



International Development Research Centre Centre de recherches pour le développement international



COVID-19 Macroeconomic Policy Responses in Africa

The Macroeconomic Impact of COVID-19 in Africa: Policy Responses from Nigeria

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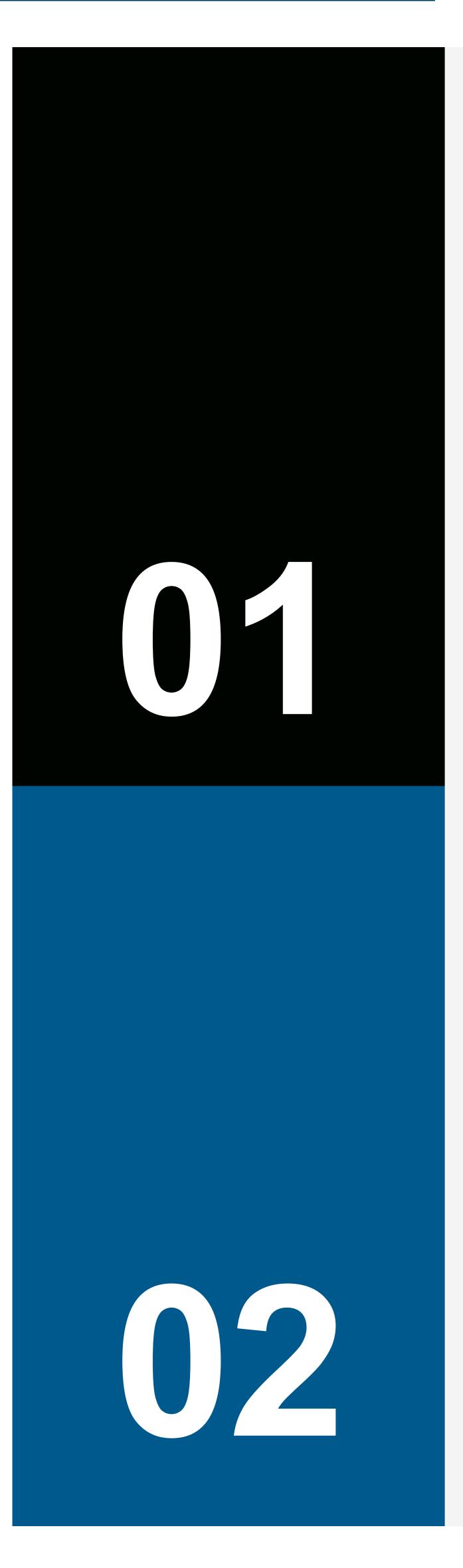






August 2021





Impact of the COVID-19 pandemic on the economy

Impact of the pandemic on development outcomes and the efficacy of government support

- Employment

• Economic growth Sectoral growth • Public finance • Foreign exchange market • Exchange rate Inflation Development finance interventions • Monetary financing

• Business performance • Food security • Beneficiaries of government support

Macroeconomic policy responses

- Fiscal policies
- Monetary policies
- Private sector support

Lessons for LICs and LMICs

- Building fiscal buffers
- private sector
- spending plan
- designing spending plans
- responses

Exchange rate and balance of payment

 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

Difficulty in creating and extending loans to the

Poor targeting and coverage of government's

 Lack of a gendered approach in implementing and • Poor allocation of spending towards SDGs Building the systems that underpin the delivery of



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%)

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

IMPACT OF THE COVID-19 PANDEMIC ON THE ECONOMY

Sectoral growth

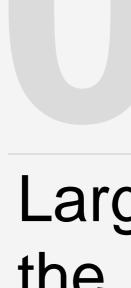
Non-oil sectors - agric and services sectors have driven the recovery. 2020 data shows telecom and info (16%), financial services institutions (14%), and quarrying (21%)

Inflation

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

Public finance

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



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

CBN's monetary financing has increased in order to budget for up cover shortfalls. Credit to the government increased from N8.3 trillion to N10.05 trillion between 2019 and 2020



Foreign exchange

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

Monetary financing



- performance, and food security
 - Rise in unemployment pre- and post-pandemic from 23% to 57% \bullet
 - Improvements in most economic indicators by the end of 2020
 - Food insecurity worsened owing to reduction in household income \bullet (job losses, furloughing of workers) and rise in inflation
 - Only 0.77% and 2.17% of the population received government \bullet support in April and May

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

Dimension of impact

Employment

- % of adult population not working

Revenue losses: Change in business revenue

- Lower/no revenue
- No change in revenue
- Higher revenue

Food security: % of respondents who are unable to

buy Nigerian staple food

- Rice

- Cassava

	April	August	December
	57.44	30.55	29.86
	81.2	46.02	37.37
	8.25	17.13	17.9
	10.54	36.85	44.74
)			
	59.14	36.56	20.33
	51.79	17.56	12.82

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 households. Up to Nigerians 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

MACROECNOMIC POLICY RESPONSES

million 78.3 million are excluded from the

MONETARY POLICY • Reduction of the MPR from 13.5% to

- 11.5%
- interventions from 9% to 5%
- One year interventions



• Reduction of the interest rate on CBN moratorium CBN on

EXCHANGE RATE POLICY

and subsequently to N410

PRIVATE SECTOR SUPPORT

Coalition

Devaluation of the naira from N307 to NA379 between March and end-2020;

COVID-19 Against (CACOVID) raised US\$114 million mostly for food relief, awareness campaigns, and the health sector

CBN's response

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

PS accessibility

information Asymmetric collateral causing requirement by banks. Also, high level of informality and inclusion financial IOW makes a large share of HH businesses hard to and reach

LESSONS FOR LICS AND LMICS

NBS' data collection

Timely and frequent data collection by the NBS with support of external actors to ascertain the effect of the pandemic on HH and businesses

Poor coverage and targeting of govt spending

Only 2.17% of the population benefitted from surveyed Cash government support. given by hand rather than electronically making it susceptible to leakages

Limited business support

Zero tax cuts, moratoriums on debt repayment and wage subsidies are provided. Consequently, loans could outweigh the existing financial obligations

Curbing evasion tax 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

Lack of development approach

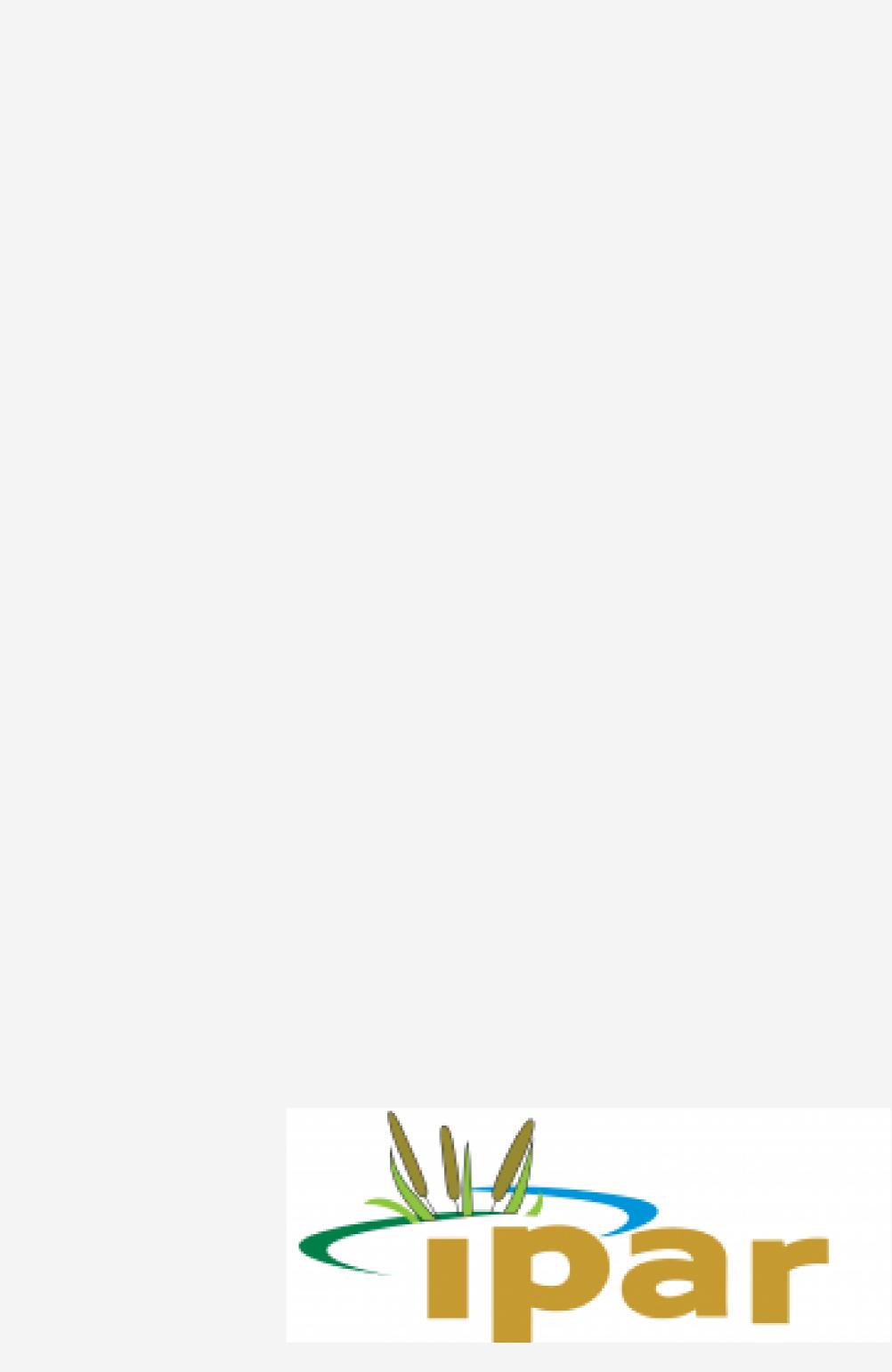
Lack gendered of а approach – e.g. failure to provide child care subsidies. Other SDG-related sectors such as education received relatively less attention

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

Build fiscal buffers

Build underlying systems





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