

How did the Nigerian Economy Perform in the Second Quarter of 2021?

According to data from the National Bureau of Statistics, Nigeria's real Gross Domestic Product (GDP) grew by 5.01% to N16.7 trillion in the second quarter of 2021 (2021Q2), from N15.9 trillion in the second quarter of 2020. This represents the highest quarterly growth rate since 2014. It is also the third consecutive positive growth the economy has experienced, following the contraction of -3.6% in the third quarter of 2020.

Figure 1: Nigeria's year-on-year real GDP Growth (%)



Data Source: National Bureau of Statistics; Chart: NESG Research

Despite this high positive year-on-year growth of 5%, the economy, in 2021Q2, did not perform better when compared with the first quarter of 2021. In fact, real GDP declined by 0.8% on a quarter-on-quarter basis as real GDP value was N16.8 trillion in the first quarter of 2021 (2021Q2: N16.7 trillion) – see Figure 2. This implies that in actual terms, economic activities were on a downward trend and recovery is rather slow on a quarter-by-quarter basis. For the first half of 2021, real GDP grew by 2.7% relative to the first half of 2020.

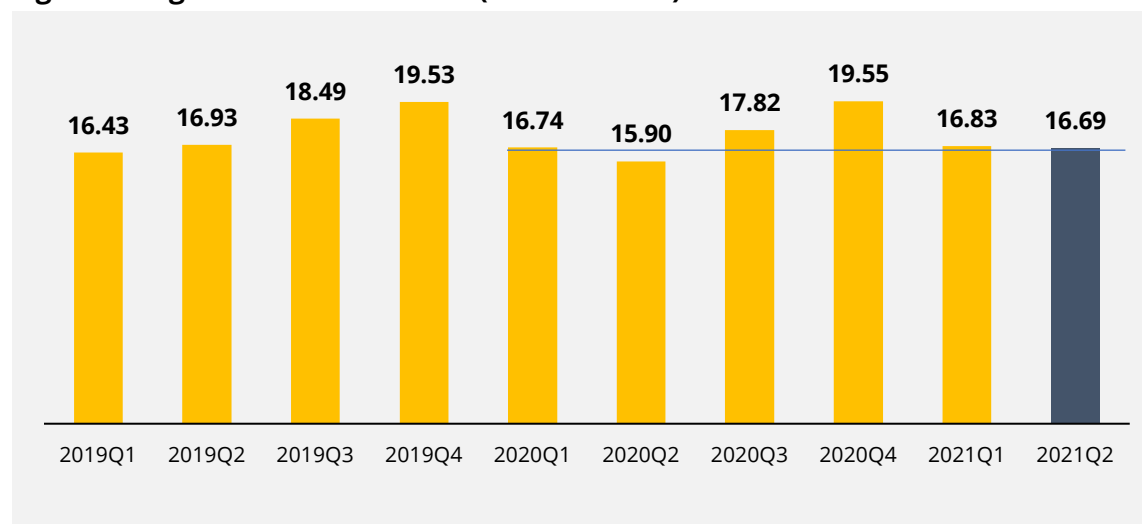
Why Such a High Growth Rate of 5%?

The major reason for the high growth in the second quarter of 2021 was due to the lockdown and restrictions implemented in the second quarter of 2020 (particularly in the month of April) to limit the spread of COVID-19. The implementation of the lockdown and restrictions across major states in Nigeria meant that companies involved in the production of non-essential items/services could not produce output. Only companies and individuals involved in essential activities such as health care, agriculture, telecoms, etc were allowed to operate, hence, the GDP decline of -6.1% in the second quarter of 2020 (2020Q2).

Because year-on-year GDP growth compares GDP output in two corresponding quarters due to the similarities in the nature of their economic activities (i.e., quarter 2 of 2020 vs quarter 2 of 2021), comparing a period with limited economic activities (2020Q2) with a period where lockdown rules have been relaxed (2021Q2) would result in such high growth. This is what is called the base period effect.

After a major crisis or the unique and huge disruption caused by the COVID-19, a true measure of recovery would be tracking the progression of GDP on a quarter-on-quarter basis to determine whether economic activities are improving. Looking at Nigeria's quarterly trend, real GDP value declined in the second quarter of 2021. This implies that economic players produced lesser outputs in April to June (valued at N16.69 trillion) when compared with the previous three months (N16.83 trillion) – see Figure 2.

Figure 2: Nigeria's real GDP value (Trillion Naira)



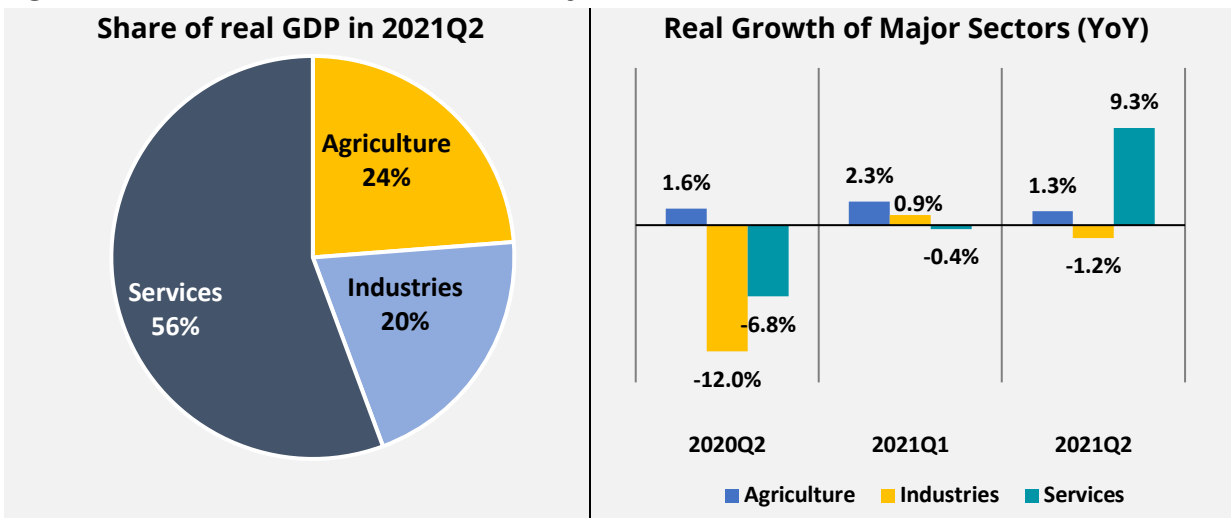
Data Source: National Bureau of Statistics; Chart: NESG Research

How is the Growth Performance across Sectors?

Economic activities are categorised under three broad sectors: Agriculture, Industry and Services. Across board, the easing of COVID-19 restrictions and pick up in economic activities were instrumental in the performance of the broad sectors. In essence, sectors that contracted the most in 2020Q2 (except crude oil) because of the lockdown are those that posted high growth rates in 2021Q2 due to the base effect.

On a year-on-year basis, the Services sector grew by 9.3% in 2021Q2. Meanwhile, the Industrial Sector, which is mainly driven by crude oil, contracted by -1.23% while the Agricultural sector recorded a growth of 1.30%. The Agricultural sector's growth slowed in Q2 mainly because the sector was not severely affected by the lockdown as it displayed a positive growth of 1.6% in 2020Q2.

Figure 3: Share of GDP and Growth of Major Sectors



Data Source: National Bureau of Statistics; Chart: NESG Research

When compared with the previous quarter, the **Agricultural sector** grew by 5.5% despite the planting season effect and the challenge of insecurity in the country. Growth in the sector was driven by improved activities in crop production which grew by 8%. Crop production continued to account for the highest share (89%) of agricultural output in the quarter. Just like Agriculture, the **Services sector** grew by 2.4% in the second quarter of 2021. Improved activities were recorded in sub-Services sectors such as Public Administration (32.3%), Information and Communication (18.3%), Health (7.9%) and Trade (5.8%). Others sub-sectors posted negative growth: Real Estate (-0.7%), Financial and Insurance (-1.8%), Transportation and Storage (-9.5%) and Accommodation and Food Services (-61.1%).

Table 1: Growth Rate of Major Sectors in 2021Q2

	Quarter on Quarter	Year on Year
Electricity, Gas ,Steam and Air Conditioning Supply	264.2%	78.2%
Water Supply,Sewerage, Waste Management and Remediation	43.2%	18.5%
Public Administration	32.3%	-1.7%
Information and Communication	18.3%	5.5%
Human Health and Social Services	7.9%	4.9%
Administrative & Support Services	6.2%	4.8%
Trade	5.8%	22.5%
Agriculture	5.6%	1.3%
Real Estate	-0.7%	3.8%
Financial and Insurance	-1.8%	-2.5%
Professional, Scientific and Technical Services	-6.3%	1.3%
Transportation and Storage	-9.5%	76.8%
Manufacturing	-13.1%	3.5%
Mining and Quarrying	-19.0%	-12.3%
Construction	-23.1%	3.7%
Education	-29.9%	0.6%
Other Services	-32.5%	0.6%
Accommodation and Food Services	-61.1%	2.0%

Data Source: National Bureau of Statistics; Chart: NESG Research

The industrial sector's output fell by 2.4% when compared with the previous quarter's output. Subsectors such as Manufacturing, Construction and Mining & Quarrying contracted by 13.1%, 23.1% and 19.0%, respectively. For the Mining & Quarrying sector, there was a contraction in Crude Petroleum & Natural Gas sector in the quarter by 20%, mainly as a result of the decline in oil production to 1.61 million barrels per day (mbpd) in 2021Q2 from 1.72mbpd in 2021Q1 and 1.81mbpd in 2020Q2. Other sub-sectors that recorded positive growth are Electricity and Air Conditioning Supply (264.2%) and Water Supply, Sewerage and Remediation (43.2%).

Conclusion and the Way Forward

Nigeria's high economic growth rate of 5% in the second quarter is a positive development. Although this was expected mainly because of the base effect as explained in the previous sections, attention must be paid to the quarter-on-quarter performance which showed a contraction in quarter. As the base effect weakens, we expect slower growth on a year-on-year basis in the remaining quarters of 2021.

Going forward, key drivers of economic activities in coming quarters will include foreign exchange availability, the state of insecurity, government support for key sectors, improving

demand conditions and the weather condition, which could have a negative effect on agriculture especially due to the anticipation of floods in some parts of the country. Factors such as infrastructure, logistics bottlenecks, power supply will also be important.

For the crude oil sector, going by the increase in the OPEC quota to 1.83mbpd, oil production in Nigeria is likely to perform better than what was achieved in 2021Q2. The Petroleum Industry Act also raises the level of optimism in the sector and could attract the much-needed investments. This suggests a better performance for the oil sector in the medium term.

To reverse the quarter-on-quarter GDP decline, the following actions are required from policymakers:

- Intensify actions in addressing insecurity across the country.
- Design a framework for addressing policy and regulatory consistency.
- Implement reforms to open-up key sectors with high job creation potential such as manufacturing, trade, construction, education, health, professional services and digital economy.
- Intensify efforts to unlock new growth and revenue enhancing areas: sale/privatization of dead public assets, the digital economy, public-private partnerships in infrastructure and the development of solid minerals, manufacturing and the gas sector.

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 to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

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