COVID-19 Pandemic, Oil Slump and the Nigerian Economy

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ABSTRACT

The COVID-19 pandemic came as a shock to the global economy and its impact was well felt. However, it came with the possibility of implementing structural policies and reforms. The pandemic slowed down economic activities in the global market and translated into crashed oil prices, which gave room for reforms such as subsidy removal. Nigeria maximized the opportunity to remove the full subsidy on petroleum products, especially Premium Motor Spirit (PMS). But the possibility was not last enough for the populace to enjoy. COVID-19 pandemic and its consequence on oil price had affected the Nigerian economy by ways of fiscal constraint, loss of revenue, the exit of businesses in the market, job cuts and soaring unemployment rate. Exchange rate fluctuation is prevalent, the inflation rate is on the rise and thereby, poverty incidence has increased. In cushioning the effect of the pandemic, governments at all levels, religious bodies, businesses and individuals donated towards the fight and support of people during the pandemic. Nigeria should maintain a strong economic basis, single its double sides of being exporter and importer at the same time; and ensure local refining of the petroleum products. Also, it has come of age for developing a national package to forestall a similar crisis in an instance of similar occurrence.

KEYWORDS: *COVID-19, Oil Slump, Economy, Nigeria*

JEL CLASSIFICATION: *I19, Q34, Q43, E02*

1. INTRODUCTION

The Coronavirus Disease 2019, code-named COVID-19, originally known as 2019-novel Coronavirus (2019-nCov), has brought about an unpredictable change in the world. Its effect is challenging in the health, social, and economic development, wherein implementation of policies by governments is crucial in evading the crisis. Virtually all countries curtail the virus by implementing lockdowns to stop the spread of the virus. This situation knocked off businesses such as oil and gas, retail, airline, hospitals, and other industries, which greatly affected the economy (Deloitte, 2020). The pandemic was first observed in Nigeria on February 23, 2020, and since then the number of infected cases has risen to the point of declaring a total lockdown at a point. In Nigeria, the case fatality ratio (CFR = 0.0192 *4d.p.*) of the pandemic is 1.92 per cent of the total infected cases in September 2020 and 1.19 in August 2022 (calculated *from NCDC released data as of 7th September 2020 and August 31st, 2022, respectively*). The CFR statistics for the two periods showed a decline in the fatality rate to a tune of 73 basis points. An indication that the effect of the pandemic became milder in the country with time. Nigeria was not exempted from the untold hardship experienced by the economies of the world

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due to the COVID-19 pandemic. The country was put in a worse scenario due to its status as an oil-exporting-oriented economy. It is noted that the global oil sector and particularly the oil-exporting African countries are mainly affected by the pandemic (African Union, 2020). The outbreak of the virus, which has spread to over 200 countries, is negatively affecting the global economy. It has been estimated that the virus could alter the global economic growth from 3.0% to 6%, that is, a possible cut to that amount- in 2020. The Nigerian economy contracted by 6.1% on a year-on-year basis in the 2nd quarter of 2020 due to the reactions toward curtailing the COVID-19 pandemic (NBS, 2020). It has also been envisaged that a partial recovery could be achieved in 2021 if there is no second phase of the infection. Indeed, a partial recovery set in, in the last quarter of the year 2020 and by the end of 2021, a 3.98 per cent GDP growth rate was recorded (NBS, 2022). However, the pandemic was accounted to have raised the risk of economic recession compared to the Great Depression in the 1930s (Jackson *et al.*, 2020).

Oil and gas sector-dependent economies have witnessed and are further exposed to the decline in Gross Domestic Product (GDP) and severe recession due to the general decline in demand. The low demand for oil, the global lockdown, and the drop in oil price below $30 per barrel are of major concern for Africa's major oil producing countries, for which Nigeria is not excluded from the effect of COVID-19, especially on oil demand (Deloitte, 2020). The situation was so terrible that buyers in Texas offered as little as US$2 a barrel (Ngai, Raimonde & Longley, 2020). The loss of oil revenue to oil-dependent countries as a result of the COVID-19 pandemic was severe. This is due to the global decrease in oil prices and the low demand for oil in international markets. This development worsened the balance of payment and increased current account deficits, especially in countries like Nigeria, Angola, and Venezuela. Also, the situation ushered in increased pressure on foreign exchange reserves, which led to the devaluation of their currencies against the US dollar (Ozili & Arun, 2020). The COVID-19 pandemic caused this loss in the international oil market because virtually all economic activities were put on hold, and this development drastically slowed down oil demand. Since the pandemic was a global phenomenon, there was no form of sectional compensation on the market because all and sundry the participants on the market were affected. The context of globalisation was partially broken down.

Currently, crude oil is the most important source of energy in the world. Its by-products are used in aircraft, automobiles, electricity-generating engines, and minerals. Also, it is used in pharmaceutical companies, such as topical pharmaceuticals, cosmetics, body creams, and other products. As a result, crude oil is subsequently in high demand, which makes it a source of income for oil-producing countries. However, the drop in oil prices was triggered by the COVID-19 pandemic coupled with the price war between Russia and Saudi Arabia as production levels ceased and then gradually decreased due to the impact of economic slowdown and low oil demand. From US$64/barrel in 2019, oil prices fell to US$30 in March and then US$25 in April 2020. The outlook for the rest of the years will depend on how the pandemic changes and the extent to which the economy can be controlled. However, the average oil price for 2020 can be approximated at $40/barrel or less (World Bank 2020a). Also, a fall in oil prices may result in changes in real income from the exporting countries, to importing countries which has affected the current account and fiscal dynamics and eventually led to a decrease in prices of non-oil commodities. These are expected to restrain macroeconomic policies. On the other hand, it may create an opportunity to tackle long-standing reform, which is Pareto efficient to other sectors of the economy (Tang *et al.*, 2010), only if the government at all levels would have its composure to do the necessary, in the stressed period. Although, the nosedived oil price was not last enough to warrant a permanent shift in the embarrassing subsidy regime of the Nigerian economy. Some other factors accounted for a rising price on the international market in the presence of moribund domestic refineries, which left the domestic price of crude oil by-products to the swing of international oil prices.

This paper is based on the backdrop of all these realities as occasioned by the COVID-19 pandemic. Thus, it is in the interest of this paper to investigate the relational trend of the COVID-19 pandemic, its effect on the international oil price, and its consequences on the Nigerian economy. Focusing on the pandemic's indirect constraints on the economy as a whole, fiscal constraints, and fiscal and monetary policies' effectiveness. Also, it looks at how the financial market, firms and businesses, and individuals were affected. The rest of this paper is structured into different sections, viz: a review of relevant literature, approach, desk-based contextual review, conclusion, and recommendations.

2. REVIEW OF RELEVANT LITERATURE AND STYLISED FACTS

2.1. The Global Issues

The current crash in oil prices has caused great havoc to the global economy at large. Although the World Bank (2012) opined that the crash of the oil price is likely to reduce global inflation and support global growth; meanwhile, a reduction in inflation and a weak global economy have been associated with oil price decline in the past. But in a contrary situation, such as the COVID-19 pandemic era, a crash in the oil price may not necessarily result in a global output increase or support growth because the situation was not warranted by the convenient interaction of market forces. Furthermore, the decrease in inflation will pose monetary policy challenges in countries with low inflation. Furthermore, it is an opportunity for tax reforms, energy subsidies, and structural measures to diversify in oil producing economies, if there are no prompt price adjustments (World Bank 2012). But the recent price drop due to COVID-19 has caused an enormous financial decline in oil-producing countries. The complete lockdown and stay-at-home policies -mostly in the developed countries- to curtail the pandemic could plunge the world into a global recession (Financial Times, 2020). In the third month of the year,2020; IMF (2020a) emphasized that the global recession could be as trivial as that of the 2007/2008 global financial crisis which recovery is expected to follow in 2021.

In addition, an increase in sovereign debt is expected to increase in oil-producing countries at about 5% to 10% of GDP (Georgieva, 2020). Besides being pessimistic, the blossom benefits of the crash in oil price may not be harvested in this COVID-19 pandemic motivated price crash but the setbacks that came with it, especially, in the oil sector. Indeed, the sovereign debt of the developing countries and mostly energy-export-based economies among the developing countries did increase, Nigeria's total debt as a percentage of GDP increased from 34 to 37 per cent in 2020 and 2022 respectively. But overall African countries reduced their debt by 1.4 per cent in 2022 from 66.4 per cent in 2020 when relatively compared to GDP (IMF, 2022).

Usually, the supply side has been considered as the motivator of price reduction rather than demand factors (World Bank, 2015). However, in the main time, the interplay between demand and supply factors plays a great role in the fall of oil prices which is expected to persist over the short and medium-term, but volatile with a steady recovery over the next year. Consequently, the series of the oil price drop from June 2014 to March 2015 can be ascribed to an increase in oil supply in the US leading to a reduction in global demand relative to supply. The direct effect and indirect effect of oil drop can manifest through trade, while the indirect effect could be apparent in investment, inflation, and growth. The World Bank and the IMF forecasted a 30% drop in oil prices between 2014 and 2015 which was expected to reduce the export value of oil in sub-Sahara African countries by US $63billion. The main countries with the worst losses were Nigeria, Equatorial Guinea, Gabon, Sudan, and Congo. However, imports reduction is estimated at US$15 billion and the major gainers countries are South Africa, Kenya, Tanzania and Ethiopia (UN, 2020).

2.2. The African Issues

The World Bank opined that the effect of the COVID-19 pandemic effect will usher in a major global recession that will inhibit social and economic activities. Meanwhile, the effect was considered to be great in SSA countries (IMF, 2020b). For more than 70 years, Africa has been involved in oil production, making its production globally important. Currently, Africa accounts for about 9% of the total global crude oil production, a share of more than 12% toward the end of the decades and over 13% in the late 1960s. Production of crude oil is dominant in 20 African countries across the five African regions, but the production is intense in Algeria; Angola; Nigeria; Egypt and Libya, which together account for over 80% of oil production. The bulk of crude oil produced in Africa is majorly exported, while the majority of refined petroleum products are imported. Africa is the only continent in the world that serves as a net exporter of crude oil and a net importer of refined petroleum products. The majority of oil production in Africa takes place in the Central, North, and Western regions, while the oil consumption is mainly in the North, South, and West. The Eastern and Western regions nearly double the proportion of consumption; therefore, they possess the utmost shares of petroleum product imports at over 85% (African Union 2020).

The oil sector accounts for 25% of the overall GDP for the top ten (10) African oil producers. Oil in combination with other hydrocarbons accounts for over 20% of the top 10 African economies, which includes: South Africa, Nigeria, Algeria, Egypt, Angola, Morocco, Ethiopia, Kenya, Tanzania, and Ghana. In the case of Nigeria, it is projected that the country may lose up to US$19 billion due to a reduction in the export of crude oil in 2020 (UN, 2020). Lately, due to the COVID-19 pandemic coupled with the disagreement between Saudi Arabia and Russia on an output cut, crude oil has faced the greatest demand shock in history as the oil price fell freely below $30 per barrel. This has also disrupted trade and affected oil-sensitive economies like Angola, Algeria, Chad, Cameroon, Equatorial Guinea, Ghana, Gabon, Republic of Congo, and Nigeria. The value of oil export in African countries could fall as low as $40/barrel or lower compared to the fall experienced 20 years ago. The low price in addition to a decrease in output from larger oil producers will bring about a $20 billion or more loss in the value of oil in the year 2020. However, the low per capita consumption of oil in many consuming African countries will not benefit from the low prices, but is limited by storage and low demand (African Union, 2020).

In Africa, the demand for crude oil in exporting countries is expected to fall in 2020 to as low as 10% on average in comparison to last year. The prices are also expected to decrease due to distortion in the market. This can be attributed to the intense use of biofuels, primarily biomass (firewood and charcoal), which account for approximately 50% of final energy use in Africa. However, a 10% fall in global demand was projected to result in a 10% drop in crude oil exports in 2020 because crude oil is mainly exported outside Africa, hence demand would be very low (African Union, 2020). Nigeria and Angola are the largest oil producing economies on the continent, where oil revenues account for approximately 90% of exports and 70% of national budgets. Therefore, a fall in the price of crude oil will be a shock to the two in a similar fraction. On another hand, it has been estimated that Nigeria and Angola could lose close to US$65 billion in income which would reduce foreign exchange reserves and implementation of development programmes in the countries (UN, 2020). For example, in March 2020, around 70% of the crude oil for April loading from Angola and Nigeria was not sold at the time envisaged, while Congo and Gabon were still sourcing for buyers at the time. Also, Eretria and South Sudan were affected by the inability to supply to China (UN, 2020). According to OECD

(2020a), the loss in oil price was about 50% as the value dropped from US$67/barrel to below US$30/barrel from December 2019 to March 2020. However, China's oil purchases account for approximately 58% of Eritrea's and 95% of all South Sudan's exports (UN 2020).

The major oil-producing countries, that is, African economies dominated by hydrocarbons and oil, would be the most affected at about -3% of GDP growth than the global African countries in 2020 (UN, 2020). It was the exact case with the Nigerian economy, which shed 3.62 per cent in the third quarter of 2020. Nonetheless, the oil price drop has severely hit the Central African Economics and Monetary Community (CEMAC), this has exacerbated the shortage of foreign currency and fortified the impression of the devaluation of the *Communaute Financiere Africaine* (CFA). Also, the pandemic pandemonium was considered to bring about currency depreciation and an increase in food prices (Kingsly & Kouam, 2020). In South Africa, the export of oil is about 3% and as high as 40% in Equatorial Guinea. This can be equated to the total of South Sudan's export, which is the key source of foreign exchange. It is effulgence for historical and planning's sake, to note that the actual statistics so far released by each of these economies showed that the actual losses surpassed the projected loss (UN, 2020).

2.3. The Nigerian Case

Within a decade, Nigeria witnessed two economic recessions. The first was the global financial crisis in 2009 triggered by the combination of the after-effect of the 2007/2008 economic crisis, inappropriate risk management activities, poor loan processes, and corporate governance in banks (Sanusi, 2010). The second was the economic crisis in 2016 due to an unexpected drop in the oil price in the world market, which resulted in a decrease in oil revenue that drastically affected the foreign reserve and steered the balance of payment deficit. (Adeniran & Sidiq, 2018). Presently, it's the COVID-19 pandemic, which spilt into the Nigerian economy through the demand shock which emanated from the sharp drop in the price of oil as a result demand shock in the global market. The most pressing issue is the decrease in oil price from US$60 per barrel to US$30 per barrel in March 2020. This could be linked to the restriction of people from travelling due to the pandemic in which a decrease in demand for automobile fuel and aviation fuel affected the net oil revenue and the Nigerian foreign reserve (UNECA, 2020).

The stability of oil prices for over 4 years at around $105 per barrel has dropped sharply since June 2014 and is expected to be low for a while. Over the last three decades, there has been another occurrence of oil drop, while the major one coincides with the global oil market and the economy (World Bank 2015). The previous decrease in oil prices can be affiliated with the ineffectiveness of regulations by the financial institutions which eventually led to slow development in the country (Umanhonlen & Lawani, 2015). The recent fall in oil prices can be said to have been driven by some factors: weakening global demand, numerous years of upward production of unconventional oil, appreciation of the US dollars, and changes in Organisation for Petroleum and Exporting Companies (OPEC) policies (the renouncement of rapid expansion of oil supply from unconventional sources and price support). The unexpected economic shock witnessed recently by Nigeria between the end of 2019 and March 2020 caused a drop in oil prices by 55%. This development was never a pleasant one for the country because the oil sector contributes a wholesome of about 90% to total export and about 65% to government revenues. The price of crude oil dropped to US$29.62/barrel as of March 18, 2020. Meanwhile, the federal government budget estimated oil production at 2.18 million barrels per day and pegged oil price at US$57/barrel; if this continues, a decline of about 48% of expected revenue from sales of oil will elope. Concerning this, export revenue and fiscal revenue could decrease to about US$19billion and US$10 billion. A fall in export revenue is projected to impact the drop in GDP by about 0.55 per cent (UNCTAD, 2019). As previously observed, the impact of the COVID-19 pandemic badly impacted the economy and at the end of the 2nd quarter of 2020, the economic output was contracted by 6.10 per cent (NBS, 2020). This is about 13 times bigger than the projected statistic.

The fall in crude oil triggered the 2016 recession in Nigeria, coupled with an increase in the pump price of petrol, pipeline vandalization, the balance of payment deficit, weak infrastructure and fixed-float exchange rate system adoption (Ozili & Arun, 2020). But the present losses associated with the drop in oil price as a result of the COVID-19 pandemic coupled with other factors was US$65 billion, out of which US$19 billion losses were predicted (UNECA, 2020). The Nigerian government, on the assumption of the old price of oil at US$67 per barrel, made its budget estimate for the first quarter of the year. But the price dropped drastically by more than 50% due to the COVID-19 pandemic (OECD, 2020b). However, the government had to revise the 2020 national budget to accommodate fluctuations in the prices of crude oil, which dropped from $57 per barrel to $30 per barrel. Likewise, the daily production of crude oil may reduce from 2.1mbpd to 1.7mbpd (Deloitte, 2020). To this end, the pandemic has done more harm to the Nigerian economy.

2.4. Channels through which drops in oil price affect the economy

The COVID-19 pandemic warranted the crash in global oil prices due to its impact on slowing down global demand, as many productivity activities were grounded by lockdowns in virtually all countries of the world. The major channels through which the crashed oil price affects the economy can be classified into direct and indirect effects. The direct effect is effects on prices and other actions by the exporter and importers. The indirect effect is the effect through trade and commodity market; investment uncertainty and fiscal and monetary policy responses. The oil-exporting countries tend to have higher average saving rates due to the shift in income compared to net oil-importing countries, where the propensity to spend is higher. This outcome leads to stronger global demand in the medium term, though the effect varies across countries over time. Consequently, some exporting economies are forced to adjust their imports and government spending in the short term due to financial constraints. Also, the benefit from importing countries could be offset and diffused by higher precautionary savings if the growth perspective can be controlled. Low energy prices can also exhibit a second-round impact on another commodity market which might generate added terms-of-trade changes for a variety of commodity exporters.

On the other hand, in oil-importing countries, declining oil prices could reduce external financing pressures and medium-term inflation below the target. In response to these, central banks may opt for monetary policy to control the situation, which could eventually support growth. But in oil-exporting countries, a decrease in oil price could elicit contractionary fiscal policy, re-pricing of credit, sharp currency alteration, and sovereign risk. Concerning these, expenditures need to be augmented by a drop in tax revenue from the oil sector. Reduction in investment and goods consumption can increase uncertainty in abrupt fluctuations in oil prices. Uncertainty about the price of oil in the future could result in delayed investment by firms and cut capital expenditure. Likewise, the consumption of durable goods can also generate uncertainty in changes in the oil price (Kilian and Murphy, 2014). Furthermore, cautionary demand for crude oil can also arise due to uncertainty in the future price of oil (Anzuini *et al*., 2014). The overall cost of energy products and oil-fired electrical power is forced to be cheaper to produce as a result of falling oil prices. Also, for energy-intensive sectors and industries: petrochemicals, manufacturing industries, transportation, and agricultural sectors, it intensifies higher profits and gives room for profitable investment and employment. On the part of consumers, low oil price support consumption and increase real disposable income (World Bank, 2015).

The movement of oil prices can be initiated by supply shocks in the oil markets in association with variations in a shift in income in global output and between oil importers and exporters. On the contrary, the movement in oil prices driven by a shock in demand is likely to lead to weaker effects (Cashin *et al.*, 2014). The decline in oil prices compared to the increase seems to have a minor effect on oil-importing economies (Hoffman, 2012). The asymmetric effect could be caused by frictions, varying monetary policy reactions, and uncertainty about various movements in the price of oil. The benefits of a decline in oil prices tend to favour developing countries compared to developed countries. This can be ascribed to the fact that production and social activities are more energy-intensive in advanced countries. But inflationary expectations dwell in developing countries in response to changes in fuel prices. This indicates that there is a strong effect of the commodity price shock on inflation in developing countries compared to advanced economies (Gelos & Ustyugova, 2012).

2.5. Effect of COVID-19 on the economy (through oil price slump)

The price of crude oil plays a vital role in the economy of a country. The dwindling price of crude oil has initiated a major financial problem in the Nigerian oil sector and the capital market at large (Chris & Onyinye, 2015). This has brought about the unavailability of funds in the financial sector. Bank loans are taken by several oil marketers and due to fluctuations in oil prices, it has resulted in the unsettlement of many banks' credits (Vanguard, 2016). The feedback result on the banks is the inability to pay workers, which instigated retrenchment of workers whereby unemployment increases and the inability to engage in the core banking business. A very similar situation was equally experienced in 2020 as a result of COVID-19 impact on the economy. Very many financial institutions in the country cut jobs, as only those who offered essential services in the banks were allowed to report to work. Even commercial banks in Nigeria would have been sacked in thousands if not for the intervention of the Central Bank of Nigeria through a Banking Committee that stilled the action. Forthrightly, the job cut move was a necessary step because there was lesser patronage due to the lockdown. The unemployment rate quickly soars as it was a real economic complication for those who are in the informal sector. Consequently, the inflation rate unsticks rose to 13.6% in September, when it was projected to be 14%. Even in 2022, it is not better off, as the statistic stood at 15.6% for end-of-period consumer prices.

In addition, a decrease in oil prices could lead to volatility in the exchange rate. This could induce inflation through the depreciation of the Nigerian currency (Imimole & Enoma, 2011). According to the author, inflation results as a result of a rise in the cost of goods and services which has continued to increase in Nigeria; if the Nigerian government do not make effort to prevent the harmful effect of dwindling oil price, inflation will continue to persist in the economy (Imimole & Enoma, 2011). Also, the drop in oil price will cause a stagnation of the inflow of funds into the excess crude account. This will occur due to increased pressure for funding by states to run their recurrent expenditures. In addition, abandonment and delay in infrastructure projects can occur, as there may be the termination of key projects at different levels of the government. Consequently, infrastructural projects like electricity supply, water, road construction and building of schools may be stopped (Ogochukwu, 2016).

2.6. Fiscal constraint

The drop in oil price can result in debt increment in Nigeria. To cover the deficit in the existing budget, the government would source additional funds by acquiring loans from international bodies to bridge the gap between decreased revenue and the country's expenditure. To be able to attend to recurrent expenditure in the country, there will be a threat to capital expenditure because the Nigerian government would be striving to maintain its daily responsibility.

Therefore, policies and strategies can be implemented in downsizing the workforce in different sectors and cutting overhead costs. Furthermore, external investments such as infrastructure and investment in education can be halted or reduced due to the persistence of the oil price crisis (PWC, 2014). At present, in 2022, debt-to-GDP stood at 37%, with the proposal of the possibility of no capital expenditure in the 2023 budget.

The reduction in excess crude oil account and a fall in revenue allocated to the states by the federal government will cause a delay in the payment of salaries to government workers. Payment of salaries has been irregular to the local, state, and federal government workers due to a drop in the oil price (Odeyemi, 2016). On the part of the private sector, workers have been laid off, some have been entitled to half salaries, while some were denied salaries (especially teachers and domestic workers). Additionally, future projects in the oil and gas sectors were deferred due to the decline in oil prices. This will result in declined revenue generation due to the decrease in the oil price, which will not match the expenditure on oil projects. This could also lead to the downsizing of the personnel in oil companies. Furthermore, the decision of international oil companies about offshore projects will be affected due to high costs (Odeyemi, 2016). Lastly, the decrease in crude oil prices can cause severe economic activities in the capital market. This would alert foreign investors to withdraw from the capital market due to currency depreciation. Then, a drastic effect on the aviation sector is triggered as revenue generated is very low. There has been a tremendous increase in revenue generated from the aviation industries, but due to the oil price drop, revenue has been extremely reduced (Saketa, 2016).

Empirical evidence from different extant studies on the effect of the COVID-19 pandemic has consistently indicated a negative relation, that is, the pandemic was harmful. Gidigbi et al. (2022) investigated the pandemic effect on capital importation to the banking business and found that the pandemic hurt capital importation and thereby challenged the liquidity and stability of the financial system in Nigeria. In the same vein, Bello and Gidigbi (2021, 2022), respectively, noted that the pandemic inhibits the economic growth ability of trade at the time of its high prevalence coupled with locked-downs; and indicated trade shift as the pandemic accelerated trade digitalisation. It was only positive in the possibilities it brought in improving the acquisition of trade-related technological investment and the acceleration of digital trade facilitation, in general. It is generic that the immediate effect of the pandemic hurts whatever is in the periscope of the consideration; however, the pandemic has added to us in preparing for the future and enhancing the living possibilities.

3. STUDY APPROACH

This paper is a desk review study, which focused on the COVID-19 pandemic, its translated effect on oil prices, and the consequences of the same on the Nigerian economy, which is an energy-based export economy. According to Iversen (1991), contextual analysis “is believed to affect the actions and attitudes of the individuals who belong to the group”. Recognising the time frame of the pandemic occurrence and sufficiency concern of data available within the period, this study opted for a (relational) contextual analysis approach but desk review without transforming the texts into data for statistical analysis. Relating the pandemic to the performance of key economic areas -fiscal constraints; effectiveness of the monetary and fiscal policies; and economy at large as touches the financial market, businesses and firms, and individuals- earlier specified in this paper. The analysis focused on the factual happenings at the prime time of the pandemic in Nigeria, without any form of content coding but contextual justification. Each of the identified segments of the economy was concisely examined as a set of individual units of the economy as a group.

4. RESULTS: DESK REVIEW AND CONTEXTUAL APPROACH OF ANALYSIS

The combined impact of COVID-19 and the oil slump on the Nigerian economy cut across all sectors of the economy because COVID-19 prompted lockdowns which affected the economy at large. The key sectors picked to capture this impact is examined in the following areas: Fiscal and Government; Monetary; Financial Markets; Businesses and Firms; and Individual.

4.1. Fiscal and government

The drop in oil price is expected to disrupt the implementation of structural policies, that is, monetary and fiscal policies. The incidence of inflation and recent account enhancement in oil-importing countries could permit the Central Bank to uphold beneficial policies. Also, a reduction in oil prices could pave way for an additional fiscal implementation to stimulate required actions. Indeed, the federal government of Nigeria announced full subsidy removal on petroleum products during the COVID-19 period. Surprisingly, without subsidy, the Premium Motor Spirit (PMS) was still sold (N125/litre) below the initial price of N145/litre when the subsidy was granted. Unfortunately, the euphoria did not last at all, because by early September 2020 when the crude oil price was picking up on the international market, PMS is now selling at a price that it has never been sold officially (N151-161/litre). The drastic drop in the price of oil and other hydrocarbons would lessen the fiscal revenues in the sector (UN, 2020). In early April 2020, the Federal Government of Nigeria through the Minister of Finance confirmed that the country would face tough financial constraints if the situation at the time persisted for more than three (3) months. This is very true in Nigeria as the federal government revenue declined as a result of falling oil prices. This could also reduce inflation globally but some oil-exporting countries experienced fiscal unbalances and exchange rate depreciation which led to growth deterioration in long run. It may also initiate volatility in currency and financial markets which will eventually affect capital flows. This will imply a sharp fall in investment in oil-exporting and importing countries (World Bank 2015). The oil price drop is going to bring about an economic crisis which could be more serious than the one experienced in 2014. It is estimated that each 10% decrease in oil price will lower the export of oil by 0.6% and increase fiscal deficits by 0.8% of GDP (IMF, 2020b). Just the way it has been documented in the literature, the country experienced untold hardship as the unemployment rate as well as inflation rate soared, and poverty incidence increased.

Instability in oil price exhibits a substantial effect on the Nigerian exchange rate and economic growth and an indirect effect on inflation (Akalpler & Nuhu, 2018). In Central African countries, oil producers will certainly be at risk in the aspect of currency depreciation during the present crisis. Though, in the last few years, evaluation has been prompted due to the low level of economic diversification since crude oil has been the major source of revenue. Oil has since accounted for more than half of their revenue and above 70% of export revenue. Therefore, with the drop in oil prices due to the closure of some companies involved in production and marketing, revenue prices impact the structures of policies implemented in an exporting and importing country. It allows reconsidering tax reforms and energy subsidies for environmental and budgetary challenges. Nigeria did follow this path well, by increasing value-added tax from 5% to 7%, introducing stamp duties on financial transactions and altogether enacting a new finance act in a bid of expanding the tax base and tax revenue. Also, the country made effort to reform petroleum products subsidy during the COVID-19 pandemic period.

The GDP growth for sub-Saharan African countries decreased in 2014 from 5.1% to 1.4% in 2016 as a result of a decrease in oil prices. Crude oil was reduced by about 56% over the seven months. The recent decline in oil prices is projected to be more severe compared to that of 2014. The price of oil has recently fallen by about 54% in the first quarter of the year with current prices below US$30 per barrel (Brookings Institution, 2020). Lately, due to the COVID-19 pandemic, crude oil is faced with the greatest demand shock in history, as oil price falls below $30 per barrel and is coupled with the disagreement between Saudi Arabia and Russia on the cut in production. This has also disrupted trade and affected oil-sensitive economies like Angola, Algeria, Chad, Cameroon, Equatorial Guinea, Ghana, Gabon, Republic of Congo, and Nigeria (UN 2020). The fall in oil prices in the third quarter of 2014 was one of the most significant oil price drops in the past three decades. The period revealed a weak global demand with a rising supply. Concerning this, the oil price is projected to be smooth over the next few years (IMF 2014; World Bank, 2014). The sustained decrease in prices is likely to hurt inflation and growth. The severe pressure on oil exporters, weak global demand, policy changes among importers, and policy uncertainties could limit the expected benefits of the global economy in short term. Furthermore, unpredictable taxes, currency adjustments, and oil price regulations could display different effects on inflation patterns between countries (World Bank 2015).

Fiscal and current account dynamics, substantial real income shifts from exporting to importing countries, and lower oil prices for non-oil commodities could also occur as a result of weak oil prices. The sharp drop in oil price is been accompanied by an extensive loss in reserves, capital outflow, negative cross-border spillover effects and depreciation in oil-exporting values. All the aforementioned could constrain macroeconomic policies which is an avenue for straightening up long-awaited reforms in other sectors (World Bank, 2015). As for oil-importing developing countries, a decrease in oil price would reduce inflation, improve external and fiscal balance and aid stronger growth, these could lower macroeconomic vulnerabilities and create room for policy. But growth in oil-exporting countries could be negatively affected as a decrease in the price of oil causes a significant loss in fiscal and export revenue (World Bank, 2015). Nigeria is balancing two weights because it is a net oil-exporting and importing country. But unfortunately, its position as an oil-exporting country outweighed the other side of the balance. The COVID-19 pandemic compounded and constrained Nigeria's fiscal standing as the country lost revenue due to the pandemic.

The prompt action by the government to contain the pandemic is changing every part of the economy and the sector mostly affected is the oil sector. Both the exporter and importer have the opportunity to reform tax policies and fiscally deliberate on energy subsidies due to environmental and budgetary challenges (Odupitan, 2017). Concerning fiscal policy, savings on the part of importers could restructure fiscal space while the loss in oil revenue for exporters would pressurise public finance. But the decrease in oil price is a form of opportunity for structural reforms and economic diversification, depending on the perpetuity of the incidence. The Federal Government of Nigeria in June 2020 in a bid to address the control of the government's liquidity and ensure a sufficient supply of Premium Motor Spirit (PMS), the Petroleum Products Pricing and Regulatory Agency (PPPRA) reduced the pump price of PMS from N145 (US$0.37) per litre to N125 per litre in March 2020. The agency also clarified that it will continuously advise the oil marketers on the pump price of PMS. However, earlier in May 2020, the PPPRA granted oil marketers the approval to import PMS directly (KPMG 2020). Moreover, the inability of the marketers to directly import PMS was due to the slow-down in operations in ports and transportation due to the continued global lockdown and limited access to foreign exchange for importation as a result of a decrease in oil prices. On the other hand, NNPC assured 60 days' supply of PMS if the border shut down and the global lockdown persists for a longer period.

In Nigeria, crude oil generates about 76% of foreign exchange and 11.8% of GDP; therefore, the reduction in oil price by 60% since the beginning of 2020 has reduced export revenue. It was predicted that the reduction would lower export revenue by $5 billion, which is 1.3% of

GDP in the third month, and $8.6 billion, which is 2.2% of GDP in the sixth month. Consequently, it was estimated that the value of export will decrease by 34% due to the oil price shock. The crash in oil prices below $30/barrel has drastically affected government revenue and a cut in the federal government budget. Therein, the dependence on crude oil by the Nigerian government as the primary source of revenue since independence in 1960 till date has incurred its finances into shocks (Aref-Adib & Martin, 2020).

The federal government was forced to reconsider its 2020 budget due to a drop in oil price as its responsible for above half of government expenditure. The government responded by cutting the capital investment budget by 20%, privatisation proceeds by 50% and recurrent budget by 25%. Correspondingly, recruitment has been altered to reduce government expenditure. Additionally, the price of fuel has been reduced by the Petroleum Pricing Product Regulatory Agency from N145 ($0.37) to N123.5 ($0.32) per litre to encourage travelling within the states in the country during the pandemic (Aref-Adib & Martin, 2020).

4.2. Impact of COVID-19 and oil slump on fiscal and monetary policies

The decrease in oil prices will have a significant effect on fiscal and monetary policies. Dwelling on oil-importing countries, current account enhancement, and a decrease in inflation may perhaps permit the central banks to sustain accommodative policies. But in oil-exporting countries, the room for adjustment is limited; therein the Central Bank would have to sustain growth concerning inflation stability and confidence on the part of investors. To compensate for oil-related revenues, fiscal policies need to be firm. In the case of exporting countries, Central Banks would need to balance and contain currency pressure and inflation to support growth. However, in importing countries, Central Bank would be eased with the pressure of slowing down inflation, which could make room for policy accommodation (World Bank 2015; OECD 2011). These positions were equally true for Nigeria during the COVID-19 pandemic period. The decrease in the price of petrol was experienced in countries like Nigeria, South Africa, and Kenya. This led the countries to revise their national budget reflecting the present situation of the pandemic, as the budgets were already benchmarked at a higher oil price in 2019. As a result, the national budget of these countries ran into a deficit. They were also faced with some decisions of either making new budgets dwelling on the current low oil price in the global market or seeking loans from foreign banks like the World Bank or the IMF to fund budget deficits. The national budget was revised in line with the current realities and as well borrowed from international and regional organisations such as AFDB, IMF, and World Bank. Surprisingly, Nigeria borrowed grain (Maize precisely) from the West Africa Grain Reserve.

4.2.1. Fiscal policy effectiveness in responding to COVID-19 pandemic

Ozili and Arun (2020) empirically examined the impact of spillover of COVID-19 on the global economy. On investigating the effect of social distancing policies on the economy and stock market indices, it was found that increasing the number of days of lockdown, restriction of international travel, and monetary policy decisions distorted economic activities and the major stock market indices. On the other hand, increased fiscal policy spending with the imposed restriction on movement positively impacted the level of economic activities. The implication of the results revealed that fiscal policy was more effective in alleviating the effect of COVID-19 compared to monetary policies. It was also realised that monetary policies by the Central Bank worsen inflationary pressures, which could deteriorate macroeconomic stability in the short run.

4.3. Impact of COVID-19 and oil slump on financial markets, inflation, and exchangerate

It was revealed by Olomola (2006) that changes in the price of oil impacted the foreign exchange rate in Nigeria. It was also discovered that oil prices did not affect production and the rate of inflation in Nigeria. Habib & Kalamova (2007) also investigated the outcome of changing oil prices on the exchange rate in Norway, Russia, and Saudi Arabia. The result showed that a positive relationship existed between the exchange rate and oil prices in Russia. But there was no significant impact of price change on the exchange rate in Norway and Saudi Arabia. Meanwhile, the Naira was freely falling against the US dollar. The annual exchange rate average in 2019 was N306.42/USD1 (CBN 2019), but depreciated to N460/USD1 as of September 2020. Capital inflow into the Stock Exchange Market was heavily impacted as foreign transactions declined from N942.55bn (US$2.59bn) in 2019 to N251.87bn (US$0.65bn) in the first quarter of 2020 (NSE 2020a). The indicated a decline in market cut across all the market segments. At the end of the second quarter, the market has improved but not fully. The total foreign transaction stands at N396.63bn (US$1.03bn) (NSE 2020b). Furthermore, the inflation rate was 11.98% in 2019 (CBN 2019), but now 13.6% in September 2020. This implies that Nigeria felt the impact of the COVID-19 pandemic on the economy through its effect on the crude oil market and as an oil exporting country.

4.4. Impact of COVID-19 and oil slump on businesses and firms

Over the last 8 months, the crude oil price has experienced the sharpest drop from US$60.94 per barrel in December 2019 to US$18.84 per barrel in April 2020. The drop was caused by the disagreement between Saudi Arabia and Russia on oil price cuts to absorb the demand shock as a result of slow economic activities due to the COVID-19 pandemic (KPMG 2020). This has prompted a marginal increase in price, in which imported products attracted currency appreciation, which is a portion of the domestic market. Also, the excessive supply of oil and the decline in demand by the transportation and manufacturing industries prompted a decrease in the price of crude oil to unexceptional levels. On the one hand, weak currency led to demand switching, and this has brought about a cut in spending by firms and investors. To sustain the drop in oil prices due to the pandemic, most oil producers planned to decrease production due to a decrease in consumption and fewer travels. The OPEC decided to reduce supply by 1.5 million per barrel a day until June, when non-OPEC states including Russia were to follow suit. But this was different in Saudi Arabia as it was announced in March that there will be an increase in her production, which intensified the oil price war as non-OPEC members reacted (UN, 2020). Consequently, some countries have worked toward maintaining market dominance against the US shale producer, who is not capable to compete at lower prices. However, as the economic activities are gradually resuming, the price of oil as of June 2020 has increased to about US$ 43.71per barrel, which signifies a global economic recovery (KPMG 2020).

4.5. Impact of COVID-19 Pandemic and Oil Slump on Individuals

The drop in oil prices also affected other commodity prices, some of which are fertilizers, natural gas, and food commodities (World Bank 2015). The decline is expected to reduce the prices of agricultural commodities by nearly 10% (Tang et al., 2010). This has reduced household income and unemployment of workers in all sectors of countries. The decrease in oil price has also affected the price of non-oil commodities with the metal price and natural gas declining by 4% and 30%, respectively (Brookings Institution, 2020). COVID-19 has resulted in fewer travels and fewer manufacturing as a result of a decrease in oil prices. However, while the price decline was ongoing, at the end of the second quarter of 2020, the inflation rate has risen to 13.6%. The increase in commodity prices was becoming unbearable for the populace to survive. Although the Federal Government and State Governments engaged in the distribution of palliative packages to the poor population, the palliative measure could not go round to all who were mostly in need of it. The essence of the palliative measure was to cushion the effect of the COVID-19 pandemic on households and businesses, but did not reach all the masses. The drop-in oil price in Nigeria has given rise to inflation, increase foreign exchange, increase cost of living, depletion of excess crude oil account, non-payment of salaries of workers, and a massive layoff of employees in private sectors (Adeoye & Atanda, 2005). Besides, the evil culture called “corruption” even hampers the effective distribution of palliatives to the individuals who needed them. There was generosity from all and sundry, as some donated to a few individuals on the microblogging site (Twitter), and some religious organisations assisted their members and supported governments at different levels. Organisations and well-to-do individuals were not left out in the contribution to government coffers towards alleviating the effect of the pandemic on the populace. Affection was shown in the diaspora, and the season showcased humanity; though, the provision was not sufficient but then some made the situation better.

5. CONCLUSION AND RECOMMENDATIONS

This paper is a desk review of the impact of the COVID-19 pandemic and oil price slump on the Nigerian economy. It is well known that the global economy was affected by the pandemic and Nigeria is not exceptional. Economically, the slowdown in economic activities warranted by the pandemic and its consequence on oil prices were said to be positive for oil-importing countries and possibly negative for oil-exporting countries. Unfortunately, Nigeria happened to be an oil-exporting and oil-importing country simultaneously. Thereby, the struggle to balance the consequence of its double standard was tasking. In the first quarter of 2020, it seems, it was the chance for the country to implement some important reforms but because of the non-perpetuity of the situation. The low international oil price that prompted full subsidy removal could not be sustained as the price of crude oil started to recover from the international market. The central government did not find it easy due to financial constraints and loss of revenue from oil sales.

The COVID-19 pandemic has imposed serious hardship on the Nigerian economy, from fiscal constraints, exchange rate fluctuation, increased inflation rate, businesses and firms exiting the market, numerous job losses, and unemployment. Businesses were closing down due to the lockdown, and the stoppage of economic activities led to job cuts because the employer could not keep those whom they could not pay. The indebtedness rate has increased drastically from individual to government. The impact was better imagined than experienced, unfortunately, it has happened, and the economy is presently adopting the “new normal” situation. However, Nigeria needs to single its double sides as an oil exporter and importer by being prompt in ensuring local refining of the product, to avoid economic struggle in an instance of a similar occurrence. Also, it needs to save well during the economically buoyant period to be able to manage periods of unpredicted crisis in the future. It may be the right time to consider a national stimulus package in case of similar emergencies.

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