Flashnotes

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Nigeria's GDP Growth: Normalisation or a Macroeconomic Policy Consequence?

Highlights

- **Nigeria's economy expanded by 2.74% in 2023, marking the second consecutive year of growth deceleration. This is coming on the heels of the impressive growth rebound recorded after the stimulation of the economy from the pandemic-induced downturn in 2020.**
- **The hypothesis of a normalisation mechanism driving growth to pre-pandemic level holds sway. But we argue that the growth deceleration recorded in 2023 was a consequence of the twin policies of fuel subsidy removal and exchange rate reforms.**
- **We anticipate that the knock-on effect of oil sector growth on non-oil sector activities will deliver greater economic growth for Nigeria in 2024. However, we expect that this growth could be limited to 3% by inflationary pressures fanned by Naira depreciation. In addition, aggressive monetary tightening by the CBN in response to inflationary pressures is also expected to weigh on growth in 2024.**
- **Furthermore, we expect growth to be further dampened by geopolitical tensions threatening to stoke up inflation and weigh on demand across the world. Particularly, the assaults on commercial vessels in the Red Sea by Houthi Rebels is expected to further destabilise international trade and adversely affect growth globally.**

Event

The latest release from the National Bureau of Statistics (NBS) on Nigeria's Gross Domestic Product (GDP) indicates that the economy expanded by 2.74% in 2023. The estimate suggests a continuing trend of economic slowdown from 3.40% and 3.10% in 2021 and 2022, respectively. On the contrary, quarterly disaggregation reveals that real GDP rose by 3.46% in Q4 2023, surpassing the growth in other quarters of the year.

In oil and non-oil terms, the oil sector exited its protracted recession since the pandemic, expanding by 12.1% in Q4 2023. This rebound further narrowed its annual contraction to -2.2% in 2023 from -19.2% in 2022. Also, the non-oil sector grew by 3.07% in Q4 2023, slightly surpassing the 2.75% recorded in Q3 2023. However, the sector's growth in Q4 2023 fell short of the 4.4% reported in the same period in 2022. Also, despite expanding by 3.04% in 2023, the growth of the non-oil sector represents a deceleration from the 4.84% recorded in 2022.

The oil and non-oil sector also differed significantly in their contributions to the volume of economic activities. Economic activities in 2023 was dominated by the non-oil sector which maintained its historical lead, contributing 94.60% to overall GDP. Non-oil sector activities were driven by services (56.18%), agriculture (25.18%), and industry (18.65%). In contrast, the oil sector contributed a meagre 5.40% to aggregate GDP in the same year.

Furthermore, a disaggregation across Nigeria's three major sectoral classification reveals that the services sector was the fastest growing as the sector expanded by 4.18% in 2023. On a quarterly basis, the sector's growth decelerated to 3.98% in Q4 2023 from 3.99% and 4.42% in Q3 2023 and Q2 2023, respectively. Remarkably, the industrial sector achieved a 3.86% growth in Q4 2023. This performance is not only its strongest quarterly performance since Q1 2018, but also surpassed the sector's combined growth in the preceding three quarters. Also, although the agricultural sector grew by 2.10% in Q4 2023, its annual growth of 1.13% in 2023 represents a slowdown in the sector when compared with the 1.88% posted in 2022.

Analysis

The Nigerian economy grew by 3.46% in the last quarter of 2023. This performance was not unexpected, considering that last quarters are characteristically associated with seasonal booms from increased consumer spending. However, despite this quarterly uptick, the economy's annual growth further decelerated to 2.74%. This marks the second consecutive year of growth deceleration following the impressive rebound of 3.40% recorded in 2021. The stellar recovery of 2021 was largely due to the stimulation of the economy in response to the pandemic-induced downturn (-1.92%) in 2020.

The hypothesis of a normalisation mechanism gradually driving growth to pre-pandemic levels holds sway. However, the growth deceleration recorded in 2023 significantly mirrored the impact of the twin policies of fuel subsidy removal and exchange rate reforms. These reforms became major pressure points, with the national average fuel pump price surging by 225% year-on-year in December 2023. Additionally, the Naira depreciated by over 90% between June and December 2023 in response to these policies. Consequently, the higher energy and transport costs, along with elevated import prices, strained consumer wallets and squeezed business margins. This dampened aggregate spending and weighed significantly on economic activities, contributing to the lower growth of 2.74% recorded in 2023.

Notwithstanding, the recovery of the oil sector from the recession it plunged into since 2020 holds promise for Nigeria's growth prospects in 2024. While historically contributing less than 10% annually to Nigeria's GDP, the oil sector's performance remains inextricably linked with over 60% of non-oil sector activities. Thus, we anticipate that the knock-on effect of oil sector growth will stimulate non-oil sector activities and contribute to greater economic expansion. However, we project that this growth could be limited to 3% in 2024. Domestic challenges, primarily stemming from the inflationary pressures caused by the depreciation of the Naira, may continue to affect businesses adversely and constrain consumer spending. In addition, aggressive monetary tightening by the CBN in response to inflationary pressures is also expected to weigh on growth in 2024.

Furthermore, Nigeria's growth is expected to be tempered by global headwinds arising from geopolitical tensions. These include tensions arising from the Russia/Ukraine war, the Israel/Palestine war, and the solidarity attacks on the Red Sea by Yemen's Houthi rebels. In particular, the Red Sea attacks may further disrupt international trade and stoke up inflation globally. This may increase the risk of another round of monetary tightening and potentially dampen global demand.

In conclusion, we acknowledge that the policies leading to Nigeria's growth slowdown in 2023 were necessary to avoid a fiscal cliff and ensure long-term macroeconomic stability. However, we note that there is a need to consolidate these efforts with targeted sectoral interventions to cushion the adverse effects on the economy and vulnerable citizens.

Figure 1: GDP growth trend, quarterly (%)

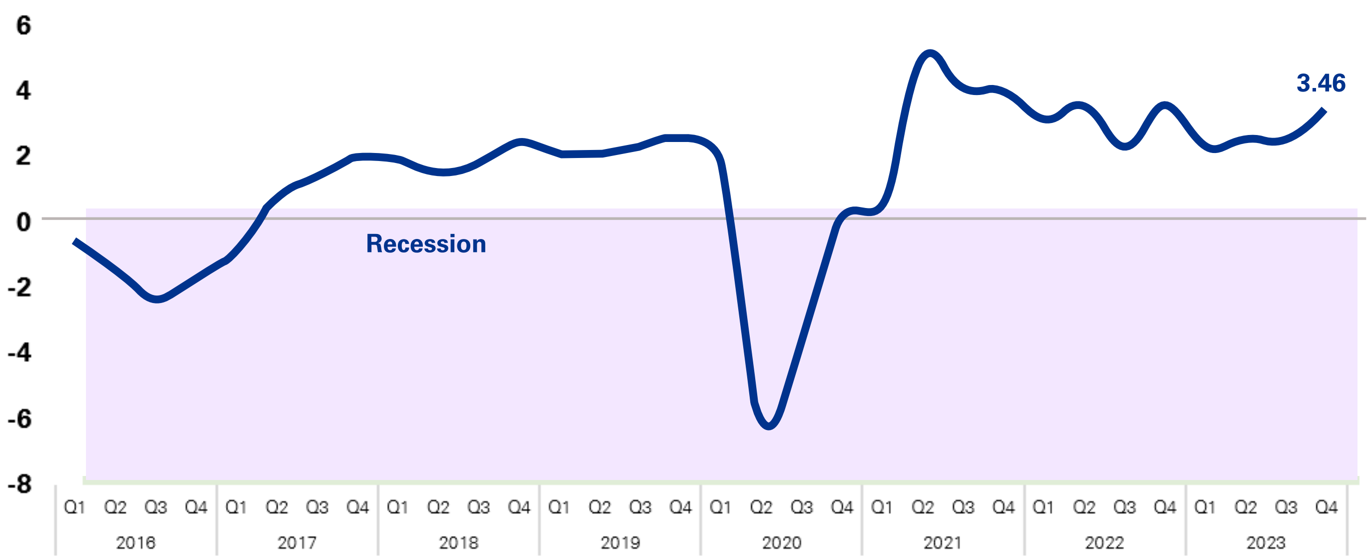


Figure 2: Sectoral growth performance trend (%)

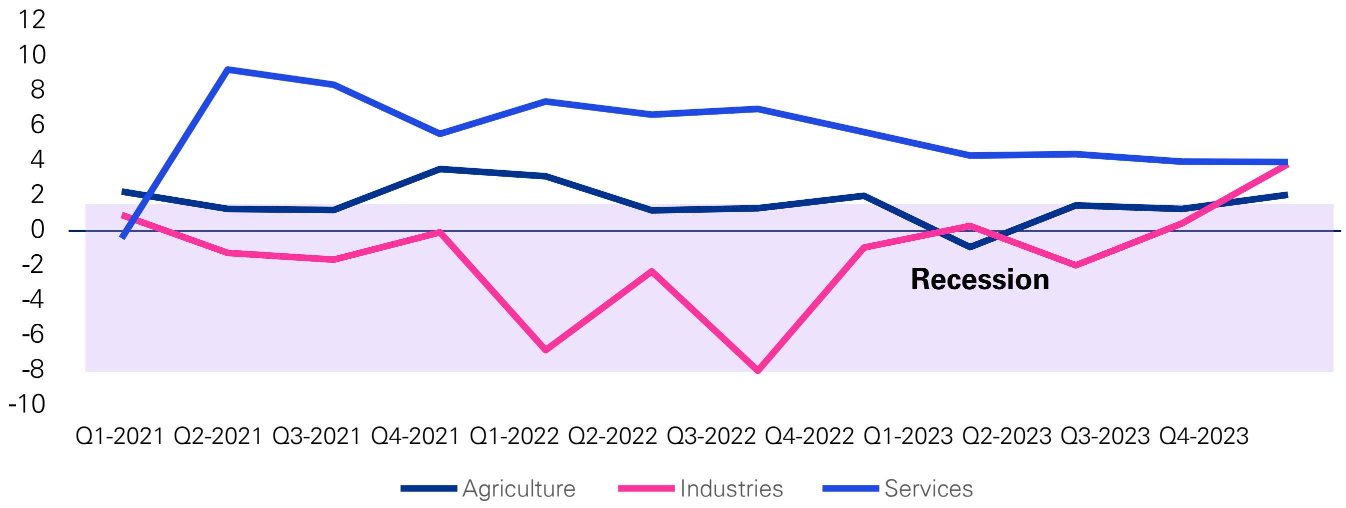


Figure 3: Fastest growing sectors in 2023 (%)

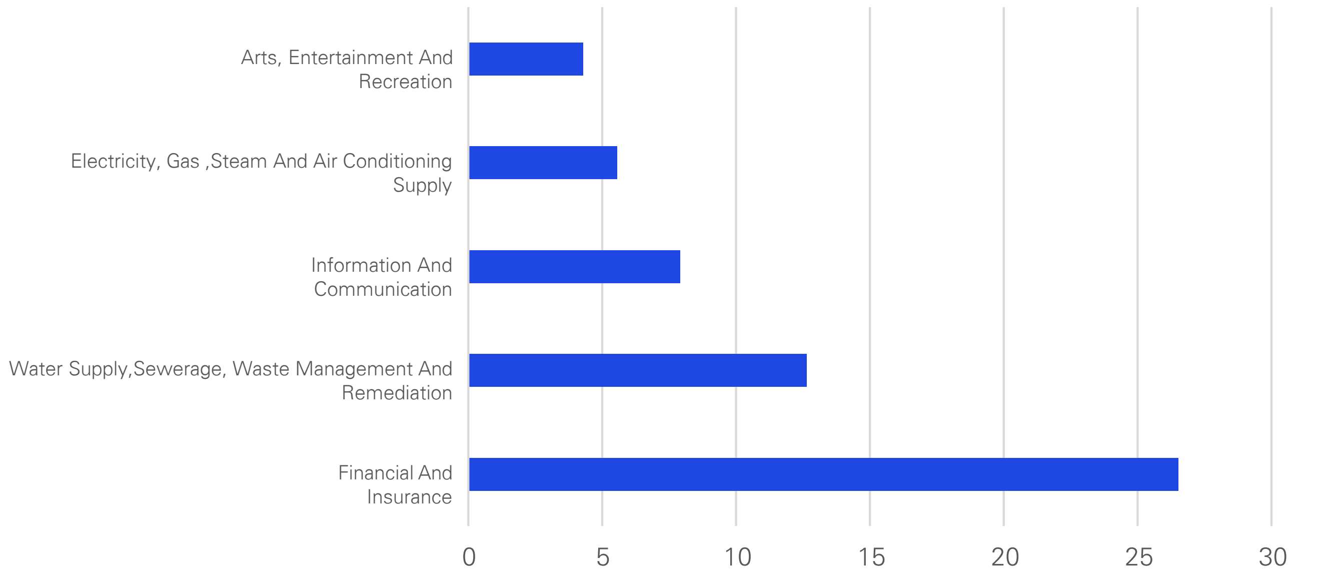


Figure 4: Oil and non-oil sector contribution to GDP in 2023 (%)

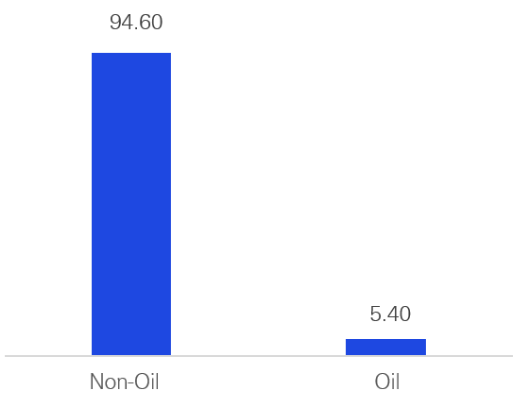
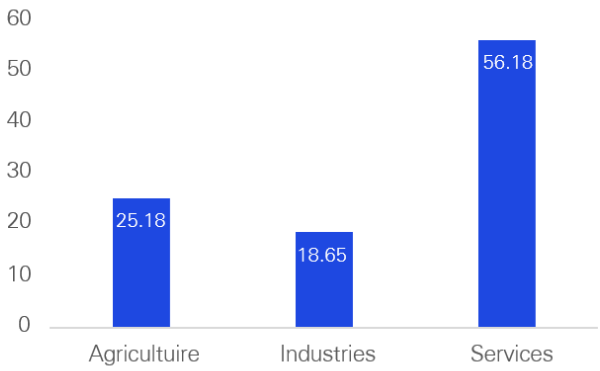


Figure 5: Sectoral contribution to GDP in 2023(%)



Sub-sectors Growth Breakdown

High

1. Financial and Insurance >> 26.53% (16.36%)
2. Water Supply, Sewage & Waste >> 12.65% (13.62%)
3. Information and Communication >> 7.91% (9.76%)

Moderate

1. Electricity, Gas ,Steam & Air Conditioning Supply >> 5.56% (-2.21%)
2. Arts, Entertainment & Recreation >> 4.28% (4.29%)
3. Construction >> 3.57% (4.45%)
4. Accommodation & Food Services >> 3.46% (4.22%)

Low

1. Human Health & Social Services >> 2.78% (4.20%)
2. Professional, Sci. & Tech. Services >> 2.43 (3.38%)
3. Public Administration >> 2.12% (1.90%)
4. Real Estate >> 1.68% (3.95%)
5. Trade >> 1.66% (5.13%)
6. Manufacturing >> 1.40% (2.45%)
7. Education >> 1.31% (1.35%)
8. Agriculture >> 1.13% (1.88%)
9. Administrative & Support Services >> 0.62% (3.16%)

Contraction

1. Transportation & Storage >> -30.17% (15.20%)
2. Other Services >> -5.68% (1.07%)
3. Mining & Quarrying >> -2.84% (-18.16%)

Keys:

High = greater than 7%
Moderate = 3.1% - 6.9%

Low = 0% - 3%
Contraction = less than zero

***Note:** Figures are annual growth rates (2022 figures are reported in parentheses)*

Figure 6: Oil and non-oil sector growth(%)

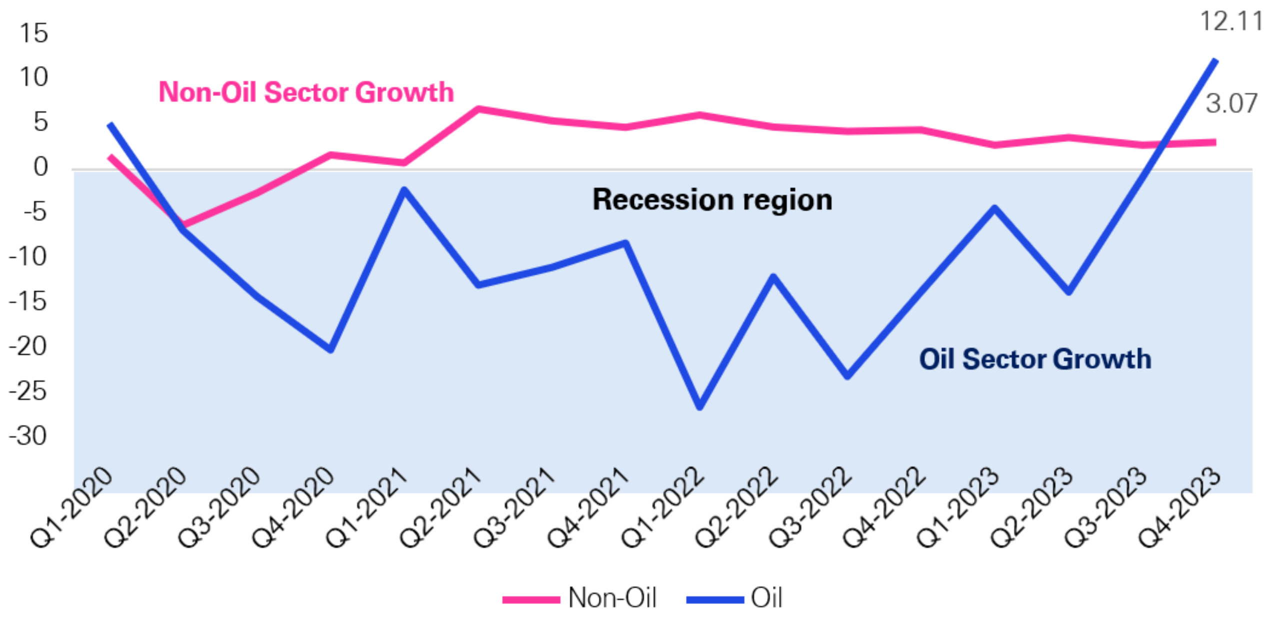
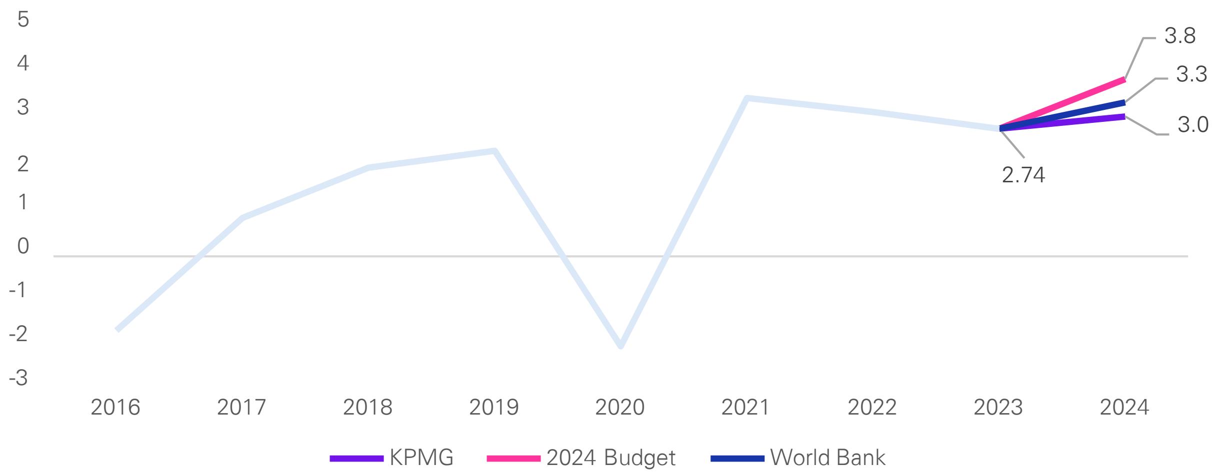


Figure 7: 2024 GDP growth forecast (%)



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