



Q4:2023 & 2023FY GDP Report

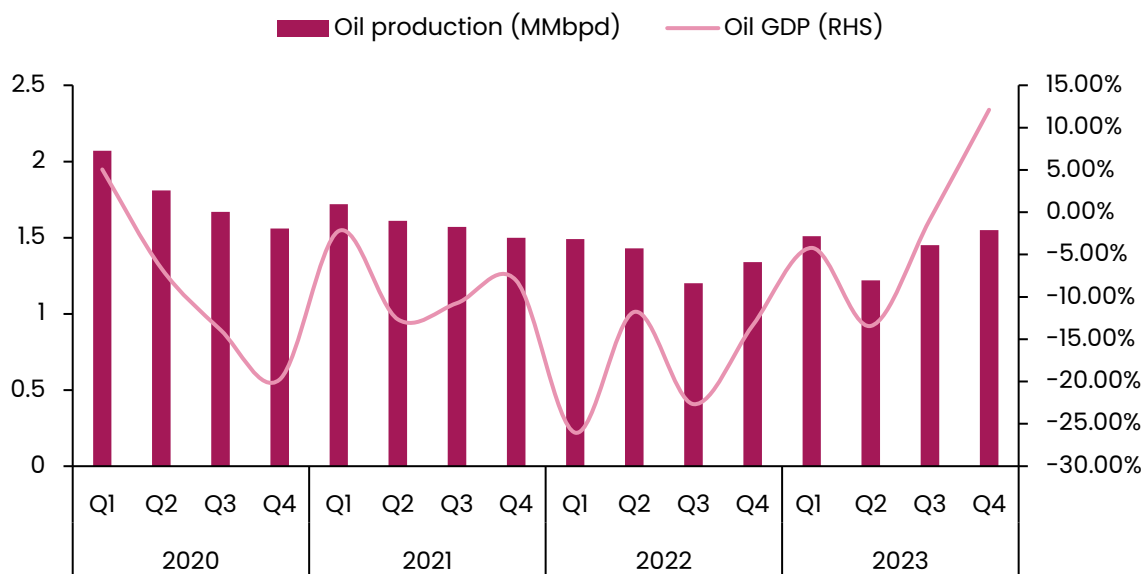
Nigerian Economy Still On the Path of Expansion

Yesterday, the National Bureau of Statistics (NBS) published the Gross Domestic Product (GDP) report for Q4:2023. For the thirteenth (13th) consecutive quarter since Q2:2020, the Nigerian economy grew by 3.46% YoY, an improvement from Q3:2023 (+2.54% YoY). This was spurred by growth in both the oil (+12.11% YoY in Q4:2023) and non-oil (+3.07% YoY in Q4:2023) sectors. However, in 2023FY, the economy slowed down to 2.74% YoY compared to 3.10% YoY recorded in 2022FY. The slower pace of growth in 2023FY indicates the negative impact of persistent macroeconomic issues (high inflation, high interest rate, FX illiquidity) and structural challenges (insecurity and inadequate infrastructure) on the Nigerian economy during the period.

Oil Sector: A Slow Resurgence

In line with our projections outlined in our [Q3:2023 GDP Report](#), the Oil sector experienced a notable upturn in Q4:2023, with oil production increasing to 1.55MMbpd from 1.45MMbpd in Q3:2023. This surge effectively propelled the sector out of negative territory, marking a significant milestone after enduring fourteen (14) consecutive quarters of contraction since Q2:2020. Impressively, the sector achieved a remarkable year-on-year growth rate of 12.11% in Q4:2023 compared to the -0.85% recorded in Q3:2023. However, the sector's contribution to GDP fell to 4.70% in Q4:2023 (vs. 5.48% in Q3:2023). Overall, in 2023FY, the Oil sector contracted by 2.22% YoY, a significant improvement from 2022FY (-19.22% YoY). This rebound in the Oil sector reflects that the concerted efforts of the government to tackle oil theft and pipeline vandalism have begun to yield results. In 2023FY, the Oil sector contributed 5.40% to total real GDP (vs. 5.67% in 2022FY).

Figure 1: Trend in Oil Production vs Oil GDP



Source: NBS, ARM Research

Non-Oil Sector: Growing Despite Macroeconomic Challenges

Amid burgeoning interest rates, FX illiquidity and inflationary pressures, the non-oil sector posted an increased growth rate of 3.07% YoY in Q4:2023, compared to 2.75% YoY in Q3:2023. This was driven by stronger growth in Agriculture: (+2.10% YoY) Manufacturing (+1.38%), and Financial and Insurance (+29.78% YoY) sectors in Q4:2023. Consequently, the sector's contribution to GDP went up to 95.30% in Q4:2023 from 94.52% in Q3:2023. Overall, the sector grew by 3.04% YoY in 2023FY, a slowdown from the 4.84% YoY growth recorded in 2022FY, reflecting the drawback effect of previously mentioned macroeconomic and structural challenges on the sector during 2023FY. The sector, however, still contributed to 94.60% to GDP in 2023FY (vs. 94.33% in 2022FY).

Following an improved harvest season and a period of festivities, the Agriculture sector picked up momentum in Q4:2023 as it grew by 2.10% YoY (vs. 1.30% YoY in Q3:2023). Growth in this sector was driven by similar growth in the Crop production sub-sector (+2.44% YoY in Q4:2023 vs. 1.35% YoY in Q3:2023). In 2023FY, the Agriculture sector posted a 1.13% YoY growth, a decline compared to the 1.88% YoY growth recorded in 2022FY.

In the same vein, the Manufacturing sector recorded a stronger growth rate of 1.38% YoY in Q4:2023 (vs. +0.48% YoY in Q3:2023). Improvement within the sector comes despite the high interest rate environment, FX illiquidity and inflationary pressures making it difficult for the sector to thrive. The sector slowed down to 1.40% YoY in 2023FY (vs. 2.45% YoY in 2022FY), further buttressing our point of a stifled manufacturing sector.

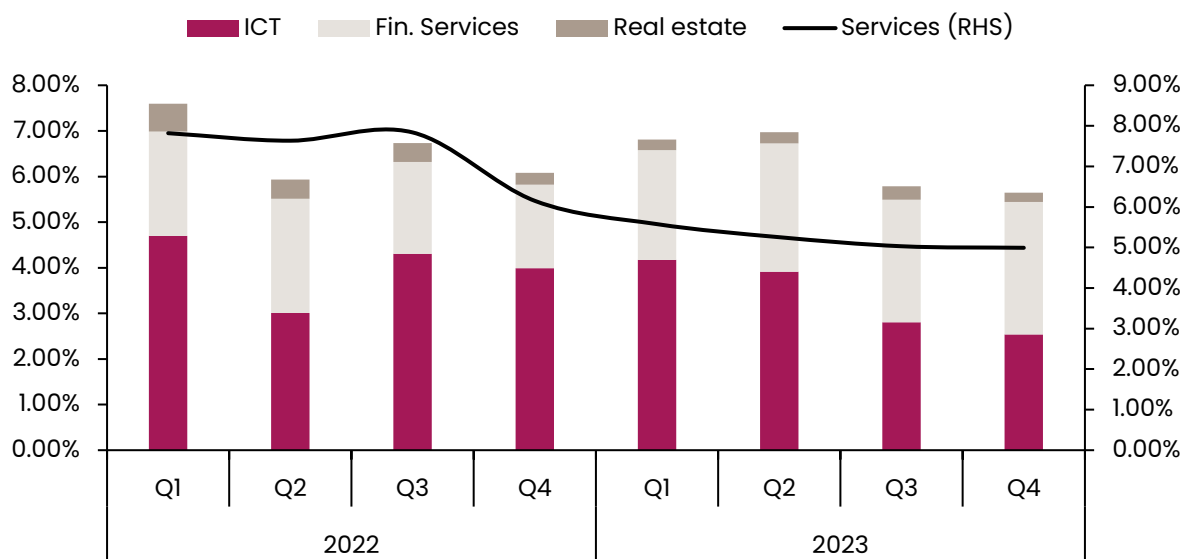
Furthermore, the Information and Communication Technology (ICT) sector grew by 6.33% YoY in Q4:2023 (vs. 6.69% YoY in Q3:2023), representing the fourth (4th) consecutive quarter of slowed growth. This subdued expansion in the sector was propelled by a similar trend in the Telecommunications and Information Services sub-sector, which slowed down to 6.93% YoY in Q4:2023 from 7.74% YoY in Q3:2023), following a meagre growth in average telecoms subscriber base (+0.72% QoQ to 222.70mn in Q4:2023 vs. 221.12mn in Q3:2023). In addition, Naira depreciation and high operating costs were contributing factors to the sector's slowed growth. Overall, the ICT sector grew by 7.91% YoY in 2023FY compared to 9.76% YoY in 2022FY.

The Financial and Insurance sector sustained its expansion momentum as it recorded a 29.78% YoY growth in Q4:2023 and 26.53% YoY in 2023FY (vs. +28.21% YoY in Q3:2023 and 16.36% YoY in 2022FY). This is an offshoot of the FX liberalization policy, which bolstered the earnings of financial services institutions during the period.

The Trade sector decelerated significantly to 1.40% YoY in Q4:2023 and 1.66% YoY in 2023FY (vs. 1.53% in Q3:2023 and 5.13% YoY in 2022FY). We attribute this slower pace of growth to inflationary pressures in the economy, stemming from the removal of fuel subsidy and the rapid depreciation of the Naira, which has eroded consumer purchasing power.

Similar to other sectors, the Real Estate and Construction sectors succumbed to inflationary pressures and grew at a slower pace of 1.34% YoY and 3.70% YoY respectively in Q4:2023 (vs. 1.90% YoY and 3.89% YoY respectively in Q3:2023). Overall, both sectors grew by 1.68% YoY and 3.57% YoY respectively in 2023FY (compared to 3.95% YoY and 4.54% YoY in 2022FY).

Figure 2: Attribution Analysis of Services GDP Sector Growth and Key Sub-Components



Source: NBS, ARM Research

Outlook: Nigerian Economy to Sustain Growth Momentum

We expect the low base effect from Q1:2023 (+2.31% YoY) induced by the Naira redesign policy to buffer growth in Q1:2024. Our optimism extends to the Oil sector, buoyed by recent government initiatives aimed at enhancing oil production, including the green light for the auction of dormant oil and gas fields deserted by International Oil Companies (IOCs) for over a decade. Additionally, the commenced operation of the Port-Harcourt and Dangote Refinery is poised to support growth in the Oil sector in 2024. Furthermore, we anticipate the Services sector to lead the non-oil space, acting as a catalyst for growth in the sector. However, we remain cautious of escalating inflationary pressures, persisting FX pressures, higher energy costs, and the looming electricity tariff hikes, all of which could potentially impede growth in the Non-oil sector. Overall, for 2024FY, we project GDP growth rates at **2.71%** for the base case, **2.09%** for bear case and **3.24%** for the bull case.

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