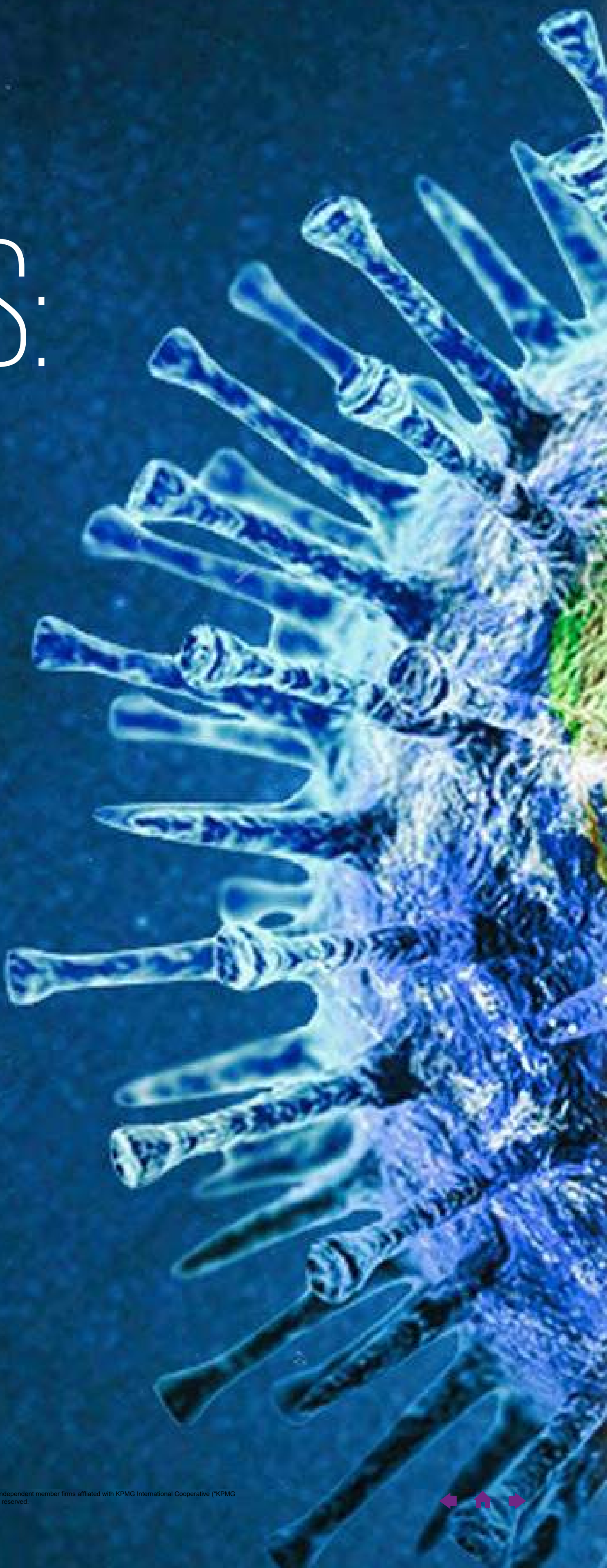


Coronavirus: Global and Domestic Impact

April 2020

KPMG in Nigeria

Contents

03 Foreword

04 Brief Overview of COVID-19

06 Global Disruptions

14 Bringing it home

Foreword

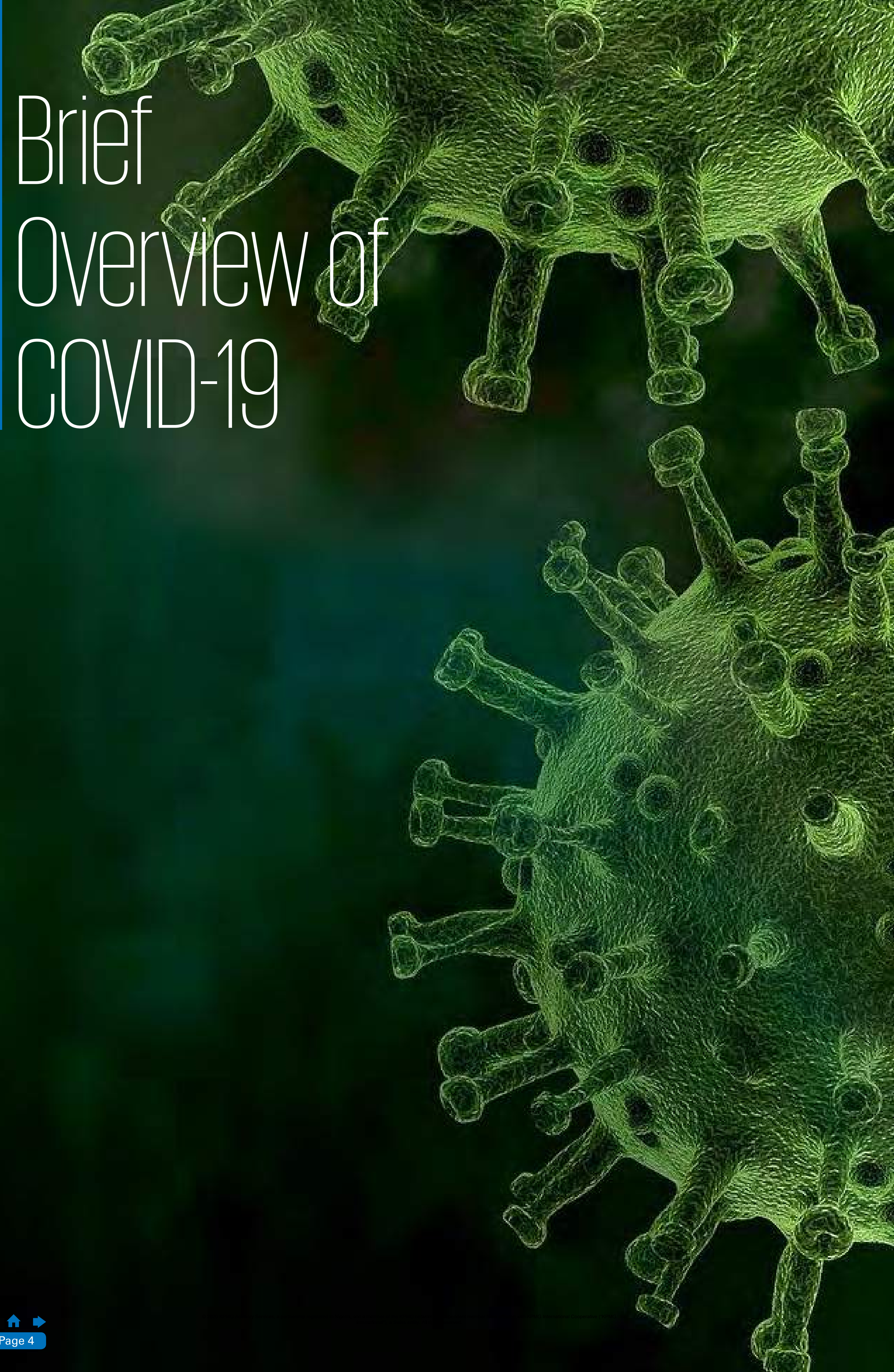
At the beginning of 2020, the global economy faced several headwinds including geopolitical uncertainties in the Middle East, the continued trade war between major superpowers, worsening business and consumer confidence, and slowing industrial production. A muted growth was forecast for the year underpinned by low interest rates and fiscal guidance from governments.

Then came the "black swan" event that has hit the global economy hard. The rapid outbreak of the COVID-19 presents an alarming health crisis that the world is grappling with. In addition to the human impact, there is also significant economic, business and commercial impact being felt globally as economies are being shut down due to restrictions of movement within/between countries. Governments across the globe have initiated different unprecedented economic responses in a concerted effort to combat the dire economic impact of COVID-19, but the damage may have already been done.

In fact, 94 percent of the Fortune 1000 across the globe, and businesses in Nigeria have been impacted and are already witnessing COVID-19 disruptions. It is expected that the COVID-19 threat will eventually fade, as the Ebola, Zika, and Severe Acute Respiratory Syndrome (SARS) viruses have in recent years. However, socio-economic impact will still be felt long after the virus fades.

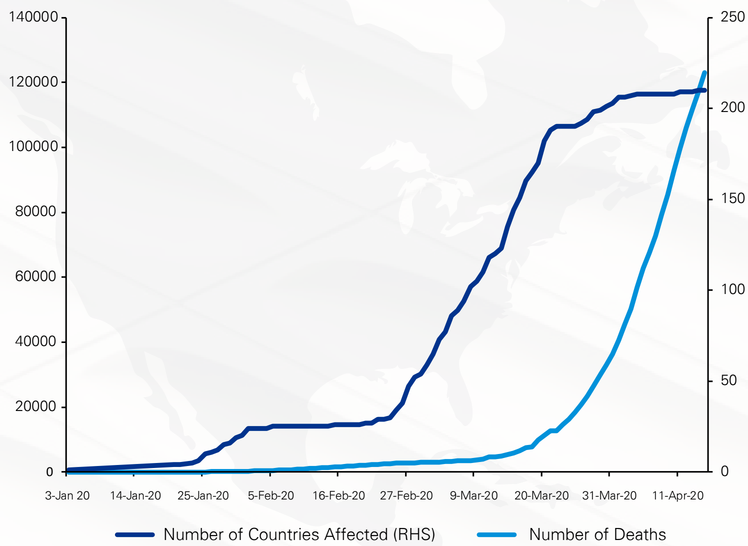
This publication seeks to spotlight how Nigeria is navigating these uncertain times. The country, as an oil-dependent economy, is quite vulnerable to what we have termed the 'Twin Shocks' of the COVID-19 pandemic and declining oil prices, which has been exacerbated by decreased global demand and a lack of agreement on oil production cuts. We examine the impact of these shocks on the global and local economy, conduct a detailed deep dive of the impact on major sectors of the Nigerian economy and examine possible policy responses to mitigate the effects of these shocks.

Brief Overview of COVID-19



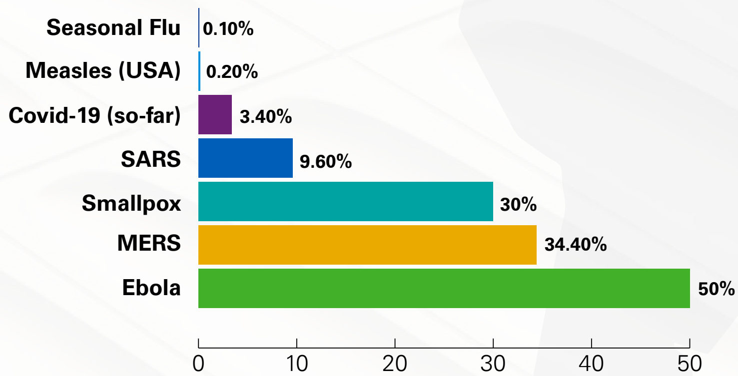
The novel coronavirus (COVID-19) is a black swan event with potent consequences on the global economy. Since the inception of the outbreak, over 1,914,916 cases have been reported in over 210 countries, with about 123,010 deaths from the virus - as at 14th April 2020. Considering the global stance of the coronavirus source country (China and its spread to other activity driven economies such as The U.S., India, Russia, UK among others, it is important to examine the pass-through effect of the pandemic disease from global and Nigerian perspective.

[1]Rapid rate of spread remains a major concern



(*as at 14th April 2020)

[2]Although not as fatal as other outbreaks



As governments scramble to stop the spread of the virus, countries most impacted by the outbreak have had to take strong, unprecedented counter measures which has had a significant impact on global activities.

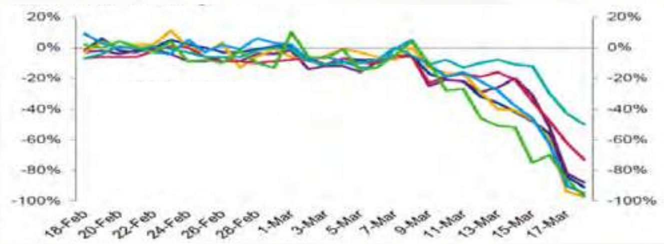
The outbreak has led to discouragement of mass gatherings, travel restrictions and in some cases, total country lockdown as seen in Italy.

[1&2] *Sources: WHO Situation Report, KMPG Research, Bloomberg.*

Global Disruptions

Due to the rapid spread of the virus, governments around the world have taken unprecedented measures to contain the rate of spread. The measures which include travel restrictions, total country lock down etc have caused disruptions in various forms around the globe

Change in Total Restaurant Diners
Year over Year - % Change

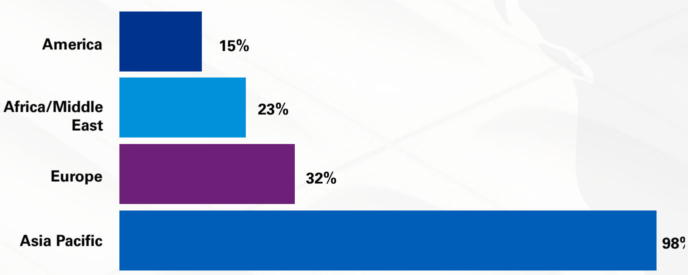


Source: KPMG Economics, OpenTable(March 18, 2020). Haver Analytics

United States **Canada** **Germany** **Ireland**
United Kingdom **Mexico** **Australia**

The travel industry has been hugely impacted, with airlines cutting flights and tourists cancelling business trips and holidays

U.S. flight bookings to all regions of the world have taken fallen sharply. (y/y % change in bookings, Q1 2019 vs Q1 2020)

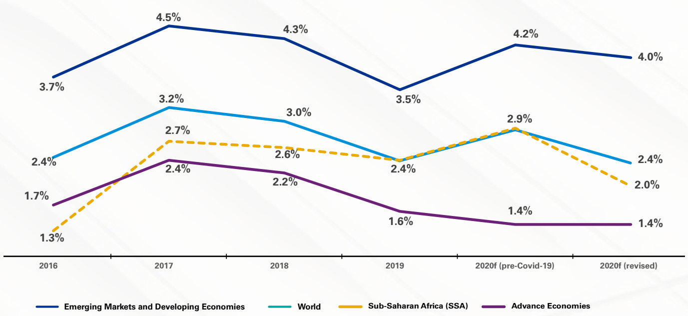


Sources: Fowardkeys

Impact

The global economy is expected to account for economic losses via three transmission channels: supply chains, demand, and the financial market. These channels will impact negatively on businesses, household consumption, and international trade.
Following the spread of COVID-19 across countries, global growth has been reviewed downward with sub-Saharan Africa countries having the highest downward revision from 2.9% to 2.0% because of its vulnerability to external shocks.

Global Growth is expected to decline in 2020

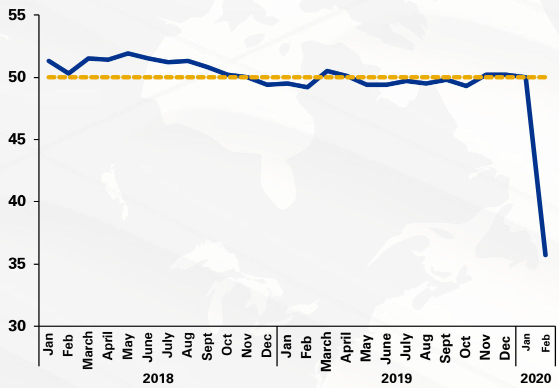


Source: OECD, Euromonitor

Supply Shock

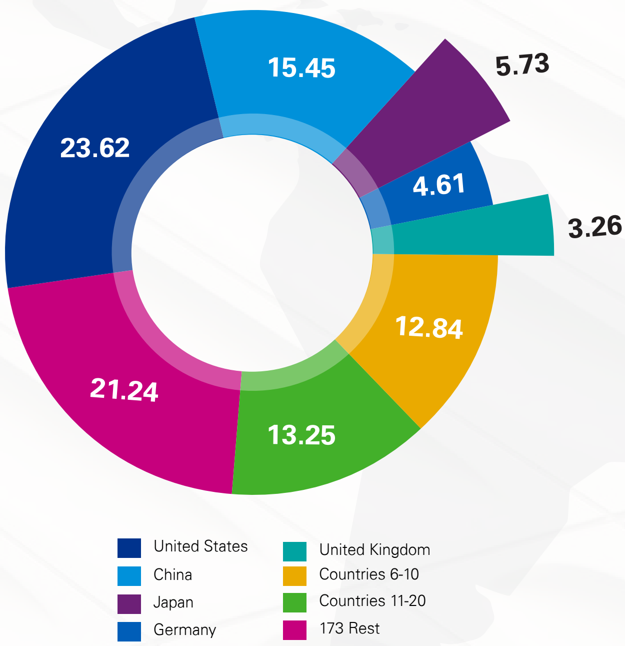
The chinese economy (which accounts for 15.45% of global GDP) is expected to grow at its slowest rate in Q1 2020, since the financial crisis. A Reuters poll predicted that China's annual growth rate will slow down to 5.5% from 6.1% in 2019. The slowdown is mainly attributable to a halt in economic activities in China and other major cities around the world. Businesses are dealing with lost revenues and disrupted supply chains due to China's factory shutdowns, tens of millions of people remaining in lockdown in dozens of cities and other countries extending travel restrictions. Evidently, The Caixin/Markit Manufacturing PMI showed China's factory activity contracted in February, coming in at a record low of 40.3. — the lowest reading since the survey was launched in early 2004. Similarly, the official manufacturing PMI from China's statistics bureau showed China's manufacturing activity in February shrank to 35.7.

A recent sharp dip in China's PMI (critical production index) dropped 22bpts in February as the impact of COVID-19 on output becomes evident



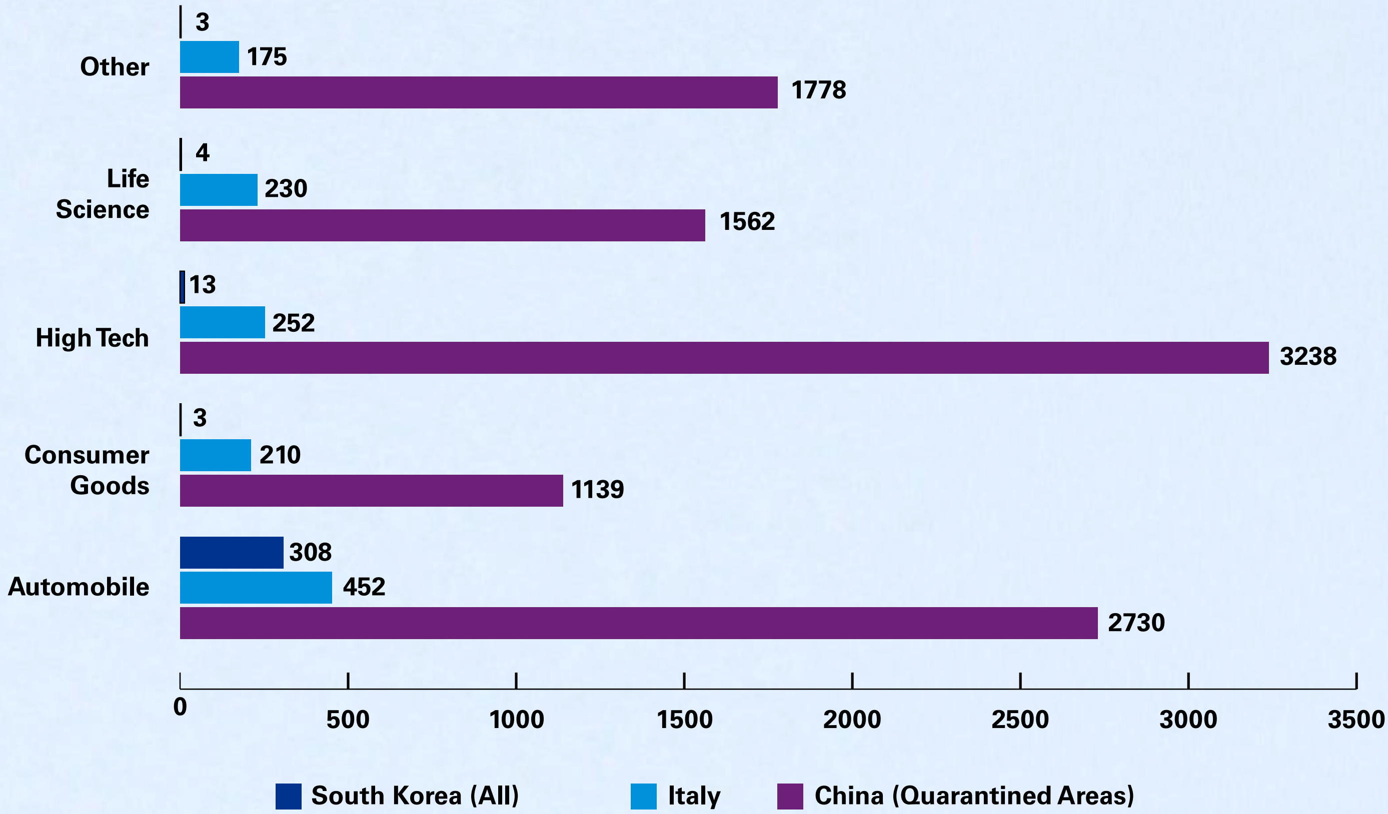
"PMI >50 indicates expansion, while <50 indicates contraction"
Sources: China National Bureau of Statistics, KPMG Research

China as a % of Global GDP



Source: IMF, KMPG Research

China constitutes the largest location of facilities owned by the top 1000 companies globally.



Source: Harvard Business Review.

COVID-19 shows up in high frequency PMI data

Mfg PMI									
Europe	**Jun-19**	**Jul-19**	**Aug-19**	**Sep-19**	**Oct-19**	**Nov-19**	**Dec-19**	**Jan-20**	**Feb-20**
France	51.9	49.7	51.1	50.1	50.7	51.7	50.4	51.1	49.8
Germany	45.0	43.2	43.5	41.7	42.1	44.1	43.7	45.3	48.0
Ireland	49.8	48.7	48.6	48.7	50.7	49.7	49.5	51.4	51.2
Italy	48.4	48.5	48.7	47.8	47.7	47.6	46.2	48.9	48.7
Spain	47.9	48.2	48.8	47.7	46.8	47.5	47.4	48.5	50.4
U.K.	48.0	48.0	47.4	48.3	49.6	48.9	47.5	50.0	51.7
Americas									
Brazil	51.0	49.9	52.5	53.4	52.2	52.9	50.2	51.0	52.3
Canada	49.2	50.2	49.1	51.0	51.2	51.4	50.4	50.6	51.8
Mexico	49.2	49.8	49.0	49.1	50.4	48.0	47.1	49.0	50.0
U.S.	50.7	50.4	50.3	51.1	51.3	52.6	52.4	51.9	50.7
Asia & Pacific									
Australia	52.0	51.6	50.9	50.3	50.0	49.9	49.2	49.6	50.2
China	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1	40.3
Japan	49.3	49.4	49.3	48.9	48.4	48.9	48.4	48.8	47.8
Korea	47.5	47.3	49.0	48.0	48.4	49.4	50.1	49.8	48.7
India	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5
Indonesia	50.6	49.6	49.0	49.1	47.7	48.2	49.5	49.3	51.9
Malaysia	47.8	47.6	47.4	47.9	49.3	49.5	50.0	48.8	48.5
Singapore	49.6	49.8	49.9	49.5	49.6	49.8	50.1	50.3	
Vietnam	52.5	52.6	51.4	50.5	50.0	51.0	50.8	50.6	49.0

Source: KPMG Economics, IhS Markit, Haver Analytics (Feb 2020)

Note: The Purchasing Managers Index (PMI) is a monthly survey of industry that is a real-time snapshot of economic conditions. It is a diffusion index and a reading greater than 50 indicates expansion while a reading below 50 indicates contraction

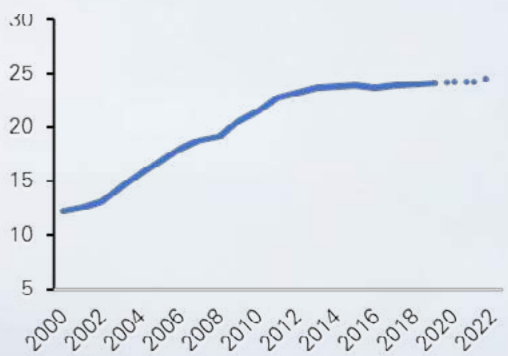
In addition, the adverse consequences of these developments for other countries are significant, including the direct disruption to global supply chains as a result of factory closures and quarantined workers which has led to a shortage of inputs/components and will advertently hinder availability of goods and services, weaken final demand for imported goods and services, and extend regional declines in international tourism and business travel.

Demand Shock

Due to the regulatory responses to the outbreak and the spillover effect of the supply shock, global demand would be curtailed as the economic impact of the global standstill trickles into businesses and household consumption. Evidently, The International Air Transport Association estimates that airlines could lose US$63 billion to US$113 billion in revenue for passenger traffic globally in 2020, depending on how the coronavirus spreads

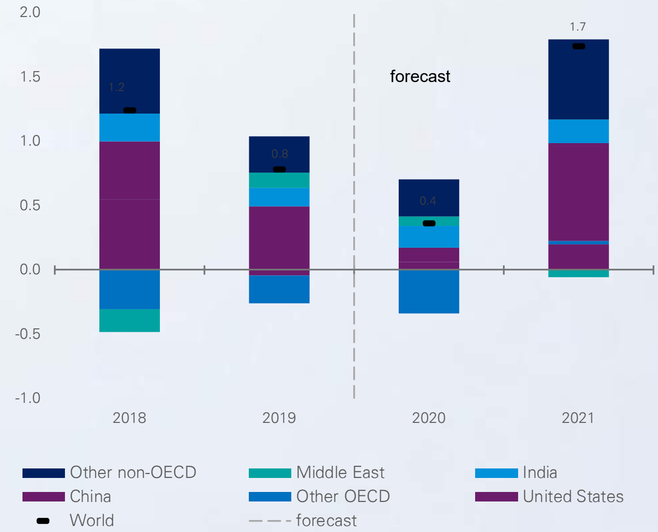
Similarly, given China's position as one of the largest consumers of oil in the world, (23% of total world oil production), and the impact of COVID-19 on manufacturing and air travel, the International Energy Agency has predicted the first decline in global oil demand in a decade. Demand is now expected to fall by 435 kb/d y/y in Q1 2020, the growth forecast for 2020 has been cut down by 365,000 barrels per day, the lowest since 2011.

China's consumption % of Total



Sources: Economic Intelligence Unit, KMPG Research

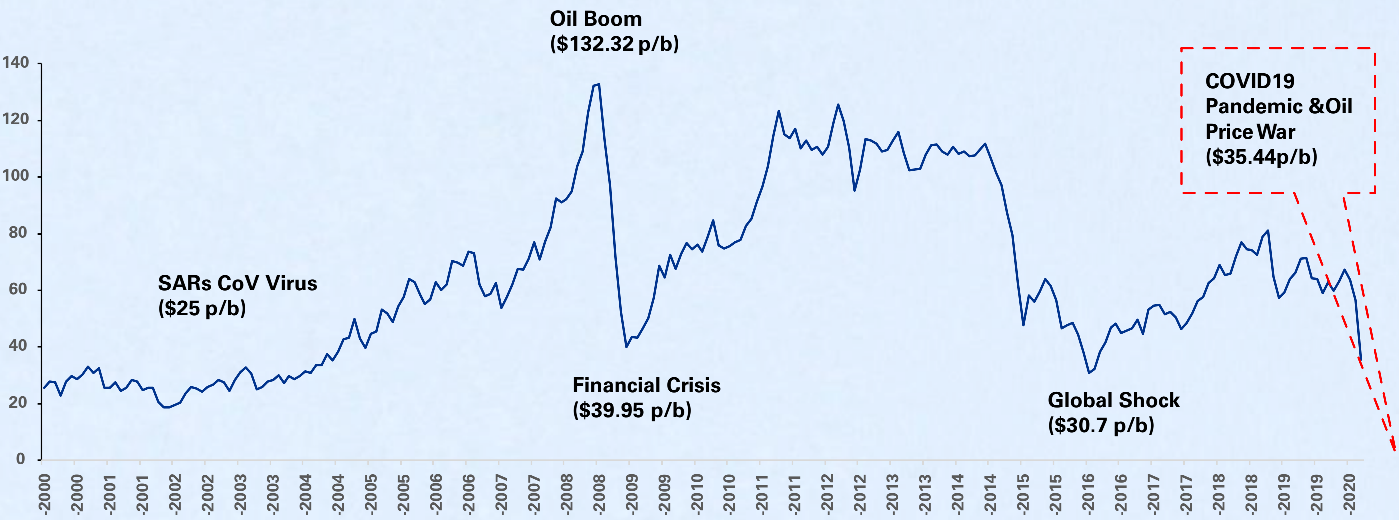
Annual change in world liquid fuels consumption (mbpd)



Sources: Economic Intelligence Unit, KMPG Research

Not limited to production, the impact of COVID-19 on oil prices has been piercing, with brent oil price down c.43% YtD to US$33/bbl amid failure of OPEC+ countries to commit to the proposed 1.0mbpd production cuts put forward by the cartel. The current production cuts will be in place until the end of March as planned, but it's uncertain if they will extend beyond this month, as OPEC plans to remove all limits on the cartel's crude production.

Plummeting oil price

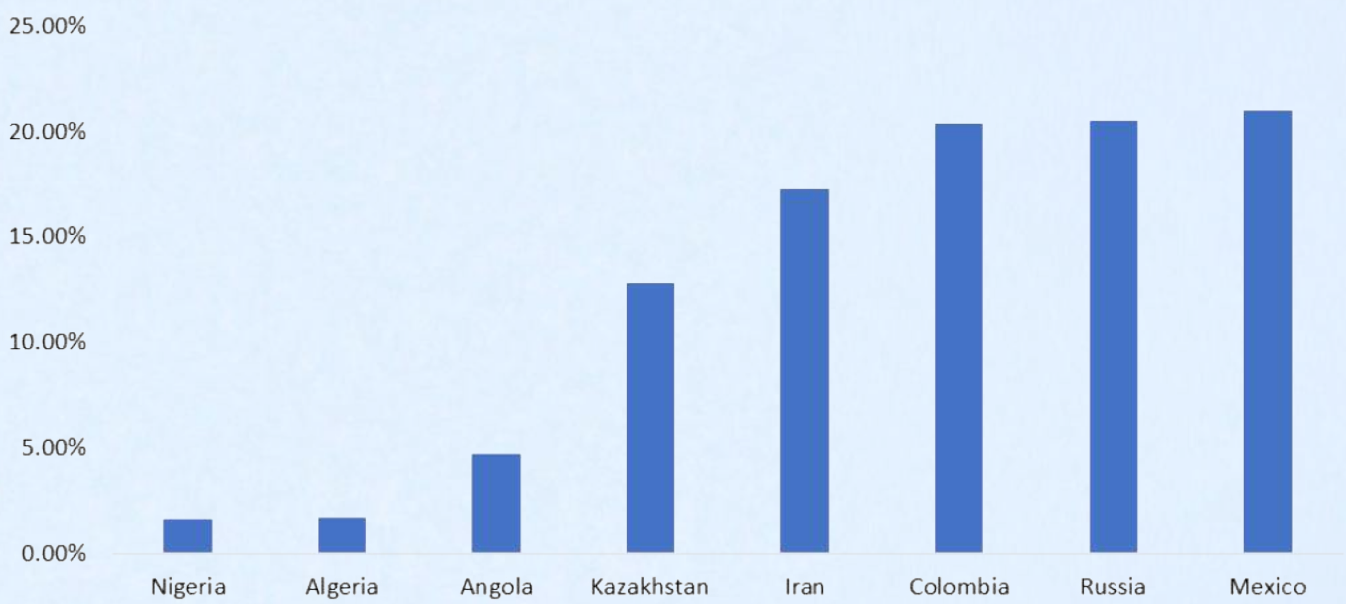


Sources: WHO Situation Report, Bloomberg, KMPG Research

Impact of Oil Price Decline on Emerging Market Currencies

The impact of the decline in oil price has stung currencies across EMs and it appears the worst is yet to come. For exporters like Saudi Arabia, Nigeria and Angola, the impact has been immediate while importers like South Africa and Turkey, whose currencies are close to record lows have not been spared either

Losses against the greenback in 2020

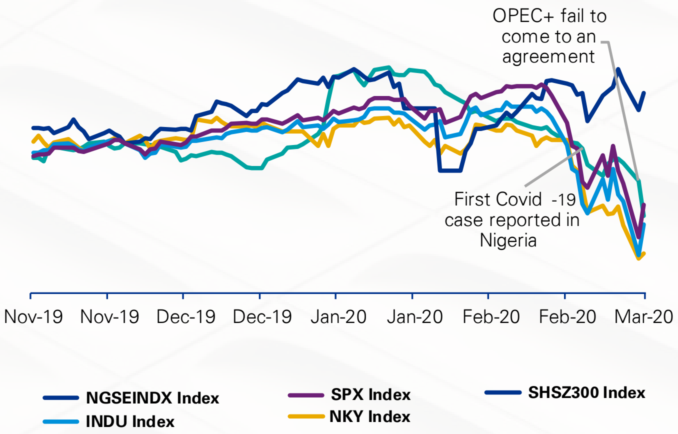


Source: Bloomberg

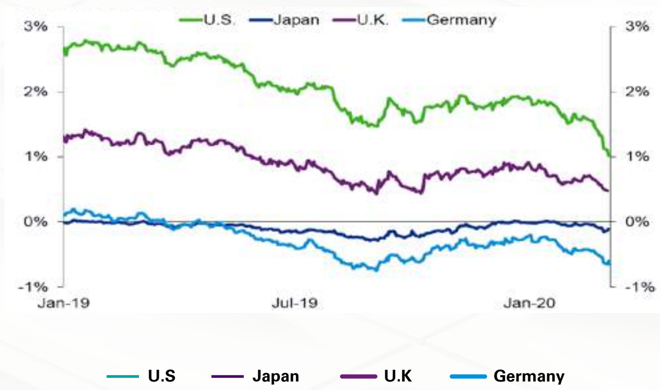
Global Financial Markets have responded to heightened uncertainty

The rapid spread of the virus has triggered a selloff in risky assets globally, as quite a number of blue-chip companies have warned that disruptions could upset sales and profit forecasts. Investor and business confidence have greatly been dented and the disruption to supply chains and weaker external demand is seen to moderate growth, even in countries less-heavily integrated with China.

Global equity markets have plummeted, entering bearish territories



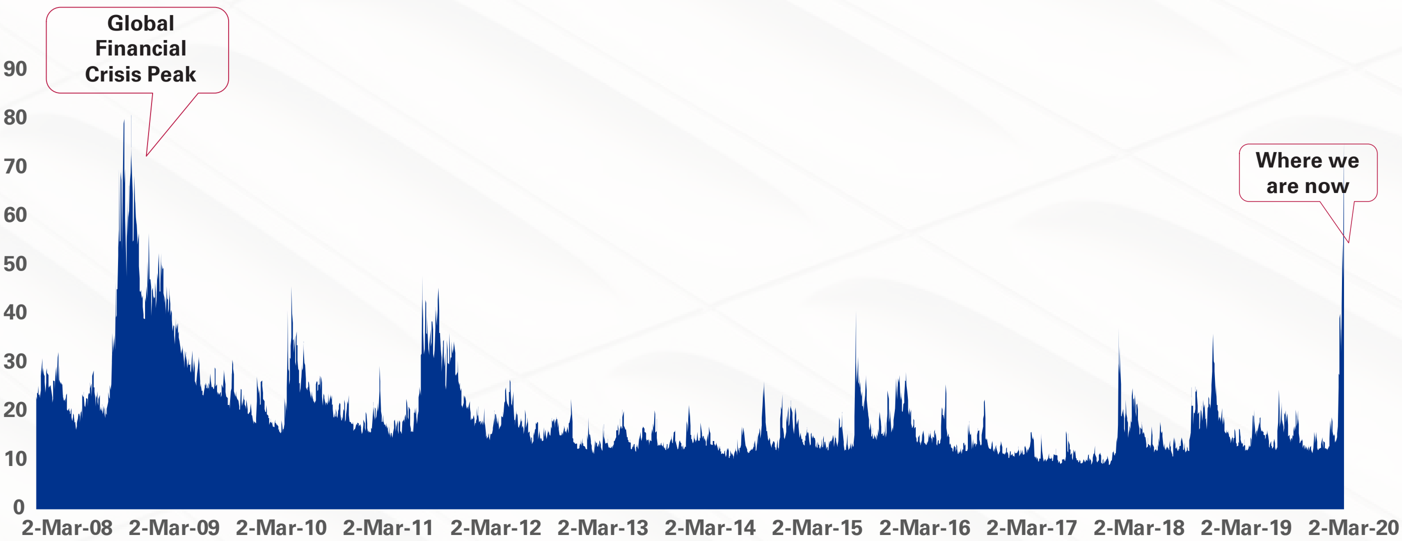
10-year Government Bond Yield



Source: Bloomberg, KMPG Research

The economic disruptions caused by the virus and the increased uncertainty are being reflected in lower valuations and increased volatility in the financial markets. Notably, the brutal drawdown in the global financial markets may ensure a close path to recession for the world economy, but economic measures implemented in affected countries may redirect the performances.

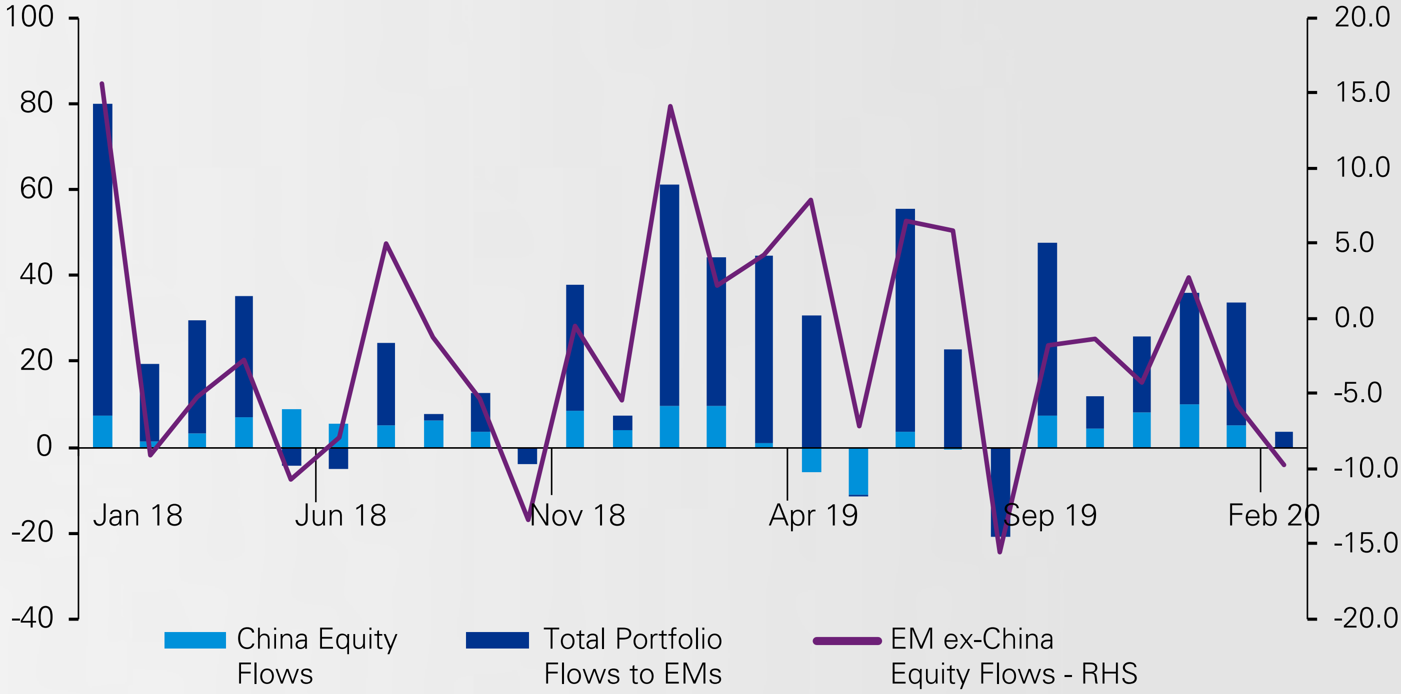
Global uncertainty is near the peak of the financial crisis era



Source: CBOE

Furthermore, despite ridiculously low interest rates globally, risk off sentiments to EMs and FMs like Nigeria persists. Latest data from the Institute of International Finance revealed that portfolio flow to EMs plunged 88% m/m to US$3.4bn in February 2020, as the spread of the virus rattled investors. Most investors have now flown into safe havens such as US govt bonds and Gold.

Portfolio Flows into EMs

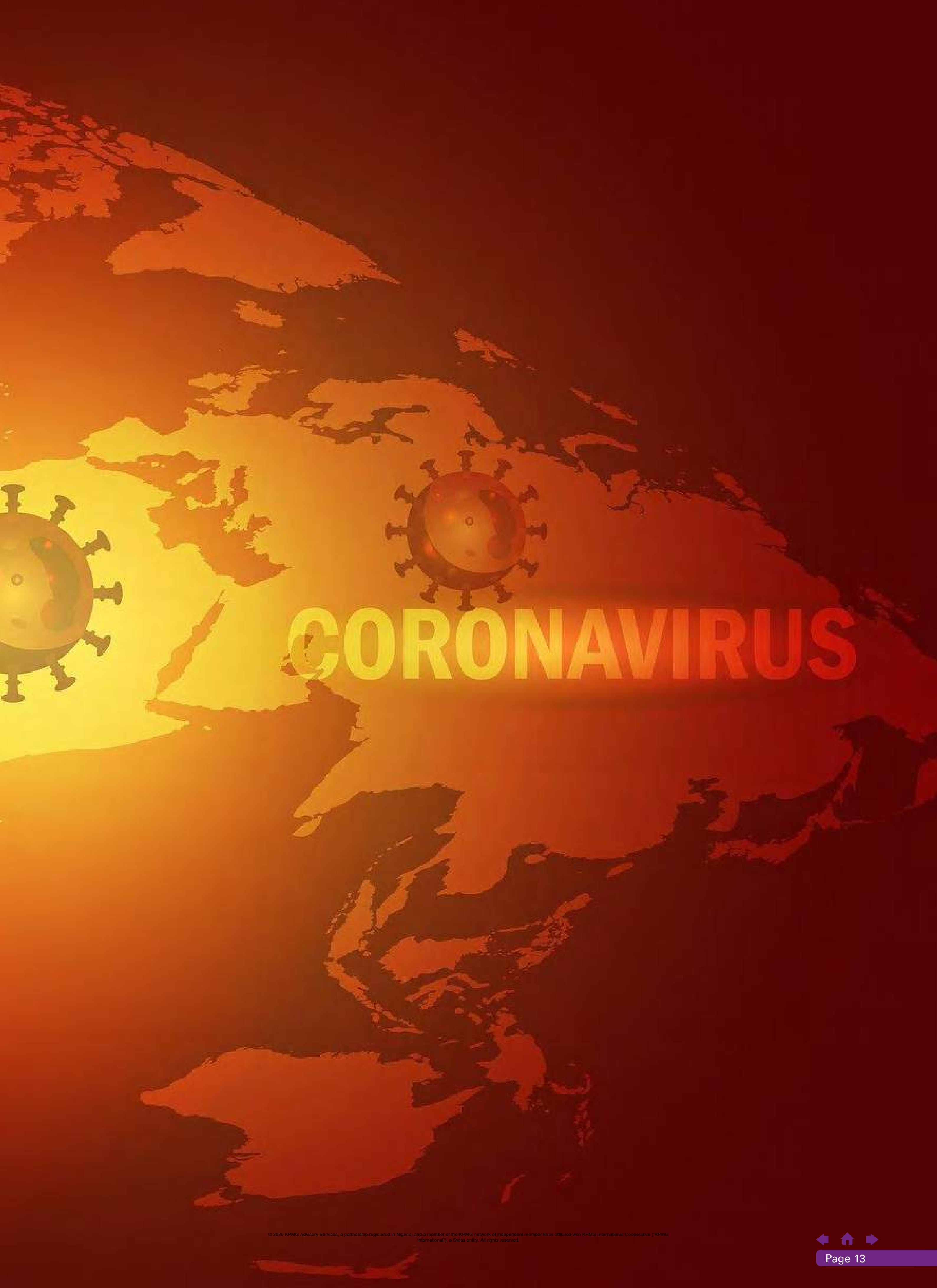


Sources: IIF, KPMG Research

Policy Responses

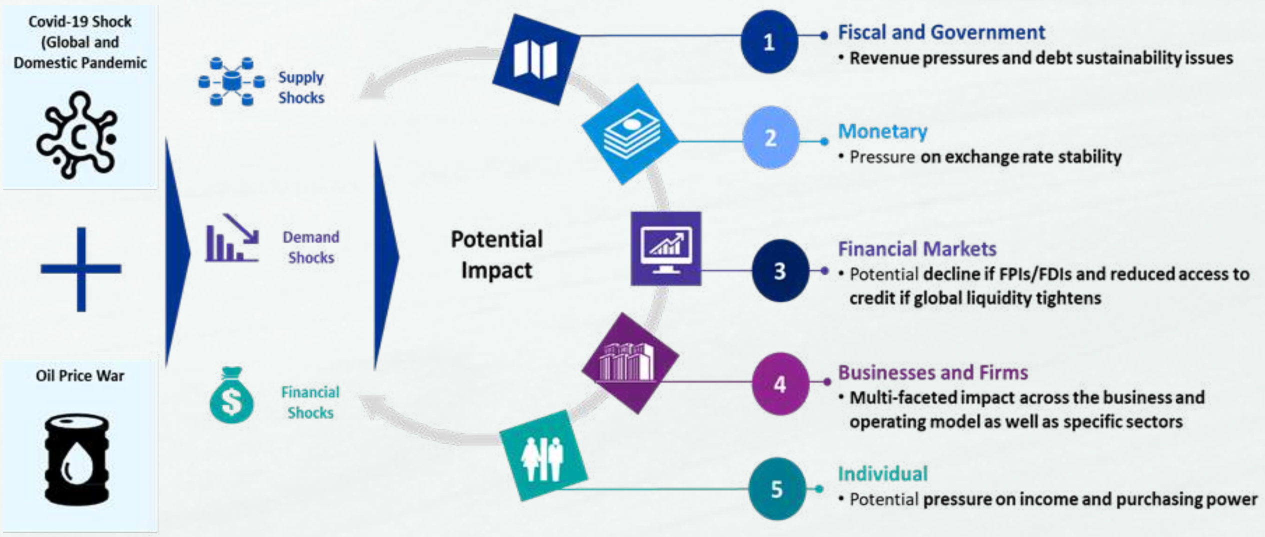
The U.S. Fed has effectively cut its benchmark interest rate by 1.0% to a range of 0% - 0.25% and is launching a new round of quantitative easing worth US$700billion as a response to the rapidly increasing economic threats presented by the novel coronavirus. Similarly, in a global coordinated move by Central banks, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank, action was taken to enhance dollar liquidity around the world through existing dollar swap arrangements.

Central banks in Australia and Malaysia have also taken interest rate cuts.
However, monetary policy will likely have a very limited effect since interest rates are already low and have been so for some time. To put the global economy on steady footing, world governments must engage in fiscal stimulus and use every tool at their disposal to ensure economic stability.


CORONAVIRUS

Bringing it Home

Nigeria, being an oil-dependent economy, has a Twin Shock on its horizon: COVID-19 Pandemic Global & Domestic Shock, and Oil Price Shock. Nigeria's vulnerabilities to the impact of these external shocks can be adduced to increased dependencies on global economies for fiscal revenues, foreign exchange inflows, fiscal deficit funding and capital flows required to sustain the nation's economic activities.



Supply Shock

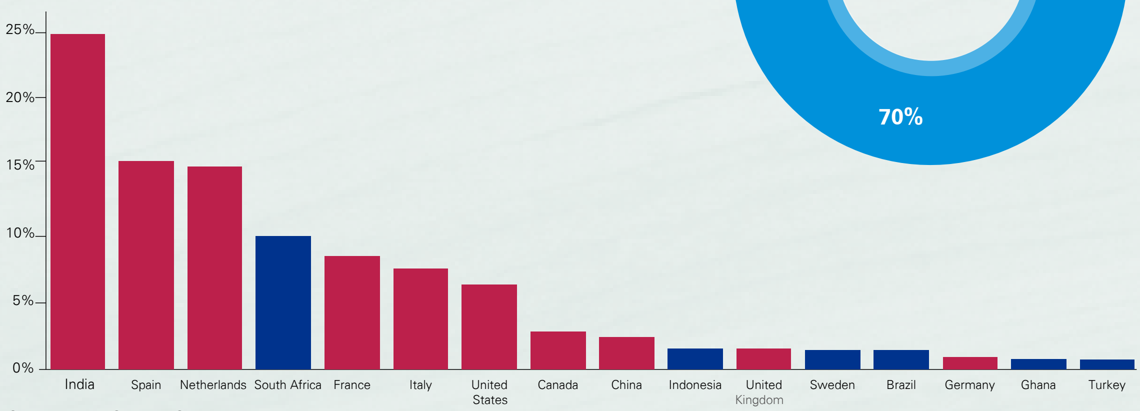
According to the NBS, Nigeria's imports from China hit N4.3trillion (25% of total imports) in 2019, 69% higher y/y. This is likely to take a hit as China struggles to contain the spread of the virus. Also, following the lockdown of much of the Chinese mainland (up to 150 million Chinese nationals are under mandatory movement restrictions), production of goods and services will continue to slow, and in some cases, shut down completely, affecting exports to Nigeria. This could put more pressure on inflation numbers (12.20% as at February 2020) going forward as cost of local production goes up. Firms within the manufacturing industry might need to source for input from other nations where they are presumably more expensive

Demand Shock

Oil exports

Due to the impact of the virus on global demand, Nigeria's top importers of oil, India (11,555 cases), Europe (over 894,537 cases) and China (82,295 cases as at 14th April 2020), will slow down importation of its crude, leading to a buildup in crude inventories. According to Bloomberg, the volume of crude that will be shipped to China from West Africa next month is set to drop by at least 10million barrels as the demand destruction caused by the coronavirus hits.

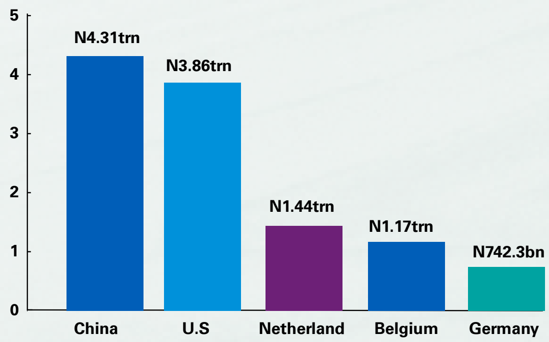
Percentage of Nigerian crude export by countries (2019)



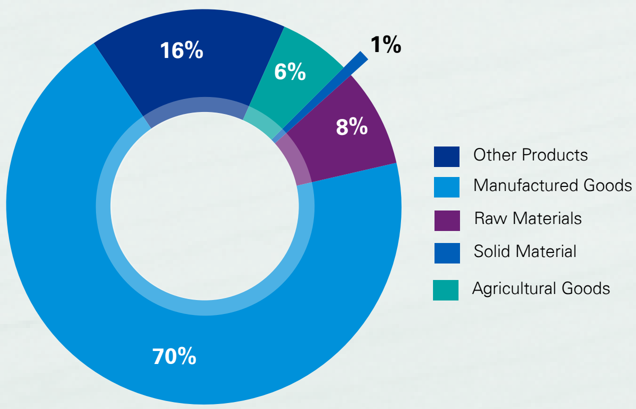
Sources: NBS, KPMG Research

home. This may then lead to a loss in market share, due to the inability to ramp up production against other OPEC and non-OPEC allies, when the production cut agreements end in March.

Nigeria's Top Import Trading Partners (2019)



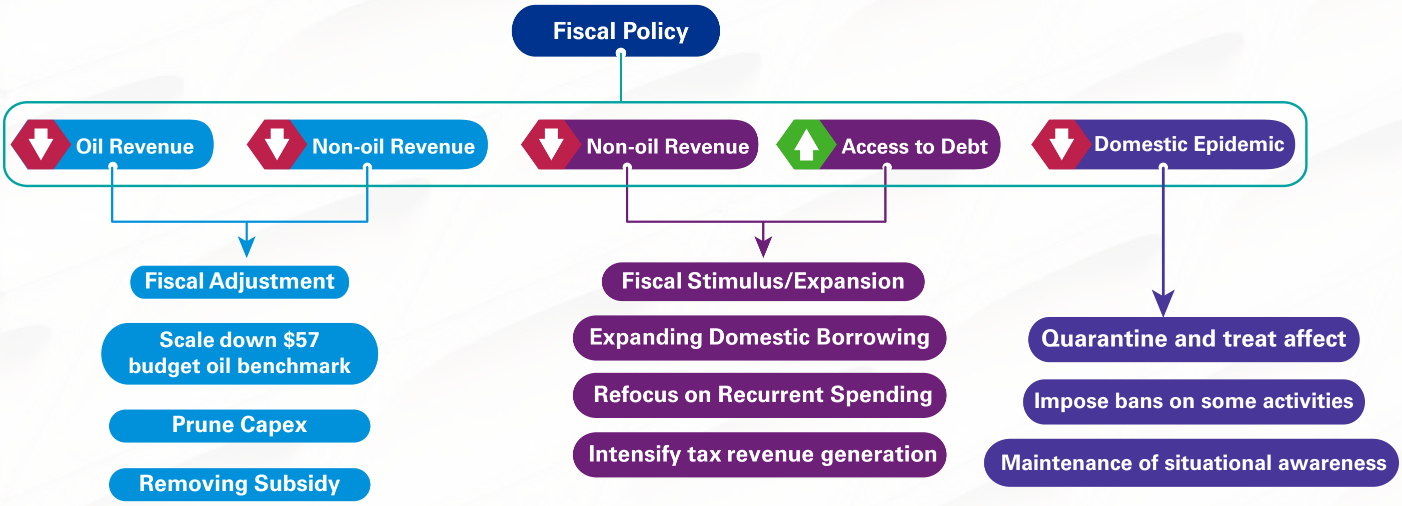
Break down of Nigeria's imports from China (2019)



Fiscal

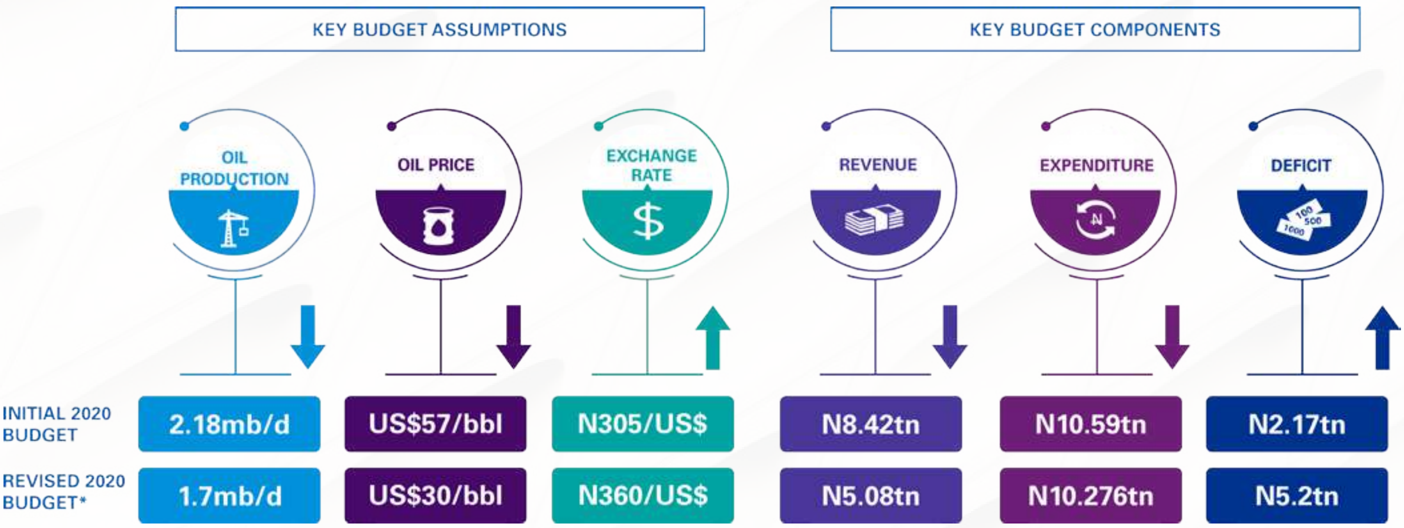
Oil price is now trading at c.59% lower than Nigeria's budget benchmark of US$57/bbl. With oil receipts being a major contributor of FG revenues, expected revenue to be generated from the oil sector in the 2020 budget is N2.64triilion, while the rest of the non-oil sectors contributes a further N5.5trillion. Lower oil price only suggests that revenues will fall below budgetary targets, public debts are expected to continue to increase sharply. By extension, debt servicing and sovereign borrowing rates which currently takes up c.60% of total revenues will continue to increase. Many states depend heavily on the government for FAAC allocations and since government's finances would be hit, other economic agents such as business and individuals may suffer, as states that struggled to pay the former minimum wage would find it even more difficult to pay the newly enacted minimum wage of N33,000. This will in turn have a domino effect on government revenues from non-oil sectors, as consumer spending is further limited, thus reducing tax revenues.

The impact of Twin Shocks on Nigeria is multifaceted



Source: KPMG Research

Impact of Twin Shocks on Nigeria's 2020 Budget

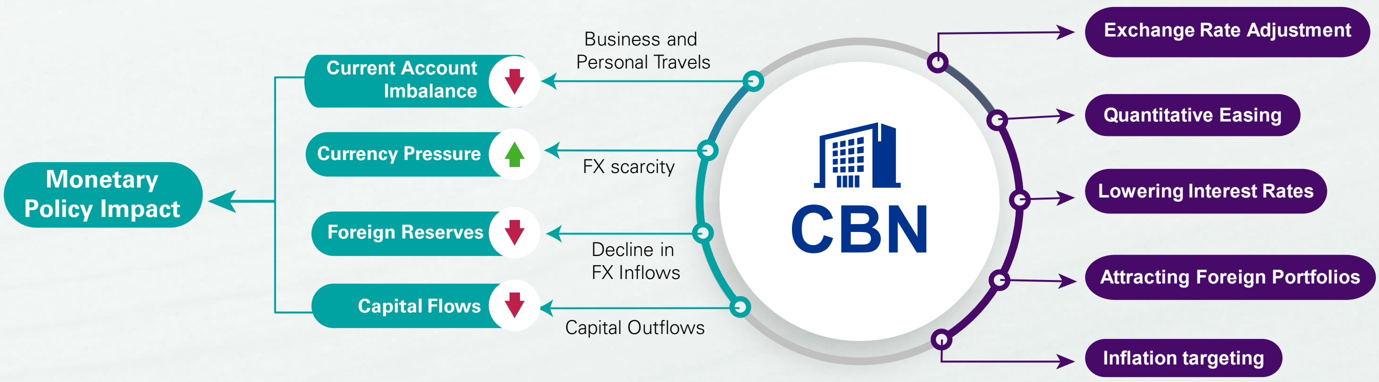


Sources: Budget Office, Ministry of Finance, Budget and National Planning, CBN
**as at 09 April, 2020, Awaiting Approval from National Assembly*

Furthermore, S&P Global Ratings revised the outlook on Nigeria from stable to negative. At the same time, the ratings agency affirmed its 'B/B' long- and short-term sovereign credit ratings on Nigeria. The negative outlook over the next 6-to-12 months reflects the balance of the risks from further foreign exchange (FX) pressures, ongoing weak economic performance, as well as rising government domestic and external debt. The revised outlook represents the 3rd downgrade in 4 months, as both Moody's and Fitch had last revised downwards, their outlook for Nigeria from stable to negative, on the back of Nigeria's increasing vulnerability to external shocks.

The downgrade would further exacerbate risk-off sentiments and would bode negative for the potential US$3.3billion Eurobond tap offering, as it would dampen investors' sentiments towards the issuance and further put pressure on borrowing costs as investors would naturally demand higher returns on their investments. It could also bode negatively for the local bourse, as investors grow increasingly wary about the snail like pace of growth and policy uncertainty.

Monetary Policy`



Even though FX reserves have been on a freefall since July 2019 as capital outflow heightened due to policy uncertainty, it appears factors affecting currency stability have now shifted broadly away from capital repatriation by FPIs, to lower crude oil prices. Consequently, FX reserves have declined 7.5% YtD to US$35.6billion (5 months of import cover) as the CBN continues its interventions.
The only positive to this may stem from a drop-in subsidy payment by the FG, as oil prices drop. Evidently, the FG has anounnded a drop in PMS price to NGN125 per litre from NGN145 per litre.

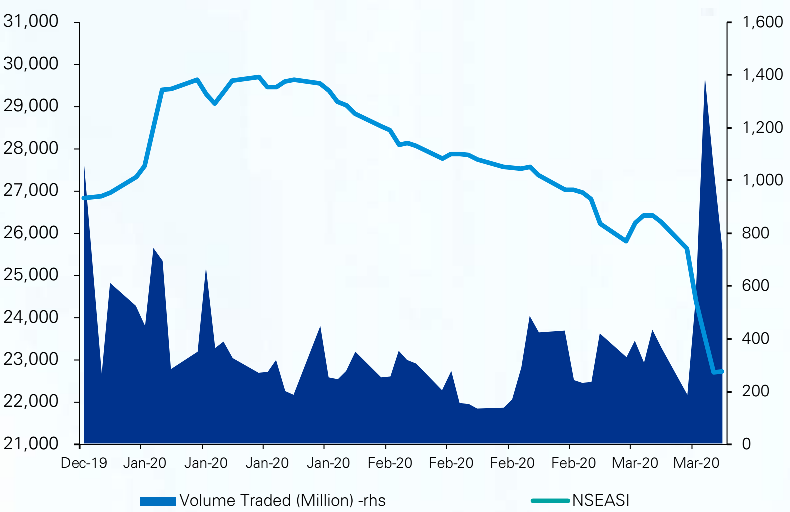
	Federal Reserve	Bank of England	Bank of Russia	CBN
Interest Rates	The Fed cut funds rate by 150bps to a range of 0.0% - 0.25%	Reduced bank rate by 65bps to 0.1%	Key rate cut by 25 bp to 6.0% per annum	Interest rate reduced from 9% to 5% for all applicable CBN interventions
Quantitative Easing	$700 billion quantitative easing. $500bn in treasury securities and $200 billion in MBS	Expanding the apex bank's holding of U.K government bonds and non-financial corporate bonds by £200 billion	Nil	Creation of N1.1 trillion ($3.60 Bn) targeted credit facility and tenor expansion on loan for businesses
Liquidity Terms	Easing liquidity swap line for other banks	Liquidity rate drawn down to enhance access to funds	Nil	Credit support for health care and Pharmaceutical industry
Regulatory Policies	Reserve require reviewed to zero and encouraging the use of buffers	Reduced countercyclical buffer rate to 0% from 1%	Russia maintains its reserve ratio at 0.80%	Extension of moratorium on all principal repayment and LDR strengthening

Sources: US FED, BoE, BoR, CBN

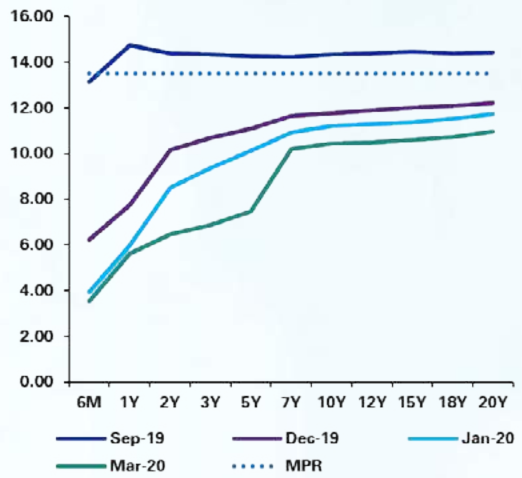
Capital Markets

The negative outlook for oil, increased vulnerabilities to external shocks and a potential recession has triggered a sell off across risky assets.
Similar sentiments are seen in the Fixed Income space as NGN yield curve edges higher, driven by sell-offs across the long end as offshore investors have yet to respond positively to the elongation of hedging options to 5 years

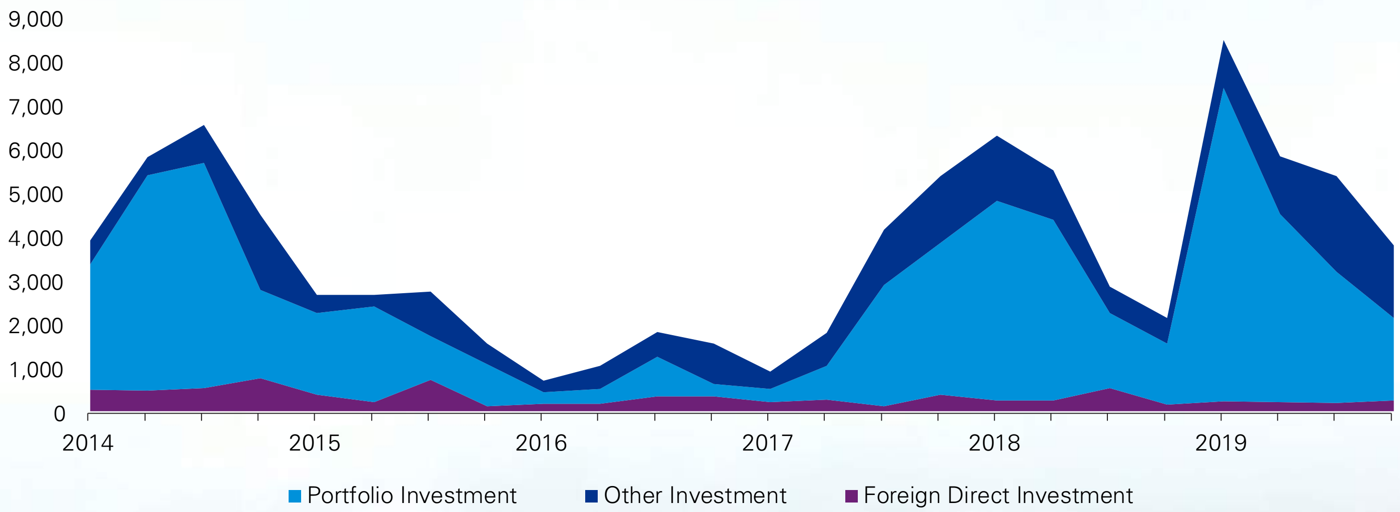
NSEASI Performance



NGN Yield Curve



Capital Importation, Q1 2014 – Q4 2019 ($Mn)



Sources: Bloomberg, FMDQ, NBS KMPG Research

Impact of the Twin Shocks on select industries

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

Impact of the Twin Shocks on select industries

Impact Points	Trade	Financial Institutions	Technology, Media and Tele-communications
Revenue	Limited revenue growth as import of goods are limited and prices get hiked Increase in prices of goods amid low consumer spending	Potential increase in savings to bode positively for topline performance interest income generation from intervention fund released by the CBN	Glum economic growth leaves little room for revenue generation China is the world's largest producer of optical fibre and cable in the world and the looming supply shock could hinder 4G/5G implementation, hurting revenues
Cost of Production	IImport restrictions likely to increase cost of importation and invariably cost of goods/ services NGN depreciation to increase cost of imports	Cost of funds may remain muted as interest rates remain low	Supply shock to raise prices of necessary hardware
Investments/ Funding	Higher risk premium equates limited/expensive funding options	Limited Investment opportu-nities due to increased uncer-tainty and forex availability	Heightened uncertainty over the adverse impact of COVID-19 means that expected investments cold be delayed
Balance Sheet	Neutral	Inventories may be depleted Potential devaluation could deplete equity and reserves; asset quality deterioration	Neutral

Impact of the Twin Shocks on select industries

Impact Points	Oil and Gas	Pharmaceuticals
Revenue	Given the reduction in pump price, there maybe potential increase in consumption of PMS, which may lead to more revenue for the industry players. However, consumption may reduce in the short term given the potential lockdown in activities as schools, airlines, others are shutting down across the country	Factory shutdowns and country lockdowns have impacted supply of new inventory.
Cost of Production	Supply shock to raise prices of necessary PPE.	The Nigerian Representatives of Overseas Pharmaceutical Manufactures reported that products manufactured in China before the shutdown had not been shipped and prolong factory closures in China meant new products were not being manufactured
Investments/Funding	Limited Investment opportunities due to increased uncertainty	CBN interventions to provide support
Balance Sheet	Decline in asset valuation	Neutral

Impact of the Twin Shocks on select industries

Impact Points	Education	Real Estate
Revenue	Limited revenue growth as economic activities slow and unemployment spikes	Global supply chain shocks to result in a shortage of construction material
Cost of Production	Neutral	Unavailability of raw materials to boost cost of production
Investments/Funding	Limited Investment opportunities due to increased uncertainty and forex availability	Limited Investment opportunities due to increased uncertainty and lower asset valuations
Balance Sheet	Neutral	Neutral

Summary of the Impact of the Twin Shocks in Select Industries

Industries	Supply Shock	Demand Shock	Financial Shock
Agriculture	High	Moderate	High
Trade	High	High	High
ICT	High	Low	High
Manufacturing	High	High	High
Oil and Gas	High	High	High
Finance and Insurance	Moderate	High	High
Professional Services	Moderate	Moderate	Low
Real Estate	High	High	High
Education	Moderate	High	Low
Health	High	High	Low

High   Moderate   Low

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