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Impact of Trade Shocks on Growth and Poverty in Nigeria.

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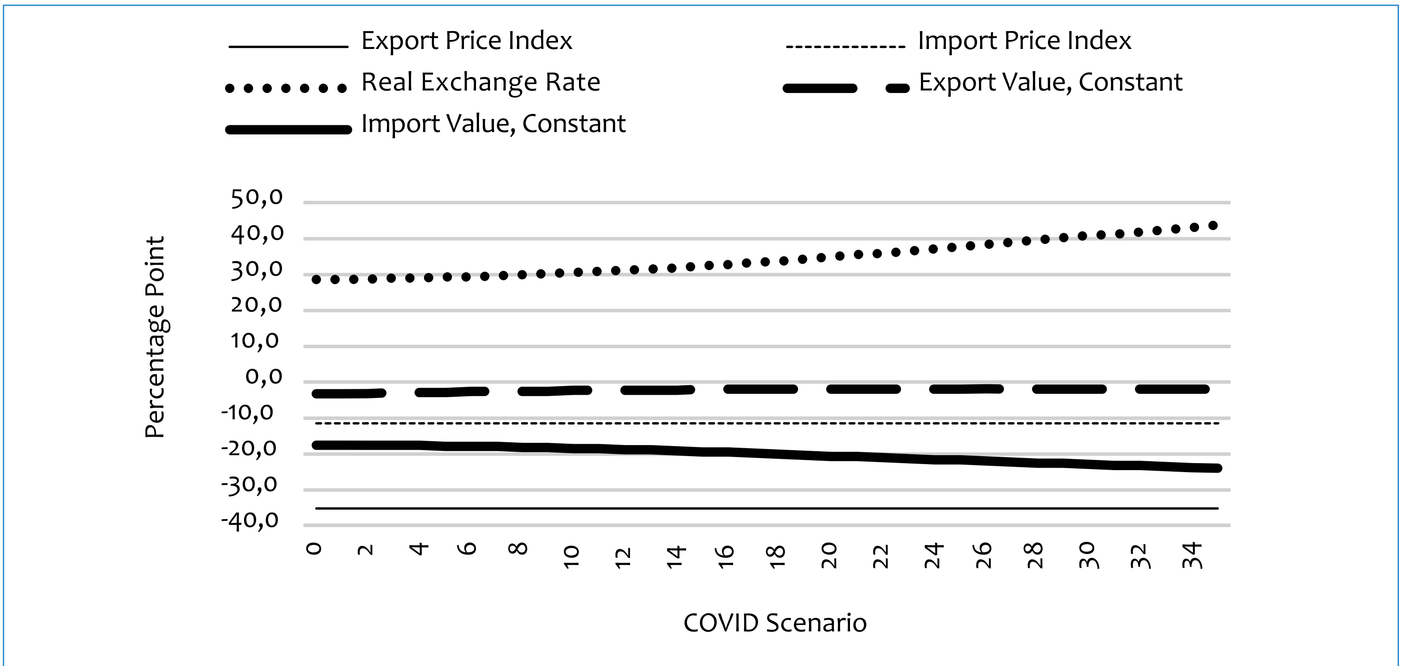
The combined variation of prices in Figure 4 translate to an average drop in Nigeria's export price index by -35 pp. The corresponding decline in the average import price index is -11 pp. The predicted, predominantly negative changes in prices, compounded by reduced access to foreign markets, have resulted in declines in exports and imports of primary commodities and affected economic growth negatively. As can be seen in Figure 6, the pressures from global commodity markets induce a sharp decrease in imports and, to a lesser extent, exports. The ultimate effects on Nigeria's economy depends on its capacity to respond to changes in global trade conditions. In order to have a more accurate picture of how the economy is affected, varying degrees of responsiveness to the changes in prices and market access were considered. The numbers on the horizontal axis represent decreasing degrees of responsiveness from 1 (highest) to 36 (lowest) as one moves from left to right. The measure for responsiveness is a combination of elasticities of export supply and import demand by Nigerian firms and consumers, as well as elasticities of demand for Nigerian exports in foreign markets. The decline in the value of

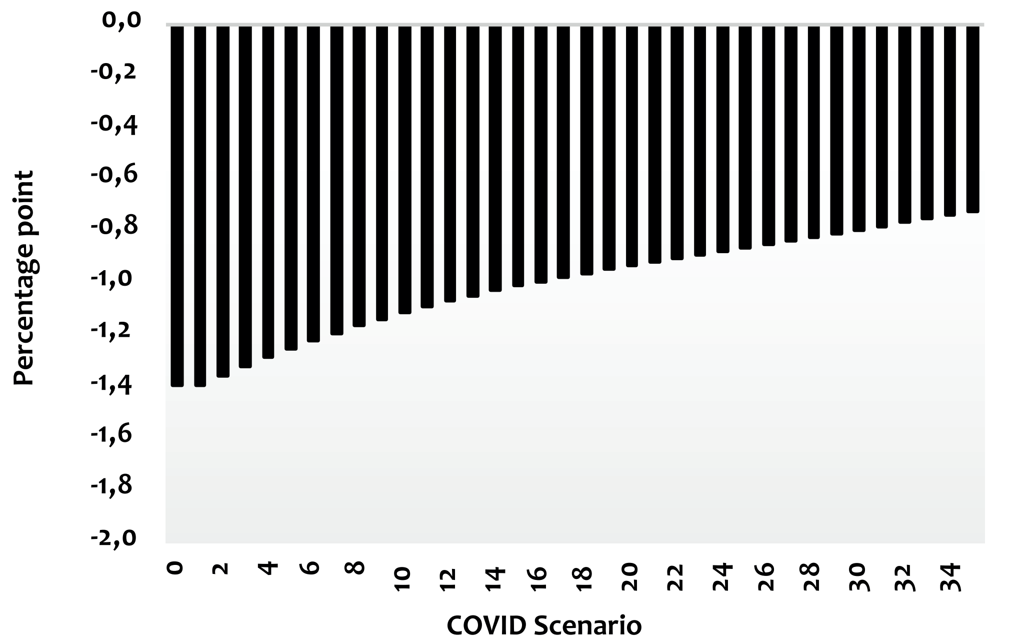
Figure 1: *Trade Effects of Global Commodity Market Disruption (pp)*



exports ranges from -3.3 to -1.9 pp, while that of imports varies between -17.6 and -24.0 pp (Figure 1). The fact that both exports and imports remain below zero signifies that the negative impact holds with varying degrees of assumed responsiveness, although the decline in imports is more sensitive to, and increases significantly with, the degree of responsiveness.

The above changes reflect adjustments in the broader economy to changing global market conditions, with responsiveness scenarios. As the country battles to gain control over the pandemic, the measures put in place are likely to slow down economic activities. It is therefore more likely that the actual ability to adjust to changing global trade conditions will be limited, meaning that actual responsiveness is more likely to be closer to the low scenario case. Poverty rates are thus estimated to increase by about 2.0 pp across the board, although slightly higher in rural areas. These rates are estimated based on the highest decline in imports (-24.0 pp), lowest

Figure 2: *GDP Growth Effects of Global Commodity Market Disruption (pp)*



Note: The COVID scenarios (1 to 36) combine different values of trade (import and export) elasticities across commodities to mimic the responsiveness of Nigeria's economy to changing global market conditions. Scenario 1 uses the highest and scenario 36 the lowest elasticity values. The remaining scenarios combine difference values of elasticities between the two extremes. Export price refers to the average weighted F.O.B. price indexes. Import price refers to the average weighted C.I.F. price indexes. Export and import values are in constant 2019 prices.

potentially serious consequences for overall growth and poverty rates. Figure 2 shows the induced changes in GDP growth, with rates of decline ranging from -1.4 to -0.7 pp. Thus, here too, the impact remains negative across varying degrees of responsiveness. The decline in GDP growth across all scenarios is bound to result in rising poverty rates. Table 1 shows estimates of changes in poverty rates resulting from deteriorating global trade environment and the adjustments by the Nigerian economy. The figures are based on the lowest decline in exports (-1.9 pp) and smallest reduction in GDP growth (-0.7 pp). Higher responsiveness to the changing global trade environment would lead to more pronounced reaction by economic actors, with deeper effects on exports, imports, and growth, leading to higher impacts on poverty. This outcome is more likely the longer the disruption in global markets persists and the more firms and households find ways to adjust.

Table 1. *Change in poverty headcount ratio resulting from global trade disruption (pp)*

	Nigeria	Urban	Rural
Ratio (pp)	2.2	2.1	2.3
Number	4,701,632	1,716,141	2,985,491

Source: Authors' calculations.
Note: The results are based on COVID scenario 36 which combines the lowest values of trade (import and export) elasticities with the shock in commodity prices.

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