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THE GLOBAL OIL PRICE AND THE NEW NORMAL (COVID 19): IMPLICATIONS ON THE NIGERIAN ECONOMY

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Abstract
The saying that when the price of oil sneezes, the Nigerian economy catches cold is true of this new normal, the Covid 19 pandemic which has seriously affected world oil price to the detriment of growing economies like Nigeria. This study examines the impact of the global oil prices on Nigeria's economy with reference to the COVID-19 pandemic. This study utilizes the documentary method which entails gathering data from secondary sources like newspapers, journals, the internet, textbook, and so on. The findings of the study show that COVID-19 has impacted negatively on the global oil prices, Naira/USD exchange rate, Nigeria's all-share index, inflation, and growth rate. The impacts it is projected will worsen the durability of the pandemic. The country's budget estimate has also been negatively affected, given the large changes between the budget assumptions and stance during the COVID-19 pandemic. Consequently, more than 50% of the country's budget underlined by a deficit of about 138 % would have to be funded by external borrowing, thereby further increasing the debt burden of the country. Economic growth in the first quarter was positive. Although the probability of immediate negative growth is slim, the long-term outlook is bleak. However, the study recommends that, given the inevitable slide into recession, necessary actions need to be taken to facilitate recovery. Provision of infrastructure that will encourage diversification of the economy from oil dependence cannot be overemphasized and should be pursued vigorously, with a focus on the major contributing sectors to moderate variability in the real GDP growth rate.
Keywords: Covid-19, GDP, global economy, oil prices and pandemic

Introduction

Since the debut of COVID-19 in Nigeria on 27th February 2020, the Nigerian economy appeared to have entered turbulence. One can quickly begin to imagine the major reason why Nigerian economy has shivering, but it remains factual that Nigeria is a mono economy that largely depends on the proceeds from oil. Accordingly, Ezeh (2018), aptly captured this when he said that the Nigerian economy is so much dependent on oil that when the oil prices sneezes, the economy catches cold. Thirteen days after its importation from Italy, precisely March 11, the World Health Organisation (WHO) declared COVID-19 a global pandemic. As the spread of the virus continues internationally and locally at an unimaginable scale, the official responses appear to focus mainly on limiting the spread within the country through social isolation policies, which include shutting educational institutions, limiting work and restricting movement of people, providing palliatives to the "vulnerable and poorest of the poor", imposition of night time curfews, and so on. Many observers believe that as much as the virus keeps spreading, assessment of the depth and the breadth of the impact of the pandemic on the social and economic life of the nation is difficult, if not impossible, until the situation returns to normal (Olubusoye & Ogbonna, 2020).

The uncertainty surrounding the emergence of the disease notwithstanding, even as the outbreak persists, several strands of studies have emerged to examine the macroeconomic impact of it at global, continental and country level. The study by McKibbin and Fernando (2020), which is an extension of McKibbin and Sidorenko (2006), explores seven different scenarios of how COVID-19 might evolve in the coming year. The paper alluded to the fact that the evolution of the disease and its economic impact is highly uncertain thereby making it difficult for policy makers to formulate appropriate macroeconomic policy response. The scenarios investigated in the study demonstrate that containment of the outbreak notwithstanding, its impact on the global economy in the short run would still be significant. Other recent studies with global concern include Barua (2020), OECD (2020), Orlik (2020), Maliszewska (2020) and Fernandes (2020). In Fernandes (2020), the economic impact of COVID-19 crisis across industries, and countries is investigated. The study shows that in the sample of 30 countries covered, a median decline of -2.8% in GDP in 2020 is observed. In other scenarios, the study shows that GDP is expected to fall more than 10%, and in some countries, more than 15%. Orlik (2020) even predicted that coronavirus could cost the global economy US$2.7 trillion. “A baseline global pandemic scenario sees gross domestic product fall by 2 percent below the benchmark for the world, 2.5 percent for developing countries, and 1.8 percent for industrial countries” (Maliszewska,2020).

In what looks like a subtle criticism of the public media and academic writings for focusing mainly on global macroeconomic impact of COVID-19, Ataguba (2020) argues that it “is only one part of the bigger picture of economic impact”. Citing Africa in particular, with its high disease burden, poorly developed infrastructure and safety nets and weak health systems, the impact of the pandemic is expected to be severe in the continent.

Using the same argument, a country level impact analysis is not only desirable but inevitable to guide the policy authorities. The likely exacerbating impact of the pandemic on the Nigerian economy is inevitable for several reasons. Firstly, the economy is yet to fully recover from the aftermath of the recession experienced in 2016. Secondly, the economy depends largely on crude oil whose price has plummeted in the international market. Thirdly, the foreign exchange reserves have been drawn down from US$45.1bn at the end of 2019 to US$35.3bn at the end of March 2020. Fourthly, the country’s debt burden has been mounting since 2015. Fifthly, inflation is still firmly in double digits and the naira is under pressure. Finally, the health system capacity is abysmal. These and other factors have led to the growing concerns and uncertainties that COVID-19 will bring on the Nigerian economy. According to Ozoli (2020), “the economic downturn in Nigeria was triggered by a combination of declining oil price and spillovers from the COVID-19 outbreak”. Sequel to the above, this paper makes an attempt at analysing the impact of the global oil price fluctuation in time of the novel COVID-19 in Nigeria.

COVID – 19 and the World Economy

Since late December 2019, a new contagious disease in the family of coronavirus was spotted in Wuhan City, China, later named *the Coronavirus Disease 19* (COVID-19), a causative agent of pneumonia (Lu, 2020; Xu , 2020). It has impeded economic development and strained healthcare delivery networks worldwide. COVID-19 is new type of coronavirus and is caused by *severe acute respiratory syndrome coronavirus 2* (SARS-CoV-2) (Di Gennaro, 2020; Dong, 2020; Huang, 2020; Sohrabi, 2020; Zhou et al. 2020). SARS-CoV-2 has a higher contagious capacity than Middle East coronavirus respiratory syndrome (MERS-CoV) and severe acute respiratory syndrome (SARS), a zoonotic beta (pathogenic) viral respiratory disease triggered by severe acute respiratory syndrome coronavirus (SARS-CoV-1or SARS-CoV-2). In general, most SARS-CoV-2 infected patients have common mild symptoms, including dry cough, fever or chills, fatigue, diarrhea, myalgia, sore throat, and conjunctivitis (Huang, 2020; Sohrabi, 2020). Nevertheless, some patients could have severe and even deadly complications such as multiple organ failure, septic shock, shortness of breath, pulmonary edema, severe pneumonia, and acute respiratory distress syndrome (ARDS) (Chen, 2020).

SARS-CoV-2 is transmitted primarily through close and direct interaction between humans, respiratory and pulmonary droplets, fomites, and infected surfaces and substances. It is analogous to the transmission of other respiratory tract viruses or infections such as influenza or human Boca virus (coronavirus) (Lai et al. 2020; WHO, 2020a). World Health Organization (WHO) confirmed the human transmission of COVID-19 by airborne droplets to humans in January 2020 (WHO 2020a, b). On December 31, 2019, authorities reported a spike of confirmed COVID-19 cases in Wuhan City, which proliferated not only in the neighboring counties but also spilled throughout the country and, after a month, this new coronavirus outbreak turned into an epidemic from just beyond the community (Chan, 2020; Dutheil, 2020). In the last week of January 2020, Wuhan City was quarantined, and within a few days, the Hubei Province follows. In an effort, the Chinese government imposed increasingly stringent measures to isolate the symptomatic cases, slow down infection spread, avoid person-to-person transmission, and ease the burden on the healthcare system (Gautam & Hens 2020a; Le Quéré, 2020; Wilder-Smith & Freedman, 2020). As of January 30, 2020, the WHO set a global public health emergency (Gautam & Hens, 2020b; WHO 2020c).

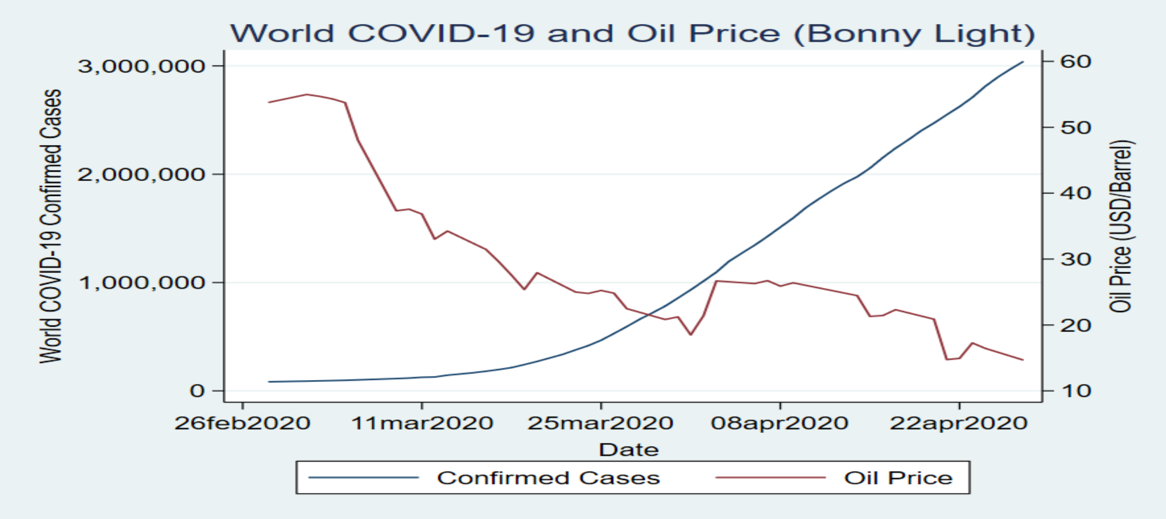
In mid-February, the global outbreak starts in South Korea, Iran, Japan, Europe (primarily Italy, France, and Spain), and the USA. Eventually, the emergence of the COVID-19 transforms into a pandemic, and before the end of March, a large proportion of the world's population was under some sort of locked down (Cucinotta & Vanelli 2020; Tosepu, 2020). From September 27, 2020, the aggregate number of COVID-19 infected cases outstripped 32.92 million worldwide, and the death toll to 9,95,145 (ECDC, 2020).

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 is 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.

While the imposition of some strict measures, as a means to curb the spread of the coronavirus, may have its merits; it also bears some burdens on several aspects of a nation's existence, especially, her economic activities. In addition to posing major challenges to the health sector (in terms of mortality at different levels), other impacts could be measurably observed from the performance of the economy's macroeconomic fundamentals such as economic growth, general price level (consumer price index (CPI) or inflation), exchange rate (strength of local currency), interest (bank lending) rate, private investments, among others; as well as stocks and global oil prices. These economic set-backs may consequently affect general economic activities, especially, given the non-consideration of the COVID-19 pandemic during the budgeting process. Therefore, it becomes necessary to examine the historic pattern of some of these fundamentals, since the WHO announcement of the pandemic, in a bid to ascertain its impact on the Nigerian economy through the relationship between the COVID-19 and these fundamentals. Three prominent fundamentals are therefore considered – global crude oil prices, foreign exchange rate and all share index.

The consideration of the global oil prices is hinged on two key points: first, Nigeria is globally ranked 11th largest crude oil producer3, 5th largest crude oil exporter4 and the largest in Africa, as at January 2020; second, her over dependence on oil is worrisome, with oil revenue accounting for above 90% of the country's foreign exchange earnings (Olubusoye, 2015). Consequently, shocks to global oil prices are likely to have significant impacts on the country's revenue, and trivially, her economic activities Iwayemi and Fowowe (2011); Akinlo (2012); Asekunowo and Olaiya (2012); Ayoola (2013); Alley (2014); Yusuf (2015); Olayungbo, (2019) among others. These shocks may be directly related with events that could alter the level of oil production globally. One of such events is the 2014-2015 global oil crash that ensued as a result of the shale oil revolution, bringing crude oil prices below 100 USD/barrel. Global oil prices remained within the range of 26.19 and 77.41 USD/barrel in the last four years, preceding the COVID-19 pandemic. Oil price movement vis-a-viz the COVID-19 confirmed cases is displayed in Figure 1 below. Global oil prices generally declined upon the announcement of COVID-19 as a pandemic by WHO, given the alarming increase in the number of confirmed COVID-19 cases and the rate of spread across countries that subsequently crumbled economic activities (partially or totally) in affected countries. Given that most countries of the world, including oil producing countries, are already ravaged by the pandemic, trade has been adversely affected as there is an excess supply of global crude oil without a commensurate demand for it, as well as lack of storage capacity. The crash has reached an unprecedented all-time low, with some global crude oil entering negative values (West Texas Intermediate (WTI) in FRED Louis database).

Figure 1: World confirmed COVID-19 Cases and oil price (Bonny Light)



Source: Olusonye and Ogbonna (2020, p. 67)

Global oil prices, which is highly volatile, significantly affect Nigeria's general price level, foreign exchange earnings and gross domestic product (GDP) given its dependence on crude oil exports (Olubusoye & Oyaromade, 2008); Olofin et al. (2014); Olayungbo (2019). Higher volatility is however expected during a pandemic. Since crude oil accounts for a significant proportion of the nation's foreign earnings as well as federal government revenue, economic productivity may be undermined by the oil price shock (in this case, the announcement of the COVID-19 as a pandemic) that led to the crash in global oil prices. Consequently, the rise in COVID-19 cases is likely to impact economic growth negatively through oil price and government revenues. This is also coupled with the fact that several economic activities have been put on hold. On the general price level, there could be some form of imported inflation from bilateral partners given that Nigeria is a small and open economy as well as being highly import dependent (Olofin, 2014). While there are speculations that the pandemic may plunge the country into recession in the nearest future, general price levels are also not unaffected.

Theoretical Framework of Analysis

This study adopts the theory of exhaustible resources in the analysis of the effects of the global oil prices on the economy given the new normal (Covid 19 virus) ravaging the Nigerian economy. There is a very wide theoretical research that deals with oil price behaviour within the theory of exhaustible resources (Krautkraemer, 1998). An important characteristic of an exhaustible – that is, non-renewable – resource is that it is not replaceable or replaced at a very slow rate such that once it is used or extracted, the resource is no longer available for use or extraction within a reasonable time horizon. Another important characteristic is that the supply of the non-renewable resource is limited relative to demand. Oil has both these features and thus is treated in this literature as a classic example of a non-renewable resource. The essential implications of exhaustibility are twofold. First, oil production and consumption in one period affect production and consumption in future periods. Thus, the oil market should be analysed within a dynamic context. Second, oil as a non-renewable resource should command a resource rent. Thus, unlike standard goods, the market price for non-renewable resource is not equalized with the marginal cost. This positive premium, also called the scarcity rent, is the reward the resource holder gets for having kept her stock up until today.

Hotelling's pioneering work (1931), which forms the basis of the literature on exhaustible resources, is mainly concerned with the following question: given demand and the initial stock of the nonrenewable resource, how much of the resource should be extracted every period so as to maximize the profit of the owner of the resource? Hotelling proposes a very intuitive and powerful theory to address this question. Assuming no extraction costs and given a market price per unit of the resource and a risk-free real interest rate on investment in the economy (r), Hotelling shows that in a competitive market, the optimum extraction path would be such that the price of the non-renewable resource (the price of oil in our context) will rise over time at a rate equal to the interest rate r. This theory has also an important implication on the exhaustibility of the resource. Specifically, as the price of the resource keeps rising, demand is slowly choked off and eventually when the price reaches very high levels, the demand for the resource disappears. This point occurs when the exhaustion of the resource is complete. The theory of exhaustible resources has had a bearing on many energy economists' view of oil price behaviour. Most analysts using this theory conclude that the oil price must rise over time. Empirically, this meant that oil prices must exhibit an upward trend (Berck 1995). This gradually rising price trend continued to dominate forecasting models even in the 1980s and 1990s. In a sense this is surprising – not only because these decades witnessed many occasions of sharp oil price falls, but also because most empirical studies have shown that mineral prices have been trend-less over time (Krautkraemer, 1998). As argued by Lynch (2002):

> … for many years, nearly every oil price forecast called for such a trend; as the forecasts proved erroneous, the trend was retained but applied to the new lower point … the combination of these theoretical arguments with the oil price shock of 1979 gave credence to these rising price forecasts, and it has proven difficult to convince casual observers that although prices might rise, it is neither inevitable nor preordained by either economic law or geology (pp.374-375).

Applying this theory to the work one will find out that notwithstanding the effect of Covid 19, the oil prices must surely rise in occasions and as such one is meant to believe that oil prices globally will surely fluctuate. But the fact remains that the fluctuating nature of global oil price is not in the best interest of the world economy owing to the large sum of money dedicated to the fight and suppression of the new normal. Giving the fact that the exhaustible nature of oil resource holds that it is a non-renewable resource, meaning that it is not replaceable or replaced at a very slow rate such that once it is used or extracted, the resource is no longer available for use or extraction within a reasonable time horizon. One there suggests that the most dreadful changes of oil price came at a time when the resources have been totally exhausted awaiting replacement which is usually slow if it will at all happen. Be that as it may, the world should always seek other alternatives towards diversification of her economies to cope with the drastic changes brought about by the coronavirus pandemic.

COVID – 19 and the Nigerian 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 comes down from 30 to 20 percent.

Adeyinka, Usman, Fatima, Tijani and Adetunji (2020), 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.

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; 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 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.

Firm's 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, 2019 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 reform 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 maximize 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 & 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.

COVID-19 and Nigeria's 2020 Budget

Nigeria is Africa's most populous nation with an estimated population of 205m people and GDP of ₦145.64 trillion ($448.12bn) in 2019 (United Nations, 2019). It is also the largest oil producer in Africa holding 29% of Africa's proven oil reserves and was the world's fourth-largest exporter of liquefied natural gas in 2015 (Ejiogu *et al.*, 2019). Oil and gas revenue represent about 10% of Nigeria's GDP. However, it accounts for about 50% of government revenues and over 90% of export earnings (Budget Office of the Federation, 2020a). In spite of its oil wealth, in the early 2018s, Nigeria overtook India as the "poverty capital" of the world accounting for 15% of the world's poor with an estimated 102m people in extreme poverty. However, unlike India where poverty is in decline, extreme poverty is growing in Nigeria at an estimated six people every minute and Nigeria is projected to account for 30% of the world's poor by 2030 without taking the impact of COVID-19 into account (Kharas *et al.*, 2018; Page, 2020).

The 2020 budget assumptions and budget estimates before the COVID-19 pandemic, as well as the adjustments that were made by the Federal Government to reflect the prevailing economic stance, is presented here. This is to ascertain the level of distortions of budget assumptions and budget estimates that might have resulted from the COVID-19 pandemic. The COVID-19 pandemic has affected the budget negatively, as the key macroeconomic fundamentals that are considered in the budgeting process are observed to have been clearly overstated

Although the Federal government, in coming to terms with reality, adjusted the budget assumptions downwards, the statistics during the COVID-19 pandemic, in the first quarter of 2020, is observed to be much lower. Oil production and oil price dropped by approximately 8.26% and 78.95%, respectively; exchange rate depreciated by approximately 18.03%; inflation rate rose to approximately 12.2%; while GDP grew by 2.55%, slightly lower than was originally envisaged. The immediate consequence of the overstated key factors, especially with respect to oil production, oil price and exchange rate, is a 40% shortage in the estimated revenue, resulting from the 90% estimated drop in oil revenue, and approximately 138% increase in budget deficit from N2.175 trillion to N5.18 trillion. Imperatively, about 50.44% of the estimated budget would have to be funded by borrowing, thus compounding the already existing debt burden of the country.

Also, with oil production possibly being put on hold, given that the global market is already overwhelmed by an unmatched demand for the excess crude oil, the crash in the oil price is likely to linger for a while, pending the end of the COVID-19 pandemic and subsequent return to normalcy. This would bear its consequence not only on the country's foreign reserve as her foreign earnings are majorly from crude oil earnings, but also on the purchasing power of her local currency as there are likely tendencies of further devaluations, whenever the apex monetary authority is not able to maintain the exchange rate at the current level.

Therefore, further external borrowing seems inevitable given the move by the Nigerian government to borrow about $7 billion from multilateral agencies such as the International Monetary Fund (IMF), the World Bank and African Development Bank (AFDB), while also maintaining the concession agreement with these agencies and the Islamic Development Bank Nigeria - ISDB (Financial Post (2020); The Africa Report (2020). Already, IMF has approved US$3.4 billion in emergency financial assistance under the Rapid Financing Instrument (RFI) to support the authorities' efforts in addressing the severe economic impact of the COVID-19 shock and the sharp fall in oil prices. Additional financial support of US$2.5 billion loan form World Bank, US$1 billion from AFDB and an undisclosed amount from the Islamic Development Bank are still being negotiated. Following these budgetary uncertainties, there is every tendency that the 2020 budget will surely be bleak. Prior to the pandemic, Nigeria's

2020 budget projected for revenue of ₦8.42 trillion and expenditure of ₦10.6 trillion (of which ₦2.45 trillion related to debt servicing). The deficit of ₦2.18 trillion ($5.65 billion) was to be financed by additional borrowing. Projections for the debt service to revenue ratio and the deficit to revenue ratio were 29% and 26%, respectively. However, the COVID-19 pandemic changed all of this. The lockdowns and economic closures globally led to a fall in demand for oil and a slump in oil prices. Given Nigeria's heavy reliance on oil revenue, this has had a significant impact on budgeted income. While income was squeezed, there was increasing pressure on the government to intervene to combat the spread of the virus as well as limit its economic and social impacts.

Summary and Conclusion

The study investigated the impact of the emergence of COVID-19 on some macroeconomic fundamentals (oil price, exchange rate, All Share Index (ASI), inflation and output growth), in a bid to make projections for Nigeria’s economic growth. Specifically, three main objectives are targeted. Firstly, the behavioural patterns of selected macroeconomic fundamentals vis-a-viz COVID-19 globally confirmed cases are assessed, to ascertain the relationship between each macroeconomic fundamental and COVID-19 confirmed cases. Secondly, the impact of the global pandemic on the 2020 budget assumptions and estimates is also assessed, with focus on the percentage difference between the budget and current economic stance amidst the pandemic. Finally, projections of Nigeria’s year 2020 quarterly growth rates are made, with statements of how likely the country is to record negative growth in the year 2020, as well as the sectoral contribution of the GDP components.

The findings of the study show that COVID-19 to negatively impact global oil prices, Naira/USD exchange rate, Nigeria all share index, inflation and growth rate, with these impacts worsening as the pandemic lingers. The country’s budget estimate is also negatively affected, given the large changes between the budget assumptions and stance during the COVID-19 pandemic. Consequently, more than 50% of the country’s budget would have to be funded by external borrowing, hence increasing the debt burden of the country further. The budget deficit is alarmingly increased by approximately 138%. Economic growth in the first quarter was positive and its corresponding probability of recording a negative growth minute. The probability of recording negative growth is however projected to increase in subsequent quarters, with the third and fourth quarters having a sure probability of 1. Imperatively, Nigeria is most likely to experience negative growth in the third and fourth quarters of 2020 and may slide into recession by the end of the year 2020. Our projection of a -3.5% economic contraction aligns with the IMF’s -3.4. Also, we find crop production under the agriculture sector to have greater impact on the variability of the real GDP growth rate; hence, its plausible preference as a tool for recovering from the impending recession.

Nigeria’s macroeconomic fundamentals indicate that Nigeria, just like most developing countries, is at a risk of an impending recession. This may not be unconnected with the government’s policy response to the pandemic; by way of imposing movement restrictions in terms of partial or total lockdown, social distancing, providing citizenry with some palliatives, and also trying to contain the spread of the coronavirus by quarantining and treating infected individuals; as most economic activities are somewhat halted. Amidst low economic productivity and negatively affected foreign exchange earnings, the country has to commit large funds to provide necessary supplies that are required to combat the spread and attend to already infected persons. The already existing imbalance between revenue and expenditure will definitely increase, as the former will inevitably continue to dwindle except economic activities resume and return to normalcy. Also, accrued debts prior to and during this pandemic, and consequently, debt servicing will influence the country's economic recovery. Hence, given the inevitable slide into recession, necessary actions need to be taken to facilitate recovery. Provision of infrastructures that will encourage diversification of the economy from oil dependence cannot be overemphasized and should be pursued vigorously, with focus on the major contributing sectors to moderate variability in the real GDP growth rate.

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