Coronavirus Facts and Control: What Multiplier Effects for Nigeria Economy

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Abstract

The study examines the current rampage coronavirus global pandemic to understand the facts, the figures, the issues surrounding it, the preventive mechanisms, the controls, and its abuses, the viewpoints of the World Health Organisation on those issues, and the economic implication for Nigeria. The situation analysis study (SAS) was adopted via critical analysis design. Data were analyzed through qualitative (theoretical) review of literature on the subject matter. Results indicate that the lockdown responses to the outbreak of the disease have multiplier effects for Nigeria's economy that may lead to ugly consequences like fall in aggregate demand and corresponding unemployment if not recession (if not depression). It suggests that a more integrated response of several sectors, health, finance, and trade sectors are required to address structural issues that make the country less resilient to shocks and limit its range of policy responses.

Keywords: outbreak; pandemic; global recession; monetary policy; fiscal policy.

1. Introduction

Globally the search for a vaccine to combat Covid-19 continues, as no economy is spared from the fall-out from COVID-19 outbreak, it is estimated that the pandemic may spread beyond April and May, the global community is presently experiencing one of its most several health crises in human history, coronavirus or COVID-19. World Health Organisation (WHO, 2020), states coronaviruses as a large family of viruses that are causing illness, like, common cold, and severe diseases of Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV) (Burki, 2020; Chen et al., 2020). The COVID-19 or Coronavirus disease is a new strain that was discovered in December 2019 and has not been previously identified in humans (Epidemiology Working Group for NCIP Epidemic Response, 2020; Bai, Wang & Zhou, 2020). So, the coronavirus is a respiratory virus that spreads through droplets from an infected person coughs or sneezes or droplets of saliva or discharge from the nose. It is believed in medical sciences that Coronaviruses are zoonotic, that is to say, they were initially transmitted from animals to people (CDC, 2019; ECDC, 2020). This is because medical researchers found that SARS-CoV was transmitted from civet cats to human beings and MERS-CoV from dromedary camels to human beings (Chen et al., 2020). There are some other strains of coronaviruses circulating in animals that have not yet infected humans (WHO, 2020). Lai et al., (2020) endorse that Coronavirus is spread by human-to-human transmission via droplets or direct contact, and the infection is estimated to have a mean incubation period of 6 days, 4 hours, and reproduction number of 2.24-3.58. The coronavirus pandemic continues to take its toll globally, African continent accounts for relatively few deaths from the disease, the numbers are rising, with more than 27,385 confirmed cases and 1,297 deaths. As countries scramble to contain the virus they are affected by the efforts of other countries to do the same and the economic impacts continue to grow

1.1 COVID – 19 Effects on World Economy

World economic forum report states that the cases of COVID-19 coronavirus have surpassed 2.6 million globally. Firms managing with lost revenue and interrupted supply chains leading factory to shutdowns and lockdown measures across the globe, reducing movement and commerce. Unemployment is on the increase, authority across the world are implementing fiscal and monetary policies to reduce the financial burden on citizens and increase aggregate demand. The International Monetary Fund (IMF) on 9 April states coronavirus pandemic has increased the economic downturn that the world has not experienced since the 1936 Great Depression. The IMF states economies in Asia would lack growth in 2020, for the first time since 1960, with the service sector more under pressure. Global lockdowns have to affect airlines, factories, shops, and restaurants. The Chinese economy has reduced in the first quarter, the first since1992. Gross domestic product (GDP) fell to 6.8% in the first quarter of 2020 the opposite of the 6% expansion in the fourth quarter of 2019. The Chinese economy may nose dive further as a result of reduced global demand for its products due to the effect of the outbreak pandemic. China's factory output also nose dive sharply in the first two months of 2020. And Reuters poll states the Chinese economic growth is expecting to fall to 2.5% its lowest in 50 years.

1.2 COVID – 19 Effects on Nigeria Economy

As the world looks to eliminate COVID-19 pandemic with no result in sight. The world economic outlook is fragile, especially developing countries like Nigeria are struggling to find their fit; the global GDP growth is estimated to be 2.5 percent in 2020. Developing countries have recorded relatively lower, Nigeria currently has a 2.3 GDP growth rate before the pandemic, Nigerian had been struggling with weak recovery from the 2014 oil price shock. They are making IMF revise the 2020 GDP growth rate from 2.5 percent to 2 percent, as a result of relatively low oil prices and some low fiscal infrastructures. With that, Nigeria debt keeps increasing, the recent estimate puts the debt service-to-revenue ratio at 60 percent there is a source of concern for the policymaker, its revenue may continue to decline with fall in the oil prices. The above factors will increase the economic effects of the COVID-19 outbreak and make it more difficult for Nigeria to get out of the recession. In Nigeria, the government has been making efforts to increase aggregate demand by increasing government spending and tax cuts for businesses. Nigeria budget increased from 8.83 trillion naira ($24.53 billion) in 2019 to 10.59 trillion naira ($29.42 billion) in 2020, which is 11 percent of the GDP, small enterprise receives tax relieve on company income tax, and the tax rate for small-medium enterprise come down from 30 to 20 percent. The COVID-19 crisis affects all components of aggregate demand. The fall in household consumption in Nigeria will stem from federal government lockdown order, thus causing consumers to spend primarily on essential goods and services; 2) low expectations of future income, particularly workers of gig economy sector which are engaged on a short-term, and the working poor of the informal sector of the economy; and 3) the loss of wealth and expected wealth with a decline in assets such as stocks and home equity. The state governors have again imposed a lockdown of four weeks in all states of Nigeria including Abuja. Nigeria is more of a gig economy and a large informal sector that contributes 65 percent of economic output in Nigeria. Lockdown has reduced the consumption commodities in general, and income-generating capacity of the gig and informal sector of the economy, thus reducing consumption expenditure generally. Firms investments will reduce largely due to the uncertainties that come with lack of knowledge about the duration pandemic outbreak, the effectiveness of fiscal policy measures, and the reaction of economic agents to fiscal policy measures, and negative investor believes causes turbulence in capital markets globally. Of note, the crisis has led to a massive decline in stock prices, as the Nigerian Stock Exchange records its worst performance since the 2008 financial crisis, which has eroded the wealth of investors. Taking into consideration the uncertainty that is associated with the pandemic and the negative profit on possible investment, firms are likely to hold long-term investment decisions for the future. On the other hand, government purchases may increase as governments can afford to run budget deficits, using fiscal policy measures to reduce the fall in consumer spending, and in times like these, excess crude oil account is to care of the budget deficit. But, the limited fund in that account has made the government reduce the 2020 budget, implementing reduction 2020 budget will negatively affect Nigeria projected economic growth. But, governments dependent on oil sales and other commodities, the fall in the global demand for oil and other commodities due to pandemic will significantly increase their fiscal deficits. The price of oil was just over $20 a barrel as on April 26, whereas Nigeria’s budget has a beach make the price of $57 per barrel been a mono-economy with 2.18 trillion naira ($6.05 billion) deficit. Again, the decline in the demand for oil and oil prices associated with the pandemic will adversely affect the volume and value of Nigeria's net exports, thus, the Nigerian government will cut planned expenditure. Of note is the minister of finance announcement of a 1.5 trillion naira ($4.17 billion) cut in non-important capital spending on the 18th March 2020. The restrictions on the movement of people and border closures further decline the exports of other commodities. With, countries of the world closing their borders and global supply chains for exports have been disrupted. It is expected that exports of countries with devaluing currency due to the fall in the price of commodities (Nigeria), will become more affordable, but the limited markets for non-important goods and services crowed-out the envisaged positive effect on net exports. Another issue is the floating of the Naira; the Nigerian exchange rate policy reforms is an overvaluation of currency that is fixed exchange rate. An overvaluation is a deliberate act when the government allows the value of its exchange rate to appreciate it with a wrong notion to maximise growth and development. Overvaluation could also arise from an increase in consumer price index if the increase is not adjusted to the exchange rate. The overvaluation of a currency is when the domestic currency values higher than other currencies. (Killick, 1992) that bring about the distortion of the economy. It crowds out local production and encourages importation; as import becomes relatively cheaper, as local currency cost of importation will be kept artificially low and discourages export by reducing the profit of producing for world markets as prices of exports become relatively dearer in the international market. It is being argued that the combined effect of increasing importation and dwindling exports exerts pressure on the balance of trade and the economy at large. Zubair and Sanusi (2013). Having looked at overvaluation and its implication on the macroeconomic variable, Nigeria is faced with higher immediate low price oil, the Nigerian government had a range of choices to over-valuate its exchange rate or fine a realistic exchange rate: if the real exchange rate is achieved there be to increase income currently, in the future as $16.56 billion spend in 2019 to maintain the current overvaluation of the exchange rate of the Naira would be part of wealth for future consumption, that is increased investment in foreign assets or domestic physical capital.

Methodology

The situation analysis study (SAS) was adopted as a critical analysis design. The data were analysed through qualitative (theoretical) methods. According to Eleje, (2009), define critical analysis as subjective writing because it expresses the writer's opinion or evaluation of issues. The analysis is to break down and study in parts of an issue. Critical writing requires two steps (reading critically and critical writing). In the same vein, Wiki, (2014) asserts that a critical analysis examines an article or issue to determine how effective it makes an argument or point. According to Palm Grave, (2006), to do this effectively, the rules to follow include identifying the focus of the assignment, identifying your own point of view, considering how you'll persuade other people of your point of view, finding the proof, engaging in the debate, and structuring the argument. The University of Washington Tacoma Learning Centre, (2014), states for critical analysis to be valid it must offer a way out of the problem(s) it raised and it must be obtainable.

Conclusion and Recommendations

The COVID-19 pandemic is a wake-up call to policymakers as the crisis has made it impossible for citizens to rely on foreign health care services and more difficult to solicit for international support given the global demand for medical supplies and equipment. More integrated responses of several sectors, health, finance, and trade sectors are required to address structural issues that make the country less resilient to shocks and limit its range of policy responses. In the long-run, ultimate decisions are needed, that include but not limited to the diversification of the country's revenue base away from oil exports and improving investments in the health care sector and ensuring that the economy is able to recover quickly from difficult conditions in the future. While the government looks towards pursuing capital projects and creating policies to increase trade and investment for long-run sustainability Based on the outcome of this study situation analysis, the study hereby recommends as follows: Already, contingency funds of NGN984 million ($2.7 million) were released to Nigeria's Centre for Disease Control with NGN6.5 billion ($18 million) planned to add more. N500bn was release as a COVID-19 crisis Intervention Fund for the upgrade of healthcare facilities at the national and state level. The President said the employment of 774, 000 Nigerians to reduce the suffering caused by COVID-19 in the country will be engaged in the Special Public Works Programme aimed at cushioning the effects of the economic crisis. the 774 local government areas in the country receive 1,000 slots each. Trader-Moni, Market-Moni, and Farmer-Moni loans all receive ninety days' repayment moratorium and the Federal Government-funded loans issued by the Bank of Industry, Bank of Agriculture, and the Nigerian Export-Import Bank NGN15 billion grant from Federal Government to the Lagos State Government receives similar moratorium. Of note, is the conditional cash transfers for the next two months to be paid immediately to the most vulnerable at Internally displaced people's camps. Also, due to the reduction in global oil prices, the government reduced the petrol pump price from NGN145 per liter to NGN123.50 per liter on April 1, 2020. Also, the government suspension increase in electricity tariffs by the electricity distribution companies (Discos). For treatment and protection against CIVID – 19, the medical equipment, medicines, protection equipment receives import duty Waiver. And the Federal Government Cabinet Ministers donated 50% of their salaries for March 2020 to support the Federal Government's efforts. The Central Bank of Nigeria (CBN) has released a fiscal policy package, of 50 billion naira ($138.89 million) credit facility to households and small and medium enterprises that are most affected by the pandemic, with the health sector receiving 100 billion naira ($277.78 million) loan, and a trillion naira ($2.78 billion) is received by the manufacturing sector. Interest rates on all CBN interventions loan were reduced from 9 to 5 percent, and a moratorium of a year on CBN intervention facilities is introduced, effective from March 1.

Given the largeness and scope of the economic effects of the pandemic, there is the need to implement other recovery strategies to increase aggregate demand. The study makes recommendations of fiscal and monetary policy measures:

- improve efficiency and effectiveness of the distributive mechanisms of the cash The federal government needs to transfer programs to reach households that are affected by the pandemic.
- The federal government needs to waive payments on personal and corporate income tax for the second quarter of 2020, considering the lost income and profits of the economic agent.
- The federal government needs to waive payments on personal and corporate income tax for worst-hit sectors (tourism, aviation industry, and hotels) as the steep decline in demand will not come to end soon.
- The CBN needs to establish a swap facility with the U.S. Federal Reserve and the People's Bank of China to provide dollar and yen liquidity to financial institutions, investors, and exporters. These will ease the forex shortage in the financial market and the economy
- In crisis time like these, the Central Bank of Nigeria needs to maintain exchange rate stability by leavening on external reserves in order to avoid investors selling off naira-denominated assets.
- Reduction of cost of governance, federal recurrent expenditures have accounted for 70 to 80 percent of the annual budgets, and little for capital projects with a growing debt profile. Reducing the cost of governance will free up revenue for capital projects and improve the Nigerian economy.
- Removal of fuel subsidy, Nigeria spent $1.8 billion on fuel subsidy in 2018, four times higher than spending on Health, Education, and Science and Technology. Fuel subsidy is paid on the prices of petrol (Premium Motor Spirit) to keep the petrol price at least N145 per liter. The government paid fuel subsidy to the petrol marketer in the downstream oil sector to keep the price at N 145 different between Government-controlled prices and market prices. The reason was given by successive governments to justify the non-removal of fuel subsidy has been the poor purchasing power of the majority of Nigeria's population. Presently, the plunge in oil prices may likely mean that the market cost of supplying a liter of fuel will be less than the retail price.
- CBN's governor has stated the plan of the government to float the Naira, sustaining over-valuation of the Naira is not prudent spending, maintaining an artificial (non-real market) value of Naira, erodes the economic legitimacy of Nigeria's GDP. Allowing

the market force determinant value of Naira in the exchange at the market, will save Nigeria over $10 billion used for sustaining over-valuation.

- Floating (or devaluation) of the Naira will be value-less if the economy is not diversification for increase foreign receipts through exports of non-oil, in an import-dependent economy, diversification of the economy into manufacturing Sectors is the key.
- Opening of land borders (strictly for trade). The close government borders on premised to stop rice smuggling and increase the profit of local production since October 2019, preventing rice smuggling from other countries (Niger Republic, Cote-d'Ivoire, Benin Republic, Chad, and Cameroon) substantial recipients of Nigeria's non-oil exports. The border closure lays to ridicule to ECOWAS treaties. The border closure increase food inflation from 14.85 percent in January to 14.9 in February, and it affected cross-borders businesses leading to losses, businesses close up, high unemployment rate, the low purchasing power of Nigerians, and may lead to another economic recession. So, re-opening of the border for trade in processed agricultural produce is advice, and there is need for the Nigeria Customs services to improve is enforcements mechanism to deal with smuggling, and provision of enabling infrastructure for local producers thereby revive legitimate cross-border businesses, reduce unemployment and reduce food inflation with more agriculture goods in the Nigerian market.

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