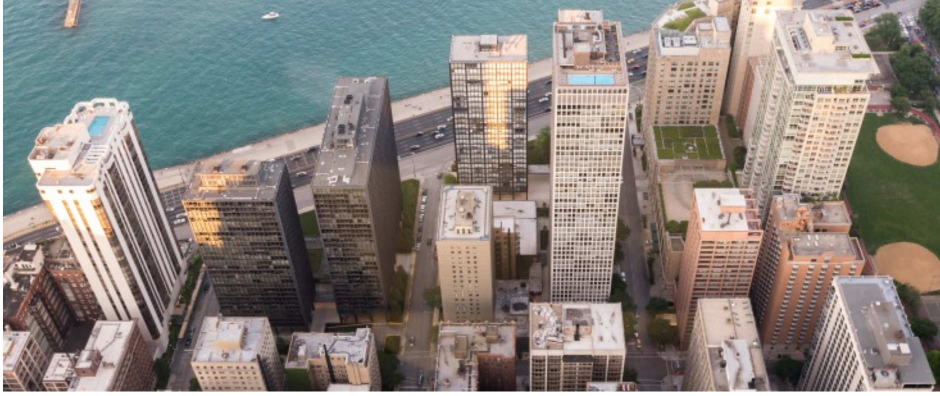
June 2020

Nigeria Economic Alert

Q1'20 GDP report: Broad-based shocks to global economy weighs on the country's growth

NB: Analysis is on yearly(y/y) except otherwise stated



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Please note that in these Bulletins we use the official statistics issued by the National Bureau of Statistics. These are issued to 3 or in some cases 4 (e.g. inflation) significant digits. In an economy where up to 65% of the economic activity is in the formal sector, it is difficult to estimate to this number of significant digits. However, at PwC Nigeria we have taken the position for our reports to use the official numbers exactly as issued.

Potential for steady economic growth impacted by external shocks

The Nigerian economy, as reported by the NBS, recorded the slowest first-quarter growth since 2016 (post-recession), as real GDP rose by 1.87% year on year, from N16.57 trillion in Q1 2019 to N16.89 trillion in Q1 2020. This performance was due to the typical low-growth trend in economic activities, which usually occurs during the first quarter.

However, the low growth trend in Q1 2020 was further impacted by the twin shocks (demand and supply) to the global economy resulting from the COVID-19 outbreak and the oil price war between Saudi Arabia and Russia.

The latter factor led to the slowdown of the non-oil sector, which grew by only 1.55% in Q1 2020 compared with the 2.26% and 2.47% growth recorded in the preceding quarter of Q4 2019 and corresponding quarter in 2019 respectively. The slowdown in non-oil growth was primarily due to the low growth of the agricultural sector, arts, entertainment & recreation sector, as well as further contraction in the trade, accommodation & food services, and real estate sectors respectively.

Fig 1: Nigeria's Real GDP growth(percent, y/y)

Source: NBS, CBN, PwC analysis

Even though the Nigerian economy was only exposed to the early stages of the fallout from the pandemic in Q1 2020, real growth decelerated significantly in the first quarter compared with similar period in the previous years, thus, increasing the likelihood of a recession before year-end

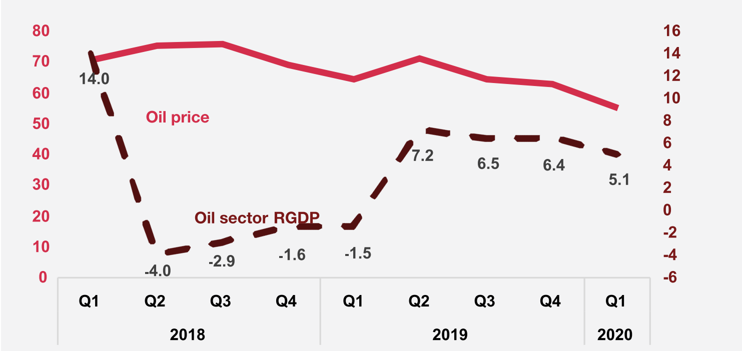
Oil sector outlook impacted as disruptions to global supply-chains put further pressure on oil prices

Prior to the outbreak of the pandemic, global economic outlook for 2020 was largely tepid, and oil markets were set for a prolonged bearish trend. Consequently, the oil price war mainly between Russia and Iran depressed oil prices significantly. However, the sudden shock to the global supply value-chain owing to containment measures to mitigate the spread of COVID-19 has impacted economic activities, which has led to further decline in global oil demand and prices.

For instance, as at late April, Nigeria could not find buyers for about 50 million barrels of the country's oil output. This was because major buyers ran out of storage capacity due to lower demand and consumption of oil for their industrial activities.

Now that economies are exploring options and strategies to reopen, the outlook for the oil market is garnering some positive sentiments, however, the sector may not be restored to pre-crises levels this year. This is particularly because of apprehension of the risk of a second wave of the outbreak if measures are totally relaxed without a proven cure and/or vaccine.

Fig 2: Oil sector RGDP(percent,y/y) vs average oil price(US$ per barrel)



Source: NBS, CBN, PwC analysis

Slow pace of growth in agricultural sector despite increased banking sector credits

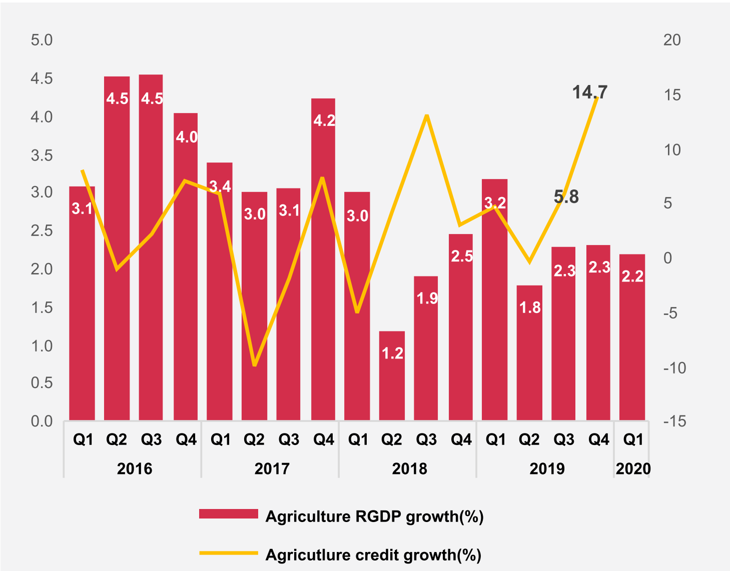
The agricultural sector has continued to maintain its strategic importance to the Nigerian economy. The sector contributes about 22% to the GDP (Q1 2020), employs 48% of Nigerian workers (Q3 2017) and accounts for 57% of domestic consumption expenditure (Q1 2020).

To sustain the sector's performance, banking sector credit rose by 14.7% to a record high of N772.38 billion in Q4 2019 from N673.19 billion in Q3 2019.

However, each quarterly growth of the agricultural sector since 2016 has continued to underperform the similar quarter in the previous year, as revealed by the four-quarter moving average growth (see figure 3).

In Q1 2020, agricultural sector real GDP rose by 2.2%y/y to N3.68 trillion from N3.6 trillion in Q1 2019. This represents its slowest first quarter growth since 2010.

Fig 3: Agriculture Real GDP growth (percent,y/y) and credit to agricultural sector(%)



Source: NBS, PwC analysis

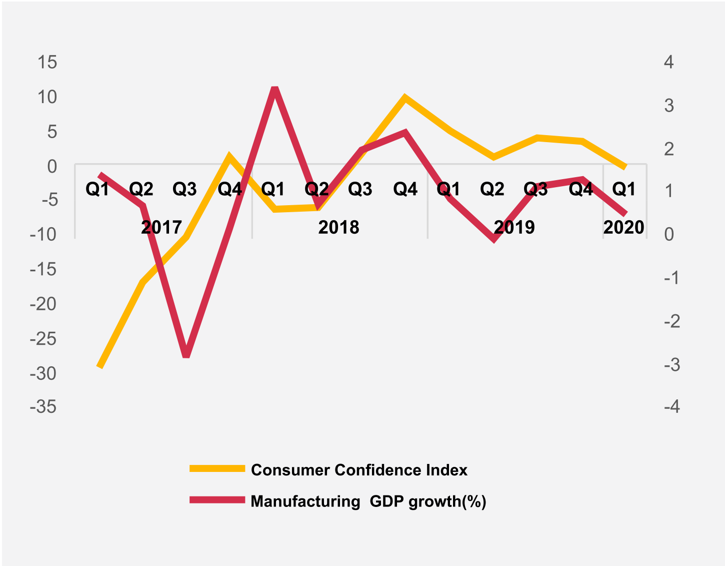
Flagging economic outlook could subdue the manufacturing sector

The manufacturing sector's performance is mostly driven by the economic growth outlook and consumer confidence.

In April 2020, the IMF revised Nigeria's growth outlook downward from 2% to -3.4%, even as the country's Consumer Confidence Index contracted to -0.3 points from 3.3 points in Q4 2019 and 4.8 points in Q1 2019. Consequently, the manufacturing sector GDP rose marginally by 0.43%y/y and experienced the slowest pace in growth since 2016.

Overall in 2020, outlook for this sector could be impacted by COVID-19 - its impact on the economy, consumers' disposable incomes and purchasing power.

Manufacruing GDP growth (percent, y/y and Consumer Confidence Index (CCI)



Source: NBS, CBN, PwC analysis

Adopting a Balanced Growth Model (BGM) to expedite economic recovery and resilience

The outbreak of COVID-19 has brought to fore the need to build a resilient economy that can withstand global shocks.

Hence, there is no better time for Nigeria to adopt a balanced growth approach, which emphasizes the importance of simultaneously developing the oil sector value-chain (local oil refinery) and the non-oil sector (agricultural sector, manufacturing and education, among others) through strategic policies that focus on sustainable development, policy stability, economic stability and enhancing domestic purchasing power.

This will not only expedite an economic recovery from the predicted recession or contraction, but also guarantee economic resilience afterward to mitigate future global shocks.

The COVID-19 pandemic, coupled with the supply-demand shocks in the international oil market, has impacted the country's fiscal position in 2020. The federal government revised downward the 2020 budget target benchmarks as a result of the global effects of the pandemic and the oil price shocks. For instance, the FG reduced the oil price benchmark for the 2020 national budget from US$57 to US$28 per barrel.

This has implications for the 2020 fiscal year with the budget deficit estimated to reach approximately N4.5 to N5 trillion by year-end compared to the N1.85 trillion estimated in the initial budget framework passed into law in December 2019. This could be the largest deficit since 1981, and the fiscal deficit to GDP could reach as high as 5 to 7% of GDP, above the recommended benchmark of 3%.

Post COVID-19, it is essential for the Nigerian government to create policies, incentives and an enabling environment, to attract and drive long-term foreign direct investments into the economy, and channel these investments toward high-growth sectors.

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