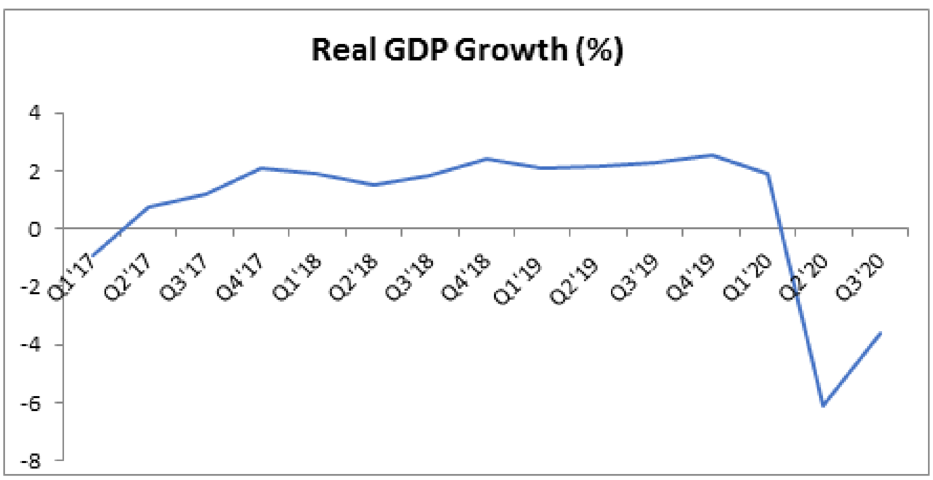
FDC Economic Bulletin

November 24, 2020

Nigeria in Recession: Urgent Need for Robust Fiscal and Investment Policies

The GDP numbers released on Saturday (November 21) confirmed that Nigeria has officially fallen into a recession. The economy shrank by 3.62% in Q3'20, the second consecutive quarterly contraction. Though, it represents a slight improvement (2.48%) when compared to the negative growth of -6.1% in Q2. The average growth in 2020 is now -2.62%. Q3 numbers reflect the lingering impact of the COVID-19 induced lockdown and oil price shock on the staggering economy. The oil sector recorded a deeper contraction of -13.89% as domestic oil production fell to a 4-year low of 1.67mbpd. Of the 46 activities tracked by the NBS, 18 recorded positive growth compared to 13 activities in Q2'20, courtesy the gradual relaxation of the restrictive measures.



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The need for investment friendly policies

The Nigerian economy is witnessing its second recession in barely 5 years. It is more worrisome that policy makers do not have adequate weapons to fight through and come out unharmed. This is because the recession is happening at a time when oil revenues have been severely affected. Also, investment flows as well as Diaspora remittances have drastically declined as the COVID pandemic roiled all economies simultaneously. The low interest rate environment, hyper-inflation and forex scarcity have also made the

[1] NBS, FDC Think Tank

Nigerian investment space relatively unattractive to investors. The primary market T/bill rates slipped into negative territory (91-day: -0.01%) on November 19 while inflation spiked to 14.23% in October, further widening the negative real rate of return on investments. It is important that robust fiscal and investment friendly policies are put in place to attract various investment flows needed to spur economic growth.

Falling aggregate demand could elongate the recovery path

Economic scholars encourage increased spending during recessions to jumpstart the economy. However, in recent times, aggregate demand remains subdued due to higher costs of living. The increase in electricity tariffs and PMS prices has squeezed consumer disposable income. It is of great necessity that the government significantly support households in a bid to fast track economic recovery. At the recently concluded MPC meeting, the CBN was of the opinion that the slower pace of economic contraction in Q3 highlights that the negative GDP curve could bottom out and recovery could be as early as Q4'20.

Oil and Non-oil Sectors

The oil sector recorded a deeper contraction of -13.89% in Q3 from -6.63% in Q2. This was largely due to the combined effects of dwindling oil prices and production. Oil prices averaged $43.34pb in Q3'20, 30.13% lower than an average of $62.03pb in Q3'19. Domestic oil production fell by 9.24% to 1.67mbpd from 1.84mbpd in Q3'19. The sector contributed 8.73% to total real GDP in Q3, down from 9.77% in Q3'19 and 8.93% in Q2'20.

The non-oil sector grew by –2.51% in real terms in Q3, –4.36% lower than the rate recorded in Q3'19 (1.85%) but 3.54% higher than in Q2'20 (-6.05%). The sector's growth was driven mainly by telecommunications (17.36%) and construction (2.84%). In real terms, the non-oil sector contributed 91.27% to the national GDP in Q3'20, higher than its share in Q3'19 (90.23%) and Q2'20 (91.07%).

Sector breakdown – 18 positive, 28 negative

18 activities grew positively in Q3 relative to 13 in Q2. The relaxation of the lockdown measures had a positive impact on sectors as most of the activities slightly improved even though some remained in the negative territory. The construction sector in particular recorded a positive growth of 2.84% from a negative growth rate of -31.77% in Q2. The aviation sector growth also improved to -38.86% from -57.38% in Q2. This is partly due to the bailout funds it received from the government.

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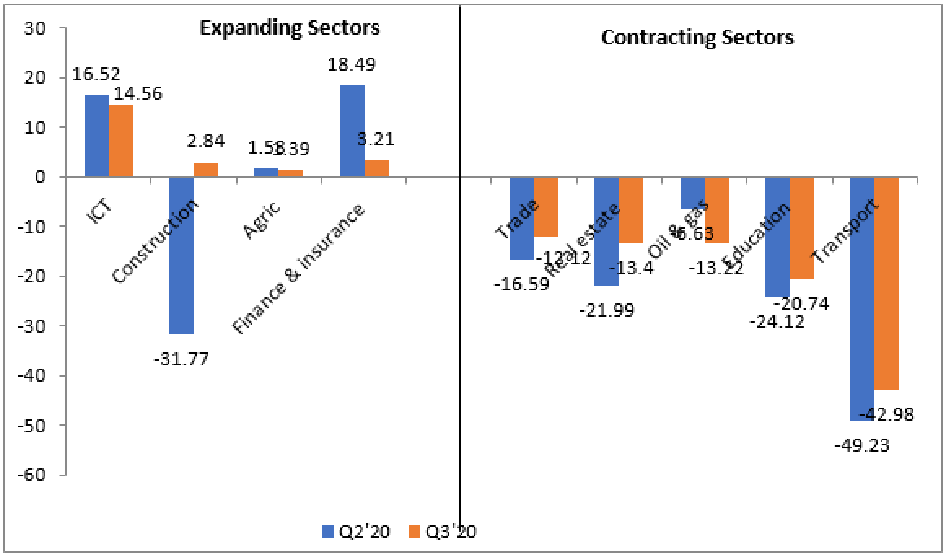

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Outlook

The pace of economic recovery will be largely dependent on the robustness of fiscal, investment and monetary policies. The MPC at its just concluded meeting left all monetary parameters unchanged to strike a balance between supporting economic growth and ensuring macroeconomic stability.

[2] NBS, FDC Think Tank