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An Appraisal Of The Impact Of Covid-19 Pandemic: Nigeria's Economy In Perspective

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***Abstract**: The economic dwindling in Nigeria was prompted by a synthesis of declining oil price and spillovers from the Covid-19 outbreak, which not only led to a fall in the demand for oil products but also preempted economic activities from taking place when social distancing policies were enforced. The government responded to the crisis by providing financial assistance to businesses, not to households that were affected by the outbreak. The monetary authority employed accommodative monetary policies and offered a targeted 3.5trillion loan support to some sectors. These efforts should have prevented the economic quagmire from occurring but it didn't. Economic agents refused to engage in economic activities for fear of contracting the Covid-19 disease that was spreading very fast at the time. In this paper, the Covid-19 spillovers to Nigeria and the structural weaknesses in Nigeria's infrastructure that helped bring on the current economic crisis and discuss prospects for reform was analyzed.*

Keywords: Covid-19, Coronavirus, pandemic, financial crisis, global recession, spillovers, monetary policy, fiscal policy.

Introduction

The quagmire in economy or recessions are often caused by market corrections (Hart and Tindall, 2009; Jones, 2016), market failure (Stiglitz, 2008; Chauffour and Farole, 2009; Petrakos, 2014), external trade and price shocks (Ros, 1987; Mendis, 2002; Gomulka and Lane, 1997; Francois and Woerz, 2009), political instability (Aisen and Veiga, 2013; Gasiorowski, 1995; Lagravinese, 2015), civil unrest through protests (Bermeo and Bartels, 2014; Giugni and Grasso, 2016; Grasso and Giugni, 2016; Bernburg, 2016).

Recessions cannot be a novel issue in Nigeria. During the 2016 recession, the monetary authority in Nigeria defended the local currency from forced devaluation against the dollar and adopted a managed float foreign exchange system, which worked well from 2016 to 2019. In the aftermath of the 2016 recession in Nigeria, it was almost widely believed that unexpected and sustained decline in oil price was the most important cause of recessions in Nigeria. But in 2020, nobody thought that a public health crisis could trigger an economic crisis in the country. What made the 2020 economic crisis different from other economic crises or recessions in Nigeria was that most economic agents, who should have helped to bring economic renaissance, were unable to engage in economic activities due to fear of contracting the Covid-19 disease, while other economic agents did not engage in economic activities when the government imposed and enforced its social distancing policy and movement lockdown in Abuja, Lagos and Ogun states on the 30th March of 2020.

Although the coronavirus outbreak which started in the Wuhan province of China had spillover issues in Nigeria, the reason why the outbreak became inevitable 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.

The analysis in this paper contributes to the literature that examine the cause of economic crises in developing and transition countries. This literature shows that the level of development in a country plays an important role in perpetuating economic crises or in facilitating economic recuperation. The rest of the paper is divided into six parts. Section 2 discuss the literature on economic crisis. Section 3 present an overview of the Covid-19 pandemic from a global context. Section 4 discuss the Covid-19 outbreak in Nigeria. Section 5 discuss the structural factors that worsen the economic crisis in Nigeria. Section 6 discuss the much needed reforms. Section 7 concludes.

Economic crisis

The literature on economic crisis is vast. Morales and Sachs (1989), in their analysis of the economic crisis in Bolivia, show that Bolivia suffered from major external shocks, including the rise in world interest rates in the early 1980s, the cutoff in lending from the international capital markets, and the decline in world prices of Bolivia's commodity exports. Bolivia also witnessed hyperinflation from 1984 to 1985 which did not result from the dislocations of war or revolution. The hyperinflation was a disaster for the Bolivian economy because many well-connected rent-seeking individuals made large profit in the hyperinflation.

Anybody with access to official foreign exchange from the central bank purchased cheap dollars and sold them at a several hundred percent profit in the black market. Similarly, commercial banks who took deposits at zero interest were lending money at high nominal interest rates. Similarly, the government extended large amounts of low-interest loans to politically powerful landowners which became grants to them as a result of the hyper-inflation (Morales and Sachs, 1989).

Honkapohja and Koskela (1999) show that, in the 1990s, Finland experienced a deep depression as its GDP dropped to about 14% and unemployment rose from 3 to almost 20%. This was caused by both bad luck and bad policies. Bad luck took the form of external shocks such as the collapse of trade with the former Soviet Union in 1991 while bad policies took the form of a poorly designed financial regulation and mistaken policy reactions to the onset of the crisis. There was also high private sector's indebtedness which increased structural unemployment, and this explained why there were few job creation during the economic recovery (Honkapohja and Koskela, 1999). Di Quirico (2010) show that the 2007-8 global financial crisis affected Italy’s economy due to lack of structural reforms prior to the crisis. Italy had barely recovered from twenty years of political instability and economic decline, and the 2007-8 global financial crisis further worsened the economic situation in Italy. The widespread corruption (granting business contracts on the basis of political connections rather than by merit), the absence of investment in new projects for economic growth, and the inability of the ruling government to initiate real reforms contributed to the economic crisis in Italy (Di Quirico, 2010). Thailand was affected by the Asian economic crisis. Glassman (2001) showed that the economic crisis in Thailand was rooted in declining profitability of the manufacturing sector during a time of increased global export competition and overcapacity in Asia. This triggered the economic downturn throughout the Asian region, with Thailand falling first because of its significant liabilities, and other countries being pulled into forced devaluation through financial contagion effects (Glassman, 2001).

Nigeria witnessed two economic crises within a decade. The economic crisis of 2009 was as a result of the global financial crisis while the economic crisis in 2016 was as a result of the sudden fall in oil price in the world market. The 2009 recession was caused by a combination of the after-effect of the 2007-8 global financial crisis, poor loan underwriting process in banks, bad risk management practices and poor corporate governance of banks (Sanusi, 2010). Banks were a major cause of the 2009 economic crisis. The 2016 economic crisis was caused by unexpected decline in oil price which led to a sharp drop in oil revenue which severely affected Nigeria’s foreign reserve (Adeniran and Sidiq, 2018). This led to massive balance of payment deficits combined with an already high debt burden which plunged Nigeria into its second recession in a decade.

The literature also show that economic crises have notable consequences. For instance, Carneiro et al (2014) show that the economic crisis in Portugal gave rise to job destruction due to the collapse of existing firms, increasing unemployment rate, increase in the incidence of minimum wage freeze, and also led to an increasing number of temporary workers. Cheong (2001) show that there was increasing income inequality during the Korean economic crisis, while Giannakis and Bruggeman (2017) in their analysis of the economic crisis in Greece observed that rural regions are more resistant to recessionary shocks than urban regions. Other consequences include: high mortality rates from homicide, pneumonia, and alcohol dependence during economic crisis (Khang et al, 2005), and the collapse of many small and medium scale enterprises (Soininen et al, 2012). So far, the literature has not analysed the effect or consequence of a health crisis on the economy. More specifically, the effect of coronavirus, or Covid-19, on economic activities and performance have not been explored in the literature.

Global context of Covid-19 pandemic

The coronavirus began in Wuhan, Hubei Province, China. Residents who lived in Wuhan had some link to a large seafood and live animal market, which suggest that the mode of transmission of coronavirus was from animal to person. The virus has been named “SARS-CoV-2” and the disease it causes has been named “coronavirus disease 2019” (abbreviated “Covid-19”). The first known patient of Coronavirus started experiencing symptoms in Wuhan, China on 1 December 2019. Since then, there have been over 800,000 reported cases around the world.

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).

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 cause 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.

Direct effect of Covid-19 to the Nigerian economy

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 (Andersen, 2012).

Structural factors that worsen the economic Quagmire

This aspect of the paper presents a description of key structural factors that helped to prompt or deteriorate the current economic crisis.

Poor public health infrastructure

The public health sector in Nigeria has poor infrastructure such as poor emergency services, few ambulance services, ineffective national health insurance systems, insufficient primary health care facilities, and these problems in the public health sector have often been linked to the high maternal and infant mortality rates in the country (Muhammad et al, 2017). Currently, Nigeria operates a two-tiered healthcare system with a large public healthcare sector and a smaller private healthcare sector. Compared to developed countries, the private healthcare sector in Nigeria is very small because of the limited funding for private health insurance. Also, the majority of Nigeria's healthcare spending is still dominated by out-of-pocket expenditure which account for 70% of total health expenditure8, which suggest that most Nigerians either do not rely or trust the health insurance systems in the country or they are unaware of the availability of health insurance. Despite the introduction of the National Health Insurance Scheme (NHIS) in 2004, the population covered by health insurance in 2019 was about 5 percent of the total population.

The Nigerian pharmaceutical industry also has its own problems. The Nigerian pharmaceutical industry is one of the largest in West Africa, and accounts for about 60% of the market share in the region. But most of the active pharmaceutical ingredients (API) used in Nigeria are imported from China, and only 10% of the drugs used in Nigeria are manufactured locally in the country. The industry is facing many problems such as poor infrastructural and unreliable utilities, scarcity of skilled workers, poor access to finance, lack of appropriate government incentives, policy incoherence by the government, poor demand due to robust competition from Asian companies particularly China, high cost of doing business as a result of imported and expensive production inputs, regulatory problems, among others. Nigeria has a drug market that is almost unregulated because the health agencies have difficulty in preventing the importation of illegal drugs and difficulty in tracking informal drug sellers that operate without a registered license (Fatokun, 2016). It is estimated that informal drug sellers in the country account for more than 70% of the pharmaceutical market and these informal agents import substandard and falsified drugs through informal channels. Research shows that 78% of low-quality medications came from private facilities compared to public facilities, and most of these private facilities are unregulated. The unregulated drug market in Nigeria is the major factor responsible for the circulation of low-quality medicines in the country (Klantschnig and Huang, 2019).

The failings in Nigeria's public health sector made it difficult for Nigeria to cope with the fast-spreading Covid-19 disease during the outbreak. Local drug manufacturers could not manufacture drugs that could temporarily suppress coronavirus in infected patients because the APIs used to manufacture suppressant drugs could no longer be imported because China had shut down its factories and closed its borders to control the coronavirus pandemic that was ravaging China at the time. Also, there were insufficient isolation centers in many states including in Abuja and Lagos. The number of infected patients in Lagos grew worse to the extent that a stadium had to be converted to an isolation center (Bermeo, & Bartels, 2014). In the end, the Covid-19 outbreak overwhelmed the poor public health infrastructure in Nigeria.

A weak and underdeveloped digital economy

Before the Covid-19 outbreak began, Nigeria already had a weak and underdeveloped digital economy. There were hardly any university or school that offered a full educational curriculum online from start to finish. Most businesses, including banks and technological companies, operated using the traditional 'come-to-the office-to-work' model as opposed to the 'working-from-home' model. The outbreak of the novel coronavirus brought challenges to the business environment in Nigeria. It impacted industries and markets in the short term. The operations of these markets and industries would have been minimally affected if they had a large digital operation infrastructure. The only services that were offered through the existing digital infrastructure during the Covid-19 outbreak were telecommunication services, digital bank transfers and internet services.

The digital economy would have played a major role in driving recovery from the economic crisis if Nigeria's digital economy was robust and well-developed. For instance, in Nigerian schools and universities, educators can put coursework online so that students quarantined at home don't have to miss out on key aspects of their education while school is closed or when students can't get to school. E-commerce apps that enable online buying and selling can allow buyers and sellers to make purchases and sales while staying in their homes. Also, telehealth apps for health and wellness checks can allow individuals in all affected areas to take extra precautions to monitor their vital signs and learn how to reduce their risk of infection. Also, family members can visually check on their parents, grandparents and siblings without physically visiting them which provides a level of comfort that would be impossible over the phone. Online delivery businesses can use virtual assistants to help ensure that goods purchased from online grocery stores are delivered when customers need them. Businesses that don't want their workforces to travel or whose employees are uncomfortable taking trips can stay connected with team members, clients and prospective clients around the world using software platforms video conferencing technologies. All these are possible when there is a robust and well-functioning digital economy.

Outside Nigeria, digital technology helped many businesses in developed countries survive the effect of the Covid-19 outbreak, and it created an opportunity to enhance the country's digital economy. In the future, a well-developed digital economy in Nigeria, achieved through intense digital technology penetration, will play a greater role in reducing the effect of recessions in the country, and will also help in supporting economic activities, social activities, the development of good health care systems.

Lack of social welfare program

Before the Covid-19 outbreak, there were major social problems in Nigeria which include child abandonment, armed robbery, homelessness, mental health problems, divorce, and problems of single parenting. These social problems can only be addressed with serious social welfare policy and program. But, currently, social welfare activities in Nigeria is under developed, poorly funded and is unavailable to majority of those who need them (Ahmed et al, 2017). Nigeria does not have a national social welfare program that offers assistance to all individuals and families in need such as health care assistance, food stamps, unemployment compensation, disaster relief and educational assistance. The consequence of not having a national social welfare program became evident during the coronavirus outbreak of 2020. During the outbreak, people had little to rely on, poor citizens did not have welfare relief that could help them cope with the economic hardship at the time. There were no housing subsidies, energy and utilities subsidies, and assistance for other basic services to individuals that were most affected by the coronavirus outbreak. There are debates on the benefit of using social welfare programs to alleviate poverty and to help citizens cope with disasters (Luenberger, 1996; Dolgoff et al, 1980; Abramovitz, 2001), and social welfare theories provide different perspectives on how social welfare can be designed to meet the basic needs of the people (Fleurbaey and Maniquet, 2011; Arrow et al, 2010; Andersen, 2012).

So far, the provision of social welfare services to vulnerable citizens in the population is the most proven way to protect them from economic hardship in bad times (Ewalt and Jennings Jr, 2014), and the lack of such welfare services for vulnerable people, households and poor individuals during the coronavirus outbreak in Nigeria caused severe pain and economic hardship to households and poor individuals. The implication of this is that social welfare is not a policy priority by policy makers in Nigeria.

Conclusion

This paper embodies the current economic realities in Nigeria. It x-rayed that the spillover of Covid-19 pandemic into Nigeria coupled with declining oil price, which were external shocks, caused the economic crisis in Nigeria in 2020. The structural problems in Nigeria at the time prolonged the economic crisis. The scope and severity of the economic crisis is a clear signal that growth and development reforms are needed in Nigeria. In retrospect, the Nigerian government was wise to use fiscal and monetary stimulus package as a partial solution to revive falling aggregate demand during the outbreak. It used public money to slow the rate of business closures and the spread of coronavirus, though some of the policy response have been incongruous and inefficient.

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