Before the pandemic, the Nigerian government had been grappling with weak recovery from the 2014 oil price shock, with GDP growth tapering around 2.3 percent in 2019. In February, the [IMF revised the 2020 GDP growth rate](https://www.imf.org/en/News/Articles/2020/02/17/pr2053-IMF-Staff-Concludes-Article-IV-Consultation-to-Nigeria) from 2.5 percent to 2 percent, as a result of relatively low oil prices and limited fiscal space. Relatedly, the country’s debt profile has been a source of concern for 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 weather the crisis.

**AGGREGATE DEMAND WILL FALL, BUT GOVERNMENT EXPENDITURE WILL RISE**

In Nigeria, efforts were already being made to bolster aggregate demand through increased government spending and tax cuts for businesses. The public budget increased from 8.83 trillion naira ($24.53 billion) in 2019 to 10.59 trillion naira ($29.42 billion) in 2020, representing 11 percent of the national GDP, while small businesses have been exempted from company income tax, and the tax rate for medium-sized businesses has been revised downwards from 30 to 20 percent. Unfortunately, the COVID-19 crisis is causing all components of aggregate demand, except for government purchases, to fall (Figure 1).

Before the pandemic, the Nigerian government had been grappling with weak recovery from the 2014 oil price shock, with GDP growth tapering around 2.3 percent in 2019. In February, the [IMF revised the 2020 GDP growth rate](https://www.imf.org/en/News/Articles/2020/02/17/pr2053-IMF-Staff-Concludes-Article-IV-Consultation-to-Nigeria) from 2.5 percent to 2 percent, as a result of relatively low oil prices and limited fiscal space. Relatedly, the country’s debt profile has been a source of concern for 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 weather the crisis.

## AGGREGATE DEMAND WILL FALL, BUT GOVERNMENT EXPENDITURE WILL RISE

In Nigeria, efforts were already being made to bolster aggregate demand through increased government spending and tax cuts for businesses. The public budget increased from 8.83 trillion naira ($24.53 billion) in 2019 to 10.59 trillion naira ($29.42 billion) in 2020, representing 11 percent of the national GDP, while small businesses have been exempted from company income tax, and the tax rate for medium-sized businesses has been revised downwards from 30 to 20 percent. Unfortunately, the COVID-19 crisis is causing all components of aggregate demand, except for government purchases, to fall (Figure 1).

Already, the Central Bank of Nigeria (CBN) has arranged a fiscal stimulus package, including a 50 billion naira ($138.89 million) credit facility to households and small and medium enterprises most affected by the pandemic, a 100 billion naira ($277.78 million) loan to the health sector, and a 1 trillion naira ($2.78 billion) to the manufacturing sector. In addition, 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, effective March 1.

With oil being Nigeria’s major source of foreign exchange, amid the steep decline in oil prices, the official exchange rate has been adjusted from 306 to 360 naira. The exchange rate under the investors and exporters (I&E) window has also been adjusted from 360 to 380 naira in order to unify the exchange rates across the I&E window, Bureau de Change, and retail and wholesale windows. Furthermore, the government has introduced import duty waivers for pharmaceutical companies and increased efforts toward ensuring that they receive forex.

Given the size and scope of the economic impact of the pandemic, there is the need to implement other recovery strategies to stimulate demand. Thus, we recommend the following fiscal and monetary policy measures:

* Although there is a [cash transfer program](https://guardian.ng/news/nigeria-government-begins-distribution-of-n20000-relief-fund-to-homes/) in place, the federal government should improve efforts towards enhancing the efficiency and effectiveness of the n0ttdistributive mechanisms to reach households that are worst-hit by the pandemic.
* The Federal Inland Revenue Service (FIRS) as well as State Inland Revenue Services (SIRS) should waive payments on personal and corporate income tax for the second quarter of 2020, considering that the shock has affected the income and profits of households and businesses.
* 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.
* FIRS and SIRS should delay tax collection for the worse-hit sectors including tourism, the airline industry, and hoteliers in order to enable them recover from the steep decline in demand.
* To provide additional liquidity in the forex market, the CBN should establish a swap facility with the U.S. Federal Reserve and/or the People’s Bank of China, as was done in 2018, to provide dollar and yen liquidity to financial institutions, investors, and exporters. This move would ease up forex shortage in the financial market and economy.
* While the naira has been adjusted as a result of the forex shortage, it is important that the CBN maintains exchange rate stability by deploying external reserves in order to avoid investors selling off naira-denominated assets.

The COVID-19 pandemic is a wake-up call to policymakers as the unusual and unprecedented nature of the crisis has made it impossible for citizens to rely on foreign health care services and more difficult to solicit for international support given the competing demand for medical supplies and equipment. A more integrated response spanning several sectors—including the health, finance, and trade sectors—is required to address structural issues that make the country less resilient to shocks and limit its range of policy responses. In the long term, tougher decisions need to be made, including but not limited to diversifying the country’s revenue base away from oil exports and improving investments in the health care sector in ensuring that the economy is able to recover quickly from difficult conditions in the future.