BERKSHIRE
LENDING • ADVISORY • INVESTMENTS

August 28, 2023

Berkshire Market Briefs

Author:
Funmi Adeyemi
+234 813 603 0000

www.berkshirefinancecompany.com

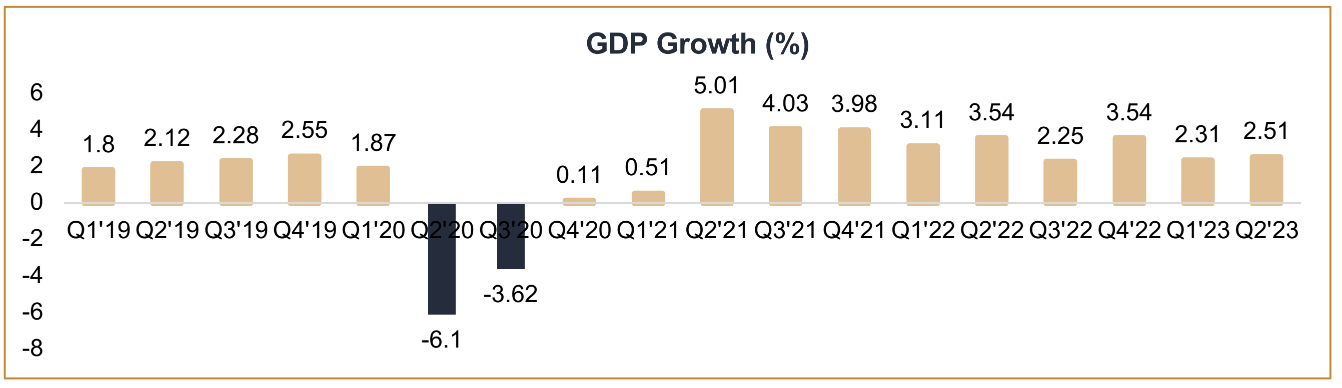
Follow us on:

Q2 GDP growth expands as the impact of liquidity squeeze wanes

The Nigerian economy grew by 2.51% in the second quarter of 2023. This is an improvement when compared to the preceding quarter's growth rate of 2.31%, the growth is supported by the waning impact of the Naira cash crunch and post-election boost in economic activities. The CBN's Naira redesign policy and the attendant liquidity squeeze at the beginning of the year took a heavy toll on businesses, especially MSMEs, the major players in the informal sector as this sector mostly rely on cash for settlement of transactions; as a result, aggregate demand fell sharply because the ability to spend or purchase was constrained. The impact of this, which reflected more in the Q1'23 GDP data began to wane in the second quarter.

Additionally, due to base effects, the impact of the liquidity squeeze on aggregate demand becomes obvious when Q2'23 growth statistics is compared to the corresponding period in 2022 (3.54%) as real GDP growth slowed sharply by 1.03%. So far in 2023, the economy has grown by 2.41%. To achieve the IMF's projection of 3.2%, real GDP must expand by at least 4.0% in the second half of the year (Q3'23 & Q4'23).

However, the short-term impact of the policy reforms could make this a tall order.



Source: Nigerian Bureau of Statistics, Berkshire

Oil sector still in recession – other sectors feeling the pain

The oil sector recorded a negative growth rate of -13.43% in Q2'23, down from -4.21% in Q1'23 and -11.77% in Q2'22. The sector has remained in a contraction territory since Q2'20 when the COVID-19 pandemic struck. Its performance has been constrained by lower domestic oil production emanating from the lingering oil theft, pipeline vandalism, force majeures, lack of new investments and divestments. On average, Nigeria produced 1.22 million barrels of oil per day (mbpd) in Q2'23, a decline from 1.51mbpd in Q1'23 and 1.43mbpd in Q2'22. The sector's contribution to GDP also declined to 5.34% from 6.21% in Q1'23 and 6.33% in Q2'22.

It is worth mentioning that even though the oil sector's contribution to GDP is insignificant, the sector cannot be neglected as it is the major source of foreign exchange earnings. Its under-performance has reduced forex inflows sharply, contributing to the currency woes, which is predominantly affecting other sectors.

Non-oil sector gradually improving but there is bumpy road ahead

The non-oil sector grew by 3.58% in Q2'23, higher than 2.77% in Q1'23 but lower than 4.77% in Q2'22. The improvement relative to Q1'23 is largely because of the waning effects of the Naira cash crunch and post-election boost in economic activities. However, the slowdown in aggregate demand and cost pressures from the policy reforms could be major impediments in the short-term. The sector's contribution to GDP rose to 94.66% in Q2'23 from 93.79% in Q1'23 and 93.67% in Q2'22.

Berkshire Finance Company Limited

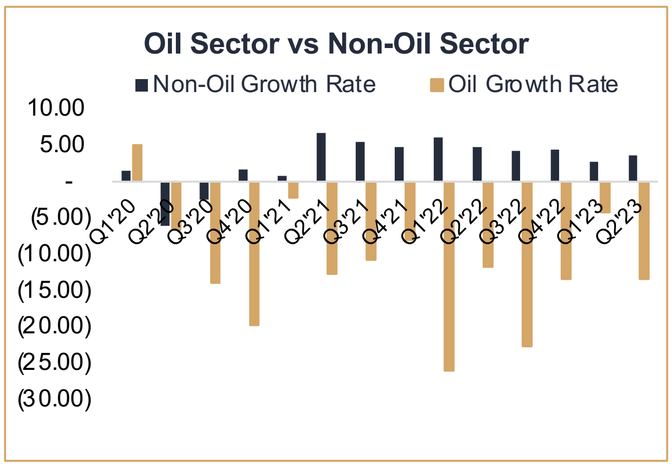
Research and Insights

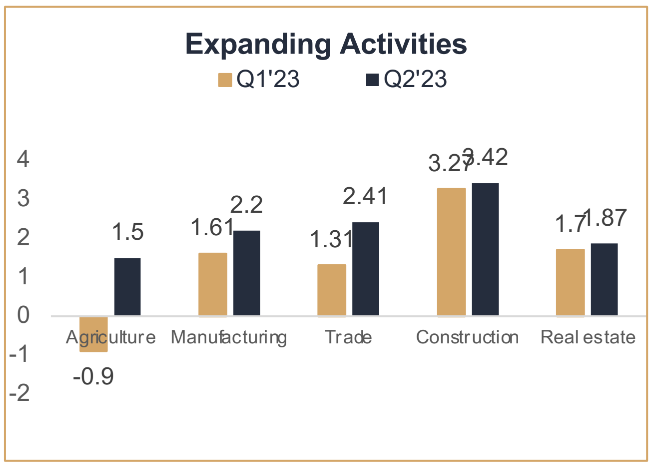
August 28, 2023

Berkshire Market Briefs

Employment intensive activities are beginning to bounce back.

The good news is that the employment intensive activities that mostly slowed in Q1'23 due to the cash crunch are beginning to bounce back

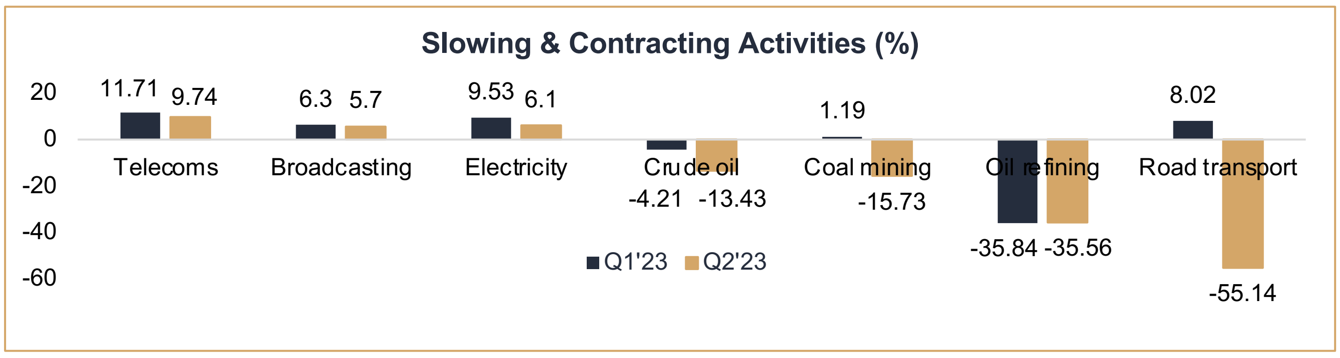




However, the reduction in aggregate demand and the spike in business operating costs pose significant threats in the coming quarter. This could limit the ability of these industries to absorb additional labor and as a worst-case scenario, there could be reduction in staff strength. This will push up the unemployment rate, which was reported to have declined to 4.1% in Q1'23 from 5.3% in Q4'22 based on the new methodology. According to the new methodology, unemployed people are those that have not worked for up to an hour in a week. The question is, can a person, who worked for just an hour in a week survive in the Nigerian economy of today? What this means is while unemployment is declining, poverty rate is increasing sharply.

Slowing and contracting activities are relatively not employment intensive.

The activities that slowed and contracted are not employment intensive but have the capacity to boost productivity. The sharp contraction in road transportation is due to the impact of the petrol subsidy removal and consumer resistance to the hike in transport fares.



What to expect in the coming quarter

Real GDP growth is expected to remain positive albeit slowing in the next quarter as policy reforms continues to squeeze consumers wallet (reducing aggregate demand) and increase cost of doing business. The MPC is expected to consider this alongside the surge in inflation (24.08%) at the next meeting in September 2023. Our view is that the Committee will remain committed to its primary mandate of achieving price stability, thus maintaining a hawkish monetary stance.

Follow us on: