## INTRODUCTION TO THIS DOCUMENT

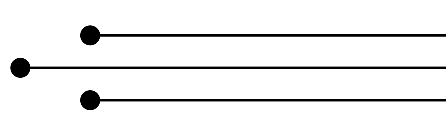
**Stears Data article on the impact of COVID-19 on the Nigerian economy March 2020**

## OUR TAKE-AWAYS:

**<u>This is what we learned from this document:</u>**

- **There could be a recession greater than the Great Depression of 1929.**
- **Despite the COVID-19 pandemic, the economic impact can be captured as easy as saying the economy shuts down.**
- **The combination of the global recession and local pandemic will expose the structural defects of the Nigeria economy.**
- **Investments in Nigeria is likely to dip as foreigners rush to safer assets like US government bonds.**
- **The Nigeria Naira would go through a tough period once the OPEC deal blows up and oil prices crash [which they subsequently did after publication of this report[.**

# IMPACT OF COVID-19 ON THE NIGERIAN ECONOMY



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# Executive Summary

In today's information age, hyperbole has become common. Yet very little can be said to exaggerate the unprecedented spread and effect of the COVID-19 virus around the world. Nearly every part of the world has been affected and every activity has been disrupted as countries scramble to tackle our biggest common threat in a century. Economic projections for the next 18 months are grim as economies shut down in the wake of the COVID-19 pandemic. Governments around the world have responded to the crisis with unprecedented economic force, tearing up the rulebook of standard policymaking to prevent a complete economic catastrophe. Even with these aggressive policy steps, the economic prognosis is dire: the COVID-19 crisis will tip the global economy into a recession.

Nigeria fights the COVID-19 war on many fronts. Combined with an ill-timed collapse in oil prices, a global recession will decimate public finances, investment and foreign exchange earnings in Nigeria. As the economy is yet to recover from the 2016 recession, these global dynamics would have triggered another local economic slump, even if Nigeria contained the virus within its shores. And yet, it is clear that Nigeria itself faces a local pandemic in the coming months. As the number of reported cases rise—and the true spread remains unknown—the Nigerian economy will freeze, putting millions of individuals and businesses at risk of insolvency. Of course, the government has outlined a raft of policy initiatives to cushion the blow, but these steps are disproportionate in comparison to the problem and how other countries have responded. And that brings us to the final frontier of the domestic war against COVID-19. The crisis will expose fault lines in Nigeria's socioeconomic environment that will constrain our efforts to contain the virus and protect citizens' livelihoods. These legacy issues—ranging from government indebtedness to unreliable health, physical and data infrastructure—are handicaps that Nigeria must somehow overcome even as it tackles the most severe peacetime event since the Biafran War.

The domestic business outlook is unpleasant. Nigerian businesses are likely to be directly affected by the local spread of COVID-19, and many more would be impacted by a partial shutdown of the Nigerian economy. Many of Nigeria's 40 million small businesses are ill-equipped to handle a crisis of this scale and would require extensive government support to survive. Meanwhile, companies' attempts to navigate the crisis will be disrupted by the legacy faults in the Nigerian economy, as well as the underlying combustibility of Nigerian society. Nevertheless, the crisis creates a different type of opportunity for local businesses, if only because the global socioeconomic status quo will remain in flux for many months. By taking advantage of changes in international trade dynamics, leveraging economic stimulus provided by the government, or predicting lasting changes in consumer culture, proactive businesses can make the most of the COVID-19 crisis. To do that, however, businesses must first survive. In a world where most economic activities are put on hold, resilience is the most priceless business commodity. And to survive this period, it is imperative that individuals and businesses know what will happen to the Nigerian economy over the next 18 months.

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# Section 1: COVID-19 AND THE GLOBAL ECONOMY

The COVID-19 pandemic may just tip the global economy into the worst recession since the 1929 Great Depression. Yet unlike recent economic crises like the 2009 recession that were triggered by complex financial activities, today's economic calamity is much easier to explain. The economic impact of COVID-19 can be captured in four words: the economy shuts down.

## 1.1. Understanding how the COVID-19 pandemic affects the global economy

Imagine a situation where half of all companies in Nigeria shut down for 3 months. The immediate impact will be that people would not be able to access the products & services they normally would. Some of this would be trivial, like haircuts and luxury meals, but some of it would be important, like toilet rolls and medicine. Of the businesses that shut down, let's further assume that half retain their employees while the other half let them go. Those that retain their employees must keep paying salaries even while they earn zero revenues.

Meanwhile, even those that fire their workers still need to cover overheads like rent and interest payments. Everyone is bleeding cash. Some of these businesses will manage, but others will not as they won't have the cash to cover expenses for more than a few months. In other cases, their operations would be so affected by the shutdown that the underlying business becomes unsustainable—for example, travel agents.

As businesses struggle or close, this has a knock-on effect on their creditors as they don't pay their debt. And as their creditors suffer losses, the broader financial system is put in jeopardy; nobody wants to lend money to anyone because no one is repaying loans.
Meanwhile, as this pattern unfolds, people that lost their jobs struggle to pay their bills. Landlords begin serving eviction notices on their properties while other tenants have to take out expensive loans to tide things over. All in all, they spend less as they have lower disposable income, and, of course, even those that kept their jobs spend less because they aren't going out as much.

Put this all together and you have a demand shock (consumer wallets are tight, nobody buys anything) and a supply shock (companies cannot produce goods or render services) at the same time. The economy grinds to a halt and nobody makes any money.

If all of that sounds bad, the situation is multiplied to the nth degree in a global economy. You see, when German factory workers stay home, it is consumers in Belgium that miss out on new cars and when factories in Wuhan closed, there were initial concerns about global shortages of smartphones, car-parts and medical supplies. Indeed, China is so vital for global manufacturing supply chains that a pandemic in China alone could induce a global recession. In the same way, when New Yorkers stop going to coffee shops, cocoa farmers in Ghana and Indonesia will suffer. When China's oil demand fell 15% at the start of 2020, oil producers from Saudi Arabia to Nigeria felt the heat.

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## 1.2. A glimpse at the early impact of COVID-19 on the global economy

It's too early to see the full effects of this economic shut-down, but we can look at two places for help: Chinese data and global Purchasing Managers' Indices (PMI).

COVID-19 first erupted in China so the Chinese economic experience is a fair gauge of what might happen elsewhere. Generally, the numbers are grim; every part of the Chinese economy was hit. Between January and February, Chinese industrial output fell by a record 13.5%1, retail sales fell by 20.5% and even investment dropped by nearly 25%. No surprise then that urban unemployment hit a record high of 6.2% and early indications are that the Chinese economy slumped by about 15% in the first quarter of 2020. That's roughly $400 billion already shaved off the Chinese economy, more than Nigeria's entire economy.

Outside China, Purchasing Managers' Index (PMI) data shows a glimpse of the economic impact. The PMI is the most popular leading economic indicator in the world (leading indicators help predict how key variables like GDP are performing). The PMI surveys thousands of business managers and asks them if the current month was better or worse than the last. A PMI reading above 50 suggests that the economy is getting better while a reading below 50 suggests that the economy is getting worse. Furthermore, successive readings below 50 signal an imminent recession.

So, what do the latest PMI numbers look like? Record-breaking.

Table 1: Flash Purchasing Managers Indices in advanced economies

| | February | March | Comments |
|---|---|---|---|
| Eurozone | 51.6 | 31.4 | Record low |
| Germany | 50.7 | 37.2 | Worst since 2009 |
| France | 52.0 | 30.2 | Record low |
| UK | 53.0 | 37.1 | Record low |
| Japan | 47.0 | 35.8 | Worst since 2009 |
| Australia | 49.0 | 40.7 | 12-month business outlook the worst on record |
| United States | 49.6 | 40.5 | Record low |

Source: IHS Markit

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Global PMI fell from 52.2 to 46.1, marking the largest drop since the month after 9/11, and this was in February, before cases really exploded outside China. In addition, of the 20 global sectors tracked in the PMI, 8 suffered their worst drops in output since records began in 2009. Notably, service industries have been hit hardest around the world, a sign of just how much consumer demand has dried up as people adjust their behaviour to a silent virus and government lockdowns. Services like travel, tourism and restaurants have basically shut down—Figure 1 shows how some industries in the United States have been affected.

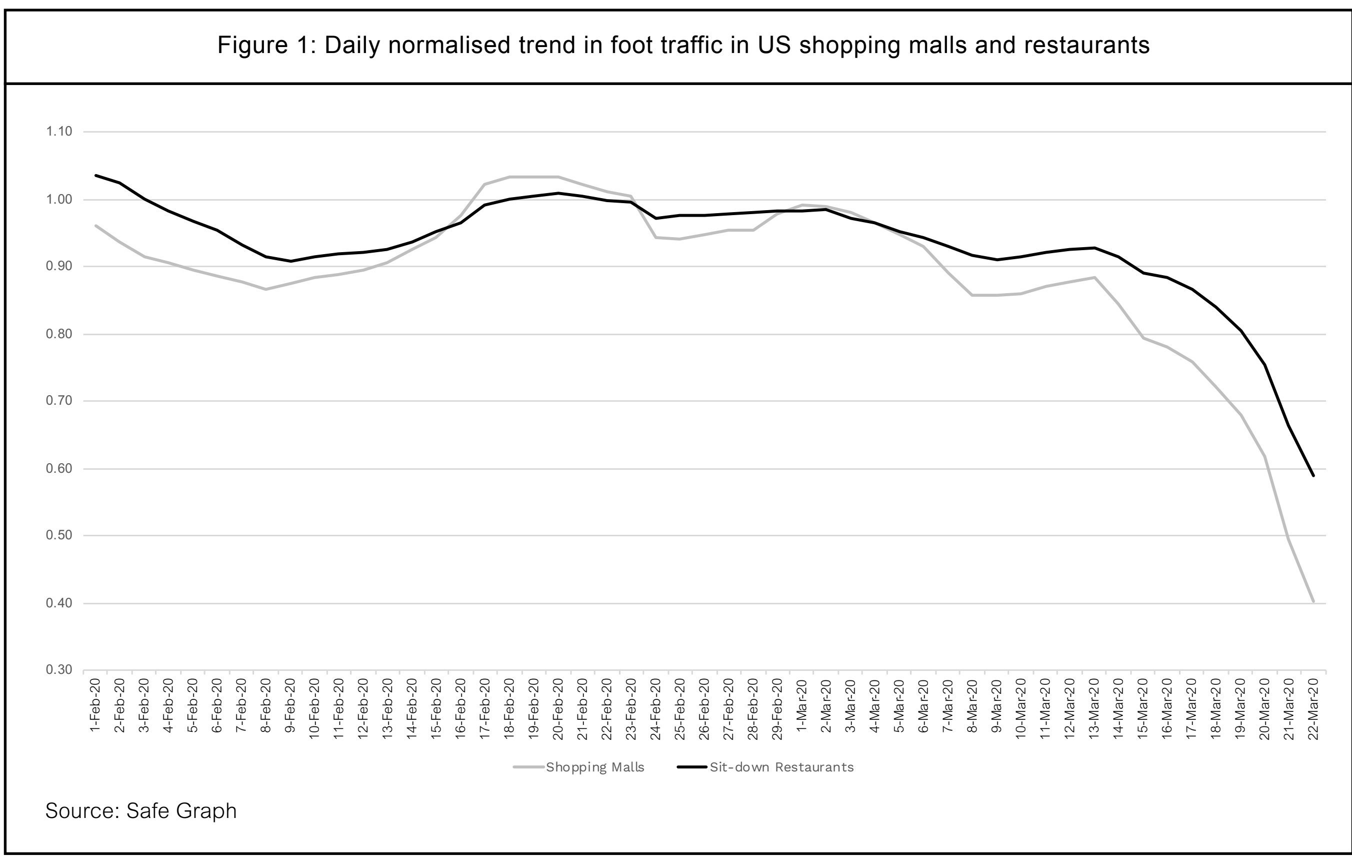


Figure 1: Daily normalised trend in foot traffic in US shopping malls and restaurants

Source: Safe Graph

Nobody quite knows just how bad the global economy is going to get, but consensus is that a recession is imminent, and it will probably be worse than the 2009 financial crisis, which itself was the worst global economic downturn in decades. We still need to figure out how long and how deep the recession will be, and the graphic below highlights a few important early forecasts.

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Timeline of 2020 forecasts for the global economy

| March 13th | March 22nd | March 23rd | March 23rd | March 24th |
|---|---|---|---|---|
| European Commission explained that Eurozone GDP growth will be negative if governments did not take significant coordinate action. The International Monetary Fund had predicted growth of 1.3% back in January. | Major American banks had communicated their projections for the U.S. economy. Bank of America expects GDP to fall by 25% in the second quarter. Morgan Stanley expects unemployment to rise from 3.5% in February to 12.8% by June. This is not absurd: a record 3.3 million Americans applied filed for unemployment claims in a single week in March, over four times the all-time record. | Bloomberg Economics suggested that the British economy would shrink by 9% in the second quarter of 2020. That would be the worst since 1921. | Institute of International Finance projected that the global economy would contract by 1.5% in 2020, again, worse than the 2019 financial crisis. The International Monetary Fund had predicted growth of 3.3% back in January. | Goldman Sachs projected that the Eurozone economy would shrink by 9% in 2020. That would be twice as bad as the 4.5% contraction experienced in 2009. |

## 1.3. Government economic response to the COVID-19 pandemic

Governments around the world have taken decisive economic action in response to the COVID-19 outbreak and consequent shutdown of economic activity. In fact, the fiscal and monetary stimulus packages already enacted or proposed in the last month already exceeds what was deployed during the 2009 financial crisis. Many countries have closed borders—even within the European Union, central banks have pledged to buy an infinite amount of government bonds to allow their national governments borrow as cheaply as possible, and countries from the United States to Australia are rolling out economic stimulus packages equivalent to a tenth of national GDP. Table 2 summarises the steps taken by some of the world's most advanced economies.


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| Table 2: How have advanced economies responded to the economic effect of COVID-19? | | | | |
|---|---|---|---|---|
| | Fiscal Policy | Monetary Policy | Others | Comments |
| United States | U.S. Congress will pass a $2 trillion fiscal stimulus including expanded jobless benefits and bailouts for selected industries. | Federal Reserve Bank pledged to buy an unlimited amount of government bonds.The most ambitious qauntitative easing pledge ever. Federal reserve Cut interest rates from 1.25% to 0.25%. | The U.S. government will transfer at $1,200 (pre-tax amount) to each American adult earning less than $75,000 a year. | The stimulus is equivalent to 10% of America's GDP and some Democrats still consider it insufficient. |
| United Kingdom | Over $65 billion in direct support in the form of budget aid, grants and welfare enhancements. $390 billion federal loan guarantee program. | Bank of England cut interest rates tro a record low of 0.1%. Added $230 billion to its quantitative easing program. | Government promises to help pay wages of employees at risk of losing their job. | Total stimulus above 2.5% of GDP |
| Germany | $110 billion company bailout fund. $110 billion in state backed loans. $430 billion in state guarantees. | European Central Bank will buy extra $800 billion worth of bonds as part of Quantitative Easing programme. European Central Bank cut interest rates from 0.50% to 0%. | $100 billion loan to the state development bank which will be used to provide unlimited support to businesses struggling due to the pandemic. Nearly $4 billion to tackle current pandemic through procuring protective suits and masks, fast-tracking work on a vaccine against corona and repatriating German holidaymakers stranded abroad. | Confirmed relief package is over 10% of GDP and rising. |
| Australia | $40 billion spending package. Nearly $60,000 to be given to small businesses. | European Central Bank will buy extra $800 billion worth of bonds as part of Quantitative Easing programme. European Central Bank cut interest rates from 0.50% to 0%. | $100 billion loan to the state development bank which will be used to provide unlimited support to businesses struggling due to the pandemic. Nearly $4 billion to tackle current pandemic through procuring protective suits and masks, fast-tracking work on a vaccine against corona and repatriating German holidaymakers stranded abroad. | Confirmed relief package is over 10% of GDP and rising. |

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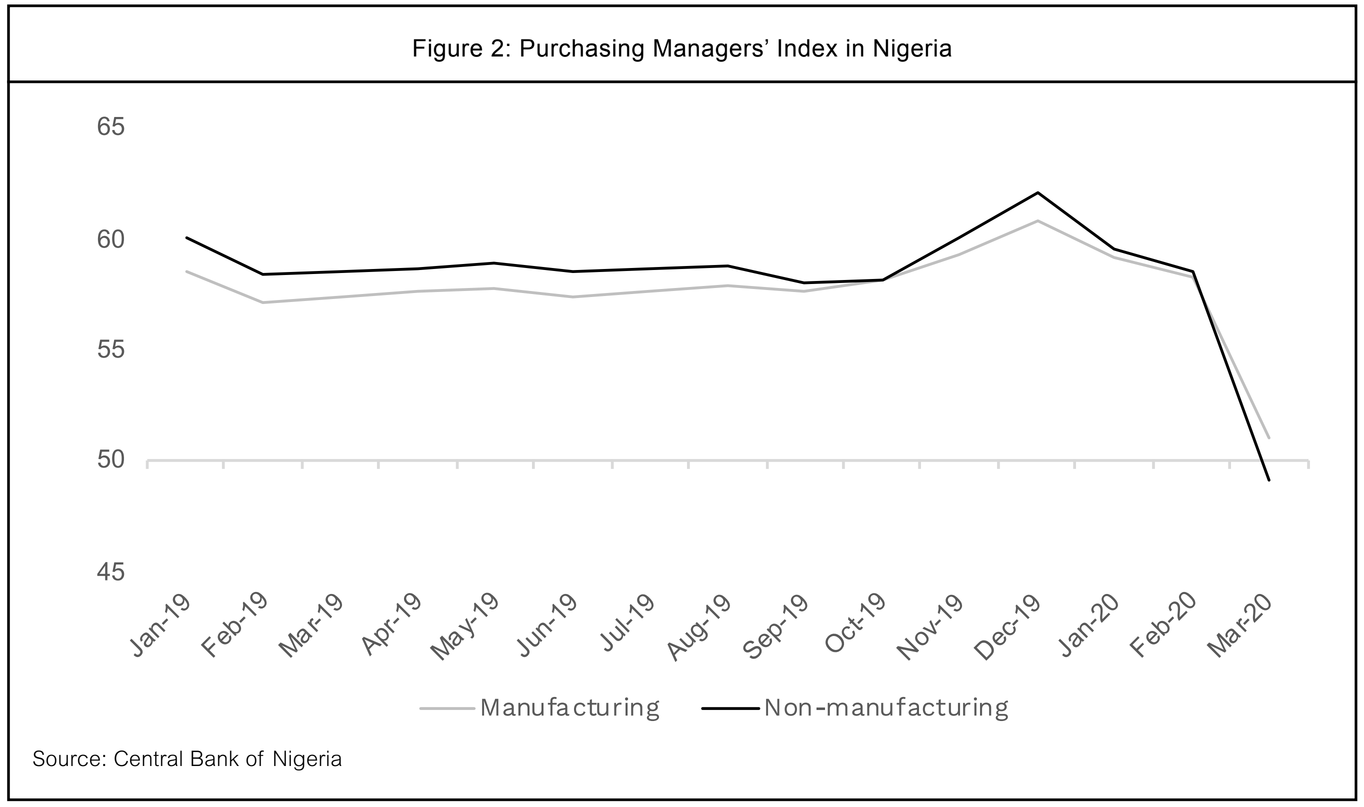
# Section 2: COVID-19 AND THE NIGERIAN ECONOMY

Nigeria is in a precarious position. Already faced with the likelihood of lower-for-longer oil prices, a global economic shutdown will be particularly harmful to a country reliant on external capital and imported raw materials. Meanwhile, increasing cases of COVID-19 within the country foreshadow a partial shutdown of the local economy. This combination of global recession and local pandemic will only expose the structural defects in the Nigerian economy, some of which are the result of flawed policy-making. Notwithstanding the worrying health prospects as COVID-19 spreads within the country, it is clear that the economic impact of the virus will be long and severe for Nigeria. Consumer demand will dry up during a local economic shutdown, rendering businesses unable to pay salaries or meet their debt obligations. left alone, many will not survive the next 12 months. Unfortunately, the policy response so far is not aggressive enough to provide the cushion the economy needs.

## 2.1. A glimpse at the early impact of COVID-19 on the Nigerian economy

Domestic Purchasing Managers' Index (PMI) data2 (conducted by the Central Bank of Nigeria) for March already shows how the economy is being affected. Manufacturing PMI fell from 58.3 in February to 51.1 in March, the lowest value since April 2017. Meanwhile, non-manufacturing PMI (including services and agriculture) fell below 50 for the first time since April 2017, the month before the CBN opened a new floating FX window and ended Nigeria's FX crisis. Worryingly, across both manufacturing (five categories) and services (four categories), employment level was the worst-performing category—showing early signs of how local jobs are being affected. The most alarming thing about this data is that the CBN admitted that the PMI survey was carried out before the COVID-19 situation escalated, meaning that future months will be much worse.

Figure 2: Purchasing Managers' Index in Nigeria




Source: Central Bank of Nigeria



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## 2.2. Evaluating the effect of the global pandemic on the Nigerian economy

Nigeria would be little affected by the imminent global recession if it was a closed economy with closed borders. However, this is impractical in today's global climate so the Nigerian economy will suffer significantly in the wake of the global pandemic—regardless of the domestic epidemiological path of COVID-19 and the steps taken to curb the spread. We analyse the effect on the Nigerian economy through the primary channels of an external economic shock:

- Investment flows
- Oil prices
- Trade in goods
- Trade in services

## 2.3. Investment flows in Nigeria

As the global economy shuts down, investment in Nigeria will dry up as foreigners rush to safer assets like U.S. government bonds. The Institute of Internal Finance estimates that foreign investors took $80 billion out of emerging markets like Nigeria in February and March. Meanwhile, S&P Ratings, one of the three main global ratings agencies, recently downgraded Nigeria's sovereign debt credit rating to B-, which would further discourage investment in the country.

We can expect all types of investment to drop. Even remittances, usually praised for remaining resilient during economic downturns, will be lower as the diaspora also experience tough times. More generally, looking at data from previous years shows how much investment flows can change. Figures 3a & 3b show a clear dip in foreign direct investment (FDI) and foreign portfolio investment (FPI) during the 2009 financial crisis and Nigeria's 2016 recession.

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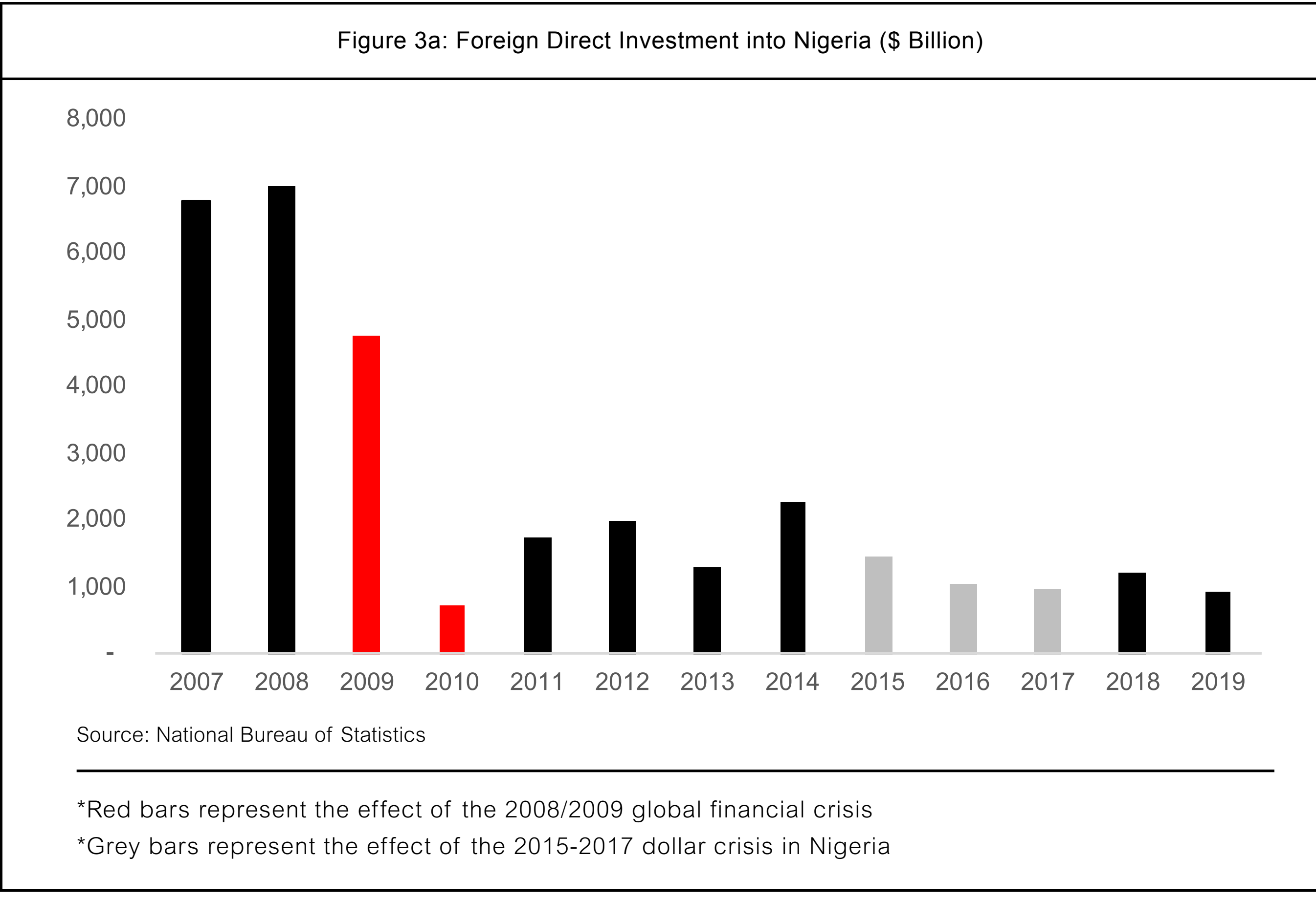


Figure 3a: Foreign Direct Investment into Nigeria ($ Billion)

Source: National Bureau of Statistics

*Red bars represent the effect of the 2008/2009 global financial crisis
*Grey bars represent the effect of the 2015-2017 dollar crisis in Nigeria

Figure 3b: Foreign Portfolio Investment into Nigeria ($ Billion)

20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
-
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

Source: National Bureau of Statistics

*Red bars represent the effect of the 2008/2009 global financial crisis
*Grey bars represent the effect of the 2015-2017 dollar crisis in Nigeria



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There are already signs that this investment exodus has begun in Nigeria. First, Société Générale, one of the largest investment banks in Europe, advised its clients not to buy Nigerian government debt in early February—before COVID-19 escalated—citing concerns over an unsustainably high exchange rate. And on the 19th of March, the Central Bank of Nigeria tried to sell its exclusive OMO securities to foreign investors. The entire OMO auction ended with no sale as foreign investors demanded up to 18% interest on a one-year OMO bill, setting a high bar at which they would be willing to give up their dollars.

The lesson here is that few foreign investors will be willing to take positive bets on the Nigerian economy, leaving us reliant on domestic capital for investment in the medium-term, and indicating that dollars will remain relatively scarce for a while.

## 2.4. COVID-19, oil prices and the Nigerian economy

As the global economy shuts down, oil demand plunges. The International Energy Agency (IEA), the leading global independent energy agency, expects global oil demand to fall year-on-year for the first time since the 2009 financial crisis.

At the same time, we can expect an oil supply glut following the breakdown in the quota agreement between Saudi Arabia and Russia. For three years, the Saudi-led Organisation of Petroleum Exporting Countries (OPEC) have propped oil prices by agreeing to limit production along with Russia, Mexico, and a few others. This OPEC+ cabal largely achieved its objectives as oil prices rebounded from a low of $26 in January 2016 to as high as $85 in October 2018. Now, we can expect a free-for-all in oil production. Russia rejected Saudi Arabia's request to deepen production cuts, adamant that lower oil prices bankrolled shale oil producers in the United States. In response, Saudi Arabia tore up the agreement (ending March) and promised to open its oil pumps.

The resulting demand-supply imbalance will deeply affect Nigeria, which has already been struggling to sell her oil: Nigeria's main crude oil grades are currently being sold at discounts not seen even during the 2009 financial crisis. The Saudi-Russia spat is a critical dynamic as it means that the COVID-19 pandemic is not the only factor holding down oil prices, and they may be lower for longer. For oil prices to recover, Nigeria would need a quick solution to the COVID-19 outbreak and major oil producers to agree to scale back production. Falling oil prices affect the Nigerian economy in two direct ways: Government finances and foreign exchange.

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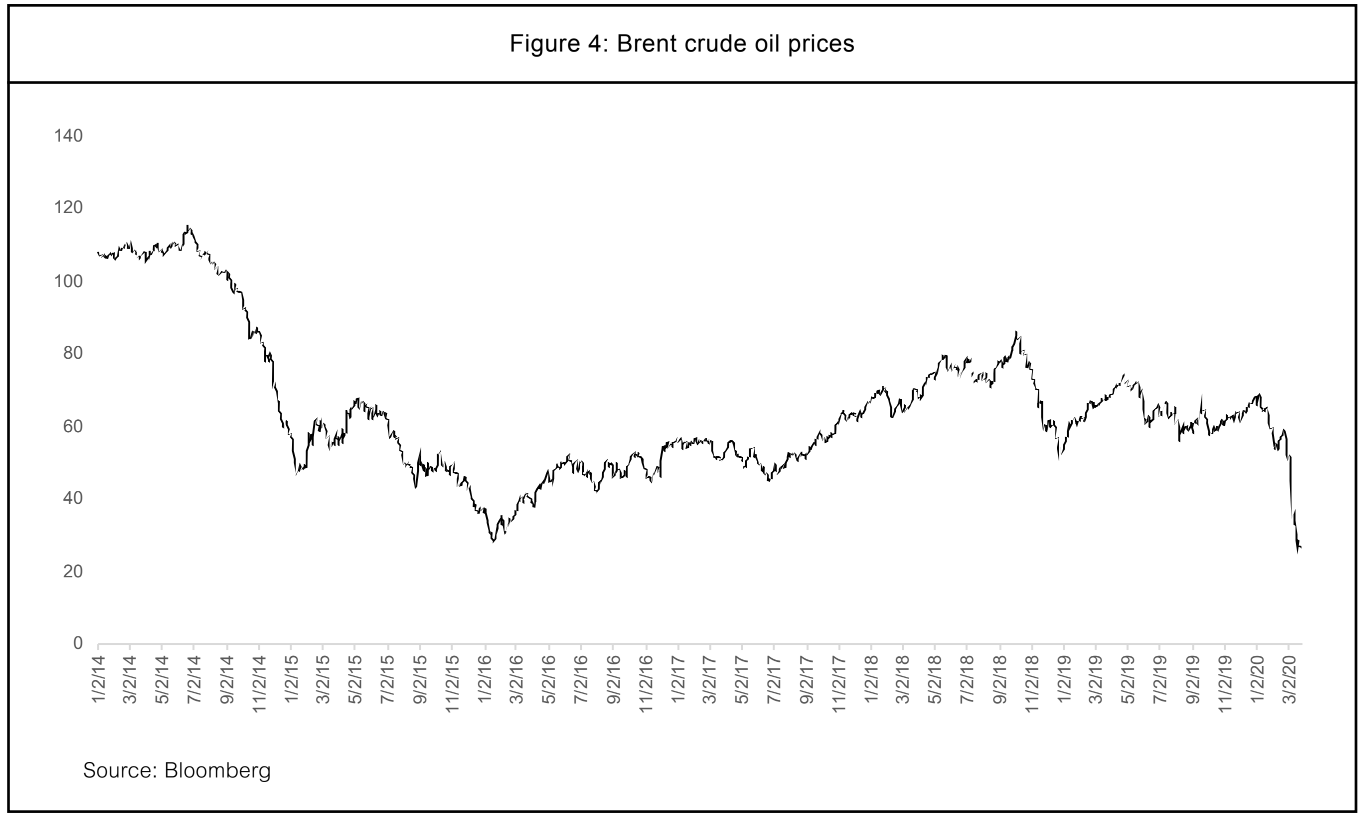


Figure 4: Brent crude oil prices

Source: Bloomberg

## 2.5. The impact on Federal Government finances

The oil price crash has a devastating effect on the Nigerian economy as oil revenues have accounted for roughly 60% of federal government revenues over the last ten years. Unsurprisingly, the Ministry of Finance has taken steps to recalibrate planned spending amid the oil price crash and COVID-19 outbreak, mainly by announcing cuts to projected spending3. This oil price and government finances story is very important because it restricts how the government can respond to the COVID-19 crisis.

Here's an important question: Where are the countries listed in Table 2 going to find the money to finance stimulus packages rising to 10% of GDP?

They are borrowing from the future.

Most of these governments have temporarily relaxed existing borrowing or debt rules to allow them to "borrow" future tax revenues to use today. For example, Germany, arguably the beacon of global fiscal prudence4, has outlined a COVID-19 economic response package that requires the government to raise an additional €150 billion (almost 5% of GDP), a move that must be approved by the German parliament. For further context, Germany's usual borrowing limit is 0.35% of annual GDP.

While aggressive borrowing of this nature may seem reckless (and some economists have argued that it is), the basic logic is that if they do not spend all of this money, the future will look much worse than if they opt for financial prudence. Moreover, these countries can borrow excessively today because their local currency

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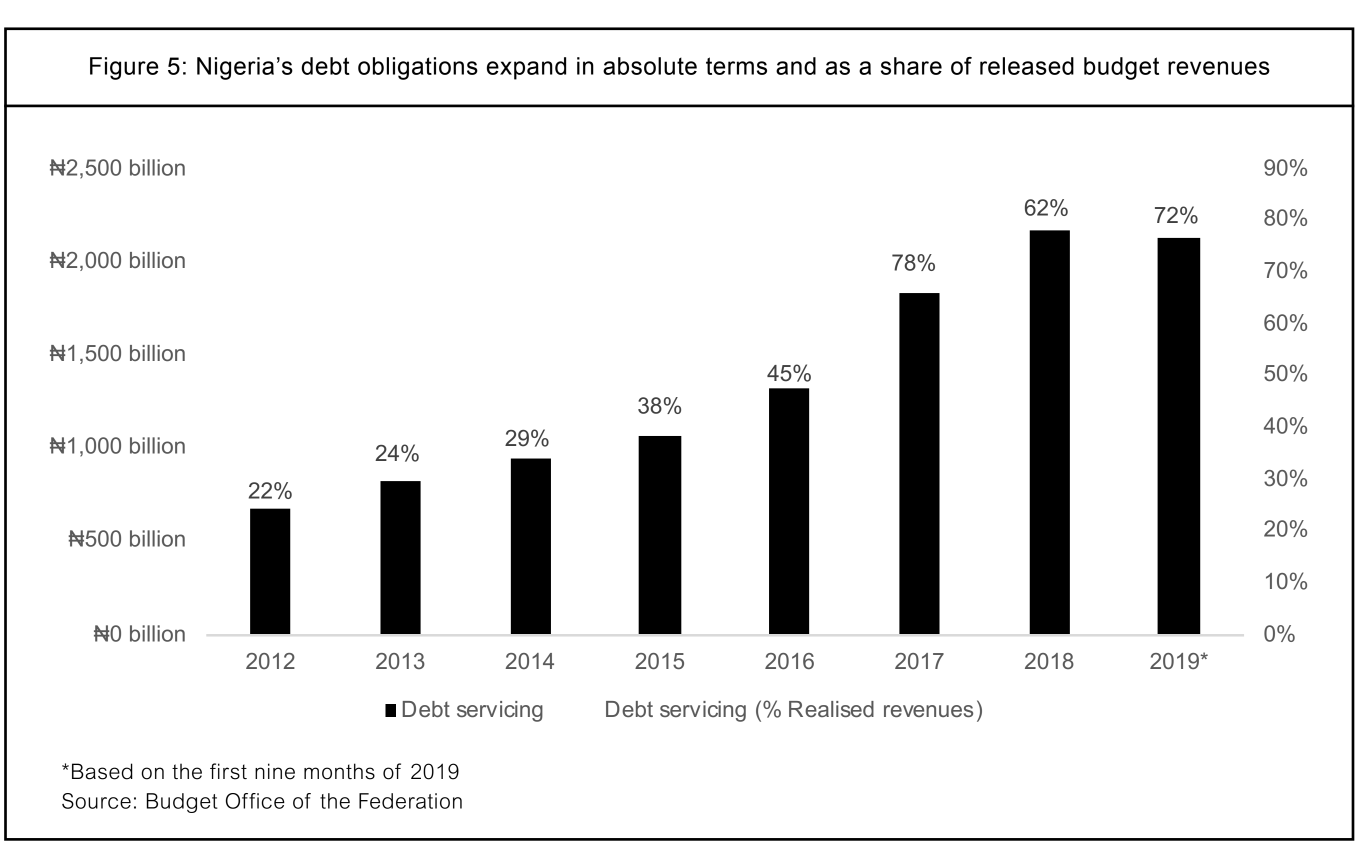
government debt is considered near risk-free (the day nobody wants to buy a 10-yr German bond is the day we all go to Heaven), allowing them to borrow very cheaply. At the moment, the United States government can borrow for 30 years at an annual interest rate just over 1%.

In essence, the aggressive economic response of the western world is only possible because their governments have lots of additional borrowing capacity. Unfortunately, Nigeria does not share this privilege. Nigeria's debt-GDP ratio actually ranks as one of the 20 best in the world, but even before the current crisis, we were spending too much of our revenues servicing the little debt we have. The Federal Government allocated ₦2.5 trillion for debt servicing in the 2020 budget, equivalent to 30% of initial expected revenues. However, debt servicing has averaged 60% of actual revenues in the last five years due to revenue underperformance. With oil prices expected to be lower and non-oil revenues falling amid an economic downturn (less business activity means less tax revenue), there is a real danger that debt servicing will swallow basically all Nigeria's 2020 revenues.

It is not like Nigeria can borrow cheaply to supplement ailing revenues, either. While the United States can borrow for 30 years at 1.5%, both Nigeria's naira and dollar bonds currently have yields above 13%. In short, just when other countries are turning on the fiscal taps, Nigeria's revenues are falling, and it has almost no room to borrow.

Figure 5: Nigeria's debt obligations expand in absolute terms and as a share of released budget revenues




*Based on the first nine months of 2019
Source: Budget Office of the Federation

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### Option 1: Spend Spend Spend

The Federal Government still tries to provide fiscal support to the economy, e.g. by providing tax deductions to firms that don't lay off workers. At best, these fiscal interventions will be well-targeted and reach the individuals and businesses most affected so we get more bang for our buck, but have a limited overall reach as the government is not as financially buoyant as its international peers. In this scenario, Nigerian individuals and businesses will have to rely on the Central Bank for most of their COVID-19 economic support, which still falls short of the support provided in other countries.

### Option 2: Wait and See

The Federal Government ignores its fiscal situation and finds creative ways to stimulate the economy. One extreme measure would be printing money to transfer to individuals and businesses affected by the COVID-19 crisis. This would really help but can cause lasting economic damage if it is not well-managed—anything from hyperinflation (like in Venezuela) or a debt-induced recession (like in Argentina) would be possible.

Nigeria is not alone in this situation; African finance ministers have suggested that the continent needs almost $44 billion worth of debt-servicing waivers5 in order to properly mitigate the economic damage of the pandemic. A debt relief would temporarily remove the burden of interest payments and allow governments to divert scarce resources towards stimulating the economy. The likes of the IMF and World Bank are in support of the idea, and the IMF, in particular, has pledged to deploy its $1 trillion lending capacity6 to support ailing countries. Over 80 countries have so far asked the IMF for help (including Ghana).

Nigeria has generally shunned the institution in the last half-decade but borrowing from multilateral organisations would be the best way of raising emergency funds, especially if their bailout packages include an agreement that western creditors are happy to delay interest payment collections. This is a bad time for Nigeria to try and raise commercial debt (either naira or dollar-based) so willing lenders like the IMF—or China—cannot be overlooked.

## 2.6. The impact on the local currency

A bearish oil market is bad news for the exchange rate as fewer dollars flow into the economy, particularly in a global recession when external investment drops. It became obvious that the naira would go through a tough period once the OPEC+ deal below up and oil prices crashed. So far, the CBN has shown an impressive


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willingness to avoid past mistakes and not try to fight the market. The apex bank has adjusted the official rate from ₦305/$1 to ₦360/$1 and increased the rate at which it sells currency to foreigners from ₦365 to ₦380. In the past week, the naira has been selling for less and less (Figure 7) in the main flexible foreign exchange window (the “Investors & Exporters” window) and more adjustment will occur as the COVID-19 crisis deepens in the country7. The CBN does not have the dollar ammunition (Figure 6) to hold the naira at its desired rate so moving closer towards a floating rate—or devaluing the currency further—would make sense.

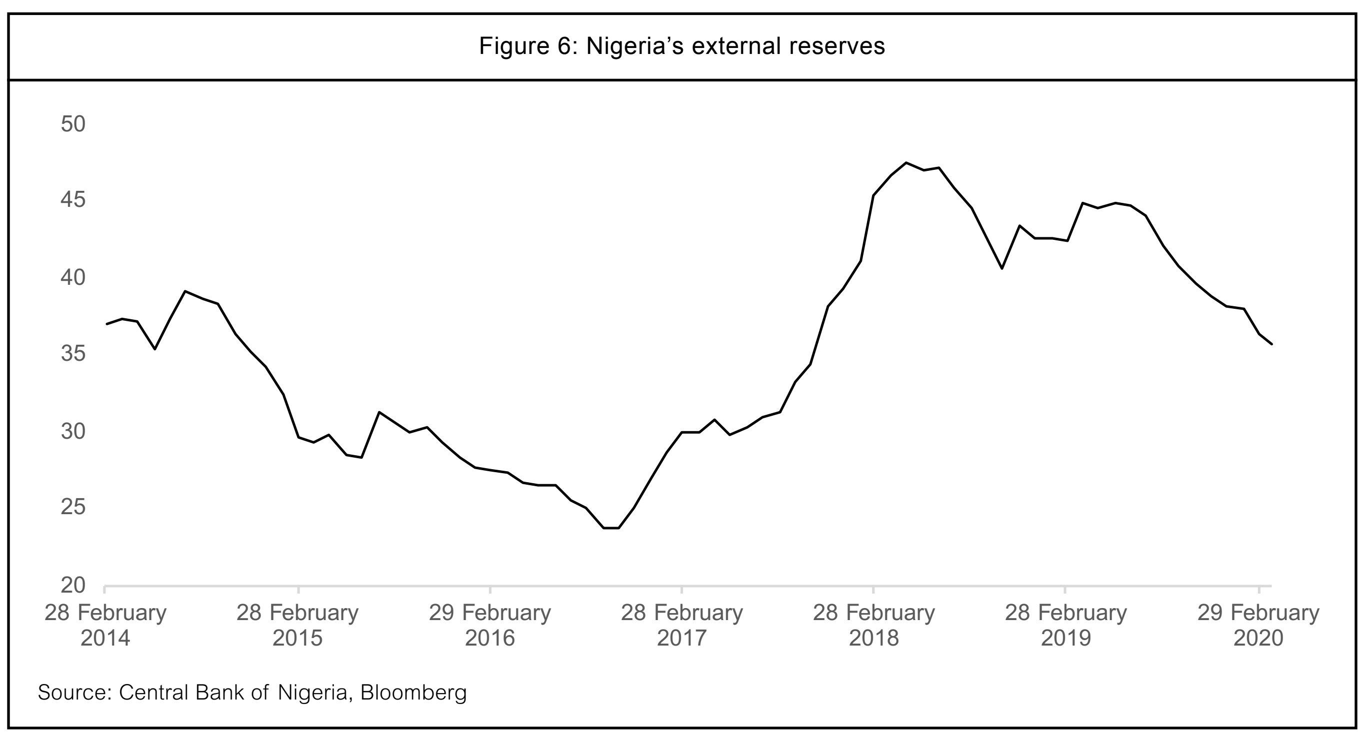


Figure 6: Nigeria’s external reserves

Source: Central Bank of Nigeria, Bloomberg

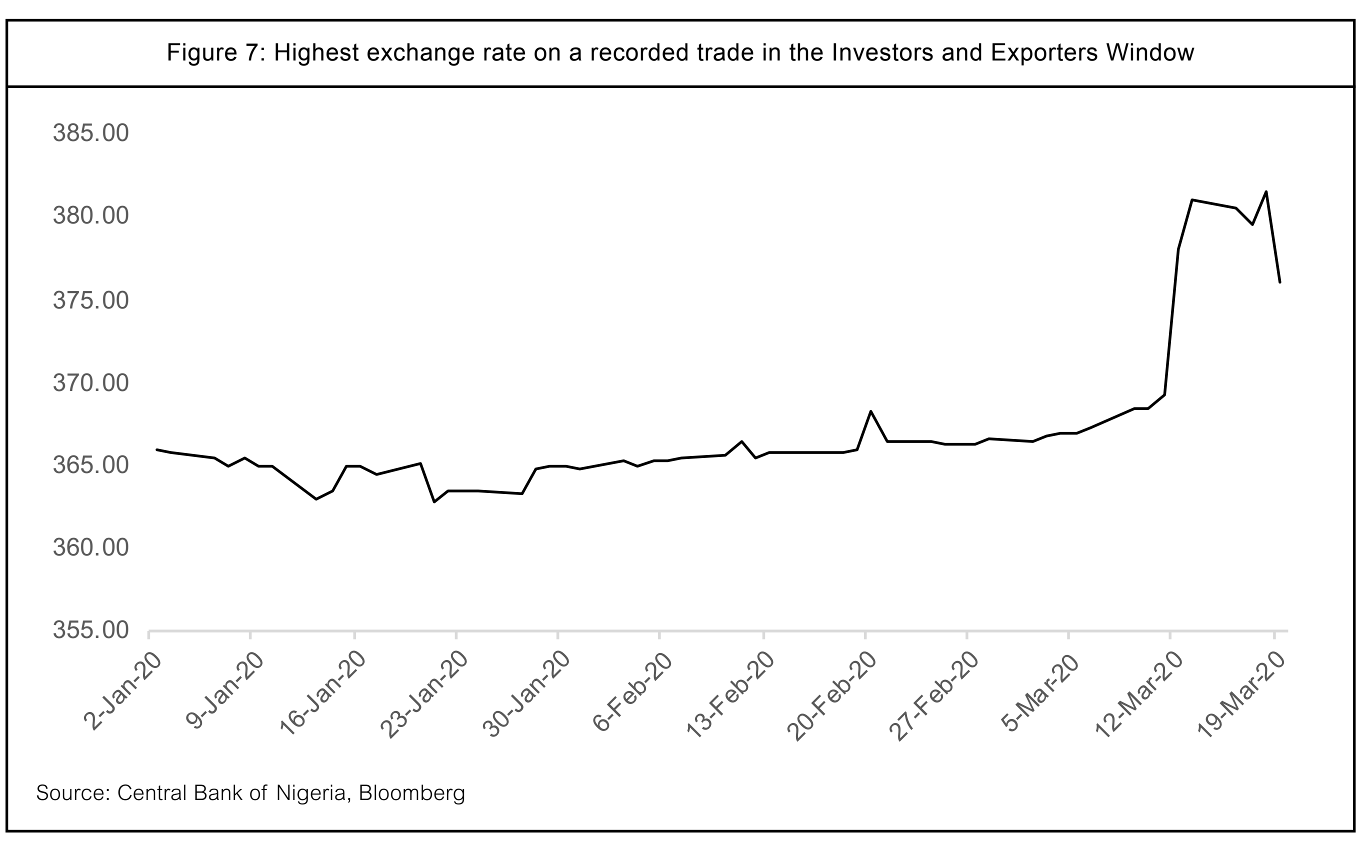


Figure 7: Highest exchange rate on a recorded trade in the Investors and Exporters Window

Source: Central Bank of Nigeria, Bloomberg

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There are few ideal occasions for Nigeria to devalue the naira but two conditions might prevent a large depreciation or major volatility in the exchange rate:

1. Dollar demand will be much lower for the foreseeable future. For one, petroleum imports usually account for 20-30% of physical imports and oil prices are much lower so fewer dollars will be required to bring in petrol. Moreover, travel restrictions mean services like education and health will have lower dollar demand, and these usually account for a lot of the pressure on the currency in the Bureau de Change and black market segments of the market. Finally, a slowdown in the global economy means there's less activity for people to use their dollars.

2. The CBN already has multiple restrictions on foreign exchange that manage the demand for dollars. People that want to import goods like cement and fertiliser cannot get dollars through official channels. Although these restrictions create structural inefficiencies, they help the CBN manage dollar demand.

Nevertheless, the drop in dollar supply will last longer than the fall in demand. Oil prices will remain low until major producers agree to output cuts while the adverse economic effects of COVID-19 will keep investors away for a prolonged period. Looking at the trend in similar emerging markets, further naira depreciation is likely. Overall, Nigerians should get used to a weaker currency and scarcer dollars. The precise extent of either of those two depends on how much the CBN prioritises maintaining a "strong" naira. Either way, businesses can expect to feel a more painful foreign exchange pinch.

The key implications of a weaker naira

**Imports are more expensive:**

European Commission explained that Eurozone GDP growth will be negative if governments did not take significant coordinate action. The International Monetary Fund had predicted growth of 1.3% back in January.

**Foreign currency (FCY) liabilities become more expensive**

Liabilities refer to both debt obligations and trade payables. Institutions with FCY liabilities will find it tougher to repay. Thankfully, the risk of a wider financial crisis still seems low as non-performing loans in the banking sector are at their lowest levels since the end of 2015.

**Nigerians shun the naira as a store of value**

As the domestic economy struggles, Nigerians will increasingly seek ways of preserving their wealth and will likely try and shift their funds to dollar assets.

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## 2.7. The impact on Nigeria's foreign trade in goods

Nigeria's imports and exports will be directly affected by a shutdown of the global economy and indirectly affected by the depreciation of the naira against the dollar and other major currencies. Businesses ought to amend their strategies in light of the changing international dynamics. Although most of the changes are negative, opportunities emerge—or can be discovered—in difficult times. This idea was well-articulated by Rahm Emanuel, a former Chicago Mayor, in his response to the COVID-19 pandemic, when he urged governments to "never let a good crisis go to waste".

### Exports

Over 95% of Nigeria's exports are oil & gas related products so the export sector will primarily be affected by the oil crisis. At the same time, it is important to note that Nigeria's main trading partners have been badly affected by COVID-19 (Table 3a), and the same is true for the buyers of Nigeria's largest agricultural exports (Table 3b). Naturally, this means that Nigerian exporters will not be able to exploit the resulting price competitiveness of the naira depreciation in the near term. As corporations abroad struggle amid a global demand slump, the strategy of diversifying customers to international clients (used during the 2016 recession) is less potent for now.

Longer-term, a weaker naira will make Nigerian exports more competitive so expanding local capacity in strategic goods can really pay off, whether this expansion is done through backward integration or supporting local producers to become more competitive.

Table 3a: COVID-19 ravages Nigeria's main trading partners

| SN | Country | Number of Cases |
|---|---|---|
| 1 | India | 657 |
| 2 | Spain | 47,611 |
| 3 | France | 25,591 |
| 4 | Netherlands | 6,438 |
| 5 | Ghana | 68 |
| 6 | South Africa | 709 |
| 7 | Germany | 37,323 |
| 8 | Italy | 74,386 |
| 9 | Indonesia | 790 |
| 10 | Canada | 2,792 |

*Based on exports for the fourth quarter of 2019. As at 29 / 03 / 2019

Source: National Bureau of Statistics, John Hopkins Coronavirus Resource Centre

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| Table 3b: Agriculture trading partners are not unscathed | | |
|---|---|---|
| Product | Export Value | Number of Cases |
| **Sesame Seeds** | | |
| India | ₦6.6 billion | 657 |
| China | ₦5.4 billion | 81,661 |
| Turkey | ₦5.3 billion | 1,872 |
| Japan | ₦4.4 billion | 1,307 |
| Vietnam | ₦2.9 billion | 141 |
| **Fermented Cocoa beans** | | |
| Netherlands | ₦12.3 billion | 6,438 |
| Germany | ₦5.9 billion | 37,323 |
| Belgium | ₦2.8 billion | 4,937 |
| Indonesia | ₦1.4 billion | 790 |
| Estonia | ₦0.9 billion | 404 |

As at 29 / 03 / 2019

Source: National Bureau of Statistics, John Hopkins Coronavirus Resource Centre

## Imports

It is important to separate Nigeria's imports into finished goods and intermediate goods and analyse the impact of each in turn.

Nigeria imports finished goods ranging from fast-moving consumer goods and transport goods to food & beverage products. These account for roughly 40% of imports in an average year. As a result, the supply shock from a global economic shutdown will be acute, especially as Nigerian imports predominantly come from countries like China that have been severely hit by COVID-19.

This initial acute supply shock may be temporary (factories in China are already re-opening) but production levels will not recover fully for a while. Moreover, logistic obstacles to trade will persist as long as the virus—and precautions taken by governments—remain prevalent. Finally, as suggested earlier, the naira will weaken further, making imports more expensive. The ultimate result is that imported finished goods will be scarcer and more expensive for Nigerians, introducing another opportunity to ramp up local industrial capacity and import substitution.

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Longer-term, a weaker naira will make Nigerian exports more competitive so expanding local capacity in strategic goods can really pay off, whether this expansion is done through backward integration or supporting local producers to become more competitive.

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The success of this approach will be limited as Nigeria tackles a domestic COVID-19 pandemic and partially shuts down its economy, but the Central Bank of Nigeria has committed as much as 1 trillion to fund local manufacturing. However, it is important to note that whilst cheap credit is a boon to local manufacturing, legacy infrastructural and institutional obstacles like inconsistent power supply and an inefficient bureaucracy must be addressed for Nigeria's local industry to fully exploit this crisis. Businesses ought to be tempted to fill the gap that will be created by lower imports, but governments must create an enabling environment if they are to succeed.

Nigeria also imports a lot of goods that are used for local production. These can be capital goods like refinery equipment, intermediate goods like fertiliser, or raw materials like sugarcane. These types of imports are arguably more important, accounting for almost 60% of imports on average. They are also crucial for any local industrialisation strategy (as above) given the dearth of local substitutes.

For example, although Nigeria imports sugar, it has a growing local capacity that may one day reduce the need for imports. But even local sugar production relies on imported sugarcane which is not grown at commercial scale in Nigeria. In the last quarter of 2019 alone, Nigeria imported 60 billion worth of sugar cane from Brazil for domestic sugar refineries8. Any disruption to this type of import would negatively affect local production and increase the need for imported sugar just when it is scarcer and more expensive. In this case, the sugarcane industry has been listed as an essential service in Brazil (due to its links to fuel production) so it should suffer fewer disruptions than other intermediate goods.

Still, the point remains that Nigeria is vulnerable to shortages or price increases in intermediate goods. We do not have to look far to illustrate this. During the 2015-2017 dollar crisis, local manufacturing firms struggled to access foreign exchange to import raw materials, causing a deep slump in the sector that it has yet to fully recover from (Figure 8), even though the CBN created a separate market segment for manufacturers to buy dollars.

In summary, even local production is vulnerable to reductions in imports. Once again, businesses may focus on local production of raw materials, intermediate goods and capital goods, although this is usually more difficult than producing consumer goods. For example, producing capital goods like batteries is very capital-intensive so ensuring that unit costs are low (what countries like China and Germany do well) is even more important. Again, the government has a bigger role to play here than the CBN in ensuring that producing locally is cheap, and that means improving infrastructure and institutions ought to be a priority in the medium

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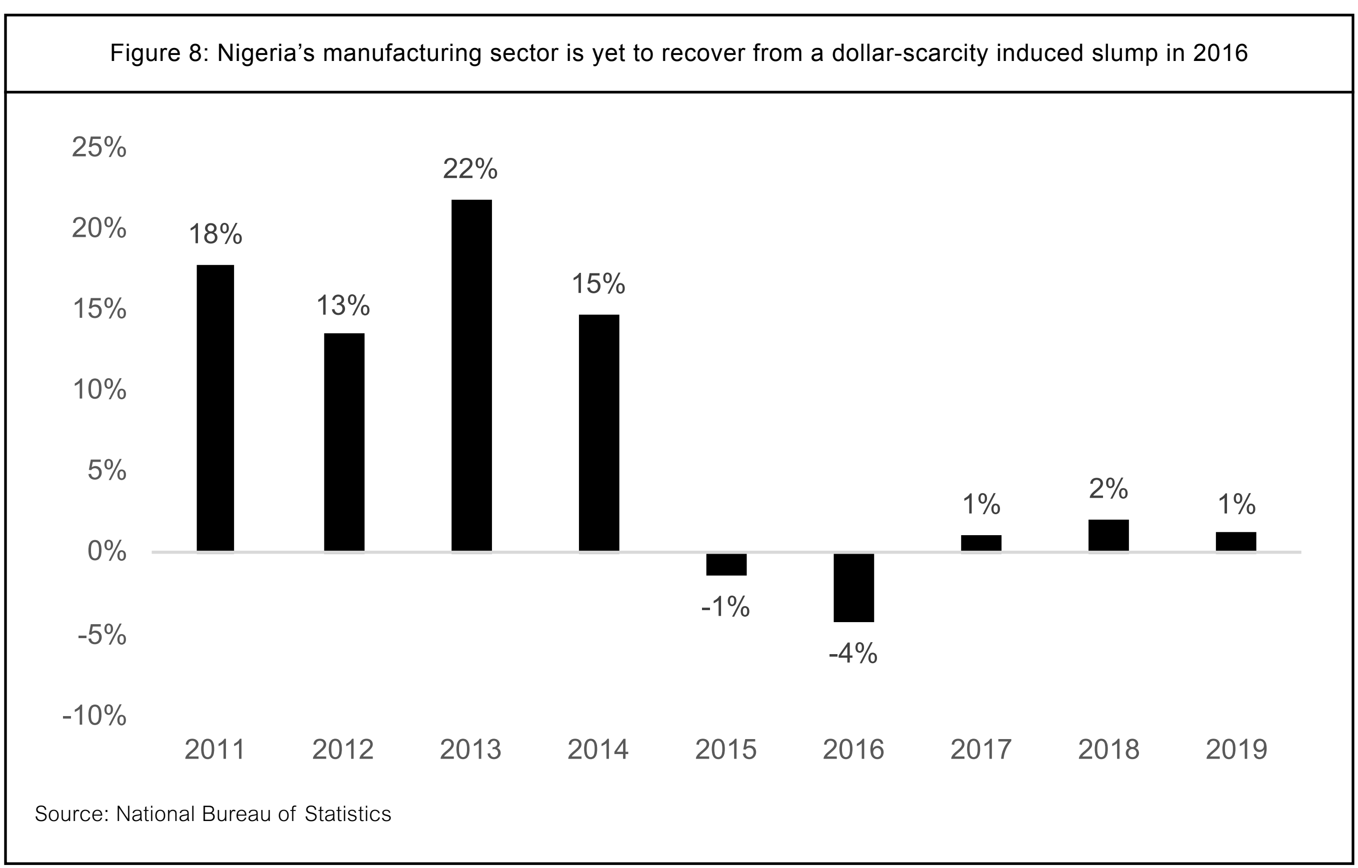
term. Initiatives like the ₦1.5 trillion private sector infrastructure fund set up by the CBN are laudable but will be ineffective unless accompanied by material changes in the general business environment.

Figure 8: Nigeria's manufacturing sector is yet to recover from a dollar-scarcity induced slump in 2016




Source: National Bureau of Statistics

## 2.8. The impact on Nigeria's foreign trade in services

Nigeria's external trade is not restricted to oil, manufactured goods and agriculture crops. Activities like healthcare and financial services are also traded across the border; these will be equally disrupted by the global economic shut-down.

### Exports

The global demand slump erodes the competitive benefits of a weaker currency. In addition, reduced investment in Nigeria means that professional services, lawyers, and others will be in less demand during the period.

### Imports

Nigerian's main service imports are travel, education and health services; together, these accounted for 30% of services imports in 2018. All these services will be hard hit by travel restrictions and a weaker currency. More generally, foreign services will become more expensive, forcing businesses to switch to local substitutes or go without them when there are no alternatives.

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One probable legacy of the current crisis is that developed countries will strengthen their digital economies and take their economies more offline. For example, universities will invest more in virtual teaching infrastructure and techniques.

This is good news for Nigerian businesses as the more global economies are embedded online, the easier it is for Nigerian businesses to plug in and buy or sell services. Therefore, Nigerian businesses have the opportunity to develop or exploit infrastructure or systems that improve remote service delivery. We can see this for in-demand services like education. As international universities do more teaching online, there is an opportunity to bring this teaching closer to students based in Nigeria.

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# Section 3: NIGERIA'S FISCAL RESPONSE TO THE COVID-19 CRISIS

The Nigerian government has responded to the COVID-19 pandemic and its expected economic effects through a range of policies. The main policy levers used are fiscal policy, petroleum prices, and monetary policy. We evaluate each aspect of the government's economic response and outline the repercussions for different industries and businesses.

## 3.1 Fiscal stimulus and COVID-19

In comparison to the measures rolled out overseas, Nigeria's fiscal response has been limited by a lack of funds. The government is set to pass an Emergency Economic Stimulus Bill 2020, but the provisions of the bill are weak. The strongest component is job creation as any company that does not retrench staff between 31st of March and 31st of December (except for reasons related to a breach of Labour Act) will get a 50% tax refund. Although this incentivises businesses to retain their workers, it does not give them the funds to do so as money promised in the future is far less helpful here than money given today. Moreover, any rewards based on tax refunds are less effective in a recessionary environment as businesses are more likely to make operating losses.

Other minor provisions are included in the stimulus bill, including permission for individuals to defer mortgage payments under the National Housing Fund (NHF) and import waivers on medical supplies and related products. Even in regular times, these measures would be limited. For example, the total value of loans under the NHF was just over ₦40 billion in 2018, compared to ₦105 billion in outstanding mortgages, which is also a very small amount.

At the same time, the Federal Government has reduced its projected expenditure in the 2020 Budget due to the fall in oil prices. Capital expenditure (Capex) was cut by 20% and recurrent expenditure was cut by 25%. The government also enacted a hiring freeze (except for essential services like health and security) and plans to review existing tax waivers and social intervention schemes. Meanwhile, the Ministry of Finance made other adjustments to revenue projections beyond oil prices; the ministry anticipates lower customs revenues as international trade volumes fall and lower privatisation proceeds as fewer willing buyers acquire government assets.

There are two ways to look at the changes made by the government and none of them is flattering. The first is that the changes are superficial because they would not affect reality. In 2018, the government spent just 58% of its Capex budget; taking away 20% of the 2020 Capex budget is immaterial as it would not have been spent anyway. The story is that the government was not going to meet its 2020 Budget projections so cutting these would not really constrain what it will spend this year.

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The second way to look at it is that the government should be looking to spend more, not less; at this time, the Nigerian economy needs stimulus, not austerity. The fiscal realities outlined earlier may convince the government to tighten its belt, but the economy will suffer much more if this happens. The International Monetary Fund described the appropriate economic response to the COVID-19 crisis as ensuring that "that people will not die because of a lack of money" so governments have the responsibility to ensure that businesses and individuals are catered for during this period.

Nigeria's limited fiscal wiggle room should not impede the government from arresting the inevitable economic slide caused by the COVID-19 pandemic.

### 3.2 Petroleum price modulation

The decision to reduce premium motor spirit (PMS) pump prices from ₦145/lire to ₦125/litre would normally be a positive for Nigerian businesses as transport and energy costs fall in tandem, though not by as much as you would expect since transport prices are sticky downwards (have you seen a bus conductor reduce fares?). However, lower transport prices are less important when the economy is partially shut and people stay indoors—meaning that the main benefit of the price cut will be the lower cost of private power generation. At the same time, the price reduction introduces a notable risk of product scarcity at petrol stations. The government has asked stations to retail the product at ₦125/litre even though marketers acquired their stock at ₦145/litre before the price change. Until the Petroleum Ministry gives clarity on how marketers will be compensated for the shortfall, Nigerians may have to wait for the full benefits of the price change.

More generally, the government missed the opportunity to raise revenues by retaining the ₦145/litre pump price and collecting the extra ₦20/litre in the form of taxes. This would have been particularly useful given the current state of government finances and would have been the more progressive approach. Wealthier Nigerians use more petroleum products so will benefit more from the price reduction, whereas the government could have distributed the additional tax revenues as cash transfers to those most affected by COVID-19.

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# Section 4: NIGERIA'S MONETARY POLICY RESPONSE TO THE COVID-19 CRISIS

Given the financial constraints faced by the Federal Government, the Central Bank of Nigeria (CBN) has been left to do the heavy lifting of protecting the economy from a COVID-19-induced crash9. Although the CBN has announced a raft of policies to tame the crisis—and will likely roll out a few more—we show why these policies are limited by the CBN's role as a monetary institution, rendering it incapable of providing the fiscal support needed in such unprecedented economic times. Understanding this reality is important for understanding the extent of the domestic economic interventions and how much individuals and businesses should expect to be shielded from the imminent economic downturn.

## 4.1 Central Bank of Nigeria initiatives

The Federal Government may be banking on the CBN to mitigate the economic fallout of the COVID-19 pandemic. Let's review the policies10 rolled out by the CBN in the last two weeks:

- **Loan moratorium:** Any individual or business with a CBN-related loan already under moratorium (i.e. the debtor has permission to delay payment) has the option of deferring payment for another year. The objective of this policy is to shift debt burdens into the future—a useful step when people are short of cash today.

- **Interest loan reduction:** All interest rates on CBN intervention loans have been cut from 9% to 5%. The objective of this policy is to reduce the debt burden on those who took out intervention loans, but arguably does not go far enough as a 5% interest rate is still a material liability during an economic crisis.

- **Manufacturing sector intervention:** The CBN has set aside ₦1 trillion to support local manufacturing and boost import substitution.

- **Credit support for other sectors:** The CBN has created a ₦50 billion Targeted Credit Facility (TCF)11 for SMEs affected by the COVID-19 crisis.

- **Credit support for healthcare:** The CBN has set up a credit line up to ₦100 billion for any individuals or businesses in healthcare12 and health innovation, e.g. pharmaceuticals, health facilities, labs etc.

- **Infrastructure fund:** The CBN is initiating a ₦1.5 trillion private sector infrastructure fund to finance critical infrastructure projects.

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## 4.2. An evaluation of the CBN COVID-19 initiatives

The Central Bank has received a lot of criticism from economic quarters in recent years, mainly because of its management of the exchange rate. In terms of its response to COVID-19, however, it has generally done as much as it can. The main thing a central bank can do is provide liquidity to the economy by making it easier and cheaper for individuals and firms to borrow. Only governments can ensure that individuals and businesses remain solvent through the crisis. Only the government can provide a genuine economic safety net to cushion the blow of this "Act of God" event.

Here, we assess CBN policies in response to the pandemic.

### *Size of stimulus*

Putting all the credit facilities the central bank has made available or promised gets us somewhere between ₦1.2 trillion and N3.5 trillion or 2-3% of the economy. This pales in comparison to measures enacted elsewhere. For example, in the United Kingdom, the Bank of England has already pumped £200 billion (roughly 7% of GDP) into the economy and the government's loan guarantee program is equivalent to over 10% of national GDP. Even in Australia, the Federal Reserve Bank created a short-term lending facility for businesses that is equivalent to 4% of its annual GDP. All in all, even if ₦3.5 trillion additional credit finds its way to Nigerian individuals and businesses, it would fall far short of measures taken overseas.

### *The big winner*

There is one clear winner from the CBN policies: the manufacturing sector. The apex bank has set up a ₦1 trillion support facility for local manufacturing, a fantastic idea as it is a sector that will be particularly hit by a weaker currency and disruptions to global supply chains. More importantly, boosting local production is a necessary long-term response to the COVID-19 crisis and will set up Nigeria quite nicely to take full advantage of the African Continental Free Trade Area agreement13.

### *The big loser*

Early indications from abroad suggest that service industries are likely to be harder hit by the COVID-19 pandemic, particularly in the event of a domestic lockdown. Both global and domestic PMI readings are much lower for service industries.

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| Table 4: Comparison of Manufacturing and Services PMI for March 2020 | | |
|---|---|---|
| | Manufacturing | Services |
| Eurozone | 44.8 | 28.4 |
| Germany | 45.7 | 34.5 |
| France | 42.9 | 29.0 |
| UK | 48.0 | 35.7 |
| Japan | 44.8 | 32.7 |
| Australia | 50.1 | 39.8 |
| United States | 49.2 | 39.1 |
| Nigeria* | 51.1 | 49.2 |

*Nigeria services PMI includes agriculture
Source: IHS Markit, Central Bank of Nigeria

Furthermore, the service sector is the largest part of the Nigerian economy, accounting for roughly 60% of GDP and employing 45% of all workers. Real Estate and Trade alone account for more than 20% of national GDP. Most SMEs also operate within the service industry (Figure 9) and will need help in navigating the crisis. This is worrying because apart from selected industries (e.g. aviation), the announced initiatives do not directly cover service industries and the workers employed there. Even if the entire ₦50 billion Targeted Credit Facility went to the services sector, that would be less than 0.5% of services GDP. At the moment, this lack of support for service industries is a glaring hole in Nigeria's COVID-19 response and could lead to severe economic pain.

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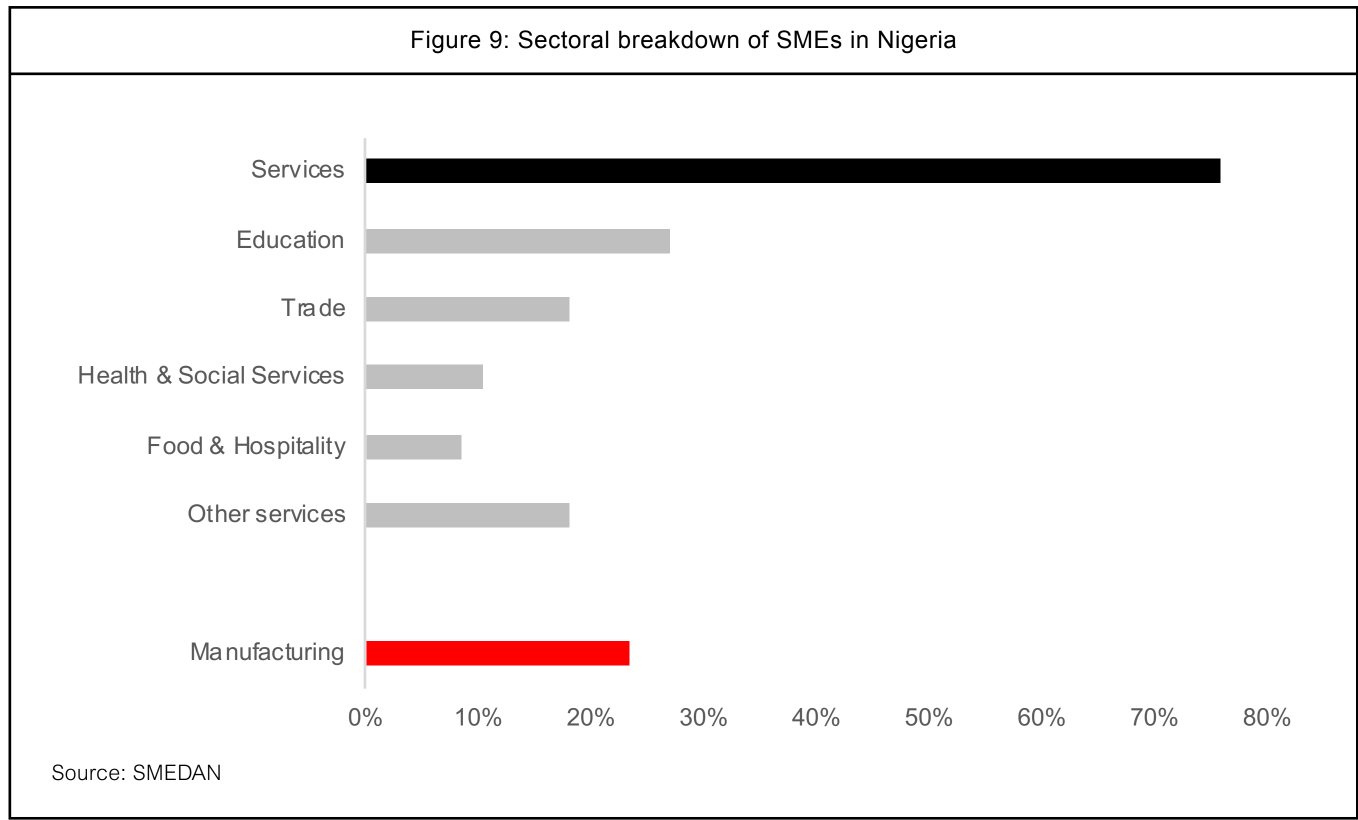


Figure 9: Sectoral breakdown of SMEs in Nigeria

Source: SMEDAN

## The missing pieces

Worryingly, Nigeria's economic response does not tackle obvious effects of the COVID-19 pandemic. As mentioned earlier, tax refunds for businesses that retain workers does not go far enough to combat the danger of mass unemployment. In the last week alone, jobless claims in both the United Kingdom and United States have soared to record highs. Over 3 million people in the United States filed for unemployment benefits in a single week[14], an indication of the immediate danger to employed workers in Nigeria. Other countries have adopted aggressive strategies to curb this—Denmark[15] has promised to pay up to 75% of employee salaries to prevent firms from firing them.

Meanwhile, as the economy shuts down, households will also struggle. So far, Lagos State has distributed key staples to households as part of its partial lockdown, but more needs to be done to ensure that households do not run out of money through no fault of their own. Nigeria needs government transfers now more than ever.

## 4.3. The limits of monetary policy in today's crisis

In truth, the underlying problem with Nigeria's economic response to the pandemic is that the CBN has taken the lead even though it is ill-equipped to tackle this particular problem[16]. The central bank can only reach Nigerians within or connected to formal financial services; for example, the 50 billion Targeted Credit Facility requires a BVN number and some form of collateral. Yet only 30 million active bank accounts are BVN enabled, less than half of all active accounts. So even people with bank accounts would not be able to access the facility.

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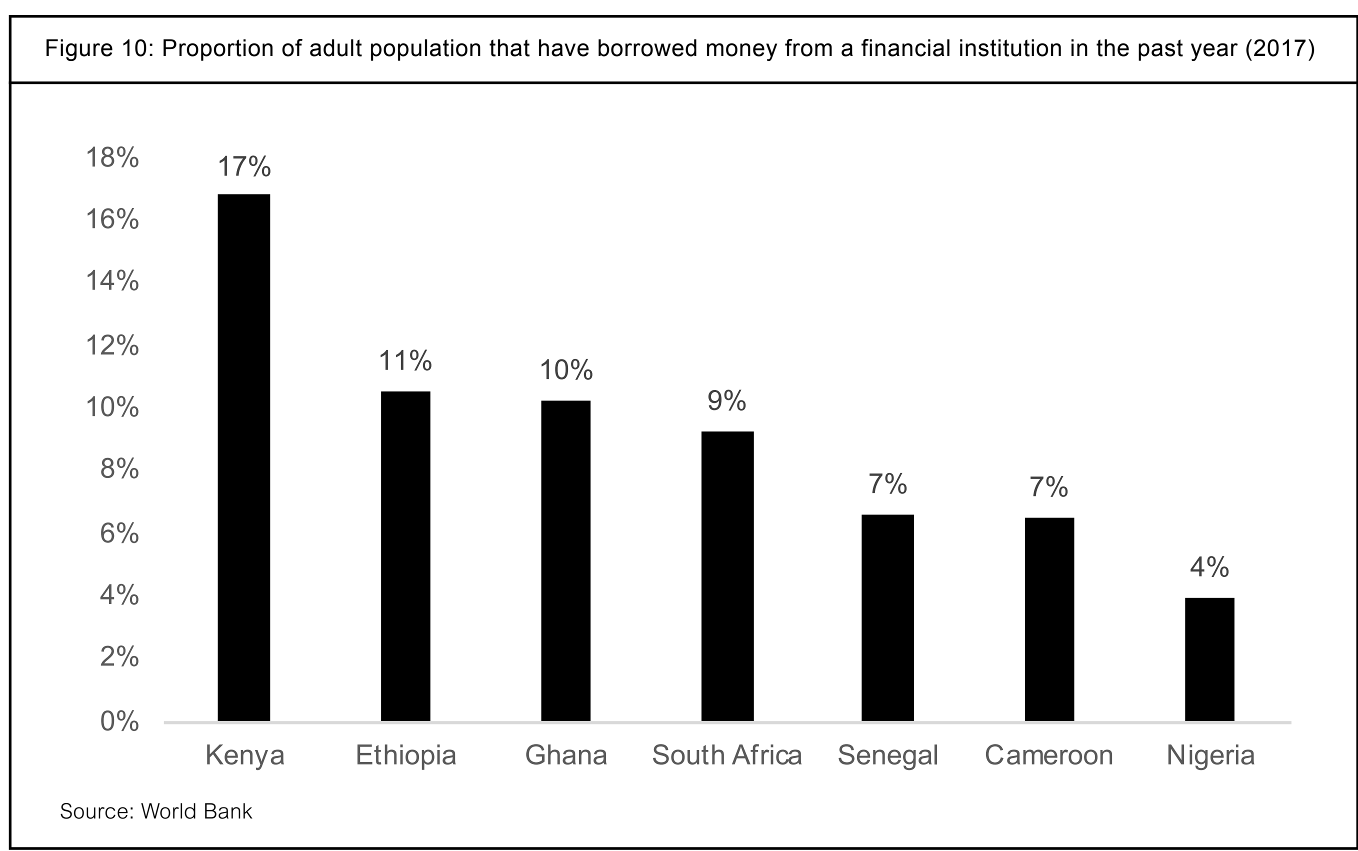
We usually see financial inclusion as a binary variable, but it is a qualitative measure that describes how easily people can access credit and other financial services. In Nigeria, financial inclusion is poor (Figure 10). As a result, CBN credit facilities will only be accessed by a small subset of Nigerians, and probably not by those that need the most help.

Figure 10: Proportion of adult population that have borrowed money from a financial institution in the past year (2017)




Source: World Bank

But even if every Nigerian could access a CBN loan, the current stimulus would still be inadequate because monetary policy has limited range during a prolonged economic shutdown.

The primary function of monetary policy is to remove the borrowing/investment constraints faced by individuals and firms and enable them to transfer money from the future to the present. In other words, central banks provide liquidity by allowing people to convert an asset (whether an existing one or a future asset like factory) into cash now (in the form of a loan). This function is still useful in a time like this but is wholly inadequate if not supported by strong fiscal measures.

As the economy shuts down, people will lose their jobs and businesses will go under. Giving them loans does not solve their underlying problem. For example, if a restaurant earns zero revenues for six months but still needs to pay overheads, giving it a loan gives it the cash to pay these overheads, but it simply delays the fact that that restaurant is becoming insolvent.

At a time like this, people need money in their pockets17 in the form of grants, wage subsidies, tax refunds, etc. At worst, they need zero-interest loans. Governments all over the world understand thus and have acted accordingly. Hong Kong cut each citizen a check of $1,300 dollars, Italy is providing a €600 allowance to self-

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employed workers for March, and the United States has passed a bill that will allow the government to give each citizen a one-off payment of $1,200.

To see just how unfit for purpose monetary policy is here, some of the world's leading economists on public finance have argued that the best economic response to the crisis is for the government to act as a buyer of last resort for businesses18. What this means is that the government will compensate all individuals and businesses for all income forgone because of the economic shutdown. So, if a restaurant would typically rake in revenues of $10,000 in March, the government gives it that money. If this were to happen, the economy would simply "restart" where it stopped once the pandemic gets controlled and lockdowns disappear. Of course, this is an idealised solution would be incredibly expensive. In Nigeria, it would be virtually impossible, but it shows the insufficiency of the current economic response.

The summary from all of this is that going by current measures, Nigeria's economy will have precious little to defend it against the global recession. Furthermore, a prolonged local shutdown would cripple our economy like elsewhere, but the recovery would be slower and more painful due to the limited steps taken to cushion the economic blow. Here's a simple message then: businesses should buckle up for a long ride.


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# Section 5: THE UNIQUE DIMENSIONS OF A LOCAL PANDEMIC

It's hard to tell just how far COVID-19 will spread in Nigeria, and we would rather leave that call to the epidemiologists19. Data isn't helpful here as true cases would far surpass reported cases in a low testing environment like Nigeria. Nevertheless, our analysis rests on two pillars. The first is that we anticipate at least a partial economic shutdown in major cities (Lagos, FCT, etc.) as governments impose lockdowns to curtail the spread. The second pillar is that the geographical spread of the virus poses a threat to the entire national economy, even though reported cases are concentrated in a few states. Table 5 shows each state with a reported case along with its share of national GDP and active SMEs. Affected states account for much more than half of Nigeria's annual output.

Table 5: States with COVID-19 account for a large share of Nigeria's economic activity

| States | Number of Cases | GDP Contribution | Share of SMEs |
|---|---|---|---|
| Lagos | 59 | 30% | 12% |
| FCT | 16 | 9% | 4% |
| Oyo | 7 | 2% | 3% |
| Ogun | 3 | 2% | 3% |
| Bauchi | 2 | 1% | 3% |
| Edo | 2 | 2% | 4% |
| Enugu | 2 | - | 2% |
| Osun | 2 | 1% | 4% |
| Ekiti | 1 | 1% | 1% |
| Benue | 1 | - | 3% |
| Kaduna | 1 | 2% | 4% |
| Rivers | 1 | 4% | 2% |
| **Total** | **97** | **57%** | **45%** |

*As at 31/03/2020
Source: Nigeria Centre for Disease Control, National Bureau of Statistics, SMEDAN

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A partial economic shutdown in Nigeria will look similar to the experience abroad, so will lead to equally bad economic outcomes. However, a local shutdown would have important distinguishing elements due to Nigeria's unique socioeconomic and institutional terrain. Here, we analyse these distinguishing features of a local economic shutdown and highlight the implications for industries and businesses in Nigeria.

The main gaps highlighted in Nigeria are:

- Information
- Poverty & social insurance
- Physical and social infrastructure
- Economic response

## 5.1. Nigeria's information gap

COVID-19 has been described as the world's first infodemic in recognition of the unique role traditional and social media have played in spreading both information and disinformation. Accurate real-time information is crucial for curbing the spread of the virus and mitigating its economic effects. One reason South Korea20 enjoyed initial success in keeping COVID-19 in check was that they tested aggressively to determine the number of true cases in the country. Beyond knowing the number of infections, as countries impose unprecedented social and economic lockdowns, the spread of information is critical for reducing panic and directing positive behaviour. In this regard, Nigeria's weak data culture puts it at a disadvantage as it responds to the viral threat.

**Nobody knows how many people have been infected in Nigeria.**

Nigeria's local pandemic and economic shutdown will not resemble scenes in China or Europe because the local information environment is vastly different. For one, Nigeria had just six test centres and had tested less than 1,000 people by the 28th of March. This is important because if only a few people are tested, only a few cases will be detected. A shortage of testing kits means that Nigeria is reliant on donations from other countries (e.g. Jack Ma donated 1 million kits to Africa). In light of this, official or reported cases cannot be used as an anchor of the seriousness of the local pandemic; the wise thing to do is assume that the virus has spread undetected far more widely than is being reported and the effects will only be seen in a few weeks.

**Information does not create informedness.**

Harvard Business Review warned governments and businesses against assuming that citizens and workers have up-to-date and correct facts about the COVID-19 situation. Today's social media era has created a dual problem of information overload and misinformation without solving the underlying information gap individuals face at this moment. Political and business leaders looking to keep their people safe will have to take on the responsibility of piercing through this misinformation with the facts that people need.

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**COVID-19 will keep surprising everyone**

We live in unprecedented times. Comparing COVID-19 death rates with other pandemics (e.g. SARS) does not give a true picture of the impact of the virus. Nearly 180 countries have been affected and the virus has altered how we live and the things we do in a way not seen since World War II. The 2020 Tokyo Olympics were postponed for a non-war related reason for the first time in history, most of the world's largest airlines have their commercial fleet, and even Saudi Arabia banned people from performing the pilgrimage in Mecca. In such unprecedented times, nobody really knows what they are doing. As a business owner, experts are your best bet because their wealth of prior knowledge gives them the best framework to interpret new data, but even experts will disagree on how to solve the problem.

The best policies may only ever be known in hindsight, yet prudence demands we do not underestimate how much worse the crisis can get. In times of great uncertainty and heightened potential loss, businesses should prioritise resilience—the ability to survive tough times—over growth and efficiency. In this case, that means preparing for what is possible, not what is probable21.

## 5.2. The relevance of poverty and weak social insurance

It is no surprise that Scandinavian nations like Norway, wealthy ones like Canada or large economies like Germany have enjoyed more success in managing the COVID-19 outbreak. Likewise, these countries are better prepared to endure the imminent economic hardship and have more policy ammunition to cushion the blow. This is in no small part because the average citizen in each of these countries is relatively well-off and has access to a range of social insurance buffers in their time of need. The opposite is true in Nigeria and could be the defining difference between how Nigerians experience the health and economic costs of COVID-19.

**Poverty**

It will be much harder for the government to ask millions of Nigerians to stay at home for a prolonged period. The Nigerian economy is much less digital than other countries, neither can local infrastructure support remote working. Business activity will shut down if a lot of people cannot go to their place of work, and this is as true for informal workers like market-women as it is for formal workers like receptionists. Crucially, Nigerians have much less financial room to forgo income, whether because they stay at home or are laid off.

China Household Finance Survey and Research Centre, a respected independent consultancy in Chengdu, Sichuan surveyed 120,000 Chinese households in February 2020 and found that 40% could not last three months without income. That number will be much higher in Nigeria. 37% of Nigerians surveyed by the National Bureau of Statistics in its 2019 Nigerian General Household Survey22 had been worried about not having enough food to eat because of a lack of money in the past year. 25% actually ran out of food in the past year due to lack of money while 32% had faced a food shortage in the last 12 months. Data like this shows the extent of basic food insecurity in Nigeria.

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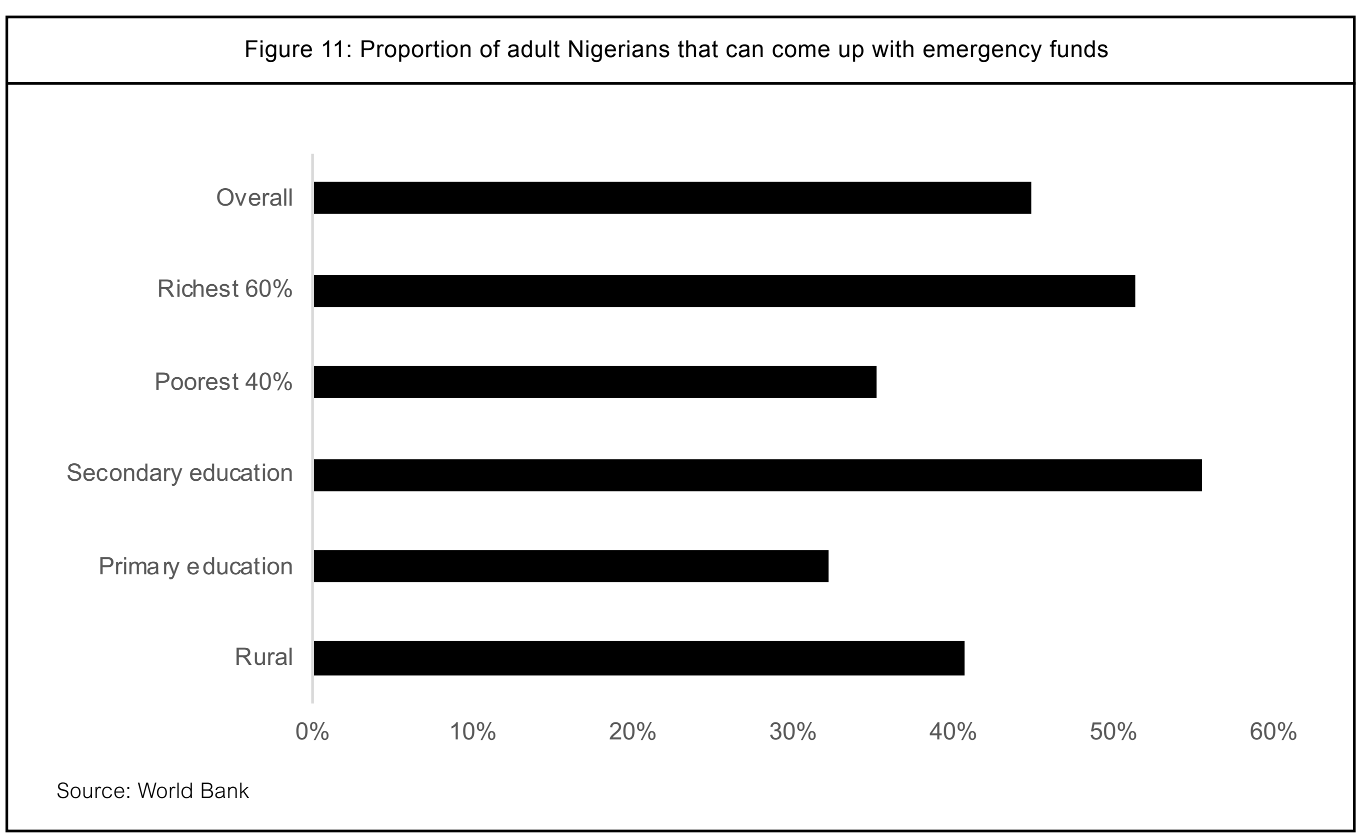
Finally, enforcing social distancing is trickier where security institutions are not efficient, and the population has more to lose if they abandon their economic enterprises. Any step considered draconian that would lead to serious economic loss will meet citizen resistance, and this introduces underlying security tension as governments try to get a handle on the situation. Flashpoints have already occurred on the continent: on the 25th of March, two young men were killed in a scuffle with police in Rwanda while violating a mandatory 2-week lockdown. Navigating a health and economic crisis in a volatile security environment amplifies the risk individuals and businesses face and may delay the return to business-as-usual.

Figure 11: Proportion of adult Nigerians that can come up with emergency funds




Source: World Bank

**Social Insurance**

Social insurance schemes, like unemployment benefits and health insurance, ensure that people have something to fall back on in difficult times. Someone with medical insurance is more likely to go to the hospital than someone without medical insurance. Likewise, the blow of losing your job is cushioned if you can pick up a monthly benefit check. People will prioritise their health and other people's well-being when they have options.

Nigerians do not have options. Not ever, and not now.

Nearly 70% of Nigerian households that experienced a financial shock (e.g. job loss, illness or poor harvest) in the last 12 months did nothing because they had no options. And for the lucky few that could respond to the situation, most relied on assistance from friends & family. When that failed, they simply cut consumption.


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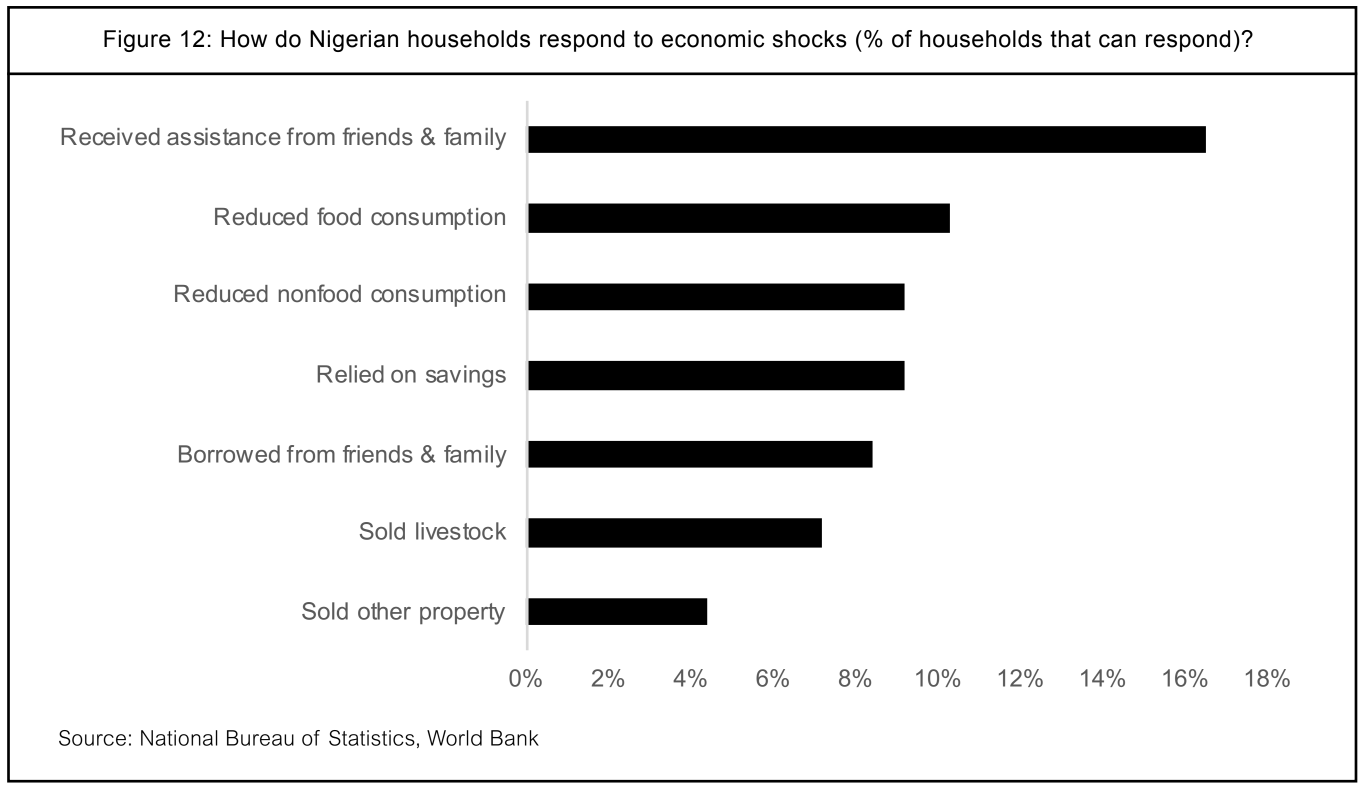
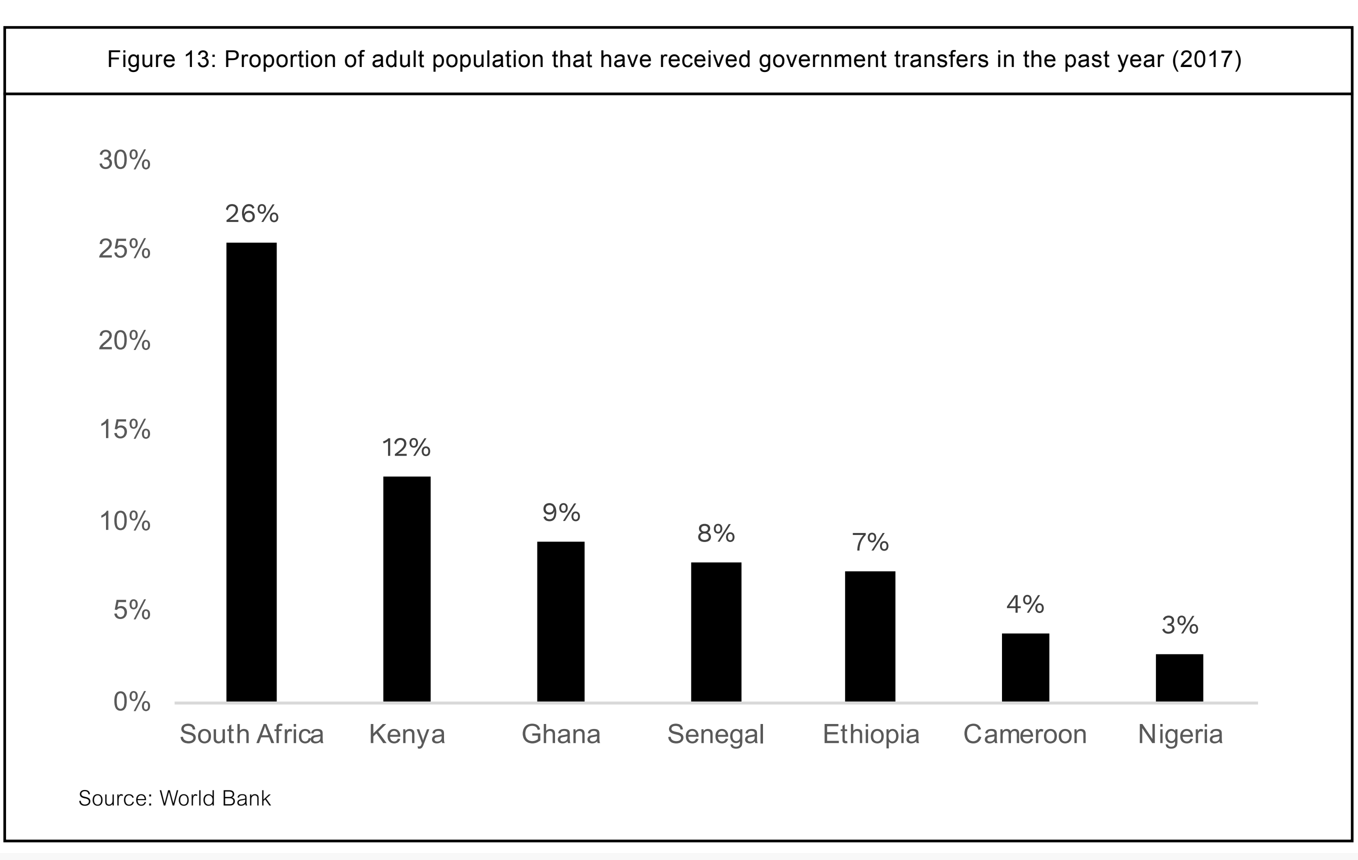
Figure 12: How do Nigerian households respond to economic shocks (% of households that can respond)?




Source: National Bureau of Statistics, World Bank

Part of the reason for this is that social insurance schemes in Nigeria are either non-existent or reach a tiny portion of the population. Compared to other countries, Nigeria's welfare state is abysmal (Figure 13). In the wake of the oil price slump, the Federal Government has floated the idea of reducing allocations to existing schemes like the Conditional Cash Transfer (CCT) but this would be the worst time to do that. In a country without safety nets, citizens will take more selfish actions and jeopardise public health and the broader economy.

Figure 13: Proportion of adult population that have received government transfers in the past year (2017)




Source: World Bank

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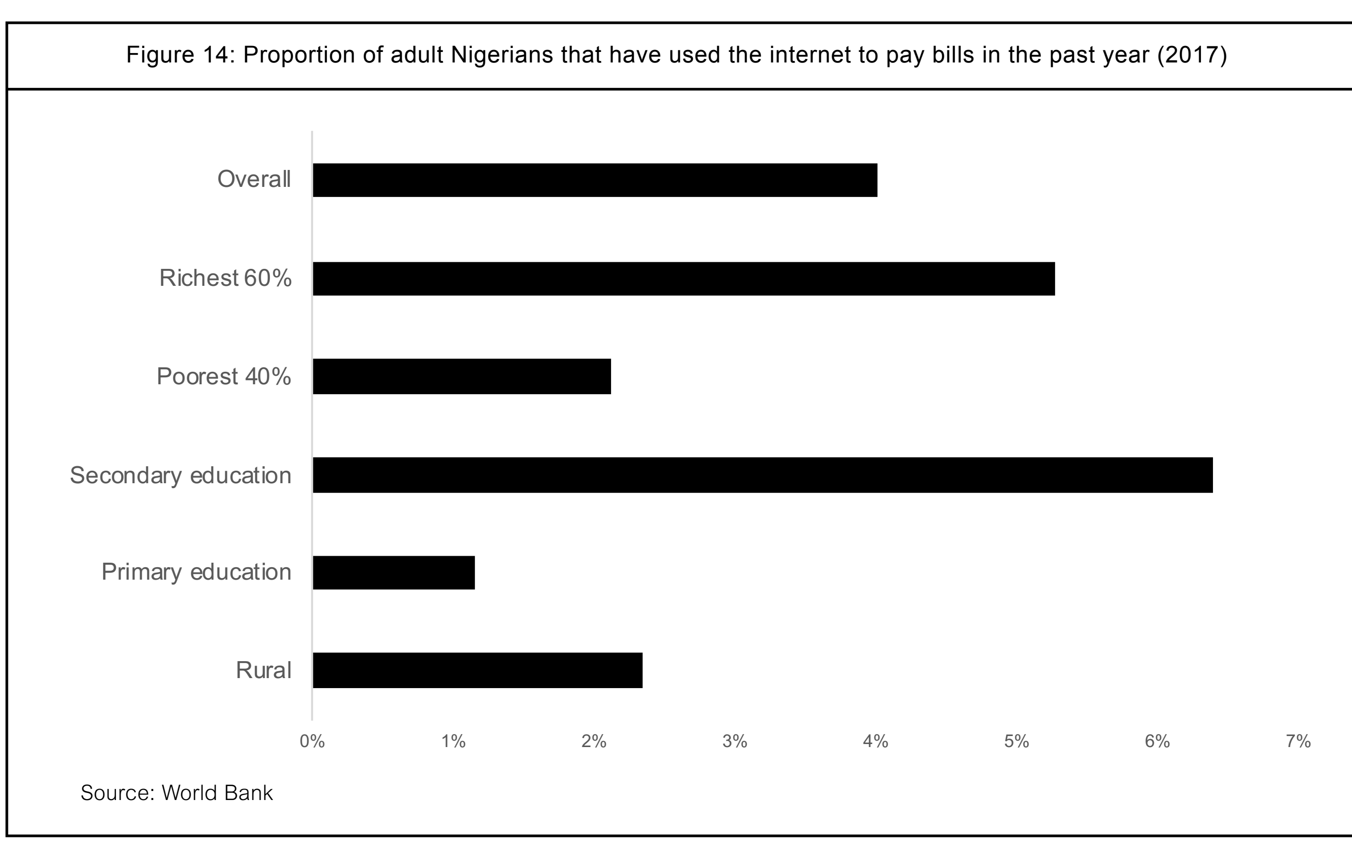
## 5.3. Infrastructure and environment in Nigeria

The extent to which Nigeria is able to keep its economy running while maintaining severe social distancing measures is a function of its infrastructure. A cursory glance at the infrastructure that supports the way people live and work in Nigeria suggests that Nigerians will be less able to maintain their economic activities from behind closed doors. For example, a survey of small businesses carried out by the Small & Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2017 found that only 21% of surveyed SMEs have an e-commerce aspect.

Moreover, people should ideally be able to maintain their essential services by paying digitally, but a 2017 World Bank survey found that just 4% of Nigerians used the internet to pay bills in the past, and the headline number masks inequalities across different groups.

Figure 14: Proportion of adult Nigerians that have used the internet to pay bills in the past year (2017)




Source: World Bank

The nature of work in Nigeria also makes it difficult for people to work from home and leaves them more vulnerable to job loss. 70% of Nigeria's formal workers are rurally employed, and these rural workers are more at risk. 23% (14.5 million) of them are under-employed (work for less than 40 hours each week) so will be on more flexible contracts that leaves them vulnerable to being laid off. These types of people will not be helped by CBN lending windows as they are probably financially excluded (see Figure 10). And, of course, basic living conditions matter too. In slums and densely populated areas, people simply cannot practice social distancing. When you consider that these areas tend to have worse hygiene, you realise that if the virus reaches a slum like Makoko there is very little that will stop it from spreading.

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### 5.4. Nigeria's insufficient economic response

As discussed earlier, Nigeria's fiscal restraints means that it will not act as forcefully to avoid the economic repercussions of either the global economic downturn or a local pandemic. To a large extent, businesses must prepare to fend for themselves and find ways to survive. Unlike richer economies, Nigeria will not be able to put the economy on ice until things get better so businesses and individuals can expect limited support in the event of a shut-down. In particular, businesses can expect a lengthy liquidity crunch. Accessing credit facilities might help with the liquidity crunch but there needs to be a clear plan on how to manage these liabilities in the medium-term as the economic impact will outlast the viral pandemic.

All of this means that businesses can expect recessionary conditions for a prolonged period, so non-essential products will be even harder to sell. On the plus side, Nigeria recently endured a recession, so we know a little bit about how consumers behave in a recessionary environment. For example, the 2016 recession and foreign exchange prices made domestic consumers particularly price-sensitive and encouraged them to switch from expensive brands to cheaper products. Those habits have been hard to shift, and many consumer goods companies have altered their product mix in response.

In the same way, businesses can expect changes in consumer trends to persist beyond the pandemic. Early observations from China suggest that people are favouring more indoor-based consumption than before; some of it may be out of concern over their safety, some of it is status quo bias that makes it hard for people to switch away from newly ingrained habits, and some of it is that consumers discovered that they prefer the changes they have made.

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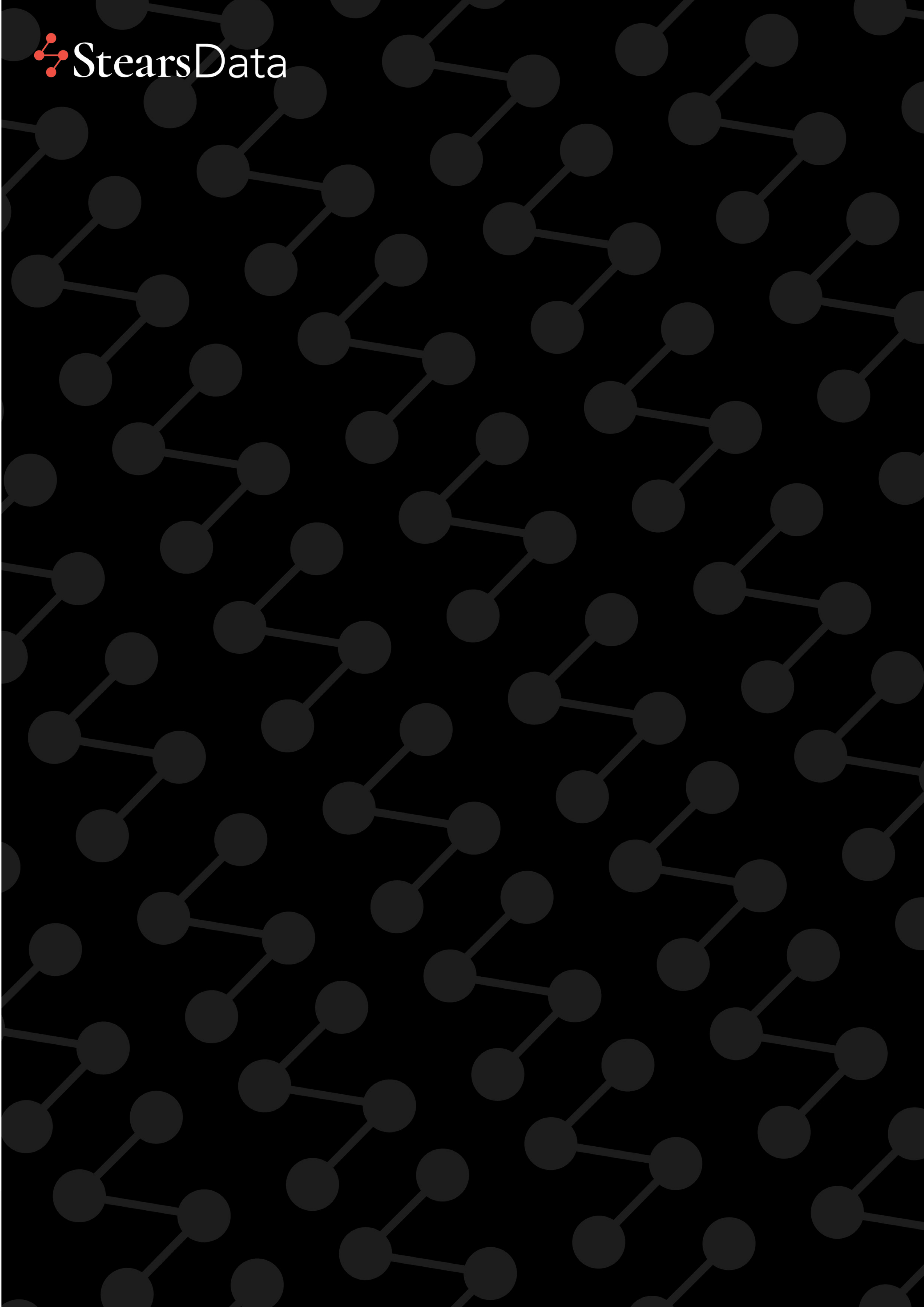
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