CHAPTER EIGHTEEN

COVID-19 PANDEMIC: CONTENDING WITH THE DISRUPTIONS ON THE NIGERIAN ECONOMY

INI ASUQUO UTUK
Department of Industrial Technology Education
University of Uyo, Akwa Ibom State
&
INWANG AKPAN UDO
Department of Technical Education
College of Education, Afaha Nsit
Akwa Ibom State

Abstract
The sudden emergence of the COVID-19 pandemic is unleashing severe hardship on the Nigerian economy. The COVID-19 lockdown in Nigeria has resulted in the reduction of economic activities, thereby rendering majority of people in redundancy and economic hardship. This paper elaborately discussed COVID-19 pandemic: contending with the disruptions on the Nigerian economy. The paper specifically considered impact of COVID-19 disruptions of business cash flows, bracing up for COVID-19 consequences on the Nigerian economy and measures to contend with COVID-19 disruptions on the Nigerian economy with specific interest on Government, Central Bank of Nigeria, Non-Governmental Organisations and individuals. It was suggested among others that Federal and State Governments should intensify diversification priorities to alternative sectors such as agriculture, solid minerals, manufacturing and service sectors, instead of wholly depending on oil for revenue earnings. Also, Federal Inland Revenue Service (FIRS) should relax tax collections for the worse-hit sectors including tourism, the airline industry, and the hospitality industry in order to enable them recover from the steep decline in demand.

Keywords: COVID-19 pandemic, Nigerian economy, Tax holiday, Demand shock, Supply shock,

Introduction

Coronavirus is responsible for causing coronavirus disease (COVID-19). Covid-19 outbreak was first reported in December 2019 in Wuhan, China and has sporadically spread to virtually all the continents of the world due to its mode of transmission and the lack of antiviral vaccine (Center for Disease Control and Prevention, 2020). The economic situation in the world remains highly fluid. Uncertainty about the length and depth of the health crisis-related economic effects are fueling perceptions of risk and volatility in financial markets and corporate decision-making. In addition, uncertainties concerning the current global pandemic and the effectiveness of public policies intended to curtail its spread are adding to market volatility. Compounding the economic situation is a historic drop in the price of crude oil that reflects the global decline in economic activity, prospects for inflation which contributes to the decline of the global economy through various channels (Allen & Carletti, 2020). Individually, each of these issues presented a solvable challenge for the global economy. Collectively, Mian and Sufi (2020) averred that these issues weakened the global economy and reduced the available policy flexibility of many national leaders, especially among the leading developed economies. In this environment, COVID-19, seems created an unprecedented impact on the Nigerian economy. While the level of economic effects will eventually become clearer, the response to this pandemic could have a significant and enduring impact on the way businesses organize their work forces, global supply chains, and how governments respond to a global health crisis (Gaiotti, 2020).

COVID-19 has created enormous challenges for our modern societies and the health systems. The consequences of the pandemic for the nation's economy are unpredictable. Lavy (2015) stated that economists were convinced that Nigeria and the world at large were heading for a significant economic downturn due to the then recession. However, responses from Governments toward the current pandemic have been prompt and different measures have already been taken to sustain the economy. The spread of the novel Coronavirus, COVID-19, is causing severe disruptions to businesses in Nigeria. As Nigeria strives to cope with the uncertainties of this crisis and businesses continue to implement their pandemic response strategies, it is important that organisations stay on top of the financial, tax and regulatory issues that could impact their operations in the short and long term. Shih (2020) buttressed that beyond the tragic health hazards and human consequences of the COVID-19 pandemic, the economic uncertainties, and disruptions that have resulted come at a significant cost to the Nigerian citizenry. Efforts to stop the spread of the novel coronavirus, particularly the closure of some businesses are having an unprecedented impact on the economy.

What could be more devastating is the fact that the economic pains that accompany the pandemic might not go away soon as envisaged, since there is no vaccine for the treatment of the dreaded disease. Bezemer (2011) noted that the conventional policy measures currently being taken such as reducing interest rates and costs of borrowing, tax cuts and tax holidays are quite remarkable. Tax holiday is a temporary reduction or elimination of a tax. However, these conventional policy measures are quite potent when there are demand shocks. There are limitations to the successes that can be recorded when demand shocks are combined with supply shocks (Fredriksson, Hensvik & Skans, 2020). A demand shock is a sudden and surprise event that dramatically increases or decreases demand for particular goods or services, usually on a temporary basis. It is already apparent from the emergence of the current crisis that there are implications on the 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 declining consumptions. On the supply side, most companies had shut down, some factories are cutting down production and output, while in other instances, some staff members are laid-off, some work from home to limit physical contact.

Impact of COVID-19 Disruptions on Business Cash Flows

For many organisations, effective cash flow management is likely to be critical during this period as revenues fall and potential debtors delay payments or become insolvent. It may be necessary to provide emergency funding to the most adversely affected subsidiaries in a group, and/or to repatriate cash to the center in order to service external loans or group commitments. Hahn (2020) noted the following as key issues and questions to consider during this period:

1. Will financial difficulties mean businesses might breach loan covenants? If so, can they be renegotiated?
2. Consider whether funds should be made available through loans, existing cash pooling arrangements or equity? How will the funding be repaid once the related party becomes cash positive?
3. Consider thin capitalization rules (as recently introduced by the Finance Act, 2019), transfer pricing compliance, foreign exchange issues and withholding taxes.
4. Is it possible to delay filing of tax returns or to utilize an extended period for making any payment to the tax authorities, to manage cashflows? This is noting that the Federal Inland Revenue Service (FIRS) and some state tax authorities have extended the deadlines for filing and/or payment in response to the crisis.
5. Is it possible to obtain a tax deduction for any bad debts incurred during this crisis? Is there a risk that a write-off of debt by a creditor creates taxable income in the hands of the company?

Bracing up for COVID-19 Consequences on the Nigerian Economy

The sudden emergence of the COVID-19 pandemic is unleashing a severe blow to the nation’s economies, businesses and workers. Additionally, the Presidential Task Force (PTF) on COVID -19 has warned Nigerians to stay at home as much as possible and avoid doing anything that requires close contact with others. Ozili and Arun (2020) posited that these unprecedented challenges are having economic ripple effects across the country as thousands of Nigerians unexpectedly find themselves out of work with the potential for significant increases in unemployment. For most developing economies, the odds of sliding into a downturn are gradually expected as the global coronavirus outbreak puts severe pressure on the economy. El-Erian (2020) mentioned that for Nigeria, the country is still sluggishly grappling with recovery from the 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 Nigerian federal budget for the 2020 fiscal year was prepared with significant revenue expectations but with contestable realizations. The emergence of COVID-19 and its increasing incidence in Nigeria has called for drastic review and changes in the earlier revenue expectations and fiscal projections. Compared to events that led to recession in 2016, Fredriksson, Hensvik and Skans (2020) said that the current state of the global economy poses more difficulties with projections that it will dip further going by the oil price war among key players in the industry. Unfortunately, the nation has grossly underachieved in setting aside sufficient buffers for rainy days such as it faces in the coming days. In addressing these daunting economic challenges, the current considerations to revise the budget downward are inevitable. The benchmarks must be based on realizable thresholds and estimates to ensure optimum budget performance, especially on the non-oil revenue components.

Furthermore, the economic and growth recovery programs which has the aim of increasing social inclusion by creating jobs and providing support for the poorest and most vulnerable members of society through investments in social programs and providing social amenities will no doubt suffer some setbacks (Bagliano & Morana, 2012). Besides, the downward review of the budget and contractions in public spending could be devastating on poverty and unemployment. Accordingly, Adebayo (2018) reported that Nigeria is the poverty capital of the world with an estimated 87 million people living on less than N700 a day threshold. The decision to cut the retail price of gasoline under a price modulation arrangement during COVID-19 pandemic was a welcome development. The cut was expected to curb rising inflation, especially food price inflation which will mainly affect the poor. Basically, the Nigerian government essentially must lead economic diversification drive. This is one practicable way to navigate through the current economic uncertainties and instabilities. The consequences of COVID-19 pandemic should further offer the Nigerian economic managers and policy makers, the opportunity to realize that the one-tracked, monolithic reliance on oil is failing (El-Erian, 2020).

The challenge for policy makers has been one of implementing targeted policies that address what had been expected to be short-term problems without creating distortions in economies that could outlast the impact of the virus itself. Policy makers, however, are being overwhelmed by the quickly changing nature of the global health crisis that appears to be turning into a global trade and economic crisis whose effects on the global economy are escalating. Piopiunik, Schwerdt, Simon and Woessman (2020) stated that as the economic effects of the pandemic grow, policy makers are giving more weight to policies that address the immediate economic effects at the expense of long-term considerations such as debt accumulation. Initially, many policy makers had felt constrained in their ability to respond to the crisis as a result of limited flexibility for monetary and fiscal support within conventional standards, given the broad-based synchronized slowdown in global economic growth, especially in manufacturing and trade that had developed prior to the viral outbreak.

Concerns are growing, however, that the virus-related supply shock is creating more prolonged and wide-ranging demand shocks as reduced activity by consumers and businesses lead to a lower rate of economic growth. Hahn (2020) noted that as demand shocks unfold, businesses experience reduced activity and profits; potentially escalating and binding credit and liquidity constraints. The longer the economic effects persist, the greater the economic impacts are likely to be as the effects are spread through trade and financial linkages to an ever-broadening group of countries, firms and households. These growing economic effects potentially increase liquidity constraints and credit market tightening in global financial markets as firms hoard cash, with negative fallout effects on economic growth (Ozili & Arun, 2020). Unlike the 2008-2009 financial crisis, reduced demand by consumers, labour market issues, and a reduced level of activity among businesses, rather than risky trading by global banks, has led to corporate credit issues and potential insolvency. Liquidity and credit market issues present policy makers with a different set of challenges than addressing supply-side constraints. As a result, the focus of government policy has expanded from a health crisis to macroeconomic and financial market issues that are being addressed through a combination of monetary, fiscal, and other policies, including border closures, quarantines, and restrictions on social interactions. Foroohar (2020) opined that while businesses are attempting to address worker and output issues, policy makers should attempt to implement fiscal policies to prevent economic growth from falling sharply; this will assist workers and businesses that are facing financial strains, and banks that are adjusting monetary policies to address mounting credit market issues.

Measures to Contend with the COVID-19 Disruptions on Nigerian Economy

As COVID-19 continues to impact every aspect of human life, government has assumed a key role in the fight against the pandemic. Government at all levels are implementing directives intended to enforce social distancing, stimulate the economy, and address medical shortages, among other measures. Federal and State Governments; Central Bank of Nigeria, International Organizations, Non-governmental Organisations and Individuals are taking actions to address the COVID-19 challenges facing Nigerians:

1. **Government:** The COVID-19 pandemic touches every aspect of business, technology and society. The government is at the heart of managing this crisis. It has taken measures to contain the spread and impact of the virus by releasing contingency funds to Nigeria Center for Disease Control (NCDC) and providing an economic stimulus package to alleviate the impact for households and businesses which are hit by the economic downturn. Therefore, the action taken by Government will have long-term implications for the health and safety of families, citizens, the economy, and even global stability. Government at all levels acted quickly and decisively, even in the face of limited information. The formation of the Presidential Task Force (PTF) on COVID-19 and provision of Stimulus –monetary and material (targeted at most vulnerable individuals) is hopeful that Nigerians can contend the spread of COVID-19. Governments are facing issues of emergency management, continuity of operations, citizen engagement and care. Importantly, the work-from-home instruction given to government workers is a sure step to prevent the spread of COVID-19.
2. **Central Bank of Nigeria (CBN):** The Central Bank of Nigeria is engaging in an ongoing series of interventions in financial markets and fiscal policy initiatives to stimulate the economy. Interestingly, the interest rates on all CBN interventions have been revised downwards from 9 to 5 percent, and a one-year moratorium on CBN intervention facilities has been introduced. The coronavirus disease (COVID-19) pandemic is a major disruptive event for the economy. The situation is revealing financial vulnerabilities and also testing the post-financial crisis economic system. The Central Bank of Nigeria and International Financial Institutions are seeking to mitigate the immediate impact of the pandemic on the real economy through extraordinary fiscal, monetary and macro-prudential measures.
3. **International Organizations:** International organizations are also taking steps to provide loans and other financial assistance to countries in need. The International Food Policy Research Institute (IFPRI) provides research-based policy solutions to sustainably reduce poverty and end hunger and malnutrition in developing countries. With the coronavirus crisis spreading to more countries with broader social and economic implications, the United Nations (UN) is mobilizing its global workforce to help Governments to contain or slow the onslaught of this deadly disease. While the World

Health Organization (WHO) continues to lead the global fight against the spread of the novel virus, commonly known as COVID-19, other United Nations entities such as United Nations Children's Education Fund (UNICEF) are also rolling out their responses to the pandemic, which has forced Governments, businesses and people worldwide to accept their palliatives. Around the world, UN teams are also working with authorities to support national preparedness and response plans around COVID-19, including immediate health priorities and broader social and economic impacts.

4. **Non-Governmental Organisations (NGOs):** Non-governmental Organizations bring economic and livelihood opportunities to individuals and communities and could adapt responses to the community context. For individuals and families in some places, the NGOs are the only point of reference during the pandemic. NGOs have been the first to reconfigure themselves and push for new initiatives backing states' medical systems all around the world, by creating national emergency funds, partnering with one another to channel donations; providing assistance in nursing homes and other facilities through technical support and medical teams. The work of NGOs has been challenging. Increasing restrictions have hindered the activities of civil society in all areas and their space for action have shrunk significantly. Human rights organizations and pro-democracy groups were first affected, and the problem has spread to a wider range of organizations.
5. **Individuals:** Majority of individuals has lost their jobs due to COVID-19 pandemic. Individuals tend to cut down on expenditure in order to cope with the biting economic situations, occasioned by COVID-19 pandemic. Individuals have resorted to regular hand-washing, use of alcohol-based hand sanitizer, wearing of face mask, observing both physical and social distancing; together with staying at home for non-essential course, as measures to contain the spread of the virus.

Conclusion

The health and economic impact of the COVID-19 pandemic has been felt around the country, and the world at large. COVID-19 is a pandemic with potential serious implications for the Nigerian economy. Nigeria was struggling to recover from the 2016 economic recession which was a fall out of the global oil price crash and insufficient foreign exchange earnings to meet imports. In Nigeria, efforts were already made to bolster aggregate demand through increased government spending and tax cuts for businesses. This paper briefly discussed bracing up for COVID-19 consequences on the Nigerian economy and ways to contend with COVID-19 disruptions on the Nigerian economy with specific interest on Government, Central Bank of Nigeria, International organizations, Non-governmental Organisation and individuals.

Suggestions

Given the size and scope of the economic impact of the COVID-19 pandemic, there is need to implement some measures to contend with the pandemic. Thus, the following measures were suggested:

1. Federal and State Governments should intensify diversification priorities to alternative sectors such as agriculture, solid minerals, manufacturing and service sectors instead of wholly depending on oil for survival.
2. The Federal Inland Revenue Service (FIRS) as well as State Inland Revenue Services (SIRS) should waive payment on personal and corporate income taxes for the year 2020, considering the disruption that the pandemic has caused businesses.
3. The CBN's decision to increase the cash reserve ratio (CRR) from 22.5 percent to 27.5 percent in January 2020 should be revisited to provide liquidity for banks so that banks can, in turn, create credit to the private sector.
4. Federal Inland Revenue Service (FIRS) should relax tax collection for the worse-hit sectors of the economy such as: tourism, the airline industry, and the hospitality industry (hoteliers in particular) in order to enable them recover from the steep decline in demand.

References

Adebayo, B. (2018) *Nigeria 83 million, surpasses India with 73 million*. CNN live TV.

Allen, F., & Carletti, E. (2020). An overview of the crisis: Causes, consequences, and solutions. *International Review of Finance*, 10(1): 1-26.

Bagliano, F. C., & Morana, C. (2012). The Great Recession: US dynamics and spillovers to the world economy. *Journal of Banking & Finance*, 36(1): 1-13.

Bezemer, D. J. (2011). The credit crisis and recession as a paradigm test. *Journal of Economic Issues*, 45(1), 1-18.

Centre for Disease Control and Prevention (2020). Coronavirus Disease 2019 (COVID-19). Retrieved from https//www.cdc.gov/coronavirus/2019-ncov/prevent-getting-sick/how-covid-spreads.html.

El-Erian, M. (2020). The Coming Coronavirus Recession and the Uncharted Territory Beyond. Foreign Affairs, Media Report. Available at: https://www.foreignaffairs.com/articles/2020-03-17/coming-coronavirus-recession. Accessed on June 4, 2020.

Foroohar, R. (2020). How COVID-19 Became a Corporate Credit Run. Avaiable at: https://www.ft.com/content/f1ea5096-6531-11ea-a6cd-df28cc3c6a68.Accessed on April 15, 2020.

Fredriksson, P., Hensvik, L. & Skans, O. (2020). Mismatch of talent: evidence on match Quality, Entry Wages, and Job Mobility. *American Economic Review*, 108(11): 330-338.

Gaiotti, E. (2013). Credit availability and investment: Lessons from the “great recession”. *European Economic Review*, 1: 212-227.

Hahn, L. (2020). Covid-19 client alert. *Journal of Financial Intermediation*, 22(1): 4-29.

Lavy, V. (2015). Do differences in schools' instruction time explain international achievement gaps? Evidence from developed and developing countries”, *Economic Journal*, 12(5): 77-85.

Mian, A., & Sufi, A. (2020). The great recession: Lessons from microeconomic data. American *Economic Review*, 100(2): 51-56.

Ozili, P. & Arun, T. (2020). Spillover of COVID-19: impact on the Global Economy. Available at: https://www.researchgate.net/publication/340236487. Accessed on June 10, 2020.

Piopiunik, M., Schwerdt, G., Simon, L. & Woessman, L. (2020). Skills, signals, and employability: An experimental investigation", *European Economic Review*, 123: 103-117.

Shih, G. (2020). China is Subtly Stoking COVID-19 Conspiracy Theories That Blame the U.S. for Outbreak. Available at: https://www.washingtonpost.com/world/2020/03/05/COVID-19-live-updates/. Accessed on March 28, 2020.