

CoMPRA

August 2021

COVID-19 Macroeconomic Policy Responses in Africa



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

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01

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

02

03

Macroeconomic policy responses

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

Lessons for LICs and LMICs

- Swift 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

04

01 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%)

02 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%)

03 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

04 Foreign exchange

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

05 Exchange rate

Reduced contribution from export earnings caused the CBN to devalue the naira on two occasions from ₦307 to ₦361 in March, to ₦379 in June. Still, it is not market determined with implications on foreign reserves

06 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

07 Dev. finance

Rise in government support in the form of loans and loan guarantee. CBN's credit to the private sector was ₦2.22 trillion in 2020

08 Monetary financing

CBN's monetary financing has increased in order to cover up for budget shortfalls. Credit to the government increased from ₦8.3 trillion to ₦10.05 trillion between 2019 and 2020

- 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

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

01

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

02

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

03

Limited business support

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

04

Build fiscal buffers

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

05

PS accessibility

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

06

Poor coverage and targeting of govt spending

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

07

Lack of development approach

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

08

Build underlying systems

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

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Financial Support:



International Development Research Centre
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Research Support:

