

The Effect of Coronavirus (Covid-19) on the Nigeria Economy

Dominic Shimawua

Department of Public Administration,
Faculty of Management Science, Veritas University, Abuja

Abstract

The World Health Organization (WHO)'s March 11 recognition of COVID-19 as a global pandemic has removed any doubt about the threat that the virus poses to every country in the world. The main aim of the research work is to determine the effect of corona virus (COVID-19) on the Nigeria economy. The spread of the virus encouraged social distancing which led to the shutdown of financial markets, corporate offices, businesses and events. Two, the rate at which the virus was spreading, and the heightened uncertainty about how bad the situation could get, led to flight to safety in consumption and investment among consumers and investors. The study on the effect of corona virus disease (COVID-19) on the Nigeria economy will be of immense benefit to all the Nigeria citizens, the health sector, and the federal government of Nigeria. What the consequences of COVID-19 pandemic should further offer the Nigerian economic managers and policymakers, is that the one-tracked, monolithic reliance on oil is failing. Diversification priorities to alternative sectors such as agriculture, solid minerals, manufacturing and services sectors should be further intensified.

Keywords: *Effects, Coronavirus (Covid-19), Nigeria economy*

Corresponding Author: **Dominic Shimawua**

Background to the Study

The World Health Organization (WHO)'s March 11 recognition of COVID-19 as a global pandemic has removed any doubt about the threat that the virus poses to every country in the world. The virus has now been detected in 152 countries, with more than 180,000 infected and more than 7,000 killed. Though Africa remains one of the regions with the fewest cases, the number of countries affected has increased over the past week. As of this writing, nearly 450 cases have been reported in 30 countries, concentrated in northern Africa and South Africa, with 10 deaths reported.

Many African countries have relatively weak health care systems, proactive measures to prevent the spread of the virus will be critical. Countries 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. Campaigns should elicit the help of religious and civil society leaders for maximum effect.

Although the coronavirus outbreak which started in the Wuhan province of China had spillover problems in Nigeria, the reason why the outbreak became uncontrollable in Nigeria and caused suffering to poor citizens was because of weak institutions that were ineffective in responding to the pandemic and the lack of social welfare programs that would have catered for poor citizens and vulnerable citizens who were affected by the crisis. The fear of financial and economic collapse led to panic buying, hoarding of foreign currency by individuals and businesses for speculative reasons, flight to safety in consumption, households stocking up on essential food and commodity items, businesses asking workers to work from home to reduce operating costs, hence a need for the study effect of corona virus (COVID-19) on the Nigeria economy.

Objectives of the Study

The main aim of the research work is to determine the effect of coronavirus (COVID-19) on the Nigeria economy. The specific objectives of the study are:

- i. To determine the relationship between corona virus disease (COVID-19) and the Nigeria economy
- ii. To recommends preventive measure to be adopted by the Nigeria government in fight against the corona virus disease (COVID-19)

Significance of the Study

The study on the effect of corona virus disease (COVID-19) on the Nigeria economy will be of immense benefit to all the Nigeria citizens, the health sector, and the federal government of Nigeria. The study will explore the prevalence of corona virus disease (COVID-19), the causes, and the effect of the corona virus disease (COVID-19) the Nigeria economy. The study will educate the masses on the mode of transmission of the corona virus disease (COVID-19) and the preventive measures to be adopted. The study will educate the Nigeria government on the policy implementation to curb the prevalence of the corona virus disease (COVID-19) and how to improve the Nigeria economy during this period. The study will serve as a repository

of information to other researchers that desire to carry out similar research on the above topic. Finally, the study will contribute to the body of the existing literature on the effect of coronavirus disease (COVID-19) on the Nigeria economy

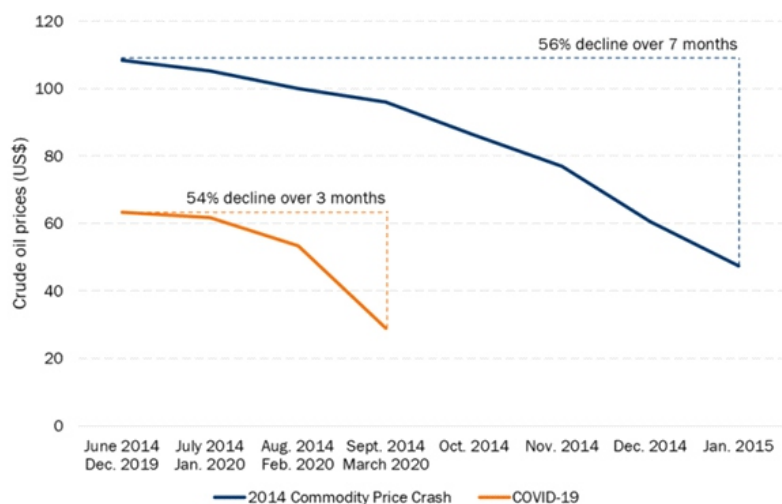
Conceptual Issues

An Overview of Nigerian Economy

Corona Virus Disease (Covid-19) On Commodity Prices and Trade

The late 2014 drop in oil prices contributed to a significant decline in GDP growth for sub-Saharan Africa from 5.1 percent in 2014 to 1.4 percent in 2016. During that episode, crude oil prices fell by 56 percent over seven months. The current decline in oil prices has been far more rapid, with some analysts projecting even more severe price declines than in 2014. Already, crude oil prices have fallen by 54 percent in the three months since the start of the year, with current prices falling below \$30 per barrel. Non-oil commodity prices have also declined since January, with natural gas and metal prices dropping 30 percent and 4 percent, respectively.

Figure 1: Drop in crude oil prices in 2014 vs. Covid-19



Source: IMF Primary Commodity Price System.

BROOKINGS

Source: IMF Primary Commodity Price System

Because of these price drops, the largest disruption to trade will be for commodity-sensitive economies, with Algeria, Angola, Cameroon, Chad, Equatorial Guinea, Gabon, Ghana, Nigeria, and the Republic of the Congo among the most affected. Oil exports range from 3 percent of GDP in South Africa to as high as 40 percent in Equatorial Guinea and are a key source of foreign exchange earnings. Furthermore, the shock comes at a particularly bad time for three of the largest economies—Angola, Nigeria, and South Africa—which already had weak growth outlooks, with South Africa already in recession. Nigeria is now facing U.S. dollar shortages due to the oil price crash and is expected to devalue its currency by 10 percent by the end of June. We expect similar stresses to surface in some other countries.

Coronavirus Disease (Covid-19) and Tourism and Remittances

Tourism, an important sector of economic activity for many countries, will be heavily affected by COVID-19 as countries begin to place restrictions on travel and encourage social distancing. The sector contributes over 10 percent of GDP in the Seychelles, Cape Verde, and São Tomé and Príncipe, and over 5 percent in The Gambia, Morocco, Mauritius, Tunisia, Lesotho, Madagascar, Egypt, and Rwanda. Tourism employs more than a million people in each of Nigeria, Ethiopia, South Africa, Kenya, and Tanzania, and tourism employment comprises more than 20 percent of total employment in Seychelles, Cape Verde, São Tomé and Príncipe, and Mauritius. In past crises, including the 2008 financial crisis and the 2014 commodity price shock, African tourism experienced losses of up to \$7.2 billion. Similarly, with economic activity in the doldrums in many advanced and emerging market countries, remittances to Africa could experience significant declines. Remittances as a share of GDP exceed 5 percent in 13 African countries, and range as high as 23 percent in Lesotho and more than 12 percent in Comoros, The Gambia, and Liberia.

Impact on the Global Economy

The Covid-19 pandemic affected the global economy in two ways. One, the spread of the virus encouraged social distancing which led to the shutdown of financial markets, corporate offices, businesses and events. Two, the rate at which the virus was spreading, and the heightened uncertainty about how bad the situation could get, led to flight to safety in consumption and investment among consumers and investors (Ozili and Arun, 2020).² There was a general consensus among top economists that the coronavirus pandemic would plunge the world into a global recession.³ Top IMF economists such as Gita Gopinath and Kristalina Georgieva stated that the Covid-19 pandemic would trigger a global recession.

In financial markets, global stock markets erased about US\$6 trillion in wealth in one week from 24th to 28th of February. The S&P 500 index also lost over \$5 trillion in value in the same week in the US while the S&P 500's largest 10 companies experienced a combined loss of over \$1.4 trillion⁴ due to fear and uncertainty among investors about how the pandemic would affect firms' profit. The travel restriction imposed on the movement of people in many countries led to massive losses for businesses in the events industry, aviation industry, entertainment industry, hospitality industry and the sports industry. The combined loss globally was estimated to be over \$4 trillion. Several governments in developed countries, such as the U.S. and U.K., responded by offering fiscal stimulus package including social welfare payments to citizens while the monetary authorities offered loan relief to help businesses during the pandemic. There were also spillovers to poor and developing countries that had a weak public health infrastructure and non-existing social welfare programs.

Covid-19: The Nigerian experience

The spread of Covid-19

The coronavirus entered Nigeria through an infected Italian citizen who came in contact with a Nigerian citizen who was subsequently infected with the coronavirus. The coronavirus then spread to other citizens in Lagos and to other parts of the country. Some reported cases are shown in table 2

Table 2: Confirmed Covid-19 cases in Nigeria

Timeline	Confirmed cases	Affected states	Timeline
17/03/2020	3	Lagos	17/03/2020
21/03/2020	22	Lagos, Abuja and Ogun	21/03/2020
30/03/2020	131	Lagos, Abuja, Bauchi, Enugu	30/03/2020

Covid-19 Spillover to the Nigerian Economy

Direct Effect Skinner

There are five main ways through which the Covid-19 pandemic spilled over into Nigeria. One, the Covid-19 pandemic affected borrowers' capacity to service loans, which gave rise to NPLs that depressed banks' earnings and eventually impaired bank soundness and stability. Subsequently, banks were reluctant to lend as more and more borrowers struggled to repay the loans granted to them before the Covid-19 outbreak. Two, there were oil demand shocks which was reflected in the sharp decline in oil price. The most visible and immediate spillover was the drop in the price of crude oil, which dropped from nearly US\$60 per barrel to as low as US\$30 per barrel in March. During the pandemic, people were no longer travelling and this led to a sustained fall in the demand for aviation fuel and automobile fuel which affected Nigeria's net oil revenue, and eventually affected Nigeria's foreign reserve. Three, there were supply shocks in the global supply chain as many importers shut down their factories and closed their borders particularly China. Nigeria was severely affected because Nigeria is an import-dependent country and as a result Nigeria witnessed shortage of crucial supplies like pharmaceutical supplies, spare parts, and finished goods from China. Four, the national budget was also affected. The budget was initially planned with an oil price of US\$57 per barrel. The fall in oil price to US\$30 per barrel meant that the budget became obsolete and a new budget had to be formed that was repriced with the low oil price.

Finally, the Covid-19 pandemic affected the Nigerian stock market. Major market indices in the stock market plunged when investors pulled out their investments into so-called safe havens like US Treasury bonds. Stock market investors lost over NGN2.3 trillion (US\$5.9bn) barely three weeks after the first case of coronavirus was confirmed and announced in Nigeria on January 28, 2020. The market capitalisation of listed equities, which was valued at NGN13.657 trillion (US\$35.2bn) on Friday, February 28, 2020 depreciated by NGN2.349 trillion to NGN11.308 trillion (US\$29.1bn) on Monday 23 March 2020. The All-share index closed at 21,700.98 from 26,216.46 representing 4,515.48 points or 20.8 per cent drop.

Table 3: NSE All Share Historical Data (02/03/2020 - 02/04/2020)

Date	Price	Open	High	Low	Vol.	Change %
Apr 01, 2020	21,100.54	21,309.50	21,317.98	20,779.13	154.35M	-0.94%
Mar 31, 2020	21,300.47	21,330.79	21,340.64	21,270.26	422.00M	-0.14%
Mar 30, 2020	21,330.79	21,828.65	21,828.65	21,330.79	466.87M	-2.43%
Mar 27, 2020	21,861.78	21,842.18	21,885.05	21,803.89	251.41M	0.48%
Mar 26, 2020	21,757.47	21,729.48	21,903.00	21,696.88	172.16M	0.13%
Mar 25, 2020	21,729.48	21,743.47	21,814.74	21,663.32	233.07M	-0.05%
Mar 24, 2020	21,741.16	21,703.80	21,770.42	21,703.80	330.10M	0.19%
Mar 23, 2020	21,700.98	22,198.43	22,208.81	21,694.16	464.36M	-2.24%
Mar 19, 2020	22,118.90	22,785.19	22,785.19	22,118.90	525.85M	-2.94%
Mar 18, 2020	22,789.64	22,549.09	22,804.70	22,118.37	671.52M	1.09%
Mar 17, 2020	22,543.07	22,705.19	23,008.59	22,497.73	675.82M	-0.71%
Mar 16, 2020	22,705.19	22,745.39	22,797.39	22,618.36	551.48M	-0.13%
Mar 13, 2020	22,734.07	22,729.01	22,813.47	22,550.08	732.62M	0.17%
Mar 12, 2020	22,695.88	23,500.46	23,500.46	22,694.32	1.06B	-3.72%
Mar 11, 2020	23,572.75	24,278.53	24,321.51	23,260.07	1.39B	-3.35%
Mar 10, 2020	24,388.66	25,412.57	25,412.57	24,381.88	594.47M	-4.91%
Mar 09, 2020	25,647.54	26,141.24	26,141.24	25,648.45	185.49M	-2.41%
Mar 06, 2020	26,279.61	26,426.20	26,455.26	26,273.58	361.08M	-0.55%
Mar 05, 2020	26,426.20	26,418.82	26,626.07	26,408.25	431.90M	0.04%
Mar 04, 2020	26,415.54	26,283.35	26,438.78	26,256.24	307.66M	0.61%
Mar 03, 2020	26,255.11	25,816.57	26,344.55	25,816.57	387.42M	1.70%
Mar 02, 2020	25,816.57	26,143.02	26,170.58	25,816.57	325.26M	-1.53%
Highest: 26,626.07		Lowest: 20,779.13		Difference: 5,846.94		Average: 23,265.64
						Change %: -19.51
The figures in green colour represent ASI gains while the figures in red colour represent ASI losses						

Source: investing.com

Nigeria in Perspective

Nigeria has been severely hit by the spread of COVID-19 and the associated sharp decline in oil prices. Government policy is responding to both these developments. The authorities have reported 6677 cases of COVID-19 and 202 deaths as of May 21, 2020. Over 40,043 samples have been tested. A range of measures were implemented to contain the spread of the virus, including closure of international airports, public and private schools, universities, stores and markets, and suspension of public gatherings, and lockdown of some states.

Reopening of the Economy

Ease of lockdown continued with extended curfew from 8pm to 6pm every day in Abuja, Lagos, and Ogun state; lockdown in Kano state was extended for another two weeks; some states have lifted partial lockdown on May 21 and allows religious congregation. Nationwide measures were introduced, including nighttime curfew, ban on non-essential inter-state passenger travel, partial and controlled interstate movement of goods and services, and mandatory use of face masks or coverings in public. Work at home is also encouraged in several states and government institutions while isolation centers are being expanded in Lagos state. The president ordered the release of inmates in correctional facilities to decongest prisons.

Key Policy Responses as of May 21, 2020

Fiscal

Contingency funds of N984 million (\$2.7 million) have been released to Nigeria's Center for Disease Control, and an additional N6.5 billion (\$18 million) was distributed for purchasing more testing kits, opening isolation centers and training medical personnel. Grant of N10 billion (\$28 million) was released to the Lagos State to increase its capacity to contain the outbreak. The government is reviewing its 2020 budget and, given the expected large fall in oil revenues, announced plans to cut/delay non-essential capital spending by N1.5 trillion (close to 1 percent of GDP). A fiscal stimulus package, in the form of a COVID-19 intervention fund of N500 billion (\$1.4 billion), has been approved by the President to support healthcare facilities, provide relief for taxpayers and incentivize employers to retain and recruit staff during the downturn. Import duty waivers for pharmaceutical firms will be introduced. Regulated fuel prices have been reduced, and an automatic fuel price formula introduced to ensure fuel subsidies are eliminated. The President also ordered an increase of the social register by 1 million households to 3.6 million to help cushion the effect of the lockdown.

Monetary and Macro-Financial

The Central Bank of Nigeria (CBN) maintained its current monetary policy rate in March but introduced additional measures, including: (i) reducing interest rates on all applicable CBN interventions from 9 to 5 percent and introducing a one year moratorium on CBN intervention facilities; (ii) creating a N50 billion (\$139 million) targeted credit facility; and (iii) liquidity injection of 3.6 trillion (2.4 percent of GDP) into the banking system, including N100 billion to support the health sector, N2 trillion to the manufacturing sector, and N1.5 trillion to the real sector to impacted industries. In addition, the CBN announced another N1 trillion support to the agriculture sector as food shortages looms. Regulatory forbearance was also introduced to restructure loans in impacted sectors. The CBN is also coordinating a private sector special intervention initiative targeting N120 billion (\$333 million) to fight COVID-19. As of April 16, N42.6 billion was received, including \$50 million grant from the European Union. The Nigeria Solidarity and Support Fund was established, looking to raise \$50 million to support physical infrastructure of healthcare centers in Local Governments and existing Social Investment Program.

Exchange Rate and Balance of Payments

The official exchange rate has been adjusted by 15 percent, with an ongoing unification of the various exchange rates under the investors and exporters (I&E) window, Bureau de Change, and retail and wholesale windows. The authorities committed to let the I&E rate move in line with market forces, and it has so far depreciated by about 4 percent. A few pharmaceutical companies have been identified to ensure they can receive FX and naira funding. While I&E window turnover has been low since April, the CBN has resumed FX supply in some of the other windows.

The CBN is providing N50 billion to firms affected by the virus and is increasing credit to the health sector. In addition, the Bankers Committee pledged to provide N3.5 trillion in support to pharmaceutical companies, assist essential health companies in purchasing raw materials,

and encouraging local production of drugs. Whilst these stimulants are necessary to spur economic growth, structural policy changes are required to achieve macro-economic stability and long-term sustainable growth.

The average size of the stimulus package as a percentage of GDP in advanced economies is 12%. The US, for instance, is 11%, while in SSA the average stimulus is 0.4% of GDP. Therefore, a stimulus package of 0.34% of GDP in Nigeria is totally insignificant and unlikely to boost the already fragile economy.

To reduce unemployment and poverty, which are inevitably linked to this pandemic, it is imperative that policymakers provide relief packages tailored particularly to Nigeria's vulnerable citizens. Nigeria needs to ease the financial burden ensuing from the lockdown, and cushion the aftermath of the pandemic.

Countries' Responses to the pandemic

The US, now the epicenter of the virus, reversed its initial indifference, approved strict external travel prohibitions and some states enacted strict internal restrictions. The President approved a coronavirus relief bill of \$2 trillion, which was designed to bolster unemployment benefits for individuals, increase money for states, deliver a huge bailout fund for businesses and send one-off payment of up to \$1,200 to every American with an annual income of \$75,000 or less.² This had a direct impact on each citizen including low-income earners and casual workers.

In other countries such as China, the government has instructed that salary payments should be made to workers who are unable to work due to quarantine or illness. Ireland, Singapore, and South Korea have made sick leave available for the self-employed, while in the UK, statutory sick pay will be provided for diagnosed or self-isolating individuals, coupled with a three-month payment holiday for anyone struggling with mortgage or rental payments.³ Taking a look at the relief packages in advanced countries: they are well-tailored to citizens, will have an immediate and positive impact on the standard of living of its citizenry, and they will reduce the knock-on effects on incomes.

Movement Restriction in Nigeria

Both the State and Federal governments imposed movement restrictions in some areas across the country to control the spread of the novel coronavirus, as shown in table 4.

Table 4: Movement restriction in Nigeria during Covid-19 pandemic

	Affected sector	Impact
1	Aviation sector	Massive flight cancellations, NCAA suspends all international airports
2	Education sector	Students were sent back home. Private and public schools and universities were closed
3	Banking sector	Senior staff work from home. Few branch staff available to attend to depositors
4	Civil service sector	Suspension from work for 14 days for remote quarantine
5	Markets	Major food markets were partially closed
6	Religious sectors	All religious services were banned during the pandemic. A Christian pastor was arrested for holding church service during the ban ⁶
7	Sports	All sporting events were cancelled
8	All sectors	A 14-days nationwide stay-at-home lockdown was officially enforced beginning from 30th March, 2020.
9	Eleven (11) businesses excluded from the ban ⁷	(i) private security companies, (ii) medical establishments, (iii) broadcasters, (iv) food processing and distribution companies, (v) petroleum distribution and retail entities, (vi) power generation, transmission and distribution companies, (vii) hospitals, (viii) telecommunications workers, (ix) health care manufacturing and distribution companies, (x) print media staff, (xi) electronic media personnel.

Conclusion and Recommendation

It is no news that the COVID-19 pandemic will disrupt the global and Nigerian economy in 2020. However, Nigeria can cushion the impact of the virus by introducing measures to protect companies and their workers, most especially the vulnerable citizens, from the impact of the quarantine measures. Such measures could include: Unemployment benefits, Employment retention, Social assistance benefits, financial support and tax relief while these measures will not single-handedly contain the pandemic, it will encourage the citizenry to stay at home, reduce the spread, and also help reduce the level of unemployment, day-light robbery, and poverty ensuing from the pandemic. Basically, the Nigerian government essentially must lead economic diversification drive. It is one practicable way to saddle through the current economic uncertainties and instabilities. What the consequences of COVID-19 pandemic should further offer the Nigerian economic managers and policymakers, is that the one-tracked, monolithic reliance on oil is failing. Diversification priorities to alternative sectors such as agriculture, solid minerals, manufacturing and services sectors, should be further intensified.

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