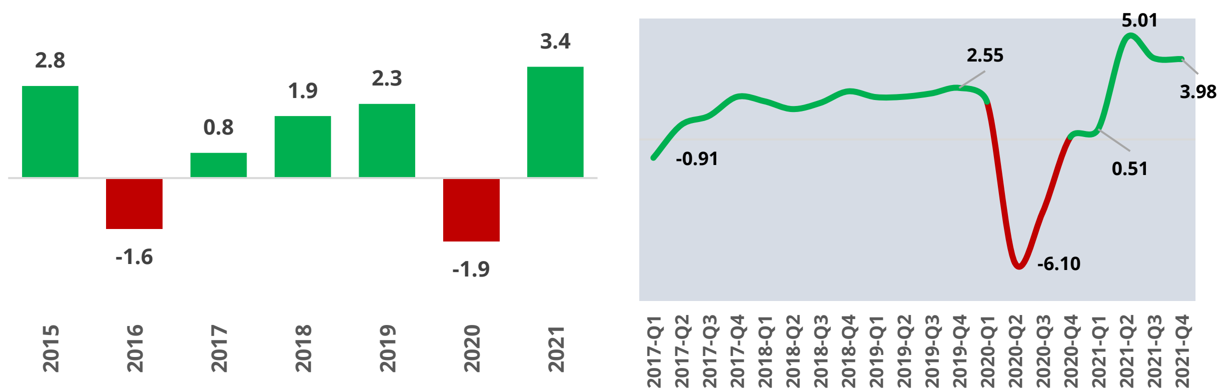
NESG 2021 GDP Alert

February 2022

Nigeria's economic recovery was sustained with a 3.98 percent growth in Q4'2021

The Nigerian economy posted a high real Gross Domestic Product (GDP) growth rate of 3.98 percent in the fourth quarter of 2021, sustaining the strong economic recovery momentum seen in the second and third quarters of the year. Cumulatively, the economy expanded by 3.4 percent in 2021, compared to a contraction of 1.9 percent in 2020. Furthermore, the 2021 full-year real GDP growth represents Nigeria's most robust annual economic expansion since 2017, when the country exited its first recession in the last decade. The strong economic recovery can be attributed to significant improvements in non-oil sector performance and the complete re-opening of the economy to productive activities.

Figure 1: Trend of Nigeria's GDP growth rate (%)



Data: NBS; Chart: NESG Research.

In nominal terms, the size of the economy in 2021 stood at ₦173.5 trillion. This represents a 13.9 percent increase when compared to ₦152.3 trillion in 2020. However, the economy's per capita income fell by 4.0% to US$2,010 in 2021 from US$2,093 in 2020[1]. Despite the significant economic growth, the decline in per capita income could be attributed mainly to the depreciation of the domestic currency against the US dollar.

Nigeria's oil sector remained in recession while the non-oil sector continued to drive overall economic performance

The non-oil sector accounted for 92.8 percent of the country's GDP and grew by 4.4 percent in 2021. When compared to a 1.3 percent contraction in 2020, growth in 2021 represents a significant improvement. This performance was bolstered by strong growth in strategic sectors such as transportation and storage (16.3 percent), financial services (10.1 percent), trade (8.6 percent), information and communication (6.6 percent), manufacturing (3.4 percent), construction (3.1 percent), real estate (2.3 percent), and agriculture (2.1 percent). Instructively, ICT and financial services are

[1] We utilized the average official exchange rates at N357.8/US$1 and N411/US$1 for currency conversion in 2020 and 2021, respectively.

found to be relatively resilient to the devastation caused by COVID-19 and the economic shocks that result from it. This explains the sectors' high productivity and contribution to Nigeria's economic growth in recent time.

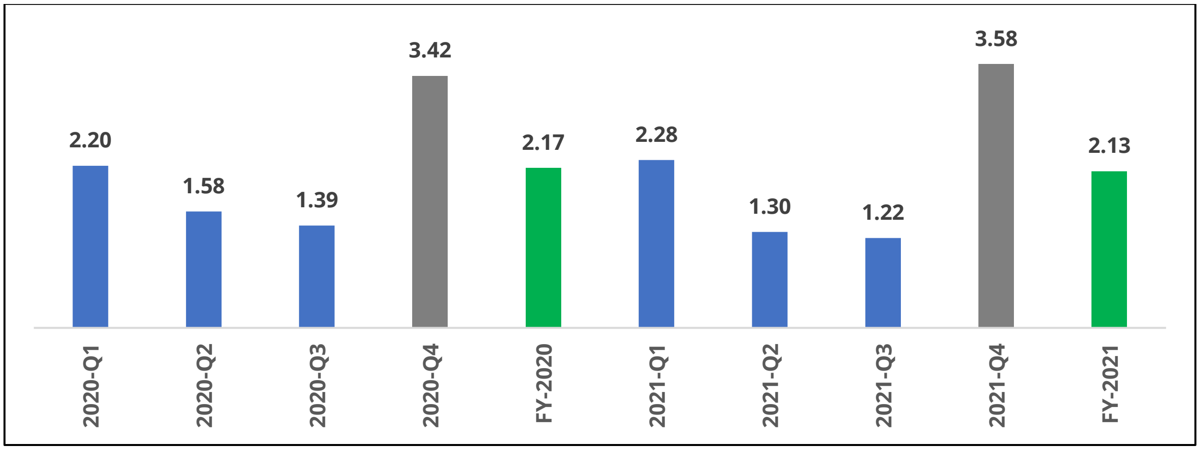
Meanwhile, despite a recovery in global oil prices for most of the year, the oil sector continued its negative growth trend. The sector's productivity declined by 8.3 percent in 2021, compared to a negative growth rate of 8.9 percent in 2020. The poor performance of the oil sector can be attributed to a drop in domestic crude oil production, which fell to 1.4 million barrels per day (mbpd) in 2021 from 1.6 mbpd in 2020.

Sub-sector Assessment

Agricultural sector maintained its resilient posture to economic shocks in 2021

Although agricultural growth has slowed slightly to 2.1 percent in 2021 from 2.2 percent in 2020, the sector remains the most resilient, having sustained growth for five consecutive quarters since the economic recession of 2020. Specifically, in Q4-2021, the sector's growth stood at 3.6 percent, representing 2.0 percentage points increase when compared with 1.6 percent growth in the fourth quarter of 2020. The impressive performance of the agricultural sector, particularly in the last quarter of 2021, was largely due to faster growth in crop production (3.9 percent) and fishing (1.7 percent) sub-sectors in the quarter.

Figure 3: Growth Performance of Agricultural Sector (%)

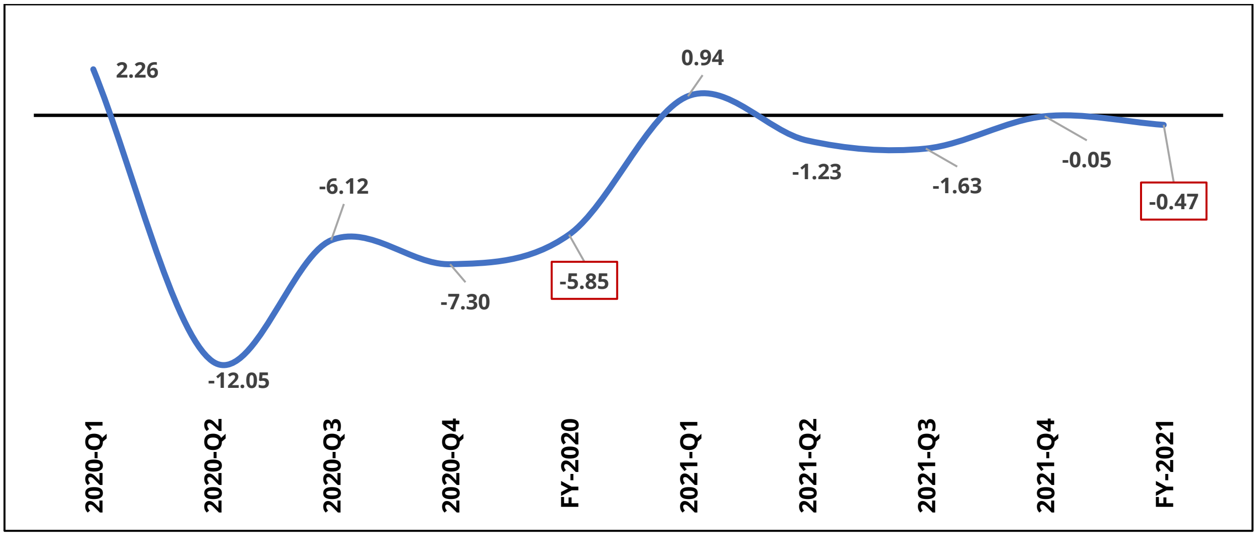


Data: NBS; Chart: NESG Research

Industrial sector remained in contraction, albeit marginal improvements in productivity level

In 2021, the industrial sector sustained its recovery from the effects of the COVID-19 pandemic. The sector contracted by 0.5 percent in 2021, representing an improvement when compared with negative growth of 5.9 percent in 2020. Fifteen sub-sectors expanded out of the 20 industrial sector activities, while five industrial activities declined in 2021. In addition, the performance of the industrial sector was influenced by a return to the growth path in three (3) out of the five (5) broad subsectors - manufacturing, construction, electricity, gas, steam, & air conditioning supply. However, the contraction of the mining & quarrying industry, due to its share of the industrial sector, overshadowed the performance of other sub-sectors and kept the industrial sector in the negative region for three quarters in 2021.

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

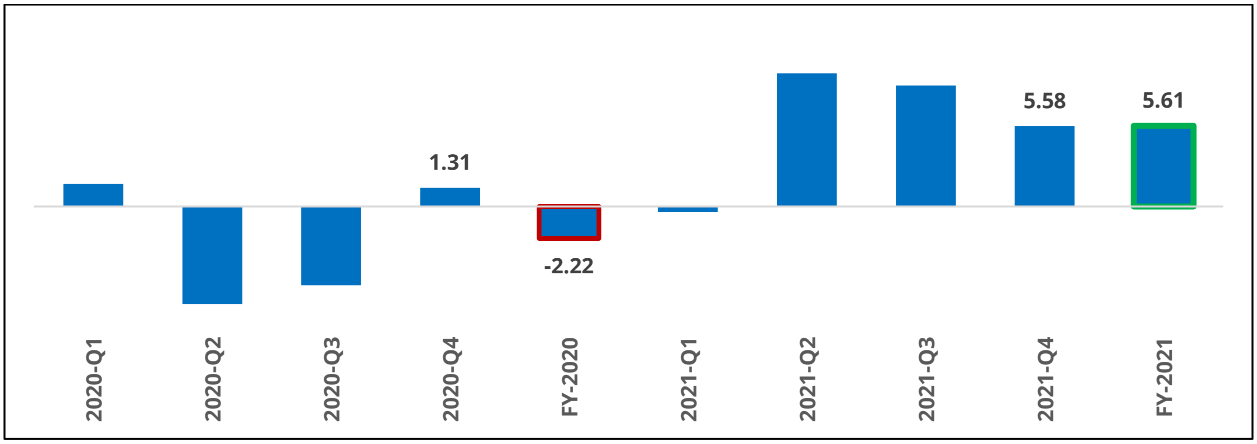


Data: NBS; Chart: NESG Research

Growth in the transportation & storage sub-sector influenced the performance of the services sector in 2021

The services sector grew by 5.61 percent in 2021 relative to the contraction of 2.2 percent in 2020. This is the sector's first year of positive annual growth since 2016. In addition, the sector's performance in 2021 was largely due to expansion in major sub-sectors, including transportation & storage (16.3 percent), finance and insurance (10.1 percent), trade (8.6 percent) as well as information and communication (6.6 percent). Out of the 22 activities in the services sector, four contracted while 18 expanded (of which Telecommunications & Information Services, Broadcasting and Financial Institutions recorded slower growth).

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 2021 growth numbers revealed that rail transport & pipelines led the 30 expanding sub-sectors with a growth of 36.9 percent, followed by metal ores (34.2 percent), electricity, gas, steam, & air conditioning supply (27.6 percent) and coal mining (25.7 percent). Conversely, growth rates of productive activities declined in 9 sub-sectors, with oil refining contracting by 47.9 percent.

Growth Performance of Activity Sector FY-2021

Figure 7a: Top 10 Growing Sectors (%)

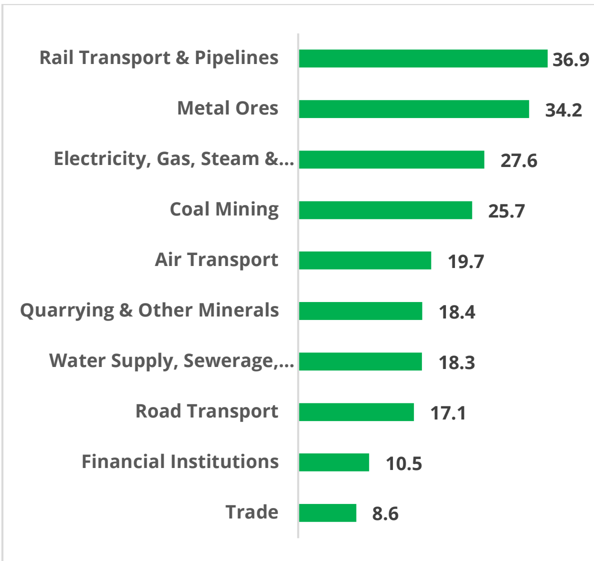
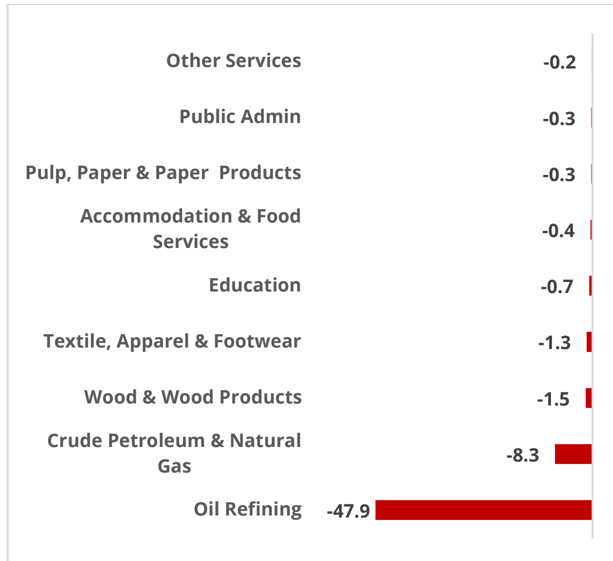


Figure 7b: 9 Declining Sectors (%)



Data: NBS; Chart: NESG Research

Key Highlights

- ***Nigeria's 2021 growth rate outperformed most forecasts***

While major stakeholder organisations were optimistic about the Nigerian economy in 2021, the actual economic growth figure outperformed the projections. The NESG Best Case Scenario projected 2.9 percent real GDP growth. In contrast, the Central Bank of Nigeria (CBN), the International Monetary Fund, and the World Bank forecasted growth figures of 3.2 percent, 3.0 percent, and 2.4 percent, respectively. Strategic sectors such as trade, real estate, and manufacturing, which had been in recession or stagnant due to pandemic-induced recessions, have returned to growth trajectory. Nonetheless, the government has an unrelenting responsibility to continue to support macroeconomic stability while ensuring long-term economic sustainability.

- ***Nigeria is no longer an oil economy***

For the second year in a row, the oil sector has been in recession. This is despite the persistently high global oil prices in the year, particularly in the second half of 2021. Unlike the previous recoveries, the Nigerian economy exited recession and sustained recovery with impressive growth in 2021, while the oil sector remained in recession. This demonstrates a significant shift away from oil-related activities in the economy. With the continuous contraction of the oil sector's share in the GDP, Nigeria's status as an oil economy is fast fading away. While a renewed growth in the oil sector is important, continued diversification and expansion of non-oil sectors is crucial to accelerating growth and driving social inclusion.

➢ ***Nigeria's macroeconomic space remains susceptible to the oil sector***

Despite the impressive real GDP growth outcome in 2021 at 3.4 percent, performances of other macroeconomic stability indicators such as inflation, exchange rate, external balance, etc., remained a policy concern. The inflationary pressure subsided in the year; however, it remained elevated. Exchange rate volatility deepened as the trade balance continued to expand in deficit. The disparity between interest rates obtainable at different markets in the economy persists while the real return remains negative. Also, fiscal sustainability worsened as the fiscal deficit expanded and revenue remained constrained. Unfortunately, the downside in the macroeconomic space is due to the dominance of the oil sector (which is in recession) as a major source of foreign trade, foreign exchange, and government revenue. The contraction in the oil sector worsened the situation in the macroeconomy. As a result, in addition to non-oil sector quantitative growth, outputs from constituent sectors must begin to contribute significantly to exports, forex inflows, and government revenue.

➢ ***Despite impressive economic growth in 2021, per capita income fell***

The emanating per capita income for 2021 stood at US$2010, a 4 percent decline compared with 2020, which took Nigeria a decade backwards in time. The situation is a fallout from the worsening macroeconomic indicators rubbing off on the growth recorded in Nigeria. This is, remarkably, due to continual depreciation/devaluation of the Naira and persistently high inflation rate. As the exchange rate volatility deepens, it impacts the inflation rate, and the interest rate depresses households' purchasing power. While economic growth is a necessity, the stability of the macroeconomic space is vital for the sustainable transmission of economic growth outcomes into improved living standards of the citizens.

Recommendations & Conclusion

1. ***The NESG urges the government to continue supporting and emphasising more robust sectoral reforms in strategic sectors to make economic growth inclusive.*** NESG believes that strengthening the current government policies and reform programmes in supporting productivity in strategic sectors would help resolve socio-economic issues such as unemployment, poverty, and insecurity. Achieving meaningful economic outcomes in these areas mainly depends on the ability of the different sectors of the economy to expand and contribute positively to job creation and economic opportunities for the people.

2. ***NESG observes that despite CBN's support for the agricultural sector, through the Anchor Borrower Scheme (ABS), the increase in agriculture output could not nib high food prices.*** This situation begs the question about the effectiveness of agricultural inputs and farm practices within the context of Anchor Borrowers' Scheme (ABS). To this end, the group suggests a need for the government to reform the current ABS and track implementation of the scheme to achieve the set goals of food production, value addition & storage, reduction in food prices and guarantee food availability.

3. **Macroeconomic instability such as interest rate, inflation and exchange rate remain a challenge to sectors performance**. The NESG observed a seeming lack of clear policy direction on these issues. The authorities appear to be suppressing both interest rate and exchange rate

while high inflation rate persists. As high inflation will continue to erode the purchasing power of the Naira, exchange rate depreciation will keep per capita income low and create downside risk to attracting foreign investment. The NESG, therefore, suggests that government needs to properly develop and strategically communicate its policy(ies) on these issues. This would help in improving investments and productivity in critical sectors of the economy.

About NESG

The NESG is an independent, non-partisan, non-sectarian organisation, 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.

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