SUPPORTING ECONOMIC TRANSFORMATION

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Nigeria

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7 April 2020

Key messages

- The commercial capital of Nigeria, Lagos, and the Federal Capital, Abuja, remain the epicentres of the COVID-19 crisis in Nigeria. Restrictions in these two cities, and Ogun state, have put close to 30 million people in lockdown.
- The crash in crude oil prices to below $30 a barrel has slashed government revenues, leading to dramatic cuts in the Federal Government's budget.
- In line with the significant economic ramifications of COVID-19 and the subsequent fall in oil prices, the Central Bank of Nigeria has devalued the naira by 15% , and prepared a N3.6 trillion ($9.25 billion) liquidity injection into the banking system.

Introduction

Africa's most populous nation and largest economy has been hit hard by COVID-19. As of 7 April 2020, Nigeria has 238 confirmed cases, with 5 deaths and 35 recoveries. The commercial capital, Lagos, with 120 cases, and the Federal Capital Territory, Abuja, with 48 cases, are the epicentres of the crisis. Restrictions in Lagos and Abuja, as well Ogun state, have put close to 30 million people in lockdown. All schools, universities and businesses in these areas will remain closed for 14 days, with the exception of hospitals and stores selling essential items such as groceries and medicine. All airports in the country are closed to international flights until at least 23 April 2020.

The crash in the price of oil has exposed major fault lines in the Nigerian economy. Since independence in 1960, the Federal Government has consistently relied on crude oil exports as its primary source of revenue, leaving its finances vulnerable to oil price shocks. Prior to the COVID-19 crisis, the latest data show government health spending per capita was relatively low, standing at $27.84, far below the comparative figures in other major ECOWAS economies, Ghana and Côte d'Ivoire. However, external spending per capita was also a sizeable contributor to total spending per capita, standing at $21.01. Low overall spending means the health system is likely to be overwhelmed, and, without additional funding, demand for health services, in particular critical care services, will far exceed capacity.

Economic and social impacts

With crude oil exports generating 76% of Nigeria's foreign exchange (and 11.8% of GDP), the fall in the price of oil by 60% since the start of 2020 to below $30 a barrel has dramatically reduced export revenues. It is predicted that the reduction will cut export revenues by $5 billion (1.3% of GDP) over three months and $8.6 billion (2.2% of GDP) over six months. Across the year, it is estimated the value of exports will fall by 34% as a result of the oil price shock alone.

Other sectors have also been affected. Cocoa, which dominates the agricultural export sector, has seen prices fall by approximately $292/tonne. Meanwhile, Nollywood, the second largest source of jobs in the country, employing around 1 million people, is facing challenges. Its production hub, Lagos, has been put on lockdown and cinemas have been ordered to shut, which will have major knock-on effects on employment.

The COVID-19 crisis has led to falling foreign exchange reserves and major pressure on the Nigerian currency, the Naira. Stock markets are also down. The latest inflation rate in Nigeria for February 2020 was 12.2%, a two-year high, with food inflation at 14.9%.

Moreover, Nigeria's GDP growth implications are worrying and much depends on oil prices. Assuming oil prices stay low, in a contained outbreak GDP growth is likely to decline from 2.5% to -3.4% in 2020. However, if the outbreak is not effectively contained, then GDP growth could fall by as much -8.8% in 2020, driven by declining consumer spending.

Fiscal impacts

Since oil revenues are responsible for over half of government expenditure, the Federal Government has been forced into reconsidering its 2020 budget. The 2020 budget had a benchmark of $57 barrel of oil, way above the prices of below $30 a barrel we are seeing today. Government revenues are expected to fall by as much as 45%. The Federal Government has responded by cutting the capital investment budget by 20%, the recurrent budget by 25% and privatisation proceeds by 50%, and has stopped recruiting.

One potential source of relief is that Nigeria's debt-to-GDP ratio remains relatively low, at 25%. A potential silver lining is the hope that the oil price crash can act as a trigger for the economic diversification the country desperately requires. Its growing population, standing already at close to 200 million, is counting on it.

Monetary and financial policy

In response to the crisis, the Central Bank of Nigeria has maintained its current monetary policy rate but introduced a number of additional measures. The official exchange rate has been devalued by 15%, relieving the downward pressure on the Naira. This move is part of an on-going unification of the various exchange rates under the investors and exporters window (the official foreign exchange rate), and retail and wholesale windows. Central Bank authorities have now committed to let the official foreign exchange rate move in line with market forces.

On top of this, the Central Bank of Nigeria has reduced interest rates on all its interventions from 9% to 5% and created a N50 billion ($139 million) targeted credit facility. It has given a N3.6 trillion (2.4% of GDP) liquidity injection into the banking system. This includes N100 billion ($257 million) to support the health sector, N2 trillion ($5.14 billion) to the manufacturing sector and N1.5 trillion ($3.86 billion) to the real sector to impacted industries.

Fiscal policy

Despite being forced to cut its budget by N1.5 trillion (approximately 1% of GDP) owing to falling oil export revenues, the Federal Government has announced a fiscal stimulus support package. An initial N15 billion ($38.6 million, 0.01% of GDP) was approved to support the national response to fighting COVID-19. A further N10 billion ($25.7 million) grant has been released to Lagos State Government, and a N5 billion ($12.9 million) special intervention fund to the Nigerian Centre for Disease Control.

Cash transfers are being designed, with the Federal Government identifying 10.65 million people across the country as eligible. However, it is unclear how those without bank accounts, approximately 60% of the adult population, will access these transfers, especially given that mobile money is not widely used in the country. Internally displaced people fleeing the Boko Haram insurgency, numbering over 2 million, will receive two months of food rations in the next weeks.

Businesses have been assisted through a directive from President Buhari that a three-month moratorium for all TraderMoni, MarketMoni and FarmerMoni loans be implemented with immediate effect. This moratorium also applies to Federal Government-funded loans issued by the Nigerian Export-Import Bank, the Bank of Agriculture and the Bank of Industry.

The Petroleum Pricing Product Regulatory Agency has reduced the price of fuel from N145 ($0.37) to N123.5 ($0.32) per litre. It is hoped that this will not encourage travel within the country during the pandemic.

Donor support

Alongside other African counties, Nigeria has received 20,000 testing kits, 100,000 masks and 1,000 medical use protective suits and shields from the Jack Ma Foundation. The country also plans to raise $6.9 billion (1.7% of GDP) from multilateral lenders with $3.5 from the IMF, $2.5 billion from the World Bank and $1 billion from the African Development bank.

Donations from wealthy Nigerians and philanthropists have been substantial. United Bank for Africa Chair Tony Elumelu announced a donation of N5 billion ($12.9 million) to provide beds for isolation centres and intensive care units. Africa's richest man, Nigerian Aliku Dangote, and other members of the private sector have pledged N1 billion ($2.57 million) each to support the government in fighting the pandemic.

It is important that most spending/resources (whether government or donor) are additional, to not take away from other essential health care services. Studies are now showing that, at the height of the Ebola crisis, more people were dying because of overwhelmed health systems' inability to treat other illnesses, rather than from Ebola itself.

This note uses information available until 7 April 2020. The authors are ODI fellows with the Nigerian Export Promotion Council and the National Primary Healthcare Development Agency. Comments welcome to c.aref-adib.fs@odi.org.uk