RESPONSE TO COVID-19: INFLUENCE ON GLOBAL AND NIGERIAN ECONOMY

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INTRODUCTION

The world at different times has survived and recovered from impacts of wars diseases and terrorist attacks which at one time or the other had affected human life. However, it appears and does seem that the fiercest threat the world has had to grapple with is one presenting an avenue for the extinction of mankind and every point of living.

The novel corona virus disease scientifically called COVID-19 which broke out in Wuhan, China in December 2019 and is rapidly spreading throughout the globe has brought about a state of affairs which the world had probably never contemplated from immemorial. The health measures the world has had to consider and put in place to with social distancing, closure of state borders and in the extreme, a total lock-down within a state or country affected by the virus has almost brought the world economy to a standstill and more importantly, has not left the global economy without the adverse consequences of the measures resorted to, to contain and eradicate the plague.

THE ECONOMIC REALITY AMID COVID-19

For better appreciation of this issue, it is imperative to discuss alongside Nigeria's economy, the large economies which have been affected by the pandemic. For the purpose of this article, focus shall be on China, United States of America and United Kingdom and the Eurozone.

CHINA:

Following the outbreak of COVID-19 and its rapid spread throughout China, the country was forced to severe all basic production in order to observe quarantine and a total lock-down.

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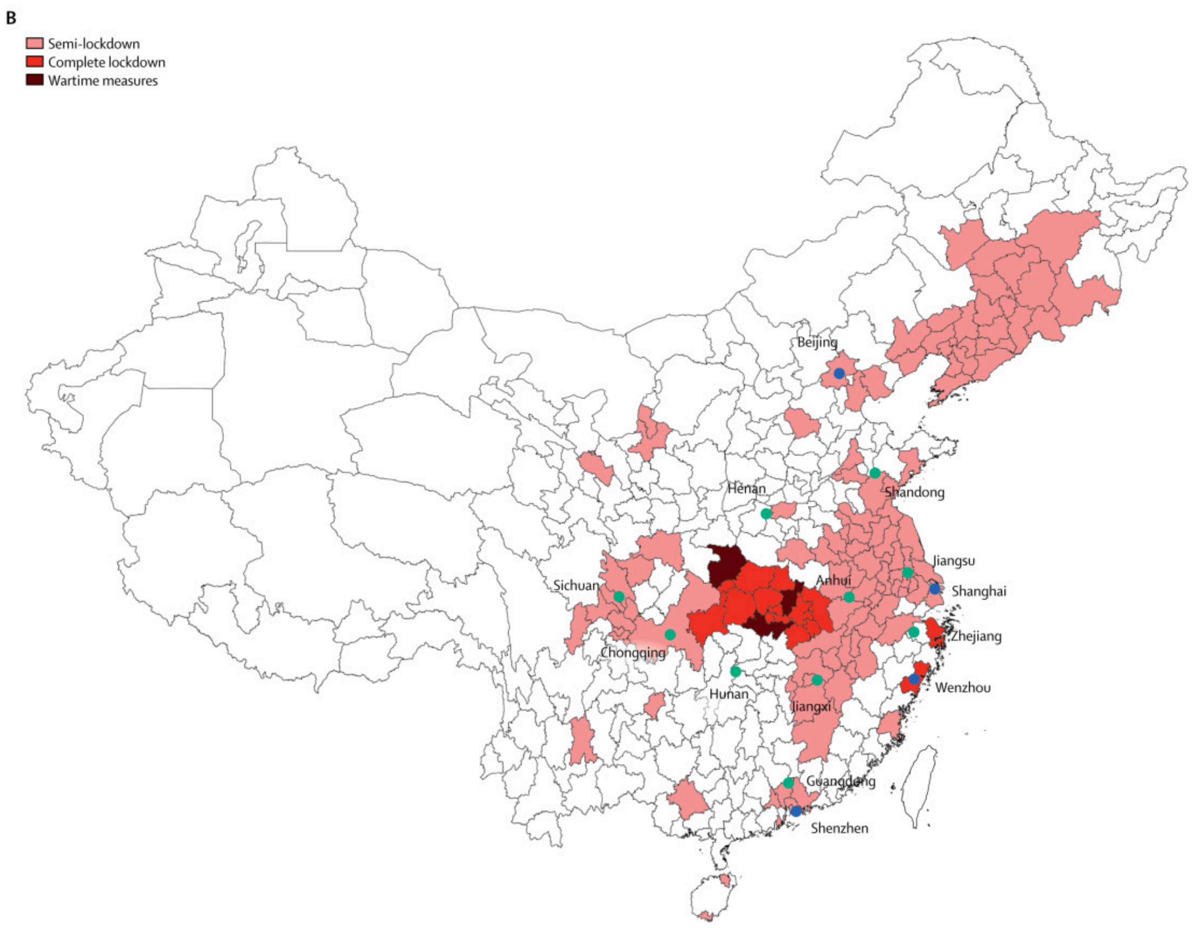
Although this public health care measure helped the country curb the virus' spread, the government's quarantine and pandemic management measures over the past three months have brought China's economy to a standstill.

The National Bureau of Statistics (NBS) described January-February economic activity in China as nothing less than a depression as there was a remarkable fall in Industrial output by 13.5 percent and in services index by 13 percent. While exports dropped by 17.2 percent and retail sales fell by 20.5 percent, fixed asset investment was reported to have crashed by 24.5 percent. Most shocking, the NBS admitted a rise in unemployment by 6.2 percent as about 5 million people in China lost their jobs amid the outbreak of the pandemic in the first two months of this year, its highest on record.

Now, just as China navigates its return to normalcy, the outbreak appears to be accelerating in the rest of the world – especially in Europe and North America – resulting in plummeting overseas' demand for Chinese exports. After having registered 6.1 percent GDP growth in 2019, the World Bank now projects China could grow by just 2.3 percent in 2020.

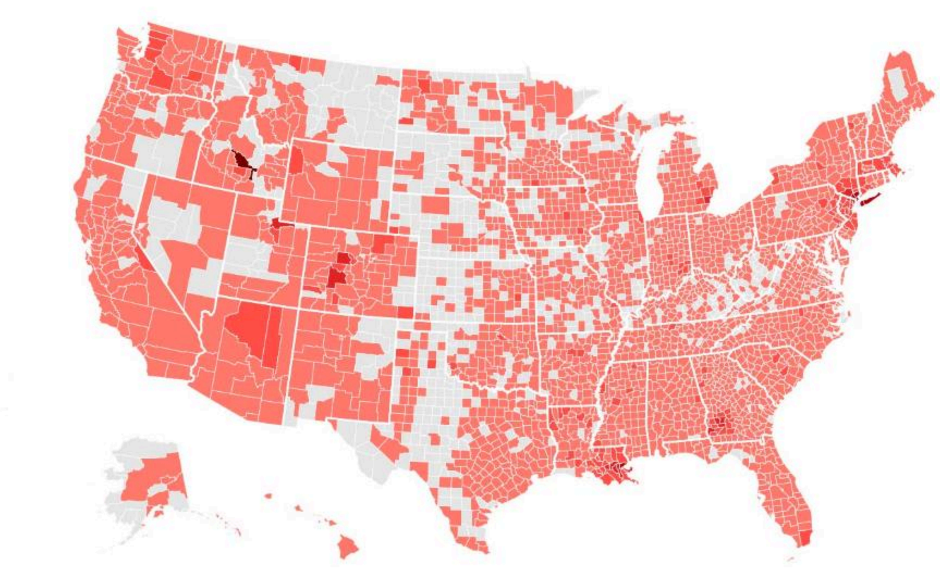
The threats to the economy are, however, at least as big as they were in 2008 during the global recession – if not more so. According to Reuters, the Chinese government is considering spending up to RMB 2.8 trillion (US$394 billion) in local government special bonds to spur infrastructural investment. Though such a figure is a much smaller percentage of GDP than the 2008 stimulus package of RMB 4 trillion (US$575 billion) – equivalent to about 13 percent of China's 2008 GDP, same still remains very much significant and economists still expect China's GDP to shrink in the first quarter of 2020.



UNITED STATES OF AMERICA:

As the novel coronavirus (COVID-19) rips through America's biggest cities, its effect is being felt far beyond the over 140,000 Americans who are confirmed infected. The quarantines and lockdowns that are needed to fight the virus's spread are freezing the economy with unprecedented force and speed. To understand COVID-19's hit on the U. S. economy, it is pertinent to consider its effect on different industries within the economy.

Consumption makes up 70% of America's gross domestic product (GDP), but consumption has slumped as businesses close and as households hold off on major purchases as they worry about their finances and their jobs. Investment makes up 20% of GDP, but businesses are putting off investment as they wait for clarity on the full cost of COVID-19. Arts, entertainment, recreation, and restaurants constitute 4.2% of GDP. With restaurants and movie theatres closed, this figure will now be closer to zero until the quarantines are lifted. Manufacturing makes up 11% of U.S. GDP, but much of this will be disrupted, too, because global supply chains have been obstructed by factory closures which in turn have resulted from an anticipation of reduced demand. Ford and GM, for example, have announced temporary closures of car factories. The stock market too is not left out as same is reported to have sunk a quarter from its peak as at February, 2020 thus, wiping out three years of gains.



As businesses rack up losses due to closures, layoffs have already followed. Small businesses especially, struggle to keep staff on the payroll as their revenue slumps. Unemployment is shooting up far faster than it did during the 2008 recession, a sign the economy is headed toward recession. During the last two weeks of March, initial jobless claims rose by nearly 10 million, pushing unemployment to 4.4%. However, as more and more file for benefits, unemployment is expected to rise further, reaching 14% or higher.

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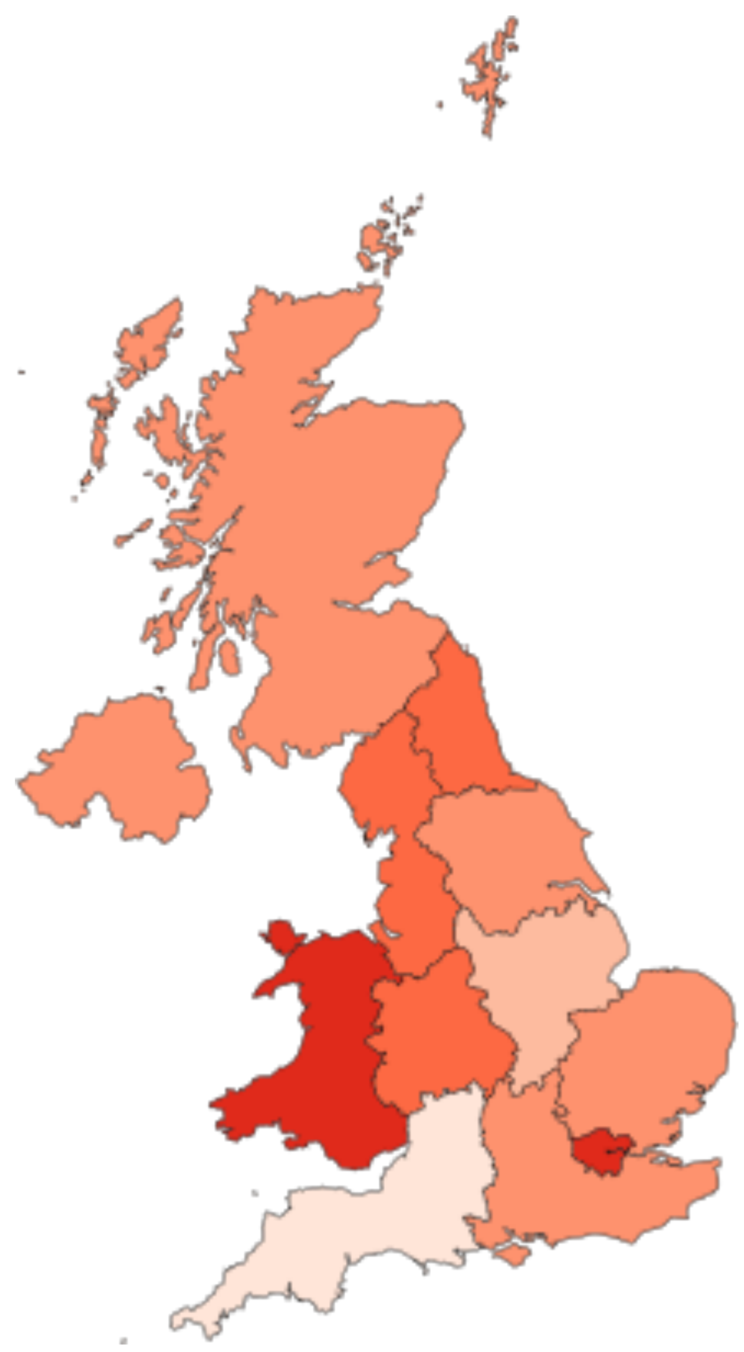
Just how long is the COVID-19 slump likely to last and how far off is economic recovery? That depends, in part, on when the virus's spread can be slowed and businesses can be reopened.

THE UK AND THE EUROZONE:

The situation does not bode well for the UK and the eurozone which have been the hardest hit by the virus given the infection and death of hundreds of thousands people which has brought all economic activities to an abrupt stop and imposed a lockdown. . Following the stringent measures observed and the massive fiscal stimulus packages contemplated and agreed for the purpose of fighting the harsh realities of the pandemic in this region (in Germany and the UK, the headline totals are for measures in excess of 20 percent and 15 percent of GDP, respectively while in Spain, initiatives worth around 8 percent of GDP has been announced), a major recession has been concluded. In this wise, the Standard & Poor's Global Ratings stated that it is expected that the GDP in the eurozone and the UK is likely to fall around 2 percent and even more this year, due to economic fallout from the coronavirus pandemic, representing a loss of about 420 billion euros in real GDP.



NIGERIA:

With the outbreak of COVID-19 in Nigeria and its gradual spread within states of the country, the Federal Government on the 30th day of March, 2020, declared a total lock-down within affected States. Like most countries plagued by the virus, the odds of sliding into a downturn are expected given the already wimpy state of the national economy.

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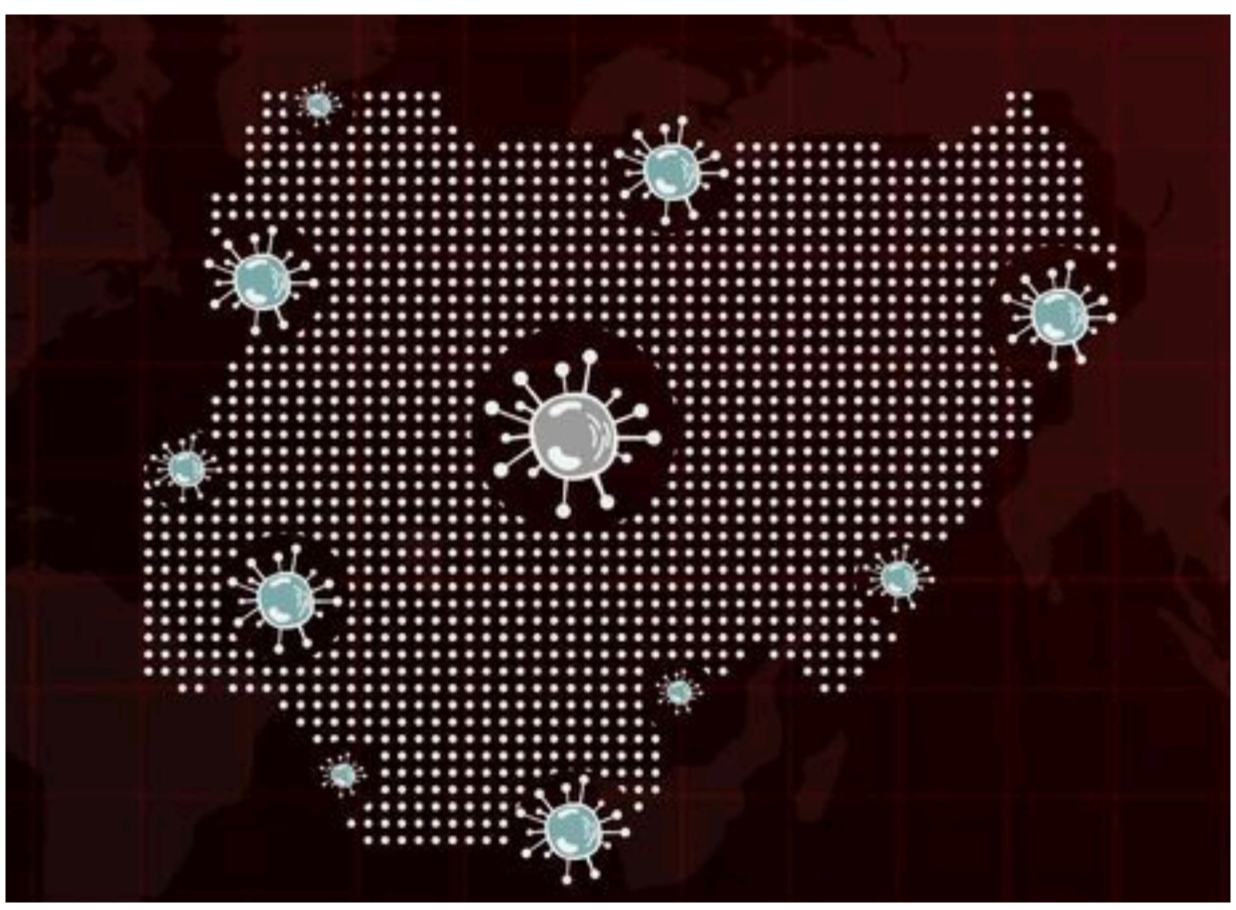
It is common knowledge that Nigeria places major reliance on oil and is still gradually recovering from the 2015/2016 economic recession which was a fall out of global oil price crash and insufficient foreign exchange earnings to meet imports. In the spirit of economic recovery and growth sustainability, The Federal Budget for the 2020 fiscal year was prepared with significant revenue expectations but with contestable realizations. The 2020 approved budget had projected revenue collections at #8.24 Trillion, an increase of about 20% from the 2019 figure. The revenue assumptions were premised on increased global oil demand and stable market with oil price benchmark and oil output respectively at $57 per barrel and 2.18 Million barrels per day.



With the emergence of COVID-19 and its increasing incidence in Nigeria, the state of the recovery of the economy is fraught with difficulties ahead as the oil price is currently below $30 with projections that it will drop further, going by the price war among key players in the industry. This unfortunate event brought about a call for drastic review and changes in the earlier revenue expectations and fiscal projections earlier made. In fact, on March 18, 2020, the minister of finance announced a 1.5 trillion Naira ($4.17 billion) cut in nonessential capital spending.

Furthermore, the country's debt profile has been a source of concern to policymakers and development practitioners as the most recent estimate puts the debt service-to-revenue ratio at 60 percent, which is likely to worsen amid the steep decline in revenue associated with falling oil prices. These constraining factors will aggravate the economic impact of the COVID-19 outbreak and make it more difficult for the government to withstand the crisis.

Also, although efforts were already being made to bolster aggregate demand through increased government spending and tax cuts for businesses, there are increasing signs of a fall in all components of aggregate demand.

Consumption for instance is beginning to decrease drastically following consumers demand for essential goods and services alone, reduction in available income and gradual erosion of wealth due to reduction in the value of assets (such as stocks) amid lockdown. Movement restrictions have not only reduced the consumption of nonessential commodities in general, but have affected the income-generating capacity of these groups, thus reducing their consumption expenditure.

Similarly, investment is gradually receding largely due to the uncertainties that come with the pandemic (limited knowledge about the duration of the outbreak, the effectiveness of policy measures, and the reaction of economic agents to these measures) as well as negative investor sentiments, which are causing turbulence in capital markets around the world. Indeed, 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 following its declared loss of ₦2.3 trillion in the three weeks after Nigeria's first reported case; which has eroded the wealth of investors. Taking into consideration the uncertainty that is associated with the pandemic and the negative profit outlook on possible investment projects, firms are likely to hold off on long-term investment decisions.

Covid-19 also has its accompanying implications on the budget of the country as well. At this time, government purchases will increase as countries which typically run on budget deficits will utilize fiscal stimulus measures to counteract the fall in consumer spending. However, for governments that are commodity dependent, the fall in the global demand for commodities stemming from the pandemic will significantly increase their fiscal deficits. In Nigeria's case, the price of Brent crude was just over $26 a barrel on April 2, whereas Nigeria's budget assumes a price of $57 per barrel and would still have run on a 2.18 trillion naira ($6.05 billion) deficit. With oil accounting for 90 percent of Nigeria's exports, the decline in demand for oil and oil prices will result in limited markets and adversely affect the volume and value of net exports.

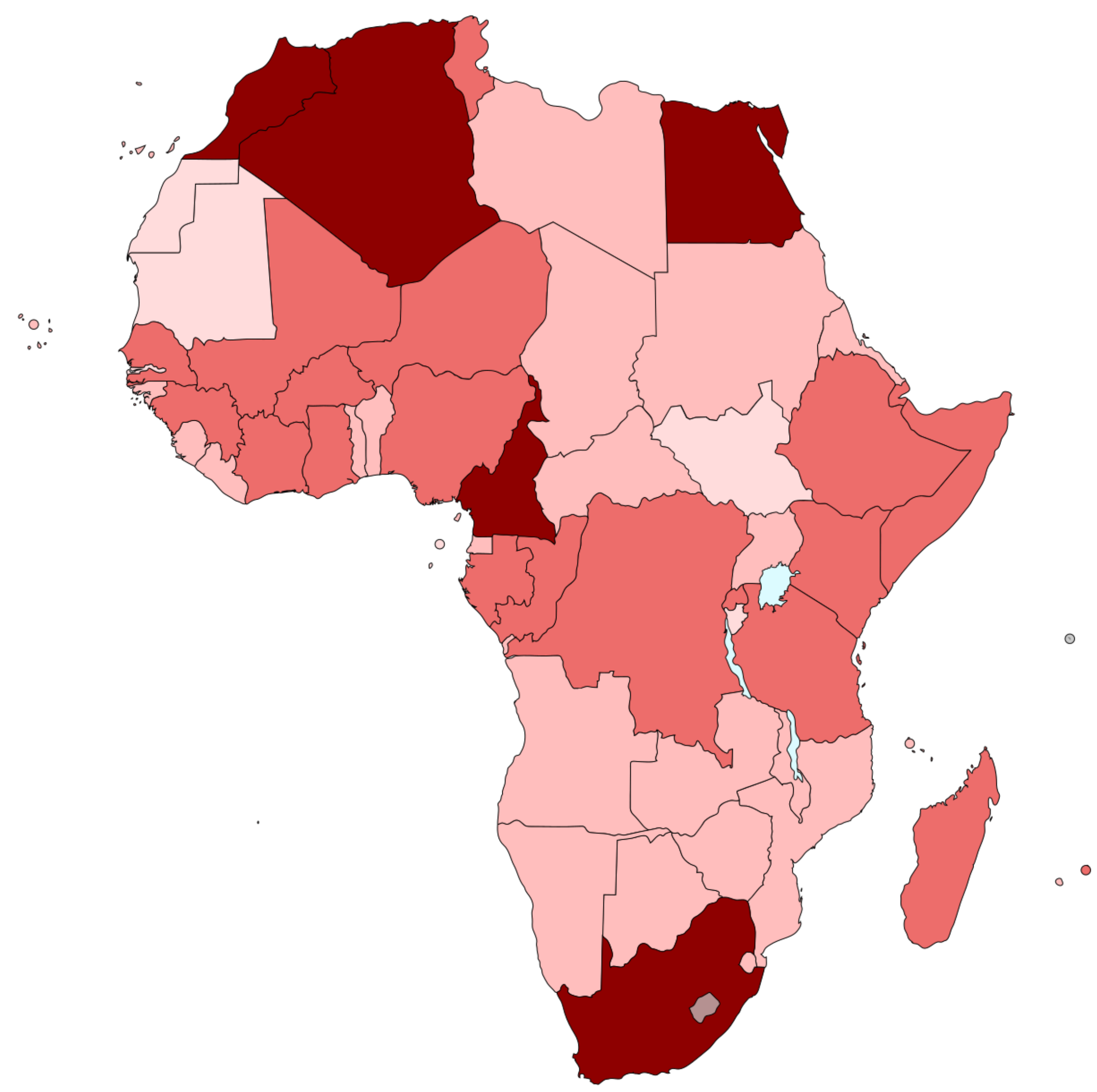
Unless Nigeria gets lucky and the heat does temper the virus, Nigeria which is already cash strapped will get hit and hard, with the need for large new subsidies in the face of loss of revenue, it would easily slip into its own version of the great depression.

IMPACT OF COVID-19 ON THE AFRICAN ECONOMY

The Economic Commission for Africa (ECA) estimates billions worth of losses in Africa due to COVID-19 impact. ECA warns that the pandemic could seriously dent Africa's already stagnant growth with oil exporting nations losing up to US$65 billion in revenues as crude oil prices continues to tumble.

Speaking at a press conference in Addis Ababa, ECA Executive Secretary, Vera Songwe, said "Africa may lose half of its GDP with growth falling from 3.2% to about 2% due to a number of reasons which includes the disruption of global supply chains". She went further to say that the Continent would need up to **US $10.6 billion** in unanticipated increases in health spending to curtail the virus from spreading, while on the other hand revenue losses could lead to unsustainable debt.

The ECA estimates COVID 19 could lead to Africa's export revenues from fuels falling at around **US $101 billion** in 2020. Remittances and tourism are also being affected as the virus continues to spread worldwide, resulting in a decline in FDI Flows; Capital Flight; Domestic Financial Market tightening; and a slow- down in investments- hence job losses.



With nearly two- third of African countries being net importers of basic food and pharmaceuticals, shortages are feared to severely impact their availability and security. Pharmaceuticals, imported largely from Europe and other COVID 19 affected partners from outside the Continent, could see their prices increasing and availability reduced for Africans. Furthermore, a decline in commodity prices could lead to fiscal pressures for Africa's economic power houses such as South Africa, Nigeria, Algeria, Egypt and Angola.

Speaking at the same press conference in Addis Ababa, Stephen Karingi, Director of the ECA's Regional Integration and Trade Divisions, said however, there is an opportunity the Continent could take advantage of as trading within the AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA) is set to commence in July 2020. According to Karingi, "The Intra- African market could help mitigate some of the negative effects of COVID 19 through limiting dependence on external partners, especially in pharmaceuticals and basic food".

COVID-19'S IMPACT ON THE GLOBAL ECONOMY

It is apparent that the current COVID-19 pandemic, like the Global Financial Crisis, is exhibiting the dark side of globalisation. The slowdown in the global economy and lockdown in affected countries and beyond, as a result of COVID-19 has also taken its toll on the global demand for oil. The decline in oil demand is estimated to surpass the loss of nearly 1 Million barrels per day recorded during the 2008 recession.

Furthermore, the COVID-19 outbreak has generated both demand and supply shocks reverberating across the global economy and although the extraordinary fiscal actions as reduction in interest rates and costs of borrowing, tax cuts and tax holidays etc. are quite remarkable, these conventional policy measures are quite potent when there are only demand shocks. There are limitations to the successes that can be recorded when demand shocks are combined with supply shocks. It is already apparent from the emergence of the current crisis that there are implications on the global economy from both the demand and supply sides. Some of the demand factors include social distancing with consumers staying at home, limitations in spending and decline in consumption. On the supply side, there is factories shutting down or cutting down production and output.

Among major economies outside of China, the Organization for Economic Co-operation and Development(OECD) forecast the largest downward growth revisions in countries deeply Interconnected to China, especially South Korea, Australia, and Japan. Major European Economies as Germany, UK, Italy and Spain have begun to experience dislocations as the virus spreads and countries adopt restrictive responses that curb manufacturing activity at regional hubs.

At the sectoral level, tourism and travel related industries will be among the hardest hit as authorities encourage “Social distancing” and Consumers to stay indoors. As discretionary spending by consumers continues to decline, cruise companies, hotels and hospitality are facing declining demand and patronage. The pandemic is placing up to 8 million jobs in the leisure and hospitality sector at risk, with travel crashes and cancellations expected to continue.

The International Air Transport Association warns that COVID-19 could cost global air carriers between $63 billion and $113 billion in revenue in 2020 and the Internationally Film market could lose over $5 billion in lower box office sales. Similarly, shares of major hotel companies have plummeted in the last few weeks, and entertainment giants like Disney expect a significant blow of revenues. Restaurants, Sporting events, and other Services will also face significant disruption. Industries less reliant on high social interaction, such as Agriculture, will be comparatively less vulnerable but will still face challenges as demand wavers.

Given the near-shutdown of many economies following imposed lockdown measures to contain the rapidly spreading virus that has infected over a million people across the world and killed thousands still counting, the outlook for global growth is negative, and the International Monetary Fund (IMF) is forecasting a global recession in 2020.

In this vein, IMF Managing Director, Kristalina Georgieva, warned that 2020 world growth would be below the 2.9 percent rate seen in 2019. Although it has been observed that advanced economies are generally in better shape to deal with the crisis, it is feared that many emerging markets and low-income countries face significant challenges, including outward capital flows. Already, as stated by Georgieva, investors have removed $83bn from emerging markets since the start of the crisis, the largest capital outflow ever recorded.

On the bright side, some analysts are forecasting a recovery as early as the third quarter of 2020. Georgieva however says a recovery is expected in 2021. Notwithstanding the projections by financial and economic experts, same can only be achieved by proper coordination and countries prioritising containment and strengthening health systems.

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