

Flashnotes

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Cash Crunch & Dysfunctional Economic Structure Slows Growth in Q1 2023

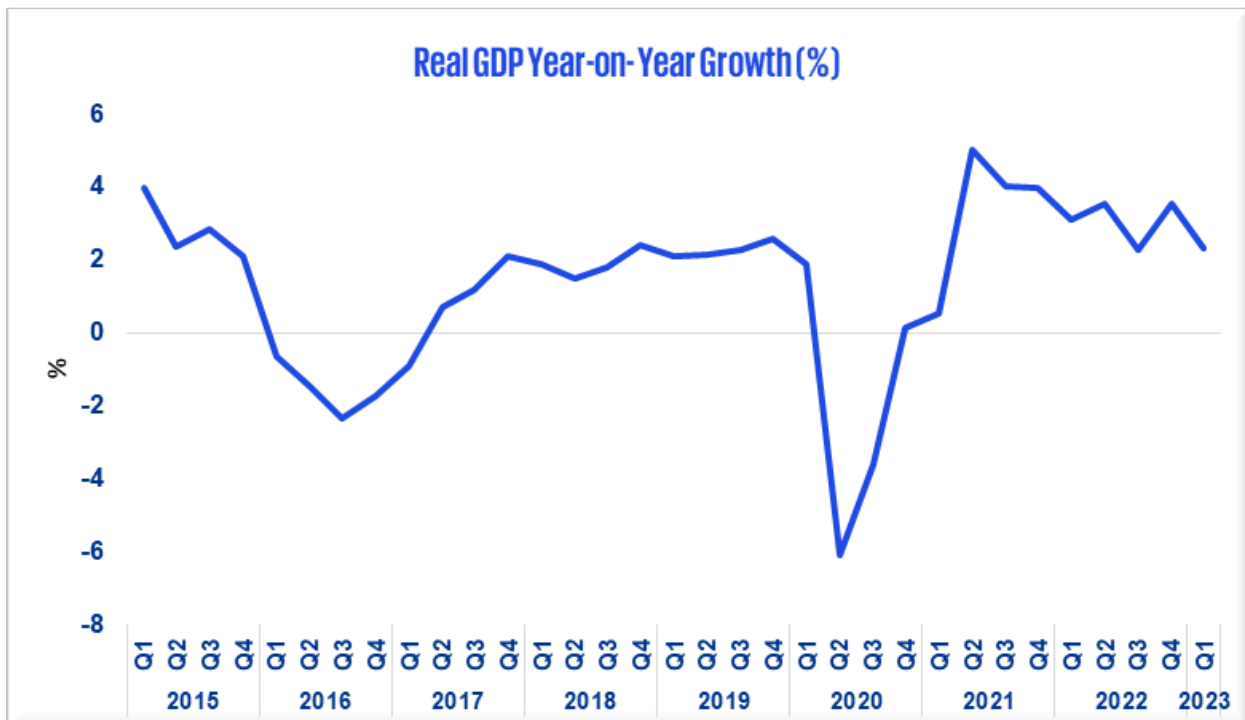
Highlights

- Real GDP in Nigeria rose by 2.31%, year on year in the first quarter of 2023, considerably slower than 3.52% recorded in Q4 2022 and 3.11% in Q1 2022 with agriculture contracting for the first time since the 1987, industry continuing its contractionary trend and services driving growth.
- Continuous slow and fragile growth was due to the dysfunctional economic structure where oil determines 62% of the economy directly and indirectly and worsened by the naira redesign induced cash crunch in Q1 2023.
- GDP is expected to remain sluggish and fragile for the rest of the year. We are revising our 2023 annual GDP growth forecast down from 3.0% to 2.85% for 2023

Event

Real Gross Domestic product (GDP) in Nigeria rose by 2.31%, year on year in the first quarter of 2023, considerably slower than 3.52% recorded in Q4 2022 and 3.11% in Q1 2022. Growth was driven by the services sector, which grew by 4.35%. The agricultural sector recorded its first contraction in over several decades, contracting by -0.90%, compared to 2.05% in Q4 2022 and 3.16% in Q1 2022. Industry, which includes manufacturing, mining, and quarrying, elec-

tricity production, water supply and construction, reversed its seven-quarter long contraction growing by 0.31% in Q1 2023, compared to -0.94% in Q4 2022 and -6.81% in Q1 2022. Accordingly, the non-oil grew by 2.77% in Q1 2023, compared to 4.84% in Q4 2022 and 6.08% in Q1 2022, while the oil sector, which has contracted since Q1 2020, further declined by -4.21% in Q1 2023 compared to -13.38% in Q4 2022 and -26.04% in Q1 2023.



Analysis/Opinion

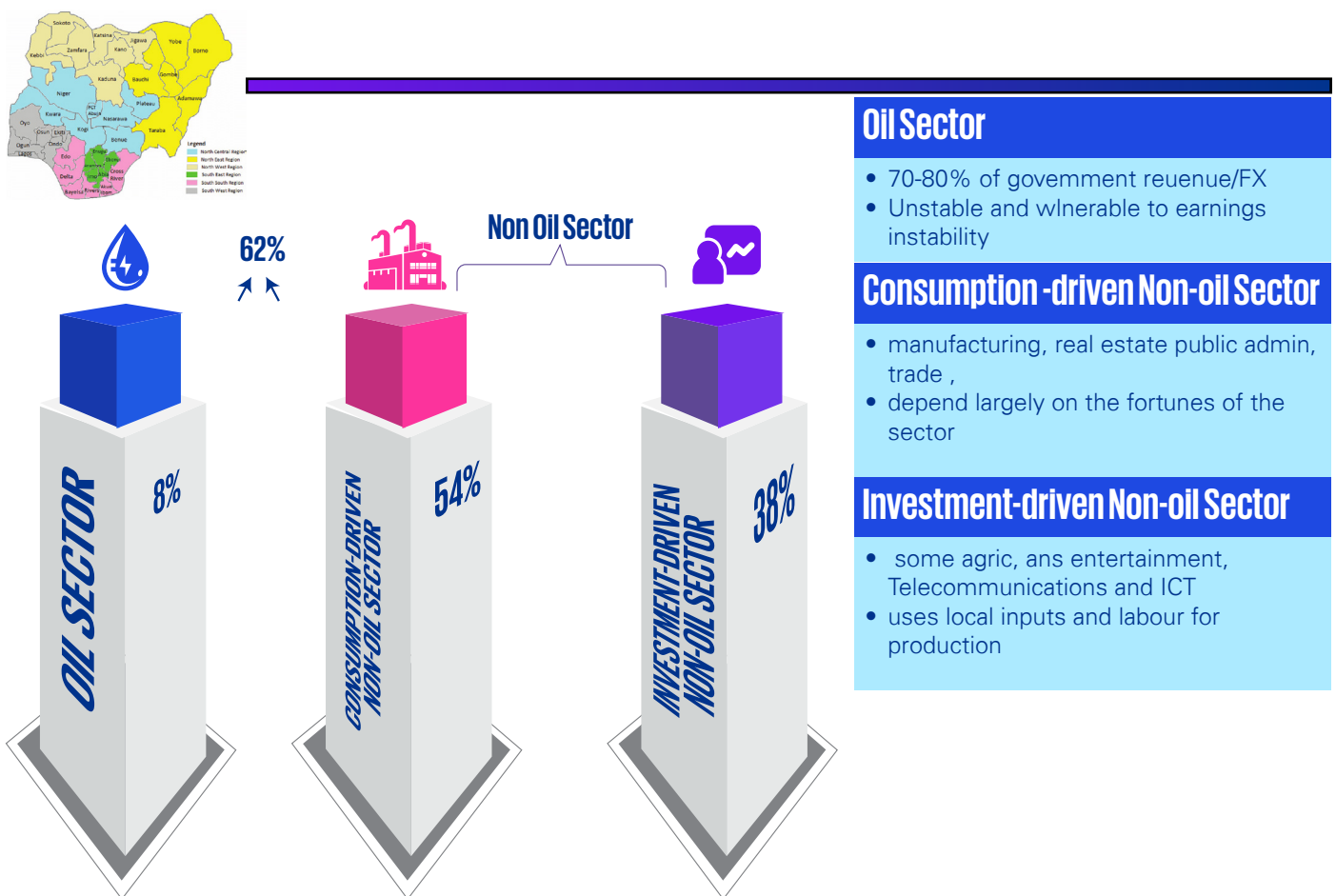
The slowdown in Q1 2023 GDP does not come as a surprise. We had earlier anticipated a GDP growth of about 2.0%, largely due to the dysfunctional structure of the economy, where 62% is directly and indirectly dependent on the oil sector, but also due to the impact of the naira redesign policy on the informal sector which accounts for between 30% to 40% of GDP and relies on cash for over 80% of its operations.

A dysfunctional Economic Structure

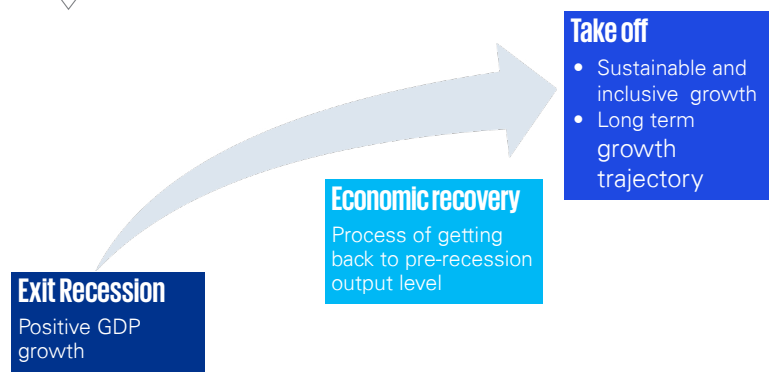
With respect to the dysfunctional economic structure that characterizes the Nigerian economy, we find that rather than the general categorization of the Nigerian economy into an oil sector contributing about 6-8% of the GDP and a non-oil sector accounting for the rest, in actual fact,

Nigeria's economic structure can be better imagined as a house built on 3 pillars, including, firstly, an oil sector which rightly contributes about 7% of the GDP. Secondly, a largely consumption driven non-oil sector which relies significantly on the oil sector and accounts for another 55% of GDP but that relies on foreign exchange remittances from the oil sector and other capital inflows which also depend largely on the fortunes of the oil sector, to finance the imports of intermediate/finished goods and imported services to meet domestic demand. For example, manufacturing, real estate, public admin, trade, construction, electricity, and water. Thirdly, an investment driven non-oil sector, not significantly dependent on the oil sector and which accounts for the remaining 38% of the economy such as telecommunications, agriculture, arts, entertainment, recreation, accommodation and food services and motion pictures, sound recording and music production. The implications of operating in this structure, is that it

Nigeria Economic Potential: Macro Dysfunction- 3 Pillars of the Nigerian Economy



restricts the level of growth the economy can achieve to prevailing conditions in the oil and gas sector because over 60% of the economy is tied directly and indirectly to the performance of the oil sector. It also means Nigeria has essentially been supporting its economy on one pillar it can control, supported by two other shaky but more dominant pillars that are largely out of its control. This also partly explains why Nigeria's economic growth since the covid pandemic has been slow and fragile and has been stuck in recovery mode and unable to move into the take off stage since the 2015 and 2019 recession



The oil sector has contracted for 12 consecutive quarters from Q2 2020 to Q1 2023 and for 24 quarters of the 36 quarters since 2015, recording an average contraction during the period of -5.45%. Accordingly, average GDP growth recorded 1.37% during the same period. Given the long period of contraction in the oil sector and its impact on 55% of non-oil sector activities since 2015, it is therefore, the third pillar of the economy accounting for just 38% of the economy that has been largely responsible for driving growth in the Nigerian economy since 2015 and this

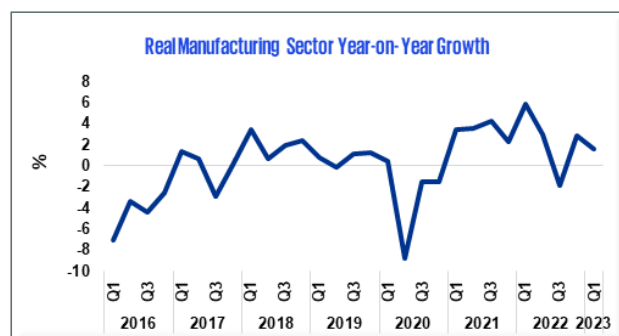
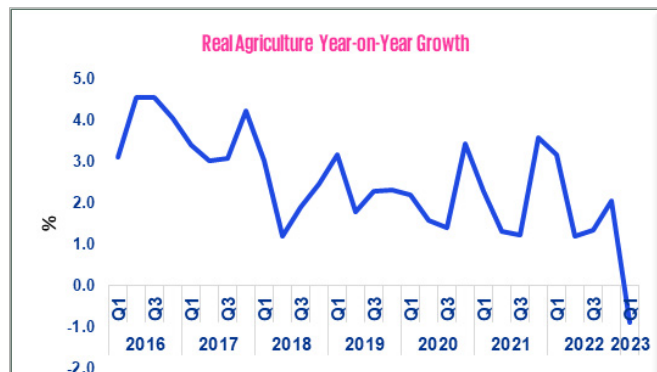
explains why the economy has struggled to grow significantly beyond the 3-4% range for the most part since 2015. Accordingly, in Q1 2023, the part of the economy not as dependent on the oil sector, such as telecommunication services and ICT grew stronger, while those that rely more on the oil and gas sectors such as trade and manufacturing either grew slower or contracted. Public administration which is also heavily dependent on the oil sector maintained its growth largely due to public debt accumulation.

Oil Production (MBPD)



Cash Crunch

The second issue in Q1 2023, relates to the naira redesign policy and its negative impact on informal sector operations in Q1 2023. Following the CBN's currency redesign policy, currency in circulation dropped from N3.28 trillion in December 2022 to N1.38 trillion in January and N982.0 billion in February 2023 and N1.62 trillion in March 2023. Accordingly, major sectors and largely informal sector activities, including agriculture which recorded its first contraction since 1987, manufacturing, trade, administrative and support services, and other services all either grew slower or contracted during the period.



The resilience of road transport which grew by 8.02% in Q1 2023, compared to -0.68% in Q4 2022 and -24.63% in Q1 2022, and which has a substantial informal sector and cash-based component, and which has been subjected to very high transport costs inflation is however a major surprise. It will suggest conditions in the transport sector were better for the economy in Q1 2023 than in Q1 2022 despite cash shortages and higher transportation costs and better than in Q4 2022 despite the yuletide season. We attribute this unexpected, better-than-expected performance in transport GDP to the general elections.

Given developments in the first quarter of the year, our macroeconomic model has adjusted our GDP forecasts for 2023 from 3.0% to 2.85%. We anticipate growth in Q1 and for the rest of the year will continue to be driven by government consumption expenditure and government investment growth with household consumer demand struggling in the face of high and rising inflation and in the presence of negative real wages and higher unemployment. We also expect private investment to remain flat with investors

waiting to see the direction of the new government. We also anticipate slower growth in net exports given the continuous challenges being faced in the oil sector.

Gross Domestic Product At 2010 Constant Basic Prices (%)						
	2022					2023
	Q1	Q2	Q3	Q4	Total	Q1
Activity Sector						
Agriculture	3.16	1.20	1.34	2.05	1.88	-0.90
1. Crop Production	2.97	1.54	1.33	2.41	2.01	1.93
2. Livestock	5.55	(2.87)	1.55	-1.59	0.61	-30.57
3. Forestry	1.37	1.29	2.19	1.63	1.62	1.24
4. Fishing	3.14	0.89	0.36	-3.02	0.47	-2.92
Mining and Quarrying	(25.89)	(11.09)	(21.31)	-11.39	-18.16	-3.96
5. Crude Petroleum and Natural Gas	(26.04)	(11.77)	(22.67)	-13.38	-19.22	-4.21
6. Coal Mining	(12.97)	36.06	(43.49)	-17.44	6.24	1.19
7. Metal Ores	30.76	(25.48)	36.24	-1.97	15.98	52.56
8. Quarrying and Other Minerals	(13.72)	22.15	39.61	23.68	27.52	0.23
Manufacturing	5.89	3.00	(1.91)	2.83	2.45	1.61
9. Oil Refining	(44.26)	(42.12)	(44.70)	-39.23	-41.93	-35.84
10. Cement	9.57	4.88	4.13	3.89	5.65	1.58
11. Food, Beverage and Tobacco	9.81	5.11	(4.05)	4.94	3.86	3.90
12. Textile, Apparel and Footwear	(1.23)	(2.83)	(3.98)	-1.17	-2.23	-3.68
13. Wood and Wood Products	2.27	2.84	2.19	-2.12	1.28	2.64
14. Pulp, Paper and Paper Products	(1.42)	1.73	(4.14)	-1.26	-1.47	1.57
15. Chemical and Pharmaceutical Products	10.33	9.29	11.09	7.06	9.44	6.22
16. Non-Metallic Products	3.55	3.40	4.00	4.18	3.79	2.43
17. Plastic and Rubber products	0.35	2.98	(3.92)	1.33	0.18	1.01
18. Electrical and Electronics	(4.87)	1.80	2.56	4.11	1.23	-0.81

19. Basic metal , Iron and Steel	(1.48)	2.70	2.99	1.79	1.46	- 0.46
20. Motor vehicles & assembly	5.01	(7.96)	2.69	4.31	0.95	5.41
21. Other Manufacturing	2.81	2.58	2.54	2.59	2.64	- 2.97
22. Electricity, Gas ,Steam and Air Conditioning Supply	(11.20)	(11.48)	(3.56)	15.22	- 2.21	9.53
23. Water Supply, Sewerage, Waste Management And Remediation	13.22	23.73	3.89	8.81	13.62	5.57
24. Construction	4.83	4.02	5.52	3.80	4.54	3.27
25. Trade	6.54	4.51	5.08	4.54	5.13	1.31
26. Accommodation and Food Services	1.93	3.03	6.77	5.12	4.22	3.59
Transportation and Storage	(17.41)	51.66	41.59	0.78	15.20	9.36
27. Road Transport	(24.63)	56.38	49.68	- 0.68	15.14	8.02
28. Rail Transport & Pipelines	124.54	(37.90)	(29.91)	3.81	2.24	- 49.08
29. Water Transport	7.58	3.02	19.48	21.09	14.11	18.44
30. Air Transport	50.68	22.45	14.58	18.01	26.23	19.45
31. Transport Services	8.41	4.90	6.66	3.82	5.55	7.75
32. Post and Courier Services	3.11	4.91	5.36	5.13	4.33	2.35
Information and Communication	12.07	6.55	10.53	10.35	9.76	10.32
33. Telecommunications & Information Services	14.50	7.71	10.06	11.24	10.72	11.71
34. Publishing,	3.27	3.43	12.06	4.35	5.59	2.41
34. Motion Pictures, Sound recording and Music production	3.15	(6.01)	22.41	4.56	5.82	2.68
36. Broadcasting	3.45	4.90	6.58	6.91	5.37	6.30
37.Arts, Entertainment And Recreation	2.30	0.11	7.79	7.52	4.29	5.47
Financial And Insurance	23.24	18.48	12.70	11.61	16.36	21.37
38. Financial Institutions	25.43	20.06	12.03	12.41	17.24	24.96
39. Insurance	7.77	6.96	19.09	2.21	8.68	- 8.01
40. REAL ESTATE	4.44	4.42	4.56	2.78	3.95	1.70
41. PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES	1.85	1.96	2.23	2.92	2.28	3.08

42. ADMINISTRATIVE & SUPPORT SERVICES	3.73	2.06	3.93	2.86	3.16	- 4.64
43. PUBLIC ADMINISTRATION	1.92	2.01	2.33	1.43	1.90	2.03
44. EDUCATION	1.87	1.16	1.10	1.23	1.35	0.72
45. HUMAN HEALTH AND SOCIAL SERVICES	5.91	2.23	4.58	4.20	4.20	2.46
46. OTHER SERVICES	3.14	3.05	(2.67)	0.06	1.07	- 20.05
GDP at 2010 constant price	3.11	3.54	2.25	3.52	3.10	2.31
Net Indirect Taxes on Products	65.09	(8.22)	10.30	11.18	14.19	9.08
GDP Constant Market Price	3.60	3.40	2.38	3.64	3.25	2.40

CONTRIBUTION TO GDP						
AGRICULTURE	22.36	23.24	29.67	26.46	25.58	21.66
INDUSTRIES	21.47	19.40	18.37	17.27	19.02	21.05
SERVICES	56.17	57.35	51.96	56.27	55.40	57.29
	100.00	100.00	100.00	100.00	100.00	100.00
NON OIL	93.37	93.67	94.34	95.66	94.33	93.79
OIL	6.63	6.33	5.66	4.34	5.67	6.21
	100.00	100.00	100.00	100.00	100.00	100.00
	2022					2023
GROWTH	Q1	Q2	Q3	Q4	Total	Q1
AGRICULTURE	3.16	1.20	1.34	2.05	1.88	- 0.90
INDUSTRIES	(6.81)	- 2.30	- 8.00	- 0.94	- 4.62	0.31
SERVICES	7.45	6.70	7.01	5.69	6.66	4.35
REAL GROWTH RATE	3.11	3.54	2.25	3.52	3.10	2.31
REAL GROWTH RATE	3.60	3.40	2.38	3.64	3.25	2.40
NON OIL GROWTH RATE	6.08	4.77	4.27	4.44	4.84	2.77
OIL GROWTH RATE	(26.04)	- 11.77	- 22.67	- 13.38	- 19.22	- 4.21

Source: National Bureau of Statistics (NBS)

Year	Month	Narrow Money	Money Supply M1	Credit to Govern	Credit to Private Se	Currency in Circulati	Currency Outside	Money Supply M2	CPI %	MPR %
2021	SEPTEMBER	16,510,450.61	41,475,250.51	12,946,605.35	34,619,960.27	2,965,985.43	2,540,822.90	41,474,377.37	15.99	11.5
2021	NOVEMBER	17,118,885.10	42,604,214.93	13,034,104.65	35,379,184.45	3,148,591.61	2,726,085.10	42,600,088.22	15.4	11.5
2021	DECEMBER	18,055,860.83	44,443,974.75	13,839,910.40	34,920,731.34	3,325,157.97	2,938,416.18	44,443,065.59	15.63	11.5
2022	22-Jan	18,589,692.22	45,194,945.63	14,903,925.40	35,184,136.51	3,288,027.60	2,779,750.75	45,089,157.64	15.6	11.5
2022	FEBRUARY	18,897,327.74	44,740,264.88	14,721,135.97	35,986,524.62	3,250,188.89	2,723,657.37	44,739,337.92	15.7	11.5
2022	MARCH	19,610,356.83	45,664,828.96	16,319,660.37	36,467,400.48	3,245,597.55	2,714,074.02	45,663,905.91	15.92	11.5
2022	APRIL	19,821,327.97	47,147,578.65	16,847,655.48	37,448,525.11	3,350,615.22	2,833,752.73	47,146,645.19	16.82	11.5
2022	MAY	20,561,700.36	48,514,495.30	18,049,373.09	38,456,850.60	3,330,863.86	2,763,895.40	48,513,506.45	17.71	11.5
2022	JUNE	20,348,209.51	48,898,340.44	18,214,634.50	39,233,605.99	3,255,563.28	2,719,330.52	48,897,446.57	18.6	13
2022	JULY	20,386,382.93	48,291,204.06	20,106,289.74	39,853,077.54	3,242,600.24	2,721,500.80	48,290,293.34	19.64	13
2022	AUGUST	21,436,316.14	49,316,792.01	20,965,137.37	40,203,768.22	3,210,664.98	2,680,216.96	49,315,851.17	20.52	14
2022	SEPTEMBER	21,197,371.65	49,333,082.51	22,826,317.44	40,515,280.18	3,228,752.06	2,729,883.34	49,331,836.37	20.77	14
2022	OCTOBER	21,342,768.46	50,629,994.44	22,645,912.75	40,835,318.91	3,298,786.78	2,836,803.01	50,628,734.53	21.09	15.5
2022	NOVEMBER	21,453,900.68	51,686,054.60	22,636,974.13	41,529,765.73	3,164,256.76	2,645,857.33	51,684,794.02	21.47	15.5
2022	DECEMBER	20,727,946.42	52,155,416.84	24,656,590.51	41,741,697.22	3,012,057.17	2,569,010.89	51,761,777.98	21.34	16.5
2023	23-Jan	20,911,067.86	53,138,821.44	26,639,026.37	41,542,410.74	1,386,398.50	792,184.39	52,835,098.60	21.82	16.5
2023	FEBRUARY	20,958,760.95	53,295,069.64	28,431,011.26	41,754,414.82	982,097.66	843,311.51	52,921,785.20	21.91	17.5
2023	MARCH	21,352,527.87	54,634,063.50	27,529,720.19	43,066,395.01	1,683,498.35	1,445,439.42	54,191,661.32	22.04	17.5
	APRIL								22.22	18

Source: CBN



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