

Nigeria's Economic Growth at 2.31%; Outlook Remain Uncertain

Nigeria's economy grew positively by 2.31% y/y in real terms to N17.75 trillion during the first quarter of 2023. This indicates another positive acceleration in real GDP for the tenth straight quarters but was slower than the 3.11% y/y real growth reported in Q1 2022 and 3.54% y/y experienced in Q4 2022. This was according to the recent report from the National Bureau of Statistics.

We attribute the deceleration in growth to have stemmed from the impact of the Naira scarcity on aggregate demand, uncertainties about the new administration and existing structural problems. Also, the ongoing fuel shortages experienced at the start of the year that brought about disruptions in economic activities and led to higher prices of goods and services; the war in Ukraine which disrupted global trade and the attendant impact of the COVID-19 pandemic which brought about higher unemployment are said to be the driving factors to this slowdown.

Though, the outlook for the Nigerian economy looks uncertain and filled with less optimism when we consider the anticipated low-impacts from global monetary tightening and soaring inflation as against the experience in 2022. With the incoming of a new government, it is expected that market friendly reforms and policies will be implemented. However, if the government can address some of the challenges that it is facing, there is potential for growth to pick up in the coming quarters.

The drivers of growth in Q1 2023 comes from the non-oil sector (2.77% in real term) and were the services sector, which grew by 4.35%, and the manufacturing sector, which grew by 0.31%. The services sector is the largest contributor to Nigeria's GDP, accounting for about 57.3% of total output and was driven by the continued expansion of the telecommunications, financial, and real estate sectors. Also, the industries sector is the second-largest contributor to Nigeria's GDP, accounting for about 21.05% of total output during the quarter. The growth in the manufacturing sector was driven by the continued expansion of the food and beverage, cement, and automobile sectors.

On the contrary, the draggers on growth in Q1 2023 was the oil sector, which contracted by 4.21%, and the agriculture sector, which grew negatively by just 0.9%. The oil and gas sector are the largest export earner for Nigeria, accounting for about 90% of total exports. However, the contraction in the oil and gas sector was driven by the continued decline in oil prices. During the period under review, Nigeria reported an average daily crude oil production of 1.51 million barrels, higher than the daily average production of 1.49mbpd recorded in the same quarter of 2022 by 0.01mbpd and higher than the fourth quarter of 2022 production volume of 1.34 mbpd by 0.17mbpd.

Meanwhile, the agriculture sector is the largest employer in Nigeria, accounting for about 70% of total employment; but the slow growth in the agriculture sector was driven by the impact of the COVID-19 pandemic and the ongoing fuel shortages which has caused disruption in the agricultural value chain as well as the movement of food supplies from producing regions to other parts of the country.

Nigeria's growth remains subdued over the past years with an average real GDP growth of 1.45% within the last eight years and majorly dragged by the bane of insecurity and terrorism, low capital inflow and increasing capital flight, corruption, currency devaluations, intensified monetary policy tightening by central banks and unfavourable ease of doing business brought about some of levels of disruptions in economic activities. Amid these negative headwinds, Nigeria needs to achieve GDP growth of over 6% to achieve more inclusive growth and move closer to its long-run GDP potential.

