Nigerian Economy Exits Recession – Implications and Policy Options

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After five consecutive quarters of contraction in the Real Gross Domestic Product (GDP), the Nigerian economy exited the first recession in over two decades. The Q2, 2017 figures that the National Bureau of Statistics (NBS) released on Tuesday, September 05, 2017 shows that the GDP recorded a growth rate of 0.55%. The growth in the GDP was mainly due to the growth recorded in Agriculture, Financial and Insurance, Electricity, Gas, Steam and Air Conditioning Supply, and Mining and Quarrying sectors of the Nigerian economy. The Oil sector, which grew by 1.64% in Q2, 2017, recorded the first growth since Q4, 2015. The growth in the Non-Oil sector at 0.45% in Q2 2017 decelerated from a growth rate of 0.72% recorded in Q1, 2017. The Nigerian economy entered into a recession in Q2 2016 following two consecutive quarters of GDP contraction. The recovery in crude oil production and price and the introduction of the Investors' and Exporters' foreign exchange window, which increased the supply of foreign exchange to end users, helped to pull the economy out of recession. We highlight policy options to sustain the growth and to ensure that the growth translates to development.

The weak purchasing power in the country was the main driver of the contraction in the Trade sector.

An analysis of the GDP by sectoral size shows that Agriculture, Trade, and Information and Communication are the three largest sectors of the economy and they contributed 22.97%, 17.1% and 12.39% respectively in Q2, 2017. Trade and Information and Communication contracted by 1.62% and 1.15% respectively. Although Agriculture grew by 3.01% in Q2, 2017, it recorded the lowest growth rate since Q1, 2015. The weak purchasing power in the country occasioned by high unemployment and inflation rates was the main driver of the contraction in the Trade sector. The performance of the Information and Communication sector was due to the high cost of running communication equipment and services occasioned by the devaluation of the Naira in the face of a fixed tariff regime. Meanwhile, the series of attacks in the crop producing regions in the country particularly in the Middle-Belt and the North, and the poor infrastructure in transportation and storage facilities led to the deceleration in the growth rate of the Agriculture sector.

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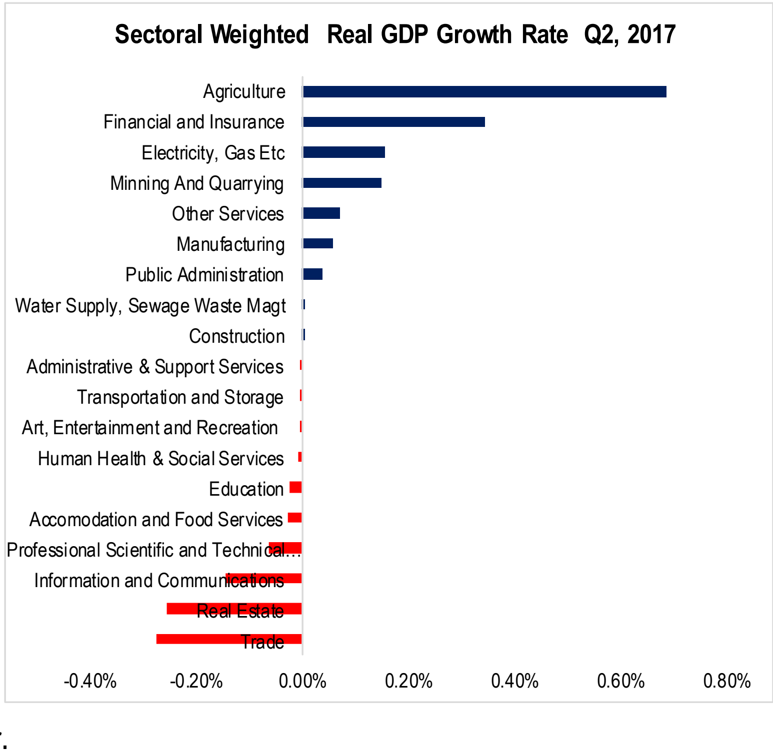

Source: National Bureau of Statistics (NBS)

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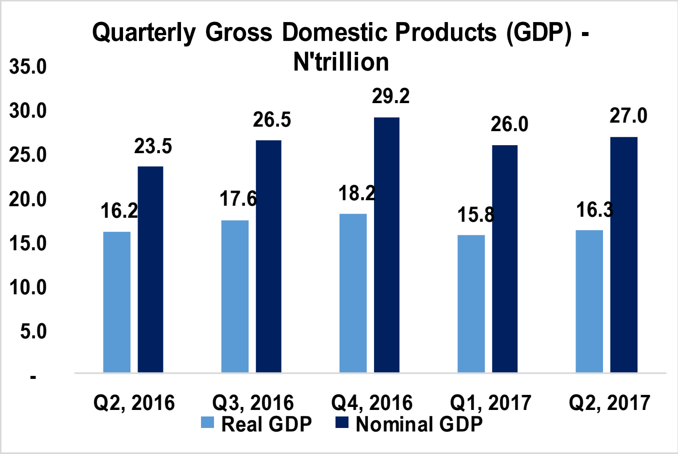
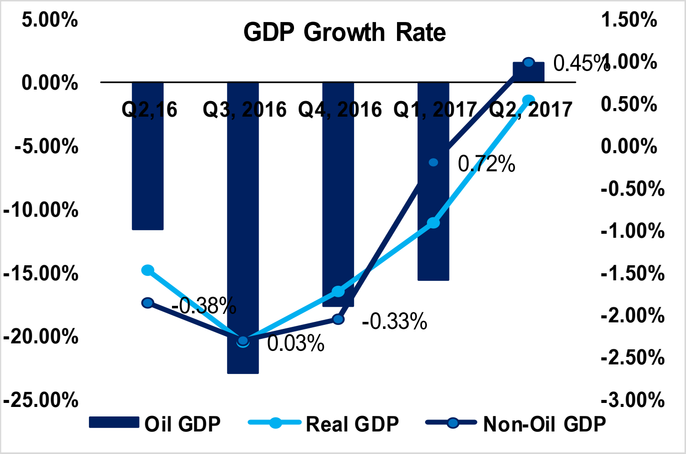
The Real Estate sector, which contributed 7.22% to the GDP, also contracted by 3.53% in Q2, 2017 albeit at a much lower rate when compared with the contraction of 5.27% recorded in Q2, 2016. The Manufacturing sector, which contributed 9.38% to the GDP, recorded a weak growth of 0.64% from a growth of 1.36% recorded in Q1, 2017. This was however a recovery compared with the contraction of 3.36% recorded in Q2, 2016.

There is the need for the Federal Government of Nigeria (FGN) to find a lasting solution to the attacks on farm lands in Nigeria in order to increase production. There should also be incentives in the form of tax reliefs and favourable land acquisition laws for the agro-allied industry in order to boost agriculture. Additionally, there should be more focus on agricultural training and research institutes in the country to increase farm yields. Concrete steps should be taken to involve the private sector in the provision of transport and storage facilities to reduce waste and give farm produce easy access to markets. Government may also consider tax holidays and reduction to companies that make use of local agricultural raw materials in their production process. This will increase both human and material employment of local resources in Nigeria.

It is also important to allow for an adjustment in the communication tariff to boost investments and improve facility maintenance. In order to support the growth of real estate, government at all levels should partner with real estate developers, both local and foreign, to support the development of mass housing projects for low and middle income earners. These housing units should be made available through long-term financing structures, which should be guaranteed by the government. This would provide both direct and indirect employment opportunities to Nigerians in real estate, construction and manufacturing sectors. In addition, it will help to protect the revenue of the government against the volatility in the oil industry and ultimately guarantee sustainable economic growth and development.





Sources: National Bureau of Statistics

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