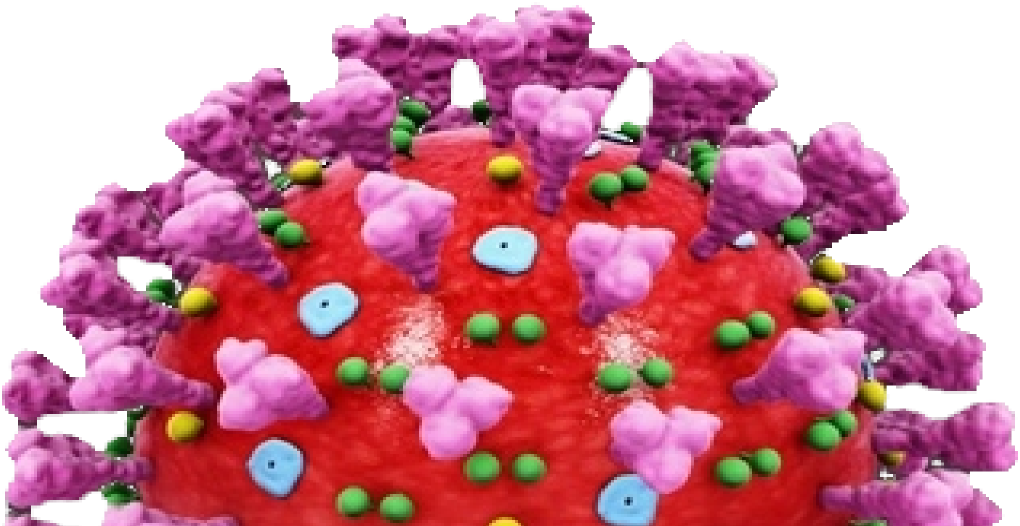
Economic Impacts and Challenges of Covid-19 Pandemic

The Experience of WAIFEM Member Countries

Baba Y. Musa, Editor



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November 2021

Edited by
Baba Yusuf Musa,
Director General,
West African Institute for Financial
and Economic Management (WAIFEM)

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Foreword

INDEED, THESE ARE PERTINENT TIMES IN THE economic management of WAIFEM member countries. It is, thus, challenging to single out some particular feature of a debuting book on the Economic Effects of the Covid-19 Pandemic of the WAIFEM member countries because it intends to simplify and reduce the work certainly. However, in this book by policy practitioners as chapter contributors and authors, it is not out of place to observe that the work must have been conceived with very rare efforts in the soul but executed with clinical coolness. By situating their views, understanding, and experience of the pandemic, the authors gain the added power of allowing readers, rather than being told, to appreciate the enormous consequences of the Covid-19 pandemic and the opportunities it ushered in to rethink how we work.

As the COVID-19 pandemic wears on, many central banks have provided substantial liquidity to help alleviate the sharp tightening of financial conditions associated with it. The downturn could have been much worse without the timely, coordinated, countercyclical, and inclusive massive policy response to the Covid-19 pandemic by fiscal and monetary authorities of the sub-region. This book is a water shield of collective, well-coordinated actions and mitigation of traded-off risks. The book discusses the financial instruments and regulatory measures endorsed by WAIFEM member countries to promote financial stability and facilitate sustainable and inclusive recovery.

I feel highly honoured and a rare privilege to write the foreword to this book titled “Economic Impacts and Challenges of Covid-19: The Experiences of WAIFEM

Member Countries" by astute policy players, erudite scholars, mentors, and administrators. The ideas the various chapters highlight should guide the current and future generations of industry regulatory players in the financial sector. "The difficulty lies not so much in developing new ideas as in escaping from old ones," but more in profoundly appreciating the pragmatic grand norm put by the new managers in embracing old ideas. With many small insights that brought the big ideas, this book is a read for researchers, central bankers, policymakers, managers of economies, and all stakeholders.

Mr. Godwin I. Emefiele, CON

Governor, Central Bank of Nigeria and Chairman,

Board of Governors of WAIFEM.

Preface

IN THE VIEW OF MANY ECONOMISTS, NEXT TO THE great Depression of the 1930s, in terms of its negative effects on the global economy, is the COVID-19 pandemic. The COVID-19 pandemic which, started as a local health crisis in Wuhan City of the Hubei Province (China) was declared a global pandemic on 11th March, 2020 (with 118, 000 cases and 4, 291 deaths in 114 countries). In a bid to minimize infection rate and prevent the virus from further spreading, most countries implemented containment measures. These included international travel restriction and ban, work-from-home, stay-at-home, closure of certain services such as educational, religious, tourism and hotelling services, among others. Adherence to the containment measures resulted in a significant loss of livelihood and earnings globally- global economic recession emerged. UNCTAD (2020) estimated that COVID-19 will drag African economies into a fall of about 1.4% in GDP, with smaller economies facing contraction of up to 7.8%.

In response to the economic menace of the pandemic, national governments formulated and implemented fiscal and monetary policy measures to make their respective economies robust in the phase of the pandemic. Particularly in WAIFEM Member Countries, strong fiscal and monetary policies were implemented to lessen the negative impact of the pandemic on the poor and vulnerable population.

As a result of the fallout of the Covid-19 pandemic which ravaged the health and socio-economic sectors of economies all over the world, the West African Institute for financial and Economic Management (WAIFEM) organized two symposia virtually in 2020 with the view to ascertaining the impact of the plethora of macroeconomic measures implemented by the WAIFEM member states to ameliorate both the social and economic tolls associated with the pandemic. On June 15, 2020 the Institute organized a diagnostic symposium on **"The Impact of COVID-19 on the Economies of WAIFEM member countries"**. Later in the year, November 16, 2020, a follow up virtual symposium was held on **"Dissecting the Economic Effects of COVID-19 on the Economies of WAIFEM member Countries"**.

The two symposia were considered timely in view of the adverse effects of the pandemic on the health and socio-economic lives of people in countries in Africa as a whole and the West African sub-region in particular. The pandemic slowed down domestic economic activities sharply, with trade, transportation, hospitality & tourism, financial institutions, oil & gas sector, construction, and the health sectors heavily affected. There was also drastic reduction in FDI and FPIs, capital reversals, deterioration of export and imports. The COVID-19 crisis, therefore, inflicted pains on those who were already the most vulnerable, with potential rise in income inequality. Therefore, the first symposium was intended to examine the fall out and impact of covid-19 global pandemic on WAIFEM member countries, receive feedback and gather inputs on the way forward. The second symposium explored the fiscal and monetary policies that member countries implemented to ameliorate the impact of the COVID-19 pandemic.

This book is therefore a compendium of the various country presentations which were delivered by the Directors of Research of Central Banks in WAIFEM member countries during the symposia. The book seeks to tease out the effects of the COVID-19 pandemic on WAIFEM Member Countries as well as fiscal and monetary policy responses to the pandemic. It also indicates the economic outlook for each of the WAIFEM Member Countries for 2021. I commend them for this great effort.

Finally, the efforts of the drafting committee for the compilation of these seminal works are candidly acknowledged. The committee comprised of Dr. Emmanuel Owusu-Afriyie (The Director of Research and Macroeconomic Management Department), Mr. Yakubu Aliyu (The Director of Fiscal Policy, Debt Management and Regional Integration Department), Prof Douglason G. Omotor, Advisor, Business Development and Consultancy Unit, Dr. Okon Joseph Umoh (Principal Programme Manager, Research and Macroeconomic Management Department), Mr. John Owusu-Afriyie (Programme Manager, Research and Macroeconomic Management Department), Mrs. Helen Anjorin (Administrative Assistant, Research and Macroeconomic Management Department) and Mr. Francis Ebong (Driver, Administration and Finance Department). While taking responsibility for the imperfection of this book, the Institute would like to recommend it to the reading public and more especially policy makers, who may find it useful in designing countercyclical policies to stimulate economic growth during periods of recession.

The book has six sections made up of remarks by the Director General of WAIFEM and five country presentations by the respective directors of research of WAIFEM member central banks. I hope this book will be a useful reference material as far as the subject matter is concerned.

Dr. Baba Y. Musa,

Director General,

**West African Institute for Financial,
and Economic Management (WAIFEM).**

Abbreviations And Acronyms

EOP	Earnings on Profit
IMTOs	International Money Transfer Operators
ABCON	Association of Bureau de Change of Nigeria
AfDB	African Development Bank
ASI	All Share Index BOGBank of Ghana
BSL	Bank of Sierra Leone
CAR	Capital Adequacy Ratio
CBL	Bank of Liberia
CBN	Central Bank of Nigeria
CCRT	Catastrophic Containment and Relief Trust
CIEA	Composite Index of Economic Activity
COVID	Corona Virus Immune Deficiency
CPI	Consumer Price Index
ECF	Enhanced Credit Facility
ESP	Economic Sustainability Plan
ESP	Economic Sustainability Plan
EU	European Union
FDI	Foreign Direct Investment
FGN	Federal Government of Nigeria
FPIs	Foreign Portfolio Investments
FSIs	Financial Soundness Indicator
GDP	Gross Domestic Product
GOL	Government of Liberia
IMF	International Monetary Fund
LR	Liquidity Ratio
MPC	Monetary Policy Committee

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FPIs	Foreign Portfolio Investments
FSIs	Financial Soundness Indicator
GDP	Gross Domestic Product
GOL	Government of Liberia
IMF	International Monetary Fund
LR	Liquidity Ratio
MPC	Monetary Policy Committee

MPR	Monetary Policy Rate
MSMEs	Micro, Small and Medium Enterprises
NACSA	National Commission for Social Action
NBS	National Bureau of Statistics
NCDC	Nigeria Centre for Disease Control
NCE	Nigeria Commodity Exchange
NPLs	Non-Performing Loans
NSIA	Nigeria Sovereign Investment Authority
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers' Index
PMS	Premium Motor Spirit
PPE	Physical Protection Equipment
QAERP	Quick Action Economic Response Programme
ROA	Return on Assets
SDIs	Special Deposit Institutions
SDR	Special Drawing Right
SMEs	Small and Micro Enterprises
SSNIT	Social Security and National Insurance Trust
US	United States
VAT	Value-Added Tax
WAIFEM	West African Institute for Financial and Economic Management
WEO	World Economic Outlook

1

Introduction

1.1 Background

THE COVID-19 PANDEMIC IS NOW WIDELY SEEN AS the greatest economic calamity since The Great Depression. In January 2020, the International Monetary Fund (IMF) expected the global income to grow by 3 percent which was revised to 4.3 percent in June 2020 (a projection much worse than during the 2008/2009 financial recession). The pandemic has hardly hit the economies of West African Countries including WAIFEM countries, namely The Gambia, Ghana, Liberia, Nigeria and Sierra Leone. In these countries, domestic activities have slowed down. In addition, the financial, oil and gas, construction and health sectors were heavily affected. Drastic reduction in Foreign Direct Investment (FDI) and Foreign Portfolio Investments (FPIs), capital reversals, deterioration of exports and imports were also experienced by WAIFEM member countries. These factors resulted into upending of the livelihood of millions of West African families. As a matter of fact, the COVID-19 Pandemic has inflicted severe pains on those who were already the most vulnerable. If the past pandemics are any guide, the toll on the vulnerable groups of our societies was expected to be several times worst. Indeed, the calamity has led and will continue to lead to a significant rise in income inequality, which could jeopardize development gains from educational attainment to poverty reduction. Estimates based on the growth projections from June 2020 of the World Bank Global Economic Prospect Report showed that, when compared with the pre-crisis forecast, COVID-19 Pandmic would push between 71 to 100 million people globally into extreme poverty in 2020, thus eroding gains made in poverty reduction in the past three (3) years.

Beyond these statistics were even grimmer possibilities to provide better insights into the effects of COVID-19 Pandmic on our economies. In view of this, the West African Institute for Financial and Economic Management (WAIFEM) organized a seminar via Webinar on 15th June 2020 to dissect the economic effects of COVID-19 Pandemic on WAIFEM member countries. The seminar afforded the opportunities to examine the proactive fiscal and monetary policy interventions by WAIFEM member countries in the early moment of the COVID-19 pandemic. However, since the prevailing economic conditions around the period were very fluid with a lot of uncertainties and unlimited abilities to foresee how economic indicators would evolve, WAIFEM organized another seminar on 16th November, 2020 via a webinar. This was to re-examine the outcomes of monetary and fiscal policies implemented in the early period of the pandemic as well as identify challenges imposed by the pandemic on our sub-region.

1.2 Objective

Based on the presentations made by representatives of WAIFEM Member Central Banks (particularly Directors of Research) at the two webinars, this publication encapsulates country-specific reports on the economic effects of COVID-19 pandemic on WAIFEM member countries, teasing out the specific fiscal and monetary policies implemented by each member country to minimize the negative socioeconomic consequences of the pandemic. Thus, the remaining chapters focus on the country specific reports.

2

The Gambian Experience

Ebrima Wadda
Director of Economic Research, Central Bank of The Gambia

2.1 Introduction

SEVERAL STUDIES HAVE BEEN CONDUCTED globally on the COVID-19 pandemic and its associated socio-economic effects. However, few of those studies are on The Gambia. This paper therefore focuses on the effect of the COVID-19 pandemic on the Economy of The Gambia. It identifies the fiscal and monetary policies that have been undertaken to minimize the negative impact of the pandemic on economic agents. It also examines the response of the domestic and external economy to the policies and the outlook for 2021. The paper is therefore structured into four (4) Sections. Section 2.2 focuses on the COVID-19 infection rate in The Gambia. Section 2.3 discusses the effects of COVID-19 on the Economy of The Gambia, whilst Section 2.4 discusses key monetary and fiscal policy responses to contain the pandemic. The paper ends with the medium-term outlook in Section 2.5.

2.2 Infection Rate

The COVID-19 pandemic has a devastating impact on the global economy, of which The Gambian economy is not an exception. As at 19th November, 2020, about 3705 cases of infection had been recorded, consisting of 122 deaths, 3578 recoveries and 5 active cases. The recovery rate was estimated at 96.6 percent. Total cases per one million of the population was 1,517 whilst deaths per one million of the population was 50. Total number of tests as at 19th November, 2020 was about 23,094.

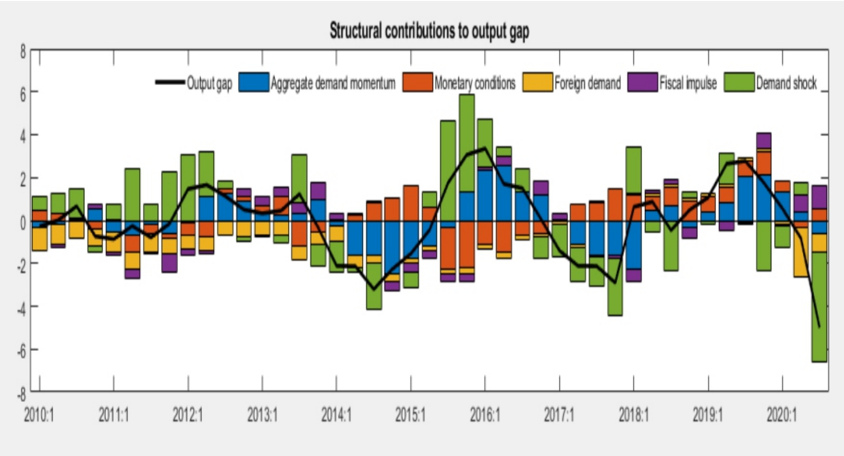
2.3 Effects on The Economy

2.3.1 Developments in the Domestic Economy

Preliminary assessment indicated that as a result of the pandemic, the Gambian economy is expected to shrink by 1.2 per cent in 2020. Socioeconomic activities and

aggregate demand have been adversely hit by the pandemic. Output gap weakened more as disruptions to economic activity continued in the third quarter of 2020 due to the COVID-19 pandemic. The main drivers of the negative output gap were the negative demand shock, weak aggregate demand moment and foreign demand (See Figure 2.1)

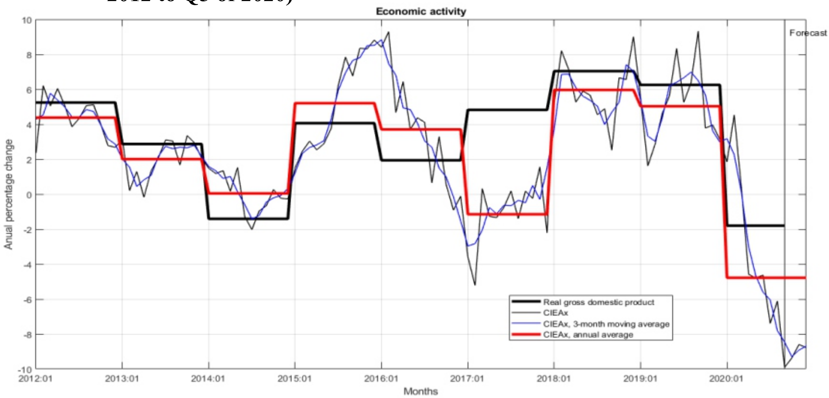
Figure 2.1: Structural Contributions to Output Gap (from Q1 of 2010 to Q3 of 2020)



Source: CBG Staff calculations

In addition, Composite Index of Economic Activity (CIEA) points to deeper economic contraction in the third quarter of about 4.8 per cent than estimated in the second quarter (see Figure 2.2). The estimated contraction in economic activity was due mainly to the strict containment measures adopted during the period.

Figure 2.2: Trend o Composite Index of Economic Activity (from Q1 of 2012 to Q3 of 2020)



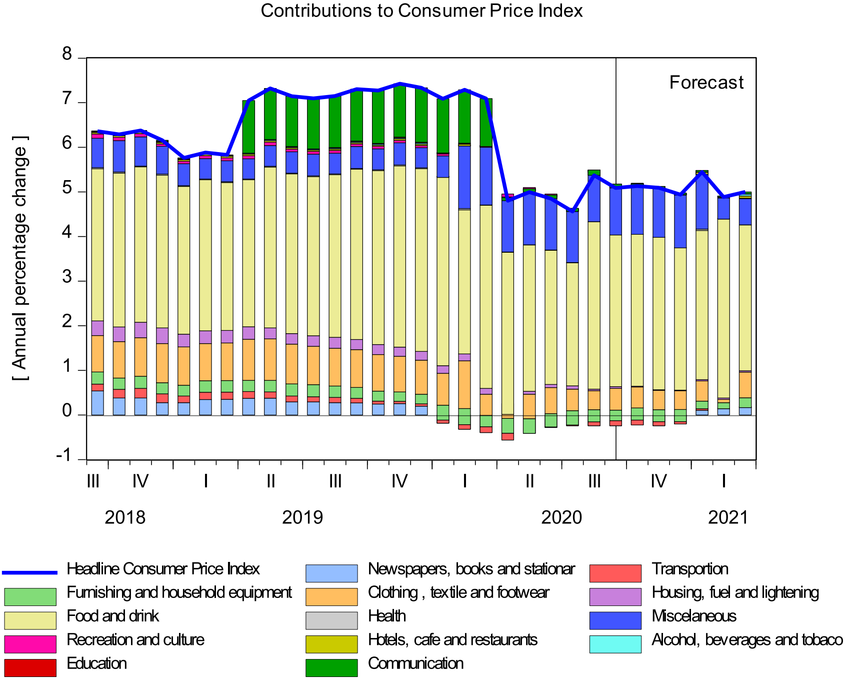
Source: CBG Staff calculations

The service sector, particularly the tourism sector, was also hard hit by the pandemic. This was due to declining travel demands and expanding travel restrictions. In March 2020, tourist arrivals in The Gambia was 13,343 compared to 25,796 recorded in the same month the previous year. The decline in arrivals is specifically attributed to the travel bans and border closures brought about by the COVID-19 pandemic. The government temporarily suspended all international flights until further notice as a precautionary measure against the deadly COVID-19 pandemic. This resulted in temporary lay offs of airline staff and travel agents and most of them were placed on unpaid leave.

Moreover, the general price level was affected by the pandemic. Inflation decelerated due to decline in aggregate demand (Figure 2.3). Headline inflation decelerated to 5.6

per cent (April 2020) from 6.9 per cent (April 2019), reflecting moderate non-food prices, freezing prices of basic commodities, disappearance of the one-off spike in postal charges, stable exchange rate and non-threatening domestic demand conditions and a lower oil prices. Headline inflation was expected to be below 5 per cent objective over forecast horizon, but somewhat higher in May, 2020 forecast.

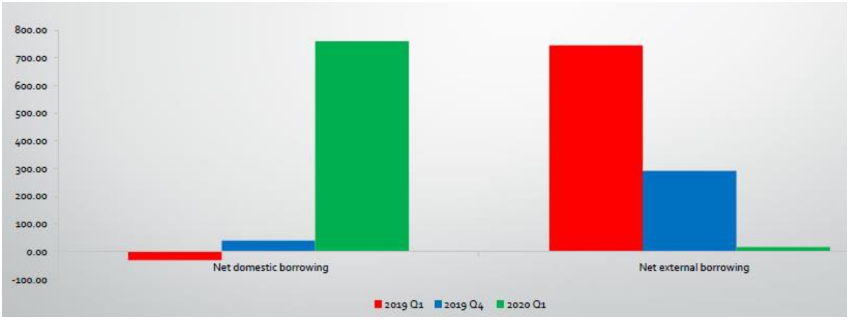
Figure 2.3: Contributions to Consumer Price Inde[X]



Source: Author's construct based on CBG Data

The fiscal position of government was badly hit by the pandemic. Preliminary estimates of government fiscal operations indicated that overall fiscal deficit including grants worsened from D24.3 million (0.03 percent of GDP) in the first quarter of 2019 to a deficit of D341.6 million (0.4 percent of GDP) in the same quarter in 2020. Tax revenue declined due to slow economic activities and low commodity prices. In addition, there was revenue decrease from international trade taxes. Grants significantly reduced in the review period relative to the fourth quarter of 2019. There was also increas in health related expenditures, confinement and containment expenditures (e.g, food aid , subsidies). These culminated to increase in domestic borrowing (See Figure 2.4).

Figure 2.4: Net Domestic and External Borrowing

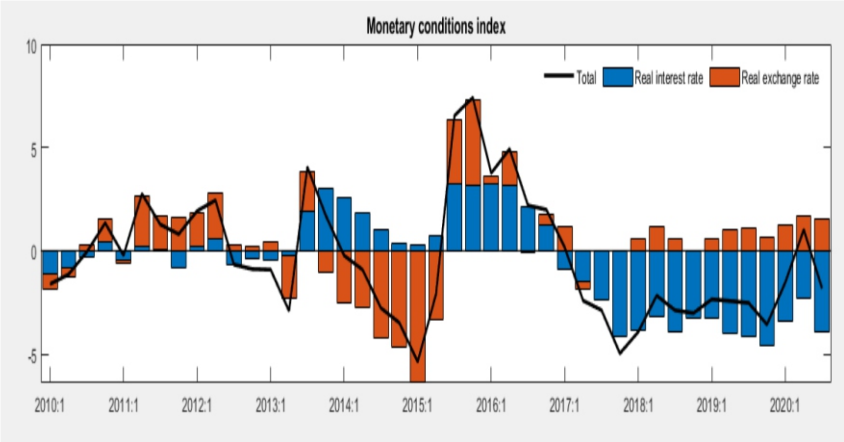


Source: CBG

The already high Gambia debt stock exacerbated due to the pandemic. The national debt is financed by means of deferred payments of official loans by the IMF and debt rescheduling (other multilateral and bilateral creditors). The IMF approved a number of funds to address the Covid-19 pandemic. For instance, the IMF Executive Board approved US$21.3 million under the Rapid Credit Facility (RCF) whilst the World Bank Group approved US $ 10.0 million. IMF in addition approved US $47.1 million (56.3 percent of The Gambia's quota on the Enhanced Credit Facility (ECF) arrangement.

Monetary conditions were also eased by the pandemic. Specifically, in aggregate terms, monetary conditions were loose in the third quarter of 2020, driven by real interest rates which were below their neutral levels (Figure 2.5) as monetary policy remained accommodative.

Figure 2.5: Monetary Conditions Index, from Q1 of 2010 to Q3 of 2020.



Source: CBG Staff calculations

Monetary Policy (MPR) and Treasury Bill Rates were impacted negatively by the pandemic. MPR as a driver of money market interest rates decreased sharply in the third quarter of 2020 due to the pandemic causing T-Bill rates to fall drastically (Figure 6). The pandemic led to liquidity shocks thereby causing a fall in money market interest rates (Figure 6). In addition, accommodative monetary policy coupled with liquidity shocks drove the 3M T-bill rate below natural level (Figure 2.6). Real interest rates remained below their neutral levels.

Travel ban adversely affected tourism (the tourist season this year is lost with only partial recovery in 2022 and lost income equivalent to 30 percent of GDP). The declining tourism sector was due to the declining demand and expanding travel restrictions caused by COVID-19 pandemic; tourist arrivals recorded 13,343 in March 2020 compared to 25,796 recorded in March last year. The government temporarily suspended all international flights until further notice as a precaution against the deadly COVID-19 pandemic. Consequently, unemployment increased in the tourism sector as well as other sectors as businesses either laid off workers or cut

Figure 2.6: Monetary Policy Rate and Treasury Bill Rate Trends

Source: CBG

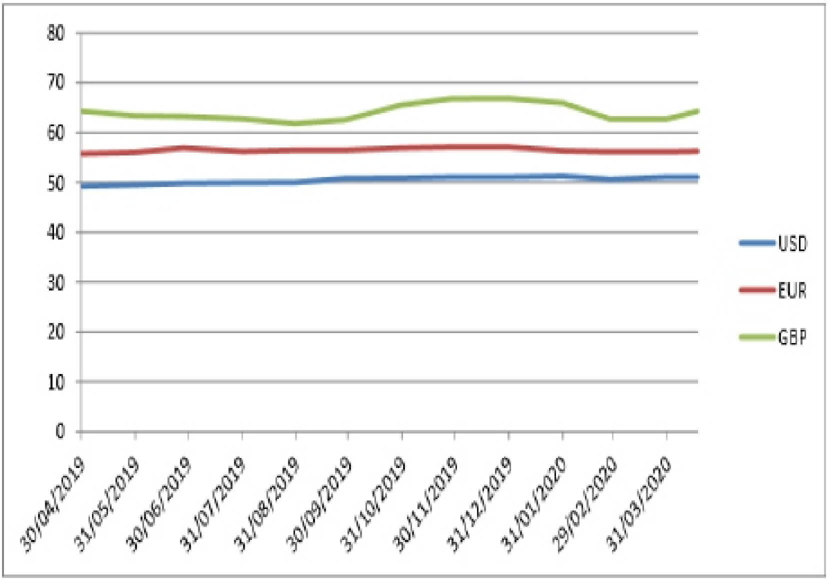
working hours due to confinement and containment policies by the central government. For instance, the suspension of international flights saw the airlines and travel agents send home most of their workers on unpaid leave. Transportation, manufacturing and construction sub-sectors were also badly hit, which worsened the rate of unemployment. The civil service scaled down to only essential staff, with few people working on rotational basis to avoid over crowding in work places. The closure of factories and the construction sub-sectors also contributed to the rate of unemployment.

Furthermore, the pandemic was expected to significantly weaken the balance sheet and profitability of financial institutions in The Gambia. For instance, as at June 2020, assets of financial institutions decreased by 0.5 per cent (D30 million) relative to December 2019 whilst deposits plummeted by 0.75 per cent (D264.3 million), from D35.03 billion in the fourth quarter of 2019. Furthermore, in the second quarter of 2020, nonperforming loans increased by 0.3 percentage points to stand at 4.8 per cent relative 4.5 per cent in the previous quarter. Profits contracted by 7.0 per cent to D316 million in March 2020 compared D341.0 million in December 2019.

2.3.2 External Sector Developments

The exchange rates based on end period mid-market averages indicate that the Dalasi depreciated against the US Dollar but appreciated against all the other major trading currencies. It depreciated against the USD and the Euro by 3.60 per cent and 0.6 per cent respectively whilst it appreciated against the British Pound by 2.6 per cent (Figure 2.7). It is worth stating that the depreciation of the Dalasi during the period under review against the US Dollar was driven by mainly increased global demand. The foreign exchange reserves stood at 4.4 months of imports.

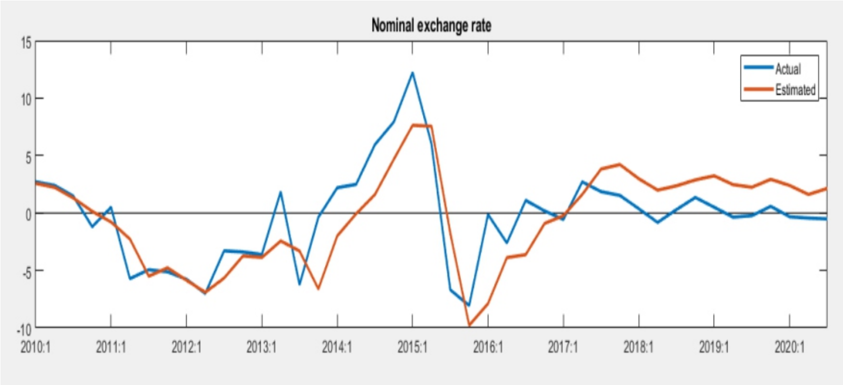
Figure 2.7: Exchange Rate Movements



Source: Central Bank of The Gambia

Nominal exchange rate appreciated in 2020 and remained relatively stable, owing to stronger than expected capital inflows (Figure 2.8).

Figure 2.8: Trend of Nominal Exchange Rate



Source: CBG

2.4 Key Monetary and Fiscal Policy Responses to Contain the COVID-19 Pandemic

In the face of weak economic activity and a low inflation environment caused by the COVID-19 pandemic, the Government of The Gambia embarked on several monetary and fiscal policies to support the real economy.

2.4.1 Monetary Policy Responses

The Central Bank relaxed some prudential policies to moderate the effects of covid-19 on the banking industry. For instance, the Monetary Policy Committee (MPC) at the February 2020 meeting cut the Monetary Policy Rate (MPR) by 50 basis points to 12 per cent. Similarly, at the May 2020 meeting, the MPR was reduced by 200 basis points to 10 per cent, and kept at that level in August 2020 in order to make lending affordable to the private sector. Similarly, statutory required reserve ratio was reduced by 200 basis points to 13 per cent to release more liquidity to banks. The purpose of reducing the reserve requirement was to provide additional liquidity to banks to lend to the private sector.

Furthermore, Commercial banks were given the flexibility to provide customers facilities such as a moratorium on loan repayment to its customers, which was done on a case-by-case basis. The central bank also rescheduled and or deferred the payment of loans by businesses in the service sector, especially the tourism sub-sector on a case-by-case basis. Central Bank relaxed policy on the provisioning of loans for businesses in the services sector with no penalty. Gambia's financial system remained sound and stable with both deposit-taking institutions and non-deposit taking financial institutions well-capitalized and profitable.

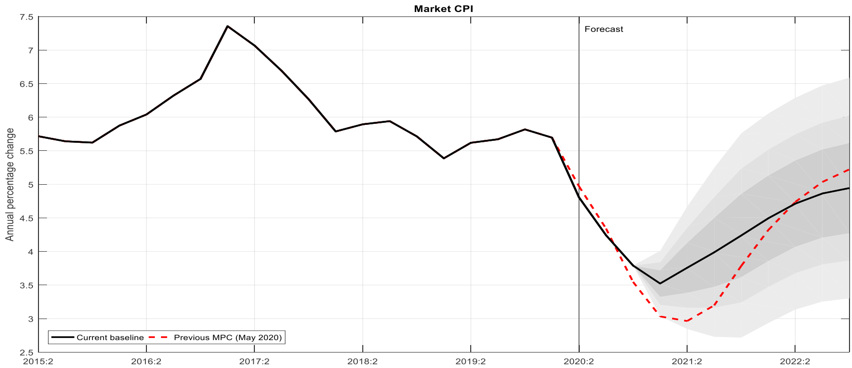
2.4.2 Fiscal Policy Responses

In response to Covid-19, the Government and its partners increased the budgetary allocation to deal with health emergency needs. Government also provided food aid to households. Government and its partners provided financial assistance to support small and medium size enterprises to mitigate the challenges brought about by the Covid-19 pandemic. The support also included targeting the vulnerable and /or targeted sectors of the economy.

2.5 The Medium-Term Outlook

Inflation was expected to decelerate in the near term, leveling off at 3.5 percent in the first quarter of 2021 but gradually returning to 5 per cent toward the end of the forecast horizon. Inflation rate was expected to be higher than the May forecast (Figure 2.9).

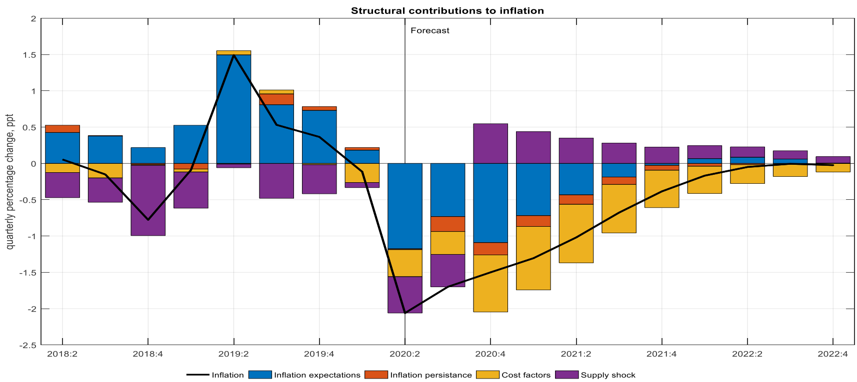
Figure 2.9: Inflation Forecast



Source: CBG Staff Calculation

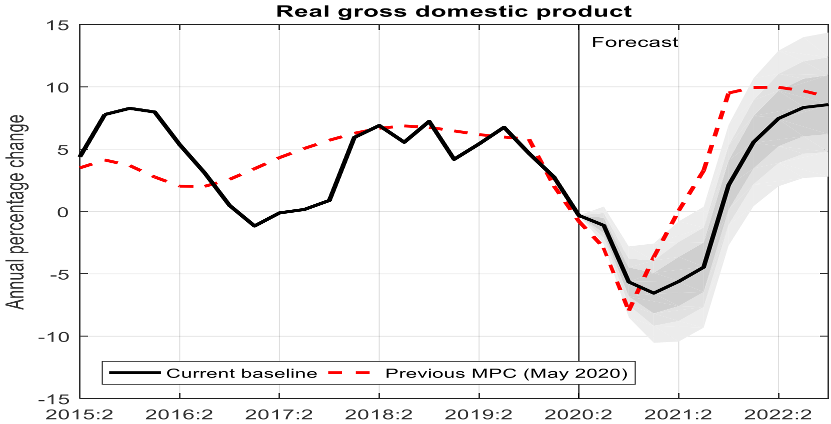
However, inflation is expected to recover quicker than May forecast due to expected higher growth in food prices in 2021 (Figure 2.10).

Figure 2.10: Structural Contribution to Inflation



Real GDP was expected to be severely impacted (-3.6 per cent) in the first half of 2021. Slower recovery was expected compared to May forecast due to prolong recovery in tourism sector and global demand (Figure 2.11). Economic downturn of 3.8 per cent is expected in 2021 compared to recession of 2.4 per cent in May Forecast, mainly due to collapse of tourism sector.

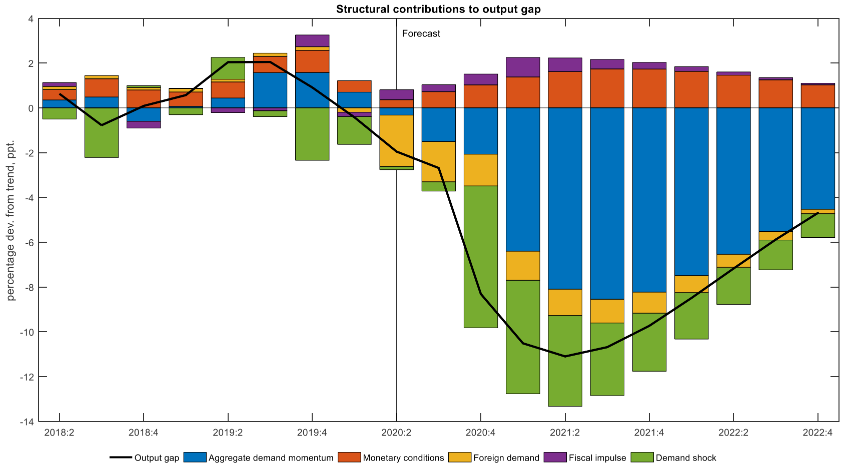
Figure 2.11: Real GDP (Forecast)



Source: CBG Staff Projections

Furthermore, the lost tourist season is expected to open the output gap to -11 percent by Q2:2021, fiscal and monetary accommodation is expected to help off-set the negative impact over the forecast horizon.

Figure 2.12: Structural Contributions to Output Gap



Source: CBG Staff Projections

3

The Ghanaian Experience

Dr. Phillip Abradu-Otoo
Director of Research, Bank of Ghana

3.1 Introduction

THE GHANAIAN ECONOMY IS NOT EXEMPTED from the menace of the COVID-19 pandemic. In a bid to curtail the negative economic effects of the pandemic, the Monetary and Fiscal Authorities embarked on some prudential macroeconomic policies. This paper unpacks those policies and how the economy is responding to them. Thus, it is structured under four sections; Section 3.2 focuses on COVID-19 infection rate, Section 3.3 discusses COVID-19 effects on the economy, Section 3.4 highlights the key monetary and fiscal policy responses to contain the negative socio-economic effects of the pandemic and the last section, Section 3.5, discusses the outlook and risks.

3.2 COVID-19 Infection Rate

Ghana is not an exception of both the adverse and positive impact of the COVID-19 pandemic. A number of infection cases were recorded. As at 22nd November 2020, about 50,874 total cases of infection were recorded; made up of 323 deaths, 49,405 recoveries and 1,146 active cases. The recovery rate was estimated at 97.1 percent. Total cases per one million of the population was1,624 whilst deaths per one million of the population was 10. Total number of test as at

22nd November 2020 was 575, 991.

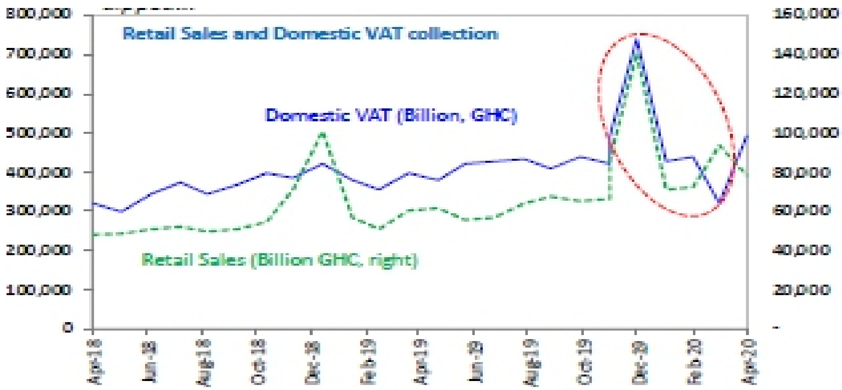
3.3 Effects on the Economy

3.3.1 Developments in the Domestic Economy

Economic activities was significantly and adversely affected by the COVID-19 pandemic. By first quarter of 2020, there were signs of a weakened economy and sluggishness in economic activity. The slowdown was visible in all sectors of the economy: construction, imports, export trade, private sectors contribution to the social security fund, tourist arrivals, the hospitality and hoteling sector. This culminated to job losses and potential increases in banks' Non-Performing Loans (NPLs). These early signs were triggered by a sharp decline in crude oil prices and prior reaction of economic agents to the adoption by Government of social distancing measures and travel restrictions. In addition, the pandemic presented a combined demand and supply shock that required close coordination and implementation of monetary, fiscal and macro-prudential policies to limit its impact on the broader economy. Leading indicators of economic activity during the first quarter of the year suggests some slowdown, reflecting the impact of the restrictions, social distancing, and the partial lockdown measures introduced by the government in the middle of March. However, domestic VAT collections increased in April 2020 as the partial lock down measures were lifted but retail sales dipped (see Figure 3.1).

The pandemic also affected the sale of cements, port activity, the number of private sector workers' contribution to SSNIT as well as tourist arrivals. Specifically, cement sales and port activity declined significantly (See Figures 3.2 and 3.3).

Figure 3.1: Retail Sales and Domestic VAT collection Trend



Source: BOG

Figure 3.2: Cement Sales Trend

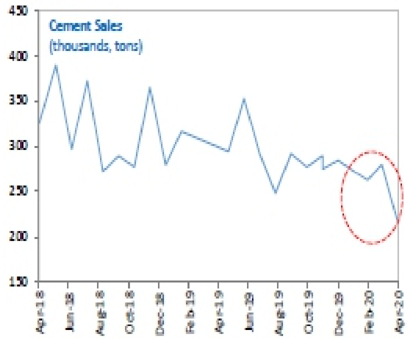
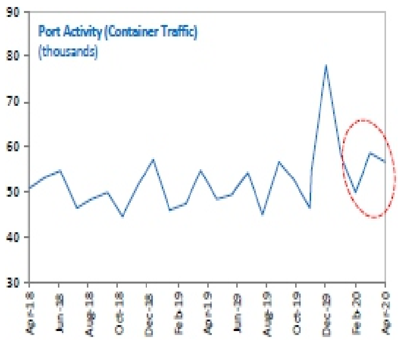


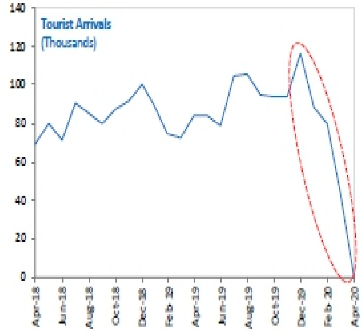
Figure 3.3: Trend in Port Activity (Container Traffic)

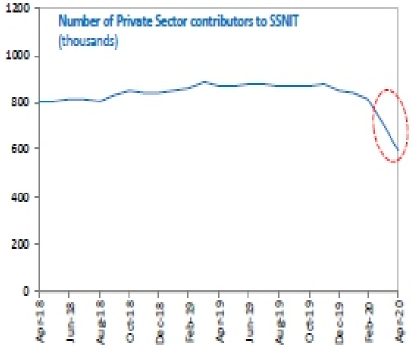


Source: BOG

Number of tourist arrivals and private sector workers' contribution to SSNIT were drastically reduced by the pandemic (See Figures 3.4 and 3.5).

Figure 3.4: Tourist Arrival Trend Figure 3.5: Private sector workers' Contribution to SSNIT

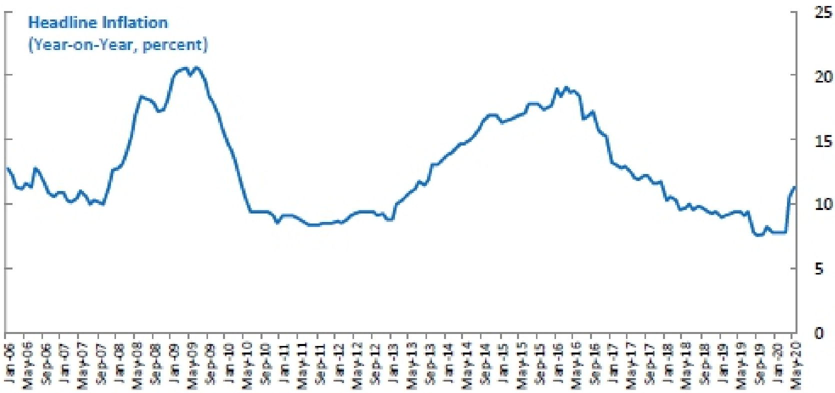




Source: BOG

Inflation was also impacted by the COVID-19 pandemic. After remaining flat at 7.8 per cent for three consecutive readings (January -March 2020), headline inflation increased in April to 10.6 per cent and 11.3 per cent in May 2020 (Figure 3.6), which is outside the Bank's inflation target band. Inflation jumped from 7.8 per cent and peaked at 11.4 per cent in June 2020.

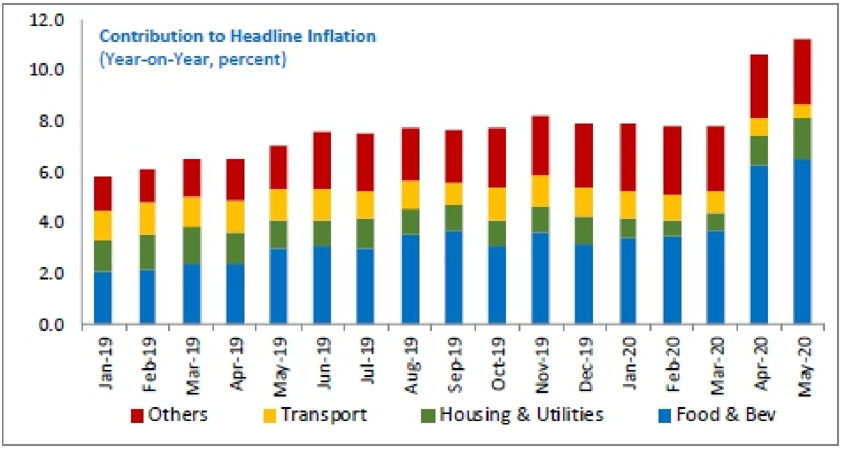
Figure 3.6: Headline inflation.



Source: BOG

The sharp rise in inflation is attributed to increased demand for food items stemming from the two panic-buying episodes preceding the market fumigation exercises across the country and the partial lockdown in both Accra and Kumasi- the two largest cities (Figure 3.7). This led to exaggerated food prices in April and May (Figure 3.7).

Figure 3.7: Contribution to Headline Inflation (Year-on-Year, Percent)

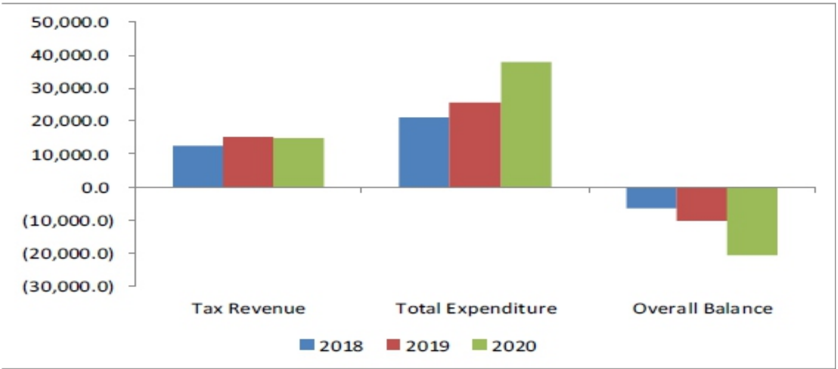


Source: BOG

Food inflation was a key contributor of headline inflation in the pandemic season. Figure 3.7 indicates that food and beverages prices rose to 14.4 per cent in April and 15.1 per cent in May, significantly higher than the 8.4 per cent recorded in March 2020. Non-food inflation increased to 8.4 per cent recorded in May from 7.7 per cent in April 2020.

Government fiscal position was adversely affected as a result of the Covid-19 pandemic. Tax revenue declined from 15,120.2 to 14,833.1, whilst total expenditure increased 25, 650.7 to 37, 994.9. The overall balance deficit worsened from 10,010.7 to 20,633.3 (See Figure 3.8). Fiscal deficit as at June was 7 percent of GDP. The loss of revenue to run government budget was due to fall in crude oil prices and declining economic activities. Loss of oil revenue was estimated at around 2 per cent of GDP. Consequently, this has led to a rising debt to about 68.3 percent of GDP (July 2020). Banks provided a larger chunk of financing and this also crowded out domestic private investment.

Figure 3.8: Fiscal Position, 2018 to 2020.



Source: BOG

3.3.2 External Sector Developments

Ghana's external sector was also adversely affected by the COVID-19 pandemic. International trade was significantly affected due to the lock down measures imposed by government. There was a decline in both exports and imports, with decline in imports far out weighting exports. However, the trade balance still registered surpluses. Current Account Deficit remained unchanged despite increasing Fiscal Deficit. Remittances for the third quarter (2020) remained firm and comparable to last year (2019), whilst FDIs slowed down significantly. In addition, non-resident investors not sure about containment efforts exited from the Bond Market. There was adequate International Reserve Position, which stood at US$8.6 billion at the end of September 2020, providing cover for 4.0 months of import. The strong foreign exchange reserve position provided greater anchor for stability in the foreign exchange market and on non-food inflation: Currency depreciated by 2.9 percent against the US dollar in the year to October 2020 whilst comparative depreciation was 9.2 percent a year ago.

3.4 Key Monetary and Fiscal Policy Responses to Contain the COVID-19 Pandemic

To lessen the impact of the Covid-19 pandemic on the economy, the Government of Ghana embarked on certain fiscal, monetary and regulatory policies.

3.4.1 Monetary Policy Responses

The benefits of pursuing sound macroeconomic policies and financial sector reforms provided enough policy space for the Bank of Ghana to activate additional monetary policy tools to moderate the COVID-19 impact on the economy. Monetary Policy tools used were broadly classified under the following: Interest rate tool, Macroprudential Policies, Bond Purchase Programs, and Emergence Liquidity Support. Specifically, these included reduction of the Monetary Policy Rate by 150 basis to 14.5 per cent, reduction of the cash reserve requirement ratio or banks from 10 to 8 per cent (the purpose was to provide additional liquidity to banks - to free up additional resources of about GHS 2 billion for banks and Special Deposit Institutions- SDIs to lend to critical sectors of the economy), lowering of the Capital Conservation Buffer by 1.5 percentage points to 11.5 per cent, provision of capital relief of about GHS 1.1 billion for banks to boost lending to support the economy, changing provisioning requirements for the spectrum of loan categories form 10 to 5 per cent (this translates to about GHS 115.3 million in capital relief to banks), restraining of banks from payment of dividends for 2019 to preserve capital and liquidity, working with banks to further lower interest rate on credit to private sector by about 200 basis point, collaborating with commercial banks to create a GHS 3 billion credit facility for key industries (pharmaceuticals, hospitality, services and manufacturing sectors), agreeing with banks to provide a 6-month moratorium on principal payments for the worst-hit sectors (specifically airline and hospitality industries) and reclassifying as 'current' loans whose repayment that are past due for Microfinance Institutions for up to 30 days.

Furthermore, the Bank of Ghana provided various interventions within the Mobile Money Space to promote electronic transactions as part Covid-19 protocols. An example is temporary suspension of transaction fees on minimum transactions- GHS 100 and increased wallet limits. Other measures taken by the Bank of Ghana included activation of Section 46A of the BoG Act 2002 (Act 612) in order to provide liquidity support to savings and loans and finance house companies facing temporary liquidity challenges, in line with the BoG liquidity support framework as well as triggering of the BoG Asset Purchase Programme, in line with provisions of the BoG Act 2002 (Act 612), as amended Act 918, to provide Government with GH¢10 billion through the purchase of Government of Ghana Covid-19 relief bond. These measures were meant to compliment government efforts to close the fiscal gap.

3.4.2 Fiscal Policy Responses

Fiscal policy measures were counter-cyclical aimed at supporting businesses especially Micro, Small and Medium Enterprises (MSMEs), production of Physical Protection Equipment (PPE), supporting the vulnerable in society, absorption of utility cost, provision of special dispensation to health workers, providing guarantee schemes to support agriculture etc.

On the whole, the policy measures (both monetary and fiscal) were aimed at closing the Inflation and Output Gaps, avoiding sharp credit contraction, supporting the functioning and liquidity of financial markets as well as supporting fiscal policy implementation. Economic developments after lifting of lock down restrictions indicated evidence of ease in inflation; core inflation begun trending downward. The policies provided a cushion to lower growth. Spending on information and communications, government services, education and health boosted the services sector. Strong recovery in the services sector was expected in second half of the year. The latest lending indicators for August 2020 showed signs of 'Green shoots' in the Core Index of Economic Activity (CIEA) and this was intended to inform growth outcomes in the second half of the year. Surveys showed 100 percent occupancy rates for some hotels up till January 2021, indicating a stronger rebound in the Hotels and Restaurant sub-sector. Fiscal revenues picked up strongly in October 2020 in response to increased economic activity (VAT on the rise). Furthermore, the banking sector responded nicely and credit growth was relatively strong (New credit up to October 2020 higher than same time last year by over GHC 5.5 billion).

Regulatory reliefs also provided a boost in capital buffers and liquidity and placed banks in a position to contain tail-risks. Cost associated with pandemic risks were not passed on to consumers through higher interest margins. There were also significant loan repayments by the private sector, thus Non Performing Loans declined between June and September 2020. Banks' lending rates went down by 2 percentage points from March 2020; outlook was positive and stable for increased support to economic activity. Some recoveries were also seen in economic activity, revenues and VAT collections picked up. With expectations of no adverse impact of second wave of the pandemic on economic activity, stronger bounce-back in activity was expected. Government was expected to extract more revenues from economy and Central Bank deficit financing was not needed. Furthermore, there was adequate International Reserve Position (Reserves at US$8.6 billion at the end of September 2020, providing cover for 4.0 months of import cover).

There were still many signs of recovery emerging in the domestic economy. Latest round of surveys showed improvements in consumer and business confidence. Business confidence was, however, yet to reach pre-lockdown levels. Businesses however remained positive about Exchange Rate Stability, Input prices, Moderation in lending rates, Positive industry prospects. On the global level, a second wave of the pandemic came into force. Assessment needed to be done for inflation and growth implications for 2021 as to how the second wave of the pandemic will transmit to the domestic economy and whether Ghana would contemplate some form of a targeted lock down. Furthermore, fiscal policy had significant impact and implications on debt accumulation was high. However, second wave of the pandemic in Ghana could worsen fiscal conditions and lead to protraction in fiscal consolidation efforts. Furthermore, latest survey showed that bank cost of operations had gone up and profitability growth slowed down. Policy Trilemma will have to be navigated as the pandemic protracts (increased borrowing to contain the resurgence of infections, contain the debt situation on the other hand and ensuring macroeconomic stability. In conclusion, more vigilance, ensuing continued effective fiscal and monetary policy coordination and taking appropriate policy actions to safeguard macroeconomic stability in 2021 and beyond would be critical.

3.5 Outlook and Risks

The Monetary, Fiscal policies and Regulatory Reliefs were effective and helped moderate the impact of COVID-19. Signs of optimism emerged in the domestic economy. Latest round of surveys showed improvements in consumer and business confidence. On the business side, a gradual recovery of economic activities as well as increasing demand for goods and services drove confidence. Business confidence was yet to reach pre-lockdown levels. Businesses however remained positive about exchange rate stability, input prices, moderation in lending rates and industry prospects. On the global stage, a second wave of infections came into force. Thus, the question that arose was how this second wave would transmit to the domestic economy and whether Ghana will contemplate some form of a targeted lockdown. This meant that implications for inflation and growth would have to be re-assessed for 2021.

The impact on fiscal policy was significant and implications on debt accumulation was high. Second wave of the pandemic in Ghana could worsen fiscal conditions and lead to protraction in fiscal consolidation efforts. Latest survey results showed that banks cost of operations went up and profitability growth slowed down. Thus, a protracted pandemic situation could adversely affect growth in the outlook. In addition, exaggeration in price movement could be re-played. Policy Trilemma would have to be navigated as the pandemic protracts: Increased borrowing to contain the resurgence of infections, containment of the debt situation on the other hand and ensuring macroeconomic stability. More vigilance, ensuring continued effective fiscal and monetary policy coordination and taking appropriate policy actions to safeguard macroeconomic stability in 2021 and beyond would be critical.

4

The Liberian Experience

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Central Bank of Liberia

4.1 Introduction

THE ECONOMY OF LIBERIA LIKE ITS PEERS, HAS been hardly hit by the Covid-19 pandemic. In a bid to curtail the negative economic effects of the pandemic, the Monetary and Fiscal Authorities embarked on some macroeconomic policy measures. This paper analyzes those policies and how the economy is responding to them. Thus, the paper is structured under four (4) sections; Section 4.2 focuses on Number of COVID-19 cases, Section 4.3 discusses COVID-19 effects on the economy, Section 4.4 highlights the key monetary and fiscal policy responses to contain the Covid-19 pandemic and the last section, Section 4.5, discusses the outlook and risks.

4.2 Number of Covid-19 Cases

Liberia was also affected (both positive and negative) by the COVID-19 pandemic. As at 22nd November 2020, about 1,551 total cases of infection was recorded. This translated to 82 deaths, 1,331 recoveries and 138 active cases. Recovery rate was, however estimated at 85 percent. Total cases per one million of the population was 304 whilst deaths per one million of the population was16. There was no data on the total number of test run so far. Total number of test stood at

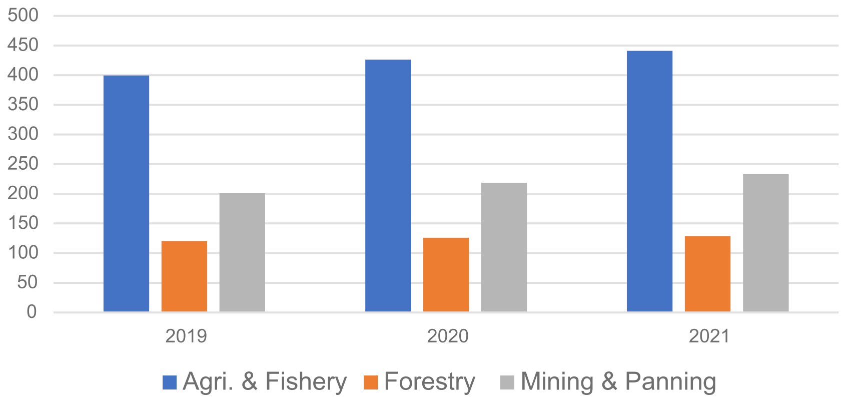
33,078 as at 22nd November 2020.

4.3. Effects on the Economy

4.3.1 Developments in the Domestic Economy

The Covid-19 pandemic adversely affected the economy of Liberia. GDP growth was expected to be constrained by the pandemic, projected at -2.5 per cent in 2020. The pandemic was expected to approximately cost over US$42.2 million loss in Real GDP in 2020. Though, the primary sector was expected to improve marginally, the continual contraction in both secondary and tertiary sectors may have eroded the gains and remained the major drivers of the decline in Real GDP. However, the primary sector (Agriculture & Fishery, Forestry and Mining & Panning sub-sectors) was expected to grow by 4.8 per cent in 2020, from 3.2 per cent in 2019 (Figure 4.1). Specifically, the Agriculture & Fishery, Forestry and Mining & Panning subsectors were expected to grow by 6.7

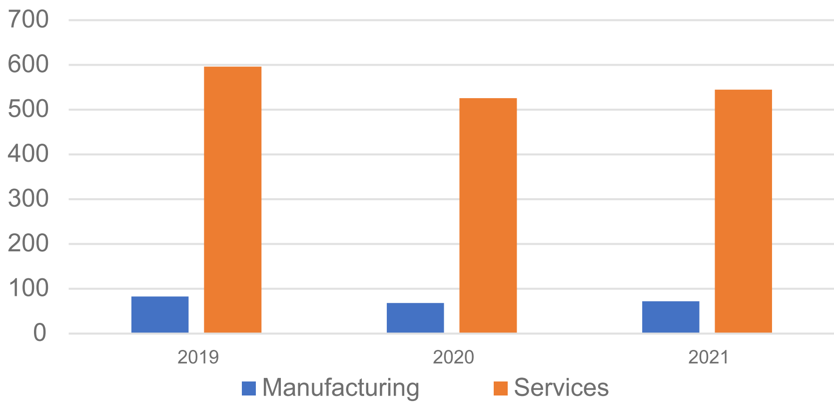
Figure 4.1: Contribution of Primary Subsectors



Source: Central Bank of Liberia

Furthermore, as a result of the pandemic, the secondary and the tertiary sectors in 2020 (June) were expected to contract by -17.2 per cent and -11.8 per cent respectively. However, in November 2020, the secondary sector was expected to record flat growth of 0 per cent whilst the tertiary sector was expected to contract by negative 12.7 per cent. Growth in 2021 for these sectors were projected to increase by 5.6 per cent and 3.6 per cent for the secondary and tertiary sectors respectively (Figure 4.2).

Figure 4.2: Contribution of Secondary and Tertiary Sectors



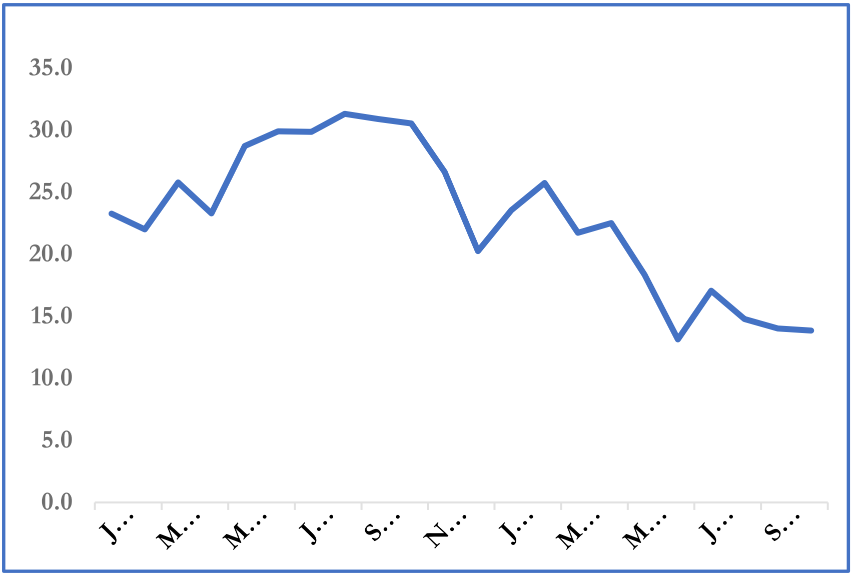
Source: Central Bank of Liberia.

Furthermore, the tourism industry remained one of the worst affected industries as operators struggled to stay afloat. Hotels and flights bookings were annulled, safaris were postponed, and cultural tours abandoned over night. Before the COVID-19, Pre-lockdown period, especially in the first quarter of 2020, 491 flights landed in the country, down from 576 flights the same period a year ago. The total number of arrivals (passengers) declined to 20,720 from 25,060 the same period a year ago whilst the total number of flight cargos imported decline to 338,905kg from 403,379kg. Similarly, during the lockdown period in the second quarter of 2020, the number of flights declined to 132 from 552 in the second quarter of 2019. Passengers arrival reduced to 90 from 22,675 in the second quarter of 2019. Flight cargo also decreased to 145,848kg from 431,309kg in the second quarter of 2019. During the post-lockdown period, the number of flights stood at 95 from 523 in the third quarter of 2019. Arrivals in the post-lockdown period amounted to 4,581 compared to 23,186 in the same period a year ago. Flight cargo imported was 486, 944kg compared to 408,969kg a year ago. Visits to resort centers by locals came to a halt during the lockdown period. However, residents in the Monrovia area gradually increased their visits to local resort centers. Unemployment also remained a challenge in the industry. The industry was expected to expand as Government of Liberia (GOL) continued to reform the sector anchored on the National Export Strategy on Tourism (2016-2020) but the pandemic delayed the implementation of the strategy. However, the Central Bank of Liberia (CBL) was informed that there was a planned meeting scheduled for the first week in December 2020.

The general price level was also affected by the pandemic. Before the advent of the virus and the introduction of the CBL's new Monetary Policy Rate (MPR), end period inflation at the end of December 2019 stood at 20.20 percent, from about 30.0 per cent in September 2019. The downward trend continued throughout the pre-lockdown, lockdown and post-lockdown periods (See Figure 4.3). Inflation receded to 13.14 per cent during the lockdown period (Figure 4.3), primarily due to the sluggish economic activity and the tightening of monetary policy. Inflation continued to decline in the post-lockdown period from 17.1 per cent at the end of July 2020 to 13.85 per cent in October-2020 (Figure 4.3).

Key drivers for the declining inflation included stable exchange rate, favourable international oil prices and rising (but declining) food prices. However, inflation was expected to moderate at 18.5 per cent and 18.75 per cent for the 2nd

Figure 4.3: Year-on-year Inflation Rats (Jan. 2019 to October 2020).



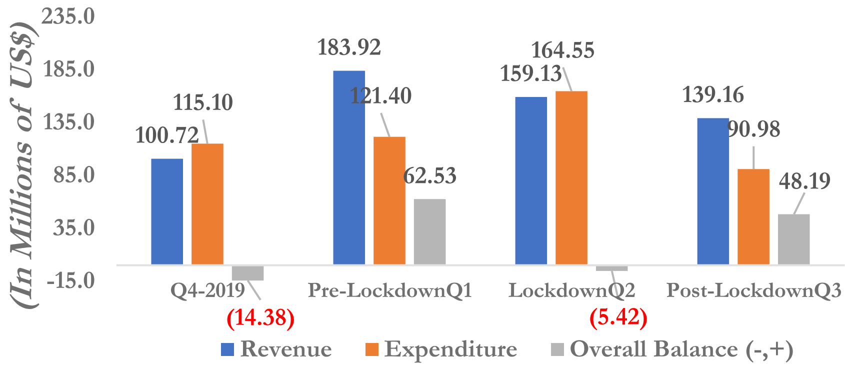
Source: Central Bank of Liberia.

quarter and the year 2020 respectively. Weak demand for non-food (accounts for 62.92 per cent of the CPI basket) component as well as favorable international and domestic oil prices were the major drivers for the slowdown in inflation. However, the disruption in supply chain from the main import destinations, primarily caused by the pandemic, could potentially truncate the supply of needed consumables and intermediate goods for production, thereby triggering abrupt increase in prices, especially food items. Inflation at end-December 2020 was projected at 13.9 per cent with a bandwidth of +/-2 percent while end -December 2021 is projected at 9.5 per cent.

The pandemic also affected the financial sector of Liberia, particularly the banking system, which constitutes over 85 per cent of the financial sector. Loans and advances, assets and deposits increased. For the third quarter of 2020, loans and advances, assets and deposits increased by 3.2 per cent, 2.8 per cent, and 4.3 per cent respectively compared with those of second quarter of 2020. However, Savings and Time deposits in banks declined. The banking industry remained in compliance with the Capital Adequacy Ratio (CAR), Liquidity Ratio and other thresholds. For the third quarter, CAR declined by 0.9 percentage points to 27.7 per cent, but was 17.7 percentage points above the 10 per cent limit. All nine (9) banks reported CAR above the limit. Credits to private sector in both currencies also grew. Despite the declining economic activities, the banking system still remained largely sound and stable.

Fiscal operation was also hit by the Covid-19 pandemic. Government fiscal operations during the pre-lock down period was promising as overall balance inclusive of grants amounted to US$62.5 million (Figure 4.4).The advent of the virus challenged government operations and led to a deterioration in the overall balance (inclusive of grants) during the lockdown period. However, as the virus subsided and economic activity gradually return to normalcy, the fiscal operations improved sharply due to significant decline in spending.

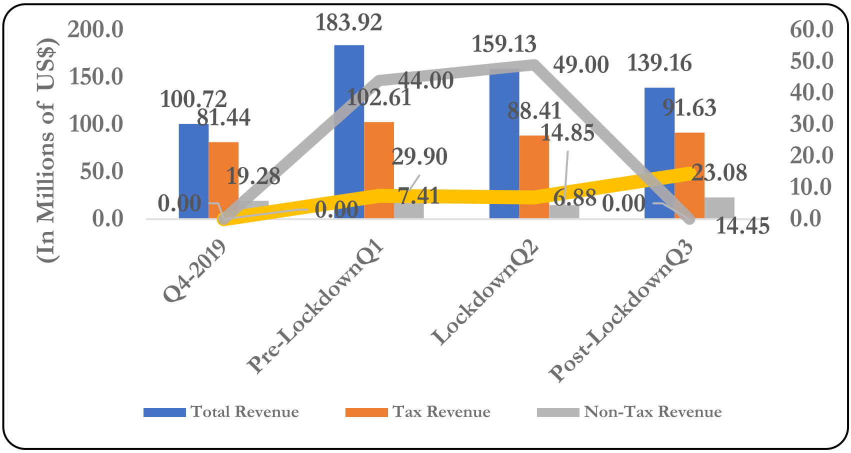
Figure 4.4: Government Fiscal Operations



Source: Central Bank of Liberia.

In terms of government revenue stance, the crisis continues to adversely impact Liberia's revenue performance. Overall revenue inclusive of grants witnessed a downward trend in both the lockdown and post-lockdown periods. Compared to the pre-lockdown period, revenue declined by 13.5% and nose-dived by 12.5 per cent in the post-lockdown period (Figure 4.5). Though tax revenue improved marginally by 3.6 per cent but borrowing contracted sharply in the post-lockdown period.

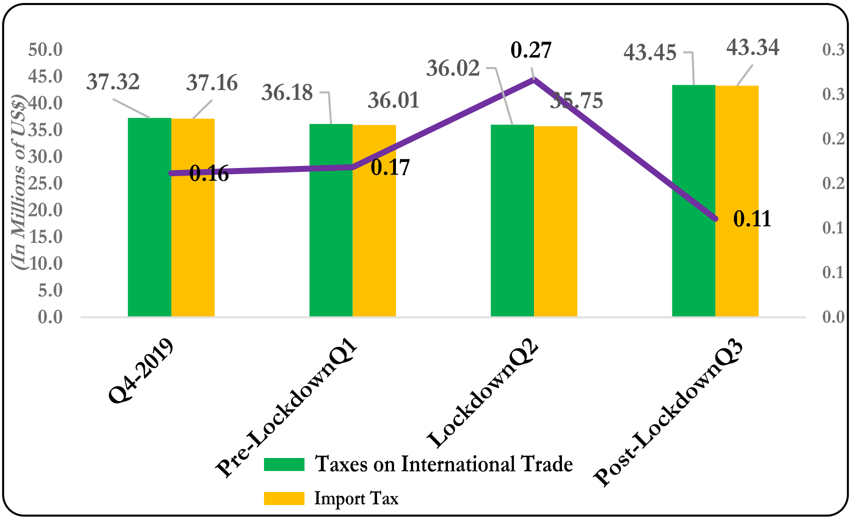
Figure 4.5: Revenue Performance of Government



Source: Central Bank of Liberia

Levies generated from international trade, however, improved after the lockdown by 20.6 per cent amidst sharp fall in export tax (Figure 4.5). Compared to the lockdown period, revenue declined by 12 per cent, though tax revenue improved marginally by 3.6 per cent (Figure 4.5). Export tax nosedived significantly by 58.5 per cent during the post-lockdown but the decline was outweighed by the expansion in import tax by 21.2 per cent (Figure 4.5). Export tax increased sharply during the lockdown but declined in the post-lockdown period. However, export tax increase sharply during the lockdown but felt similarly in the post-lockdown period.

Figure 4.6: Taxes on External Trade



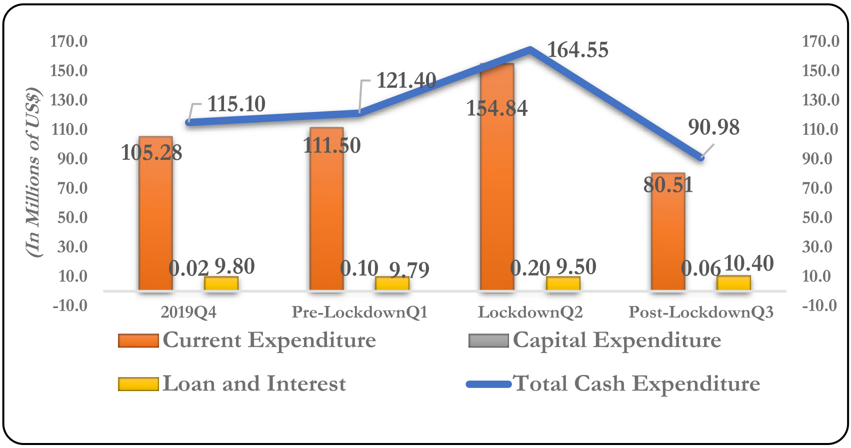
Source: Central Bank of Liberia.

The pandemic also affected government expenditure. Government expenditure significantly increased during the lockdown period to counter the spread of the virus. The budget was recast to accommodate a nationwide food distribution and provided incentives for healthcare workers and the most vulnerable. Government spending on interest payment declined marginally by 3.0 per cent during the lockdown. During the post-lockdown period, government expenditure declined significantly as the impact of the virus adversely affected revenue inflow (Figure 4.6). However, interest payment on government obligations increased during the post-lockdown by 9.5 percent (Figure 4.7). On the other hand, capital spending declined by more than 50.0 per cent during the post-lockdown period.

4.3.2 External Sector Developments

The COVID-19 pandemic also affected the exchange rate in Liberia. Taking cue from the Ebola Crisis, broad stability in exchange rate was expected or low level of depreciation of the

Figure 4.7: Government Expenditure Outlook

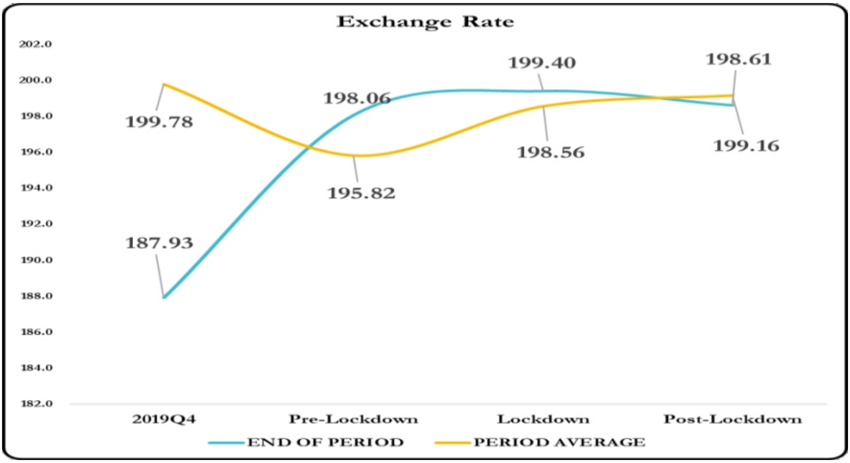


Source: Central Bank of Liberia

Liberian dollar in 2020. This was evidenced by the 1.6 per cent and 3 per cent end of period as well as average depreciation recorded at the end of May 2020. The Liberian dollar at the end of March 2020 depreciated by 5.4 percent, when compare with that of the end of December 2019. Similarly, the Liberian dollar recorded marginal depreciation of 0.7 percent at end-June 2020 when matched against end-March 2020. However, at the end of September 2020, the Liberian dollar appreciated by 0.4 percent. A review of the exchange rate shows that the Liberian dollar appreciated by 8.7 percent to L$181.3 per US$ 1.00. Furthermore, at the end of December 2020, the Liberian dollar was projected to appreciate by 4.9 percent to L$178.75. On the whole, the Liberian dollar remained broadly stable during the year 2020 (Figure 4.8).

Travel restrictions and other quarantine measures instituted by Government were likely to reduce the pressure on the demand for USD to facilitate imports. In addition, the inflows of foreign exchange from international partners and other donors was expected to further ease the demand for Forex during the Covid-19 crisis. However, compared to 2019, the EOP and AVG exchange rates of the Liberian dollar vis-à-vis

Figure 4.8: Exchange Rate Trends



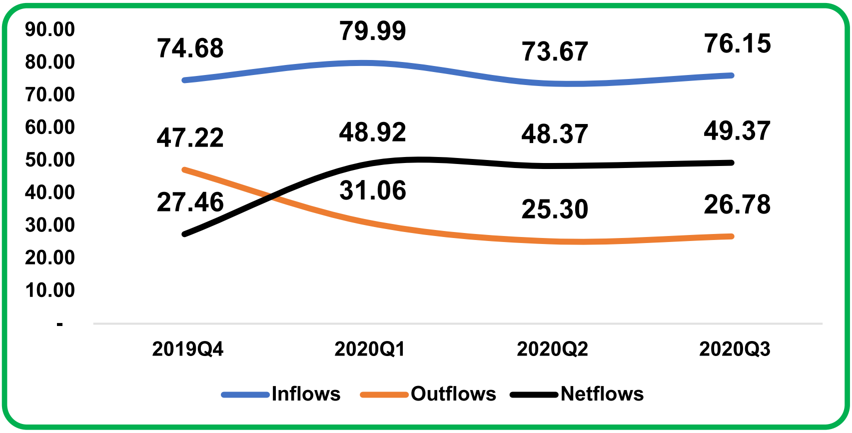
Source: Central Bank of Liberia.

USD for 2020 were projected to depreciate by 11.6 per cent and 7.8 per cent respectively. Speculative decision by major vendors and/or importers to demand forex in anticipation of building up inventory for normal economic activity significantly drove the depreciation. Developments in the US, the EU and China (major sources of Liberia's forex inflows), however, remained major sources of risks to the relative stability in the exchange rate.

In terms of remittance flow, the Liberian economy was impacted positively by the Covid-19 pandemic. Since the 3rd quarter of 2019, remittances inflow had taken an increasing trend (Figure 4.9) and accounted for approximately 1.7 per cent of GDP.

Except for the lockdown period, net inflows of remittances had taken an increasing trend largely as a result of decline in remittance outflows. However, the second wave of the pandemic posed serious risk to this trend as mitigating measures such as lockdown and quarantine may be re-imposed to curb the spread of the virus which may increase the rate of unemployment among migrant workers abroad.

Figure 4.9: Tend of Remittances

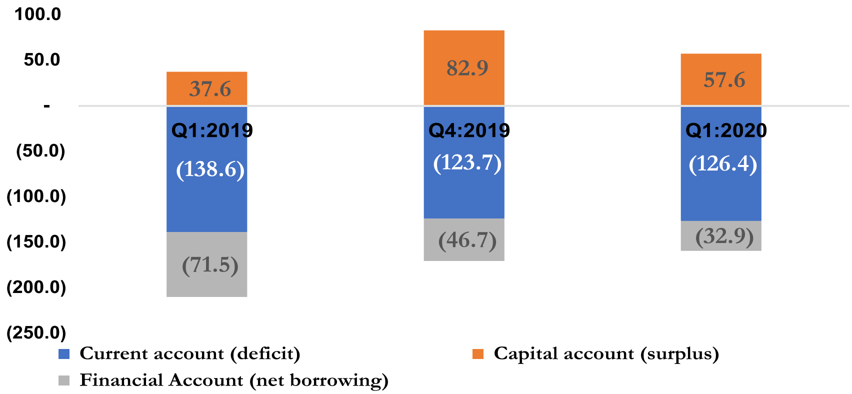


Source: Central Bank of Liberia

However, the pandemic posed serious risk to this trend as mitigating measures such as lockdown and quarantine continued to increase the rate of unemployment for migrant workers abroad. Personal remittances was expected to decline, though net remittance inflow was projected to slightly increase by 1.3 percent; to US$121.1 million.

The external sector's performance was challenged by continued current account deficit, declining inflows of capital transfers for infrastructural development and somewhat increased payments for services. However, current account deficit narrowed/improved, induced by lower trade deficit occasioned by low payments for imports, increase in receipts of secondary income on the back of higher remittance inflows. The Covid-19 pandemic saw the Current Account deficit rise by 2.2 per cent from US$123.7 million in the fourth quarter of 2019 to US$126.4 million in the first quarter of 2020 (pre-lockdown period) (Figure 4.10). On the other hand, the Capital Account remained in net inflows of capital transfer but fell by 30.5 per cent to US$57.6 million during the pre-lock down period, from US$82.9 million in the fourth quarter 2019 (Figure 4.10). Similarly, net incurrence of financial liabilities reduced by 29.6 per cent to US$32.9 million in the late pre-lockdown period, from US$46.7 million in the early pre-lockdown period (Figure 4.10).

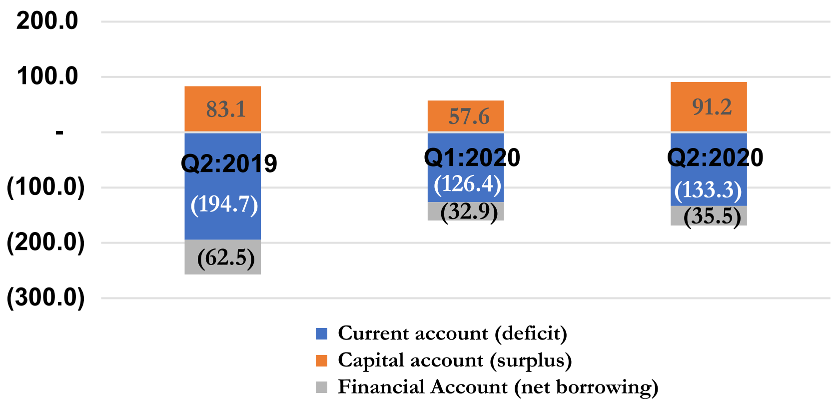
Figure 4.10: Current, Capital and Financial Accounts



Source: Central Bank of Liberia

The performance of the external sector remained highly challenged during the lock down period. The Current Account balance worsened but was stabilized by increased inflows of Capital Transfer. The increase in Current Account deficit was driven largely by rise in trade deficit on the back of reduction in earnings from exports and a decline in payments for imports, decline in inflows of secondary income as a result of slowdown in inflows of remittances. The Current Account deficit expanded by 5.4 per cent from US$126.4 million in the first quarter of 2020 (pre-lockdown period) to US$133.3 million in the second quarter of 2020, a lock-down period (Figure 4.10). The Capital Account remained in net inflows of capital transfer and expanded by 58.4 per cent to US$91.2 million in the lockdown period, from US$57.6 million in pre-lockdown period. Similarly, net borrowings in the financial accounts rose on the back of increase in trade credit and SDR liabilities. Specifically, net borrowing of the financial account inched by 7.9 percent to US$35.5 million during the lockdown period, from US$ 32.9 million in pre-lockdown

Figure 4.11: Current, Capital and Financial Account Balances



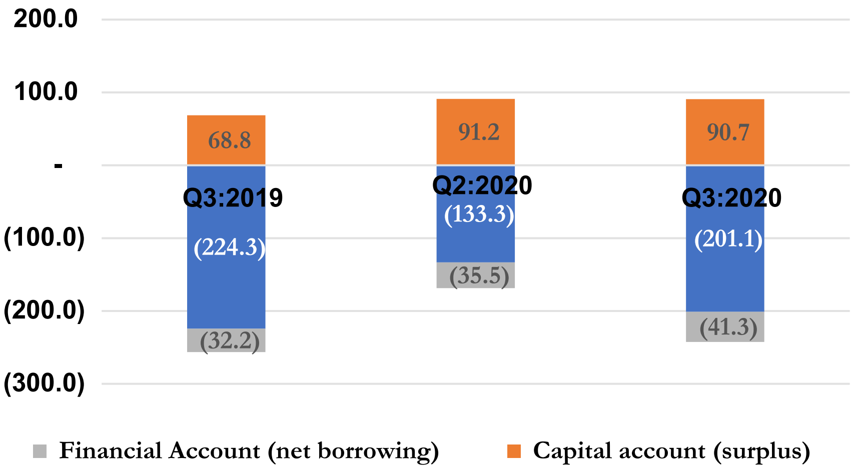
Source: Central Bank of Liberia

period (First quarter of 2020).

The Capital Account remained in net inflows of capital transfer and expanded by 58.4 per cent to US$91.2 million in the lockdown period, from US$57.6 million in pre-lockdown period. Similarly, net borrowings in the financial accounts rose on the back of increase in trade credit and SDR liabilities. Specifically, net borrowing of the financial account inched by 7.9 percent to US$35.5 million during the lockdown period, from US$ 32.9 million in pre-lockdown period (First quarter of 2020). Performance of the external sector worsened during the post locked down period. Besides the deterioration in the Current Account balance, the Capital Account also nosedived. The Current Account deficit widened by 50.9 per cent to US$201.1 million in the post-lockdown period, from US$133.3 million in lockdown period.

Factors such as sharp rise in trade deficit on the back of reduction in earnings from exports and a subsequent rise in payments for imports as well as decline in inflows of secondary income (as a result of slowdown in inflows of transfer to government) accounted for the Current Account deficit. The net inflows of capital transfer declined by 0.5

Figure 4.12: Current and Capital Accounts Balances



Source: Central Bank of Liberia

4.4 Key Monetary and Fiscal Policy Responses to Contain the Covid-19 Pandemic

The Government of Liberia (GOL) has taken various measures to curb the harmful effects of the Covid-19 pandemic on the country's economy. Initially, the GOL declared a state of emergency to enforce social distancing and curb the spread of the virus nationwide during the pre-lock down period. Such protocol had been removed. Mandatory Covid-19 test was required for all travelers via the international airport for both incoming and outgoing passengers. Schools, night clubs, cinemas, beaches, spas, religious centers and street selling were closed and gathering of more than 10 persons prohibited during the lockdown. That had been partially lifted. Initially, banks and restaurants were instructed to only allow five (5) customers at a time during pre-lock down and lockdown period, but the decision was relaxed following the gradual opening. Compulsory mask wearing in public places was also ordered and remained in place. Movement between the hardest-hit counties was prohibited except for essential workers but was later relaxed. In addition, non-essential employees were ordered to stay home but this was later reviewed. The Government of Liberia (GOL) also embarked on some fiscal and monetary policy measures to minimize the impact of the pandemic on the economy. These are stated below in detail:

4.4.1 Monetary Policy Responses

The CBL reduced its Monetary Policy Rate (MPR) by 500 basis points to 25 percent to encourage lending and stimulate economic activity. The CBL allowed banks to temporarily practice limited forbearance on asset classification, provisioning and lending policies in hard-hit sectors of the economy. The CBL also suspended fees and charges for most electronic transfers and point-of-sales outlets used by merchants and mobile money operators. Lastly, the CBL increased the allowable daily and aggregate limits for mobile money transactions for a period of one month initially. This was however reviewed.

4.4.2 Fiscal Policy Responses

In terms of fiscal policy, the GOL allocated US$25 million to be supplemented by donors for food distribution in the country. The GOL also announced plans to ease the impact of the pandemic on market women and petty traders through a loan relief scheme. GOL suspended pre-shipment inspection requirements and some protective surcharges to ease the burden on importers. The World Bank also committed US$40.00 million to combat the virus whilst the IMF committed about US$50 million as loan for budget support.

4.5 Outlook

Based on these policies, prospects were expected for growth in 2021 (3.2 percent) and the medium term (2021-2024) (4.0 percent on average), although the economy was expected to record negative growth by the end of 2020. The short to medium-term growth was expected to be mainly driven by the secondary and tertiary sectors. Furthermore, inflation, though projected to end in double-digit, was expected to decline to 13.9 per cent at the end of December 2020, from 20.3 per cent the same period in 2019. Furthermore, the Government of Liberia policy to offer loan relief to market women and petty traders that were affected by the Pandemic was expected to help stimulate the economy.

5

The Nigerian Experience

Dr. Adebiyi Michael Adebayo
Director of Research, Central Bank of Nigeria

5.1 Introduction

PANDEMICS ARE IN NO WAY NEW TO MANKIND, as there are several on record, ranging from the Spanish flu of 1918 to the HIV/AIDS of 1976. To date, however, the spread of the Coronavirus, also known as COVID-19 has been projected to impact the global economy beyond anything the world has seen since the Great Depression of 1930s. The pandemic has resulted in health and economic crises, sending the global economy into a deep recession in 2021.

Following the outbreak of the Coronavirus in Wuhan, China in late December 2019, it has spread to nearly every part of the globe, infecting over 179 million people, with the highest level of infections of about 33 million people recorded in the United States as at June 20, 2021. The death rate spiraling out of control in the USA, Brazil and India. The spread of the virus, which led to travel restrictions and social distancing measures, across major economies, has caused significant slowdown in the global economy and, hence, disruptions to the global supply chain. The resulting partial, and, in some cases full lockdown in most countries and the attendant drastic fall in the consumption of energy, have come at a significant cost to the global economy, and also to an oil exporting country like Nigeria.

Although, studies on the global impact of the pandemic are evolving, a scanty literature exists for developing economies, such as Nigeria, where the economy is weakly diversified with longstanding dependence on oil export proceeds and imported intermediate goods for production. Thus, this paper seeks to examine the impact of the pandemic on the Nigerian economy, evaluate the policy response by the authorities and articulate the medium-term prospects of Nigeria's economic recovery and growth path. To achieve this objective, the paper is structured into five sections. Following this introduction section 2 discusses the impact of the pandemic on the global economy. Section 3 examines the impact of the pandemic on the domestic economy, while Section 4 details several fiscal, monetary and financial policy responses put in place by the Nigerian government to mitigate the effects of the COVID-19 pandemic. Section five presents the medium-term outlook of the Nigerian economy detailing headwinds and tailwinds amidst the pandemic.

5.2 Global Impact

COVID-19 containment measures coupled with oil price shocks triggered the worst recession in 2020 since the great depression of 1930. The lockdown measures implemented across the globe engendered notable disruptions to demand and supply chains and grounded commercial activities in critical sectors such as manufacturing, transportation, tourism, entertainment, education and agriculture, among several others. International tourist arrivals declined significantly by 74 per cent in 2020, from 1.5 billion in 2019 to 381 million in 2020, leading to a loss of about US$1.3 trillion in international tourism receipts and an estimated US$ 2 trillion loss in global GDP. Specific to Africa, international tourist arrivals declined by 75 per cent in 2020, from 70 million in 2019 to 18 million in 2020 (United Nations World Tourism Organisation, 2021).

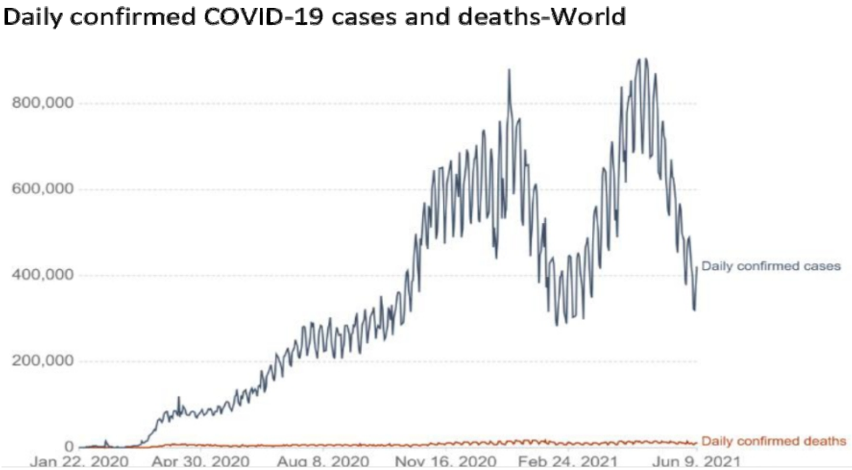
Furthermore, manufacturing output in industrialized economies contracted by 2.5 per cent in the first quarter of 2020. Specifically, manufacturing output in China dropped by 14.1 per cent in a year-over-year comparison (UNIDO, 2020). The entire global theatrical and entertainment market was also impacted by the pandemic in 2020, as revenue declined by 18 per cent to $80.8 billion in 2020 (Forbes, 2021).

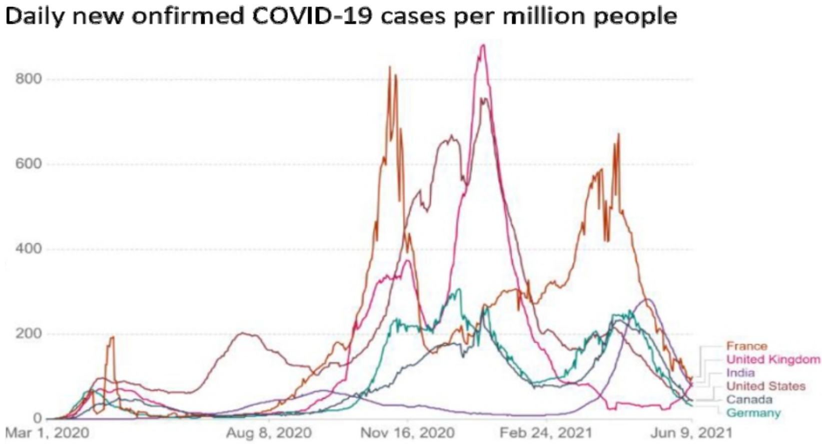
Table 5.1: Timeline of Lockdowns in selected Countries

COVID-19 pandemic lockdowns												
Country / Territory	Place	First lockdown			Second lockdown			Third lockdown			Total days	Level
		Start date	End date	Days	Start date	End date	Days	Start date	End date	Days		
Albania		13-Mar-20	1-Jun-20	80			0			0	80	National
Armenia		24-Mar-20	4-May-20	41			0			0	41	National
Bulgaria		13-Mar-20	15-Jun-20	94	28-Nov-20	31-Jan-21	64	22-Mar-21	31-Mar-21	9	167	National
Colombia		25-Mar-20	30-Jun-20	97			0			0	97	National
Estonia		11-Mar-21	11-Apr-21	31			0			0	31	National
France	Nationwide	17-Mar-20	11-May-20	55	30-Oct-20	15-Dec-20	46	4-Apr-21	3-May-21	29	130	National
Finland		8-Mar-21	28-Mar-21	20			0			0	20	National
Greece	Nationwide	23-Mar-20	4-May-20	42	7-Nov-20	22-Mar-21	135			0	177	National
Iran		14-Mar-20	20-Apr-20	37			0			0	37	National
Italy	Nationwide	9-Mar-20	18-May-20	70	24-Dec-20	6-Jan-21	13	15-Mar-21	30-Apr-21	46	129	National
Jordan		18-Mar-20	30-Apr-20	43	10-Nov-20	15-Nov-20	5			0	48	National
Libya		22-Mar-20	27-Jun-20	97			0			0	97	National
Malaysia		18-Mar-20	9-Jun-20	83	13-Jan-21	10-Feb-21	28	1-Jun-21	14-Jun-21	13	124	National
Mongolia		10-Mar-20	16-Mar-20	6	17-Nov-20	1-Dec-20	14			0	20	National
Morocco		19-Mar-20	10-Jun-20	83			0			0	83	National
Netherlands		15-Mar-20	6-Apr-20	22	15-Dec-20	2-Mar-21	77			0	99	National
New Zealand	Nationwide	26-Mar-20	14-May-20	49			0			0	49	National
Northern Cyprus		30-Mar-20	4-May-20	35			0			0	35	National
Pakistan		24-Mar-20	9-May-20	46	8-May-21	18-May-21	10			0	56	National
Poland		13-Mar-20	11-Apr-20	29	28-Dec-20	17-Jan-21	20	20-Mar-21	25-Apr-21	36	85	National
Romania		25-Mar-20	12-May-20	48			0			0	48	National
United States	California	19-Mar-20	8-May-20	50	7-Dec-20	28-Dec-20	21			0	71	State
	Connecticut	23-Mar-20	22-Apr-20	30			0			0	30	State
	Illinois	21-Mar-20	30-May-20	70			0			0	70	
	Kansas City i	24-Mar-20	19-Apr-20	26			0			0	26	City
	Massachuse	24-Mar-20	4-May-20	41			0			0	41	State
	Michigan	24-Mar-20	13-Apr-20	20			0			0	20	
	New York	22-Mar-20	13-Jun-20	83			0			0	83	
	Oregon	24-Mar-20	15-May-20	52			0			0	52	
	Wisconsin	24-Mar-20	13-May-20	50			0			0	50	
Venezuela		17-Mar-20	13-May-20	57			0			0	57	National
Zimbabwe		30-Mar-20	2-May-20	33			0			0	33	National

Source: Wikipedia

Figure 5.1: COVID-19 cases- First Half 2020 to First Half 2021

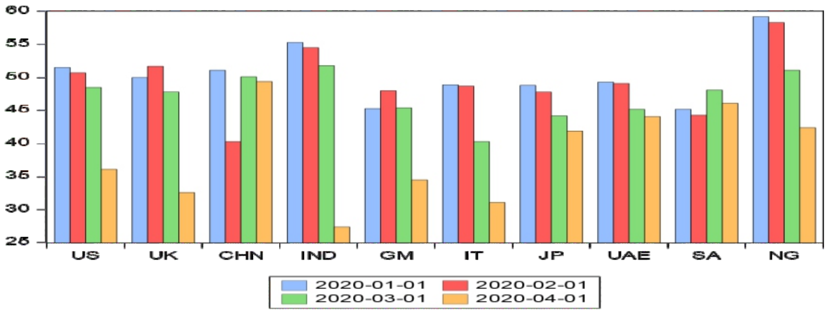




Source: John Hopkins University CSSE COVID-19 data

The negative impact on economic activities can be seen in the unimpressive Purchasing Managers' Index recorded by several countries across the globe. Between January and April 2020 (the hit of the pandemic), PMI numbers across several countries declined to record levels, below the benchmark level of 50 index points (Figure 5.2).

Figure 5.2: PMI Numbers from Jan-Apr 2020

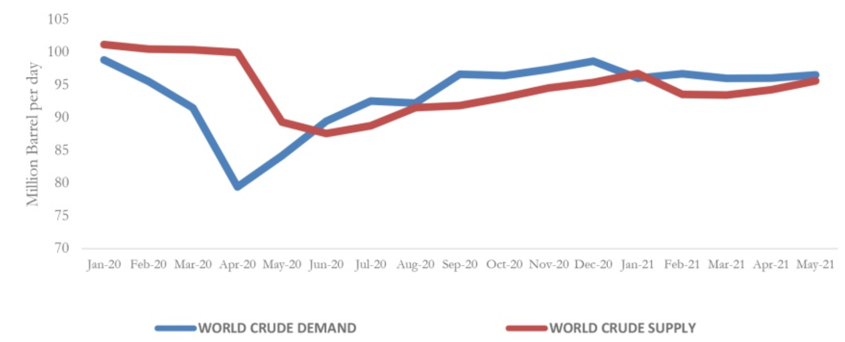


Source: Staff Compilation using data from IHS Markit, JP Morgan
Note: US, UK, CHN, IND, GM, IT, JP, UAE, SA and NG represent United States of America, United Kingdom, China, India, Germany, Italy, Japan, United Arab Emirate, South Africa and Nigeria.

Global crude oil market also saw prices drop to their lowest levels in history as demand dropped significantly, reflecting the minimal economic activities that characterised the lockdown period. The price of the Bonny Light crude stood at an average of US$70.39 per barrel in December 2019 but declined consistently following the onset of the Pandemic. It recorded its lowest price at an average of US$14.28 per barrel in April 2020 but rebounded to US$39.80 per barrel in October 2020 following easing of restrictions in some countries. Prices have increased consistently since November 2020, with the Bonny Light averaging US$42.02, US$50.19, US$54.61, and US$62.77 in November 2020, December 2020, January 2021 and February 2021, respectively. Notably, crude oil prices have, on average, stabilised around US$65 per barrel (pb) in response to the OPEC+ agreement to reduce crude oil production. Resumption of economic activities across the globe, following the easing of COVID-19 lockdown restrictions in many countries contributed to the increase. Furthermore, the world crude demand and supply gap has been forecasted to be close to zero throughout year 2021 (Figure 5.3). Thus, prices would remain largely stable.

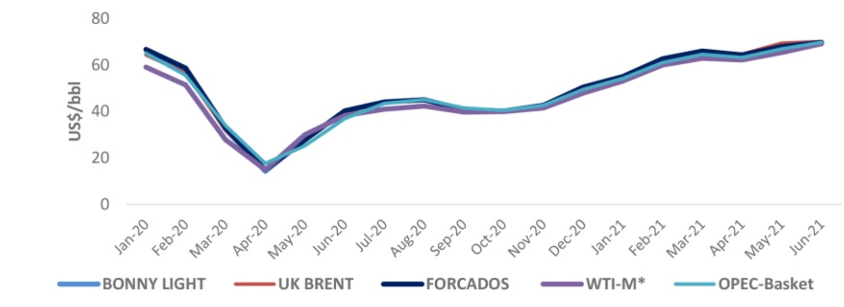
On the demand side, prices were strengthened by the decline in US inventories, expectations of recovery in fuel demand amid the reopening of economies due to the rollout of COVID-19 vaccines, and the increased US government stimulus package. On the supply side, crude oil prices were supported by the commitment of OPEC+ to maintain output quotas as well as additional voluntary cuts by Saudi Arabia. The prices of the UK Brent, Forcados, OPEC Basket, and WTI also trended alongside the Bonny Light price as seen in Figure 5.4.

Figure 5.3: World Crude Demand and Supply



Source: Reuters

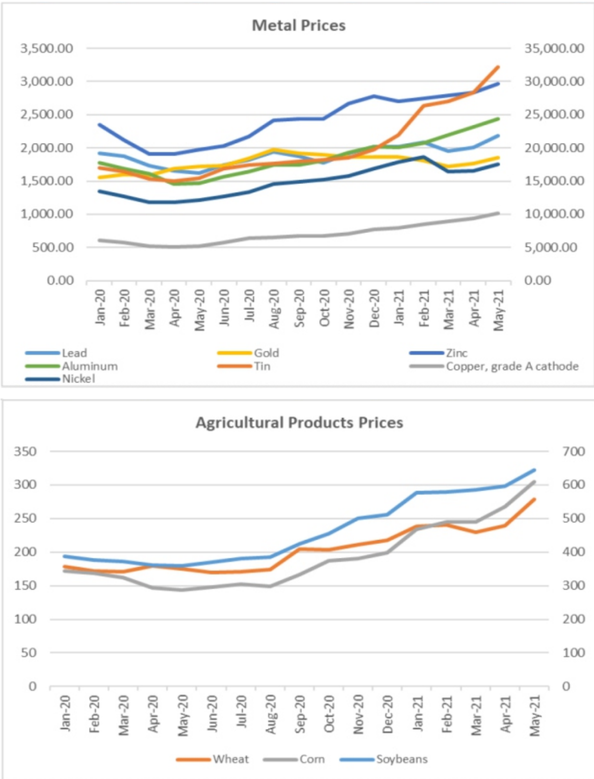
Figure 5.4: Global Crude Oil Prices



Source: Reuters

Furthermore, the prices of most commodities such as tin, Brent, corn, copper, among others were significantly impacted by the COVID-19 pandemic. Between January and April 2020, energy prices, metals and food prices dropped significantly but began to recover in response to supply shocks that followed the various lockdown measures implemented across the globe. The improved economic activities that followed the gradual easing of lockdown measures towards the end of the second quarter of 2020 helped to engender a rebound in the market. Commodity prices continued their recovery in the first quarter of 2021, driven by a positive global economic outlook and are expected to remain stable in the meantime.

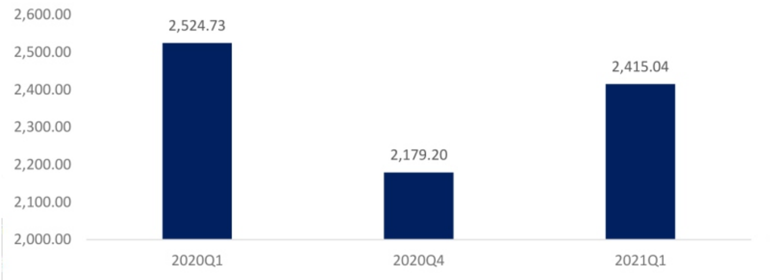
Figure 5.5: Responses of selected commodities prices to COVID-19 between Jan. 2020 – May 2021



Source: Index Mundi

5.3 Developments in the Domestic Economy

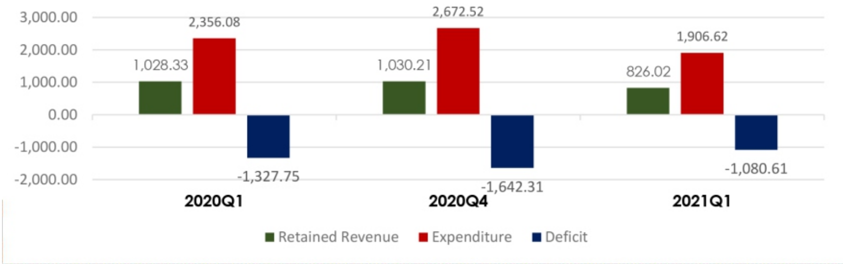
Subdued global demand significantly weakened domestic resources, thus exacerbating fiscal pressures. As the effects of the Pandemic took hold, the fiscal sector came under intense pressure. The sudden fall in both global and domestic aggregate demand, due to lockdown restrictions to curtail the spread of the virus, resulted in significant decline in government revenue. Government revenue decreased by 13.7 per cent to N2,179.20 billion in the fourth quarter of 2020 from N2,524.73 billion in the first quarter of 2020. However, it rose to N2,415.04 billion in the first quarter of 2021, due to a recovery in the oil price, induced by improvement in economic activities (Figure 5.6).



Source: Federal Ministry of Finance, Budget and National Planning (FMFB&NP); Office of the Accountant General of the Federation (OAGF), CBN, Research Department

Retained revenue rose marginally to N1,030.21 billion in the fourth quarter of 2020 relative to N1,028.33 billion in the first quarter of 2020 (Figure 5.7). However, it declined to N826.02 billion in the first quarter of 2021. The shortfall was attributed to reduced earnings from non-oil revenue sources. This exerted intense pressure on the fiscal position of the Government, expanding the fiscal deficit to N1,642.31 billion in the fourth quarter of 2020 from N1,327.75 billion recorded in the first quarter of 2020. However, the fiscal deficit moderated in the first quarter of 2021 to N1,080.61 billion, reflecting the effort of the Government to optimise expenditure in the face of revenue challenges occasioned by the pandemic.

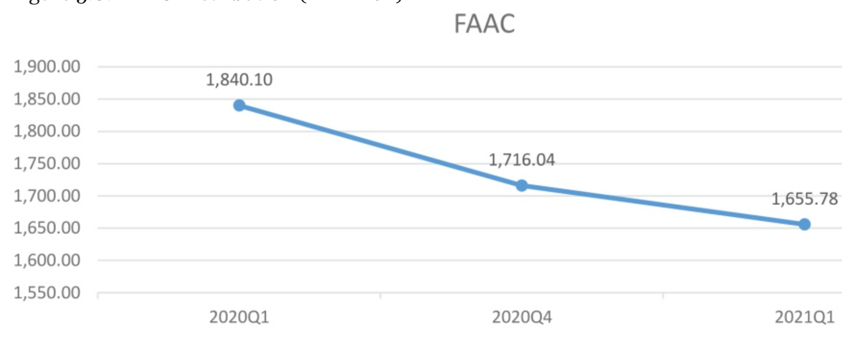
Figure 5.7: Fiscal Operations (N' Billion)



Source: Data from Office of the Accountant General of the Federation (OAGF).

In addition, total Federation Account revenue distribution to the three tiers of government decreased by N124.06 billion to N1,716.04 billion in the fourth quarter of 2020 from N1,840.10 billion in the first quarter of 2020 (Figure 5.8). The allocation further declined to N1,655.78 billion in the first quarter of 2021 due to the decrease in both oil and non-oil receipts as the second wave of the COVID-19 pandemic began to take root (Figure 5.8).

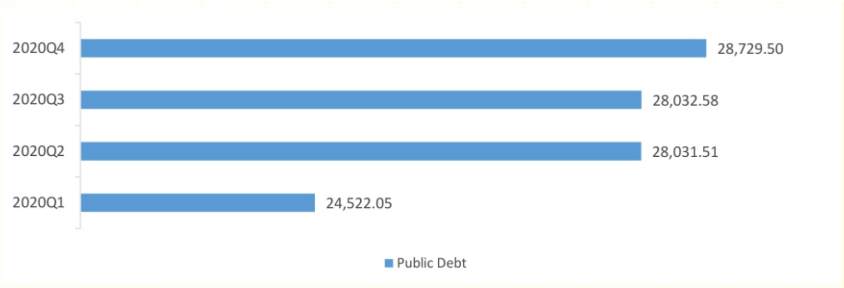
Figure 5.8: FAAC Distribution (N' Billion)



Source: OAGF.

Subnational governments' fiscal positions were also under severe pressure as internally generated revenue dwindled in the face of rising health and other associated expenses needed to mitigate the effects of the Pandemic. The combined effects of a lower-than-expected revenue collection and Government's fiscal responses led to an increase in the Federal Government of Nigeria (FGN) debt stock by 23.3 per cent, relative to the previous year (Figure 5.9).

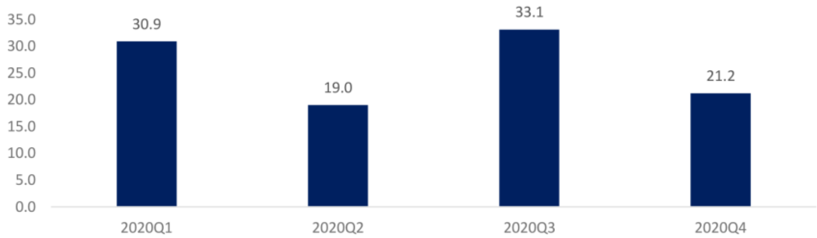
Figure 5.9: Total FGN Debt (N' Billion)



Source: Debt Management Office (DMO)

Furthermore, total external debt rose to N12,705.62 billion (US$33.35 billion) at end-Dec 2020, due to new concessionary loans from the IMF and the World Bank Group. The FGN's total domestic and external debt stocks accounted for 59.5 per cent and 40.5 per cent of the total debt respectively. Estimated debt service-revenue ratio improved to 21.2 per cent in the fourth quarter of 2020 from 30.9 per cent in the first quarter of 2020 (Figure 5.10). The debt portfolio of the FGN in the near-to-medium-term is expected to rise to achieve the 3 per cent GDP growth rate projection for 2021. A more immediate concern, nevertheless, is the debt service-revenue ratio which is expected to trend upward as interest payments commitments for the pandemic-related debts kick in while revenue still lulls. Tax reforms, expenditure prioritization and debt portfolio rebalancing would be required to tackle the rising threat of illiquidity.

Figure 5.10: Debt-Service-to-Revenue Ratio (Per cent)



Source: CBN, DMO

Monetary aggregates were impacted, while capital flow reversals engendered sell-off in the fixed income and equities market. The financial sector was significantly affected by the deleterious effects of the Pandemic on the real and fiscal sectors, as monetary aggregates expanded. M1 grew by 16.3 per cent in the second quarter of 2020 from 4.3 per cent in the first quarter of 2020 and increased further by 27.1 per cent in the third quarter of 2020. By the fourth quarter of 2020, M1 had grown astronomically by 50.0 per cent. These changes were driven by the growth in currency outside depository corporations and transferable deposits. In the first quarter of 2021, narrow money grew by 1.3 per cent, reflecting solely, the 2.9 per cent growth in transferable deposits. The upward movement in transferable deposits was attributed to the rising demand for transaction balances as inflationary pressure persisted in the economy.

Similarly, M3 grew in the first quarter of 2020 by 2.7 per cent. It later moderated to 2.6 per cent in the second quarter but pitched upward to 3.3 per cent in the third quarter of 2020. In a bid to reflate the economy following the economic recession in the third quarter of 2020, domestic credit in the economy surged, inducing a 10.8 per cent growth in M3 by the fourth quarter of 2020, due mainly to the 5.1 per cent fall in Net Foreign Assets (NFA), which suppressed the 1.7 per cent rise in domestic claims. NFA dipped on the heels of declining claims on non-residents, relative to the liabilities. Likewise, growth in net foreign asset improved during the period. Specifically, it increased to 40.6 per cent in the second quarter of 2020, compared with 27.74 per cent in the first quarter of 2020, and further increased to 27.5 per cent in the third quarter of 2020, albeit this was slower than the growth recorded in the second quarter of 2020. These changes were due, mainly, to the 24.2 per cent decline in liabilities to non-residents by the Bank, occasioned by portfolio realignments in the financial markets, following the exclusion of local corporates from investing in CBN bills. In the fourth quarter of 2020, foreign assets net of the banking system surged by 23.4 per cent. It, however, declined to 11.3 per cent at end-February 2021, due to a fall in claims and liabilities to non-residents by the Depository Corporations, arising from the decline in other loans to non-residents, as well as, fall in transferable deposit liabilities to depository corporations by non-residents (CBN, 2020).

Domestic claims remained at 4.7 per cent in the second quarter of 2020, same as the level in the first quarter of 2020 but subsequently rose to 7.4 and 15.9 per cent in the third and fourth quarters of 2020, respectively, as banks expanded credit to the real sector of the economy in line with the CBN's resolve to stimulate the economy. Claims on the domestic economy grew by 1.7 per cent in the first quarter of 2021. This reflected the 3.6 per cent rise in claims on 'other sectors' of the economy as net claims on the Federal Government fell, on the backdrop of the decline in purchases of government securities by banks. Net claims on the Central Government experienced mixed growth as it declined by 11.9 per cent in the second quarter of 2020 from a similar decline of 0.88 per cent in the first quarter of 2020. While it also declined 4.18 per cent in the third quarter of 2020, it sharply increased to 22.8 per cent in the fourth quarter of 2020. The growth in claims on 'other sectors' of the economy was driven, largely, by the sustained increase in credit by the depository corporations (CBN, 2020).

There was mixed performance in the asset quality of the banking industry, measured by the ratio of non-performing loans to total loans (NPL ratio). The NPL ratio improved to 6.0 per cent in the third quarter of 2020 from 6.4 per cent in the second quarter of 2020 but later weakened to 6.1 per cent in the fourth quarter of 2020 and 6.3 per cent in February 2021. The decline in NPL ratio in the third quarter of 2020 was due to continued recoveries, write-offs, disposals and increase in loan portfolios. In March 2021, the NPL ratio further improved to 5.5 per cent, due to sustained recoveries, write-offs and disposal of pledged collaterals, as the economy took a positive turn from the effects of the COVID-19 pandemic and economic recession (CBN, 2020).

Trading activities in the Nigerian capital market were also affected by the COVID-19 pandemic. The All Share Index (ASI) increased to 40,270.72 points in the fourth quarter of 2020 from 21,300.47 points in the first quarter of 2020, but slightly declined to 39,045.13 at end-March 2021. The improvement in the ASI in the fourth quarter of 2020, was due to gains in share prices of bellwethers and positive sentiments coming from the relative unattractiveness of fixed income investment with the decline interest rates as well as positive news of the likely roll-out of the COVID-19 vaccine in Nigeria. The decline in the ASI, in March 2021, however, was due, mainly, to persistent selloffs by investors as yields in the fixed income market trended upwards.

Aggregate market capitalisation increased to N38.59 trillion in the fourth quarter of 2020 above N24.51 trillion in the first quarter of 2020, but slightly declined to N38.35 trillion at end-March 2021 (Figure 5.11). The improvement in aggregate market capitalisation in most part of 2020, was due to positive sentiment and gains in medium and large capitalised stocks and increased patronage of domestic

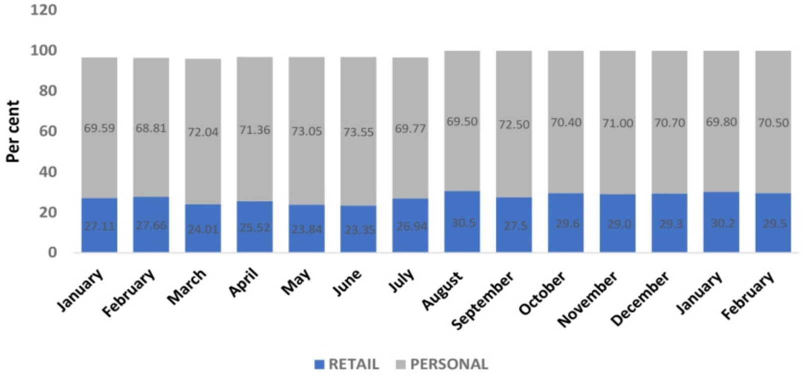
Figure 5.11: Nigerian Stock Exchange (All-Share Index and Aggregate Market Capitalisation)

Source: Nigeria Stock Exchange (NSE).

investors in the equities market. The decline observed in the first quarter of 2021 was due to reallocation of portfolios and persistent selloffs by investors as yields in the fixed income market trended upwards. This was in response to growing risks in the economy and the stock market, occasioned by the lingering effects of the COVID-19 pandemic.

Credit delivery was also significantly influenced by the COVID-19 Pandemic. Total gross credit to the private sector increased by N3,893.33 billion or 25.0 per cent to N19,460.99 billion at end-September 2020 from N15,567.66 billion at end-May 2019. This moderated to N18,713.66 billion at end-December 2020 and surged to N19,311.78 billion at end-February 2021 (Figure 5.12). The growth in credit was largely recorded in Manufacturing, Consumer credit, General commerce, Information & Communications, Construction, Finance & Insurance and Agriculture. Consumer credit stood at □1,66.20 billion at end-February 2021 and constituted 8.6 per cent of total credit to the private sector. Figure 5.12 indicates the composition of consumer credit from January 2020 to February 2021.

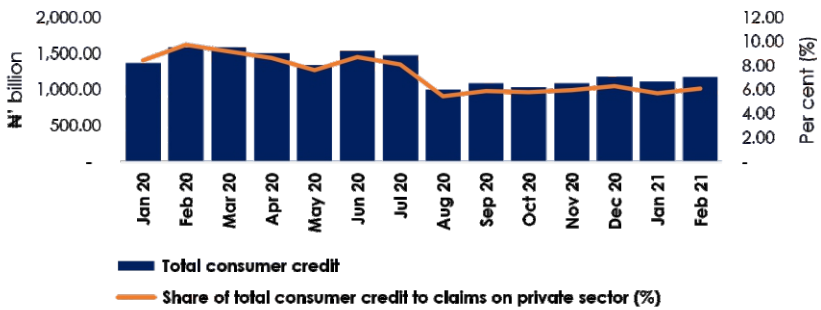
Figure 5.12: Composition of Consumer Credit (%) (Jan.2020 to Feb. 2021)



Source: Central Bank of Nigeria

Share of total consumer credit to claims on private sector (%) has also evolved over the last four quarters (Figure 5.13).

Figure 5.13: Evolution of Consumer Credit (Jan. 2020 – Feb. 2021)



Source: Central Bank of Nigeria

There were significant production disruptions, leading to negative growth, while inflationary and exchange rate pressures heightened. Although the economy began the year 2020 with a growth rate of 1.87 per cent in the first quarter, it slipped into a recession in the third quarter of the year. This was due to a sharp decline in crude oil price and supply-chain disruptions as lockdown measures were imposed to contain the COVID-19 virus. Within this period, both the Purchasing Managers' Index (PMI) and Employment PMI remained below the threshold of 50 index points (Figures 5.14 and 5.15). However, as crude oil prices rebounded in the fourth quarter of 2020, coupled with the

Figure 5.14: Purchasing Mangers' Index (PMI)

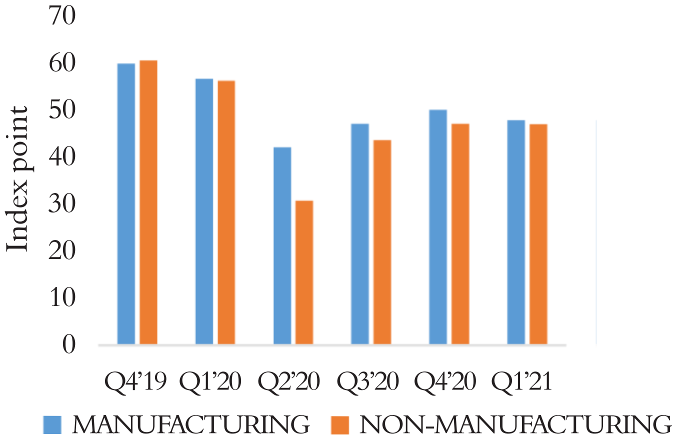
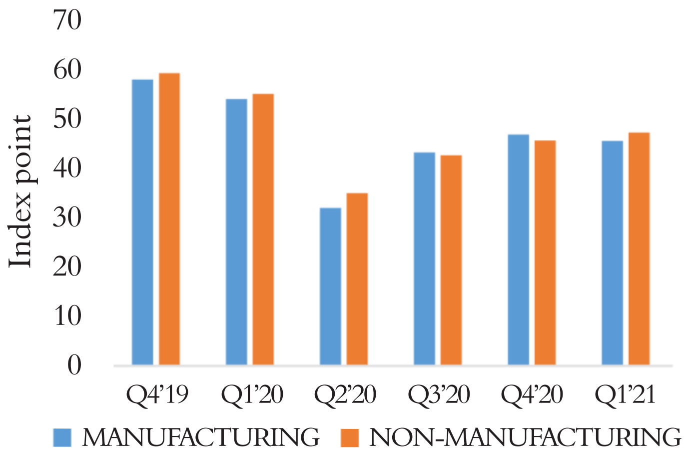


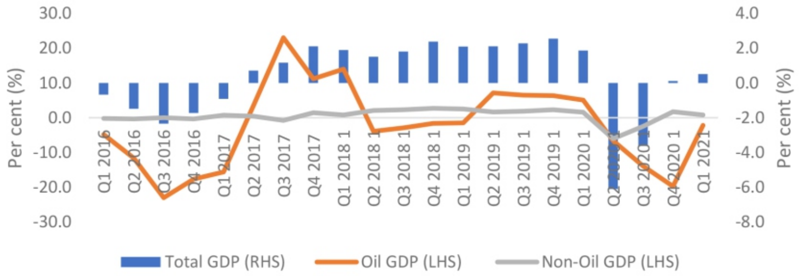
Figure 5.15: Employment (PMI)



Source: Central Bank of Nigeria

easing of the lockdown restrictions, and a combination of fiscal and monetary stimulus, economic activities picked up and the economy marginally recovered from the recession.

Figure 5.16: Domestic Output Performance

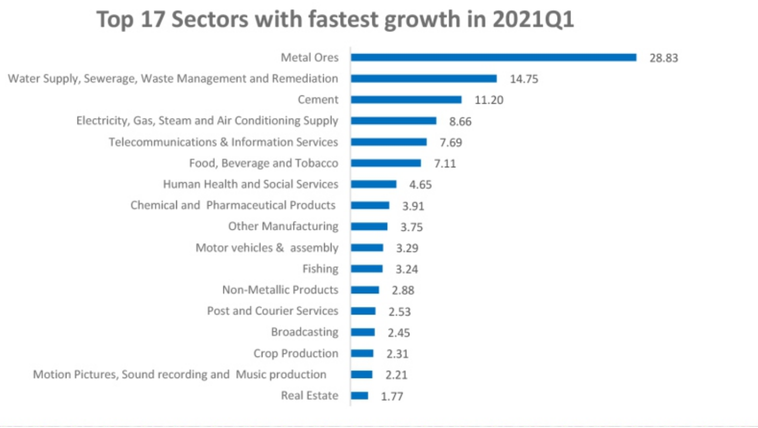


Source: ***National Bureau of Statistics (NBS)***

The real GDP grew by 0.51 per cent in 2021Q1, compared to the growth of 0.11 per cent in the preceding quarter and 1.87 per cent in the corresponding quarter of 2020 (Figure 5.16).

In spite of the disruptions to economic activities by the pandemic, it created some positive opportunities for some sectors but with severe consequences for others. As shown in Figure 5.17, among the sectors that experienced faster growth during the period include: Telecommunication and Information Services, Health and Social Services as well as Chemical and Pharmaceutical Products.

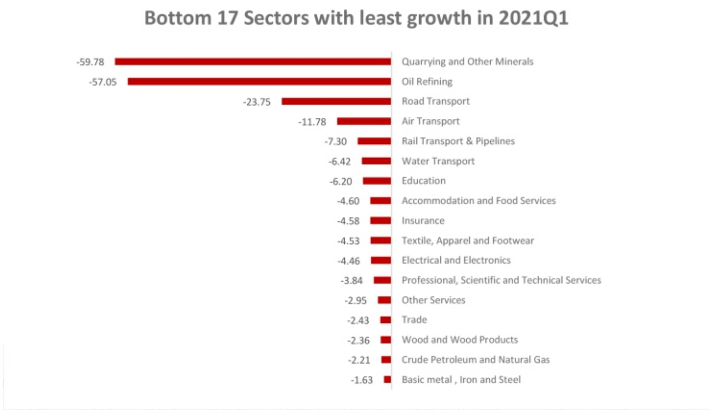
Figure 5.17: Selected Sectoral Activities with the most Growth and their Relative Contributions to GDP Growth in 2021Q1 (%)



Source: Central Bank of Nigeria (CBN)

Conversely, as expected, Oil refining, Transportation Sector and Education were among the sectors that suffered severe contraction (See Figure 5.18).

Figure 5.18: Top 17 Selected Sectoral activities with the least Growth and their Relative Contributions to GDP Growth in 2021Q1 (%)



Source: NBS

Inflationary pressure increased from August 2019 at 11.02 per cent and persisted throughout year 2020 as a result of the COVID-19 pandemic. From its level in August 2019, inflation rate rose to 15.75 per cent in the fourth quarter of 2020. The pressure continued in 2021, pushing it further to 18.12 per cent in April 2021, on account of the lingering effects of the Pandemic on the economy (Figures 5.19 and 5.20). The food component in the CPI basket was the major driver of the headline inflation (month-on-month) during the period.

Figure 5.19: Headline Inflation (Year-on-Year), Per cent

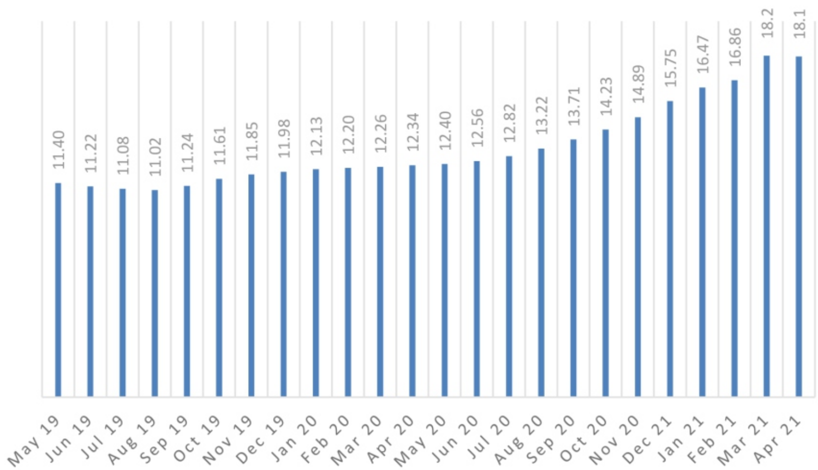
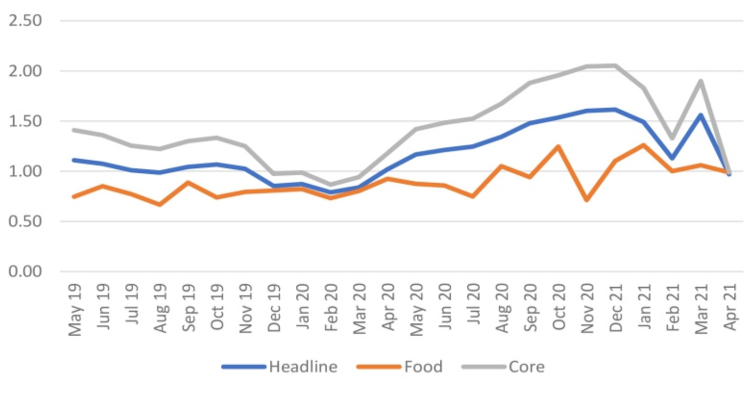
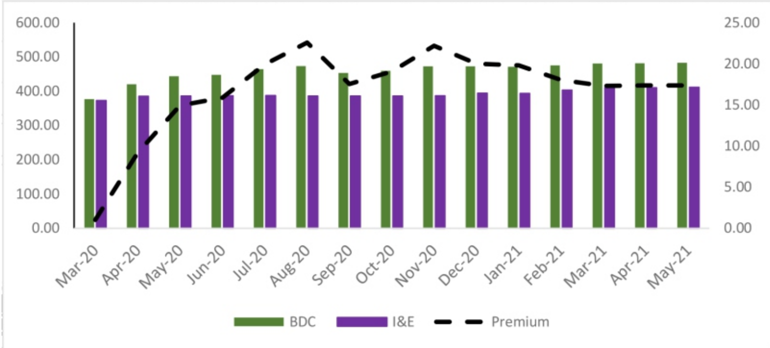


Figure 5.20: Inflation Trend (Month-on-Month), Per cent



Exchange rate movements was also influenced by the COVID-19 pandemic. The I&E exchange rate (₦/US$) depreciated from ₦365.33 (in the first quarter of 2020) to ₦385.87, ₦386.73 and ₦388.04 in the second, third and fourth quarters of 2020, respectively (Figure 5.21). It further depreciated to ₦402.11 in the first quarter of 2021 (January-March 2021 Average). As at end-April 2021 and end-May 2021, the I&E exchange rate further depreciated to ₦410.36 and ₦411.27, respectively, per US dollar (Figure 5.21). The depreciation was due to increased demand pressure in the I&E segment of the foreign exchange market on account of gradual normalisation of economic activities owing to COVID-19 vaccine rollout and the Central Bank's policy to conserve external reserves. BDC Exchange Rate (₦/US$) also depreciated from ₦365.84 (in the first quarter of 2020) to ₦437.20, ₦464.37 and ₦467.95 in the second, third and fourth quarters of 2020, respectively (Figure 5.21). The rate further depreciated to ₦476.02 as at March 22, 2021 (January 1-March 22, 2021 Average). As at end-May 2021, the BDC exchange rate had depreciated to ₦482.72/US$. The depreciation was due to increased demand pressure in the BDC segment of the foreign exchange market for personal and business travel allowances as well as other foreign exchange related invisible transactions due to easing of travel restrictions across the globe. Consequently. the premium between the BDC and I&E rates as at end-May 2021 widened to 17.37 per cent, albeit lower than the 20.0 per cent premium recorded as at end-December 2020.

Figure 5.21: Exchange Rate Movements



Source: CBN

The pandemic also triggered external sector vulnerability as trade balance position worsened, while the inflow of foreign direct investments and foreign portfolio investments waned. This follows the restrictive effects of the Pandemic. Crude oil price significantly declined, exerting pressure on external reserves and the exchange rate. Flight to safety postures of investors emanating from market sentiments led to episodes of capital flow reversals. Coupled with terms of trade shocks, which adversely impacted the financial markets, FPI also declined amidst initially tight global liquidity conditions and exchange rate market pressure.

Notably, trade balance deteriorated due to significant decline in crude oil and gas export, as well as increase in non-oil imports. Specifically, trade deficit increased from US$0.95 billion in the first quarter of 2020 to US$4.16 billion in the second quarter of 2020. This further worsened to US$5.04 billion and US$6.25 billion in the third and fourth quarters of 2020, respectively. Export earnings from crude oil and gas declined from US$11.17 billion in Q1 2020 to US$5.18 billion in Q2 2020. However, it increased to US$7.30 billion and US$7.76 billion in the third and fourth quarters of 2020, respectively. The moderate increase witnessed in the last two quarters of 2020 was occasioned by the steady recovery in crude oil prices at the international market (CBN, 2020).

Import of goods also fell below the pre-pandemic levels. It declined from US$14.26 billion in the first quarter of 2020 to US$10.39 billion in the second quarter of 2020. However, it increased to US$13.00 billion and US$14.69 billion in the third and fourth quarters of of 2020, respectively. Petroleum products import, which was US$3.27 billion in the first quarter of 2020, decreased to US$0.63 billion in the second quarter, due to lull in global economic activities as countries observed lockdown to contain the spread of the virus. However, it increased to US$1.56 billion and US$1.84 billion in the third and fourth quarters of 2020, respectively, signifying increased demand as economic activities picked up due to the easing of lockdown restrictions. Non-oil imports, which stood at US$10.99 billion in the first quarter of 2020, declined to US$9.76 billion in the second quarter, before increasing to US$11.43 billion and US$12.86 billion in the third and fourth quarters of the year, respectively (CBN, 2020).

The services sector was significantly affected by the Pandemic, particularly the aviation industry, as international travel was grounded during the lockdown in the second quarter of 2020, to contain the spread of the COVID-19 virus. As a result, deficit in the services account narrowed significantly from US$7.89 billion in the first quarter of 2020, to US$2.58 billion and US$2.14 billion in the second and third quarters of 2020, respectively. But as economies gradually opened, the deficit widened to US$3.22 billion in the fourth quarter of 2020 (CBN, 2020).

Inflow of remittances declined from US$5.64 billion in the first quarter of 2020 to US$3.38 billion in the second quarter of 2020 but increased to US$3.89 billion and US$4.09 billion in the third and fourth quarters of 2020, respectively. Improvement in remittances was due to the easing of lockdown restrictions across the globe, as economic activities improved in migrant host nations.

Foreign Portfolio Investment (FPI) inflow declined significantly in 2020, with significant capital reversal witnessed in some quarters. A reversal of US$5.53 billion was recorded in the first quarter of 2020, while an inflow of US$0.68 billion and US$1.74 billion was witnessed in the second and third quarters of 2020, respectively. Moderate portfolio capital reversal of US$0.48 billion was recorded in the fourth quarter of 2020. The deterioration in FPI Inflow was due to a decline in the purchase of equity and money market instruments as global financial conditions tightened. On the other hand, FDI Inflow increased from US$0.28 billion in the first quarter of 2020 to US$0.90 billion in the second quarter but declined to US$0.78 billion and US$0.44 billion in the third and fourth quarters of 2020, respectively, due to decline in both equity capital and reinvested earnings.

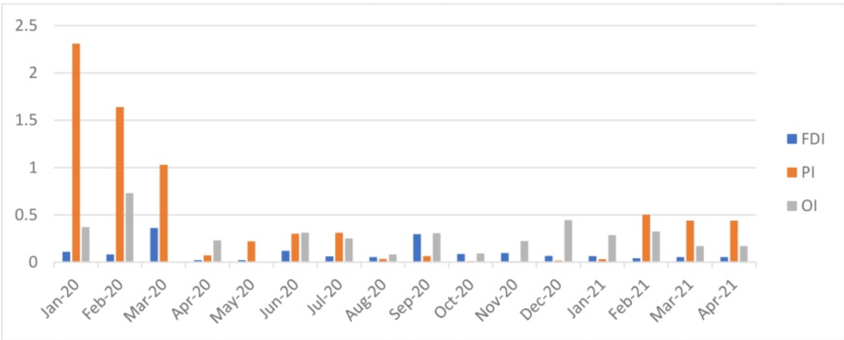
The effect of the COVID-19 pandemic on global financial conditions also affected the inflow of foreign private capital between 2020 and 2021. Capital importation in the form of portfolio investments into the economy declined from US$2.31 billion in January 2020 to US$0.36 billion, US$0.30 billion, US$0.06 billion and US$0.02 billion in March, June, September and December 2020, respectively (Figure 19). As at April 2021, the value of portfolio investment stood at US$0.44 billion compared with US$0.50 billion and US$0.44 in February and March 2021, respectively. This was due to significant decline in the purchase of equity and money market instruments (CBN, 2020).

Capital importation, in the form of direct investment, fluctuated during the review period as it increased from US$0.11 billion in January 2020 to US$0.36 billion in March 2020. However, it declined significantly to US$0.12 billion in June 2020 before rising to US$0.30 billion in September 2020, driven largely by improved inflow of fresh equity with the gradual reopening of businesses, as lockdown eased in a significant number of countries. Beyond September 2020, direct investment has continued to dwindle, declining to

US$0.07 billion in December 2020 and US$0.05 billion in April 2021 (Figure 5.22).

Other investment liabilities, driven, largely by the inflow of loans exhibited similar trend as FDI as it declined from US$0.37 billion in January 2020 to US$0.02 billion in March 2020, before increasing to US$0.31 billion in September 2020. It further increased to US$0.47 billion in December 2020 before declining to US$0.17 billion in April 2021 (CBN, 2020).

Figure 5.22: FDI, Portfolio Investment and Other Liabilities.



Source: CBN

External Reserves (US$ billion) increased from US$33.69 billion in the first quarter of 2020 to US$35.78 billion in the second quarter of 2020 and further increased to US$35.96 billion in the third quarter of 2020, before declining to US$35.04 billion in the fourth quarter of 2020 (Figure 5.23). The external reserves as at March 2021 stood at US$35.14 billion and has further declined to US$34.19 billion as at May 2021 (Figure 5.23).

The depletion in reserves was due to payments to Third Parties and the Bank's interventions at the various segments of the foreign exchange market. Similarly, external reserves per capita (US$) increased from US$163.43 in the first quarter of 2020 to US$173.57 in the second quarter of 2020.

It further increased to US$174.44 and US$176.89 in the third and fourth quarters, respectively. The external reserves per capita as at March 23, 2021 declined slightly and stood at US$170.10.

Figure 5.23: External Reserves, From April 2020 to May 2021

Source: CBN

5.4 Key Monetary and Fiscal Policy Responses to the COVID-19 Pandemic

Several policy measures were formulated and implemented by the FGN to minimise the negative impact of the COVID-19 pandemic on the economy. These policy measures could be grouped into three: fiscal; monetary and exchange rate policy measures; and lastly, regulatory measure.

5.4.1 Fiscal Policy Measures

Some of the measures taken by the FGN to lessen the negative impact of the pandemic include; the development of one year Economic Sustainability Plan (ESP) with a stimulus package of N2.3 trillion, establishment of a N500 billion COVID-19 Intervention Fund and enhanced financial support to the states for critical health care expenditure (US$190 million World Bank Regional Disease Surveillance System facility to be accessed by the Nigeria Centre for Disease Control-NCDC). In addition, the Federal Government provided N 102.5 billion for direct intervention in the health sector.

Furthermore, there was also an augmentation of federal allocations to states and moratorium on states' debts where US$150 million was drawn from the Nigeria Sovereign Investment Authority (NSIA) Stabilisation Fund to support the June 2020 Federation Accounts Allocation Committee (FAAC) disbursement. Strategic sectoral interventions were also made. Small and Micro Enterprises (SMEs) were exempted from corporate taxation, whilst corporate tax rates for Medium-Sized Enterprises (MSEs) were reviewed downward from 30 per cent to 20 per cent. The Finance Act (2019) VAT Exemption list included essential food; medical supplies and other basic items that are critical in Nigeria's efforts to address the COVID-19 pandemic. The Appropriation Act of 2020 was amended to revise the benchmark oil price and production for 2020 to US$40/barrel and 1.86 mbpd respectively. Furthermore, the IMF approved and disbursed US$3.4 billion for Nigeria under the Fund's Rapid Financing Instrument. The African Development Bank (AfDB) also approved US$288.5 million for Nigeria to bolster the Federal Government's plans to improve surveillance and respond to COVID-19 emergencies, ease the effect on workers and businesses, and strengthen the social protection system.

5.4.2 Monetary and Exchange Rate Policy Measures

The policy measures adopted by the FGN through the CBN to minimise the negative effects of the pandemic on the economy, included the following: reduction in the policy rate (MPR) by 100 basis points from 13.5 per cent to 12.5 per cent in May 2020 and an additional reduction of 100 basis points to 11.5 per cent in September 2020; adjustment of the asymmetric corridor around the MPR from +200/-500 basis points to +100/-700 basis points; reduction in interest rate on all CBN interventions from 9.0 to 5.0 per cent; one year moratorium on CBN intervention facilities from March 2020 to March 2021 and a further extension running till March 2022; N50 billion (US$139 million) targeted credit facility; liquidity injection of N3.6 trillion (2.4 per cent of GDP) into the banking system; adjustment of official exchange rate by 15.0 per cent in March 2020 from N305/US$ to N360/US$ and a further adjustment to N380/US$ in July 2020 and N410/US$ in the first quarter of 2021. Other measures taken include the restriction on the importation of milk, dairy products, maize and corn, to encourage local production as well as key into the Bank's backward integration programme in the first and third quarters of 2020. The CBN on March 25, 2020, suspended the sale of foreign exchange to Bureau de Change (BDC) operators following a request by the Association of Bureau de Change of Nigeria (ABCON) to have a holiday due to the government's directive to restrict gatherings and reduce person-to-person contact, to curb the transmission of the coronavirus.

However, in a move to strengthen the naira and as part of efforts to enhance accessibility of foreign exchange, particularly to travellers on the announcement of the limited resumption of international flights, the Bank resumed dollar sales to Bureau de Change (BDC) operators on September 7, 2020. The CBN also announced the applicable exchange rate for the disbursement of International Monetary Transfer Operators (IMTOs) proceeds as: IMTOs to banks, N382/$1; banks to CBN, N383/$1, CBN to BDCs, N384/$1 and BDCs to end users; no more than N386/$1.To ensure the prudent use of foreign exchange, as well as eliminate incidences of over-invoicing, mispricing, excessive handling charges and avoidable costs, the CBN directed Authorised Dealers to cease the opening of Form M (a statutory document to be completed by all importers for the importation of goods into Nigeria) whose payments are routed through buying companies/agents or any other third party.

The CBN also introduced a product price verification mechanism, which Authorised Dealers were directed to use in verifying quoted prices before Form M were opened from August 24, 2020. Authorised Dealers were therefore only allowed to open Form M for Letters of Credit, Bills for Collection and other forms of payment in favour of the ultimate supplier of the product and after price verification, using the product price verification mechanism. This process was expected to eliminate incidences of over-invoicing, transfer pricing, double handling charges and avoidable costs passed to Nigerian consumers. The CBN also instructed that all exporters with unrepatriated export proceeds were to be barred from accessing all banking services by January 31, 2021, to ensure the prudent use of foreign exchange and encourage the inflow of foreign exchange into the economy.

To liberalise, simplify and improve the receipt and administration of diaspora remittances into Nigeria, the CBN also amended the procedures for receipt of diaspora remittances. Beneficiaries of Diaspora Remittances through International Money Transfer Operators (IMTOs) were to receive such inflows in foreign currency (US Dollars) through the designated banks of their choice. Such recipients of remittances were given the option of receiving these funds in foreign currency cash (US Dollars) or into their ordinary domiciliary account. The amendment was aimed at deepening the foreign exchange market, providing more liquidity, and creating more transparency in the administration of Diaspora Remittances into Nigeria. The changes were expected to help finance a future stream of investment opportunities for Nigerians in the Diaspora, sustain and encourage the inflow of foreign exchange into the economy, while also guaranteeing that recipients of remittances had access to a market-reflective exchange rate for their inflows.

The Bank, however, suspended Mobile Money Operators, Payment Switch providers from receiving remittances or integrating their systems with IMTOs on December 16, 2020.

The Bank pushed this directive noting that a number of operators kept paying remittances in local currency instead of the US dollar as earlier directed. It, however, approved 47 IMTOs to receive foreign exchange remittances from Diaspora Nigerians. Seventeen of the IMTOs were based in the United Kingdom; 14 in Lagos; 8 in the United States of America; 3 in Abuja; 2 in Senegal and 1 each in Ibadan, Morocco and Belgium, respectively.

To sustain the encouraging increase in inflow of diaspora remittances into the country, the CBN introduced the Naira-4-Dollar Scheme', an incentive for senders and recipients of International Money Transfers. Accordingly, all recipients of diaspora remittances through CBN licensed IMTOs were to be paid N5 for every USD1 received as remittance inflow. The scheme took effect from March 8, 2021 and ended on May 8, 2021.

There were also efforts to unify the various exchange rates. The first was in March 20, 2020 – where the naira exchange rate was adjusted by 15.0 per cent from N306/$1 to N360/US$1 at the Interbank market and N360/US$1 to N380/US$1 (5.0 per cent) at the I&E window. IMTOs sales to banks were adjusted to N376/US$1, banks to CBN at N377/US$1. The CBN to BDC's at N378/US$1 and BDCs to end-users at maximum of N380/US$1. Subsequently, on July 3, 2020 the official exchange rate was adjusted from N360/US$1 to N380/US$1, in the Secondary Market Intervention Sales (SMIS). In August 27, 2020, the Naira was further adjusted. IMTOs sales to banks increased from N376/US$1 to N382/US$1, while banks to CBN moved from N377/US$1 to N383/US$1. The CBN to BDCs rate was changed from N378/US$1 to N384/US$1 and BDCs to end-users adjusted to a maximum of N386/US$1 from N380/US$1. The volume of sale to BDCs stood at US$10,000 per BDC. Within the first quarter of the year 2021, the I&E exchange rate saw further adjustment to N410/US$1. The CBN also embarked on foreign exchange funding to pharmaceutical companies to assist in procuring raw materials and equipment to boost local production of drugs, following shortages in the country. This was due to export restrictions which disrupted global supply chains.

5.4.3 Regulatory Measures to Promote Financial Stability

The CBN provided a temporary regulatory forbearance to restructure loans from affected sectors. Monitoring of foreign exchange was stepped up through the collection and analysis of high frequency data, among others. The CBN also directed banks to carry out an impact assessment of COVID-19 on impairment numbers, incorporating all the regulatory forbearances. The use of bank's own capital buffers was also identified by the CBN as the first line of defense.

The implementation of these policy measures coupled with a gradual rebound in crude oil prices, bargain hunting activities in the equities market and increased investors' patronage of blue-chip stocks boosted confidence in the financial market. The average net industry balance increased to □547.18 billion in October 2020, compared with □367.17 billion in September 2020. This is driven by inflow from FAAC payments, OMO maturities, FGN Bond payments and payments of outstanding salaries of Federal and State Government workers. Average banking system liquidity moderated to N538.63 billion in December 2020, and further took a downward trend to close at N258.71 billion in March 2021. Money market rates fell, driven, largely, by the level of liquidity in the banking system. Activities on the Nigerian Stock Exchange (NSE) were bearish at end-March 2021, as the ASI and aggregate market capitalisation (AMC) declined respectively. The development was attributed to profit-taking activities and persistent selloffs by investors as yields in the fixed income market trended upwards.

Performance of financial soundness indicators were mixed during the study period. The industry Capital Adequacy Ratio (CAR) decreased to 15.80 per cent at end-April 2021 from

16.10 per cent at end-March 2021, due to higher increase in total qualifying capital and a slight increase in risk weighted assets, driven by the implementation of the policy measures to increase lending to the real sector. The average industry liquidity ratio (LR) increased to 65.87 per cent at end-April 2021, from 64.99 per cent at end-March 2021, reflecting the increase in the stock of liquid assets held by banks. The industry average NPL Ratio stood at 5.90 per cent at end-April 2021, an improvement above the 6.0 per cent at end-March 2021, reflecting improved capacity of economic agents to service their loan portfolios.

Table 5.2: Financial Soundness Indicator (FSIs)

S/N	Industry Average Ratios	March 2021 (%)	April 2021 (%)	Remarks
1	Capital Adequacy Ratio (CAR) (≥15 for International Licensed Banks; ≥10 - National and Regional Banks)	16.1	15.8	Decreased
2	Liquidity Ratio (LR) (≥30)	64.99	65.87	Increased
3	Non-Performing Loans (NPL) Ratio (≤5)	6.0	5.9	Decreased

Source: Banking Supervision Department (BSD); '()' indicates Regulatory Limit (%)

5.5 Economic Outlook

Economic activities are expected to rebound across the globe with the rollout of COVID-19 vaccines across several countries. Particularly, the improvement in global oil market presents an upside for the Nigerian economy. Nonetheless, significant downside risks remained.

5.5.1 Downside Risks

The second wave of the COVID-19 pandemic in both developed and developing economies could potentially prolong the lingering disruptions to global and domestic supply chains. Also, inflationary pressure remains rife on the back of an exchange rate pass-through as well as increasing cost of Premium Motor Spirit (PMS). The rising public debt and the deteriorating debt-service-to-revenue ratio could further narrow the fiscal space and weaken fiscal buffers. Exchange rate pressure could deepen, driven by lower-than-expected export receipts and the activities of speculators and arbitrage seekers.

Nigeria's weak commodity value chain also presents significant drag to the expected rebound in economic activities. Furthermore, inadequate infrastructure, particularly electricity supply, might also continue to increase the cost of doing business and dampen output. Security challenges stemming from banditry, kidnappings, terrorism, inadequate cyber security safeguards and porous borders could also impede economic activities and affect foreign investments.

5.5.2 Tailwinds

Nigeria has already received the first batch of 3.9 million doses the Oxford/AstraZeneca COVID-19 vaccine and are already being administered. This is expected to boost economic activities by engendering confidence to resume work. Also, the Bank's recent policy on Diaspora remittances and over-invoicing is expected to improve liquidity in the foreign exchange market. Diaspora remittances could potentially improve as the US$1.9 trillion US stimulus package is expected to boost US employment levels.

The sustained recovery in crude oil prices also presents a significant positive contribution to output growth and could give the fiscal authorities greater flexibility to implement the needed buffers as well as broaden the fiscal space. Furthermore, access to finance by the private sector (households and SMEs) would continue to increase, as evidenced by increased disbursement of loans by PFIs (particularly NMFB) to household and SMEs.

Also, the establishment of InfraCo to drive investments in cutting edge infrastructure projects could potentially narrow the infrastructure deficit and boost economic growth in the long-run. In addition, the planned resuscitation of the Nigeria Commodity Exchange (NCE) would help to strengthen the agricultural value chain. With the ASI and market capitalisation maintaining a positive trajectory following price gains on some blue-chip stocks, portfolio inflow may continue to strengthen. Government's renewed determination to speedily implement the Economic Sustainability Plan (ESP) stimulus of N2.3 trillion would boost recovery. Importantly, the decision of the OPEC+ to keep a tight rein on production is expected to provide further relief for the budget benchmark, as global crude oil prices trend upwards.

Output is expected to record growth in 2021Q2, given that oil price hovers around $65b/d. However, inflationary pressure is expected to linger in the short-term, which would be driven by food supply shocks associated with insecurity across the country, and speculations around increase in the price of PMS and electricity tariff. External reserves will remain in a comfortable level in 2021Q2, assuming oil price hovers around $65b/d. Foreign portfolio investment will also increase in 2021Q2, due to the positive outlook in international oil prices and rollout of vaccine across the globe.

5.6 Conclusion

Overall, though the Nigerian economy has been severely tested by the impact of COVID-19 virus and weak oil prices, the outlook remains positive. The pathway to sustainable recovery will be largely bumpy on the back of constraints in supply chain and lower-than-expected revenue collections. The full and effective implementation of the ESP stimulus and the 2021 Appropriation Act will be key to Nigeria's rapid growth recovery. Sustained agricultural intervention programmes/schemes to bridge the output gap is necessary to scale-up the diversification of the production base and eliminate structural rigidities in the economy as well as ensure food security and critical raw materials.

Effort should be made to expand the base (depth and coverage) of the post-COVID pandemic interventions to further relieve its adverse socio-economic consequences on the citizens. Also, improve productivity of non-oil exports and standardisation to drive growth and diversify government's revenue base should be sustained. Furthermore, the implementation of the Trade Monitoring System initiative of the CBN, which is designed to enhance the efficiency on the collections of non-oil export proceeds, should be sustained. Tackling the worsening security challenges within the country equally holds the prospects for the expected recovery and sustainable growth.

6

The Sierra Leone Experience

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Director of Research, Bank of Sierra Leone

6.1 Introduction

SIERRA LEONE IS EXPERIENCING A DISTRESSING economic period. Government domestic revenue has shrunk, debt,-both domestic and external- is mounting marked by arrears and outstanding loans. The pandemic have impeded economic activity, collection of non-mining revenues and access to tourism revenue and Foreign Direct Investment. While income levels have dropped drastically, the cost of basic commodities continues to spiral upward. The government initially introduced economically taxing COVID-19 restrictions before relaxing them later; other pandemic-related actions included a raft of economic measures aimed at containing the economic fallout from the COVID-19.

In this paper, the Bank of Sierra Leone presents its assessment of the impact of the COVID-19 on the Economy of Sierra Leone and highlight some of the policy measures adopted to mitigate its impact, with particular focus on QAERP.

6.2 Recent Infection Rate

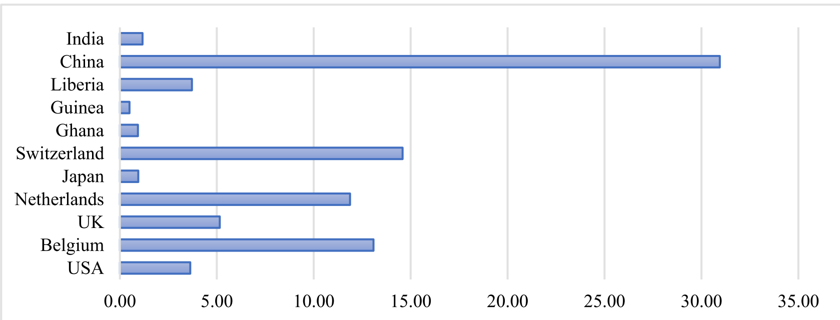
The COVID-19 pandemic hardly hit the economy of Sierra Leone. A few infection cases were recorded. As of 22nd November 2020, about 2,405 total cases of infection were recorded. These were made up of 74 deaths, 1,827 recoveries and 504 active cases. The recovery rate was estimated at 76per cent. Total cases per one million of the population was 299 whilst deaths per one million of the population was 9. There was no data on the total number of test run as at the said date.

6.3 Channels through which the COVID-19 could be transmitted to the Sierra Leone Economy

The world is currently facing an unprecedented health crisis, with measures adopted to contain the Coronavirus (COVD-19) weighing down on economic activity. The International Monetary Fund (IMF), in its April 2020 World Economic Outlook (WEO), projected the global economy to contract significantly by 3 percent in 2020, much worse than during the 2008–09 financial crisis.

The COVID-19 induced contraction in the global economy is expected to spill over into Sierra Leone economy through the trade and financial channels. This could weaken Sierra Leone's Balance of Payments. In addition, the demand for exports might contract especially as growth in the leading trade partners such as China and Europe –Sierra Leone's major export destinations are the epicenters of the COVID-19 pandemic (Figure 6.1).

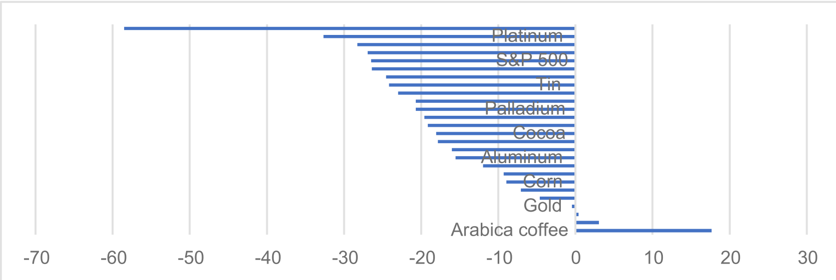
Figure 6.1: Direction of Trade Exports



Source: UNCTAD

On the other hand, the contraction in global activity has led to a sizable reduction in commodity prices -especially iron ore prices-might imply lower export earnings and investment inflows into the sector. This development combined with higher import prices especially for food items are likely to contribute to a further depreciation of the Leone against the U.S. dollar, with pass through effect on domestic inflation.

Figure 6.2: Contraction in global commodity Prices



Source: World Bank Pink sheet

6.4 Effects on the Sierra Leone Economy

Promptly after Case #1 was detected, the government introduced restrictions to contain the spread of COVID-19 (such as inter-district lockdowns and several three-day curfews). Those restrictions had a supply-restraining impact on economic activity, thereby leading to falling incomes and increased unemployment—in an economy that was already suffering from stagflation. While income levels have dropped drastically, the cost of basic commodities continues to spiral upward

6.4.1 Cost of addressing the economic fallout from the COVID-19

In planning the country's response to, and estimating the economic cost of, COVID-19, three scenarios were considered, namely: 1) Baseline Scenario; 2) Moderate Risk Scenario; and 3) Extreme Risk Scenario (Table 6.1).

Scenario 1 (Baseline Scenario): Numerous positive cases and fatalities in trading partner and donor countries, but no positive cases in Sierra Leone. Under this scenario, projected GDP growth rate is revised from 4.2per cent to 3.8per cent and a revenue loss of 9per cent.

Scenario 2 (Moderate risk scenario): Positive cases in Sierra Leone result in short-term nationwide movement restrictions. Here, the projected GDP growth rate is revised from 4.2 per cent to 2.2 per cent and a revenue loss of 15 per cent. This scenario was judged to be the most plausible.

Scenario 3 (Extreme risk Scenario): In addition to continued disruptions globally, positive cases emerge domestically, the country's health system becomes overwhelmed, and more significant 'lockdown' measures are introduced for a more extended period. Under this scenario, projected GDP growth rate is revised from 4.2per cent to negative.

Table 6.1: Scenario Analysis of the Impact of COVID-19

Scenario	Total costs (US$ million)	Financing Gap (US$ million)
Baseline Scenario	231.4	161.3
Moderate risk Scenario	304.1	234.0
Extreme risk	379.5	309.4

Source: Research Department, Bank of Sierra Leone

Given the huge financing need under the moderate risks scenario to implement the government's policy interventions in the face of shrinking domestic revenues, the authorities requested for access to the Rapid Credit Facility window in the IMF. Consequently, in June 2020, the Executive Board of the IMF approved a disbursement of US$143 million and ECF of US$21.3 million. This was augmented by access to US$101.56 million grant resources from the World Bank, US$11.20

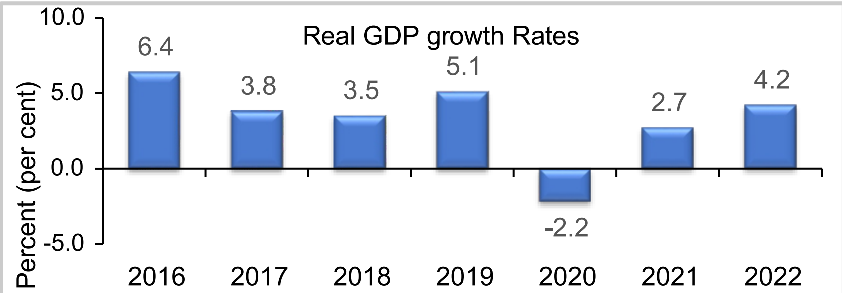
million from the European Union and US$25.50 million from the African development Bank. In addition, Sierra Leone also benefitted from Debt relief from IMF under the Catastrophic Containment and Relief Trust (CCRT) to the tune of US$13.8 million and stands to benefit from the second round of debt relief under the CCRT as it falls due.

6.4.2 Macroeconomic Impact of the COVID-19 Pandemic on the Sierra Leonean Economy: A Sector Approach

6.4.2.1 Real GDP growth

Prior to the COVID-19 outbreak, the Sierra Leone economy was projected to grow by 4.2 percent in 2020. With the outbreak of the COVID-19 pandemic, economic growth is projected to contract by 2.2 percent in 2020. This reflects disruptions in trade and global supply chains, reduction in FDI, company shutdowns, job and income losses, declining business output, and a notable weakening in consumer demand. In addition, the adoption of restriction measures by Government such as nationwide curfew and travel restriction across districts impacted negatively on economic activity. (See Figure 6.3).

Figure 6.3: GDP Growth Rate

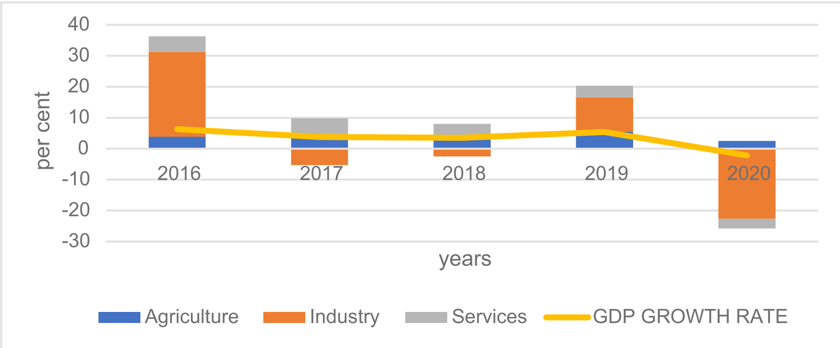


Source: Research Department, Bank of Sierra Leone

At the sector level, the industry and services sectors accounted for the projected contraction in economic activity in 2020. The industry sector is expected to contract by

22.6per cent, driven mainly by a significant contraction in mining and quarry (42.2per cent). The manufacturing sector was also affected through supply chain disruptions that imposed constraints to imports of inputs. The services sector is also expected to contract by 3.2 per cent, attributable to a 27.0 per cent contraction in the trade and tourism sub-sector. (See Figure 4.4).

Figure 6.4: Sectoral Growth



Source: Research Department, Bank of Sierra Leone

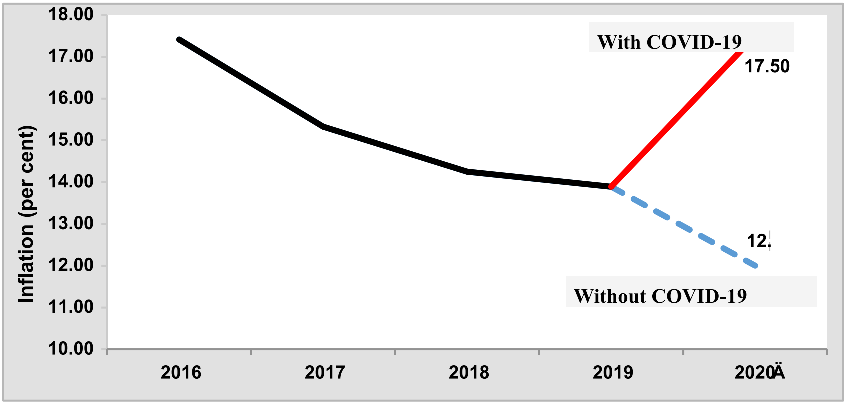
Inflation

In terms of inflation, without COVID-19, inflation was expected to decline in 2020 to less than 12 per cent. However, given the COVID-19 pandemic, inflation is expected pickup to 17.5 per cent by the end of 2020 (Figure 6.5). Inflation is expected to trend downward in 2021 but higher than the pre-covid projections in 2021 (See Figure 6.5). There was shock to the demand side of the economy but the supply constraints also created panic buying and scarcity of essential items on the market.

6.4.2.3 Fiscal Sector Developments

On the fiscal accounts, the government had initially embarked on fiscal consolidation programme. Thus, fiscal balance is expected to be -3.4 per cent of GDP (without COVID-19), whilst with covd-19, the fiscal balance is expected to be -5.2

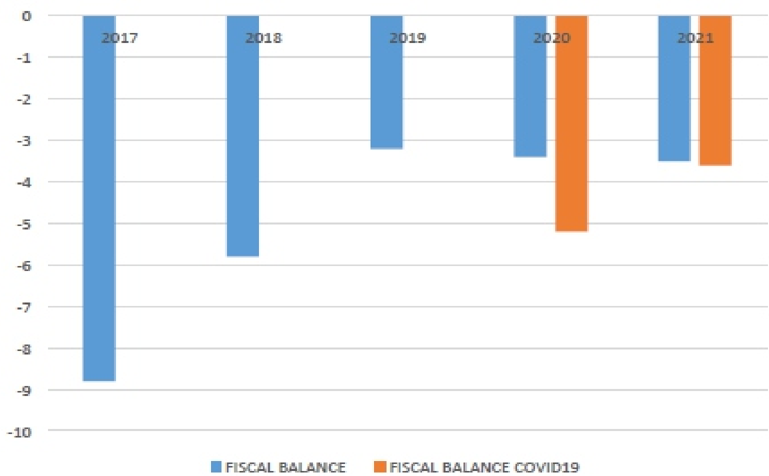
Figure 6.5: Inflation Trends



Source: Research Department, Bank of Sierra Leone

per cent of GDP (Figure 3). However, in 2021, fiscal balance is expected to decline to -3.6 per cent per cent of GDP, if the COVID-19 pandemic persists (See Figure 6.6).

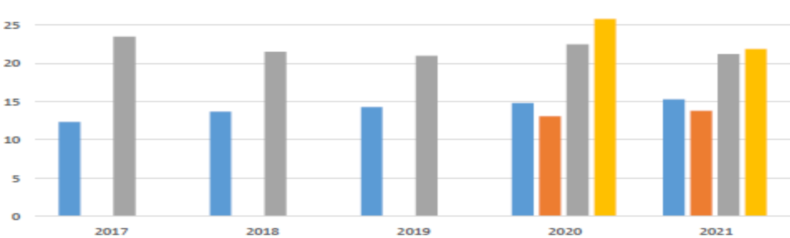
Figure 6.6: Fiscal Balance (percent of GDP)



Source: Research Department, Bank of Sierra Leone

On the revenue and expenditure side, revenue as a share of GDP is currently 14.8 percent although it is projected to be 15 per cent by the end of 2020, (See Figure 6.7). However with COVID-19, revenue as a share of GDP is expected to be about 13.1 per cent (this indicates a 2 per cent loss of GDP in revenue). On expenditure, to contain the measures, government increased expenditure significantly and this really overburdened the government's purse.

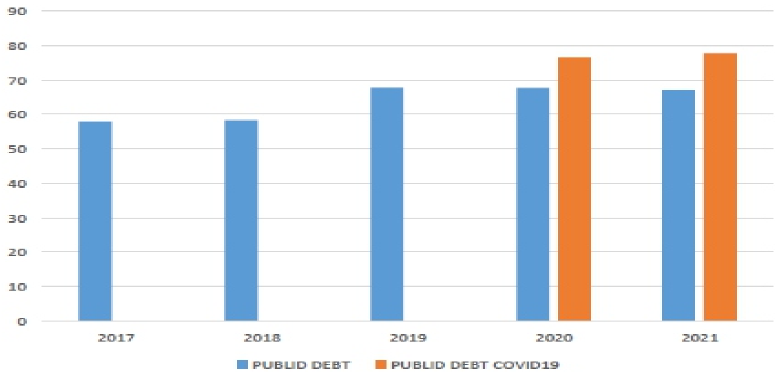
Figure 6.7: Revenue and Expenditure (per cent of GDP)



Source: Research Department, Bank of Sierra Leone

It is worth noting that the growing fiscal deficit as a result of the pandemic could worsen the public debt. As a result of the dip in revenue, the government of Sierra Leone resorted to external financing to contain the effects of the pandemic on the economy. Thus, public debt as a share of GDP increased significantly as a result of the pandemic and this was expected to remain at the same level in 2021 (See Figure 6.8).

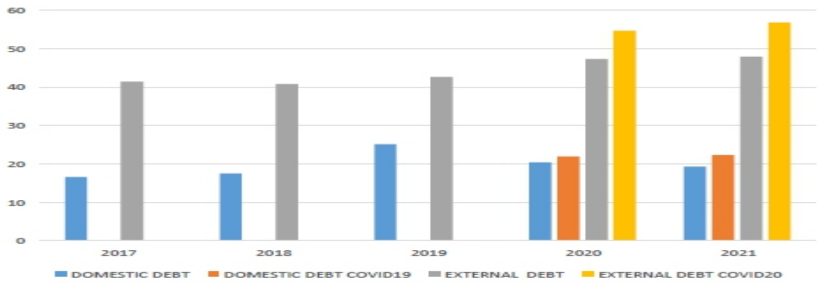
Figure 6.8: Public Debt (percent of GDP)



Source: Research Department, Bank of Sierra Leone

Domestic debts decreased slightly whilst external debts, both with COVID-19 and without COVID-19 increased significantly (See Figure 6.9). The increase in external debt under a COVID-19 situation was expected to continue in 2021 (See Figure 6.9).

Figure 6.9: Domestic and External Debt (per cent of GDP)



Source: Research Department, Bank of Sierra Leone

6.4.2.4 External Sector Developments

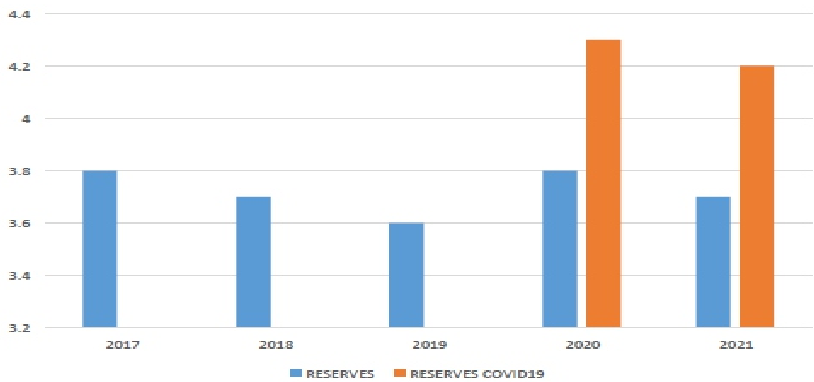
A negative term of trade shock translated into a negative Current Account balance of 14.6 per cent of GDP (2020) as against an initial projection of about -11.3 per cent of GDP (Figure 6.10). However, with COVID-19 pandemic, the negative balance on the Current Account Balance was expected to worsen to approximately 15.6 per cent in 2020 and continue into 2021 (See figure 10).

In terms of external reserves, there was an improvement in months of import cover. Specifically, external reserves increased from an initial level of 3.8 months of import cover to 4 months of import cover (See figure 11). This was because of decrease in imports. With the persistence of COVID-19, external reserves was projected to increase to about 4.3 months of import cover by the end of 2020 but a decline to about 4.2 months of import cover in 2021 (Figure 6.11).

Figure 6.10: Current Account Balance (per cent of GDP)

Source: Research Department, Bank of Sierra Leone

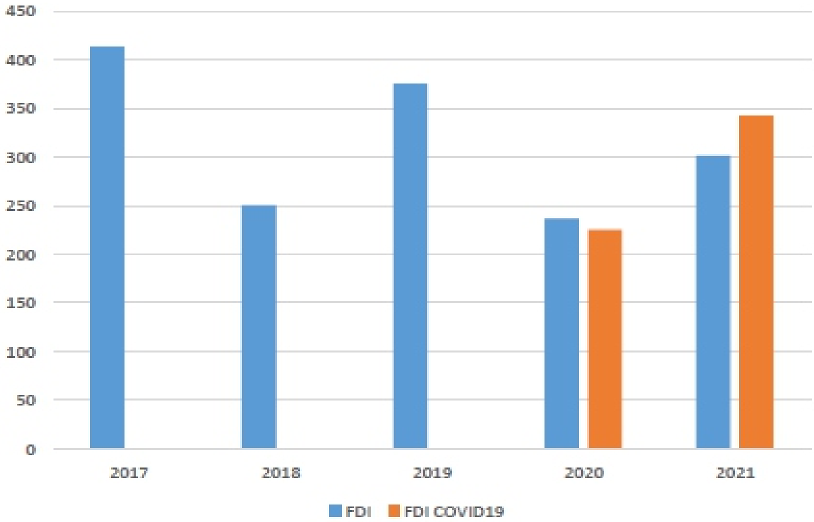
Figure 6.11: Reserves in Months of Import



Source: Research Department, Bank of Sierra Leone

In terms of FDI inflows (US $ millions), there was not a significant impact of the pandemic since most foreign investors had already mobilized their investment before the advent of the COVID-19 pandemic (See Figure 6.12). In the first quarter of the year, most of the investments were in the form of machinery and equipment but recovery is however expected in 2021. It is worth stating that the recovery would depend on the way the entire global economy evolved.

Figure 6.12: FDI Inflows (US$ Millions)



Source: Research Department, Bank of Sierra Leone

6.5 Key Monetary and Fiscal Policy Responses to Contain the COVID-19 Pandemic

Given that the economic and welfare costs of the pandemic were significant, policy interventions, large enough were required to reduce the effects of the pandemic. Thus, the Government of Sierra Leone drew up the Quick Action Economic Response Programme (QAERP) in addition to the COVID-19 Preparedness and Response Plan for the health sector. All the specific policy measures (including fiscal and monetary policies) were embedded in the progrmme and plan. Figures 6.13, 6.14, 6.15, 6.16, 6.17, 6.18, 6.19, 6.20, 6.21 and 6.22 throw more light on the policy measures.

Figure 6.13: Government Policy Priorities in Response to COVID-19

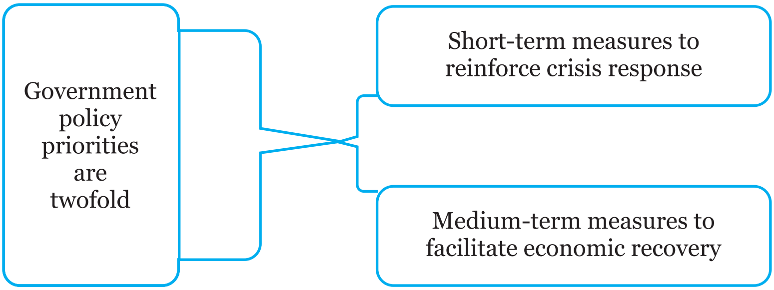


Figure 6.14: COVID-19 Policy Instruments and Targeted Outcomes

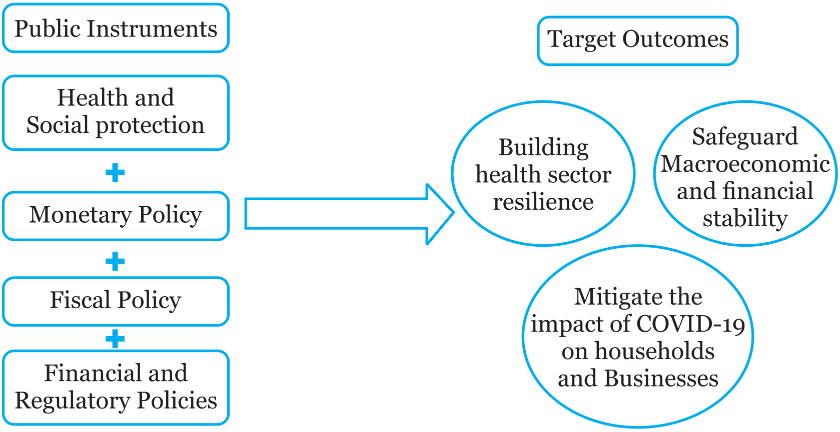


Figure 6.15: Health and Safety Responses to COVID-19

Figure 6.16: Quick Action Economic Response Programme

Pillar 1
Building and maintaining an adequate stock level of essential commodities at stable prices (BSL)

Pillar 2
Providing support to the hardest hit businesses to enable them continue operations and avert lay-offs of employees

Pillar 5
Providing assistance for the local production and processing of stable food and items

Pillar 3
Expand safety net to vulnerable groups

Pillar 4
Support labour-based public works

Figure 6.17: Pillar 1 Quick Action Economic Response Programme

Pillar 1
Building and maintaining adequate stock level of essential commodities at stable prices

Strategic Actions

- Provide tax deferments and breaks to importers and manufacturers of locally consumed goods
- Provide needed foreign exchange to importers of essential commodities
- Allow commercial banks to lead foreign currencies into businesses
- Provide special loan facility at concessional interest rates to businesses

Figure 6.18: Monetary Policy and Financial Stability Measures

Monetary policy and financial stability

The Monetary Policy committee of the BSL met on 18th March 2020 and agreed on the following policy measures that were necessary to mitigate the adverse impact of COVID-19 on the sierra-leone economy:

- Reduce the monetary policy rate by 150 basis points from 16.5% to 15.0%
- Create a Le500billion (US$50million) Special Credit facility to finance the production, procurement and distribution of essential goods and services.
- Business support measures include (i) support the private sector for the importation of essential commodities (ii) establish and maintain a stock and price monitoring system for essential commodities.
- Liquidity support to the banking sector through the extension of the reserves maintenance period from 14 days to 28 days purchase of government securities in the secondary market

Figure 6.19: Pillar 2 Quick Action Economic Response Programme

Pillar 2
Providing support to businesses to enable them continue operations

Strategic Actions
- Provide special loan facility to businesses at concessional interest rates
- De-risk lending through guarantees to small and medium-scale Enterprises (SMEs)
- Negotiate with commercial banks to suspend interest to SMEs in the tourism sectors
- Commence the National Micro-Credit Scheme

Figure 6.20: Pillar 3 Quick Action Economic Response Programme

Pillar 3
Providing safety nets to vulnerable groups

Strategic Actions
- Expand on existing cast transfer programme implemented by National Commission for social Action (NASCA)
- Provide food assistance for vulnerable groups

Figure 6.21: Pillar 4 Quick Action Economic Response Programme

Pillar 4
Supporting labour-based public works

Strategic Actions
- Rehabilitate ...Kilometres of trunk roads
- Rehabilitate ...of feeder roads
- Carty out minor repairs on urban roads

Figure 6.22: Pillar 5 Quick Action Economic Response Programme

Pillar 5
Providing assistance for the local production of food items

Strategic Actions
- Provide farm inputs including implements, chemicals and seedlings to small scale farmers
- Provide cash transfers to farmers for payment of labour
- Provide extension services to farmers

6.5.1 Policy Dilemma

Due to the deteriorating fiscal position and increased public debt, there was not much room for wiggle in deploying fiscal policy to address the COVID-19 crisis. However, the government ensured that the crises was contained whilst preserving macroeconomic stability. The more rapidly, you want to contain the virus, the more severe the lock down has to be and the more severe the disruption to economic activity.

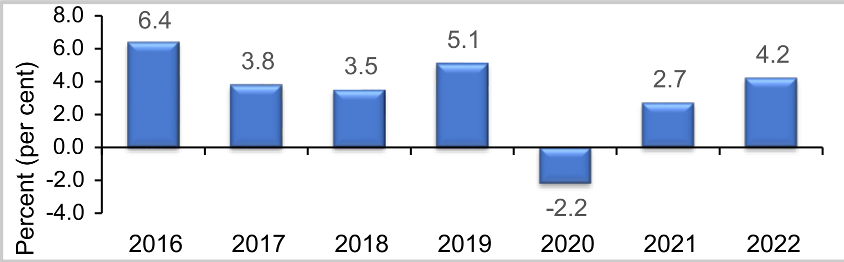
6.6 Initial Assessment of Policy Outcomes: A Sectoral Approach

The policy measures impacted on real GDP, financial sector, credit to private sector, currency in circulation, expenditure on goods and services, capital expenditure, headline inflation, fiscal operations, debt dynamics and the external sector.

6.6.1 Real GDP

The domestic economy was projected to contract at 2.2 percent in 2020 (initial projection without the interventions was 3.1 per cent) and was expected to recover to 2.7 percent in 2021 based on the interventions (See Figure 6.23). These figures were estimated based on interventions to rescue the economy. The bulk of the interventions were targeted at the agricultural sector. The mining sector also recovered from the pandemic shock due to the favourable prices of minerals. One of the big iron ore mining companies resumed operations in the last quarter of 2020. Non-iron ore real GDP growth was estimated to contract at 2.5 per cent in 2020, and recover to 2.3 per cent in 2021 and 4.1 per cent in 2022.

Figure 6.23: Real GDP Growth Rates



Source: Research Department, Bank of Sierra Leone

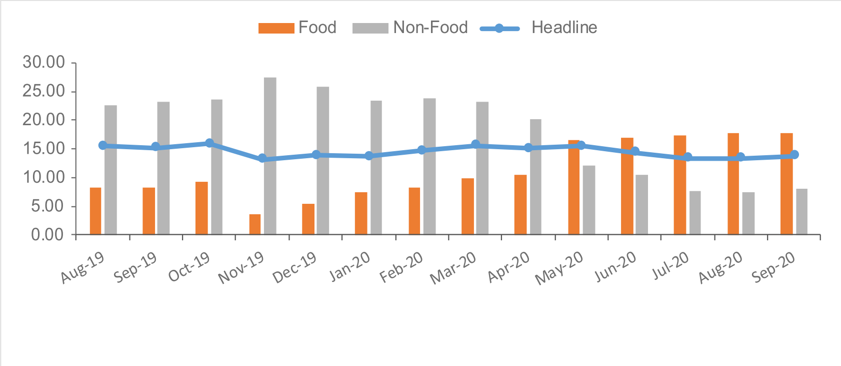
6.6.2 Price Development

It could be read from figure 24 that inflation before the pandemic crises was on an upward trend. However, when the Central Bank of Sierra Leone intervened to salvage the increase in prices of essential commodities, some easing on the prices were experienced. Headline inflation basically moderated to 13.30 per cent in July 2020, from 15.56 percent in March 2020 but picked up slightly to 13.71 per cent in September 2020 against an end year target of 17.5 per cent mainly due to seasonal variations (See Figure 6.24). However, in the last quarter of 2020, there was no usual spike in prices of essential commodities due to the interventions by the central bank (the interventions ensured enough supply of basic and essential commodities). Prices remained relatively low and stable in the last quarter of 2020.

6.6.3 Fiscal Sector Developments

Fiscal operations was less expansionary in the second quarter of 2020. Government revenue expanded to Le1,612.68bn in the second quarter of 2020, from Le1,493.46bn in the first

Figure 6.24: Inflation and its Components



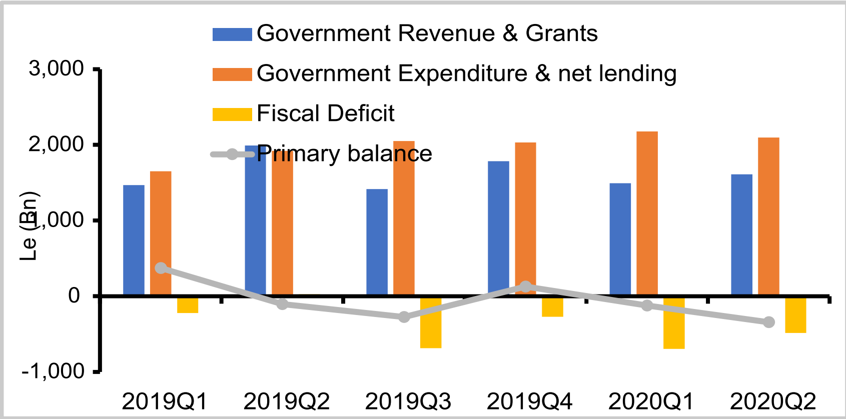
Source: Research Department, Bank of Sierra Leone.

quarter, due to external grants (See Figure 6.25). Government expenditure contracted to Le2,098.07bn in the second quarter of 2020 from Le2,178.5bn in the first quarter (See Figure 6.25). The fiscal deficit however narrowed to Le485.5bn in the second quarter of 2020 from Le694.1bn in the first quarter (See Figure 6.25). Fiscal deficit was financed mainly from domestic sources (banking sector). Additional resources was received from development partners to supplement government's cash flow.

6.6.4 Debt Dynamics

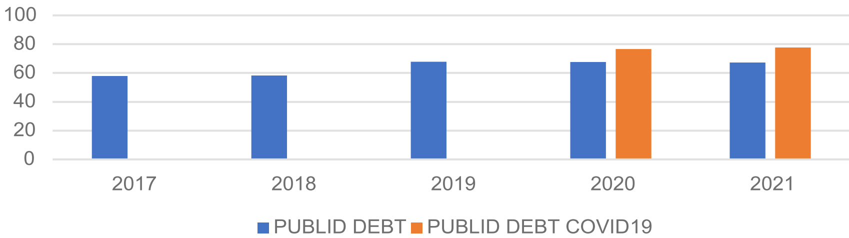
As seen in the last couple of months, the problem of debt remained (See Figure 6.26). This is because revenue shrank, in addition to constraints on how much resources development partners could give to savage the economy from the negative shocks of the pandemic. Government therefore resorted to financing from both domestic and external sources thus influencing the evolution of the public debts.

Figure 6.25: Fiscal Operations



Source: Research Department, Bank of Sierra Leone

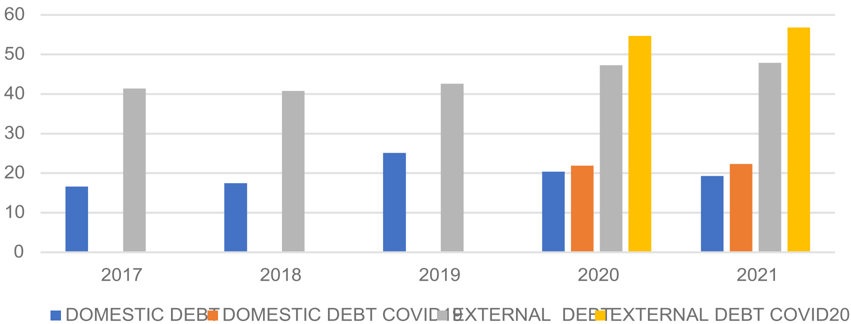
Figure 6.26: Public Debt (percent of GDP)



Source: Research Department, Bank of Sierra Leone

A chunk of the debt could be attributed to external sources (See Figure 6.27).

Figure 6.27: Domestic and External Debt (per cent of GDP)

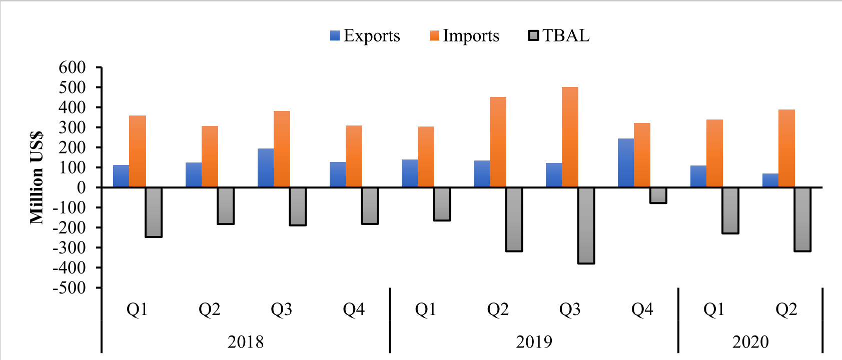


Source: Research Department, Bank of Sierra Leone

6.6.5 External Sector Developments

The trade deficit worsened to US$318.19mn in the second quarter of 2020 from US$229.06mn in the first quarter (See Figure 6.28). This was mainly due to decline in exports and increase in imports.

Figure 6.28: Trade Balance

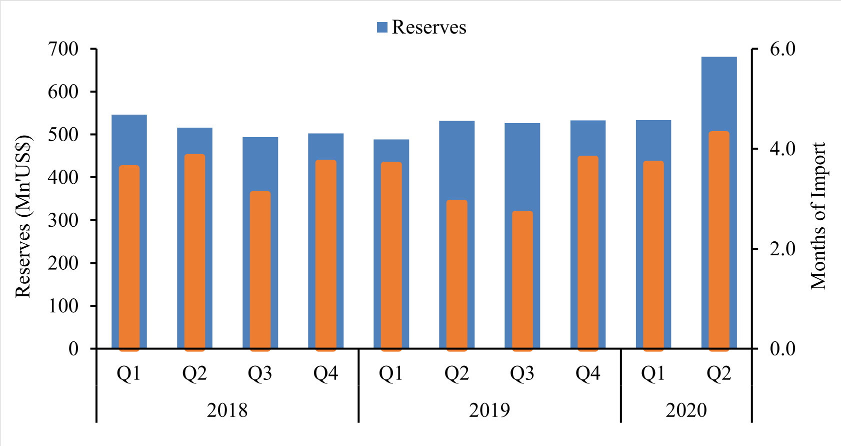


Source: Research Department, Bank of Sierra Leone

However, a positive impact of the policies was felt on the external sector. The stock of reserves increased by 27.67 per cent to US$681.45mn in the second quarter of 2020 from US$533.77mn in the first quarter and was sufficient to cover about 4.3 months of import (See Figure 6.29). This was good for a small economy such as Sierra Leone. The increase in reserves was mainly driven by aid disbursement from the IMF and EU.

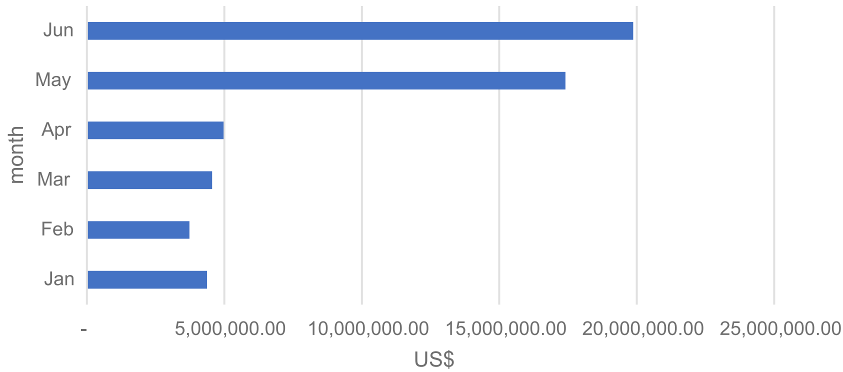
Remittances was one of the indicators in the external sector that was able to beat the odds. This was because remittances were seen as one of the main channels through which the economy was expected to suffer. However, that expectation did not crystalize. The preliminary figures on remittances (From January to June) suggest an upward trend (See Figure 6.30).

Figure 6.29: Reserves (Million US$ and Month of Import Cover)



Source: Research Department, Bank of Sierra Leone

Figure 6.30: Remittances Flow (US$)



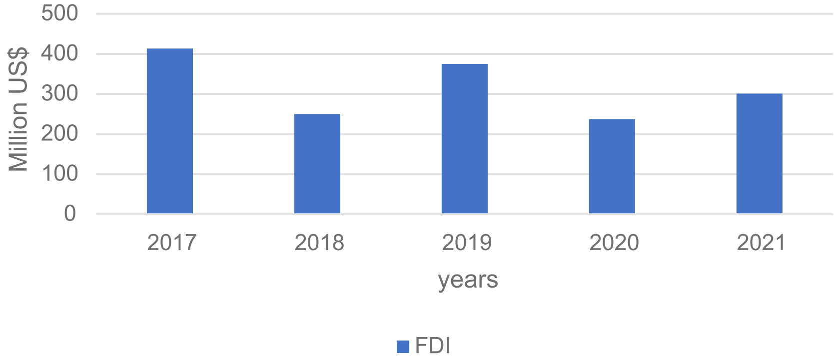
Source: Research Department, Bank of Sierra Leone

However, FDI inflows trended downward (See Figure 6.31). Our expected spike in FDI inflows following the policy measures and ease of travel restrictions did not materialize.

6.6.6 Monetary Aggregates Developments

Reserves Money expanded significantly. Specifically, reserve money expanded by 37.88 per cent in the second quarter of 2020, as against a target of 36.70 (projected under the

Figure 6.31: FDI inflows (US $ Million)



Source: Research Department, Bank of Sierra Leone

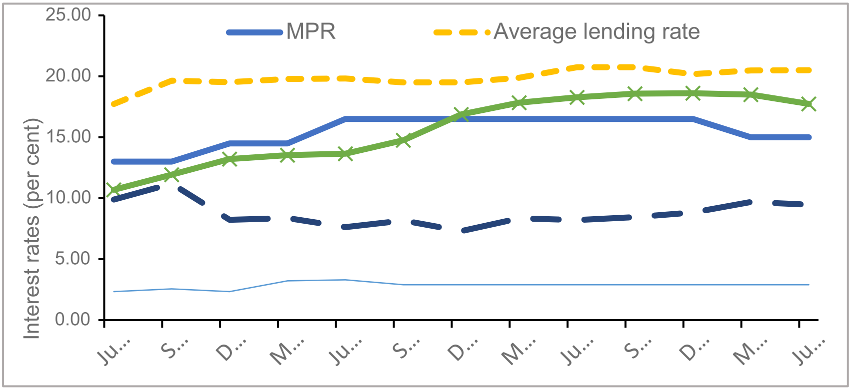
previous ECF programme). On yearly basis, reserve money expanded by 55.47 per cent, ma inly on account of increased inflows from development partners which were on lend to government. Furthermore, Broad Money grew by 11.10 per cent in the second quarter of 2020, as against a target of 18.20 per cent. On yearly basis, Broad money expanded by 20.36 per cent. Credit to the private sector also expanded by 1.31 per cent in the second quarter of 2020, as against an expansion target of 19.70 per cent. On yearly basis, credit expanded by 10.23 per cent.

6.6.7 Interest Rates

One of Sierra Leone's monetary policies was to maintain the Monetary Policy Rate (MPR) at 15 per cent per cent in the last MPC, but the transmission to the retail market rates remains weak as seen in Figure 6.32.

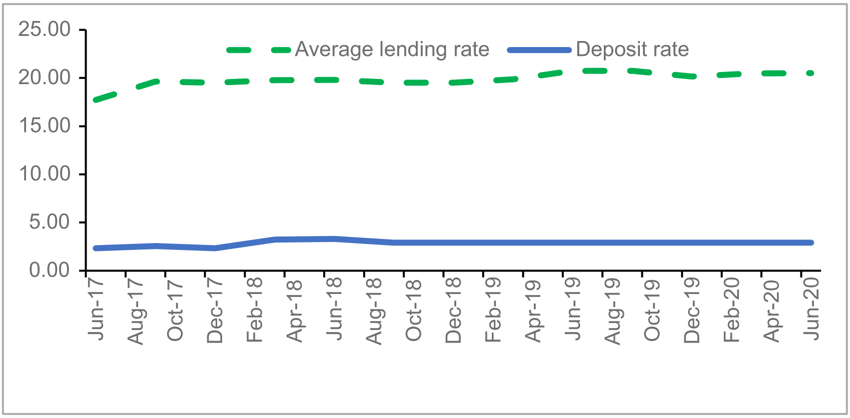
In addition, there were still inefficiencies in the banking system as indicated by a high spread between commercial banks` lending and deposit rates (See Figure 6.33).

Figure 6.32: Interest rates



Source: Research Department, Bank of Sierra Leone

Figure 6.33: Average lending and Deposit Rates

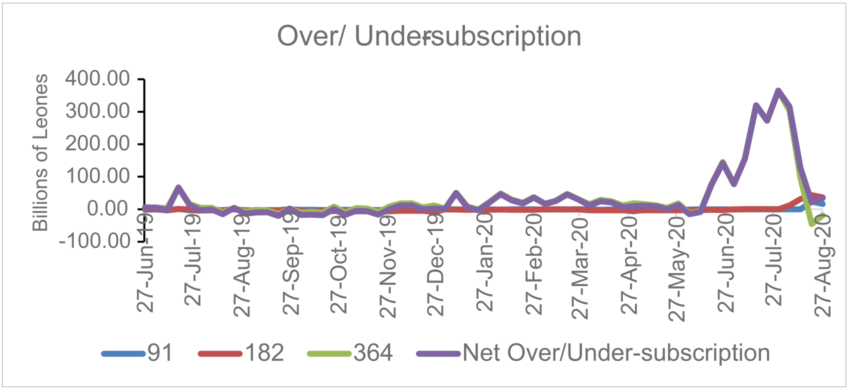


Source: Research Department, Bank of Sierra Leone

6.6.8 Money Market Developments

Due to all the interventions and rounding up of government expenditures on most of the activities, there was huge liquidity overhang in the banking system and that led to huge oversubscription in the primary market for government Securities (See Figure 6.34).

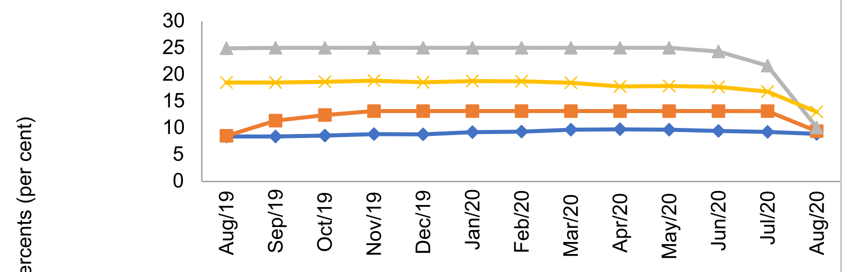
Figure 6.34: Purchase of Treasury Bill Rate



Source: Research Department, Bank of Sierra Leone

Subsequently, rates in the primary market plummeted in August 2020 and continued (this phenomenon has not occurred for a very long time). However, this was good for government since it would have additional fiscal space to spend those additional resources on the containment of COVID-19 and other priority sectors.

Figure 6.35: Treasury bill Rates



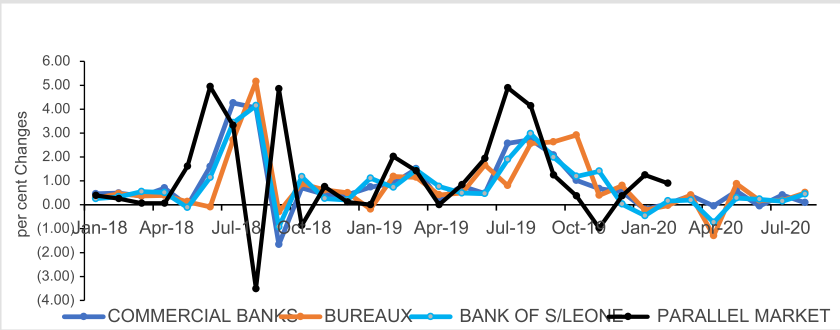
	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
91 Days Yield	8.44	8.44	8.61	8.89	8.83	9.25	9.34	9.69	9.78	9.71	9.46	9.29	8.91
182 Days Yield	8.54	11.38	12.46	13.21	13.21	13.21	13.21	13.21	13.21	13.21	13.21	13.2	9.42
364 Days Yield	24.96	25.04	25.05	25.07	25.05	25.05	25.06	25.07	25.07	25.07	24.39	21.7	10.12
Interbank W.A.R	18.57	18.57	18.68	18.9	18.61	18.84	18.77	18.50	17.80	17.91	17.73	16.85	13.04

Source: Research Department, Bank of Sierra Leone

6.6.9 Foreign Exchange Market Developments

The exchange rate remained relatively stable in the second quarter of 2020 (See figure 36). When the COVID-19 pandemic struck in March 2020, it caused a one period shock in exchange rate but eased off later (Figure 6.36) as a result of the huge resource intervention by government.

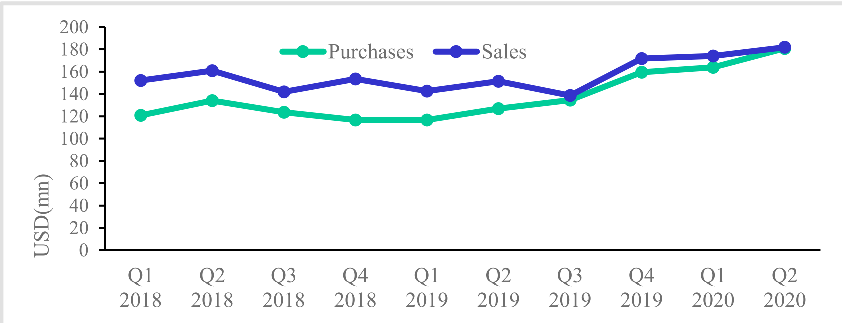
Figure 6.36: Exchange Rates



Source: Research Department, Bank of Sierra Leone

Furthermore, commercial banks purchases and sales of foreign exchange increased (See Figure 6.37). This would positively affect the exchange rate market and evolution of prices. This is because there was huge pass-through effect from the depreciation of the exchange rate to prices.

Figure 6.37: Commercial Banks Purchases and Sales of Foreign Exchange

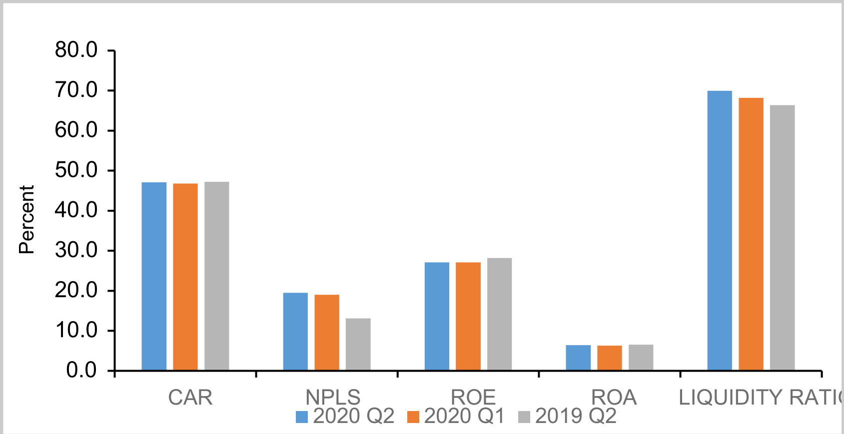


Source: Research Department, Bank of Sierra Leone

6.6.10 Banking Sector Development

The key Financial Sector Indicators (FSIs) such as CAR, NPLs, ROE, ROA and Liquidity Ratio show that the banking sector remained stable (See Figure 6.38).

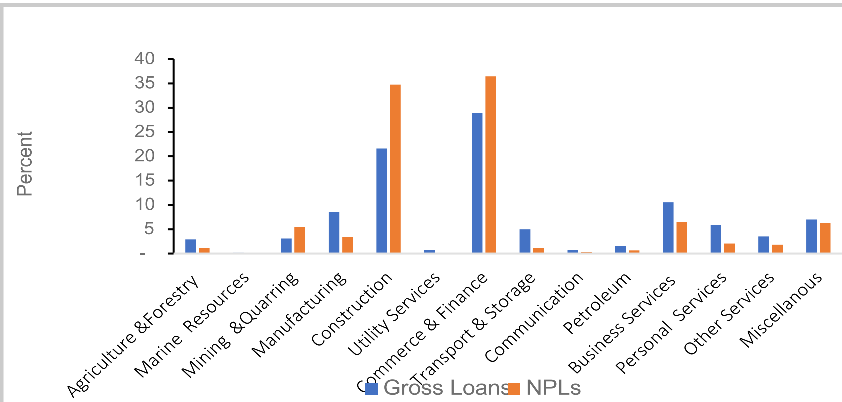
Figure 6.38: Trends in Financial Sector Indicators (FSIs)



Source: Research Department, Bank of Sierra Leone

In terms of share of gross loans and NPLs by economic sectors, Figure 6.39 indicates that the construction and the commerce and finance sub-sectors were the largest.

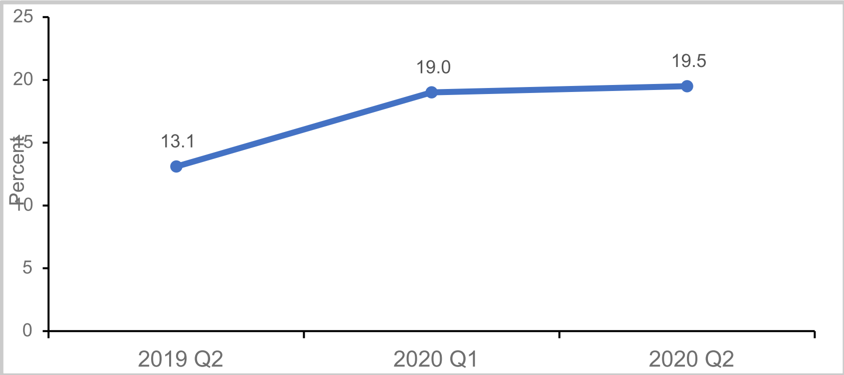
Figure 6.39: Share of Gross Loans and NPLs by Economic Sectors (2020Q2)



Source: Research Department, Bank of Sierra Leone

Furthermore, concentration of loans and NPLs remained high (See Figure 6.40). The shock to the real sector would translate into low performance of the asset of the banks. Government was also committed to paying some of its debts, which was expected to have a positive impact on the NPLs.

Figure 6.40: Trends in Non-Performing loans

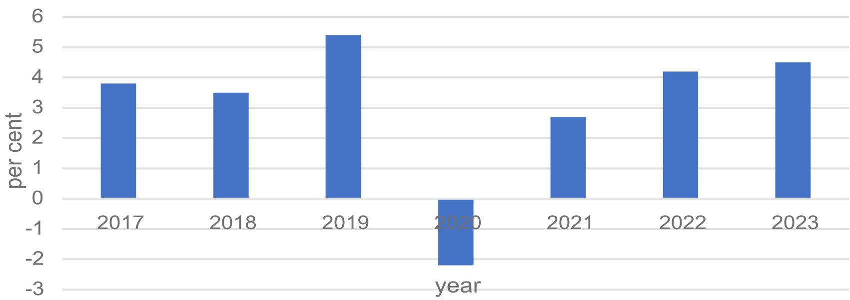


Source: Research Department, Bank of Sierra Leone

6.7 Economic Outlook and Challenges

Real GDP growth rate is expected to rebound in 2021 (See Figure 6.41). This means that a V-shape recovery was expected. The medium-term outlook is expected to be impressive and broad based. Thus, the economy have the potential to rebound to the pre-Covid levels of growth (assuming there were no external shocks).

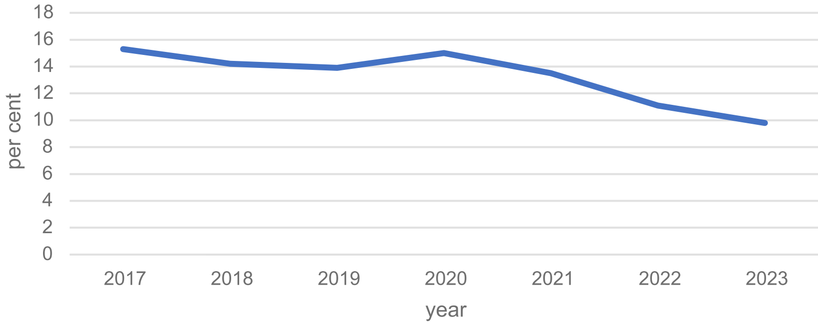
Figure 6.41: Actual and Projected Real GDP



Source: Research Department, Bank of Sierra Leone

In terms of price development, the economy of Sierra Leone was on course to achieve the medium-term objective of single digit inflation (See Figure 6.42).

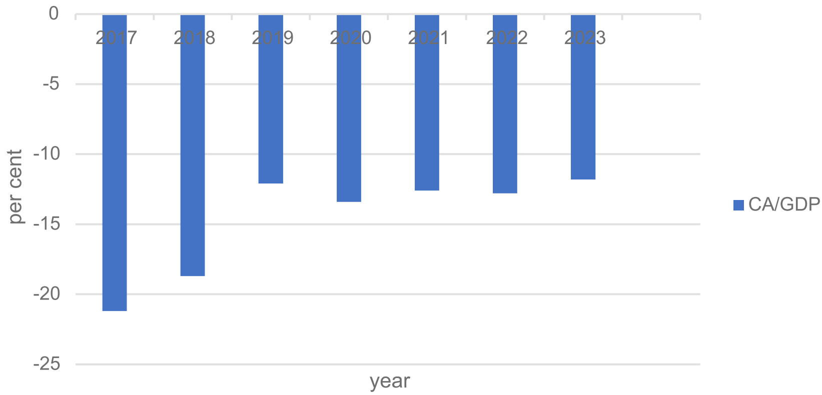
Figure 6.42: Actual and Projected Inflation



Source: Research Department, Bank of Sierra Leone

Current account as a percentage of GDP is projected to improve in the medium-term (See Figure 6.43). This means that once activities of the mining sector (which is one of the back bones of the economy) rebound, this would have significantly positive impact on the Current Account.

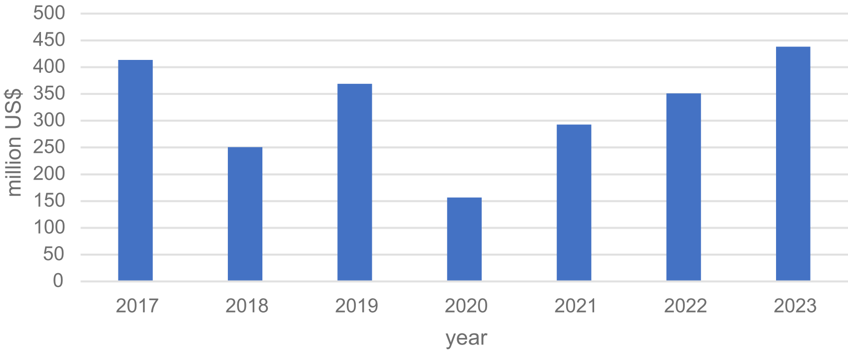
Figure 6.43: Current Account Percentage of GDP (Actual and Projected)



Source: Research Department, Bank of Sierra Leone

FDI is expected to pick up in 2021 and beyond (See Figure 6.44). Prospective foreign investments were put on hold because of the COVID-19 pandemic. Thus, as restrictions were eased, upward trend in FDI would be expected.

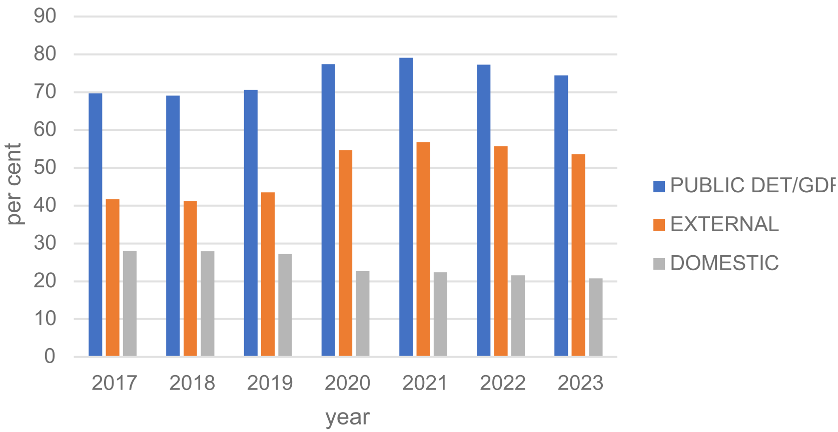
Figure 6.44: FDI (Actual and Projected)



Source: Research Department, Bank of Sierra Leone

The level of public debt is a concern for fiscal sustainability (See Figure 6.45).

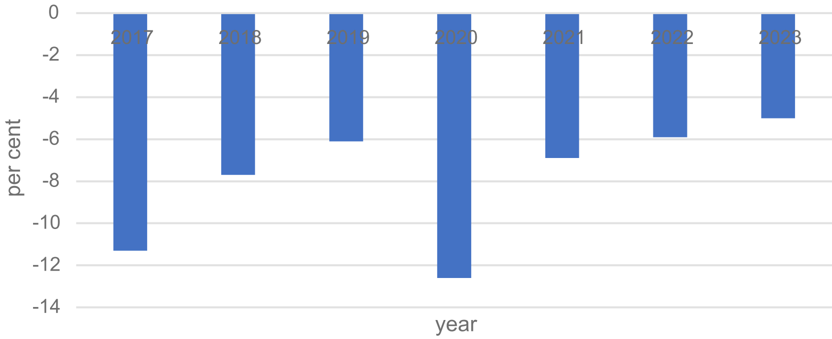
Figure 6.45: Public Debt levels (percent of GDP) (Actual and Projected)



Source: Research Department, Bank of Sierra Leone

Budget deficit as a percent of GDP is projected to improve in the medium-term (See Figure 6.46), challenges in the horizon notwithstanding.

Figure 6.46: Budget Deficit as a Percent of GDP (Actuals and Projections)



Source: Research Department, Bank of Sierra Leone

Overall, the global economy is expected to rebound in 2021. China being the largest trade partner of Sierra Leone was recovering. However, global risks and concerns revolved around declining FDI inflows, shrinking remittance and the second wave of the COVID-19. Reliance on the extractive sector was still a challenge. In addition, there was low domestic revenue mobilization to support the recovery program. Implications of increased deficit for public debt and fiscal sustainability over the long term and how the nation could balance the need for fiscal/debt sustainability with that of supporting economic recovery remained a future challenge. There was the need for a trade-off between monetary and fiscal policy objectives, which was also a challenge. The Sierra Leone economy was expected to recover in 2021 and the prospect for the medium-term looked bright. However, risk to the global economy could pose a downside risk to the government recovery program. In the medium-term, a more diversified economy would be critical for restoring resilience. Investing revenues from the extractive sector in agriculture and human and physical capital to stimulate growth is one of the most imperative policy instruments Sierra Leone should consider. This minimizes Dutch disease, broadens economic activity, and promotes prosperity for all. This policy should be complemented by improving the non-mining revenues collection.

Addressing this shock will require policymakers to not only respond to the immediate crisis, but also to take a multisectoral view that accounts also for the diverse and overlapping dynamics driving outcomes. This will require deeper analysis of socio-economic impact on key sectors, in addition to their interplay with social dimensions such as poverty, inequality, gender, and urbanization, to guide strategic short-term to long-term policy interventions for response and recovery periods. Effective implementation of such strategic short- and long-term policy interventions can also build resilience against future shocks. Finally, intra-regional trade needs to be strengthened

7

Summary and Conclusion

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THE COVID-19 PANDEMIC IS A SOCIOECONOMIC and health crisis, which have adversely affected economies globally. Global GDP growth rates for the third and fourth quarters of 2020 were in the negatives. However, it was confirmed by projection that GDP growth in the first and second quarters of 2021 would be positive. As at the last quarter of 2020 GDP growth rates were slightly increasing for most economies in the world. In terms of inflation in the COVID era, there was a divergence between advanced and developing economies. Whilst inflation was generally increasing in developing countries, it was decreasing in advanced countries. In addition, global trade is weakened and muted due to pandemic, and this is affected all economies. Particularly in WAIFEM member countries, trade which are tourism and exctractive industry dependent hardly affected.

Furthermore, in WAIFEM countries, financial market turbulences still persistent persisted. All currencies of member countries actually depreciated aginst the US dollar, except for Liberia that operate the dual currency system. Whilst global capital inflows shrinked significantly in all the other WAIFEM member countries (excpet Nigeria), Liberia experienced a counter cyclical capital inflow (capital inflows rather increased). Balance of Payments (BOP) position of most of the WAIFEM member countries was also quite alarming. Increasing public debt also resulted from the pandemic.

Generally, the effect of the pandemic on the member countries is a function of the degree to which these countries are opened to international trade. For example, member countries such as Sierra Leone, The Gambia and Liberia, where tourism is their economic backbone experienced drastic fall in revenue. Also, given the size of the Nigerian economy and its exposure to the external sector, there was much to be worried about as inflation was on the rise. Furthermore, in Nigeria, GDP numbers extremely decreased (the economy was on the brink of recession in the fourth quarter of 2020) and debt service-to-revenue ratio was significantly above 70%. This was not surprising given the collapse in demand for crude oil,which caused crude oil price to plummet significantly in the world market. Thus it is worth noting that the lock down has had more devastating effects on the economies of WAIFEM member countries than the Covid-19 pandemic itself, even though health casualties still remained.

Furthermore, most of the member counries experienced negative growth in the third quarter of 2020 but were having positive projections for the first quarter of 2021. For Ghana, the macroeconomic indicators are generally good (inflation was declining, real rate was still positive, reserves and revenue were increasing gradually as well credit expansion). Other WAIFEM member countries also experienced positive real interest rate, except Nigeria which recorded a negative real interest rate. The financial sector was robust and resilient in most of the member countries. However, the real sector (economic growth) was still declining. This clearly indicates a disconnect between the real and the financial sector during the period under review. It is therefore not clear whether it is the financial sector that influenced growth in these countries or other exogenous factors.

It is clear from the country cases that, whilst at the global scene the concentration is more on the health disaster aspect of the pandemic, WAIFEM member countries are concentrating more on the economic effects of the pandemic than the health casualties. This suggests that the economic implications are more severe in the member countries, which is why the Central Banks of the member countries stimulated demand side of economic activities with policy measures. Specifically, on the policy side, a mixture of approaches (monetary, fiscal and regulatory policies) were adopted by WAIFEM member countries to minimize the negative economic effects of the pandemic. These policies were idiosyncratic to the economic structure and financial market (or payment infrastructure) of the member countries, reflecting the diversity in the monetary policy tools that they have. In Liberia for instance, there was monetary policy tightening but this policy measure was not possible for Nigeria, given the magnitude of the negative economic effects of the pandemic. Nigeria actually loosened its monetary policy despite the fact that inflation was still increasing.

Ghana's case reflected a policy trilemma (which is also common to all the other member states). The policy trilemma is about how to keep spending moderate liquidity and allow credit to grow whilst at the same time, keeping the interest rate at an attractive level to stimulate growth. Most of the member countries applied monetary, fiscal and regulatory policies. However, there is the need to look at how micro policies can be adopted to fight the economic effects of the pandemic.

Good macroeconomic indicators were seen for most of the WAIFEM member countries. For instance, in all the WAIFEM member countries financial soundness indicators still remained resilient. However, there are clear signs that there were vulnerabilities and the economies of member countries were still fragile. It is worth stating that if the second wave of the Covid-19 pandemic crystalizes, all the positive growth projections for the first quarter of 2021 may not be realized. It is also crucial to state that the growths in the WAIFEM member countries are not employment generating and thus, not poverty reducing. This is a wakeup call on all the member countries.

Finally, whilst the policies of most of the member countries target the supply side, there is a strong need for demand management system. Some economies of the world have stimulated domestic demand through direct transfers to household, unemployment benefits etc. In Nigeria, palliative transfers are given to firms and household to be able to survive. WAIFEM member countries need to stimulate demand through social intervention programmes and must also be strong in terms of domestic revenue generation. Also, WAIFEM member countries must rely on domestic resources to fill the output gap that are less vulnerable to external shocks.

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