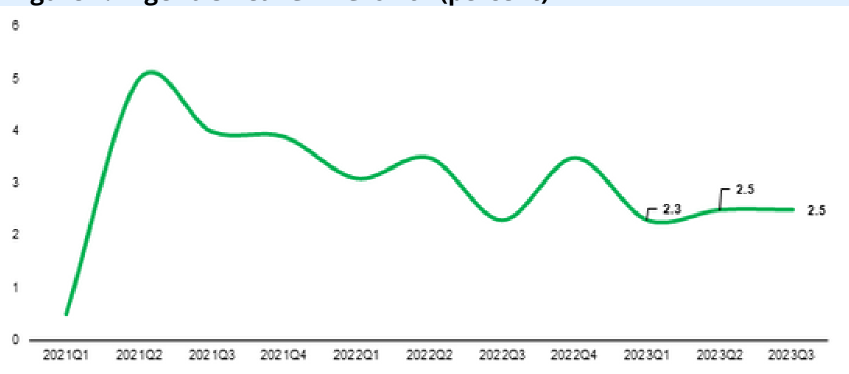
NESG 2023Q3 GDP ALERT

November 2023

Economic growth was flat at 2.5 percent in 2023Q3 amidst tough reforms

According to the National Bureau of Statistics (NBS), the Nigerian economy grew by 2.5 percent (year-on-year) in the third quarter of 2023, the same as in the second quarter of the year (see **Figure 1**). This, however, represents a slight improvement relative to the economic growth of 2.3 percent in the corresponding period of 2022. On a quarterly basis, the real Gross Domestic Product (GDP) rose by 9.7 percent in the quarter relative to a meagre 0.2 percent quarter-on-quarter decline in 2023Q2. Cumulatively, the Nigerian economy grew by 2.5 percent in the first three quarters of 2023 relative to an average growth of 3.0 percent in the same period of 2022.

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

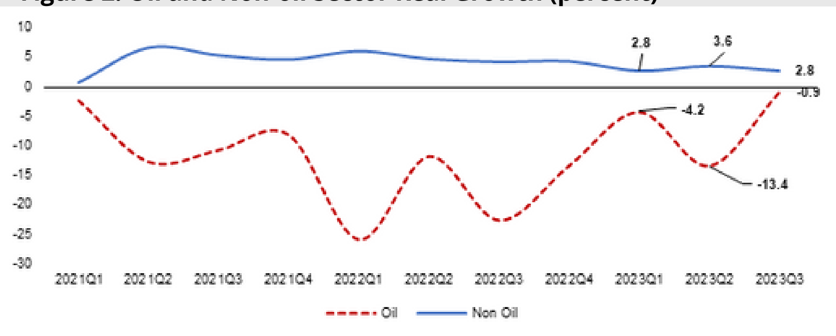


Data: NBS; Chart: NESG Research

This performance reflects the adverse impact of a bucket of policies and reforms, including the Naira redesign policy, fuel subsidy removal, and the unification of the multiple official exchange rates. In nominal terms, the size of the economy stood at N60.7 trillion (US$79.4 billion)[1] and N164.0 trillion (US$282.7 billion)[2] in 2023Q3 and the first three quarters of 2023, respectively.

The non-oil sector was the main growth catalyst, as the oil sector improved significantly. Accounting for 95 percent of the total real GDP in 2023Q3, the non-oil sector expanded by 2.8 percent (year-on-year) in the quarter (see **Figure 2**) representing a slowdown compared with a 3.6 percent and 4.3 percent growth in 2023Q2 and 2022Q3, respectively. Similarly, in the first three quarters of 2023, the non-oil sector grew by 3.0 percent, below the average growth of 5.0 percent in the corresponding period of 2022. Nonetheless, the sustained growth in the non-oil sector in 2023Q3 was driven by key activity sectors, including Agriculture, Construction, Trade, Information & Communications Technology (ICT), and Real Estate, which jointly accounted for 69 percent of the real GDP in the quarter. Conversely, the oil sector contracted mildly by 0.9 percent in 2023Q3 relative to the previous quarters. This could be partly due to the increase in the average domestic crude oil production to 1.5 million barrels per day (mbpd) in 2023Q3 from 1.2mbpd in 2022Q3.

Figure 2: Oil and Non-oil Sector Real Growth (percent)



Data: NBS; Chart: NESG Research

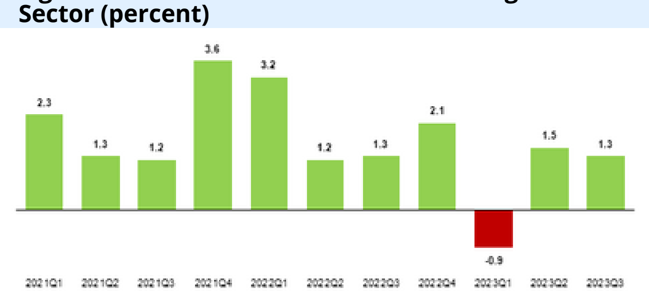
The oil sector has remained in contraction for many quarters despite the improvement in global oil prices over time. This suggests that the performance of the sector is more sensitive to domestic crude oil production than crude oil prices, which averaged US$89.9/barrel in 2023Q3 relatively lower than US$106.7/barrel recorded in 2022Q3. In addition, the oil sector contracted by 6.2 percent in the first three quarters of 2023 compared with a 20.2 percent negative growth in the corresponding period of 2022.

[1] We utilised the average official exchange rate of N764.3/US$1 in the third quarter of 2023
[2] We utilised the average official exchange rate of N580.2/US$1 in the first nine (9) months of 2023

SUB-SECTOR ASSESSMENT

Agricultural sector sustained growth in 2023Q3. The Agricultural sector grew by 1.3 percent (year-on-year) in 2023Q3, the same as in 2022Q3 but slower than the 2023Q2 performance (1.5 percent) (see **Figure 3**). This could be attributed to the sustained growth in all subsectors - crop production (1.4 percent), livestock (1.2 percent), and forestry (2.2 percent) – except fishing, which contracted by 2.3 percent. Cumulatively, the Agricultural sector grew by 0.6 percent in the first three quarters of 2023, albeit lower than the average growth of 1.9 percent in the corresponding period of 2022. This slow pace of expansion could be attributed to the cash crunch associated with the Naira redesign policy, which exacerbated the impact of insecurity and flooding on the Agricultural sector.

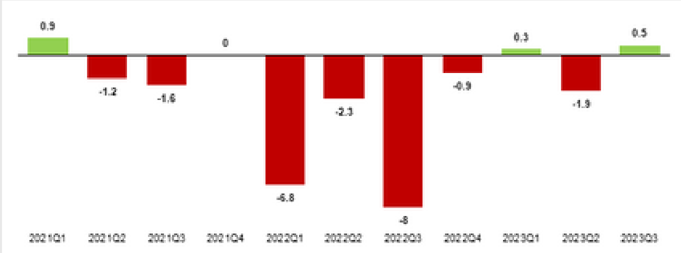
Figure 3: Growth Performance of Agricultural Sector (percent)



Data: NBS; Chart: NESG Research

The recovery of the Industrial sector was driven by the crude oil and gas sub-sector in 2023Q3. The Industrial sector reverted to growth at 0.5 percent (year-on-year) in 2023Q3, from a contraction of -1.9 percent and -8.0 percent in 2023Q2 and 2022Q3, respectively (see **Figure 4**). This is mainly due to the improvement in the crude petroleum and natural gas sub-sector, which contributed 30 percent to the total Industry GDP in 2023Q3. However, in the first three quarters of 2023, the Industrial output fell by 0.4 percent, relative to a contraction of 5.7 percent in the corresponding period of 2022. Out of the twenty (20) activities in the Industrial sector, 12 activities recorded positive growth, while 8 sub-sectors contracted in 2023Q3.

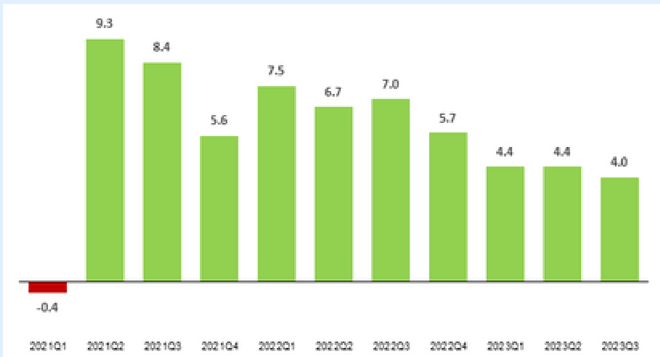
Figure 4: Growth Performance of the Industrial Sector (percent)



Data: NBS; Chart: NESG Research

Services sector was the best growth performer in 2023Q3. Unlike the other broad sectors, the Services sector sustained growth momentum, expanding by 4.0 percent (year-on-year) in 2023Q3. This, however, represents a slower growth when compared with the sector's performances in 2023Q2 (4.4 percent) and 2022Q3 (7.0 percent) (see **Figure 5**). The sector's performance in 2023Q3 was driven by a slowdown in key activities - Trade (1.5 percent) and ICT (6.7 percent) - which accounted for 59 percent of the Services output. However, on a cumulative basis, the Services sector grew by 4.3 percent in the first three quarters of 2023, lower than the average growth of 7.1 percent in the corresponding period of 2022. Out of the 22 Services sub-sectors, 19 activities grew, while 3 sub-sectors contracted in 2023Q3.

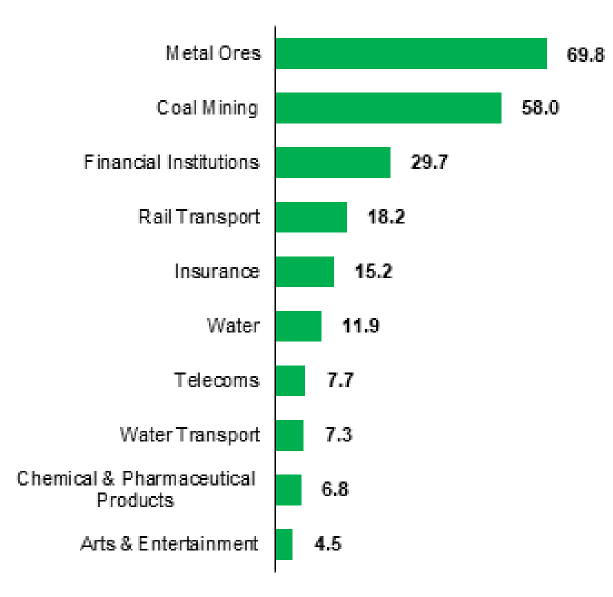
Figure 5: Growth Performance of Services Sector (percent)



Data: NBS; Chart: NESG Research

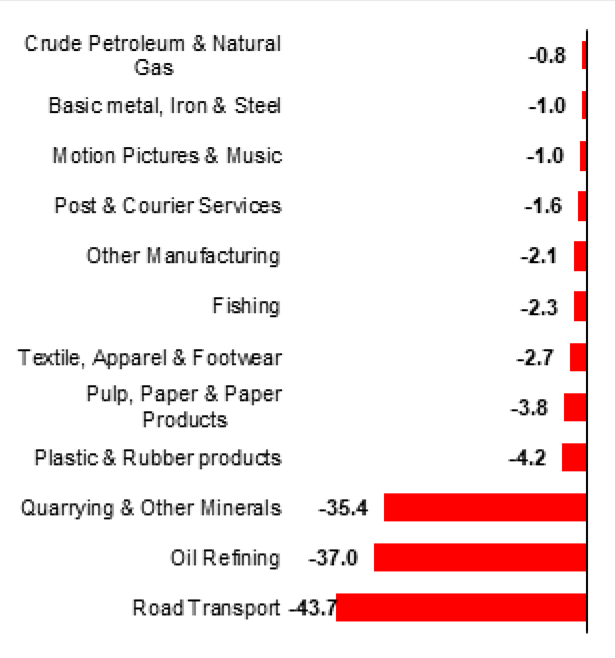
Sectoral Breakdown of Growth – Expanding & Contracting Sub-sectors. A further breakdown of the growth numbers showed that Metal Ores led the 34 expanding sectors with the highest growth of 69.8 percent in 2023Q3, followed by Coal Mining (58.0 percent) and Financial Institutions (29.7 percent) (see **Figure 6a**). On the other hand, activities contracted in 12 sub-sectors led by Road Transport (-43.7 percent), followed by Oil Refining (-37.0 percent) and Quarrying & Other Minerals (-35.4 percent). The sharp contraction in the Road Transport sub-sector (-37.0 percent) reflects the protracted adverse impact of the fuel subsidy removal, which took effect in the second quarter of 2023 (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

* **Improvement in domestic crude oil production is critical to the sustained recovery of the Industrial sector and the overall economy.** Although the oil sector contributed 5 percent to the total real GDP, its predominance in the Industrial activity with the spillover effect on the overall economic activity suggests that more efforts are required to resolve the root causes of low oil production. These include crude oil theft, low investment, and ageing production infrastructure. Addressing these bottlenecks would engender a sustained improvement in domestic crude oil production, which is expected to drive complete recovery and sustained growth in the oil sector; increase the export proceeds from crude oil sales, and expand the fiscal space.

* **The gradual rehabilitation of the country's oil refineries is remarkable, but there must be a deliberate attempt to ensure that the refineries work to speed upon commissioning.** The 65,000 barrels/day Dangote Refinery was commissioned in May 2022 but has not commenced operations since its launch. Meanwhile, there have been giant strides by the Federal Government to ensure that the Port Harcourt refinery kick-starts operations by December 2023. It is expected that when this and other refineries, including the Dangote Refinery, start operations in the near to medium term, the country’s dependence on imported fuel will reduce, leading to the recovery of the oil refining sector.

* **Persistent improvement in crop production is expected to drive higher food supply, but the huge dependence on food importation suggests the inadequacy of local food production.** This challenge is surmountable to the extent that the causes of low domestic food supply, including insecurity in the major food-producing region and post-harvest losses are reduced to the barest minimum. Otherwise, the low food supply will translate to elevated level of food insecurity due to higher food inflation arising from a hike in domestic food prices and imported inflation. In October 2023, food inflation stood at an all-time high of 31.5 percent, while imported food inflation stood at a 7-year high of 22.8 percent.

* **The unification of exchange rates is taking a toll on many foreign-owned businesses in Nigeria.** This is especially the case with foreign-owned subsidiaries, including Nestle, Guinness, Airtel Africa, and MTN Nigeria, among others, which have lost over N900 billion to currency devaluation[3]. Consequently, the Food & Beverage sector’s growth nosedived from 3.9 percent and 4.3 percent in 2023Q1 and 2023Q2, respectively, to 0.9 percent in 2023Q3. Similarly, the Telecoms sector slowed to 7.7 percent in 2023Q3 from 11.7 percent and 9.7 percent in 2023Q1 and 2023Q2, respectively. This reflects the inadequacy of hedging instruments to protect foreign-owned businesses from foreign exchange risks, which could reduce foreign investment inflows into these and other sectors.

[3] See https://blueprint.ng/airtel-mtn-others-accumulate-over-n900bn-forex-loses-to-naira-devaluation/

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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