple waves across the globe. The International Monetary Fund (IMF) asserted that the crisis has provoked a global recession and up to \$9 trillion had been spent by rich countries to mitigate the effects. The United Nations Trade and Development Agency (UNCTAD) put the cost of the outbreak at about US\$2 trillion in 2020. In Nigeria, the lockdown of cities has crippled businesses, diminished public revenues with adverse effect on the economy. Since exiting recession in q2 2017, economic growth has been somewhat subdued and fragile in Nigeria. The multidimensional nature of the coronavirus disease crisis embodying a health disaster and economic catastrophe, together with a plunge in global demand and plummeting oil prices affected the revenue and expenditure profile of the country.

Public Revenue

Oil prices started recovering in 2017, climbing to \$72 per barrel in 2018, before dipping to \$65.8/barrel in 2019. Since the beginning of 2020, coinciding with the COVID-19 pandemic, Brent crude prices have collapsed below \$20/barrel, reflecting the interplay of factors especially the oil price war between Saudi Arabia and the Russian Federation and the global low commodities demand. In q4 2019, total gross revenue to the country was N684.73 Billion comprising oil revenue N430.77 Billion and non-oil revenue N253.96 Billion. Q1 2020 gross revenue was N634.51 Billion with oil revenue contributing N405.33 Billion and non-oil revenue N229.18 Billion, while in q2 2020, the revenue profile fell to N537.6 Billion with oil revenue N281.97 Billion and non-oil revenue at N255.63 Billion. This threw up implications for managing the crisis as well as complicate the task of managing fiscal sustainability in Nigeria in the face of gloomy predictions from global organizations and experts.

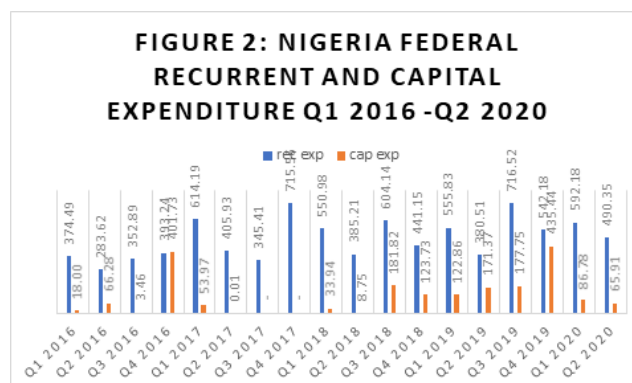
Crude oil market crash depresses fiscal revenues and consequently threatens financial stability as it ignites a depreciation or devaluation of the local currency to N380:\$1. This can undercut the effective implementation of the 2020 budget with its large dollar constituents anchored on N305/\$1. The exchange rate adjustment also presents a challenge to servicing the country's escalating debts which will now require more units of the local currency for exchange to the dollar, this will further stretch government revenue and widen fiscal deficits.



Source: Central Bank of Nigeria Quarterly Bulletin Q2 2020

Public Expenditure

The dwindling nature of government revenue definitely hurts government expenditure. After the recovery from the recession in q2 2017, Nigeria's public expenditure in the quest to drive economic growth engaged in fiscal deficits based mainly on foreign debts to grow expenditure to N977.62 Billion with recurrent revenue dominating with N542.18 Billion and capital expenditure at N435.44 Billion in q4 2019. With the COVID-19 effect in q1 2020, the expenditure profile declined to N726.95 Billion with recurrent expenditure at N592.18 Billion and recurrent expenditure at a lowly N86.78 Billion. This was also the situation in q2 2020 where of a total of N602.96 Billion, the expenditure profile was N490.35 Billion and N65.91 Billion respectively. The reason for this was not far-fetched given the intention of the government and the control measures put in place to flatten the curve (curtail) of the pandemic.

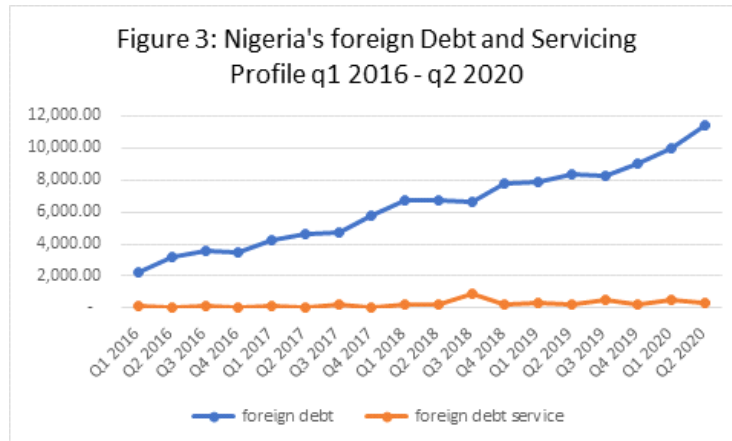


Source: Central Bank of Nigeria Quarterly Bulletin Q2 2020

Public Debts/Budget Deficits

The government in order to meet expenditure profile contracted domestic and foreign debts that recorded a growing trajectory all through the period of the study q1 2016 to q4 2020. In q4 2019, public debt was N18,378.96 Billion for domestic debt while foreign debt

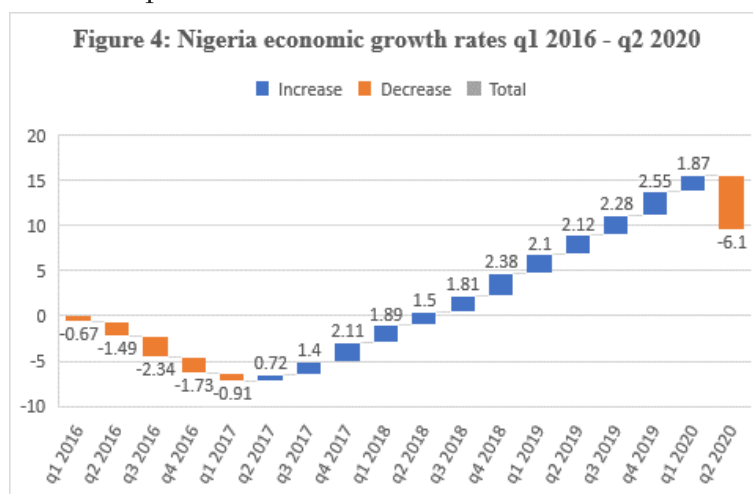
was \$9,022.42Billion, with foreign debt servicing at \$250.10. In the pandemic period, domestic debt, foreign debt and foreign debt servicing was N18,641.16 Billion & N19,645.40 Billion, \$9,987.30 Billion & \$11,363.24 Billion and \$472.52Million&\$287.04Millions in q1 and q2 2020 respectively. Budget deficits were recorded in all these periods, but for the budget surplus recorded in q3 2016.



Source: Central Bank of Nigeria Quarterly Bulletin Q2 2020

External Reserves/Economic Growth

The impact of fiscal distortion on the economy can also be felt in the country's external reserve and economic growth. Prior to the coronavirus disease in q3 2019, Nigeria's external reserve declined to \$40,689.89Billion from \$44,793.08Billion. The onset of the pandemic further witnessed a decline to \$33,689.05 Billion in q1 2020 and to \$35,773.34Billion in q2 2020. On economic growth, Nigeria was witnessing sluggish growth since the recovery from economic recession in q2 2017. In q4 2019, the growth trajectory continued upward to 2.55%. The effect of the pandemic surprising only slowed the economic growth to 1.87% in q1 2020, with the huge fall showing in q2 2020 at -6.1% fueling the fear of anticipated recession soon.



Source: National Bureau of Statistics GDP Report Q2 2020

The Policy Response

The International Monetary Fund (IMF) asserted that the crisis has provoked a global recession and up to \$9 Trillion had been spent by rich countries to mitigate the effects. The United Nations Trade and Development Agency (UNCTAD) put the cost of the outbreak at about US\$2 Trillion in 2020. In Nigeria, the lockdown of cities has crippled businesses, diminished public revenues, worsened household poverty and battered the economy. Subsequently, the fiscal authorities rolled out a range of fiscal measures for mitigating the impact of the pandemic on the Nigerian economy. Significantly, was the supposed cut in the 2020 budget by 34 per cent to N8.419 Trillion and modify its underlying assumptions for oil benchmark price from \$57 to \$25; exchange rate from N305/\$1 to N360/\$1; and oil production from 2.18mbpd to 1.9mbpd, the budget figure has been raised to 10.81 trillion, close to the original figure of 10.52 Trillion. Notably, debt service provision was raised from N2.45 Trillion to N2.68 trillion. In mid-May, the government announced plans to spend N186.37 Billion towards COVID-19 interventions and a further N213.6 Billion for the same purpose drawn from the service wide vote (also see Odutola, 2020).

In general, the fiscal and monetary responses have been expansionary; this is inspired by the pseudo-Keynesian notion of “stimulus”, laced with considerable doses of fiscal consolidation. The measures include rejigging and downsizing the 2020 budget, rationalizing capital expenditures and overheads and providing cash and food palliatives to households and vulnerable groups. It also involves broadening funding windows, extending the scope of concessionary lending, and debt repayment moratoriums to sectors such as agriculture, manufacturing and Micro, Small and Medium Enterprises (MSMEs), as well as packaging stimulus measures for health, hospitality and aviation sectors. Overall, the responses mirror those crafted by many countries across the globe including direct transfers to vulnerable persons, provisional tax breaks and deferrals, and credit guarantees. This was all to mitigate the economic toll of the crisis, stabilize business entities and facilitate post-COVID-19 economic recovery. There was considerable inflow of external and domestic financing for managing the crisis; notably, the \$3.4 Billion facility from the International Monetary Fund and \$82 Million from the World Bank; this funding support could become challenging if the revenue profile of the country does not improve in the short-to-medium term.

Setting the Agenda: Conclusion and Policy Options

Although the gradual opening of economies globally is driving early signs of oil price recovery, the tumbling of oil prices to historic lows in the wake of the pandemic rekindles the long-running challenge of fiscal and monetary policy management in oil-exporting economies like Nigeria's. Fiscal vulnerabilities, arising from soaring deficits, mounting debt and debt sustainability concerns, will continue to squeeze government's financing options. Resorting to bridging the gap through external funding may also not hold much promise due to competing demand for the global pot of funds from countries suffering the aftermath of the pandemic, alongside concerns about a possible global recession.

The study finds that before the pandemic TGR was at one of its highest level at N790.73 Billion in q3 2019, before declining to N684.73Billion. a decline of 13.4%. The decline in TGR from q4 2019 to q2 2020 was 21%. The decline in oil revenue was 34.5%, while GNR appreciated marginally by 0.65%. this is an indication that the non-oil revenue can be a channel for revenue generation in the economy, the reason the call for revenue diversification have severally been made.

The figure for Federal total expenditure in q4 2019 was N977.62 Billion from which it declined to N602.96Billion in q2 2020 (decrease of 38%). Of these, recurrent expenditure declined by 9% while capital expenditure declined about 7 times from N435.44Billion in q4 2019 to a paltry N65.91 Billion in q2 2020. This is an indication that economic sustainability will be difficult to achieve in COVID-19 pandemic period. Also, of interest is that the country's budget deficit decrease during the period of COVID-19. In q4 2019, it was N572.77Billion and in q1 2020 which is the on-set of the pandemic it declined to N459.37Billion (19.8%), and further so in q2 2020 when it became N380.06Billion (17% from q1 2020). This indicates that during COVID-19 government tried to curtail deficit financing that was becoming unsustainable in the country.

The country's indebtedness in this COVID-19 period saw total public debt grow from N27,401.38 q4 2019 to N31,008.64Billion (an increase of 11%), of which domestic debt grew from N18,378.96 Billion to N19,645.40 Billion (6%), while foreign debt grew from \$9,022.42Billion to \$11,363.24Billion (an increase of 20%), indicating the country's penchant for foreign debts not minding its implication for servicing, exchange rate, export trade etc. Ironically, the foreign loan servicing that grew from q4 2020 \$ 250.10Billion to \$472.57Billion (an increase of 89%) declined to \$287.04Billion (39.2%), even when total foreign growth was positive. Whether this is due to debt forgiveness, moratorium on repayment or even the exercise of the IMF Special Drawing Right (SDR) has not been ascertained by this study. On the whole, Nigeria's public debt portfolio not surprising increased during the COVID-19 period for obvious reasons. But, mounting debt service payments present future risks of debt management.

The implications of these on external reserve and economic growth of the country is given as follows; external reserves that was \$ 38,092.72Billion in q4 2019 declined to \$35,773.34Billion in q2 2020. This indicates a decline of 6%, of course this will be draw down to finance the exigencies of the period in health and socio-economic problems thrown up by the coronavirus pandemic. Economic growth rate as expected declined marginally from 2.55% in q4 2019 to 1.87% in q1 2020, and further into -6.1% in q2 2020 with the fear of recession hanging over the nation. This crisis will inevitably result in the decline of domestic output with knock-on effects on employment and incomes, as Nigeria's GDP for the next few quarters will plummet, spilling over to full year performance.

The findings of the study revealed expected declines in total gross revenue, more on gross oil revenue than non-oil revenue that it occurred only in q1 2020, as at q2 2020 the non-oil sector has shown resilience such that it has turned the tide upward by generating much

more than it did pre-COVID-19 period. Total federal expenditure declined substantially in capital expenditure than recurrent expenditure that declined marginally. This will not generate economic sustainability for the country. External reserve was drawn-down to meet the financial needs of government and the GDP growth declined in response to the control measures to curtail the pandemic, but unexpected declines in Deficit financing and foreign debt servicing. There was increase in total public debt. So, the study makes the following recommendations;

1. The growth in non-oil revenue must be sustained not only to remain resilient in boosting financial resources for the economy this period, but to be developed as a veritable handle for revenue diversification for Nigeria.
2. Government must have to change its expenditure framework to ensure that capital expenditure is more than revenue expenditure. That is what will ensure investment for economic sustainability.
3. The external reserve should be shored up immediately to a level that can sustain the economy for a reasonable period of time.
4. The decline in deficit financing should be sustained by engaging in realistic budgeting.
5. Foreign Debts should be used mostly for capital expenditure that will finance itself in the long run. Debt servicing strategies should be properly streamlined not to become a burden on the economy.
6. Total public debts should not be allowed to grow beyond sustainable threshold and domestic debts should be promptly financed to relate the economy.

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