

Business News

COVID-19: Weighing government's weak intervention versus global economic realities

By Geoff Iyatse

10 May 2020 | 4:34 am



GEOFF IYATSE interrogates the strength of federal government's economic policies in the context of the ingenuity required to tackle the double effects of Coronavirus-triggered systemic risk and falling crude prices.

This is the year the world looked forward to with high expectations. Just a month into its second quarter, economists are no longer debating the possibility of a global recession but whether leaders can, indeed, avert a probable depression. Signs that the global economy is already plunging into a recession are around. Consumer spending is collapsing while the unemployment figures are rising. As at end of April, over 30 million Americans had filed for unemployment benefits since Coronavirus (COVID-19) hit the United States.

Elsewhere, big corporations are seeking government bailouts amid economic devastation. For one, Richard Branson is offering his extravagant personal collateral to the United Kingdom for Virgin Atlantic bailout. If the bailout succeeds (which is most likely), the billionaire is hoping to get a leeway from the investment market. Most reputable organisations hard-pressed by

Sport

Premier League braced for player protests mount

1 hour ago

FIFA postpones women's Cup to 2021

3 hours ago

Ibrahimovic returns to AC

7 hours ago

Serie A set for team training with adjusted protocol - goal

7 hours ago

'Stay away' - German fans of Bundesliga restart

7 hours ago

La Liga will return with mandatory mask day, says league president

13 hours ago





the end of March as millions of workers proceeded on a stay-at-home order, some companies reportedly informed some categories of employees that they can only be called back to their duty posts if and when the situation improves. If anything has changed in the past month, things have deteriorated. The afflictions troubling the economy are more daring than they were about a month ago. For instance, the value of the local currency has continued to tumble. For some economies, this would have implied more wealth through an increase in export. But here, it translates to more pains, pains because of the country's extremely high marginal propensity to import and narrow economic base. And the prices of oil, which constitute over 80 percent of the country's foreign earnings and about 50 percent of its gross domestic product (GDP) have become more unstable.

Advertisement

Musk 'restarting' California
Tesla factory, defying
authorities

2 hours ago

[Read More](#)

And for Nigeria, the tumbling oil prices are like falling knives. They could inflict multiple injuries on its socio-economic life. This is because oil price crisis, historically as it were, implied dwindling infrastructure funding, weakening national income, reducing foreign earnings, increasing burden of taxation, rising public debts, crashing stock market, the downgrading of sovereign rating and consequently increasing cost of borrowing. If these challenges had been part of the realities of the pre-Covid-19 national economy, the current crisis could not magically reverse them but Lagos State speaks on hospital where Abba Kyari died | The Guardian Nigeria News - Nigeria and World NewsLagos State speaks on hospital wher...

[Read Next Story >](#)

The falling knives metaphor is not less relevant to energy economics as it is to national prosperity. A few days ago, the Managing Director of the Nigerian National Petroleum Corporation (NNPC), Mallam Mele Kyari, promised that his team would put measures in place to strategically reduce the cost of crude production, which currently stands at average \$16 per barrel. Promise. And that is as far as it can go. Saudi Arabia, whose ego tussle with Russia set the tone for the current crisis produces the same barrel for as low as \$4. Countries such as Russia, Iraq, the United Arab Emirates, Kuwait and Iran, who have developed sufficient firepower as Saudi Arabia to swing the direction of the international prices to their favour, produce much cheaper than Nigeria and are thus at an advantage to woo the consumers. To protect its share of the market, Saudi Arabia gives a discount of as much as \$8 per barrel while Iraq offers \$5 to the same market Nigeria is struggling to dispose of its expensively-drilled oil.

The inability of Nigeria to play in a competitive market is manifest in the fact that it shares with you that there are 12 stranded LNG cargoes in the market that have never happened before. LNG cargoes that are stranded with no hope of being sold because there is an abrupt collapse in demand associated with the

Guardian TV





GTV Exclusive
Covid-19: An unusual
Ramadan



Fashion
In Milan, beauty is
ready and eager to

As cargoes cruise on the high searching for unavailable buyers, Patrick Okigbo, an economic analyst, recently raised the alarm that the cost of renting a vessel has doubled to \$350,000 per day. This will further aggravate the plight of countries without onshore oil storage facilities. The former Vice President, Atiku Abubakar, has also called on the government to build strategic crude oil reserve that can hold at least a month's OPEC capacity.

"I believe the time is right for Nigeria to build a strategic storage capacity... If we build such infrastructure, we will not have to sell our crude at a production loss. We will be in a position to stockpile the product in our reserve until such time when prices improve," Atiku, whose 2019's presidential bid resolved partly around economic efficiency, advised the Federal Government.

After over 60 years of oil exploration, Nigeria does not need an Atiku, who as a vice president for eight years is also accused of playing a part in building the inefficient culture, to understand the economics of strategic reserves in the business of commodity trading. The country has witnessed the pains of burst over and over again. Globally, discussion on building creative storage facilities is becoming fanciful as producers seek ways to hedge their risks. But Nigeria seems to be more interested in taking anesthetic than considering long-term cost-effectiveness of owning onshore storage.

The current oil prices, to use the words of Tope Fasua, an economist, "are a disaster for Nigeria". Sadly, the unsettling market is just a strand of problems in the industry. More crippling is the country's inability to develop its value chain. Millions of dollars have been wasted on countless rounds of turnaround maintenance (TAM) of the existing refineries just as valuable man-hours have been spent discussing green refineries. As suggested by the President of the Nigerian Gas Association, Audrey Joe-Ezigbo, on Moneyline, an AIT flagship economy programme, it is time the country took the discussion about refining seriously.

But the challenge has never been that of a paucity of discussion if Joe-Ezigbo's statement is taken on its face value. The country has had sufficient discussions at different levels. There have been national debates that go nowhere. There have been National Assembly resolutions that translate to more impoverishment without advancing the nation's quest for an increase in refining capacity. The Council has held several fruitless closed-door deliberations. The lack of achievement in this regard is crushing the spirit of illegal refiners and their facilities, which many people suggested should be formalised and integrated into the national programme.

Lagos State speaks on hospital where Abba Kyari died | The Guardian Nigeria News - Nigeria and World News

[Read Next Story >](#)



When Nigeria exited the 2017 recession, it was the performance of the oil sector that came to its rescue. A poorly performing oil sector is often a drag on the overall performance of the economy. Now, the sector is ill. The International Monetary Fund (IMF) came out plain during a video conference with Vice President Yemi Osinbajo and other members of the National Economic Team recently, warning that a drop in Nigeria's oil and gas export could cost the country as much as \$26.5 billion (about 10 trillion). It is bad that the misery of the petroleum industry is going to affect the financial position of the country this much but more painful that other critical sectors are not isolated from its ailment.

The operators, who have become the engine of growth of the domestic economy as well as its albatross, have started re-negotiating some of their existing contracts while calling off the others straightaway. In some cases, the companies are asking for 50 percent reduction in contract value. On a higher scale, there are concerns that some of them may not be able to meet their existing obligations. Last week, a former President of the Nigerian Association of Petroleum Explorationists (NAPE), Mr. Abiodun Adesanya, said the repayment of loan obligations the oil companies secured before the current turmoil is near impossible. He said the industry would need to be rescued from this current situation by the direct intervention by the federal government through the Central bank of Nigeria (CBN). Already, the industry exposure represents approximately 25 percent of the local banks' total bad loan portfolio; and Adesanya warned that a structural shock is imminent in the sector should the government fail to intervene.

Adesanya is not fretting over nothing. Royal Dutch Shell just posted a loss for the first one of 2020 and cut its dividend for the first time since the end of the Second World War. Shell's misfortune, according to a report, is threatening 141

Nigeria operations. ExxonMobil Corporation, last week, announced a loss for the first time in three decades. Its case will certainly affect its activities in Nigeria. Nigeria's independents, which contribute 20 percent of the country's daily two million barrel output, account for about 80 percent of the N3 trillion oil-producing companies owe in Nigeria (much of which is owed the commercial banks), Bloomberg has reported. Much of the loans were secured when the market was upbeat with the producers planning to rev up their output. The financial projections of the companies during the loan applications have been ruined by two critical values – price and output.

The Chief Executive Officer of Eroton Exploration & Production Company, the country's biggest independent, Ebiaho Emafo, reportedly told Bloomberg that he has suspended a planned 50-well campaign aimed at doubling its output in 2020 a day. There is no doubt most of the companies would follow the lead and hold expansion plans until the market stabilizes and they can drill more wells. This means some jobs will be redundant and servicing contracts cancelled. The impact will ultimately reverberate across all sectors, including construction, hospitality and manufacturing.

Lagos State speaks on hospital where Abba Kyari died | The Guardian Nigeria News - Nigeria and World NewsLagos State speaks on hospital wher...

[Read Next Story >](#)

Sanwo-olu tasks judiciary not to slow justice administration despite COVID-19

44 mins ago

[Read More](#)





The country, over the years, squandered every opportunity to reduce the concentration risk of oil and cure itself of the affliction of the Dutch disease. Decades into the diversification plan of the country and five years into the administration of President Buhari, whose key campaign message in 2015 was on liberating the economy from the crawls of mono-economy, oil and gas sector has sneezed and the rest of the economy is freezing. Recession, at least, appears inevitable, not only because Covid-19 has caused an epic oil price crash but also because the sector is the sole propeller of the entire economy.

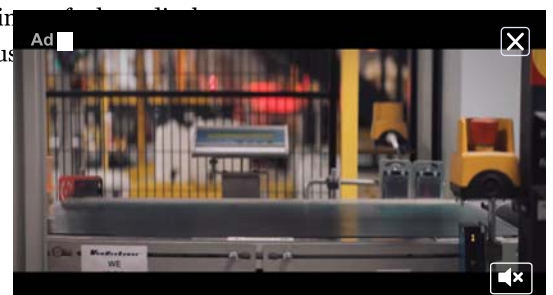
Many countries facing the wrath of Covid-19 and its associated risks may experience a recession (back-to-back negative growth) but the intensity is going to vary. The pre-Covid-19 economic position, fragility, economic base and fiscal discipline of each economy will be tested. Prof. Cam Harvey, a Canadian economist famous for his works in asset allocation, suggested at a webinar that there could be three different shapes of the recession curve – V-shape, U-shape and L-shape.

Indeed, the shape of the trough the global business cycle is currently descending will be different for various victims (countries). The growth of economies that were hitherto strong, diversified and fiscally discipline could hit the trough and pick immediately (experience the V-shape as suggested by Harvey). And this is a possibility since the cause of the recession is defined. The U-shape is the conventional recession; growth, in this case, will neither be spontaneous nor sluggish. Those who may experience the L-shape are economies that were already structurally deficient before the crisis. Such economies could stay in the valley (trough) for a prolonged period and that such economies could plunge into depression if another crisis hits. They are yet on the trough.

Like Fasua noted, diversification is linked with economic self-sufficiency. Sadly, diversification is only an economic ideology in Nigeria; it does not exist in real world. The country has been unable to leverage its youth population to move from an extractive, narrow base economy to a prosperous industrial economy. Manufacturing is in comatose, as the old manufacturing estates – Oba Akra, Ilupeju, Iganmu, Matori and Isolo – have been taken over by worship centres. Last year, Nigeria's total import value was \$47.4 billion (about N17 trillion), undeclared and smuggled items exclusive. This was 30 percent up from the 2018 figure. The 10 top articles in the import basket were industrial goods, including computers, vehicles, electrical machinery, transport equipment and plastics. That explains the country's state of indus

Lagos State speaks on hospital where Abba Kyari died | The Guardian Nigeria News - Nigeria and World News

[Read Next Story >](#)





The Federal Government's food self-sufficiency starts and ends with local rice that is more on the pages on newspapers than they are in market stores. Even the government confirms that the bags of rice it distributes as Covid-19 palliatives are those seized by the Nigeria Customs Service (NCS). Amid the noise over food self-sufficiency last year, 2.8 percent of the total import value or \$1.3 billion was squandered on cereals. The volume smuggled into the country through the Seme border before and even during the border closure could dwarf the official figure. The local capacity of rice, the lead item on FG's local food production agenda, could not pass a litmus test last year; the price of the staple food doubled less than three months into the border closure.

With the real sector in tailspin and services depending on the petro-economy, which sector will salvage Nigeria should crude prices remain bearish in the next one year? Is there leeway in government's interventions and economic policies? Is there a lifeline for the industrial sector, which the banks have avoided like plague? Can the bulk of the unemployed, which Bismarck Rewane, a frontline economist, said could hit 40 percent when this storm (Covid-19) is over, return to the farms as advised by successive presidents? Can the government conveniently intervene in critical sectors? Where would the intervention fund be sourced? What happens to the national infrastructural renewal plan? Is a foreign loan a feasible option?

President Buhari has given the CBN a mandate to think of how it could expand its novel and overstretched stimulus responsibility. Is the CBN going to print naira literally speaking, to fulfill this mandate and other undisclosed ones? Will it succeed in an already troubled naira especially now that the apex bank has lost its credibility to continue to defend its false value? Can the country survive the economic challenges that could follow?

The government talks about supporting the businesses only to turn around to block them from accessing the all-important capital. The CBN Depository Corporation Survey released last month shows that credit to the government rose by N720 billion in February to hit N9.97 trillion. The release also reveals that credit to the government accounted for 84 percent of banks' lending in February, leaving a meager 16 percent for household and the private sector, the driver of growth. Risk-free lending has been the unfortunate practice of Nigeria's banks. The easy banking model is supported by a government's obsession with easy cash. When a disproportionate portion of domestic credit goes to the public sector, it creates a false interest rate that is uncompetitive for the private sector borrowers and starves the private sector of funds required to replace or build inventories.

Lagos State speaks on hospital where Abba Kyari died | The Guardian Nigeria News - Nigeria and World News

[Read Next Story >](#)





The CBN knows as far back as decades ago that uneven credit spread is a major challenge affecting banks' intermediation. It understands how the government's actions crowd out the private sector and the negative impact of this on production and job creation. Yet, its boss, Godwin Emefiele does not process economic matters in a manner that pits him against the government.

The FG's National Social Investment Programme (NSIP) under which Tradermon and N-Power are implemented appears to be as ludicrous as the bigger economic policies. Recently, the Chief Executive Officer of Access Bank, Herbert Wigwe, informed his colleagues that the organisation's payroll would be trimmed and a lean structure maintained at least between now and December. The bank's salaries would be cut as well starting from the CEO whose paycheque will be reduced by 40 percent. Wigwe was speaking the minds of many chief executives across sectors. How many of the employees who will be picking their sack letters in the next few weeks will N-Power accommodate? How many homes of the unemployed would N10,000 TraderMoni feed?

If, indeed, unemployment jumps to 40 percent, as projected by Rewane, how does the government plan to contain the associated social ills? Or is he going to pretend that it is a common challenge that will go away before the country notices it. Interesting also is the fact that the most common tools for national planning are nonexistent. The country has not conducted a census in the past 14 years. The population and associated parameters are a guess like every other issue of interest. Hence, any existing or planned national intervention will be a matter of random walk.

Businesses are left to their fate as they struggle to come back from the pandemic. Banks are going to be more risk-averse. The federal and state governments are grappling with gaping fiscal imbalances. There are huge deficits in their budgets. With the international market largely unsettled, the government will have to look inward for any available fund to sustain their inflated salaries/allowances and other basic functions. The crowding-out effects will be more damning, more companies will die while more and more young people will join the labour market. Can the country handle the looming tragedy?

Lagos State speaks on hospital where Abba Kyari died | The Guardian Nigeria News - Nigeria and World News

[Read Next Story >](#)

Advertisement



In this article:

CBN

Coronavirus

COVID-19

Mallam Mele Kyari


NNPC


Receive News Alerts on Whatsapp: [+2348136370421](https://www.whatsapp.com/channel/0025136370421)


No comments yet


0 Comments


Guardian News

 Disqus' Privacy Policy


 camharvey ▾

 Recommend 1

 Tweet

 Share

Sort by Best ▾



Start the discussion...

Be the first to comment.

 Subscribe

 Add Disqus to your siteAdd DisqusAdd

 Do Not Sell My Data

Amal Clooney, 42, Takes off Makeup, Leaves Us With

Trading Blvd | Sponsored

The Dead Giveaway That Tells You When Amazon's Giving You A Better Price Than Other Retailers

Wikibuy | Sponsored

Human Barbie Takes Off Makeup, Doctors Have No Words

Hashtagchatter | Sponsored

Engineers Were Met With A Nauseating Sight When They Drained The Niagara Falls

Paws Zilla | Sponsored

The Best Way to Stop a Barking Dog (It's Genius)

Bark Begone | Sponsored

2020 SUVs So Cool It's Hard To Believe They Cost Under \$30K


SUVs | Sponsored



Lagos State speaks on hospital where Abba Kyari died | The Guardian Nigeria News - Nigeria and World News

Lagos State speaks on hospital wher...

[Read Next Story >](#)

Ad





If You Like to Play, this Fantasy Game is a Must-Have in 2020. No Install.

Elvenar | Sponsored

Chico's Just Released Their New Summer Arrivals For 2020

Chico's | Sponsored

Dad Puts Recording Device In Her Hair, Catches Teacher In The Act

Obsev | Sponsored

Remember Sandra Bullock's Son? Take A Deep Breath Before You See Him Now

Mike History | Sponsored

Heart Surgeon: Throw Out Your Olive Oil Now (Here's Why)

Gundry MD Olive Oil | Sponsored

FUNNAB student commits suicide after lamenting brush with SARSFUNNAB student commits suicide after lamenting brush with SARS officials

The Guardian

Lagos State speaks on hospital where Abba Kyari died | The Guardian Nigeria News - Nigeria and World NewsLagos State speaks on hospital where Abba Kyari died

The Guardian

Home

Nigeria

National Metro

World

AfricaAsiaEuropeUS

Politics

Sport

FootballBoxingAthleticsTennisOther Sports

Opinion

EditorialContributorsColumnistsCartoons

Business

AppointmentsBusiness NewsBusiness RoundUpIndustryAviationCapital MarketCommunicationsEnergyDrillBytesMaritimeMoney

Technology

GadgetsTelecomsSocial MediaTechnology

Guardian Life

BeautyCultureEventsFeaturesFoodFilmLove and RelationshipsMusicOdd NewsOn The CoverSpotlightStyleTravel and PlacesWellnessWhat's New

Guardian Arts

ArtsArt HouseArtfolkRevueLiteratureTheatreVisual Arts

Features

GenderBusinessAgroEducationExecutive MotoringExecutive BriefsFocusFriday WorshipHealthLawMediaScienceYouth Speak

Lagos State speaks on hospital where Abba Kyari died | The Guardian Nigeria News - Nigeria and World NewsLagos State speaks on hospital wher...

[Read Next Story >](#)

GW FictionPersonalityIssuesWIMBIZ

Guardian Angels

AdvocacyCommentaryCorporate Social ResponsibilityPhilanthropySocial Impact

Just HumanLife & StyleLove & LifeTransitionTravel & TourismCelebrityBrand IntelligenceGardeningWeekend Beats

Sunday Magazine

Ibru Ecumenical Centre

Ad

https://guardian.ng/business-services/covid-19-weighing-governments-weak-intervention-versus-global-economic-realities/

9/10

Lagos State speaks on hospital where Abba Kyari died | The Guardian Nigeria News - Nigeria and World NewsLagos State speaks on hospital wher...

[Read Next Story >](#)

