The Infected Economy: Interrogating the Early Economic Impacts of COVID-19 Pandemic in Nigeria

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Abstract

COVID-19 pandemic infests every sphere of life, including the economy, thereby accounting for tremendous economic calamities on a global scale. Some of such calamities are still evolving. This paper examines the economic impact of COVID-19 with particular emphasis on Nigeria within the early days of the pandemic. The article established its theoretical foundation through a marriage of both AK-type of endogenous growth theory and endogenous growth model with an assumption of increasing returns to scale. Using a simple descriptive technique, the article identified the devastating economic impacts of the pandemic on the oil-dependent economy in the short run. The paper identifies four fundamental COVID-19 economic shocks; the declined price of oil; unplanned increase in health spending, temporary shutdown of the local economy; and unanticipated palliative needs. Some of these impacts also include loss in income and output, increasing rate of unemployment, and poverty contributing to the disruption of the previously steady growth rate. In the longer term, COVID-19-related damages will have no or insignificant negative impact on growth. The economy is bound to bounce back on a steady growth path provided the quality of institutions is strengthened to the extent of surmounting the disruptive shocks.

Keywords COVID-19, economic impacts, disruptive economic shocks, Nigeria

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Background

Over the years, the world has been experiencing an outbreak of different types of contagious diseases, many of which have claimed lives [1-3]. Between 1918 and 1920, the global community experienced the outbreak of the influenza epidemic, which affected about 50million people [2-4]. After six decades, precisely in 1981, another
outbreak of a new disease called Acquired Immune Deficiency Syndrome (AIDS) claimed many lives, with about 33 million presently living with HIV [5,6]. In recent times, there were smaller outbreaks of diseases like Avian flu, SARS and Ebola. For instance, in 2002, the outbreak of a virus called SARS-CoV affected about 8000 people and claimed nearly 774 lives. Eight years later, the Avian flu outbreak in 2009 again claimed about 151,000 to 575,000 lives, while from 2014 to 2016, the global community witnessed the re-emergence of Ebola virus disease, which accounted for about 11,000 deaths in several countries [7]. The outbreak of Coronavirus disease 2019 (COVID-19) in Wuhan, China, in early December, 2019, was declared by the World Health Organization (WHO) as a global pandemic. The COVID-19 is an infectious respiratory disease that spreads rapidly across the globe. So far, as of May 13, 2020, about 4,358,142 COVID-19 cases have been confirmed, with over 283,153 deaths across the world [8]. The pandemic nature of this virus, based on its rate of spread across countries and associated deaths, makes the outbreak a global issue, thereby forcing several countries into total lockdown. In contrast, many others are expected to take the same steps. The total or partial lockdown (as the case may be) of many economies, notably the developed countries like the United States of America (USA), Germany and Italy, among others and in the highly celebrated “Asian Tigers” like China and Korea, revealed the growing fears about the potential economic impact of the virus on both the micro and macro space. The outbreak of the virus results in adverse shocks to the global economy.

The monetary authorities (such as International Monetary Fund [IMF], The World Bank and Central Banks) and those in policy circles are optimistic that the global negative impact of the COVID-19 might be significant but short-lived over which the world will overcome the impact. This is predicated on the belief that COVID-19 mirrors the global economic meltdown in 2007, originating from the USA subprime mortgage crisis [9,10]. The “fear factors” associated with COVID-19 wreak more havoc through panic and disruption than death, and as such, it should be viewed as the world viewed the flu [11]. The events surrounding the 2007 financial crisis were only attributed to the economic issues, though with a global spill over effect [12], while the COVID-19 pandemic affected all facets of human existence globally. Also, the COVID-19 pandemic occurs at a period when two major producers (Russia and Saudi Arabia) of crude oil have competed in output, resulting in ever low crude prices since the 1990s. The effects of which have started to take their toll on the revenue of most oil-producing countries. From the preceding, the economic impact of the negative shock of COVID-19, which has affected all facets of human existence, can only be better imagined because of its capability to have both short-run and long-run adverse economic effects on the global economy [13,14].

The spread of the virus in China, the United States, and other European countries has attracted both policymakers and the media. The outbreak of the COVID-19 in low-income economies like Cameroon, Ghana, Brazil, Uganda, India, and Nigeria, among
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...others, is yet to be given adequate attention. The economic impacts are equally not adequately analysed even though the economic consequences will be more significant in such countries. This is underscored by the high incidence of poverty in these countries, coupled with the highly dependent nature of their economies, thereby making such countries highly susceptible to the trade cycle crisis [13].

Nigeria, a low-income economy with an estimated over 200 million people living on an income of less than $2 a day and virtually depends on external demand for its crude oil, is a replica of a country where the impact will be more significant. The country recorded its index case of COVID-19 on February 27, 2020, and since then, the figure has been on the increase. As of May 12, 2020, the country has recorded 4,641 confirmed cases of COVID-19 with 150 deaths [8]. This occurs when the country is sluggishly recovering from the economic recession experienced in 2016 under a declining crude oil price environment, which remains the primary source of revenue for the country amidst rising import bills [15,16]. The spread of the virus has degenerated into the community level. The Presidential order of a total lockdown of three major states in the country aimed at averting the negative impact associated with the outbreak of the pandemic. Earlier, some state governors had also announced partial lockdown of their various states in an uncoordinated manner. This aversion behaviour has various implications on the economy ranging from the health sector to education, manufacturing, oil and gas, and services, among others, which might drag the economy back into recession soon. It is in line with the foregoing that this paper examines the economic impact of COVID-19 pandemic on the Nigerian economy in the early days (defined as the first three months) of the pandemics. To achieve this objective, we adopted a purposive sampling to selected relevant papers and databases required for the stylised fact used in the article. In specific terms, data on the rate of COVID-19 infections was obtained from reference [8], while economic indicators data were sourced from the Central Bank of Nigeria (CBN) website. Aside from this background, the second section of this paper presents the theoretical framework, the third section analyses the global impact of COVID-19. In contrast, the third section provides a framework explaining the chains of transmission of the adverse effects of containment measures taken to fight COVID-19 using Nigeria as a reference point; the fourth section concludes and provides recommendations.

**Theoretical Framework**

Some economists have developed various theoretical explanations [17,18] to explain factors responsible for economic growth resulting in the emergence of two schools of thought – the exogenous and endogenous growth models. In the macroeconomic context, this extends to explaining fundamental reasons behind the differences in growth rate among economies. However, very little attention has been given to negative shock as a determinant of countries’ prosperity. The traditional neo-classical exogenous growth theory argued that human and physical capital destruction due to the disaster occurrence does not harm the rate of technological progress needed for growth but somewhat limits growth prosperity of countries in the short-run [18].
This conclusion by the traditional neo-classical school is predicated on the belief that the destruction of capital might drive countries away from balanced growth steady states because the growth rate of countries is faster below the point of convergence.

The endogenous growth model, on the other hand, is of different types depending on the assumptions and conclusions. For example, the AK type of endogenous growth model is a linear production function (where ‘A’ represents a multiplicative constant and ‘K’ represents technology) with the assumption of constant returns to scale of factors [19]. The proponents of this theory conclude that a natural disaster or shock with a negative effect on capital will not affect the growth rate. In contrast, those with the assumption of increasing returns to scale in production conclude that the destruction of both human and physical capital stock due to natural calamities will lower growth rate can cause a permanent deviation from growth path. Schumpeter’s theory of creative destruction is also of great relevance here. According to him, the devastation caused by negative shock emanating from natural disasters might propel countries to a higher level of growth. This assertion is underscored by the need for reinvestment and upgrading of capital goods due to the destruction caused by natural disasters [20]. The reinvestment and capital upgrading will enhance economies of scale in production and higher output and growth [21].

The theoretical underpinning for this paper will be a marriage of both AK-type of endogenous growth theory and endogenous growth model with an assumption of increasing returns to scale. Empirical studies have evidenced that only the natural shock of COVID-19 type followed by disruptive political reform or aided by the weak institution will have a long term significant adverse effect on economic growth [22]. Instead, the pandemic is expected to enhance reinvestment in the health sector; upgrading technologies require optimisation of resources and increasing efforts towards structural transformation, particularly in an oil-dependent economy like Nigeria. The economic reason behind this position is predicated on the belief that the existence of a better institution which promotes strong property rights and eliminates a rentier economy will instill confidence in an investor that his or her investment resources are well protected thereby reduces negative disaster impact on growth [21].

**Economic Impacts of COVID-19**

**Brief Global Economic Impacts of COVID-19**

On a global scale, the pandemic has both supply and demand impacts beyond the potential loss of lives. The collective impact of these twin evils might force many countries into recession, including the developed countries due to declining world outputs. For instance, the global gross domestic product (GDP) growth rate is expected to drop from 2.9% in 2019 to 2.4% in the first quarter of 2020 and possibly negative in the second quarter of the year [23,24]. From Figure 1, the World GDP growth has been oscillating between -2.0%, the lowest and 4.1% the highest. Figure 1 shows that in 1998, when the world experienced currency crises in the European
market, the rate of growth dropped from 3.5% in 1997 to 2.43%. The world output picked again immediately after the crises, and the growth rate has been a bit stable at 4.0%. The global economy experienced the lowest growth rate in 2009 due to the global financial crisis. The world recorded a negative growth rate of -2.0%, after which the world economy peaked, and again reached its highest growth rate of 4.1% around 2011 [25]. Between 2011 and 2019, the growth rate has been oscillating around 2.5% to 3.1%. By the last quarter of 2019, which marked the outbreak of COVID-19, the growth rate further declined, just like the growth rate experienced during the crash of Dot.com and the September 11 attack in 2001. If the outbreak of this pandemic continues, and its impact is not short-lived, the world is on the verge of experiencing another recession due to the likely persistence decline in global output.

![Global GDP Growth, 1995-2020](image)

**Figure 1. Trend of global growth rate of income (Source: Adapted from [25])**

In nominal terms, about $2trillion shortfalls in global income are expected, out of which developing countries (excluding China) will account for $220billion [23,24]. This world blinking economic outcome for 2020 is attributed to the adverse effect of the virus outbreak on consumer demand and loss of investor confidence, which will negatively affect the financial market’s performance due to risk aversion. Equally important is the adverse effect of the pandemic on tourism and travel sectors and disruptions in supply chains, particularly among the G20 economies [25]. Specifically, countries such as Mexico, Canada, the Central American region, Americas, and other European Union’s members are expected to record a meagre growth rate between 0.7% and 0.9% due to adverse demand shock arising from the pandemic. The emerging economies are also not spared of this negative impact of the COVID-19.
For example, China recorded a 7.1% GDP growth rate as of January 6, 2020, but before the end of the first quarter of 2020, the country’s GDP growth rate declined to 1.2% [14,16,26]. It was forecasted that this growth rate might turn negative soon, except the impact of the pandemic is short-lived [13]. Jackson [16] also observed that the global economy might be trimmed by as much as 2.0% per month if current conditions persist, while the global trade could also drastically fall by 13% to 32%. The COVID-19 pandemic also affects the demand for durables goods around the globe due to negative income shock. Within the first two weeks of February 2020, the total car sales in China fall by 92% [13,14]. Quantifying the impact of COVID-19 on the activities of the travel sector, the International Air Transport Association (IATA) has estimated that African aviation industry will lose more than $ 4billion as a result of the COVID-19 pandemic [16]. In contrast, more than 70% of hotel reservations were cancelled; most hotels closed down during the lockdown. For example, hotel reservations have been canceled due to the postponement of the Tokyo Olympics in 2020 [12]. It is equally important to note that the COVID-19 pandemic also has its short-run positive effect on the global community. The pandemic outbreak has reduced production activities around the world, resulting in declining rates of pollution. Recent research [13] reported that nitrogen dioxide is low amid a slowdown in China.

**Economic Impact of COVID-19 Pandemic on Nigeria Economy in the Early Days**

The economic impact of COVID-19 in Nigeria can be analysed from both micro and macro channels, as shown in Figure 2. On the micro channels, the outbreak imposed a direct cost on many households due to sickness and the deaths of relatives. This results in a loss of income and a higher dependency ratio. Although medical reports indicate that people that are more likely to die of COVID-19 infection are those above the working age and they are not likely to be the primary provider for their families; nevertheless, in Africa, particularly in Nigeria the opposite will be the case because significant percentage of people of this age group are still part of the working population due to inadequate opportunity for gainful employment at early age and have little access to social security, which in most cases virtually inadequate [27,28]. Also, the aversion behaviour of the total lockdown of some states might result in unwanted pregnancies in a country already battling with problems associated with high population growth as it was the case in Sierra Leone during the Ebola outbreak [29,30]. The cumulative effects of increasing numbers of sick people with an increasing population figure could exert unnecessary pressure on the health sector resulting in worsening health conditions. The effort to improve the performance of the sector calls for diversion of the available fund to meet the demand for health services. For instance, the Federal Government of Nigeria has released the sum of ₦15billion for the procurement of test equipment and ventilator needed for the intensive care unit (ICU) centers; this is exclusive of the donation received from foreign institutions like United Nations, African Development Bank,
private investors and individuals both at home and away which worth over ₦20billion.

Figure 2. Economic Impact of COVID-19 (Source: Authors’ illustration)

The direct cost from sickness and death on the health sector expenditure also has macro effects. The micro effects will be manifested by falling wages and income in the short run leading to increasing poverty rates at the household level. This will become more pronounced in the long run due to the cumulative effect of the high dependency ratio created by unemployment. As earlier mentioned to improve the health infrastructures, the diversion of funds will further shrink the available fund meant for the development of the real sector.

At the macro level, the government mandate by imposing a ban on certain activities will have multiplier effects on both formal and informal sectors, institutions, and customer decisions. The informal sector is comprised of firms that not officially registered and mostly consist of enterprises. Although, as an entity, the firm in the sector employs fewer workers, ironically as a sector, it employed about 76.5% of the total workforce in Nigeria [31]. In terms of its contribution to output, its contribution worth 39.0 trillion in 2015, equivalent to 41.4% of the country’s GDP [32]. Most
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importantly, most of the informal sector depends on daily income to survive, making them more exposed to the negative impact of government mandated lockdown. Apart from this, most of the workers employed in the informal sector remain outside the protections of labor law and offers no health or social protection benefits [31]. The labour law does not protect many of the employees and no provision of any social benefits by the employer or government to the employees. The employer can quickly disengage the employees resulting in a high rate of unemployment. Again, the sudden break in the daily flow of income due to stay-at-home order will aggravate the rate of poverty. The long-term impact might be the weakening of the critical sector acknowledged to be the engine of innovation and industrialisation. This is likely to be the case if the entrepreneurs go to the extent of allocating the business capital for consumption purposes.

Relating to the firms operating in the formal sector and customer decision, the cumulative effect of government mandate on firms and customer decisions will have multiplier effects on manpower development, manufacturing and retail and other services capable of causing both demand and supply shock. The demand shock can be analysed through the adverse effect of aversion behavior on manufacturing and retail services [31]. Some of these firms will be forced to close businesses resulting in loss of wages, jobs and output, especially in the short-term, but a few of them might not recover without economic stimulus. The stylised fact indicated that in 2019, the unemployment rate stood at 23.16%, then increased to an alarming rate of 33.5% as of February, 2020 [32]. A worsening situation is inevitable, except the economic impact of COVID-19 is short-lived.

Furthermore, the close of firms and businesses on a global scale due to the outbreak of the pandemic also has a multiplier effect on the demand for energy leading to falling demand for crude oil, the country’s primary source of revenue. Therefore, the depressed global demand and supply due to the outbreak of COVID-19 and oil price war between Russia and Saudi-Arabia has resulted in oil glut and falling crude prices below $30.00 per barrel [33]. This occurred when the annual budget for 2020 was based on expected revenue of ₦8.24trillion premised on increased global crude oil demand with a forecasted price of US $57 per barrel and 2.18 million barrels per day. The macroeconomic impact of this is a downward review of the proposed budget to face the reality of the source of revenue. A budget review due to demand shock from COVID-19 will further affect the government projected expenditure, particularly capital expenditure, and such many public infrastructures like road, railway, electricity, will have to be put on hold. This will further aggravate unemployment, reduce the flow of income and finally aggregate demand. A sustained fall in aggregate demand will mark the onset of a recession in the country.

The outbreak of the pandemic and government mandate also influenced customer decisions. This will impact trade and other services negatively as individuals reduce
trips to the market, travel and involvement in other social activities. For instance, the outbreak of COVID-19A has resulted in the shutdown of the major airlines in Nigeria with an estimated loss of US $434 million and job loss of about 22,200 [34].

On supply shocks, the causal effect of government mandates on educational institutions results in school closure. As a result, years of completion become prolonged, translating to long run earning trajectories not only for them but also for the families thereby reducing the overall supply of workforce, its quality and flow of income [35]. The supply shock is greatly influenced by the social distancing, closed factories and impaired mobility negatively impacting production and distribution processes [36]. The supply shock has also affected the availability of consumables for the average Nigerian, resulting in a high cost of living due to increasing food prices and a falling standard of living, as evidence by the rising consumer price index (CPI). As of the last quarter of 2019, the year-on-year headline inflation rose to 12.20% in February 2020 from 12.13% in the previous month [32]. The increase in CPI could be attributed to COVID-19-related shocks to food prices and the increasing rate of insurgency in the majority of food-producing areas. It is worthy to note that the lockdown of states happened at the onset of farming seasons, thereby exposing the country to food insecurity in the long run.

In sum, the customer decision is an individual rational decision with devastating chain effects. One such decision is to cut expenditure due to self-isolation and lockdown by the government. Falling expenditures by individuals will granger cause firms’ decision to cut costs by reducing workers and output. Since total revenue is a function of total output, firms default on loans and suppliers, thereby increasing the total non-performing loans of banks and bank decisions to reduce lending. This has resorted to call for debt rescheduling, which will also reduce the earning of affected financial institutions in the short-run. Any further negative impacts on the commercial banks might spell intense doom (including cutting of services, closing branches and reduction of workers) for the stability of the financial markets. For instance, some financial institutions made more to retrench workers due to the decreased earnings due to the pandemic. It took the CBN efforts to halt the move with the hope of palliative to the financial intuitions.

Efforts to alleviate various multiplier effects of the containment measures, firms both in the formal and informal sectors, institutions and customer decisions, the government has introduced different economic stimulus to cushion the effect of COVID-19 on both the household and firms as shown in Figure 2. The palliative measure has affected government fiscal and monetary policies. Concerning fiscal policies, the sum of ₦20,000 (US $50) has been distributed to several vulnerable individuals in the country as social security. In contrast, taxes and customs duties have to be waived for some firms. The provision of palliatives further increases government financial burden, thereby seeking the parliament’s approval of
₦500billion (US $1.25billion) intervention funds to be sourced from expected grants and loans from multilateral institutions (including International Monetary Funds, African Development Bank among others). For instance, the African Development Bank has launched COVID-19 Social Bond aimed at reducing the severe economic and social impact of the pandemic on its regional members. The bond is worth US $3billion is to be accessed at an interest of 0.75% [37]. It is worthy to note that this huge fund could have been used to develop much-needed infrastructures that could help in reducing the cost of doing business, encourage investment, and promotes the growth of the real sector. This is why infrastructural decay feature in Figure 3. Fiscal allocation meant for infrastructural development would be diverted to economic stimulus or outrightly cancelled because of further budget deficit.

![Figure 3. The four shocks of COVID-19 of the early days (Source: Authors’ concept)](image)

Equally, the Central Bank of Nigeria (CBN) in response to the devastating impact of COVID-19, released ₦50billion (US$125million) through Deposit Money Banks to serve as credit facility to interested households and small and medium scale enterprises that have been severely affected by the outbreak of the COVID-19. This is in addition to the ₦1.1trillion (US $2.75billion) intervention fund earlier introduced to cushion the effect of COVID-19 on the economy [38]. In particular, the sum of ₦1trillion (US$2.5billion) would be used to support the local manufacturers, while the remaining ₦0.1trillion (US $2.5million) will be deployed to support the health sector. In order to safeguard the Nigerian financial system during this pandemic, the CBN also makes the provision of a one-year extension of the moratorium on loans to ease pressure on loan repayment while interest rates were also reduced from 9% to 5% of its existing intervention fund for the next one year [23].
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The effect of government mandate on firms and institutions’ decisions also has a multiplier effect on investment, particularly in the stock market. The fear of the unknown associated with COVID-19 has created panic among investors, leading to divestment by foreign portfolio investors and capital outflow resulting in the disappointing performance of the Stock market. For instance, between December 2019 and March 2020, the all-share index (ASI) and market capitalisation decreased by 17.30% and 10.73%, respectively. From the preceding analysis, one could conclude that the cumulative effects of COVID-19 through micro and macro channels will have a long run devastating economic impact on the level of national income, infrastructural and human capital development.

From the foregoing discussion, it can be observed that Nigeria is engrossed in four major economic issues: interwoven four shocks. The first shocks include a decline in the oil price, which is the mainstay of the Nigerian economy. The first shock necessitates the downward reduction in the national budget, especially the reduction of crude budget benchmark from US$57 to US$25 with the adjusted production rate of 1.94 million barrels per day. The budget deficit increased, leading to more borrowing of US $3.4billion in emergency support to Nigeria to address the COVID-19 pandemic [39]. The country also secures debt servicing relief from both the IMF and China. The IMF [39] observed that the COVID-19 pandemic had magnified existing vulnerabilities with consequent contraction in real GDP growth and significant external and fiscal needs. The second shock is the shutdown of the local economy as most businesses have to close temporarily as a part of the containment measures of the pandemic. The informal sectors, especially the daily earners, were previously affected. The third shock is the sudden increase in health spending in the form of new structures (isolation centers and laboratories) and other purchases and motivation of health workers. The fourth is the unplanned distribution of palliatives for individuals and businesses.

**Limitation of the Study**

It is worthy to note that the theoretical frameworks described in this paper are qualitative; it could have been more interesting if a quantitative analysis could be adopted. However, the authors are constrained by lack of quantitative data large enough for a quantitative analysis, which is a limitation of this present study. Therefore, future studies are encouraged to attempt a quantitative analysis of the impact of COVID-19 on Nigerian economy.

**Conclusion**

The outbreak of the COVID-19 has ravaged the whole world, affecting both developed and developing economies. Nigeria, a country that has been crowned to be the poverty capital, has taken some measures to contain the pandemic. As in the other part of the world, this measure is a trade-off between negative economic
consequences and health benefits. The economic impact of the containment measures is declining aggregate demand and falling income due to the total lockdown of the economy, which may result in the global recession. However, fewer death and healthy society far outweigh whatever cost associated with the containment measures taken by countries.

The economic consequences of the containment measures due to COVID-19 in Nigeria are expected to worsen due to the peculiar nature of the country’s health system. Moreso, the quality of the weak institutions, coupled with the fact that the majority of the citizens live in slums with little or no personal hygiene [3]. More importantly, a more substantial percentage of Nigerian citizens have less access to internet facilities, and as such, the ability to work from home is significantly minimal. To alleviate these negative impacts, the policymakers should stop paying lip service to diversify its economy. The over-reliance on oil revenue has exposed the country to revenue shock even before the pandemic outbreak, thereby limiting the system’s capacity to withstand the negative shock from COVID-19. In order to short-live the negative economic shock as a result of the pandemic, the country must put on ground policy to support the agricultural sector. This is highly necessary to guide against food insecurity that may likely arise after the war against COVID-19 might have been won. This can be achieved by providing farming equipment, including seeds and fertilisers, at affordable costs to the farmers on a timely basis. More effort should also be geared towards encouraging irrigation farming. This is predicated on the belief that the total lockdown in most agricultural states might be prolonged beyond the farming season in the country.

More importantly, the government should give bailout to some of the critical sectors like the airline sector, hospitality industry, informal sector, etc., that the outbreak of the COVID-19 has significantly hit. In particular, a policy that will make loans more affordable and accessible for firms in the informal sector should be introduced to save the host of these firms from going into extinction. All the above will ensure that the economy bounced back to its growth path provided the country strengthen its institution to guide against corruption and disruptive political reform.

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