Nigerian economy improved in 2023Q2 as the impact of cash crunch vanishes

According to the National Bureau of Statistics (NBS), the Nigerian economy grew by 2.5 percent (year-on-year) in the second quarter of 2023 (see Figure 1). This represents a slight improvement relative to the economic growth of 2.3 percent in the first quarter of 2023. On a quarterly basis, the real Gross Domestic Product (GDP) fell by 0.1 percent in 2023Q2 relative to a 15.7 percent quarter-on-quarter decline in 2023Q1. This could be partly attributed to the waning effects of the Naira scarcity accompanying the currency redesign policy implemented intensely earlier in the year.

The non-oil sector was the driver of growth, whilst the contraction in the oil sector deepened. Accounting for 95 percent of the total real GDP in 2023Q2, the non-oil sector expanded by 3.6 percent (year-on-year) in the quarter (see Figure 2). This is an improved performance compared with a 2.8 percent growth in 2023Q1. However, in H1’2023, the non-oil sector grew by 3.2 percent, albeit lower than the growth posted in H1’2022 (5.4 percent). Nonetheless, the sustained growth in the non-oil sector in 2023Q2 is attributable to the impressive performance of key activities, including Agriculture, Manufacturing, Construction, Trade, and Information & Communications Technology (ICT), which jointly accounted for 71.2 percent of the real GDP.

Conversely, the oil sector contracted sharply by 13.4 percent in 2023Q2 than in the previous quarter. This could be partly due to a drop in the average domestic crude oil production to 1.2 million barrels per day (mbpd) in 2023Q2 from 1.6mbpd in 2022Q2. Meanwhile, in H1’2023, the oil GDP fell by 8.8 percent compared with an 18.9 percent decline in H1’2022.

[1] The official exchange rate of N774.9/US$1 was used for currency conversion.
Agricultural sector recovered from a brief contraction in 2023Q2. The Agricultural sector moved into positive territory as it grew by 1.5 percent (year-on-year) in 2023Q2 after contracting by 0.9 percent in 2023Q1 (see Figure 3). This could be attributed to the sustained growth in Crop production (1.8 percent) and Forestry (1.9 percent) sub-sectors, as well as, the rebound in Fishing sub-sector, which grew by 0.3 percent. However, the Livestock sub-sector contracted further by 1.9 percent. Cumulatively, the Agricultural sector expanded by 0.3 percent in H1’2023, significantly below the average growth of 2.2 percent in H1’2022.

Services sector maintained a positive growth trajectory in 2023Q2. Unlike the other broad sectors, the Services sector sustained growth as it expanded by 4.4 percent (year-on-year) in 2023Q2, which is relatively flat when compared with the sector’s performance in 2023Q1 (see Figure 5). The performance of the sector in 2023Q2 was driven by key activities, including Trade (2.4 percent), ICT (8.6 percent), and Finance & Insurance (26.8 percent). However, on a cumulative basis, the sector grew by 4.4 percent in H1’2023, lower than the growth posted in H1’2022 (7.1 percent). Out of the 22 Services sub-sectors, 20 activities grew, while 2 sub-sectors contracted in 2023Q2.

Industrial sector returned to negative growth territory in 2023Q2. The Industrial sector contracted by 1.9 percent (year-on-year) in 2023Q2, making the mild growth at 0.3 percent recorded in 2023Q1 short-lived (see Figure 4). This could be attributed mainly to the sharp contraction in the crude petroleum and natural gas sub-sector, which grew by 13.4 percent and contributed 29 percent to the total Industry GDP in the quarter. However, in H1’2023, the Industrial sector contracted by 0.8 percent, an improvement over an output decline of 4.6 percent in H1’2022. Out of the 20 activities in the Industrial sector, 5 sub-sectors contracted, while 15 activities recorded positive growth in 2023Q2.

Sectoral Breakdown of Growth – Expanding & Contracting Sub-sectors. A further breakdown of the growth numbers showed that Metal Ores led the 38 expanding sectors with the highest growth of 65.6 percent in 2023Q2, followed by Quarrying & Other Minerals (39.2 percent) and Financial Institutions (29.2 percent) (see Figure 6a).
On the other hand, activities contracted in 8 sub-sectors led by Road Transport (-55.1 percent), followed by Oil Refining (-35.6 percent) and Coal Mining (-15.7 percent) (see Figure 6b). The sharp contraction in the Road Transport sub-sector reflects the impact of the fuel subsidy removal, which has drastically reduced the demand for petrol and constrained the movement of many transporters and commuters.

* The recent fuel subsidy removal and unification of the multiple exchange rates are a welcome development. Meanwhile, Nigeria largely meets its local demand for petrol through the importation of refined fuel products, which has complicated efforts towards stabilising the Naira amidst foreign exchange (FX) scarcity. Hence, there is an arduous task before the government to adopt a gradualist approach in revitalising the local refineries so as to reduce the country’s exposure to fuel imports, which would, in turn, moderate the pressures on the exchange rate.

* Amidst the recent reforms, many businesses in Nigeria face high operations and production costs due to the petrol price hike and FX scarcity. This situation needs to be addressed urgently. As part of the palliative measures, the government should be deliberate in ameliorating the operational setbacks facing businesses due to incessant power outages, logistic bottlenecks, and FX rationing. Not addressing these issues could impact private sector activity negatively and contribute to an economic slowdown in the coming quarters.

* The recovery of the Agricultural sector from a temporary contraction is remarkable, but efforts should be geared towards sustaining the sector’s growth in the coming quarters. This could be achieved by finding a lasting solution to the persistent insecurity in the major food-producing regions of the country. In addition to this, measures to reduce post-harvest losses, would guarantee improved farm productivity and moderate the spillover effect of fuel subsidy removal on food price increases in the coming months. In July 2023, food inflation stood at an all-time high of 27 percent.

* The Services sector has remained the main growth catalyst for many quarters. Efforts should be geared towards ensuring that the key subsectors do not suffer lapses. The key activity sectors - Trade, ICT, Finance, and Real Estate - all posted positive growth and jointly contributed 80.3 percent to the Services GDP in 2023Q2. Factors determining their performances – including access to FX, consumer spending, investment spending, and regulatory and policy environment – need to improve to sustain growth in these subsectors in the coming quarters.
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.