

## COVID-19: A Pandemic and its Effect on the Nigeria Economy

The rapid outbreak of the COVID-19 presents an alarming health crisis that the world is grappling with. Based on initial laboratory findings, the disease named Coronavirus disease 2019 (abbreviated as COVID-19), was described as an infectious disease that is caused by severe acute respiratory syndrome coronavirus 2. The COVID-19 outbreak has since spread to about almost all countries and territories in every continent and one international conveyance across the globe. While there are ongoing efforts to curtail the spread of infection which is almost entirely driven by human-to-human transmission, it has accounted for over 1,537,964 confirmed cases with over 89,960 deaths.

Analysts at the UN say the world's \$80 trillion economy will decline by \$1 trillion to \$2 trillion - a close to 3% contraction. Nigeria, like most countries, will be hit on two fronts. Directly as a result of cases in the country, and indirectly, due to our closeness with - badly hit China, our number one infrastructure financier and trading partner, plus our reliance on global oil prices.

It is hard for one number to accurately capture the impact, but considering the uncertainties, Nigeria's vulnerabilities to the impact of these external shocks can be adduced to increased dependencies on global economies for fiscal revenues, foreign exchange inflows, fiscal deficit funding and capital flows required to sustain the nation's economic activities.

Recently, the Presidential Committee on the Review of the Impact of Coronavirus on the Economy has admitted that the outbreak of the virus has finally crumbled Nigeria's economy. The committee equally observed that the crashing in price of oil at the international market was also not helping matters.

### **The effect of the outbreak is expected to affect different sectors of the economy**

#### **Aviation, shipping, and tourism sector**

The restrictions on international air travels and the closure of land and coastal borders in many countries have grounded business for many enterprises in the transport sector. This has resulted in many impromptu cancellations of flights and trips along international air, water, and land routes. There have also been consequential implications for enterprises expecting delivery of shipments, consignments, cargoes, and arrival of expatriate workers from foreign countries

This also holds for business entities, persons, and business executives travelling for previously scheduled business meetings and conferences across international borders.

#### **Healthcare Sector**

Enterprises engaged in the health sector are significantly affected by the pandemic. With hospitals running out of drugs, test kits and protective masks, and pharmaceutical companies (particularly in Africa) unable to either import drugs or raw materials from affected producing countries around the world; there is pressure on the supply side of the market with many pre-COVID-19 arrangements/orders disrupted

### **Countrywide Effect of the Economic Situation**

The impact of COVID-19 and lock-down policy responses implemented by most countries to curb the spread of the virus has resulted in a reduction of global demand. The price of oil hit its lowest level in 17 years, declining from \$59 to \$28 per barrel within a month as a result of lower demand and a lack of coordination between OPEC and Russia to reduce supply

For Nigeria, where revenue from oil production is 31% of the 2020 budget revenue and oil accounts for 90% of foreign exchange - the effect of the sharp and persistent fall in oil price will lead to cuts in government spending and net exports, two critical components of economic output. Also, the role Foreign Portfolio Investment (FPI) plays as a major source of investment in our capital markets and fixed income markets, and more importantly, as a critical source of foreign exchange inflow to the economy. Depressing global capital flows will put significant pressure on Nigeria's foreign exchange reserves and exchange rates.

There is a possibility of companies laying off workers, further worsening the unemployment rate which is expected to reach 33.5% this year.

## Major updates implemented during this period

- 1. COVID-19 Regulations 2020:** COVID 19 Regulations 2020 was signed by President Muhammad Buhari on March 30, 2020 with sole objective of curtaining the spread of the dangerous infectious disease COVID 19. Key notes from the regulations are:

- a. Restriction/ Cessation of movement**

The regulation ordered the cessation of all movements in Lagos and the FCT for an initial period of 14 days with effect from 11 pm on Monday, 30th March 2020. This restriction will also apply to Ogun State due to its proximity to Lagos and the high traffic between the two States. The containment period will be observed to identify, trace, and isolate all individuals that have contact with the confirmed cases. Federal Government will ensure the treatment of confirmed cases while restricting further spread to other States.

- b. Exemptions from containment order**

This order does not apply to hospitals and all related medical establishments as well as organisations in healthcare-related manufacturing and distribution. Also, commercial establishments such as food processing, distribution, and retail companies; petroleum distribution and retail entities; power generation, transmission, and distribution companies; and private security companies.

Workers in telecommunication companies, broadcasters, print and electronic media staff who can prove they are unable to work from home are also exempted. All seaports in Lagos shall remain operational in accordance with the issued guidelines.

- c. Provision of relief materials and Conditional Cash Transfer**

For residents of satellite and commuter towns and communities around Lagos and Abuja whose livelihoods will surely be affected by some of these restrictive measures, Federal Government has deployed relief materials to ease their pains.

Federal Ministry of Humanitarian Affairs, Disaster Management and Social Development has also been saddled with the responsibility of distributing the relief material to the poor of the poorest households in the country. President also immediately ordered payment of four (4) months (January – April) conditional cash transfer to the poor families. This amounts to N20,000 cash transfer to the beneficiaries. The exercise kicked off from Kwali Local Government Area of Federal Capital Territory (FCT) on April 1, 2020.

- d. FG funded loans**

FGN announced a reduction of the petrol price from N145 to N125. The Petroleum Products Pricing Regulatory Agency (PPPRA) an agency of government established in 2003 to, among other responsibilities, monitor and regulate the supply and distribution, and determine the prices of petroleum products in Nigeria has also fixed the price of fuel @ N123.50 for the month of April 2020.

- 2. Central Bank of Nigeria (CBN)**

The Central Bank of Nigeria announced policy measures worth N3.5 trillion that includes:

- Additional moratorium of 1 year on CBN intervention facilities.
- Interest rate reduction on intervention facilities from 9% to 5%.
- Creation of N50 billion target credit facility for affected households and small and medium enterprises.
- Granting regulatory forbearance to banks to restructure terms of facilities in affected sectors.

- Improving FX supply to the CBN by directing oil companies and oil servicing companies to sell FX to the CBN rather than the Nigerian National Petroleum Corporation.
- Additional N100 billion intervention fund in healthcare loans to pharmaceutical companies and healthcare practitioners intending to expand/build capacity.

### 3. CBN Suspends Forex Sales to BDC Operators

Following the request of the Association of Bureau de Change Operators of Nigeria to declare market holiday on its members weekly bidding, the Central Bank of Nigeria (CBN) has suspended the sales of foreign exchange to operators of Bureau de Change until further notice.

### 4. CBN Health Intervention Fund Gets New Interest Rate by March 2021

The CBN had said that interest rate on its health intervention facility, which was reduced to 5% previously, shall revert to 9% p.a. (all-inclusive) as from 1st March 2021. The CBN had introduced a N100 billion credit support intervention for the health sector as part of the measures to mitigate the effect of the Coronavirus pandemic on the economy.

### 5. Federal Inland Revenue Service (FIRS)

- Extension of the due date for filing of companies' income tax returns by one month.
- Use of electronic platforms for payment of taxes and processing of tax clearance certificates.
- Filing of tax returns by taxpayers without audited financial statements which must be submitted within two months of the revised due date of filing.
- Proposed creation of a portal where documents required for desk reviews and tax audits will be uploaded by taxpayers for online access by the tax authority.

- Extension of timeline for filing and payment of value added tax and withholding tax from the 21st day to the last working day of the month, following the month of deduction
- Acceptance of e-mail as a valid means of communication with FIRS in line 2019 Finance Act.
- Waiver of Late Returns Penalty (LRP) for taxpayers who pay early and file later.
- Taxpayers facing challenges in sourcing for FOREX to offset their liabilities are hereby given the option of paying in Naira at the prevailing Investors & Exporters (I & E) FOREX window rate on the day of payment.
- The period to file PIT returns for Foreign Affairs, Non-Residents, Military and Police has been extended to the 30th June 2020.
- Field Audit, Investigations and Monitoring visits have been suspended till further notice.

### 6. Lagos State Internal Revenue Service (LIRS)

- Extension of deadline for filing annual tax returns for employees and self-employed persons by two months from 31 March 2020 to 31 May 2020.
- Provision of alternative payment platforms for taxes payment through:
  - i. Lagos State Government Electronic Banking System
  - ii. Payment via Bank Mobile Apps
  - iii. Internet Banking of Designated Banks
  - iv. Payment with Bank USSD
  - v. Online Payment Agents.

### 7. House of Representatives passed the Emergency Economy Stimulus Bill 2020 which seeks to:

- Protect employees from loss of jobs as a result of COVID-19 by granting a 50% income tax rebate on the total actual amount due or paid as pay-as-you-earn (PAYE) tax under the Personal Income Tax Act, 2004 (as amended), to Nigerian companies who retain all their

- employees from 1 March 2020 to 31 December 2020
- Suspend import duties on medical equipment, medicines and personal protective gears required for the treatment and management of COVID-19 for the period 1st of March 2020 to 31st of December 2020. The period can be extended by the President pursuant to his powers under the Customs & Excise Tariffs etc (Consolidated) Act
- Introduce a new moratorium on mortgage obligations of Nigerians under the National Housing Fund. The deferment period is 180 days effective from 1st of March 2020. The period may be extended by the President for a further period not exceeding 180 days subject to a majority vote by members of the National Assembly.

## 8. Nigerian Stock Exchange

Grant of a 60-day extension to issuers and dealing members for filing of 2019 full year financial reports, from 30 March 2020 to 29 May 2020

### Conclusion

Over 1.7 Billion people Worldwide are currently under government-enforced lockdown due to lockdown due to Covid 19. In Nigeria, the lockdown order is in force in many states of the Federation

Activities of informal working sector which contributes around 65% of the Nigerian economy is badly affected by this decision.

Government consideration to revise year 2020 budget downward is inevitable. Meanwhile, the increasing impact on the Nigerian economy has also necessitated drastic review and changes in the earlier revenue expectation and fiscal projection of the Government

Lastly, we expect Government to roll out more stimulus packages to soften the impacts of Covid-19 on the vulnerable members of the society and companies in general

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