Africa's economic giant Nigeria reaches a 'critical juncture'

Pandemic sends oil prices tumbling, pushes economy into recession

LAGOS, Nigeria: More than 200 million Nigerians will slide further into poverty as the coronavirus pandemic has sent oil prices tumbling and pushed Africa's largest economy into recession. To many in oil-rich Nigeria, Saturday's announcement of a recession was no surprise-even the president had warned a downturn was coming.

"It feels like we have been in recession since the beginning of the year," said French teacher Joseph Olaniyan, who works at different private schools in the capital Abuja. The 30-year-old had no income for six months, between April and September, due to school closures.

200m Nigerians will slide further into poverty

The number of poor Nigerians was expected to increase by about two million largely due to population growth, according to the World Bank, but with the pandemic, the number could increase by 7 million.

And now with a recession on its hands-Nigeria's GDP shrank for a second consecutive quarter by 3.62 percent-opportunities seem to have gone from bad to worse. With the contraction in GDP, "Nigeria per capita income on an inflation adjusted basis could be around what it was in 1980, four decades ago. This is absolutely a very critical juncture," Shubham Chaudhuri, the World Bank's Country Director for Nigeria said Tuesday.

Popular discontent

"The recession will likely further accentuate the youth's frustrations," further warned Aurelien Mali, an analyst at Moody's. In October, several thousand young Nigerians descended to the streets in the biggest show of people power in years.

Initially against police violence, the youth-led protests quickly evolved into broader anti-government demonstrations. After a wave of unrest and a violent intervention by the army, the protests stopped-but popular discontent is still present.

"It is likely that the population will demonstrate its frustration, in particular young people, over the next few years," said Mali. The government has attempted to reform its economy and cushion the recent shock caused by the pandemic. But the five-week national lockdown was a disaster for many.

"The money I was able to make during lockdown was just to keep on going, buy food and pay electricity," said Olaniyan, who was able to start teaching again in October but says "things are still a bit on balance". In addition to the pandemic, the economy suffered from a fall in global oil prices and diminishing production.

"Just when the government should support the economy and its most vulnerable citizens, its revenues plummeted," said Mali. While oil prices have gone up slightly, the outlook remains sombre for a country where crude accounts for about 90 percent of foreign-exchange earnings and half of government revenue.

Risk of hunger

"A lot of what needed to be done in the immediate crisis is also what has been on the agenda for a long time," said Chaudhuri, pointing to Nigeria's major issues with revenue and low public spending.

Nigeria's vice president Yemi Osinbajo said in a statement that the government was "ready to experiment and ready to do a lot more." To limit the impact of the downturn, the country's central bank devalued its currency earlier this year, but this has triggered inflation. "A cup of rice which we used to buy for N100 (0.22 euros) is now double," said Edna Anidi, 55, an office assistant for an oil company in the oil-rich southern Delta state. Anidi, who has six children with her taxi driver husband, said she had to rely on remittances from her brother in America.

Food prices in Nigeria have increased since the government closed its land borders in 2019, imposing protectionist measures to try and diversify its economy. But until that is achieved, the country "will remain extremely dependent on oil revenues," said Mali, and unless there's a spike in oil prices, the country "will take several years to recover from this recession."

The government is much more optimistic about its recovery. "By the first quarter of 2021, the country will exit recession," finance minister Zainab Ahmed said at a summit in Abuja Monday, adding that the government "is working around the clock to reverse the trend and restore the economy in the path of sustainable inclusive growth." The stakes are high for a country that already holds the infamous record for the most people living in extreme poverty, and the UN estimates the number of people at risk of hunger may increase by 20 percent during the next lean period before crops are harvested. —AFP

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Kenya's economic growth to rebound next year: WB

NAIROBI: Kenya's economic growth is expected to bounce back next year, the World Bank said yesterday, as it emerges from a projected decline in output this year caused by the coronavirus crisis.

East Africa's biggest economy is expected to contract by 1.0-1.5 percent this year as the COVID-19 pandemic pushes 2 million people into poverty and takes a toll on the government's finances, the World Bank said in a new report. "The economy is projected to rebound relatively quickly in 2021, lifting real GDP by 6.9 percent year on year," the bank said in its twice a year review of the Kenyan economy, boosted by the resumption of learning in all educational institutions in January.

The government forecast 6.4 percent growth next year. The World Bank said its forecast for growth in 2021 still faced significant risks, including the uncertainty around the length and severity of the pandemic, unpredictable weather conditions and the pace of the global economic recovery.

Kenya's economy contracted by 0.4 percent in the first half of this year, compared with an expansion of 5.4 percent a year earlier. The bank said the pandemic increased poverty by 4 percentage points as incomes dropped and people were laid off from work.

"The unemployment rate increased sharply, approximately doubling to 10.4 percent in the second quarter," it said, citing official data. Kenya's total debt jumped to 65.6 percent of gross domestic product in June this year from 62.4 percent a year earlier, the World Bank said, as the fiscal deficit widened. The bank urged the government to take advantage of debt service relief offered by richer nations, to free up liquidity that would have gone into repayments.

Finance Minister Ukur Yatani told Reuters last week that the government planned to make a final decision soon on joining the G20's Debt Service Suspension Initiative (DSSI), aimed at helping poor countries weather the pandemic.

"As economic conditions allow, policy should progressively prioritize returning to a medium-term fiscal consolidation path," the World Bank said. — Reuters

Erdogan's economic rethink prompted by bleak briefings

ANKARA: President Tayyip Erdogan's decision to oust Turkey's central bank chief this month was made hours after briefings on the fragile state of the economy, a snap judgment that prompted his son-in-law to resign as finance minister, four sources said. According to the four people familiar with the chain of events, Naci Agbal was propelled into the central bank job after he and other senior AK Party members warned the president about sharply depleted foreign reserves.

Their accounts offer important clues to the sudden economic pivot over the weekend of Nov. 6-9. Investors are still trying to navigate what Erdogan has called a new economic era, with the lira rising 10 percent on the reshuffle but dropping back 5 percent this week.

Over at least two days of briefings leading to Erdogan's decision on Friday Nov. 6, he was also warned about a failure to secure more foreign funding from abroad, and strains from the lira's 30 percent fall since January and COVID-19, the sources said. Alarmed, the president summoned then-central bank governor Murat Uysal that Friday to ask how net FX reserves had fallen by more than half this year and his plan to restore the buffer. The drop is recorded in public central bank data so cannot have been a surprise, but the sources said the chat convinced Erdogan that Uysal must be replaced. "Uysal's removal and Agbal's appointment happened in a matter of hours," one of the sources, who is close to the ruling AK Party (AKP), said. All the sources requested anonymity because they were not authorized to speak publicly.

The presidency declined to comment on Erdogan's meetings ahead of Uysal's dismissal, which was announced in the early hours of that Saturday with little explanation. Uysal was not immediately available to comment. On the Sunday, Erdogan's son-in-law Berat Albayrak abruptly resigned from his position as finance minister - a political earthquake for a powerful figure once seen as a potential successor to the president. Albayrak could not be reached for comment.

A second source said Erdogan had been told of the concerns of business leaders about a "major wave in unemployment" once the government lifts a coronavirus-related ban on layoffs.

Last week, the central bank under Agbal delivered a 475-point rate hike, its sharpest in more than two years. Yet the currency's weakness this week suggests Erdogan may need to do more to show he is serious about his Nov. 11 promise of market-friendly economic reforms.—Reuters

In this file photo, US Federal Reserve chief Janet Yellen speaks as she attends a conference. — AFP

Yellen's appointment 'good news for world economy': ECB VP

FRANKFURT: The prospect of former Federal Reserve boss Janet Yellen becoming the next US Treasury Secretary is "good news" for the US and the world, ECB vice president Luis de Guindos said yesterday. Yellen's nomination by US President-elect Joe Biden, which needs to be confirmed by the Senate, would make her the first woman in the job.

The 74-year-old would face the daunting task of steering the world's largest economy through the COVID-19 crisis and is seen by experts as favorable to more government spending to provide the necessary support. The ECB itself has unleashed unprecedented stimulus to shore up the eurozone economy and regularly urges governments to support its efforts through more spending.

"What I can say for a personal standpoint is that Janet Yellen knows perfectly what the US economy needs," de Guindos said at a press conference on the ECB's latest financial stability report. Yellen did "a very good job when she was the head of the Federal Reserve," he said, adding that her appointment "is good news for the US economy and for the world economy". Yellen broke barriers when former president Barack Obama nominated her to serve as Fed chair in 2014, a position President Donald Trump ousted her from four years later. At the Fed, Yellen was seen as a "dove" inclined towards low interest rates to support employment.

She would succeed Steven Mnuchin and likely be faced with breaking a months-long deadlock in Congress over passing a new stimulus spending bill for the US economy-assuming lawmakers do not act before Biden's inauguration in January. News of Yellen's appointment has boosted Wall Street stocks this week.

Yellen is a known quantity on financial markets and "has been favorable to the idea of fiscal stimulus," Gregori Volokhine of Meeschaert Financial Services said on Monday.

The European Central Bank warned yesterday that a premature withdrawal of government support to the eurozone's pandemic-hit economies could derail the recovery and trigger a wave of bankruptcies. An "abrupt" end to the measures could "result in a more severe economic contraction than during the first wave of the pandemic," the ECB said in its twice-yearly financial stability report. —AFP