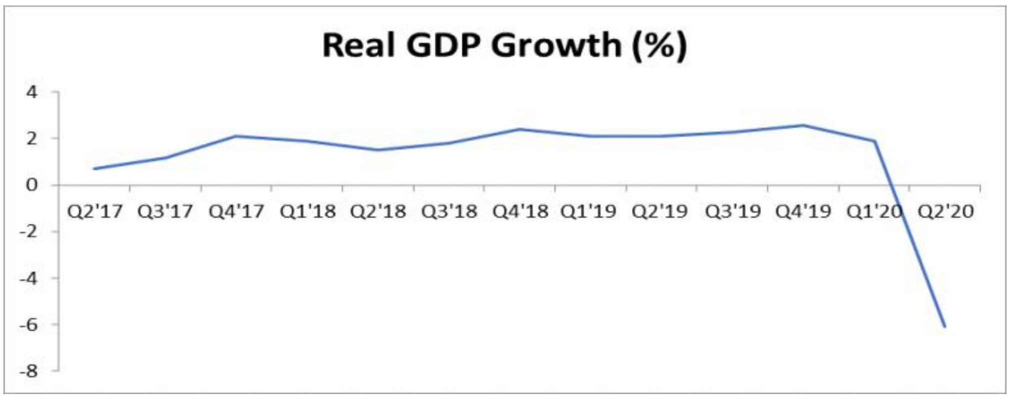
FDC Economic Bulletin

August 25, 2020

Nigerian economy suffered steep contraction in Q2'20

The recently released Q2 GDP data is evidence of a combination of structural deficiencies and the direct impact of the lockdown on the limping economy. The precipitous 34.3% fall in the price of oil in Q2 and the drag on forex revenue pulled the economy into negative growth like most other oil producers. The economy shrank by 6.1% in Q2 from a positive growth of 1.87% in Q1. This is the sharpest fall in a decade, bringing to an end the tepid but positive growth trajectory that commenced in Q2'17 after the 2016 recession. The cumulative contraction in economic activity for H1'20 is 7.97%. Of the 46 activities tracked by the NBS, only 13 grew positively. The other 33 activities recorded negative growth.



[1]

Stimulus package inadequate to revive the economy

Even though the contraction in GDP was anticipated, it was deeper than analysts' expected. This is a wake up call for policy makers to scale up fiscal incentives to be complemented with appropriate and adequate monetary policy tools. The 7.97% GDP contraction is equivalent to a loss of N12trn, which is equal to size of the 2021 budget. The Economic Sustainability Plan (N2.5trn), complimentary monetary policy and quantitative easing appears to be insufficient in preventing the economy from slipping into a recession in Q3. Policy makers now face a quadrilemma of juggling four unpleasant scenarios: negative growth, increasing inflation (12.82%), external sector weakness and growing unemployment (27.1%). The policy trade-offs will likely steer Nigeria back to recovery, but only if rapid steps are taken this quarter.

Structural adjustments are inevitable

Nigeria had structural deficiencies before the Covid-19 pandemic, which include widening recessionary gap, declining total factor productivity, exchange rate misalignment, etc. Although, the COVID pandemic

[1]NBS, FDC Think Tank

magnified these challenges, it made the economic ailments more apparent. The CBN has adjusted the exchange rate at the official window twice by 5.28% in the last six months to N379/$ from N360/$. Exchange rate unification will help to reduce speculation and eliminate market distortions. The cost reflective electricity tariff is also expected to commence in September. This will encourage investments in the power sector and ultimately boost total factor productivity. Increased public and private investments are crucial for economic recovery.

Impact on Consumers

The contraction in economic growth means that unemployment rate will be much higher in the coming quarters. The unemployment rate is a lagging economic indicator, i.e. its impact is felt after the cycle has changed. Also, multidimensional poverty is likely to skyrocket as consumers' battle with squeezed income and higher unemployment.

Impact on Investors

The contraction in economic growth was expected by investors as indicators such as PMI already gave a direction of the overall performance of the economy. The FBN PMI contracted for 3 consecutive months before recovering to 53.9 points in June. Beyond the numbers, investors will be more interested in the policy response. On the monetary front, investors will keep a close watch on the direction of interest rates. Also, the quantum of fiscal catalysts in stimulating economic growth will be of keen interest to investors.

Oil and Non-oil Sectors

Both the oil and non-oil sectors recorded negative growth rates in the second quarter of 2020. The oil sector shrank by 6.63% and contributed 9.50% to GDP. The contraction in the sector's growth was largely due to the crash in oil prices due to reduced demand triggered by the pandemic amid lower oil production. Oil production declined by 10.4% to 1.81mbpd in Q2'20. Oil accounts for approximately 90% of foreign exchange earnings and over 50% of government revenues. Lower oil receipts will put a strain on government fiscal and external buffers and widen the country's fiscal gap.

For the first time in nearly three years, the non-oil sector recorded a negative growth of -6.05%. The sector's contribution to GDP also fell to 90.5% from 91.22% in Q1'20. This was largely due to reduced level of activities in sectors such as trade, transport and construction following the lockdown in three major states to contain the Coronavirus spread.

Sector Breakdown – Only 13 out of the 46 activities recorded positive growth

The Covid-19 pandemic disrupted activities in virtually all sectors of the Nigerian economy. Only 13 of the 46 activities grew positively in Q2'20. The other 33 activities recorded negative growth. The impact was more severe on sectors that are lockdown and exchange rate sensitive such as construction, trade, aviation and accommodation & food services. The contraction in these sectors validates the poor corporate earnings recorded by key industry players in Q2. For instance, Julius Berger, a major player in the construction

Do more with Ecobank FCY Cards

Take advantage of the higher spend limit on our FCY Cards

CARD TYPE	DAILY ATM WITHDRAWAL LIMIT	DAILY POS/WEB LIIMIT
Ecobank Mastercard Gold USD Credit Card	$2,000	$5,000
Ecobank Mastercard Platinum USD Credit Card	$2,000	$15,000
Mastercard FCY Debit Card (available in USD, GBP and Euro	$1,000	$2,000

To increase your spend limit, please contact your Relationship Manager or reach us via the channels below.

0700 500 0000, 01 270 1323, 0708 065 3700

@ecobank_nigeria
@EcobankNGR

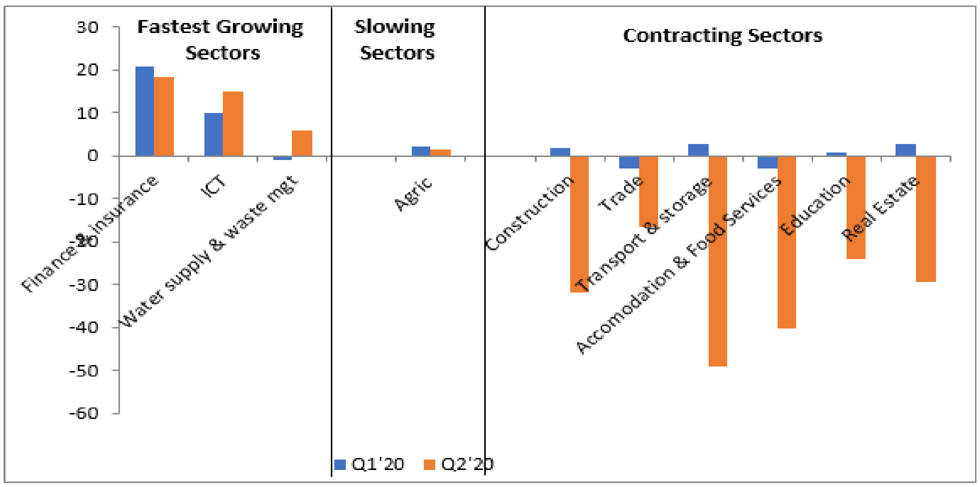
ENGcontactcentre@ecobank.com

ecobank.com

Ecobank
The Pan African Bank

industry saw a 32.99% decline in revenues (N46.14bn) and a contraction of –199.97% in PAT (-N2.34bn). This is also the case for Ikeja Hotels that saw a 49.28% drop in revenues (N1.77bn) and a –406.67% contraction in PAT in Q2'20 (N0.46bn).

The fastest growing sectors were those that benefitted from increased use of e-payment system and internet services—ICT and Financial institutions. Meanwhile, the performance of key industry players was mixed in Q2. While MTN recorded a 7.95% increase in revenues (N306.89bn) and a 17.93% decline in PAT (N44.23bn), First Bank's revenues dropped by 37.84% to N340bn and PAT spiked by 107.14% to N20.07bn.



[2]

Outlook

The Nigerian economy will slide into a technical recession in Q3'20 and is likely to see a W-shaped recovery as a 2nd wave of COVID infections could trigger a precision lockdown. The IMF is forecasting a negative growth of –5.4% for 2020. The good news however, is that the relaxation of lockdown measures and the gradual pick up in oil prices could ease the pace of economic contraction in the coming quarters. Economic recovery could be as early as Q2'21 if rapid steps are taken.

[2]NBS, FDC Think Tank