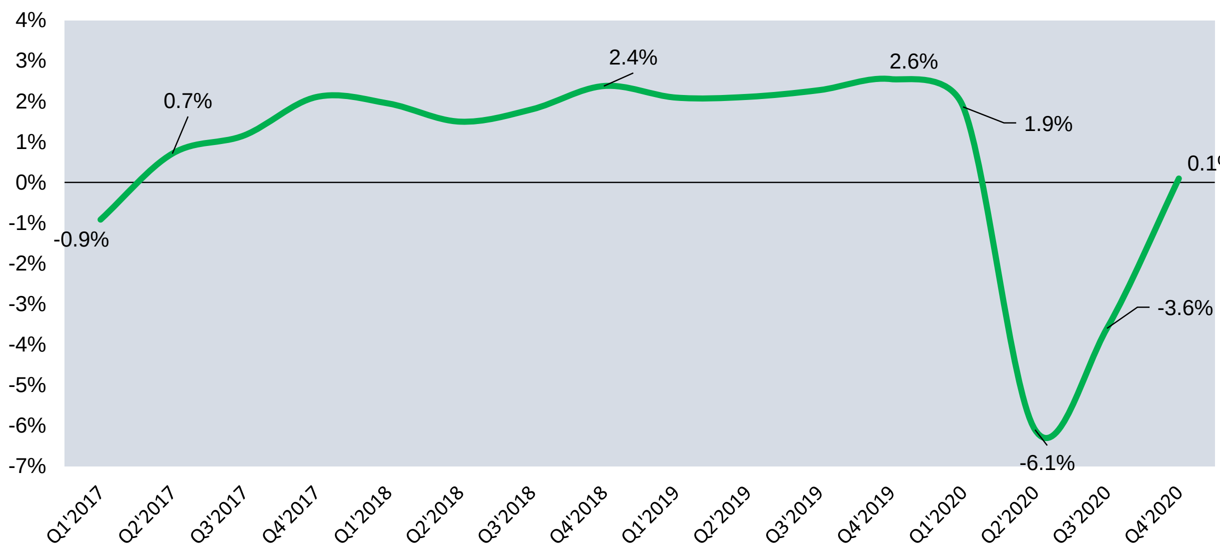
NESG 2020 GDP Alert

February 2021

Nigeria exited recession with a GDP growth of 0.1% in Q4'2020

The Nigerian economy posted a mild growth of 0.1% in the fourth quarter of 2020, thereby offsetting the consecutive output contractions in the second and third quarters of 2020. For full year 2020, the economy contracted by 1.9% compared to an expansion of 2.3% in 2019. The rebound also represents the weakest real GDP growth since the second quarter of 2017, when Nigeria exited the 2016 recession.

Figure 1: Trend of Nigeria's GDP growth rate



Data: NBS; Chart: NESG Research.

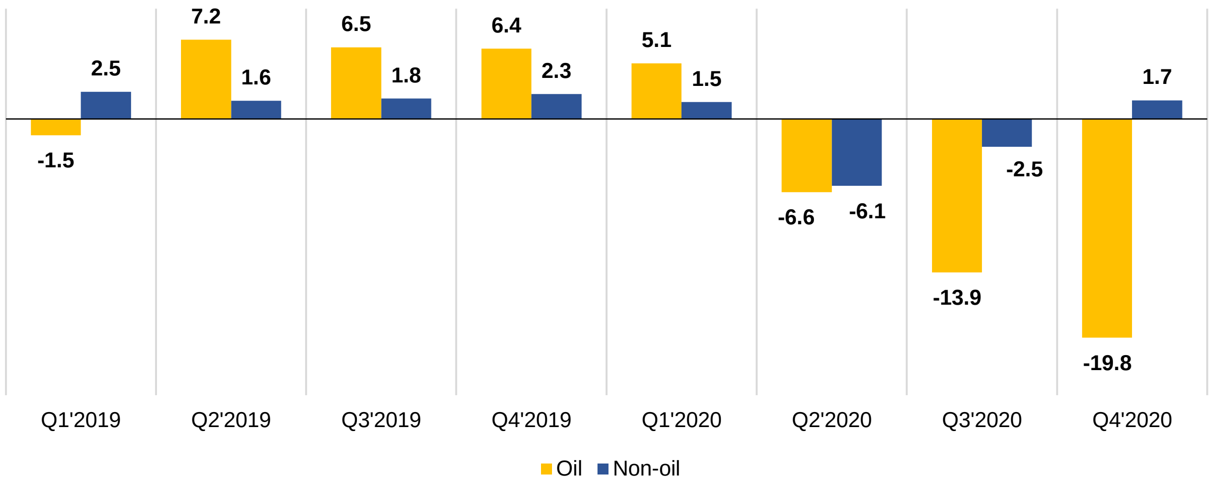
The economic recovery could be attributed to an improvement in the non-oil sector, after restrictions were lifted on international travels coupled with the resumption of business and economic activities, particularly in the last quarter of 2020. In nominal terms, the size of the economy in 2020 stood at N152.3 trillion (US$425.7 billion). The per capita GDP fell by 11.5% to $2,092.5 in 2020 from $2,372.7 in 2019[1]. This could be largely due to domestic currency weakness.

Oil sector was hardly hit by COVID-19; non-oil sector showed some resilience

The non-oil sector which accounted for 92% of the overall real GDP in 2020 contracted by 1.3% from an expansion of 1.7% in 2019. To prove its relative resilience against the devastating impacts of COVID-19, the non-oil sector expanded by 1.7% in the fourth quarter of 2020. This was partly due to the improvement in the growth performances of sectors including ICT (12.9%), mineral quarrying (21.1%) and financial services (9.4%). Meanwhile, the oil sector was largely ravaged by the global health crisis as it remained in contraction throughout 2020 with an overall growth at -8.9% in the year compared with a growth of 4.6% in 2019. The abysmal performance of the oil sector could be attributed to a decline in domestic crude oil production which fell to 1.8 million barrels per day in 2020 from 2 million barrels per day in 2019.

[1]We utilized the average official exchange rates at N306.9/$ and N357.8/$ in 2019 and 2020, respectively, for currency conversion.

Figure 2: Trend of Growth in Oil & Non-oil Sectors (%)



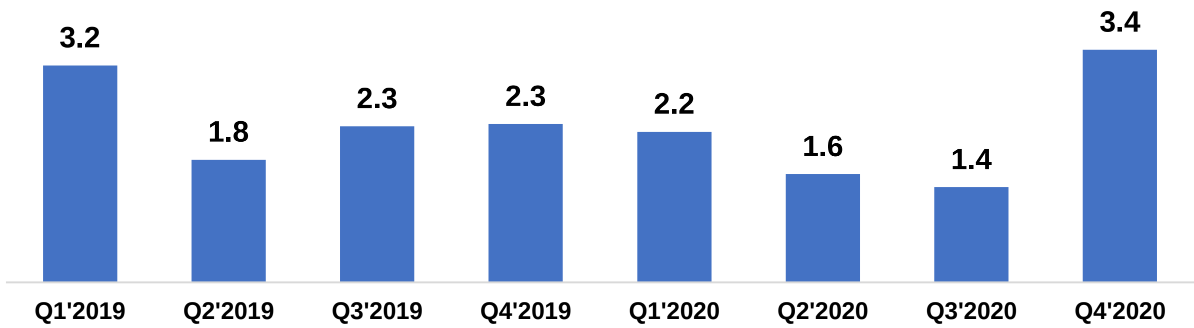
Data: NBS; Chart: NESG Research.

Sub-sector Assessment

The Agricultural sector was least affected by COVID-19 crisis in 2020

Although the growth of the agricultural sector slowed to 2.2% in 2020 from 2.4% in 2019, the sector was one of the resilient sectors in 2020. Remarkably, the sector's growth stood at a 2-year high of 3.4% in the fourth quarter of 2020. This clearly demonstrates the relative stability of agricultural production in spite of the adverse impact of COVID-19 and lockdown restrictions. The impressive performance of the agricultural sector, particularly in the last quarter of 2020, was largely due to faster growth in crop production (3.7%) and livestock (2.4%) sub-sectors in the quarter.

Figure 3: Growth Performance of Agricultural Sector (%)

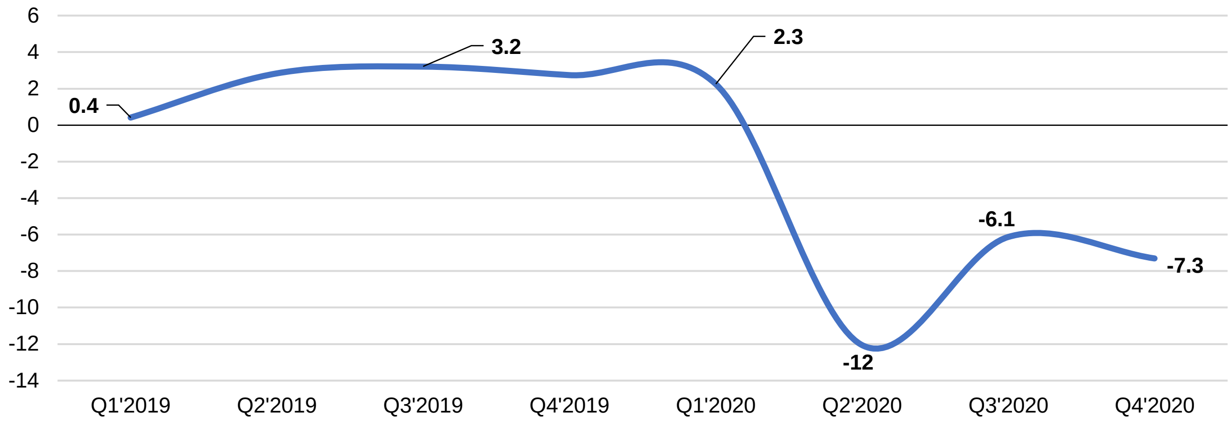


Data: NBS; Chart: NESG Research.

Industrial Sector Growth was weakened by a sharp decline in oil and gas production

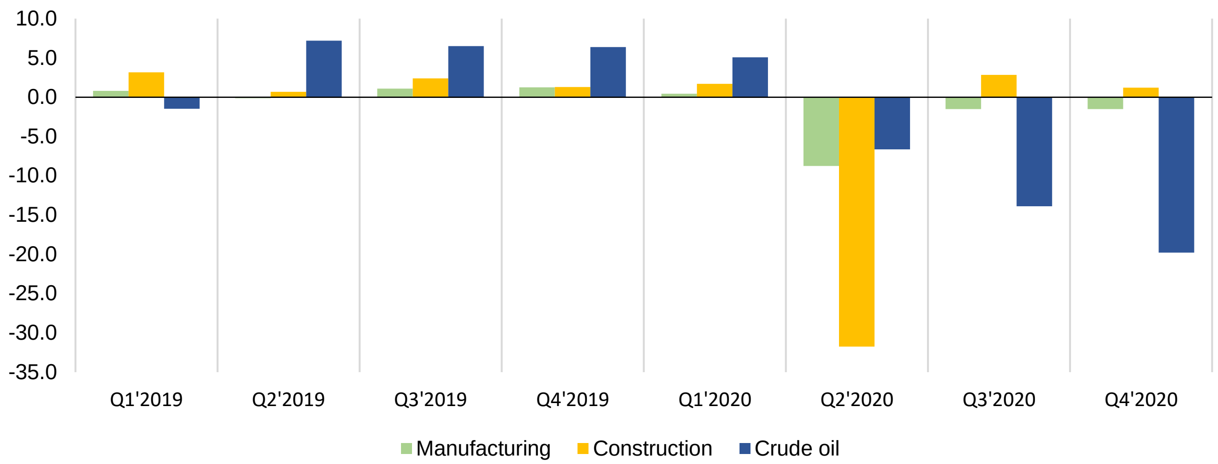
The industrial sector contracted by -5.9% in 2020 compared with a growth of 2.3% in 2019. This is the first negative annual growth since 2016. The sector's growth reached a trough at -12% in the second quarter of 2020 at the height of the coronavirus spread. The output decline in the industrial sector was driven by larger contractions in crude petroleum and natural gas sub-sector in the last three quarters of 2020, most especially. Depressed manufacturing activities also contributed to the weakness of the industrial sector in 2020. The manufacturing sector was adversely affected by business closures, as well as, illiquidity of the forex market and weak currency, all of which kept production costs elevated in 2020. Out of the 20 activities in the industrial sector, 14 sub-sectors contracted while 6 activities recorded positive growth in 2020.

Figure 4: **Growth Performance of the Industrial Sector (%)**



Data: NBS; Chart: NESG Research

Figure 5: **Growth Performance of major Industrial Sub-Sectors (%)**

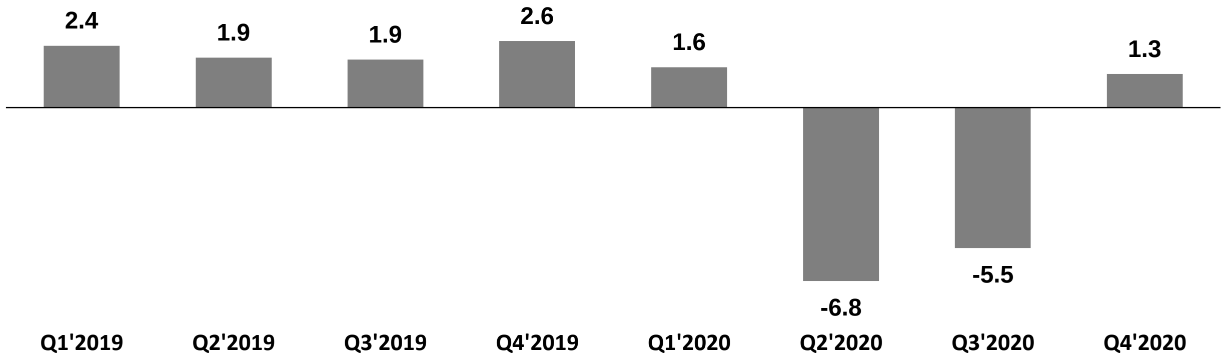


Data: NBS; Chart: NESG Research

Growth in ICT and Finance influenced the performance of the Services sector in 2020

The services sector recorded a contraction of -2.2% in 2020 relative to an expansion of 2.2% in 2019. This represents the first negative annual growth of the sector since 2016. The deceleration of the sector's growth in 2020 was largely due to large contractions in major sub-sectors including transportation & storage (-22.3%), accommodation & food services (-17.8%), real estate (-9.2%) and trade (-8.5%). The negative growth rates in these activities largely suppressed the gains from the strong growth of ICT and financial services sectors at 12.9% and 9.4%, respectively, in 2020. Out of the 22 activities in the services sector, 15 sub-sectors contracted while 7 activities expanded in 2020.

Figure 6: Growth Performance of Services Sector (%)



Data: NBS; Chart: NESG Research

Sectoral Breakdown of Growth - Top and Bottom 10 sub-sectors

A further breakdown of the 2020 growth numbers showed that quarrying and other minerals led the 17 expanding sectors with a growth of 21.2%, followed by telecommunication and information services (15.9%), financial institutions (13.3%) and broadcasting (4.9%). Conversely, activities contracted in 29 sub-sectors led by oil refining (-62.2%), followed by major activities in transport sector including air transport (-37%), rail transport and pipelines (-33.6%) and road transport (-22.3%).

Growth Performance of Activity Sector

Figure 7a: Top 10 Growing Sectors (%)

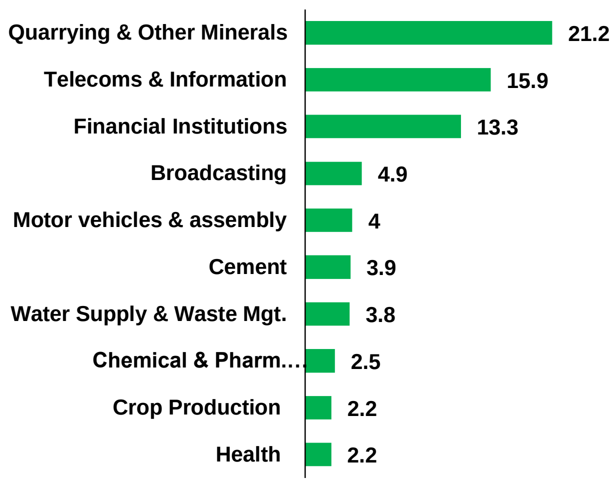
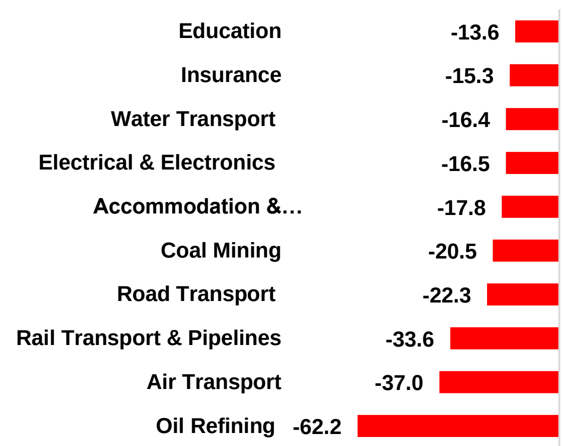


Figure 7b: Bottom 10 Declining Sectors (%)



Data: NBS; Chart: NESG Research

Conclusion

- ***Nigeria needs more than a rebound in GDP***

Nigeria has struggled to achieve inclusive growth for many decades. Since recovery from the 2016 recession, the Nigerian economy has been on a fragile growth path until it slipped into another recession in 2020 due to COVID-19 crisis. This suggests that to become strong and resilient, the country needs a high and sustainable economic growth that is accompanied by job creation and poverty reduction. Otherwise, the growing scourge of unemployment and poverty would fuel youth restiveness and social unrests, similar to what played out during the aftermath of the EndSARS protests in October 2020. The

NESG in its 2021 Macroeconomic Outlook Report[2] pointed out that the Nigerian economy would expand by 2.9% in 2021 under its Best-Case Scenario, as long as, key policy measures are deployed to improve the environment for higher investment inflows, both domestic and foreign. In order to achieve this feat, the Report highlights four priorities that should top the development agenda of the government at all levels, and they include: macroeconomic stability, policy and regulatory consistency, sector reforms and human capital development.

- ***Improved agricultural production will be insufficient to ease inflationary pressures in 2021***

Despite the re-opening of the four land borders that were shut by the Nigerian government since October 2019, inflation reached a 4-year high of 16.5% in January 2021. While we expect improved agricultural production in coming months to partially ease inflationary pressures going forward, this positive impact could be suppressed by recurring key structural bottlenecks including: high spate of insecurity in particularly the food producing regions, electricity tariff hike, deregulation of the downstream oil sector and VAT increase.

- ***Value chain development is central to the recovery of the manufacturing sector***

The outbreak of COVID-19 and its disruption of the global supply chains has shown the increasing need for countries to explore local sourcing of raw materials and intermediate inputs, and this is expected to support and improve domestic value chain development. Exploring backward and forward inter-sectoral linkages, particularly between agricultural and manufacturing sectors in Nigeria would not only expand the country's industrial base, but would also reduce the intense pressures on the external reserves and the exchange rate. The poor performance of the manufacturing sector over time is reflected in huge dependence on imported manufacturing products due to constrained domestic production capacity. Considering the fact that Nigeria is a net importer of manufactured products, there is need to address key constraints to manufacturing sector growth, which include the illiquidity of the foreign exchange market and limited forex access, infrastructural and logistic bottlenecks, policy lop-sidedness and distortions, among others.

- ***Improving construction sector performance requires an effective PPP framework***

Exploring alternative financing sources would help to reduce the country's infrastructural deficit, which has been estimated at US$3 trillion by the African Development Bank. While the establishment of the infrastructural company by the Nigerian government is acknowledged, there is need for the country to leverage effective public private partnership (PPP) with the organised private sector and development partners to close the huge infrastructural gap. An instance is the road leading to Apapa seaports, which was built by the Dangote Group under the Federal Government's Tax Credit Scheme. Creating an environment that is suitable for private sector investment would not only improve the performance of the construction sector going forward, but would also reduce the fiscal burdens on the government.

- ***Re-opening of land borders and AfCFTA would prompt a recovery of the trade sector***

The trade sector has consistently maintained a negative growth trajectory since the second quarter of 2019. The re-opening of the land borders in December 2020 coupled with the country's participation in the actualisation of the African Continental Free Trade Area (AfCFTA) agreement which took effect on January 1st 2021, would contribute to increased trading activities between Nigeria and its regional peers. A possible rebound of the trade sector would complement the significant contributions of ICT and financial services sectors to the overall services sector growth, going forward.

[2]NESG Macroeconomic Outlook for 2021. 4 Priorities for the Nigerian Economy in 2021 and Beyond. Retrieved from https://www.nesgroup.org/research

About NESG

The NESG is an independent, non-partisan, non-sectarian organization, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

www.nesgroup.org| Info@nesgroup.org

THE SUMMIT HOUSE
6, Oba Elegushi Street, Ikoyi, Lagos. P.M.B 71347, Victoria Island, Lagos.
ABUJA LIAISON OFFICE: 3rd Floor, Right Wing, Unity Bank Tower, Plot 785, Herbert Macaulay Way, Abuja
officialNESG

Contact

For more information about the content of this report and other research services, please contact:

NESG Research Team

Email: research@nesgroup.org
Tel:
+234-01-295 2849
+234-01-295 2003