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NEW NORMAL AND COVID-19 REALITIES IN NIGERIA

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Abstract

The broad objective of this study was to analyse the impact of COVID-19 on selected macro variables in Nigeria. The data for this study were obtained from secondary sources. The data were compiled from various issues of the Central Bank of Nigeria publications. The method used in analyzing the impact of COVID-19 was the Ordinary Least Squares multiple regression technique, Unit root stability test etc. The short-run test result shows that 94 percent of the total changes in socio economic realities in the determination of the new normal have been explained by Export, Education, Domestic investment and COVID-19 taken together in the Nigerian economy. The study recommends expansionary fiscal policy to promote investment induced employment and stabilize food & non-food prices.

Keywords: Covid-19, Economy, New Normal, Vaccine, Education, Investment

INTRODUCTION

Meaning of new normal under covid-19

What does this mean? As long as the world has not found a cure or a vaccine for Covid-19, we may have to adjust to a "new normal", meaning a new way of living and going about our lives, work and interactions with other people. ... Many diseases caused by viruses have no cure to this day, not even the common cold.

As long as the world has not found a cure or a vaccine for Covid-19, we may have to adjust to a "new normal", meaning a new way of living and going about our lives, work and interactions with other people. Please bear in mind that we may have to live in the “new normal” for a very long time. Many diseases caused by viruses have no cure to this day, not even the common cold. There are no vaccines for many viruses either. But we have learned to adapt our lifestyles to live with them. Look at HIV (human immunodeficiency virus). It has been around since the 1980s, and possibly even before then, although not as widespread. We still have not found a vaccine for it. We have anti-retroviral drugs that can control the disease, but not cure it. But we have learned to adapt to having HIV in the world.

Unlike HIV, Covid-19 is a lot more contagious and infectious, and is not really associated with a certain lifestyle. Therefore, our level of adaptation and the changes we have to make in our lives is much higher. These adaptations and changes are considered our “new normal”.

Without a vaccine, what will our new normal be?

There’s only one thing certain – our new normal will keep changing, and it will change very quickly. You may have to wear a face mask outside all the time.

Even if the Government does not mandate it, you will still feel better psychologically when you wear a face mask. Your employer may ask you to work from home and do virtual meetings a lot more than before. Schools may reduce the size of their classes and do a lot of virtual teaching. You may cook a lot more at home, or have food delivered a lot more often than before. E-businesses like online food ordering, online shopping and video on demand, will thrive. Restaurants may no longer be able to seat the same number of people, due to social distancing requirements. There will be increased sanitation and cleaning everywhere.

Bracing up for COVID-19 consequences on the Nigerian economy

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. 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 approved budget had projected revenue collections at N8.24 Trillion, an increase of about 20% from 2019 figure. The revenue assumptions are 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.

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, the current state of the global economy poses more difficulties ahead as the oil price is currently below US$30 with projections that it will dip further going by the 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 is inevitable. However, certain considerations that are expected in the review must not be left out. The assumptions and benchmarks must be based on realizable thresholds and estimates to ensure optimum budget performance, especially on the non-oil revenue components.

Furthermore, cutting expenditures must be done such that the already excluded group and vulnerable are not left to bear the brunt of the economic contraction. The economic and growth recovery program 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 suffers some setbacks.

This study analyses the COVID-19 situation in Nigeria, the economic crisis and the structural causes. The COVID-19 pandemic has had far-reaching effects on the global economy (Ozili and Arun, 2020). It affected the global travel business, national health care systems, the food industry, events industry, education and global trade. Due to globalization, there are expectations of spillover effects to emerging and developing countries due to their dependence on developed countries for the importation of goods and services (Ozili and Arun, 2020).

A recent literature has emerged that examine the effect of COVID-19 on economic activities (Fernandes, 2020; Atkeson, 2020) Yet, the recent literature has not examined the effect on COVID-19 on economic aggregates in developing countries such as Nigeria and other developing nations. The impact of COVID-19 on the Nigerian economy has not been explored in the recent literature because the indices of the effect of COVID-19 is the same as the level of poverty or hardship in recent times.

Economic crises are not new in Nigeria. During the 2016 economic crisis, the monetary authority in Nigeria defended the local currency from forced devaluation against the dollar and adopted a managed-float foreign exchange system, which worked well from 2016 to 2019. After the 2016 economic crisis or recession, it was widely believed that the unexpected and sustained decline in oil price was the most important cause of economic crises in Nigeria. But in 2020, nobody thought that a public health crisis could trigger an economic crisis in the country. What made the 2020 economic crisis different from other economic crises or recessions in Nigeria was that most economic agents, who could have helped to revive the economy were unable to engage in economic activities due to fear of contracting the COVID-19 disease. Also, economic agents did not engage in economic activities when the government imposed and enforced its social distancing rules and movement lockdown in Abuja, Lagos and Ogun states on the 30th March of 2020.

Ozili (2020) show that the COVID-19 pandemic and the lockdown restrictions had negative socioeconomic consequences for African countries. So far, the literature has not analysed the effect or consequence of a health crisis on the economy. More specifically, the effect of coronavirus, or COVID-19, on economic activities and performance in Nigeria has not been explored in the literature.

EFFECT OF COVID-19

Direct effect

There are five main ways through which the COVID-19 pandemic spilled over into Nigeria. One, the COVID-19 pandemic affected borrowers' capacity to service their loans, which gave rise to non-performing loans (NPLs) that depressed banks' earnings and eventually impaired banks' soundness and stability. Subsequently, banks were reluctant to give additional loans to borrowers as more and more borrowers struggled to repay the loans granted to them during the COVID-19 outbreak. Two, there were oil demand shocks which was reflected in the sharp decline in oil price. The most visible and immediate spillover was the drop in the price of crude oil, which dropped from nearly US$60 per barrel to as low as US$30 per barrel in March.

COVID-19 pandemic affected the Nigerian stock market. Major market indices in the stock market plunged when investors pulled out their investments into so-called safe havens like US Treasury bonds. Stock market investors lost over NGN 2.3 trillion (US$5.9bn) barely three weeks after the first case of coronavirus was confirmed and announced in Nigeria on Jan 28, 2020.

Using monetary and fiscal policy measures

In response to the COVID-19 outbreak, the monetary authority, the Central bank, said it would provide support to affected households, businesses, regulated financial institutions and other stakeholders to reduce the adverse economic impact of the COVID-19 outbreak. The central bank provided support in some ways. One, it granted extension of loan moratorium on principal repayments from March 1, 2020. This meant that any intervention loan currently under moratorium would be extended by one year . Two, it offered interest rate reduction on all intervention loan facilities from 9% to 5% beginning from March 1, 2020. Three, it offered a NGN50bn (US$131.6m) targeted credit facility to hotels, airline service providers, health care merchants, among others. Four, it provided credit support to the healthcare industry to meet the increasing demand for healthcare services during the outbreak.

METHODOLOGY

Study adopted a descriptive research design.

Secondary Data Sources

The quantitative data relies from secondary data sources. The secondary sources of study are latest reports on Nigerian economy from broader local and international sources: Central bank statistical bulletin, Bureau of statistics etc

Econometrics Model

To estimate on the seize and dimensions of effect of New normal and socio-economic realities in Nigeria, there is a great concern on its shock on key macroeconomic stability, the study relied on Bayesian Vector Auto-regressions (BVAR). Bayesian Vector Auto-regressions (VARs) are linear multivariate time-series models able to capture the joint dynamics of multiple time series (Miranda-Agrippin, S. and Ricco, G.; 2018)

FINDINGS

Unit Root Test

Spurious regression problem is common in time series regressions. Hence, setting the right order of integration of each time series data has to be made before VAR regression. The unit root test helps to set the order of selection, hence to detect and avoid spurious regression problem. To that end, the order of integration of each time series variable was made. There are different Unit Root Test criteria. The most widely used selection criteria is Augmented Dickey-Fuller (ADF) test which was used for the study.

Table 1. Summary of Unit Root Test for model variables

S/N	Variable	Variable Adjusted	ADF 1(1)	1% Critical Value	5% Critical Value	10% Critical Value
1.	Export	EXP01*	3.683341	-3.920350	-3.065585	-2.673459
2.	Domestic investment	DIV**	-3.751705	-3.920350	-3.065585	-2.673459
3.	Agriculture	AGR**	5.064694	-3.920350	-3.065585	-2.673459
4.	Education	EDU**	10.46749	-3.920350	-3.065585	-2.673459

**Variable Qualify for Regression with first Order of Integration, I(1) with 1% level of significance*

***Variable Qualify for Regression with levels Order of Integration, I(0) with 1% level of significance*

The ADF test shows that the order of integration for all model variables except export (EXPO1) is one i.e. I (1). The result on ADF Test shows that all variables qualifies for regression at order one I(1) and the Export qualifies at level i.e. I (0).

Granger Causality Test Result

Table 2. Pairwise Granger Causality Tests

Sample : 1 22			
Lags: 2			
Null Hypothesis:	**Obs**	**F-Statistics**	**Prob.**
EXP01 does not granger cause GDP	19	1.19607	0.3315
GDP does not granger cause EXP01		1.19934	0.3305
EDU does not granger cause GDP	19	1.38673	0.2822
GDP does not granger cause EDU		0.15008	0.8620
DIV does not granger cause GDP	19	2.56925	0.1121
GDP does not granger cause DIV		10.3883	0.0017
COVID-19 does not granger cause GDP	19	NA	NA
GDP does not granger cause COVID-19		NA	NA

The granger causality test result reveals that COVID-19 pandemic does not granger cause GDP or socio-economic realities and in the same vain GDP or socio-economic realities does not granger cause COVID-19. In the same vain COVID-19 pandemic does not granger cause Export and the rate of export does not granger cause COVID-19.

The implication of the granger causality result shows that the COVID-19 pandemic does not have much effect on the level socio-economic realities (GDP) and equally the socio-economic realities has no much effect on COVID-19 in the Nigerian economy.

Table 3. Model testing

Dependent Variable: GDP				
Method: Least Squares				
Sample: (adjusted): 1 21				
Included observations: 21 after adjustments				
Variables	Coefficient	Std. Error	t-Statistic	Prob.
EXP01	10.93664	0.610067	17.92695	0.0000
EDU	-8.080287	0.921656	-8.767136	0.0000
DIV	740.1174	993.2289	0.745163	0.4670

COVID-19	3428.814	5416.43	0.063325	0.9503	Table 3…
C	238965.8	57285.12	4.171516	0.0007	
R-squared	*0.986671*		*Mean dep. Var 475155.1*		
Adjusted R-squared	*0.983339*		*Durbin Watson 2.485252*		
S.E of regression	*26470.24*				
Sum squared resid	*1.12E+10*				
Log likelihood	*-240.8017*				

Short Run Test Result

The short-run test result shows that 94 percent of the total changes in socio economic realities in the determination of the new normal have been explained by Export, Education, Domestic investment and COVID-19 taken together in the Nigerian economy. This is a nice fit as the unexplained variation is 6 percent that is - 0.986671

The F- statistic with a value of (296.1025) and probability of (0.0000) suggest that Export, Education, Domestic investment and COVID-19 are significant factor to be taken into consideration when explaining the changes in the new normal and economic realities in Nigeria.

The T test suggest that Export with a value of 17.92695 and probability of 0.0000 and Education with a value of -8.767136 are statistically significant in explaining the level of socio-economic realities in Nigeria.

Equally, domestic investment with a T value of 0.745163 and probability of 0.4670 is not statistically significant in explaining GDP.

The short-run result shows that COVID-19 with a T value of 0.063325 and probability of 0.9503 is not statistically significant in explaining socio-economic realities in the Nigerian economy. The implication of this result is that in the period of COVID-19 the economy progressed more than the period of no COVID-19

CONCLUSION AND POLICY RECOMMENDATIONS

This study investigated the New normal and COVID-19 realities in Nigeria. Essentially the COVID-19 first effect was on international transactions, and in the Nigerian context, where the country relies heavily on imported goods and services for its consumption and investment demands. Hence, the impact is expected to take its toll via import channel in the immediate aftermath of the outbreak of the pandemic. The short-run test result shows that 94 percent of the total changes in socio economic realities in the determination of the new normal have been explained by Export, Education, Domestic investment and COVID-19 taken together in the Nigerian economy. From the study it is recommended that policy makers should pay attention to three areas of the economy for structural and economic reform. Firstly, the government should invest in health care infrastructure to improve the ability of the national health system to withstand the outbreak of contagious diseases. Secondly, policy makers should introduce economic reforms to diversify the economy and reduce Nigeria's dependence on revenue from crude oil export. Thirdly, the government needs to focus on rebuilding institutions, and pay more attention to institutions like National Agency for Food and Drug Administration and Control (NAFDAC), and the Nigeria Centre for Disease Control (NCDC). There is also a need to build appropriate digital infrastructure to facilitate the transition from 'face-to-face' business activities to a 'digital or online' business activities, which can help to grow the digital economy. Lastly, policy makers should use legislation to create a robust social welfare safety net for all citizens particularly for unemployed citizens and poor households. The study equally recommends expansionary fiscal policy to promote investment induced employment and stabilize food & non-food prices.

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