
March 2020
President Muhammadu Buhari has ordered a lockdown in Abuja, Lagos and Ogun – the three most affected states in Nigeria.

Impact of the Lockdown

Businesses Will Shut down

• Although many businesses have been shuttered or left operating a low capacity mode in the past few weeks, especially in Lagos, the new restriction order will see many more businesses shut down with the exception of hospitals, medical and healthcare-related establishments; food processing, distribution and retail companies; petroleum distribution and retail entities; power generation, transmission and distribution companies; private security companies and the press. These businesses will, however, be monitored.

Security Concerns

The lockdown may spike security concerns as security agents would be tasked with the double duty of enforcing the restrictions while protecting lives and properties. A few security challenges have been reported in other African countries that have imposed similar restrictions.

Food Price Hike

• The three affected states are some of the most populated states in Nigeria hence demand for food will be high. The president assured Nigerians that food processing, distribution and retail companies would be exempted from the lockdown. Buhari also promised that relief materials will be provided for residents of satellite and commuter towns and communities around the affected states.

Overwhelmed Healthcare

The healthcare sector will be overwhelmed as doctors, nurses and other healthcare practitioners fight to save the lives of coronavirus patients as well as those with other health issues. It is not all gloomy as these measures have been proven to be effective. President Buhari admitted that the government is fully aware that these measures will cause much hardship and inconvenience to many citizens. “But this is a matter of life and death” if one were to consider the news reports coming out of some of the worst hit countries like Italy and Spain.

Source: Guardian Newspaper Online: https://guardian.ng/life/buharis-speech-how-the-coronavirus-lockdown-may-affect-nigerians/
The impact of Covid-19 on Nigeria

Covid-19 Shock (Global and Domestic Pandemic)

1. Fiscal and Government
   - Revenue pressures and debt sustainability issues

2. Monetary
   - Pressure on exchange rate stability

3. Financial Markets
   - Potential decline if FPIs/FDIs and reduced access to credit if global liquidity tightens

4. Businesses and Firms
   - Multi-faceted impact across the business and operating model as well as specific sectors

5. Individual
   - Potential pressure on income and purchasing power

Oil Price War

Supply Shocks

Demand Shocks

Financial Shocks
Nigeria has significant vulnerabilities to external shocks

**Supply Chain Shocks**
- In 2019, raw materials constituted 70% of the total import from China into Nigeria.
- Asia and Euro contributes 65% of Nigeria’s raw material import. The restrictions currently imposed on cross border trade is expected to distort supply chain for manufacturers.

**Demand Shocks**
- 45% of the Nigerian crude oil importers have been impacted by increasing COVID-19 case. E.g. including India (13.17%), Spain (10.35%), France (7.78%), Netherland (7.47%), Germany (3.57%) and Italy (3.55%).

**Financial Shocks**
- Foreign Portfolio Investments (FPI) constitutes 45% as a percentage of the total FX reserves.
- Foreign capital inflow in 2019 was estimated at $23.9 Bn, with FPI constituting 68.2%.
- Over 65% of Nigeria’s capital inflow came from U.K and U.S.
- FX generated from oil revenue continues to decline, dropped to 26% of FX inflow through CBN in 2019.
- Oil FX was estimated at $10.9 Bn as at September 2019, while non-oil FX generated was $30.9 Bn.
Supervisory Measures for Nigeria: Monetary and Fiscal Policy

**Interest Rates**
- Monetary policy rate retained at 13.5%
  - Cash Reserve Ratio (CRR) and Liquidity Ratio unchanged at 27.5% and 30% respectively
- Interest rates for all CBN intervention facilities have been reduced from 9% to 5%

**FX Supply**
- 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

**Loans and Credit Relief**
- Over N1trillion in loans to boost local manufacturing and production across critical sectors
- Identification of target local pharmaceutical companies to be granted funding facilities
- Additional one year moratorium period for all CBN intervention loans
- N50billion credit facility for households and SMEs

**Monetary Measures**

**Development Finance**
- Mobilisation of $2 million for key support to Government from UN
- Other Private sector led initiatives from corporates and individuals

**Fiscal Measures**

**Legislative**
The House of Representatives (HORs) on Tuesday, 24 March 2020 passed a Bill 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
- Suspend import duties on medical equipment, medicines and personal protective gears required for the treatment and management of COVID-19 for three months, effective 1 March 2020.
- Introduce a new moratorium on mortgage obligations of Nigerians under the National Housing Fund.

**NPA**
The Nigerian Ports Authority (NPA) has directed all terminal operators to suspend all applicable terminal storage fees on consignments, otherwise known as demurrage effective March 23, 2020.

**Tax**
- Extension of timeline for tax remittance
- Promotion of electronic channels for tax remittance
- Deferred submission of supporting documentation for tax filing
Other imperatives for the Nigerian Government and Corporates in Nigeria

**Corporates**

- Adopt a flexible management approach to keep a tight control on costs and non revenue – generating areas of the business
- Reconfigure supply chain (e.g. through backward integration for inputs that can be sourced locally)
- Increase investment in technology that would optimise existing business processes (e.g. digital and online presence)
- Experiment on the possibility of large-scale remote working for employees and its impact of productivity

**Government**

- Create an enabling business environment through favourable government policies
- Intensify efforts towards building domestic capacity across critical sectors such as manufacturing
- Ensure that tax enforcement practices do not stifle business growth
- Increase investment in public health infrastructure
Tax and Economy Measures in response to the COVID-19 pandemic

Tax measures by the FIRS

1. Extension of timeline for filing of value added tax and withholding tax from the 21st day to the last working day of the month, following the month of deduction
2. Extension of the due date for filing of companies’ income tax (CIT) returns by one month
3. Use of electronic platforms for payment of taxes and processing of tax clearance certificates
4. Filing of tax returns by taxpayers without audited financial statements which must be submitted within two months of the revised due date of filing
5. 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
6. Submission of tax returns online by taxpayers via efiling.firs.gov.ng or by designated e-mail accounts published by the FIRS.

Economic measures by the CBN

The N3.5 trillion policy measures announced by the CBN include:

1. Creation of N50 billion target credit facility for affected households and small and medium enterprises
2. Granting regulatory forbearance to banks to restructure terms of facilities in affected sectors
3. 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
4. Additional N100 billion intervention fund in healthcare loans to pharmaceutical companies and healthcare practitioners intending to expand/build capacity
5. Identification of few key local pharmaceutical companies that will be granted funding facilities to support the procurement of raw materials and equipment required to boost local drug production
6. N1 trillion in loans to boost local manufacturing and production across critical sectors

Fiscal measures by the House of Reps

1. 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. This is to protect employees from loss of jobs as a result of COVID-19.
2. Waiver of import duty on medical equipment, medicines, personal protective gears required for the treatment and management of Covid-19 for three months, effective 1 March 2020
3. Introduce a new moratorium on mortgage obligations of Nigerians under the National Housing Fund.
## Impact of the Shock on select industries (1/4)

<table>
<thead>
<tr>
<th>Impact Points</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Aviation &amp; Hospitality</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>Agric exports to major outbreak countries account for c.41% of total Agric exports</td>
<td>Regulatory responses to the health crisis will result in a decline in demand to steel and iron ore.</td>
<td>Reduced revenue as travel restrictions are placed and flights cancelled</td>
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<tr>
<td></td>
<td>Moderate revenue decline</td>
<td>Sector’s contribution to GDP is expected in the medium term</td>
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<td></td>
<td>Contribution to GDP is expected to increase in Q3 and Q4 as a result of CBN intervention fund</td>
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<tr>
<td><strong>Cost of Production</strong></td>
<td>Increased cost of fertilizers (import restrictions) set to affect cost of production</td>
<td>Supply chain challenges likely to increase cost of production or stall manufacturing activities</td>
<td>Likely to fall due to lower energy prices</td>
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<td></td>
<td>Food imports likely to be significantly affected</td>
<td></td>
<td></td>
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<tr>
<td><strong>Investments/Funding</strong></td>
<td>Limited investment inflows due to high risks and uncertainty from offshore and private investors</td>
<td>Higher risk premium equates limited/expensive funding options</td>
<td>Reduced investment due to increased uncertainty</td>
</tr>
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<td></td>
<td>Potential support from CBN</td>
<td></td>
<td>Reduced International travel and spending</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td>Inventories may be depleted as supply shock hit.</td>
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<td>Neutral</td>
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</tbody>
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### Impact of the Shock on select industries (2/4)

<table>
<thead>
<tr>
<th>Impact Points</th>
<th>Trade</th>
<th>Financial Institutions</th>
<th>Technology, Media and Telecommunications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>• Limited revenue growth as import of goods are limited and prices get hiked</td>
<td>• Potential increase in savings to bode positively for topline performance</td>
<td>• Glum economic growth leaves little room for revenue generation.</td>
</tr>
<tr>
<td></td>
<td>• Increase in prices of goods amid low consumer spending</td>
<td>• interest income generation from intervention fund released by the CBN</td>
<td>• China is the world’s largest producer of optical fibre and cable in the world and the looming supply shock could hinder 4G implementation, hurting revenues.</td>
</tr>
<tr>
<td><strong>Cost of Production</strong></td>
<td>• Import restrictions likely to increase cost of importation and invariably cost of goods/services</td>
<td>• Cost of funds may remain muted as interest rates remain low</td>
<td>• Supply shock to raise prices of necessary hardware</td>
</tr>
<tr>
<td></td>
<td>• NGN depreciation to increase cost of imports</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investments/Funding</strong></td>
<td>• Higher risk premium equates limited/expensive funding options</td>
<td>• Limited Investment opportunities due to increased uncertainty and forex availability</td>
<td>• Heightened uncertainty over the adverse impact of Covid-19 means that expected investments could be delayed.</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td>• Neutral</td>
<td>• Potential devaluation could deplete equity and reserves; asset quality deterioration</td>
<td>• Neutral</td>
</tr>
</tbody>
</table>
Impact of the Shock on select industries (3/4)

<table>
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<tr>
<th>Impact Points</th>
<th>Oil and Gas</th>
<th>Pharmaceuticals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>• Given the reduction in pump price, there maybe potential increase in</td>
<td>• Factory shutdowns and country lockdowns have impacted supply of new inventory.</td>
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<tr>
<td></td>
<td>consumption of PMS, which may lead to more revenue for the industry players. However, consumption may reduce in the short term given the potential lockdown in activities as schools, airlines, others are shutting down across the country.</td>
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<td>• Port closures, travel restrictions and manufacturing shutdowns are</td>
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<td>decreasing demand, causing oil importers to cancel purchases of Nigerian oil, forcing sellers to divert cargoes as they seek new buyers at discounted prices.</td>
<td></td>
</tr>
<tr>
<td><strong>Cost of Production</strong></td>
<td>• Supply shock to raise prices of necessary PPE.</td>
<td>• The Nigerian Representatives of Overseas Pharmaceutical Manufactures reported that products manufactured in China before the shutdown had not been shipped and prolong factory closures in China meant new products were not being manufactured.</td>
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<td>• Offers opportunity to get further discounts for drilling exploration</td>
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<tr>
<td></td>
<td>activities.</td>
<td></td>
</tr>
<tr>
<td><strong>Investments/Funding</strong></td>
<td>• Limited Investment opportunities due to increased uncertainty</td>
<td>• CBN interventions to provide support</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td>• Decline in asset valuation</td>
<td>• Neutral</td>
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</tbody>
</table>
Thank you

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