www.pwc.com/ng

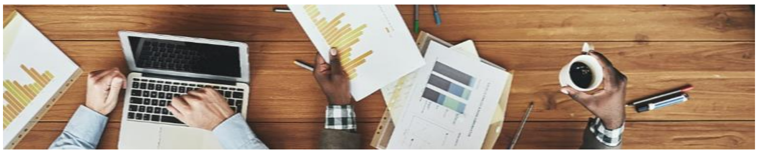
Nigeria Economic Alert

Nigeria's Q4 2020 GDP: Are we out of the woods yet…?

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

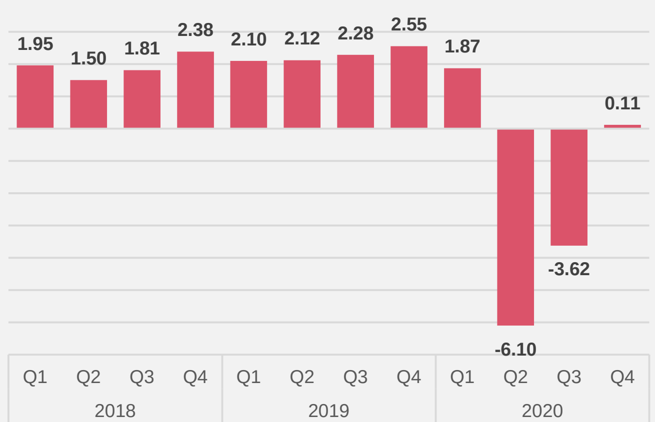
March 2021

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 more than 50% of the economic activity is in the informal sector, it is difficult to estimate to this number of significant digits. However, at PwC Nigeria we have taken the position to use the official numbers for our reports, albeit to a single decimal point or the nearest whole number.



The latest report released by the National Bureau of Statistics (NBS) reveals that, in real terms, the Nigerian economy expanded by 0.11% year-on-year in Q4 2020 compared to -3.62% and 2.55% recorded in Q3'2020 and Q4'2019 respectively. The growth rate officially signaled Nigeria's exit from the recession of the last two quarters, following the effect of the COVID-19 pandemic on key sectors including oil and gas, services, manufacturing, transportation etc. Despite this, full year 2020 growth stood at -1.92% (2019: 2.27%), though significantly lower than the -3.5% projected by the International Monetary Fund in its World Economic Outlook report published in January 2021.

Quarterly GDP growth (%)



Source: NBS, PwC analysis

…No more oil economy

Meanwhile, the share of the oil sector in real GDP stood at a historical low of 5.87% in Q4'2020. This implies, that the non-oil sector accounted for 94.13%.

The improved performance of the economy is partly due to the economic stimulus packages and the expansionary policy stance adopted by both the fiscal and monetary authorities. For instance, following the increase of, and diligent implementation of the loan-to-deposit ratio of 65%, total banking credit to the private sector rose by over N1 trillion from N18.5 trillion in Q1 2020 to N19.9 trillion as at Q3 2020. Other targeted funding to the private sector such as the N100 billion Pharmaceutical Fund and the N50 billion Target Credit Facility for households and MSMEs have also helped to gradually reflate growth over the past few quarters.

Emerging risks that could threaten the economic recovery

Though Nigeria has exited the negative quarterly growth path, there exists significant downside risks that threaten to disrupt the economic recovery. Some of these emerging risks include:

- **Another wave of COVID-19 coupled with new strains:** The economic lockdown during the COVID-19 pandemic coupled with the impact of the pandemic on global economic activities have been the primary cause of the negative GDP growth rates recorded in Q2 and Q3 2020. However, there are continued fears of new strains of the virus resistant to existing vaccines, as well as the continued increase of daily cases across the country, due to low rate of vaccine rollout nationwide.

- **OPEC+ agreement:** With crude oil accounting for nearly 90% of exports and more than half of fiscal revenues, the outcome of the global crude oil market pose significant risk to the stability of growth in Nigeria.

- **Widespread insecurity:** Nigeria's security architecture is facing multiple challenges ranging from armed robbery, herders-farmers clashes, kidnapping, insurgencies in the North East, ethno-religious tensions, among others. The ongoing security threats across the country are risk factors that could potentially dampen economic activities, weaken business sentiments, inhibit foreign investment inflow and wipe out the economic gain garnered over the last 2 quarters. For instance, the insecurity has led to food shortages, which in turn has driven food prices up.

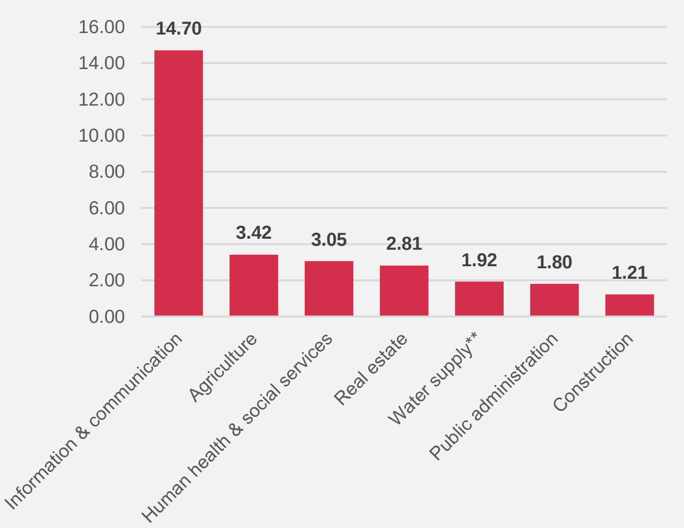
- **Foreign exchange illiquidity:** With a weak trade base anchored mainly on crude oil exports, the prospect of attaining enough foreign exchange inflows to stabilise the value of the domestic currency remains austere. The continued susceptibility of the domestic economy to oil price fluctuations and its pass-through effect on exchange rate and inflation rate are key risks that could upturn the country's recovery.

ICT sector remains the largest driver of growth

The information and communication technology (ICT), as well as financial and insurance sectors have been Nigeria's fastest growing sectors. Over the past two consecutive quarters, information and communication, has emerged as the fastest growing sector and the largest driver of economic growth in Nigeria. In Q4'2020, the sector grew by 14.7% year-on-year, which is lower than the 16.13% recorded in Q3'2020, but higher than the 10.13% growth posted in Q4'2019. This performance is attributable to growth in subsectors such as telecommunications, broadcasting, motion pictures, sound recording and music production.

In addition to the ICT sector, Agriculture maintains its position as one of Nigeria's most resilient sectors in the face of external shocks. The Agriculture sector grew by 3.42% in Q4 2020, the highest quarterly growth since 2017. Crop production and livestock emerged as the major contributors to agricultural sector growth in Q4'2020, while the fishing subsector shrunk by -3.6% year-on-year compared to -2.07% recorded in Q3 2020.

Nigeria's fastest growing sectors in Q4 2020



Source: NBS, PwC analysis
** including sewerage, water management and remediation

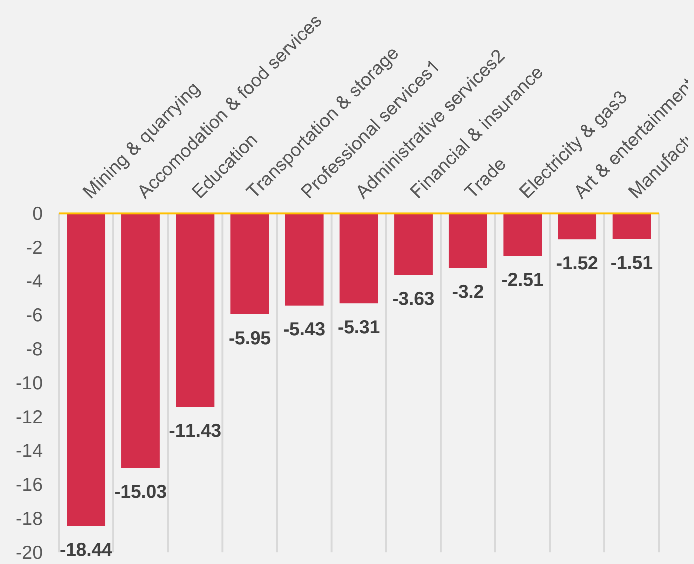
Other top performing sectors in Q4 2020 include the human health and social services, real estate, water supply, public administration and construction services.

A plethora of abysmal sectoral growth

Mining and quarrying recorded the largest decline in output in Q4'2020, contracting by 18.44% year-on-year. Interestingly, some of the sectors that remain trapped at the negative territory are largely service based (education, accommodation and food services, transportation etc.). The COVID-19 virus has continued to constrain the growth of the transportation sector. In the period under review, the aviation subsector contracted by -51.69% compared to its pre-pandemic average quarterly growth of over 10%.

The manufacturing sector equally experienced poor performance in Q4'2020. The positive growths recorded by the cement (6.59%), food, beverage and tobacco (2.15%) as well as motor vehicle and assembly (2.02%) manufacturing sub-sectors were offset by the contraction of the oil refining (-56.5%), electrical and electronics (-12.14%) and the non-metallic products (-9.92%) sub-sectors, among others. The challenge of foreign exchange illiquidity coupled with widespread insecurity in the country are significant risk factors that could inhibit the manufacturing sector's productivity and recovery.

Nigeria's poor performing sectors in Q4'2020



Source: NBS, PwC analysis
Inclusive of: [1]scientific and technical services [2]support services [3] steam and air-conditioning supply [4] recreation

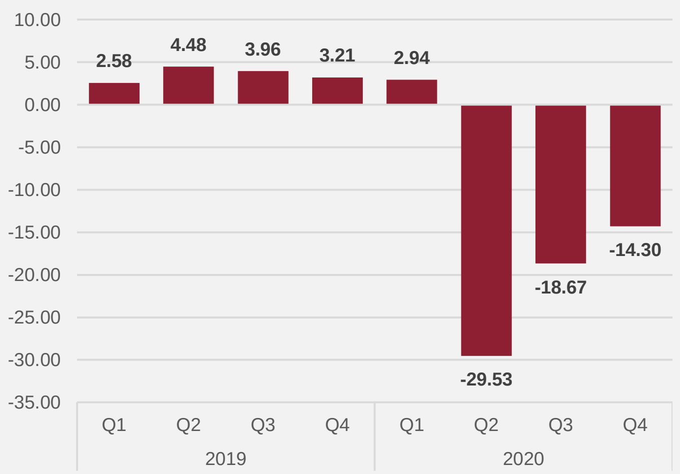
Insurance sector bleeds from weak disposable incomes

The insurance sector contributes less than 1% to the Nigerian economy. Nonetheless, it remains an important part of the financial system, given the role the sector plays in loss mitigation, risk management and business stability. However, the insurance industry is currently one of the underperforming sectors of the Nigeria economy.

In Q4’2020, the insurance sector shrunk by -14.30% year-on-year relative to -29.53% and -18.67% in Q2’2020 and Q3’2020 respectively. As a result, full year 2020 growth dipped by -15.3% (2019: 3.59%) - the worst growth ever recorded. This abysmal performance is linked to several challenges bedeviling the sector, including low insurance penetration and the challenging business environment exacerbated by the COVID-19 shocks.

The economic lockdown to flatten the pandemic curve, led to escalating inflation rate.

Insurance sector growth (%)



Source: NBS, PwC analysis

As at January 2021, headline inflation rate stood at about 16.47% compared to 12.13% in the same period last year. Food prices trended even higher at 20.57% relative to 14.85% in January 2020. With the rise in the general price level, disposable incomes weakened significantly and impaired consumers’ ability to pay insurance premiums, take out new insurance policies or even renew existing ones.

The insurance sector would continue to be hamstrung especially in the light of the above factors. It is therefore crucial for government and other key stakeholders to resolve the structural bottlenecks inhibiting the growth of the sector.

Way forward

PwC has identified the top ten themes that will shape the Nigerian economy in 2021. They include:

- **Unlocking dead assets**: Nigeria holds as much as US$900 billion worth of dead capital in residential real estate and agricultural land. According to Nigerian Institute of Builders, the value of Federal Government’s abandoned properties is projected at about N230 billion.
- **Harnessing the power of the diaspora:** Nigeria is the largest recipient of remittances in SSA accounting for over a third of flows to the region. The country’s biggest export is human capital.
- **Driving export growth through services:** Two-thirds of the global economy is made up of the services sector which are higher value-added than physical goods. Nigeria’s creative and cultural industries (CCI) presently plays an important role and will probably generate $1 billion export revenue in 2020. Nigeria’s exportation of Nollywood, technology and financial services are good exports to invest in, among others.

All the ten themes will be explored in detail in our upcoming report on the Nigerian economy due to be published in March.

Overall, in view of the fragile economic recovery impacted by the pandemic, it is imperative that government across all levels (federal, state and local) continue to put measures in place to attract foreign direct investment for business expansion, job creation and robust economic growth. Also, the widespread security threat is one that needs to be nipped in the bud, if we are to win foreign investors’ confidence.

Government must seize this opportunity to relentlessly implement key institutional reforms that promote ease of doing business and strengthen the resilience of the domestic economy to externally induced macroeconomic shocks. One way to do this is to consistently ensure policy alignment between the fiscal and monetary authorities.

Contacts

Andrew S. Nevin Ph.D
Partner, West Africa Financial Services Leader and Chief Economist
andrew.x.nevin@pwc.com

Omomia Omosomi
Manager/Economist
omomia.omosomi@pwc.com

Kelvin Umweni
Associate
kelvin.umweni@pwc.com