KPMG

Macroeconomic Snapshot

Research & Insights | KPMG in Nigeria

Thursday 8th June, 2023

Brent Oil Price

$77.26 2.72%

$79.42 Previous

FX Reserve

$34.922b 0.08%

$34.951b Previous

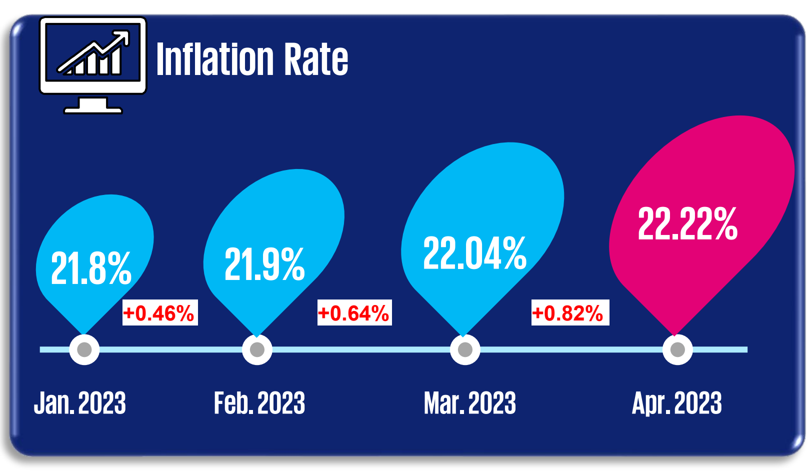
Market Capitalization

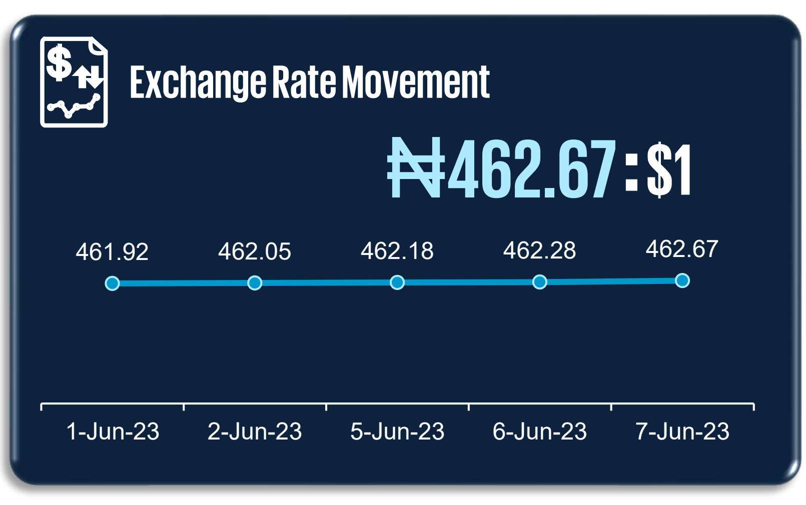
N30.40tr 5.37%

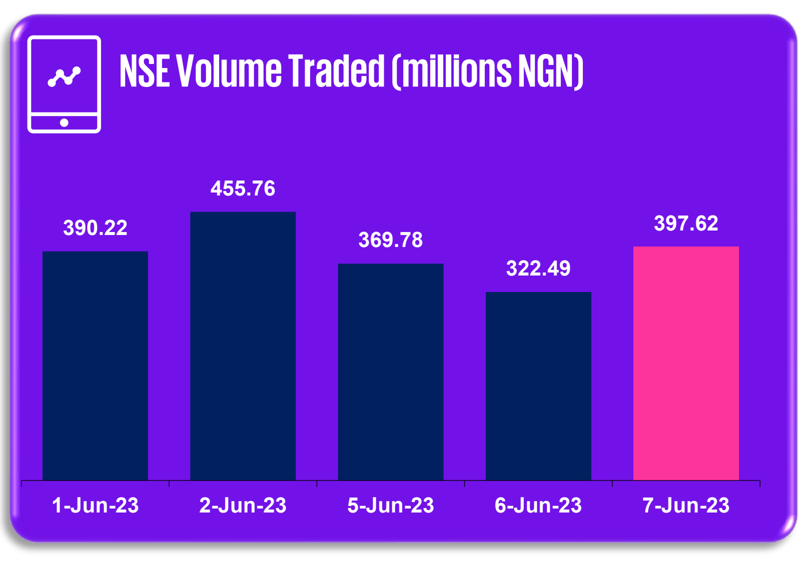
N28.85tr Previous

18.5% **Monetary Policy Rate**

18% Previous







6.21%
Oil Sector Contribution to GDP

2.31% 34.4%
Q1 2023 GDP Growth Rate

93.79%
Non-Oil Sector Contribution to GDP

KPMG Analysis: GDP Growth Rate by 2026

This week we highlight the reported decision of the World Bank to retain its 2023 GDP growth forecast for Nigeria at 2.80% from 3.3% recorded in 2022. The World Bank's 2023 forecast is in line with KPMG's revised forecast of 2.85% (from 3.0% earlier stated), following the release of Nigeria's Q1 2023 GDP estimates last month. In its statement, the World Bank postulated that Nigeria's growth which has averaged about 1.5% in the last decade was too slow to address the challenges of extreme poverty in Nigeria due to high inflation, the naira redesign cash crunch in Q1 2023 and low foreign exchange availability. According to the World Bank, growth in Nigeria is expected to remain barely above the population growth rate which is far slower than needed to make significant inroads into mitigating extreme poverty.

The role of economic growth in reducing poverty is well recognized especially if the benefit of that growth is adequately distributed. Nigeria's growth since 2019, has been fragile, not growing fast enough to contain population growth (2.6%-3.0%) and needs to be less inequitable (with a Gini coefficient of 35.1% in 2022). Accordingly, per capita income has contracted by over 40% since 2015. The fact that Nigeria's GDP will need to grow by at least 6% to generate enough jobs to absorb labor market growth (about 4% per annum) and reduce poverty is well understood by President Tinubu's Administration. The president, during his inauguration speech had set target to increase the GDP growth rate of the country by 6% on average in the next 4 years through budgetary reforms aimed at stimulating the real sector of the economy.

However, we are of the opinion that this might be difficult to attain in four years. For example, the consensus among analysts is a GDP growth in 2023 of between 2.7-3.2%. Thus, if we assume a GDP growth of 3% in the first year, the economy will then have to grow by an average of 7% for the subsequent 3 years and moving growth from a forecasted 3% in 2023 to at least 7% in 2024 and afterwards seems overly ambitious. At the same time attaining a 6% real GDP growth on average from 2023 to 2026 means growing the value of real GDP from N74.6 tn in 2022 to N92.5tn by 2026 representing an increase of N17 trillion in 4 years. However, within 12 years, 2010 and 2022, real GDP grew by about N17 trillion which will have to be replicated in just 4 years and within a much more challenging macroenvironment that cuts across the fiscal, monetary, external, and real sectors.

The governments major short-term growth strategy will therefore be to boost government investment and government expenditure (accounting for about 15% of GDP combined) to attempt to unlock the potential of the private sector and stimulate domestic consumption and exports. It may therefore have no option than to borrow more and/or increase tax collection given the low fiscal space and despite the already high debt and debt service environment of above 50% even after subsidy removal. This may however constrain GDP growth in the short term by squeezing households and businesses, this further indicates that 6% on average in 4 years is unlikely.

In conclusion, while we expect stronger year on year growth over the next few years, we are of the opinion that there is very limited space to attain a 6% average real growth rate in 4 years or an increase in real GDP by N17trillion. We are of the opinion that an average GDP growth rate of between 4-4.5% at the best is more feasible in the next 4 years. Even this will require the country to get its policies right and keep consistent faith with macroeconomic reforms.

Sources: CBN, NBS, NGX & KPMG Research

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- Oil price bounce back in early trading as OPEC+ agree cuts
- World Bank: Nigeria's economic growth too slow to reduce poverty
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- Unreliable grid, alternative energy spike borrowing, costs by 50%
- NBS: Nigeria records N931.1b trade surplus in Q1
- Fuel Subsidy: TUC demands minimum wage increase to N200,000, tax holiday for workers
- Nigeria will tax digital assets, including cryptos, 10% on capital gains
- Subsidy removal has doubled depot petrol price, say marketers
- Foreign trade declines by N2.6tn over FX shortage – NBS

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