



**COVID-19
MACROECONOMIC
POLICY RESPONSES
IN AFRICA**
05

Lessons for Macroeconomic Policy from Nigeria Amid the COVID-19 Pandemic

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About CoMPRA

The COVID-19 Macroeconomic Policy Response in Africa (CoMPRA) project was developed following a call for rapid response policy research into the COVID-19 pandemic by the IDRC. The project's overall goal is to inform macroeconomic policy development in response to the COVID-19 pandemic by low and middle-income countries (LMICs) and development partners that results in more inclusive, climate-resilient, effective and gender-responsive measures through evidence-based research. This will help to mitigate COVID-19's social and economic impact, promote recovery from the pandemic in the short term and position LMICs in the longer term for a more climate-resilient, sustainable and stable future. The CoMPRA project will focus broadly on African countries and specifically on six countries (Benin, Senegal, Tanzania, Uganda, Nigeria and South Africa). SAIIA and CSEA, as the lead implementing partners for this project, also work with think tank partners in these countries.

Our Donor

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Executive summary

The COVID-19 pandemic has had severe impacts on Nigeria's macroeconomy and the livelihoods of households. The economy suffered from a recession in the third quarter of 2020, however, key sectors including telecommunications and information services (15.9%), financial institutions (13.34%), and quarrying and other minerals (21.16%) continued to experience significant growth, which led to a recovery. The Nigerian government has responded notably to address the pandemic's impact on the economy. So far, \$1.4 billion in additional spending has been executed, which is estimated at 0.3% of GDP. This paper examines the macroeconomic landscape and

policy interventions in Nigeria with the objective of developing lessons not only for Nigeria but for other developing economies.

Introduction

The COVID-19 pandemic has had severe impacts on the macroeconomy and the livelihoods of households globally. The restrictions to movement alongside the associated uncertainty stimulated a sudden decline in the demand for commodities and disrupted production, leading to the underutilisation of capital and labour. More specifically, as governments sought to curb the spread of the virus by implementing workplace and school closures, and encouraging social-distancing practices, these policies led to a significant impact on all economies. A recent study on the impact of COVID-19 on gross domestic product (GDP) and trade finds that the pandemic caused a 2% decline in global GDP, a 2.5% decline in the GDP for developing countries, and a 1.8% for industrialised countries.¹

For Nigeria, which saw its first case in February 2020, the economic contraction was severe and sustained leading to a recession in the third quarter of 2020. The economic contraction is the result of the adoption of lockdown measures – which had an impact on nearly all sectors of the economy – along with the pandemic’s impact on partner economies engaged in international trade and those providing foreign investment. Meanwhile, the income of the majority of citizens has been affected, because a large share of informal workers has no recourse to unemployment insurance or paid leave of absence.

Consequently, the Nigerian government has increased its spending plans – delivering an additional \$ 1.4 billion, estimated to be 0.3% of GDP, through cash transfers, tax rebates, loans and loan guarantees, among other mediums – to counteract the effect of the pandemic on domestic and business income and spending. Furthermore, the Central Bank of Nigeria (CBN) has adopted a more accommodating monetary policy stance and injected liquidity into the banking system to increase available credit to the private sector.

A fiscal year has elapsed since the pandemic started and the policies were put in place, and macroeconomic policy responses have begun to gain traction. This research and policy insight examines the macroeconomic landscape and policy interventions in Nigeria in order to develop lessons to guide economic policymakers in developing countries to create sustained economic recovery.

1 Maryla Maliszewska, Aaditya Mattoo and Dominique van der Mensbrugge, “The Potential Impact of COVID-19 on GDP and Trade: A Preliminary Assessment”, World Bank, East Asia and the Pacific Region Policy Research Working Paper 9211, April 2020, <http://documents1.worldbank.org/curated/en/295991586526445673/pdf/The-Potential-Impact-of-COVID-19-on-GDP-and-Trade-A-Preliminary-Assessment.pdf>.

Section 2 of the policy insight provides an overview of Nigeria’s macroeconomic landscape and policy interventions, while section 3 details the impact of the pandemic on key development indicators and assesses the efficacy of government support. Section 4 discusses lessons for Nigeria as well as low-income and lower-middle-income countries, and section 5 provides concluding remarks.

Overview of the macroeconomic landscape and policy interventions

This section provides an overview of Nigeria’s macroeconomic conditions since the pandemic began. It examines resilient sectors and growth challenges, volatility in the foreign exchange market and trends in inflation. Furthermore, policy interventions, including fiscal and monetary responses, are discussed.

How has the pandemic impacted Nigeria’s macroeconomy?

Nigeria’s economy has been weakened as a result of domestic and global developments since the emergence of the pandemic. The detection of the first case in the country February 2020 necessitated stringent lockdown measures from the end of 30 March 2020. However, authorities mandated a gradual reduction in restrictions beginning in early May (phase 1), early June (phase 2) and early September 2020 (phase 3).² These restrictions – as well as the impact of the pandemic on Nigeria’s major trading partners, including China and Europe – have led to a severe economic contraction through a decline in demand, disruptions to production and increased uncertainty.

Figure 1 shows the steep decline in growth rates from the second quarter of 2020 when the economy contracted to -6.1%. The contraction continued in the third quarter (-3.6%) with the economy falling into a recession and exiting the recession in the fourth quarter (0.11%). While the pandemic has had an impact on both the oil and non-oil sectors, the latter has driven the recovery. This is associated with the relatively low contribution (only 10% in 2019) of the oil sector to GDP.³ Consequently, the agriculture and services sectors have been the major growth drivers (see Figure 2). Data from the National Bureau of Statistics shows the key sectors that recorded growth during 2020 included telecommunications and information services (15.9%), financial

2 International Monetary Fund, “Policy Responses to COVID-19, May 7, 2021, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#N>.

3 World Bank, “Macro Poverty Outlook for Nigeria”, MPO 269, April 2021, <https://pubdocs.worldbank.org/en/848651492188167743/mpo-nga.pdf>.

institutions (13.34%) and quarrying and other minerals (21.16%).⁴ The persistent growth in these sectors is underpinned by the consistent demand for agriculture commodities, as well as mobile, internet and financial services, even during lockdown. Moreover, these sectors have weak links to global supply chains and, as such, were relatively unaffected by production disruptions.

Figure 1 Real GDP, oil and non-oil growth rates (%); 2019 Q4-2020 Q4

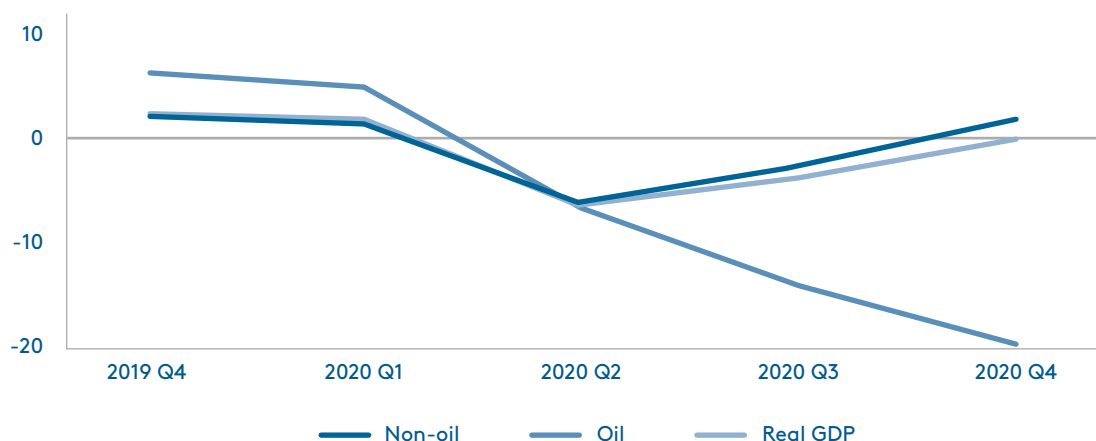
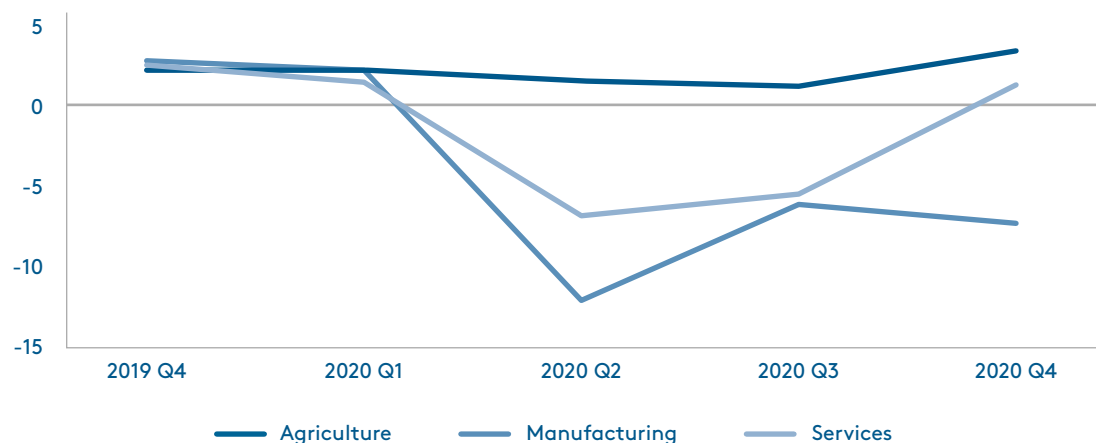


Figure 2 Agriculture, manufacturing and services sectors growth rates (%); 2019 Q4-2020 Q4



Source: National Bureau of Statistics, 2021. Nigerian Gross Domestic Product Report (Q4 and Full Year 2020)

⁴ Others include cement (3.88%), water supply, sewerage, waste management and remediation (3.81%), chemical and pharmaceutical products (2.54%), human health and social services (2.23%), crop production (2.24%), livestock (1.91%), food, beverage and tobacco (1.5%) (see National Bureau of Statistics, 2020, Nigerian Gross Domestic Product Report. Q4 and Full Year 2020).

Furthermore, the pandemic's impact on the oil price led to volatilities in the foreign exchange market and reductions in the fiscal space. Presently, the oil sector accounts for 80% of export earnings and 50% of consolidated government revenue.⁵ The decline in oil revenue also occurred alongside reductions in tax revenue – owing to the economic contraction – which has led to an estimated \$ 10 billion decline in consolidated government revenue in 2020.⁶ Furthermore, the most recent estimates show that government revenue declined from 8% to 5% of GDP between 2019 and 2020.⁷ Meanwhile, reduced contributions from oil in export earnings necessitated the CBN's devaluation of the local currency (naira/NAN) on two occasions when the official exchange rate was adjusted from NAN 307/\$ 1 to NAN 361/\$ 1 in March 2020 and subsequently to NAN 379/\$ 1 in June 2020.⁸ Similarly, the naira depreciated from NAN 360/\$ 1 to NAN 387/\$ 1 at the investors' and exporters' window, which offers a more market-determined rate compared to the official window, which the CBN manages mainly by drawing on foreign reserves. The aim of the investors' and exporters' window is to offer a competitive rate closely aligned with the market rate. As a result, reserves have declined by 10% since the pandemic began – from \$ 38.5 billion in January 2020 to \$ 34.7 billion in May 2021.⁹ Historically, the naira has alternated between a fixed and floating exchange rate regime, with the CBN typically floating the exchange rate, while the parallel market premium widens. As such, the devaluation occurred despite the CBN's intervention in the foreign exchange market and the sale of foreign exchange to currency exchange platforms.

As Nigeria is an import-dependent economy – importing about \$ 100 billion worth of goods and services in 2019¹⁰ – the devaluation of the naira has contributed to a persistent rise in commodity prices. In a single year, between February 2020 and 2021, inflation increased from 11.5% to 14% (see Figure 4). The major driver of inflation is the rise in food prices, from 13.98% to 17.25% during the same period. The rise in food prices is linked to the insecurity in food-producing areas and the partial closure of Nigeria's land borders with countries contributing towards its food supply: Benin, Togo, Niger, Cameroon and Chad.¹¹ Furthermore, in order to conserve foreign exchange and increase local production, the CBN recommended banning imports of key agricultural commodities including maize (in September 2020), and sugar and wheat (in April 2021),

5 World Bank, "Rising to the Challenge: Nigeria's COVID Response", Nigeria Development Update, December 2020, <https://openknowledge.worldbank.org/bitstream/handle/10986/34921/Rising-to-the-Challenge-Nigerias-COVID-Response.pdf?sequence=1&isAllowed=y>.

6 World Bank, "Rising to the Challenge".

7 World Bank, "Nigeria in Times of COVID-19: Laying Foundations for a Strong Recovery", Nigeria Development Update, June 2020, <http://documents1.worldbank.org/curated/en/695491593024516552/pdf/Nigeria-in-Times-of-COVID-19-Laying-Foundations-for-a-Strong-Recovery.pdf>.

8 Central Bank of Nigeria, "CBN Exchange Rates", 2021, <https://www.cbn.gov.ng/rates/ExchRateByCurrency.asp>. NAN is the currency code for Nigerian naira.

9 Central Bank of Nigeria, "Export Reserves", 2021, <https://www.cbn.gov.ng/Functions/export.asp?tablename=reserve>.

10 World Bank, "Imports of goods and services (BoP, current US\$) – Nigeria", International Monetary Fund, Balance of Payments Statistics Yearbook and Data Files, 2021, <https://data.worldbank.org/indicator/BM.GSR.GNFS.CD?locations=NG>.

11 Matthieu Millecamps, "The Benin-Nigeria Border is Officially Open Again, but Smuggling is on the Rise", *The Africa Report*, January 18, 2021, <https://www.theafricareport.com/59504/the-benin-nigeria-border-is-officially-open-again-but-smuggling-is-on-the-rise/>.

which reduced the competition on the local markets with implications for food prices.¹² Other factors that have led to the continuous rise in prices include an increase in fuel and electricity charges due to subsidies being removed for both, and a rise in the VAT rate from 5% to 7.5% in February 2021.

However, the economic recovery is largely underpinned by the continuation of the CBN's development finance interventions in the real sector, and government's monetary financing to meet budget shortfalls. The agriculture, manufacturing and services sectors continue to benefit from similar levels of government support in the form of loans and loan guarantees as before the pandemic.¹³ The CBN's credit to the private sector remains high at NAN 2.220 trillion in 2020, relative to NAN 2.224 trillion in 2019, pointing to the continuation of existing development finance interventions (Figure 3). Generally, these development finance interventions are in the form of the CBN providing two-step loans to commercial banks for onward lending to the private sector. In addition, the implementation of a fiscal stimulus in the wake of the pandemic amid declining government revenue has increased the CBN's monetary financing. As shown in Figure 3, there was a 21% increase in the credit to the government from NAN 8.3 trillion to NAN 10.05 trillion between 2019 and 2020, which is attributed to the CBN's financing of the government's budget deficits. The fiscal stimulus package as well as government's intervention in the foreign exchange market have further aided economic recovery.

Digitisation is a key structural issue that hinders the country from reaching its economic goals – noting that individuals with access to internet as a share of the population was

“The rise in food prices is linked to the insecurity in food-producing areas and the partial closure of Nigeria’s land borders with countries contributing towards its food supply Benin, Togo, Niger, Cameroon and Chad”

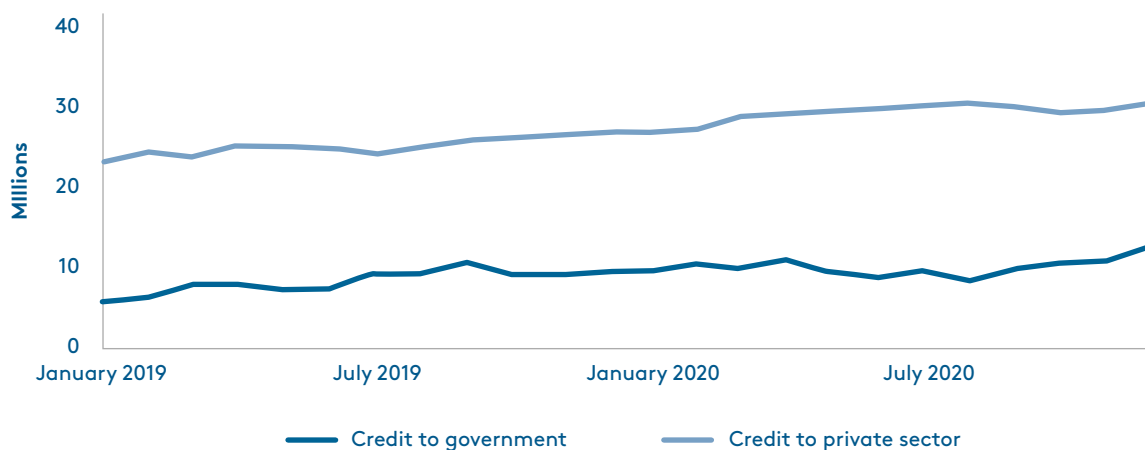
“However, the economic recovery is largely underpinned by the continuation of the CBN’s development finance interventions in the real sector, and government’s monetary financing to meet budget shortfalls”

12 Tope Alake, “Dollar Ban for Wheat may add to Nigeria Food ‘Scarcity’”, *Bloomberg*, April 21, 2021, <https://www.bloomberg.com/news/articles/2021-04-21/nigeria-dollar-ban-for-wheat-and-sugar-may-add-to-food-scarcity>.

13 The agriculture sector benefits from up to 11 initiatives including Agricultural Credit Guarantee Scheme, Commercial Agricultural Credit Scheme and Anchor Borrowers Programme, while the manufacturing sector benefits from up to nine initiatives including Power and Airline Intervention Fund, Textile Sector Intervention Facility and Real Sector Support Fund (see Central Bank of Nigeria, “Monetary Policy Review”, February 2020, [https://www.cbn.gov.ng/Out/2020/CCD/MPR%20Feb%202020%20\(Repaired\).pdf](https://www.cbn.gov.ng/Out/2020/CCD/MPR%20Feb%202020%20(Repaired).pdf)).

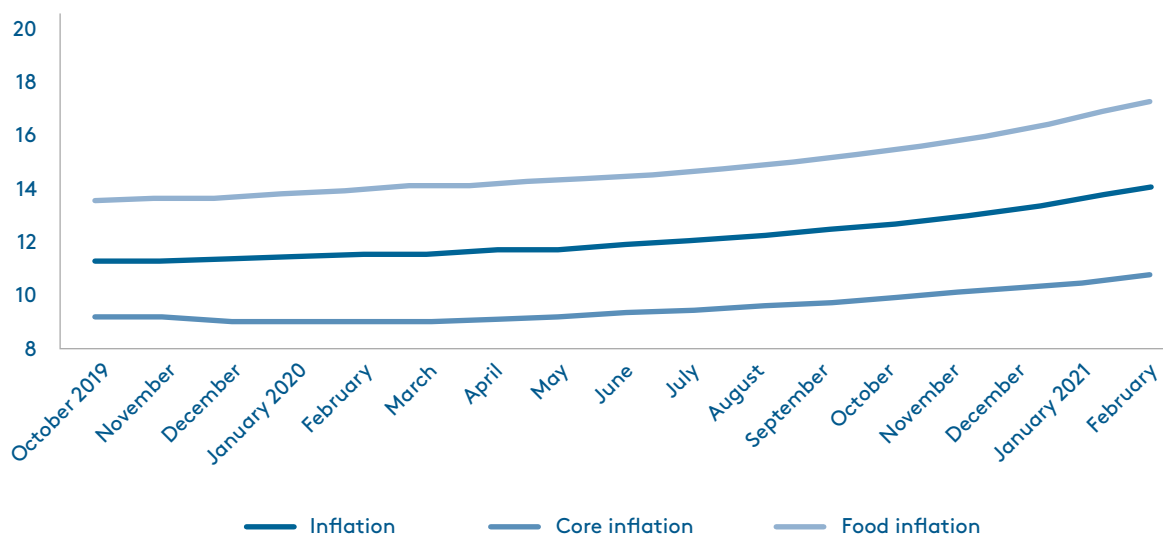
only 7% in 2017.¹⁴ The low level of internet penetration has negatively impacted several sectors, including industry and trade, as well as financial, education and health service delivery. For instance, trading across borders and gaining access to online markets is severely limited without internet access. Furthermore, the need for face-to-face interaction to deliver financial, education and health services reduces efficiency and reach of services.

Figure 3 CBN’s credit to the government and the private sector (N); 2019 and 2020



Source: National Bureau of Statistics, 2021. Nigerian Gross Domestic Product Report (Q4 and Full Year 2020)

Figure 4 Inflation (%); October 2019 to February 2021



Source: National Bureau of Statistics, 2020 and 2021. CPI and Inflation Report

14 World Bank, "Individuals Using the Internet (% of Population) - Nigeria", International Telecommunication Union, World Telecommunication Indicators Database, 2018, <https://data.worldbank.org/indicator/IT.NET.USER.ZS?locations=NG>.

What were the key macroeconomic policy interventions?

The weakening macroeconomic fundamentals fostered the government's response in the wake of the pandemic – this included the additional spending of \$ 1.4 billion mentioned previously.¹⁵ The majority of the fiscal stimulus – \$ 1.1 billion – is targeted at non-health sectors that have been affected by the pandemic, such as the hospitality and manufacturing sectors, as well the pharmaceutical industry and social protection programmes needed to mitigate the pandemic's effect. Furthermore, tax refunds were offered to businesses that did not lay off workers during 2020. Meanwhile, the health sector benefitted from \$ 0.3 billion. (See Table 1 for detailed government interventions.) The large spending plans amid the constrained fiscal space has implications on government indebtedness – the government debt-to-GDP ratio reached 35.1% in 2020 from 29.2% in 2019.¹⁶ Similarly, the share of non-performing loans to outstanding loans stood at 6.1% in January 2021, which is above the 5% prudential requirement stipulated by the CBN.¹⁷ While the current debt-to-GDP ratio remains below the 60% benchmark specified by the African Monetary Cooperation Programme, the share of revenue deployed towards debt servicing shows a more accurate picture of the fiscal and debt situation. Specifically, the shortage of finance led to the government spending up to 96% of revenue generated on interest payments in 2020.¹⁸

Despite the upward pressure on the exchange rate and inflation, the CBN adopted an accommodating policy regime to increase available credit to the private sector through commercial banks. Consequently, the CBN cut the Monetary Policy Rate (MPR) from 13.5% to 12.5% in May 2020, and subsequently to 11.5% in September 2020.¹⁹ In addition to reductions in the MPR, the CBN deployed other policy interventions. The interest rate to the aforementioned CBN development finance interventions targeted at the agriculture and manufacturing sectors was reduced from 9% to 5%, and a one-year moratorium was introduced on the interventions.²⁰ However, the ability of commercial banks to extend loans has been largely undermined by the limited availability of credit data on individuals for making lending decisions. In addition, the cash reserve ratio – the share of commercial banks' liquidity reserved with the CBN – was increased from 22.5% to 27.5% in January 2020 with the aim of improving the resilience of the financial system

15 International Monetary Fund, "Summary of Country Fiscal Measures in Response to the COVID-19 Pandemic since January 2020", April 2021, https://www.imf.org/en/Topics/imf-and-covid19/~/_media/Files/Topics/COVID/FM-Database/april-2021-fiscal-measures-response-database-publication-mar30.ashx.

16 International Monetary Fund, "Regional Economic Outlook Sub-Saharan Africa: Navigating a Long Pandemic", April 2021, <https://www.imf.org/en/Publications/REO/SSA/Issues/2021/04/15/regional-economic-outlook-for-sub-saharan-africa-april-2021>.

17 Central Bank of Nigeria, "Economic Report January 2021", January 2021, <https://www.cbn.gov.ng/Out/2021/RSD/January%202021%20Economic%20Report.pdf>.

18 International Monetary Fund, "Nigeria: Request for Purchase Under the Rapid Financing Instrument", Country Report' no. 20/142, April 2020, https://www.imf.org/~/_media/Files/Publications/CR/2020/English/INGAEA2020001.ashx.

19 Central Bank of Nigeria, "Monetary Policy Decisions", January 2021, <https://www.cbn.gov.ng/MonetaryPolicy/decisions.asp>.

20 Central Bank of Nigeria, "CBN Policy Measures in Response to COVID-19 Outbreak and Spillovers", March 16, 2020, <https://www.cbn.gov.ng/Out/2020/FPRD/CBN%20POLICY%20MEASURES%20IN%20RESPONSE%20TO%20COVID-19%20OUTBREAK%20AND%20SPILLOVERS.pdf>.

largely due to the rise in inflation.²¹ Since the pandemic, the cash reserve ratio has not been revised downwards, which has had an unintended consequence of limiting banks' credit creation capacity.

Table 1 Nigeria's macroeconomic policy responses

Type	Policy response
Fiscal policies	Conditional cash transfer programme to 3.7 million people and an increase of the social register by 1 million households. The selection process follows a funnel approach where the poorest households in the poorest local government areas within the poorest states are prioritised. However, according to the 2019 Nigerian Living Standards Survey, 83 million Nigerians live in poverty implying that 78.3 million Nigerians are excluded from the programme.
	Creating a NAN 50 billion (\$ 139 million) targeted credit facility to the private sector
	NAN 2 trillion (\$ 5.3 billion) loan to the manufacturing sector
	NAN 1.5 trillion (\$ 3.9 billion) loan to the real sector
	NAN 100 billion (\$ 263 million) intervention to the health sector
	NAN 3.6 trillion (\$ 9.5 billion) injection to the banking system for loan creation
	NAN 300 billion (\$ 789.5 million) MSME Development Fund targeted at micro, small, and medium-sized businesses
	NAN 75 billion (\$ 197.4 million) Nigerian Youth Investment Fund targeted at young entrepreneurs
	Increase in VAT from 5% to 7.5%
	Removal of fossil fuel subsidies, which was estimated at \$ 2.7 billion in 2018 ^a
	Removal of subsidies to the electricity sector, which was estimated at \$ 377 million in 2018 ^b
	Tax rebate to companies that did not retrench staff in 2020
Special Public Works Programme for the vulnerable particularly those with low skills and without employment	
Monetary policies	Reduction of the MPR from 13.5% to 11.5%
	Reduction of the interest rate on CBN interventions from 9% to 5%
	Provision of an additional one-year moratorium on all CBN interventions cutting across the agriculture, manufacturing and services sectors
Exchange rate and balance of payment	Official devaluation of the naira from NAN 307/\$ 1 to NAN 379/\$ 1

a International Energy Agency, "IEA Fossil Fuel Subsidies Database", 2020, <https://iea.blob.core.windows.net/assets/6ad1127d-821a-4c98-b58d-d53108fe70c8/IEA-Fossil-Fuel-Subsidies-2010-2019.xlsx>.

b International Energy Agency, "IEA Fossil Fuel Subsidies Database".

Source: Authors' compilation based on International Monetary Fund 2021 policy responses to COVID-19. Retrieved from: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#N>.

21 Central Bank of Nigeria, "Monetary Policy Decisions", 2020, <https://www.cbn.gov.ng/MonetaryPolicy/decisions.asp>.

The CBN's interventions in the real sector have constrained expansion efforts in money market operations. In the first half of 2020, sales of the CBN bills offered at the open market operations auctions were valued at NAN 6.45 trillion, which is nearly half of the sales recorded in 2019 (estimated at NAN 1.83 trillion).²² The decline in open market operations resulted in the tightening of liquidity conditions.

There was also private sector support to complement the broad fiscal and monetary policies interventions. The Coalition Against COVID-19, working with the government, the Nigeria Centre for Disease Control and the World Health Organization, is the major private sector task force dedicated to combating COVID-19 in Nigeria. Their interventions are anchored around the health sector, food relief programmes and awareness campaigns. For instance, the Coalition equipped medical facilities across the country's six geopolitical zones, enhanced capacity for testing and treatment, and built test laboratories, and isolation and treatment centres. As of November 2020, its total expenditure amounted to NAN 43.27 billion (\$ 113.88 million).²³

Development impact of COVID-19 and the efficacy of government support

One of the major transmission channels of the pandemic's effect on the economy is the labour market given that the health burden (morbidity and death) on the affected population represents a productivity loss in the economy. Similarly, the containment and mitigation strategies initially implemented severely constrained trade and production activities. These have had immediate economic effects in terms of job losses, lower revenue for businesses and increased poverty for households. Based on the current labour market trends, the World Bank estimated that,²⁴ without a holistic policy response, an additional 10 million Nigerians could fall into extreme poverty by 2022.²⁵ This will significantly worsen the poverty situation considering that 83 million Nigerians were estimated to already be living below the poverty line in 2019.²⁶

22 Central Bank of Nigeria, "Financial Markets Department. Half-Year Activity Report", 2020, <https://www.cbn.gov.ng/Out/2021/FMD/2020%20FMD%20Half%20Year%20Activity%20Report.pdf>.

23 Central Bank of Nigeria, "Press Conference on Activities by CACOVVID", 2020, <https://www.cbn.gov.ng/Out/2020/CCD/CACOVVID%20press%20conference%20FINAL.pdf>.

24 Alexander Irwin, Jonathan Lain and Tara Vishwanath, "Using Data to Combat the Ongoing Crisis, and the Next, in Nigeria", World Bank Blog, January 28, 2021, <https://blogs.worldbank.org/opendata/using-data-combat-ongoing-crisis-and-next-nigeria>.

25 World Bank Poverty Team, "COVID-19 and Welfare in Nigeria: New Evidence for Policy", October 2020, <https://pubdocs.worldbank.org/en/961791611161231868/pdf/COVID-19-and-Welfare-in-Nigeria-New-Evidence-for-Policy-October-2020.pdf>.

26 National Bureau of Statistics, "2019 Poverty and Inequality Nigeria", May 2020, <https://nigerianstat.gov.ng/download/1092>.

Evidence from the COVID-19 phone survey in Nigeria by the National Bureau of Statistics²⁷ points to a significant loss of livelihood at both the peak of economic restrictions and as the economy reopened. The rapid phone survey and polls have elicited responses on a number of important issues including employment, business performance and food security. These are key to assessing macroeconomic performance and dealing with the pandemic. In April 2020, during the first phase of restrictions to movement (including inter-state travelling and shutdown of economic activities in commercial cities), about 57.4% of the adult population reported being out of work and 81% of businesses reported lower or zero revenue month-on-month (see Table 2). The unemployment rate of 57.4% is significantly higher than the pre-pandemic unemployment rate, which was 23% in the third quarter of 2018.²⁸ By the third phase, specifically in the third and fourth quarters of 2020, most of the economic indicators had improved but none had reached the pre-crisis level. By December 2020, only 29.8% of the adult population reported being out of work in both the formal and informal sectors, and 37% of businesses reported lower or zero revenue.

Food insecurity worsened significantly due to inflation and labour market shocks, and this affected household income and consumption patterns. Table 2 shows that more than half of the respondents were unable to purchase two key staple foods (rice and cassava) in April 2020. However, the share of those unable to purchase food supplies had fallen to 20.3% for rice and 12.82% for cassava in December 2020, pointing to a gradual recovery. This has implications for the achievement of Agenda 2030 goals in Nigeria with respect to poverty alleviation (SDG 1) and ending hunger and achieving food security (SDG 2). Nevertheless, the future trends in employment, business profitability and food security depend on the size and effectiveness of policy responses.

“Based on the current labour market trends, the World Bank estimated that, without a holistic policy response, an additional 10 million Nigerians could fall into extreme poverty by 2022. This will significantly worsen the poverty situation considering that 83 million Nigerians were estimated to already be living below the poverty line in 2019”

27 The survey covers between 1 000 and 1 500 household monthly. <https://microdata.worldbank.org/index.php/catalog/3712>.

28 National Bureau of Statistics, “Labor Force Statistics – Volume 2: Unemployment and Underemployment by State”, 2018, https://ndlink.org/wp-content/uploads/2019/06/Q3_2018_unemployment_by_State-1.pdf.

Table 2 Impact of COVID-19 on key development indicators in Nigeria (%) April to December 2020

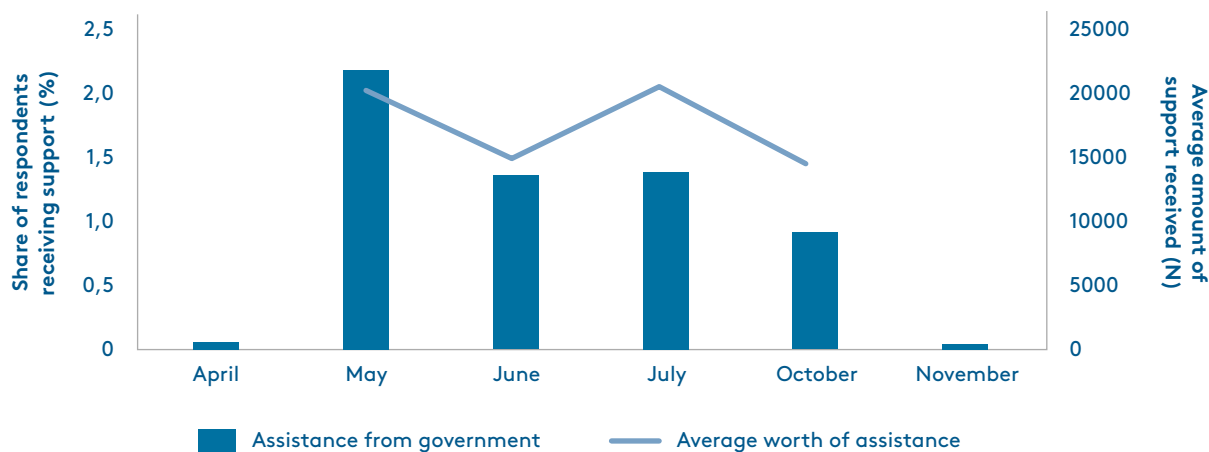
Dimension of impact	April	August	December
Employment			
% of adult population not working	57.44	30.55	29.86
Revenue losses: Change in business revenue			
Lower/no revenue	81.2	46.02	37.37
No change in revenue	8.25	17.13	17.9
Higher revenue	10.54	36.85	44.74
Food security: % of respondents who are unable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

Source: Authors' analysis based on World Bank and National Bureau of Statistics, 2021. COVID-19 National Longitudinal Phone Survey 2020

Insights from the survey show that access and coverage of government support is minimal. The share of respondents receiving assistance from the government stood at 0.77% of the population in April 2020 and rose to 2.17% in May but declined consistently afterwards (Figure 5). Although the majority of the population did not benefit from government's targeted social transfers, there is a gradual withdrawal of this support, indicating a shift in priorities. The rebound in employment, business revenue and food security reflect the pro-growth policy measures that have had an impact on both households and businesses. This signals that stronger recovery efforts should be anchored on increasing government assistance towards sectors that drive growth and employment. However, social protection programmes still have a role to play particularly in providing food security.

“The rebound in employment, business revenue and food security reflect the pro-growth policy measures that have had an impact on both households and businesses. This signals that stronger recovery efforts should be anchored on increasing government assistance towards sectors that drive growth and employment”

Figure 5 Beneficiaries of the government support programme as a share of the population, and the value of government support, April to November 2020



Source: Authors' analysis based on World Bank and National Bureau of Statistics, 2021. COVID-19 National Longitudinal Phone Survey 2020

Lessons for Nigeria and other low-income and lower-middle-income countries

The swiftness and scope of the CBN's response since the onset of the pandemic is notable. The availability of credit to the real economy since March 2020 has targeted sectors of importance to the economic recovery agenda including manufacturing and services. Moreover, the CBN's response occurred in the context of several ongoing development finance interventions to the real sector. Furthermore, the national data collection agency, specifically the National Bureau of Statistics, has been proactive in collecting timely and frequent data. This has informed analysis and been used to develop insights on how the pandemic has affected both households and businesses. In many African countries where conducting regular surveys is uncommon, Nigeria serves as a leading example.

“The availability of credit to the real economy since March 2020 has targeted sectors of importance to the economic recovery agenda including manufacturing and services”

Nevertheless, the role the CBN has taken with regards to credit support points to several gaps in the policy response. First, the support to businesses largely involves loans without leveraging other interventions, such as tax cuts, moratoriums on debt repayment and wage subsidies. For businesses with access to loans – and worse for those without loans – these financial commitments (tax, debt, and wage payments) could outweigh the support from government and have implications on business profitability and solvency.

Second, both federal and sub-national governments are fiscally handicapped because the country entered the crisis with a history of limited fiscal space. This limited government’s capacity to respond to the crisis and widened the CBN’s appetite for continued support to the private sector. This poses a concern regarding the risk exposure of the CBN in the case of an extensive private sector default, and debt monetisation. This is of concern given the large share of revenue deployed towards debt servicing and also considering that non-performing loans as a share of outstanding loans remains above the 5% benchmark stipulated by the CBN.

The proclivity towards issuing new money in order to finance budget shortfalls has been associated with upward pressure on inflation.²⁹ As a result of the negative effects of monetary financing, central banks in the European Union are explicitly mandated not to engage in direct monetary financing under the Maastricht Treaty (Article 130 of the treaty of the functioning of the European Union).³⁰ However, there is an ongoing shift in central banking – termed quantitative easing – that supports the large-scale purchase of government bonds

“For businesses with access to loans – and worse for those without loans – these financial commitments (tax, debt, and wage payments) could outweigh the support from government and have implications on business profitability and solvency”

29 Jane Bogoev, Goran Petrevski and Bruno S. Sergi, “Investigating the Link Between Central Bank Independence and Inflation in Central and Eastern Europe: Evidence from Panel Data Models”, *Eastern European Economics*, 50 (4) (2012): 78–96, <https://www.tandfonline.com/doi/abs/10.2753/EEEE0012-877500405>.

30 Andrew Watt, “Quantitative Easing with Bite: A Proposal for Conditional Overt Monetary Financing of Public Investment”, IMK Working Paper, No. 148, March 2015, <https://www.econstor.eu/bitstream/10419/110391/1/82030462X.pdf>.

to maintain low interest rates.³¹ Quantitative easing has also been adopted by countries facing deflation, as was the case in Japan from 2001 to 2006 when the Bank of Japan sought to bring an end to deflation.³²

In the case of Nigeria, the CBN is undertaking direct monetary financing in the form of printing money within the context of persistent inflation. As such, the independence of a central bank in low-income and lower-middle income countries with similar conditions to Nigeria is key to macroeconomic stability. Times of crisis are no excuse to flout the rules that govern macroeconomic stability. Achieving independence from the central bank is underpinned by a country's ability to build fiscal buffers and maintain fiscal prudence.

Accordingly, there is the need to build fiscal buffers to navigate future crisis. In Nigeria, as in several developing countries, this will involve expanding the tax base – not explicitly by increasing tax rates but by curbing tax evasion and avoidance. More so, given that a large share of revenue is generated from oil, transparent and efficient management of natural resource revenues, including establishing a natural resource fund, will address revenue leakages. On expenditure, streamlining governance structures for countries with a high cost of governance is a policy option towards building fiscal buffers. Nigeria, with one of the highest costs of governance globally, could lead in this regard.³³

“The independence of a central bank in low-income and lower-middle income countries with similar conditions to Nigeria is key to macroeconomic stability”

“On expenditure, streamlining governance structures for countries with a high cost of governance is a policy option towards building fiscal buffers. Nigeria, with one of the highest costs of governance globally, could lead in this regard”

31 Daniela Gabor, “Revolution Without Revolutionaries: Interrogating the Return of Monetary Financing”, *Transformative Responses to the Crisis*, March 2021: 3–31, <http://tankona.free.fr/gabor121.pdf>.

32 Miguel Angel Pesce, “Transmission Mechanisms for Monetary Policy in Emerging Market Economies: What is New?”, Bank for International Settlements Papers No 35, January 2008, 131, https://www.researchgate.net/profile/Hernando_Vargas2/publication/4735696_The_Transmission_Mechanism_of_Monetary_Policy_in_Colombia_Major_Changes_and_Current_Features/links/565f041e08aeafc2aac982c6/The-Transmission-Mechanism-of-Monetary-Policy-in-Colombia-Major-Changes-and-Current-Features.pdf#page=139.

33 Emmanuel Mayah, Chiara Mariotti, Evelyn Mere and Celestine Okwudili Odo, “Inequality in Nigeria. Exploring the Drivers”, Oxfam International Policy Paper, May 16, 2017, https://www-cdn.oxfam.org/s3fs-public/file_attachments/cr-inequality-in-nigeria-170517-en.pdf.

Furthermore, commercial banks are largely unable to meet credit demands. On the demand side, asymmetric information in borrowing markets – owing to limited information on the credit worthiness of borrowers – has led to high interest rates on loans to cover risky borrowers. As such, the loans and loan guarantees offered within the purview of the CBN’s development finance interventions require collateral (in some cases). Moreover, the weak monetary policy transmission – common in developing countries owing to heavy central bank interventions in the foreign exchange market, low rates of interbank competition and a lack of market-determined interest rates³⁴ – has made it such that reductions in the MPR do not reflect on the interest rates offered by commercial banks. On the supply side, banks in Nigeria are constrained, as the cash reserve ratio has not been reduced since the pandemic began. Moreover, the relatively high interest rates offered in treasury bills and government bond markets incentivises commercial banks to invest in government bonds (that are largely risk-free) rather than lend to the private sector. As a result of these shortcomings, direct lending by the central bank can be adopted to mitigate against some barriers particularly the high collateral and interest rate associated with borrowing. This has been done by the United States’ Federal Reserve in the wake of the pandemic.³⁵

Other gaps exist with regards to targeting and coverage of the government’s spending plans. First, the government’s limited spending plan, high level of informality and low financial inclusion has led to a large share of the population being left behind with regards to direct income support. As noted elsewhere in this policy insight, only 2.17% of the population surveyed benefitted from the government’s support in May 2020 with implications for vulnerability and poverty levels. Moreover, the lack of a gendered approach in the design and implementation of spending plans worsens the pandemic’s effect on women. For instance, failure to provide childcare subsidies (subsidising businesses and individuals for taking leave of absence for childcare purposes) is likely to affect the income and job security of women. South Korea stands out as a country with a gendered approach in its macroeconomic policy. It provided an emergency family care subsidy for workers taking a leave of absence for childcare during school closures.³⁶

Additionally, the reallocation of spending is not adequately targeted at achieving a green recovery, in particular, and sustainable development in general. While the government’s Economic Sustainability Plan (2020–2021) seeks to increase spending allocated to agriculture, renewable energy and infrastructure, the plan remains vague as to the mechanisms through which the investments will be made and focuses on unsatisfactory aspects of the sector. For

34 Prachi Mishra, Peter Montiel and Antonio Spilimbergo, “Monetary Transmission in Low-Income Countries: Effectiveness and Policy Implications”, *IMF Economic Review*, 60 (2) (2012): 270–302, http://www.prachimishra.net/mms_ier_final_feb23.pdf.

35 Board Of Governors of the Federal Reserve System, “Federal Reserve Board Announces it is Expanding the Scope and Eligibility for the Main Street Lending Program” April 30, 2020, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200430a.htm>.

36 Organisation for Economic Co-operation and Development, “Policy Notes (Responding to COVID-19) Republic of Korea (2020)”, <https://www.oecd.org/education/Republic-of-Korea-responding-COVID-19-policy-notes.pdf>.

instance, the focus on agriculture is to increase the farmland under cultivation rather than improve productivity and formalise the sector, which would increase the revenue generated from the sector. Other aspects such as education and health receive relatively less attention despite the fact that the pandemic has exposed structural weaknesses in these sectors.

Lastly, the use of anti-trade restrictive policies should be reversed, such as closure of borders in the wake of the pandemic. Burundi, Ethiopia, Rwanda and Somalia closed their borders in March 2020, and Kenya in May 2020, mainly to contain the spread of the virus.³⁷ Although Nigeria has reversed the closure of its borders, other countries are yet to reverse their border closure policies, which is inconsistent with the African Continental Free Trade Area Agreement that advocates for free trade within the continent. One of the consequences of Nigeria's border closure was a negative impact on border communities (in both Nigeria and neighbouring countries) that rely on informal trade as a source of livelihood.³⁸ Similarly, the ban on the import of selected items in order to conserve foreign exchange earnings is not only anti-trade but could increase local food prices against the background of already rising food inflation. This has consequences for vulnerability and poverty.

A key lesson across the policy responses is the need to strengthen the systems that underpin the delivery of the responses. An improved social protection system will be useful to reach the vulnerable and those in the informal sector, the same way that the creation of fiscal buffers will lead to more robust spending plans in times of crisis. Similarly, increased formalisation of the labour market will ensure that more

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37 Amnesty International, “East Africa: People Seeking Safety are Trapped at Borders Due to COVID-19 Measures”, June 22, 2020, <https://www.amnesty.org/en/latest/news/2020/06/east-africa-people-seeking-safety-are-trapped-at-borders-due-to-covid-19-measures/>.

38 Stephen Golub, Ahmadou Mbaye and Christina Golubski, “Africa in Focus: The Effects of Nigeria's Closed Borders on Informal Trade with Benin”, *Brookings*, October 29, 2019, <https://www.brookings.edu/blog/africa-in-focus/2019/10/29/the-effects-of-nigerias-closed-borders-on-informal-trade-with-benin/>.

workers have recourse to necessary benefits including paid leave, unemployment insurance and health insurance – and a more developed health systems will increase preparedness in times of a health crisis. Adopting a long-term approach and building systems rather than once-off solutions is of crucial importance to shaping the economy. However, readjusting the spending plans to fit the present climate is important to ensure that the temporary fiscal stimulus does not become permanent, as this will have implications for sustainability.

Conclusion

The COVID-19 pandemic has led to unprecedented demand and supply shocks. However, governments have deployed macroeconomic policy responses targeted at providing relief for those affected. Nigeria has been severely affected by the economic shock with the economy falling into a recession in November of 2020, but exiting soon after. The economic recovery is largely as a result of the government’s interventions in the form of an increase in spending plans and interventions in the foreign exchange market – much of which has been led by the CBN through monetary financing to the government and the provision of development interventions to the private sector.

Despite the proactive role of the government, several shortcomings have emerged with regards to Nigeria’s macroeconomic policies. The increase in the CBN’s appetite for continued support to the private sector poses concerns regarding the risk exposure to an extensive private sector default and debt monetisation. Furthermore, commercial banks are largely unable to meet credit demands due to an interplay of several factors including limited information on the credit worthiness of borrowers, weak monetary policy transmission and a high cash reserve ratio. Other gaps also exist, and a large share of the informal sector – the vulnerable population and women – are left behind in the government’s policy responses. Similarly, the narrow range of

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interventions constricts businesses with outstanding financial commitments including tax, debt and wage payments.

A key lesson for Nigeria and other developing countries includes ensuring the independence of the central bank even in the face of the crisis. Furthermore, a long-term approach should be adopted to strengthen the systems that underpin the delivery of the responses, including strengthening social protection and public health systems, formalising the labour market and creating fiscal buffers. The ICT sector, and others that can adapt to digital platforms, also showed more resilience and even growth during the pandemic, suggesting that anchoring recovery efforts and post-COVID economic structures in a digital economy could be beneficial. Furthermore, policy responses should align with broader development agreements including the Sustainable Development Goals, the Paris Climate Agreement and the African Continental Free Trade Area Agreement.

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About CSEA

The Centre for the Study of the Economies of Africa (CSEA) is an independent non-profit research organization established in April 2008. CSEA serves as a forum for quality research analyses, and policy dialogue by stakeholders from the private sector, government, national assembly, and civil society. The policy-oriented research carried out by the Centre, including the articulation of policy choices, tradeoffs and implications, is put forward to the general public and decision-makers to stimulate rigorous debates on the effects of government policies on economic growth and development in Nigeria and Africa. The Centre carries out applied research and presents policy options to enhance macroeconomic stability, fiscal transparency and accountability. Similarly, CSEA advocates for greater fiscal transparency and accountability, reduction in leakages of public funds and improvements in governments' delivery of social and public services.

Cover image: A man exchanges Nigeria's currency, Naira, for US dollars in Lagos, Nigeria, on April 19, 2021. Nigeria's economy was already struggling with a fall in the price of oil, Nigeria's major export, and a weak local naira currency, before the global pandemic struck. Nigeria's inflation soared to a four-year high of more than 18% in March 2021, with food prices up 22.9%, according to the National Bureau of Statistics (Pius Utomi Ekpei/AFP via Getty Images)