CoMPRA
COVID-19 Macroeconomic Policy Responses in Africa


Presentation by
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Research Fellow, CSEA
Impact of the COVID-19 pandemic on the economy
- Economic growth
- Sectoral growth
- Public finance
- Foreign exchange market
- Exchange rate
- Inflation
- Development finance interventions
- Monetary financing

Impact of the pandemic on development outcomes and the efficacy of government support
- Employment
- Business performance
- Food security
- Beneficiaries of government support

Macroeconomic policy responses
- Fiscal policies
- Monetary policies
- Exchange rate and balance of payment
- Private sector support

Lessons for LICs and LMICs
- Swiftness and scope of CBN’s response
- Timely and frequent data collection by the NBS
- Limited range of support to businesses
- Reducing the risk exposure of the CBN
- Building fiscal buffers
- Difficulty in creating and extending loans to the private sector
- Poor targeting and coverage of government’s spending plan
- Lack of a gendered approach in implementing and designing spending plans
- Poor allocation of spending towards SDGs
- Building the systems that underpin the delivery of responses
### Economic growth
Stringent lockdown measures and the impact on Nigeria’s trading partners led to economic contraction in 2020 Q2 (-6.1%), Q3 (-3.6%), and Q4 (0.11%).

### Sectoral growth
Non-oil sectors - agric and services sectors - have driven the recovery. 2020 data shows telecom and info services (16%), financial institutions (14%), and quarrying (21%).

### Public finance
Govt revenue as a share of GDP declining from 8% to 5% between 2019 and 2020, owing to slowdown in economic activities and oil accounts for 50% of consolidated government revenue.

### Foreign exchange
Largely due to the volatility in the oil price as oil accounts for 80% of export earnings.

### Exchange rate
Reduced contribution from export earnings caused the CBN to devalue the naira on two occasions from N307 to N361 in March, to N379 in June. Still, it is not market determined with implications on foreign reserves.

### Inflation
Inflation increased from 11.5% to 14% between February 2020 and 2021. Several factors including insecurity, closure of land borders, removal of fuel and electricity subsidies are responsible.

### Dev. finance
Rise in government support in the form of loans and loan guarantee. CBN’s credit to the private sector was N2.22 trillion in 2020.

### Monetary financing
CBN’s monetary financing has increased in order to cover up for budget shortfalls. Credit to the government increased from N8.3 trillion to N10.05 trillion between 2019 and 2020.
IMPACT ON DEVELOPMENT OUTCOMES AND THE EFFICACY OF GOVT. SUPPORT

- Based on data from the COVID-19 phone survey in Nigeria by the National Bureau of Statistics that elicits responses on employment, business performance, and food security
  - Rise in unemployment pre- and post-pandemic from 23% to 57%
  - Improvements in most economic indicators by the end of 2020
  - Food insecurity worsened owing to reduction in household income (job losses, furloughing of workers) and rise in inflation
  - Only 0.77% and 2.17% of the population received government support in April and May

<table>
<thead>
<tr>
<th>Dimension of impact</th>
<th>April</th>
<th>August</th>
<th>December</th>
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<tbody>
<tr>
<td>Employment</td>
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<td>- % of adult population not working</td>
<td>57.44</td>
<td>30.55</td>
<td>29.86</td>
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<td>Revenue losses: Change in business revenue</td>
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<tr>
<td>- Lower/no revenue</td>
<td>81.2</td>
<td>46.02</td>
<td>37.37</td>
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<tr>
<td>- No change in revenue</td>
<td>8.25</td>
<td>17.13</td>
<td>17.9</td>
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<tr>
<td>- Higher revenue</td>
<td>10.54</td>
<td>36.85</td>
<td>44.74</td>
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<td>Food security: % of respondents who are unable to</td>
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<tr>
<td>buy Nigerian staple food</td>
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<td></td>
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<tr>
<td>- Rice</td>
<td>59.14</td>
<td>36.56</td>
<td>20.33</td>
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<tr>
<td>- Cassava</td>
<td>51.79</td>
<td>17.56</td>
<td>12.82</td>
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</table>
MACROECNOMIC POLICY RESPONSES

Additional spending of US$1.4 billion – US$1.1 billion targeted at non-health sectors

**FISCAL POLICY**
- Conditional cash transfer programme to 3.7 million people and an increase of the social register by 1 million households. Up to 78.3 million Nigerians are excluded from the programme.
- Targeted credit facilities to the manufacturing, agric, services and health sectors.
- Funds created for excluded groups – MSMEs and young people.
- Increase in VAT from 5% to 7.5%.
- Removal of fossil fuel and electricity subsidies.
- Tax rebate to companies that did not retrench staff in 2020.
- Special Public Works programme for those without skills.

**MONETARY POLICY**
- Reduction of the MPR from 13.5% to 11.5%.
- Reduction of the interest rate on CBN interventions from 9% to 5%.
- One year moratorium on CBN interventions.

**EXCHANGE RATE POLICY**
- Devaluation of the naira from ₦307 to ₦379 between March and end-2020; and subsequently to ₦410.

**PRIVATE SECTOR SUPPORT**
- Coalition Against COVID-19 (CACOVID) raised US$114 million mostly for food relief, awareness campaigns, and the health sector.
# LESSONS FOR LICS AND LMICS

<table>
<thead>
<tr>
<th>01</th>
<th>CBN’s response</th>
<th>03</th>
<th>NBS’ data collection</th>
<th>06</th>
<th>Limited business support</th>
<th>07</th>
<th>Build fiscal buffers</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Swiftness and scope of the CBN’s response to include sectors of importance to economic recovery. However, increases the risk exposure of the CBN in the event of private sector default and could cause inflation.</td>
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<td>Timely and frequent data collection by the NBS with support of external actors to ascertain the effect of the pandemic on HH and businesses.</td>
<td></td>
<td>Zero tax cuts, moratoriums on debt repayment and wage subsidies are provided. Consequently, loans could outweigh the existing financial obligations.</td>
<td></td>
<td>Curbing tax evasion and avoidance – Nigeria has one of the lowest tax revenue as a share of GDP ratios globally; improved management of natural resource revenues; streamlining governance structures.</td>
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<th>02</th>
<th>PS accessibility</th>
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<th>Lack of development approach</th>
<th>08</th>
<th>Build underlying systems</th>
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<td>Asymmetric information causing collateral requirement by banks. Also, high level of informality and low financial inclusion makes a large share of HH and businesses hard to reach.</td>
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<td>Lack of a gendered approach – e.g. failure to provide child care subsidies. Other SDG-related sectors such as education received relatively less attention.</td>
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<td>Improved social protection system is useful in reaching the vulnerable and those in the informal sector; creating fiscal buffers leads to improved spending plans; formalizing the informal sector implies workers have access to paid benefits.</td>
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<tr>
<td>05</td>
<td>Poor coverage and targeting of govt spending</td>
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<td>Only 2.17% of the population surveyed benefitted from government support. Cash given by hand rather than electronically making it susceptible to leakages.</td>
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