THE NIGERIAN ECONOMIC SUMMIT GROUP

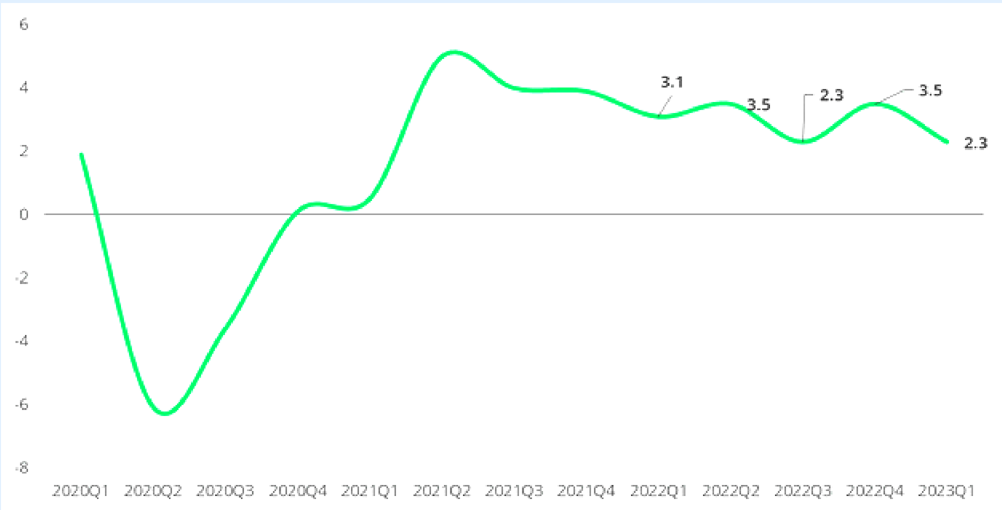
NESG 2023Q1 GDP ALERT

May 2023

Nigerian economy slowed in 2023Q1 as cash crunch hits

According to the National Bureau of Statistics (NBS), the Nigerian economy grew by 2.3 percent (year-on-year) in the first quarter of 2023 (see **Figure 1**). This represents a slowdown relative to the economic growth of 3.1 percent and 3.5 percent recorded in the first and fourth quarters of 2022, respectively. Similarly, the real Gross Domestic Product (GDP) declined by 15.7 percent (quarter-on-quarter) in 2023Q1. This could be partly due to the Naira scarcity following the CBN's currency redesign policy, which constrained economic activities in the quarter. In nominal terms, the size of the economy in 2023Q1 stood at N51.2 trillion (US$111.1 billion)[1].

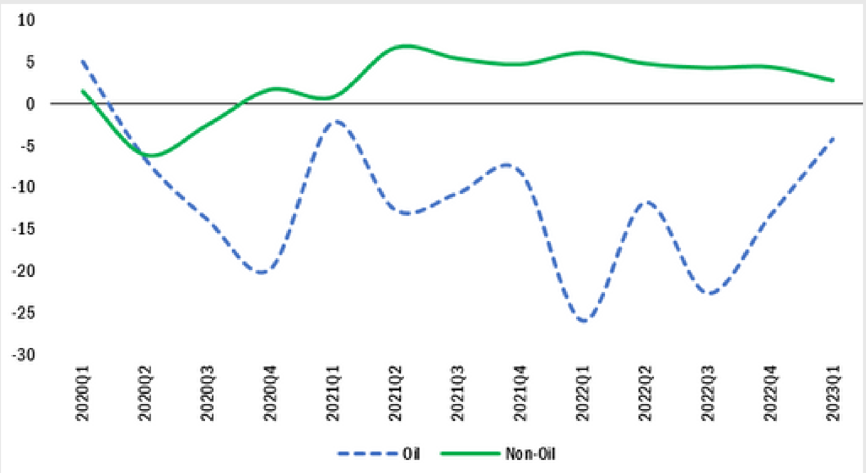
Figure 1: Nigeria's Real GDP Growth (percent)



Data: NBS; Chart: NESG Research

The non-oil sector was the main growth catalyst, as the oil sector remained in contraction. Accounting for 94 percent of the total real GDP in 2023Q1, the non-oil sector expanded by 2.8 percent (year-on-year) in the quarter (see **Figure 2**). However, the current non-oil sector growth is not so impressive compared to the 6 percent and 4.8 percent growth recorded in the first and fourth quarters of 2022, respectively. This could be attributed to the contraction recorded in the Agricultural sector and the slowdown in key sectors, including Manufacturing, Construction, Trade, Information & Communications Technology (ICT), and Real Estate.

Figure 2: Year-on-Year Oil and Non-oil sector Real Growth (percent)



Data: NBS; Chart: NESG Research

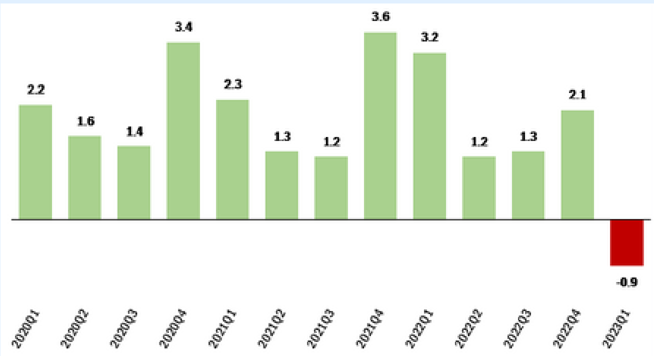
Conversely, the oil sector further contracted by 4.2 percent in 2023Q1, albeit representing an improvement compared with previous quarters. This signifies the sustained rise in average domestic crude oil production, which was higher at 1.51 million barrels per day (mbpd) in 2023Q1, relative to the production volumes of 1.49mbpd and 1.34mbpd in 2022Q1 and 2022Q4, respectively.

[1] The current official exchange rate of N461/US$ was used for currency conversion

SUB-SECTOR ASSESSMENT

Agricultural sector slipped into contraction in 2023Q1. After many years of growth, the Agricultural sector contracted by 0.9 percent (year-on-year) in 2023Q1 (see **Figure 3**). This could be attributed to the contraction in two sub-sectors: livestock (-30.6 percent) and fishing (-2.9 percent), as well as the slowdown in activity sectors including crop production (at 1.9 percent growth) and forestry (at 1.2 percent). This is not unconnected to heightened insecurity, particularly in the major food-producing areas across the country.

Figure 3: Year-on-Year Growth Performance of Agricultural Sector (percent)

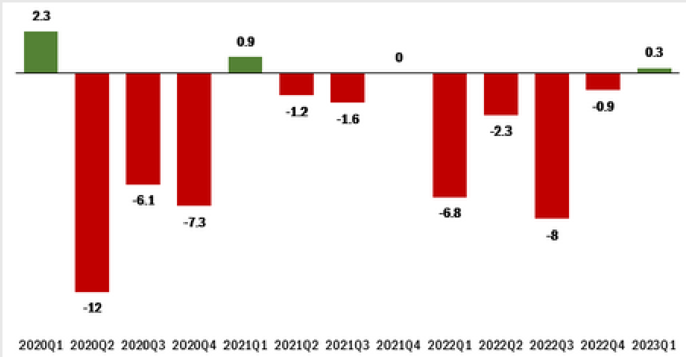


Data: NBS; Chart: NESG Research

Industrial sector recovered from recession in 2023Q1. The Industrial sector grew by 0.3 percent (year-on-year) in 2023Q1, bucking the contractionary trend since the second quarter of 2021 (see **Figure 4**). This could be attributed mainly to the moderate output decline in the crude petroleum and natural gas sub-sector (-4.2 percent), relative to the previous quarters' performance (-26 percent in 2022Q1 and -13.4 percent in 2022Q4), as well as the sustained growth recorded in other key industrial activity sectors, including Manufacturing (1.6 percent) and Construction (3.3 percent).

Out of the 20 activities in the Industrial sector, 14 sub-sectors contracted, while 6 activities recorded positive growth in 2023Q1.

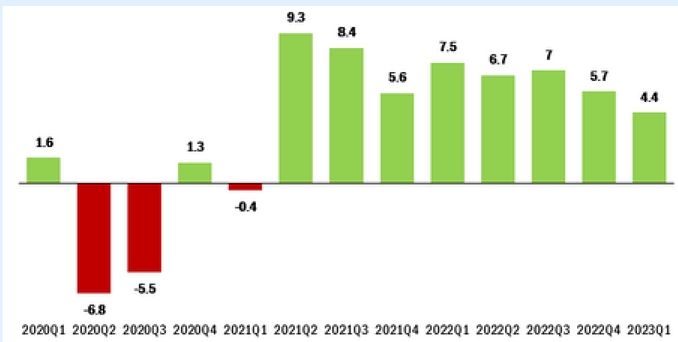
Figure 4: Year-on-Year Growth Performance of the Industrial Sector (percent)



Data: NBS; Chart: NESG Research

Relative to other broad sectors, the Services sector sustained growth momentum in 2023Q1. The Services sector grew by 4.4 percent (year-on-year) in 2023Q1, representing a slow pace of expansion when compared with its performance in 2022Q1 (7.5 percent) and 2022Q4 (5.7 percent) (see **Figure 5**). The enduring performance of the sector was driven by key activities including Trade (at 1.3 percent growth), Transport (at 9.4 percent), ICT (at 10.3 percent), and Finance & Insurance (at 21.4 percent). Out of the 23 activities in the Services sector, 19 sub-sectors expanded, while 4 activities contracted in 2023Q1.

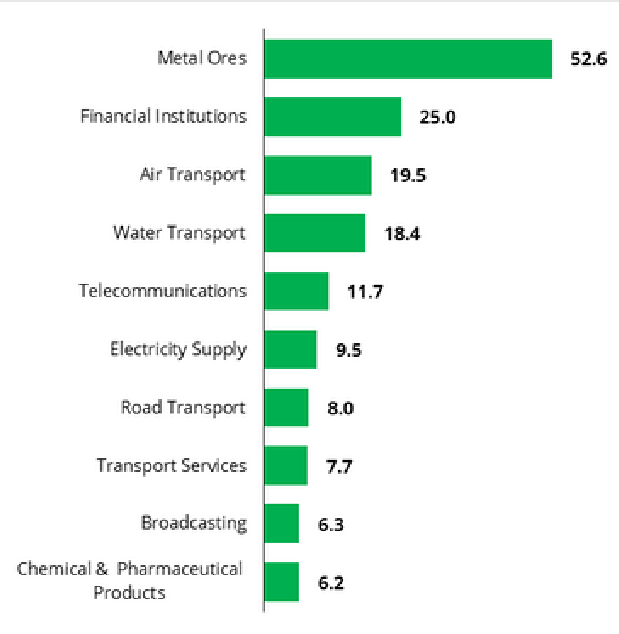
Figure 5: Year-on-Year Growth Performance of Services Sector (percent)



Data: NBS; Chart: NESG Research

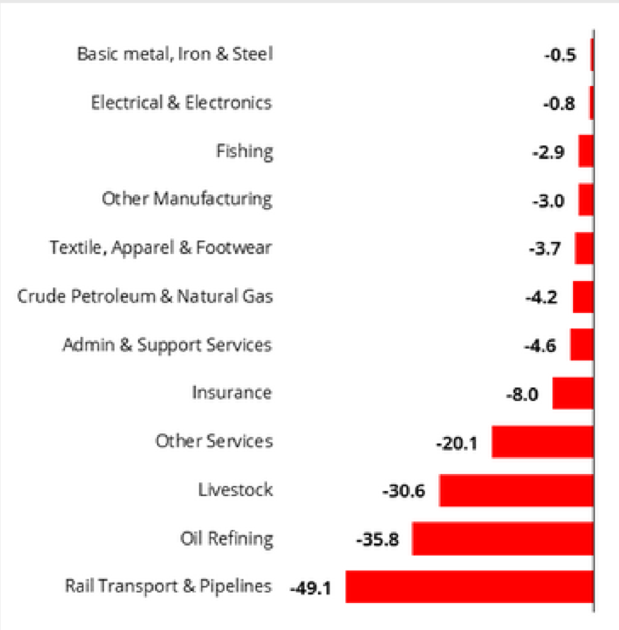
Sectoral Breakdown of Growth – Expanding & Contracting Sub-sectors. A further breakdown showed that Metal Ores led the 34 expanding sectors with the highest growth of 52.6 percent in 2023Q1, followed by Financial Institutions (25 percent) and Air Transport (19.5 percent) (see **Figure 6a**). On the flip side, activities contracted in 10 sub-sectors led by Rail Transport & Pipelines (-49.1 percent), followed by Oil Refining (-35.8 percent) and Livestock (-30.6 percent) (see **Figure 6b**).

Figure 6a: Top 10 Expanding Sectors (percent)



Data: NBS; Chart: NESG Research

Figure 6b: Contracting Sectors (percent)



Data: NBS; Chart: NESG Research

CONCLUDING REMARKS

* **Nigeria's economic growth is expected to improve as the cash crunch crisis subsides.** The country runs a large informal sector, which relies heavily on cash. The court orders suspending the CBN's Naira redesign policy is expected to drive up private sector activity which could support economic growth in coming quarters.

* **Elevated insecurity is beginning to take a toll on the Agricultural sector after many years of resilience.** Unless widespread insecurity is checked, the country risks heightening inflationary pressures in the coming months, as food items constitute over 50 percent of the country's consumption basket. The average headline inflation for 2023Q1 stood at an all-time high of 21.2 percent, which was predominantly driven by higher average food inflation at 24.4 percent in the quarter.

* **Commencement of operations at the Dangote Refinery would improve domestic oil refining and reduce the country's dependence on imported refined fuel products.** The 650,000-barrel capacity Dangote Refinery is expected to start operations in July 2023. This is expected to reverse the persistent contraction in the Oil Refining sub-sector and sustain growth in the overall Industrial sector, while substantially reducing the huge import bills on petroleum products, going forward.

* **The Services sector would maintain its growth momentum in 2023.** Activity sectors, including ICT and Finance, will remain the direct beneficiaries of the policy-induced cash crunch as large amounts of transactions are facilitated by online channels and higher fund transfer charges accrue to the Deposit Money Banks (DMBs).

About the NESG

The NESG is an independent, non-partisan, non-sectarian organisation, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought to explore, discover and support initiatives to improve Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high-level interactive public-private sessions and special presentations to the executive and legislative arms of government.

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