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Business Solutions for Africa

Q3 2023 GDP: How Much Growth Does Nigeria Need?

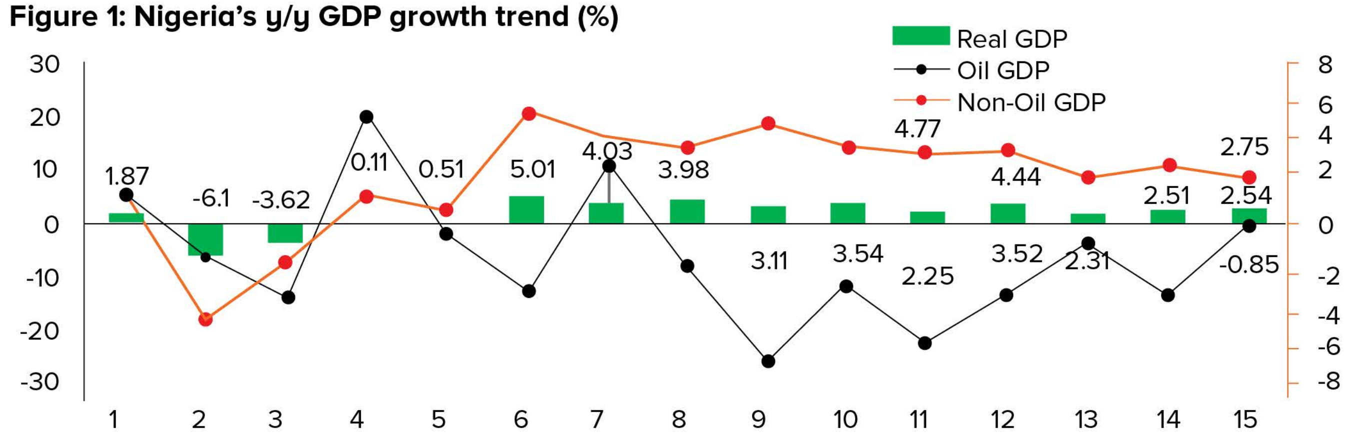
DECEMBER 2023

HIGHLIGHTS

- The current 2.5% GDP growth is clearly below what Nigeria needs to address multidimensional macroeconomic challenges confronting the nation. Slow economic growth can have various negative impacts on socio-economic development.
- The five largest economic sectors in Nigeria (Agriculture, Manufacturing, Trade, ICT and Construction) accounts for 73.6% of the GDP. These sectors have the capacity to drive the desired economic growth in Nigeria in the mid-to-long term.
- We consider a 5% – 7% annual real GDP growth as the minimum Nigeria should target over the next decade, assuming the population growth rate remains flat at 2.4%. Our analysis shows that sustaining this growth rate could deliver a $900 - $1,100 billion economy by 2033.
- To achieve a $1 trillion economy by the year 2033, the country needs to achieve and sustain a minimum of 6.5% average annual GDP growth rate and implement policies to slow the population growth rate sustainably.
- In the short-term, government must stabilize the economy, optimize quick wins, and show strong political will to act. Long term strategies must address infrastructure gaps, population growth rate, prioritize private sector participation and the development of needed human capital through investment in health, education, nutrition, and social services.

The Nigerian economy grew by 2.54% year-on-year (y/y) in Q3 2023, higher than the 2.25% recorded in Q3 2022. Over the last decade (2013 - 2022), Nigeria recorded an average annual real economic growth rate of 2.4%; same as the estimated population growth of 2.4%. A 2.4% annual real Gross Domestic Product (GDP) growth rate is clearly below what Nigeria needs to address multidimensional macroeconomic challenges confronting the nation. Slow economic growth can have adverse effects on socio-economic development. Economic growth is crucial for improving living standards, creating job opportunities, and fostering overall societal well-being. President Tinubu's administration intends to double the size of Nigeria's GDP from an estimated $535.34 billion as of 2022 to $1 trillion by 2030. Meanwhile, the country's Mid-Term Expenditure Framework MTEF is based on a 3.76% to 4.78% economic growth assumption for the 2024-2026 fiscal years. Whilst this estimate appears modest in our opinion, this report examines the range of annual GDP growth the country should aim at to achieve meaningful economic progress over the next decade.

Figure 1: Nigeria's y/y GDP growth trend (%)

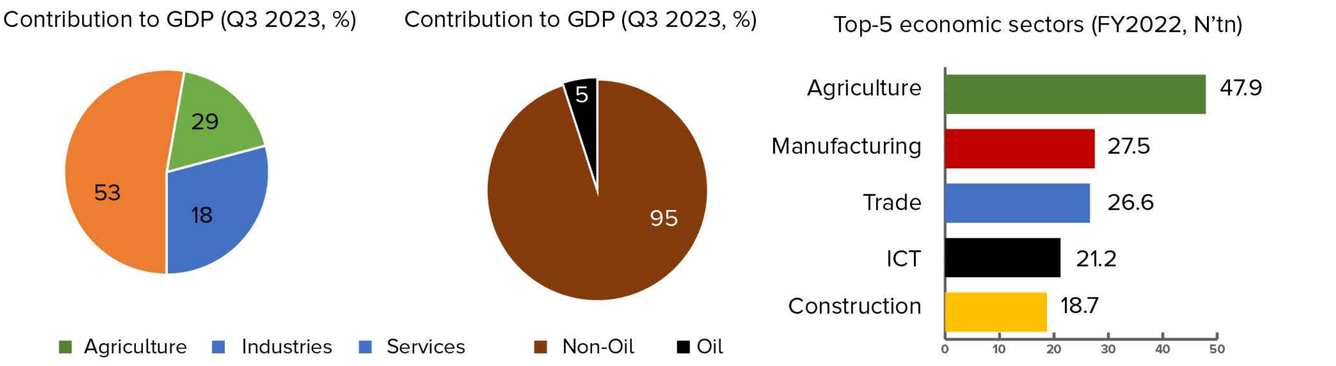


Source: NBS, Verraki Research

What are the drivers of economic growth in Nigeria?

Over the last decade, economic growth in Nigeria has been driven by the non-oil sector, particularly the services sector which now accounts for 52.70% of the GDP. Nonetheless, this sector has been growing at a decreasing rate, from 7.4% in Q1 2022 to 3.99% as of Q3 2023. Similarly, agriculture sector is another major driver of growth in Nigeria, accounting for 29.3% of the GDP and 35% of aggregate employment, but has sustained a slow and volatile growth (1.30% in Q3 2023) over the last decade. The industry sector expanded by 0.46% in Q3 2023, compared to an 8.0% contraction recorded in the third quarter of 2022. In terms of share of the GDP, Agriculture, and Industry sectors contributed less to the aggregate GDP in the third quarter of 2023 compared to the second quarter of 2022. These are reflections of the structural issues that have characterized value creation in Nigeria, particularly lack of basic infrastructure, ineffective credit model, low purchasing power, among other issues.

Figure 2: Drivers of economic growth in



Source: NBS, Verraki Research

The non-oil sector grew by 2.75% in Q3 2023, this is lower than the 4.27% growth recorded in Q3 2022 and a decrease when compared to the 3.58% growth recorded in Q2 2023. During the period under review, the sector was driven by growth in ICT (6.69%), Financial Institutions (29.66%), Crop production (1.35%), Construction (3.89%), Trade (1.53%) and Real Estate (1.90%). The oil sector contracted by 0.85% in Q3 2023, with an average daily production of 1.45 million barrels per day, slightly higher than the average daily production of 1.2 million barrels per day recorded in the same quarter of 2022. Nigeria has continued to struggle to meet its OPEC quota of 1.38 million bpd due to oil theft which is estimated to cost Nigeria $700M monthly.

The five largest economic sectors in Nigeria (Agriculture, Manufacturing, Trade, ICT and Construction) accounts for 73.6% of the GDP. These sectors have the capacity to drive the desired economic growth in Nigeria in the mid-to-long term. Whilst the oil and gas sector contribute only 5.48% to the GDP, it accounts for a substantial portion of government revenue and foreign exchange earnings, hence remains a strategic growth driver, particularly in the short term. Agriculture is a crucial sector in Nigeria, employing a significant 35% of the working population. The ICT sector has experienced rapid growth in the last decade and remains one of the strategic levers for future growth. Trade sector is equally a vital component of Nigeria's economy, supported by the country's demography and geographical landscape. Ongoing attempts to address Nigeria's $2.3 trillion infrastructure gap has positioned the construction sector as a key growth driver for the foreseeable future.

What economic growth rate does Nigeria need to attain over the next decade?

There is no gainsaying that Nigeria needs to achieve a higher growth rate that is inclusive, private sector driven, non-inflationary and non-oil sector led. How the country intends to achieve this will depend on policy priorities of the new administration and the support of all Nigerians. Between 2000 and 2014, Nigeria's economy experienced an impressive 7% average annual GDP growth that was driven by structural reforms amidst favourable global conditions. From 2015-2022, however, growth rates decreased and GDP per capita flattened, driven by monetary and exchange rate policy distortions, increasing fiscal deficits, economic losses from trade protectionism, and external shocks from the COVID-19 pandemic. Weakened economic fundamentals pushed inflation to reach a 17-year high of 27.33% in October 2023, which, in combination with sluggish growth, has left 63% of Nigerians in multidimensional poverty.

According to a report by UNCTAD, a yearly growth rate of at least 7% is necessary to eradicate poverty in less developed countries, and put their economies on a path of accelerated growth and sustainable development. This position was reaffirmed in 2011 in the Istanbul Programme of Action (IPoA) and enshrined in the 2030 Agenda for Sustainable Development, under target 8.1 of the Sustainable Development Goals (SDGs). Whilst Nigeria has the potentials to deliver such ambitious annual growth rate over the next decade, the country's current reality makes such ambition far-fetched in the short-term. We believe that the country needs to at least double the current real GDP growth as a base case. Hence, a minimum of 5% y/y quarterly real GDP growth sustained over the next decade might just be the magic wand that will unlock the country's path to inclusive economic development.

A look at the economic growth trend of some notable economies that have attained some level of economic development (as measured by UNDP's Human Development Indicators (HDI) reveals that they were able to sustain between 5% to 10% GDP growth for decades. Consider Vietnam as an example. The country emerged from the rubble of the Second Indochina War (1955-1975) and economic collapse of the 1980s to become a high-HDI economy, recording impressive growth in per capita GDP from $1,675 in 1991 to $7,867 in 2021. Today, Vietnam has bold development aspirations and aims to become a high-income country by 2045 which requires a GDP per capita growth of about 6% annually.

Table 1: Growth experience of some countries with recent HDI improvements

Country/Period	2000-2005	2006-2010	2011-2015	2016-2022
Bangladesh	5.10%	6.10%	6.30%	6.60%
China	9.50%	11.30%	7.90%	5.70%
Ethiopia	6.50%	10.90%	10.20%	7.30%
India	6.00%	7.00%	6.50%	5.10%
Indonesia	4.70%	5.70%	5.50%	3.90%
Philippines	4.60%	4.90%	6.00%	4.30%
Singapore	5.60%	6.90%	4.50%	3.10%
Vietnam	6.90%	6.30%	6.20%	5.90%
Average	**6.10%**	**7.40%**	**6.60%**	**5.20%**

Source: The World Bank

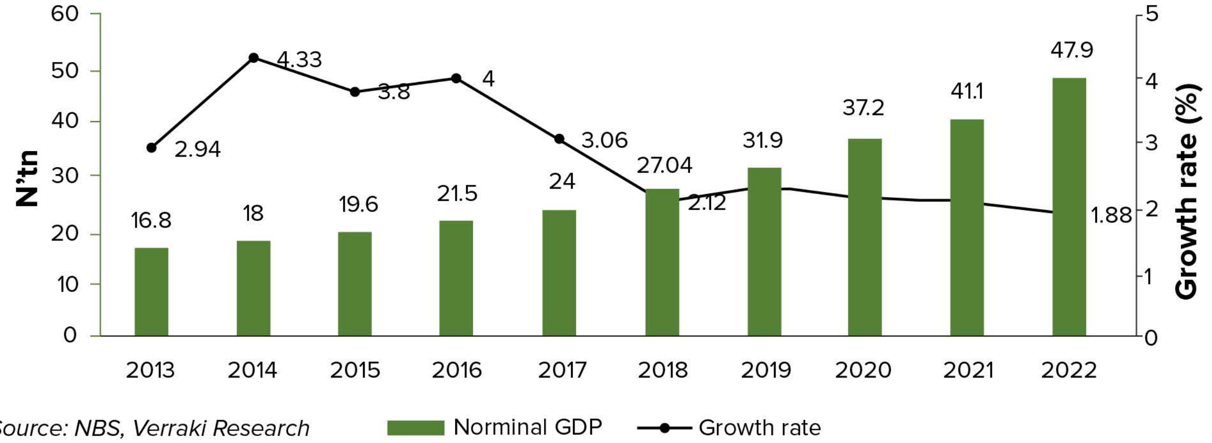
We consider a 5% – 7% annual real GDP growth as the minimum Nigeria should realistically target in the next decade. Our analysis shows that sustaining this growth rate should deliver a $900 - $1,100 billion economy by 2033. We believe strongly that Nigeria has the potential to achieve this target economic growth given its abundant natural resources, large and youthful population, and diverse economic sectors. To achieve a $1 trillion economy by the year 2033, the country needs to achieve and sustain 6.5% minimum average GDP growth rate and implement policies to slow the population growth rate sustainably.

What are the key sectors to deliver the required 5% – 7% GDP growth in Nigeria?

1. Agricultural Sector

The agricultural sector growth is very critical to attaining inclusive growth in Nigeria. The sector accounts for 26.34% of overall GDP, provides employment to 35% of the Nigerian workforce and supports rural economic fundamentals. Growth in crop production remained the major driver of the sector while accounting for 92% of the overall sector output.

Figure 3: Performance of Agricultural sector in the last 10 years



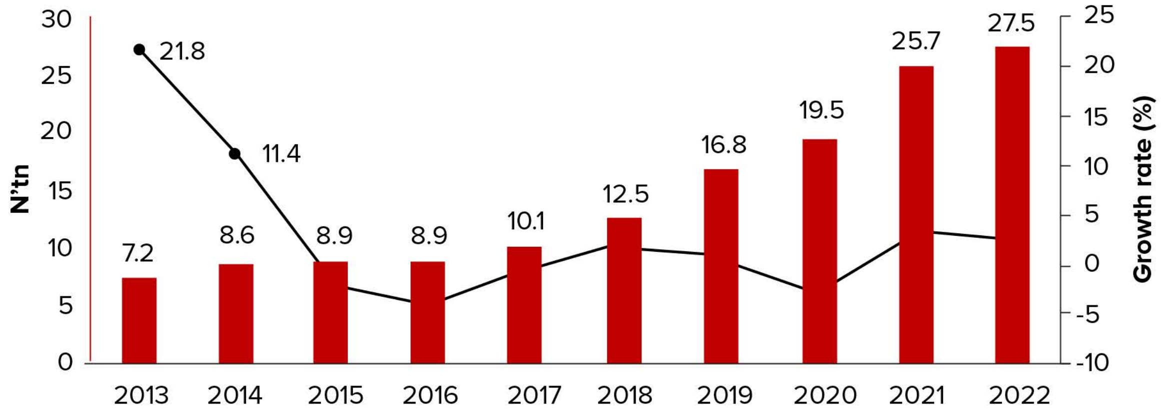
Source: NBS, Verraki Research

According to the National Bureau of Statistics, Nigeria spent a whooping N1.9 trillion on food importation in 2022. Research shows that Nigeria has over 35 million hectares of arable land. This accounts for about 23 percent of arable land across all of West Africa. Thus, in terms of production, the potential for Nigeria to leap forward is immense as we possess not only land, but one of the lowest levels of irrigation in the world. From irrigation tech, improved seeds, improved mechanization and logistics to new tech such as drones to Internet-of-Things and Artificial intelligence, the proliferation of accessible technologies that have the capacity to transform the agriculture sector into a profitable, sustainable, and inclusive business makes a compelling case for private sector participation. The sector is currently valued at N48 trillion and has the potential to double the current size over the next decade, with the appropriate reforms, de-risking, incentives, technology, and private sector involvement.

2. Manufacturing Sector

Manufacturing is a key driver of growth in every nation. It is a high labour-absorbing sector, strategic to the expansion of the country's tax base and key to economic diversification and value addition. The sector expanded by 0.48% in Q3 2023 which is a decrease compared to the 2.20% recorded in the previous quarter. The average performance of the sector shows that rising inflation and weak purchasing power continue to affect consumer spending. This is compounded by infrastructural bottlenecks that have made the sector largely uncompetitive.

Figure 4: Performance of Manufacturing sector in the last 10 years



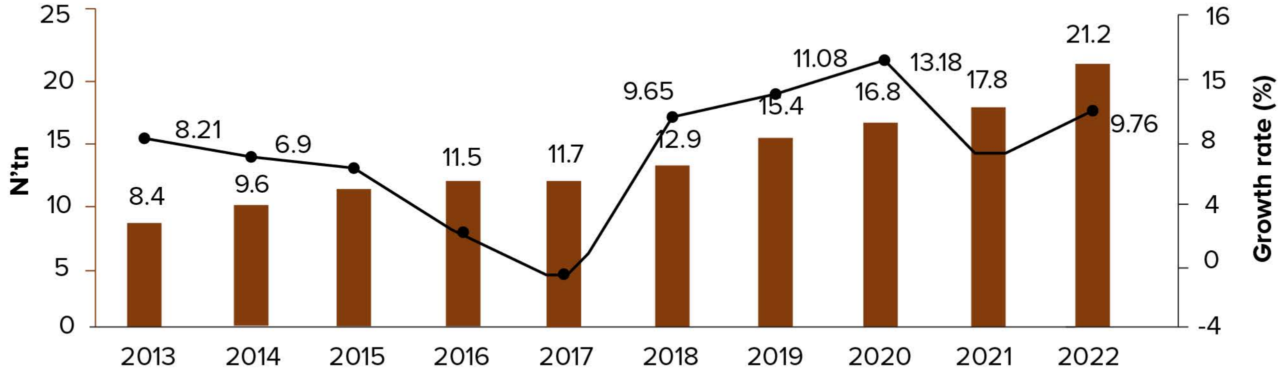
Source: NBS, Verraki Research

The manufacturing sector remains the foundation for industrial growth in Nigeria. Amidst declining purchasing power, Nigeria's demographic dividend presents interesting long-term growth opportunities for the sector. The Manufacturing sector has the potential to enable large-scale industrialization and move the current agricultural workforce into more productive activities. Targeted investment in the sector can unlock productive capabilities in the textile, leather, mining, food processing, and the petrochemical industry. Nigeria spent an estimated $6.7bn on the importation of manufactured goods in the first six months of 2023. With the right operating environment, local manufacturing capacity can save the country 50% of this import bill, and even enable exports to other African markets so we take advantage of the AfCFTA.

3. Information and Communication Technology

From the inception of GSM services rollout in 2001, the growth of ICT sector in Nigeria has been phenomenal. The size of the sector has more than doubled over the last 10 years from N8.4trillion in 2013 to N21.2trillion in 2022, recording an average of 7.2% annual growth. As of August 2023, the NCC estimates that the country has about 87 million broadband subscriptions (penetration of 47%) and 221 million lines in the voice segment (teledensity of 116%). Today, Nigeria is regarded as Africa's largest ICT market with about 82% of the continent's telecoms subscribers and 29% of internet usage. Nigeria's ICT sector grew by 6.69% in real terms in Q3 2023, contributing 11.57% to the GDP.

Figure 5: Performance of ICT sector in the last 10 years



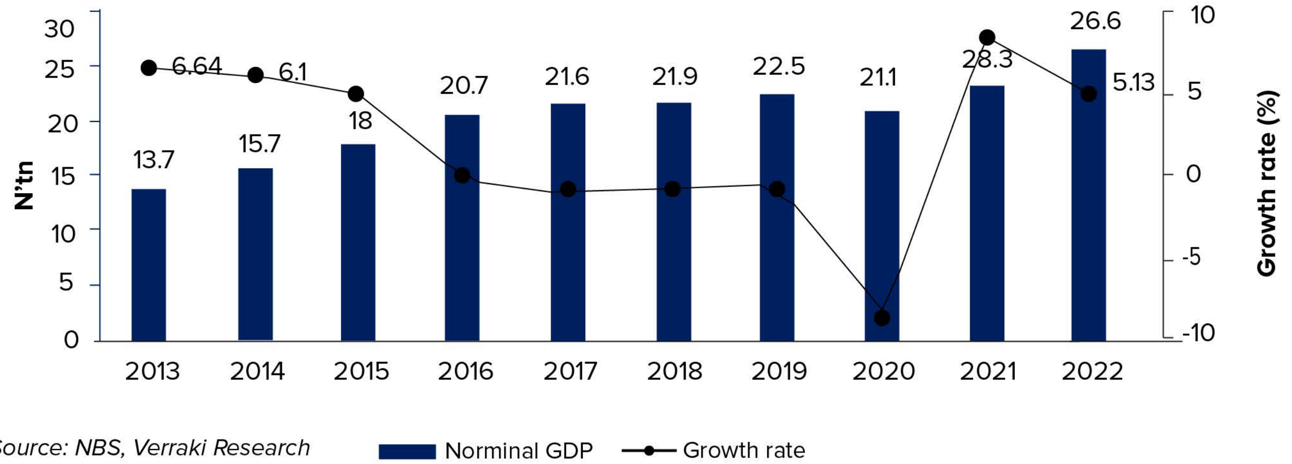
Source: NBS, Verraki Research

ICT is an enabler of growth in other economic sectors such as education, healthcare, agriculture, and manufacturing. Recent developments in the ICT sector such as the introduction of 5G, the launch of a second submarine fiber cable by Globacom, Meta's '2Africa' cross-continental subsea internet cable project, Google's Equiano subsea cable, Cisco Systems six internet of things (IoT) labs, Lagos Smart City project, etc. are bound to have significant growth impact in the sector. For example, Google's Equiano cable is expected to yield about 20% reduction in internet retail prices, a sixfold increase in internet speeds, and a 6% increase in internet penetration. There are several growth opportunities on the horizon. Nigeria's cloud service market terrain is still nascent. Digital financial services continue to evolve, even as fiber optic and broadband market is expected to thrive as more subsea cables come onstream and startups continue to disrupt established players in Fintech, Edtech, Healthtech, Retailtech amongst other sectors.

4. Trade Sector

Trade is the engine of economic growth. Through its effects on investment, technology transfer, market access and competition, trade can help the economy to thrive. According to a recent World Bank publication, trade liberalization increases economic growth by an average of 1.0 to 1.5 percentage points, resulting in 10 to 20% higher income after a decade. Valued at $27 trillion, the trade sector accounts for 15.19% of the GDP, employing millions of Nigerians in the retail and wholesale segment, and accounts for an estimated 55% of the SMEs in Nigeria.

Figure 6: Performance of Trade sector in the last 10 years



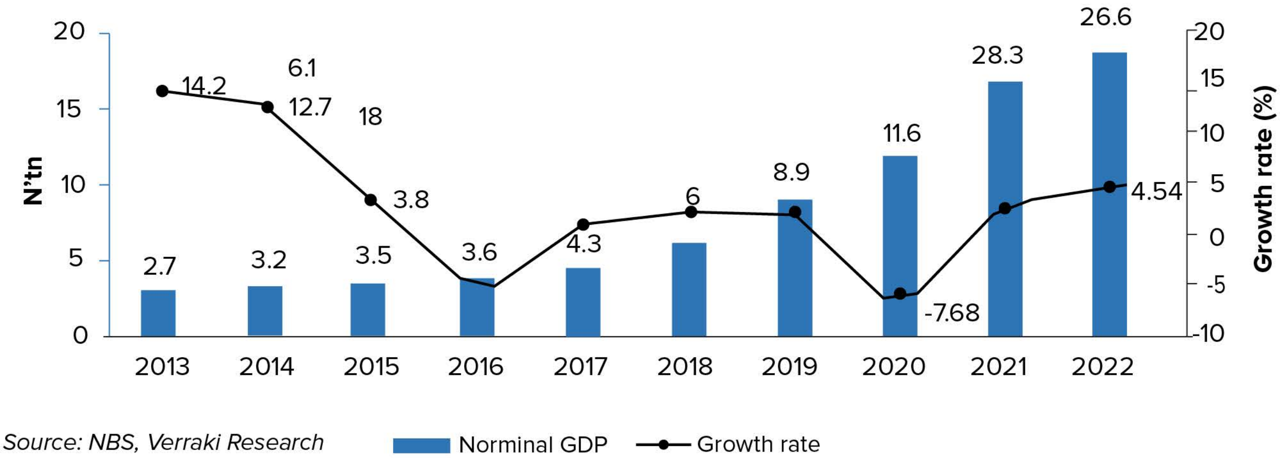
Source: NBS, Verraki Research

Trade is one of fastest growing economic sectors in Nigeria. Nonetheless, trade policies such as import bans, tariffs, foreign exchange restrictions, border closures, inefficient port operations, etc. have all curbed the flow of goods within, into and out of Nigeria. Addressing these issues methodically could see the size of the trade sector attain N50trillion over the next decade. The African Continental Free Trade Area (AfCFTA) also offers near-term growth opportunity for the Nigerian trade sector. AfCFTA is expected to deliver larger market access, free movement of labour, goods, services, and capital to Nigerian businesses.

5. Construction

The construction sector provides the needed economic infrastructure that facilitates the functioning of the economy. This could be in the form of public utilities such as power, telecommunication assets, water supply, etc.; or public works such as roads, drainages, airports, etc. The Nigerian construction sector is currently valued at N18trillion, accounts for 8.4% of the GDP and has grown six folds over the last decade. Recent development such as the $2.7 billion Infrastructural Corporation of Nigeria Limited fund (backed by the Central Bank of Nigeria, Africa Finance Corporation, and the Nigerian Sovereign Investment Authority) is expected to drive growth in the sector as more projects are approved for development.

Figure 6: Performance of Construction sector in the last 10 years



Source: NBS, Verraki Research

According to Africa Export and Import Bank (AFREXIM), Nigeria is projected to witness investments valued at $47 billion in construction-related development. Nigeria has a massive infrastructure deficit with total infrastructure stock in the country amounting to only 30% of the GDP. This falls short of the international benchmark of 70% set by the World Bank. Nigeria's National Integrated Infrastructure Master Plan aims to bring Nigeria's infrastructure stock to the recommended 70% of GDP level by 2043. This entails huge annual investments in road, rail, housing, ICT, and other infrastructure assets, which should drive employment and growth in the construction sector.

Scenario Analysis – Real GDP by the year 2033

We took a bottom-up approach to see how growth in key economic sectors can drive desired aggregate real GDP growth over the next decade (2023 – 2033) under six scenarios. The results from this analysis further buttress our position that the country needs to achieve and sustain a 5% - 7% GDP to deliver desired economic outcomes. To achieve this performance, the agriculture and manufacturing sectors need to each sustain a 4% - 6% average annual growth, the construction sector must grow at 8% - 10%, whilst the ICT sector must grow at 12% - 14% on average, over the next decade.

Table 2: Forecast Real GDP By 2033 - Growth Scenarios by sector ($bn)							Growth Rates (Scenarios)					
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	1	2	3	4	5	6
Agriculture	132.6	166.2	594.6	177.9	215.3	259.7	*0.7%*	*2.7%*	*17.1%*	*3.7%*	*5.7%*	*7.7%*
Manufacturing	92.3	84.4	286.5	123.7	149.7	180.5	*0.9%*	*0.0%*	*12.8%*	*3.9%*	*5.9%*	*7.9%*
Construction	83.1	52.0	349.8	110.2	132.4	158.6	*4.8%*	*0.3%*	*20.6%*	*7.8%*	*9.8%*	*11.8%*
Trade	76.1	71.0	364.5	101.8	123.0	148.1	*1.7%*	*1.0%*	*18.6%*	*4.7%*	*6.7%*	*8.7%*
Energy	19.5	56.4	195.0	26.5	32.5	39.5	*-4.7%*	*-6.1%*	*19.8%*	*-1.7%*	*0.3%*	*2.3%*
Real Estate	29.5	18.2	166.2	39.5	47.7	57.4	*1.8%*	*-2.5%*	*21.0%*	*4.8%*	*6.8%*	*8.8%*
ICT	144.5	116.9	1718.2	189.5	226.1	268.9	*9.3%*	*7.5%*	*40.0%*	*12.3%*	*14.3%*	*16.3%*
Total (Other sectors)	116.9	95.3	641.1	156.7	189.2	227.7	*2.1%*	*0.4%*	*21.4%*	*5.1%*	*7.1%*	*9.1%*
Aggregate GDP	694.5	660.4	**4,315.9**	**925.8**	**1,116.0**	**1,340.5**	***2.6%***	***2.1%***	***23.2%***	***5.6%***	***7.6%***	***9.6%***

Notes:

Scenario 1: Base Case - FY2023 forecast growth rates
Scenario 2: Average growth rates recorded between 2015 - 2022
Scenario 3: Average growth rates recorded between 1999 - 2007
Scenario 4: BAU +3% factor
Scenario 5: BAU +5% factor
Scenario 6: BAU +7% factor

Source: Verraki Research

Our base-case scenario assumes that the macroeconomic conditions over the next decade will be like the year 2023. Our analysis shows the Nigerian economy will achieve 2.6% average growth over this period and deliver a $694.54 billion dollar economy by 2033. If the country should pursue similar economic policies as we had during 2015-2023 period (driven by federal infrastructure programmes, state-led economic agenda, etc.), we should see a real GDP of $660.44 billion by 2023. Furthermore, if Nigeria can replicate the double-digit growth across key sectors as we had during 1999-2007 period (driven largely by the private sector, institutional reforms, robust foreign reserves, etc.), then the real GDP could get to $4.3 trillion by 2033. Base-case plus 3%, 5% and 7% growth should deliver an economy valued at $925.8bn, $1,116bn and$1,340.5 respectively by 2033. By implication, to achieve a $1trillion economy by 2033, the country needs to achieve and sustain a real GDP growth of approximately 6.5% at the minimum.

Call to Action - the role of government and policy makers

The Nigerian government and policy makers have a crucial role in driving the desired 5% – 7% GDP growth over the next decade. The federal government must take the lead, formulate, and implement visionary policies that will guide all economic actors towards achieving sustainable growth. Such policies must address economic, social, and institutional drivers of economic growth, whilst ensuring that the growth outcomes are broad-based, non-inflationary and inclusive. We highlight some short and long-term policy priorities that may help.

In the short-term, government must stabilize the economy in terms of physical security and safety, address inflation, check population growth, optimize quick wins, and communicate strong political will to act. The government must immediately address the issue of oil theft which has continued to weaken revenue generation and a threat to the proposed 2024 budget by the current administration which pegged daily crude oil production at 1.78 million bpd. There is a need to expand our tax net and boost efficiency in tax collection through better use of digital technologies to strengthen revenue administrations in the quest to achieve 18% tax to GDP in the next four years. There is equally a need to urgently address the depreciation of the Naira and volatility in the foreign exchange market amid unabated inflation which has continued to shrink consumer demand and weaken investors'confidence. Also, the fiscal authority needs to block all revenue leakages, boost trade openness through incentives for local production, reform of the Nigerian customs and ports, and reduce tariffs on certain export-oriented industries to generate foreign exchange and boost economic growth. Government must demonstrate clear and visionary growth path for critical economic sectors, and communicate policy priorities similar to the technology innovation policy priorities we published earlier.

To sustain growth in the long-term, the government needs to continue the roll-out of visionary infrastructure projects that will support economic diversification, broad-based growth, and better quality of life. Collaboration with the private sector through public-private partnerships and strategic de-risking should stimulate the deployment of private capital and expertise to strategic economic sectors, particularly Agriculture, ICT, Manufacturing and Services. Government must fast-track the privatization of idle and underperforming national assets and promote private sector participation along the value chains of the targeted economic sectors. The development of human capital is critical for long term growth. Therefore, sustained investment in the health, education, nutrition and social services sectors remains pertinent. The removal of barriers to MSME growth is a necessary condition for sustained pro-jobs growth given that MSMEs contribute 43% to Nigeria's GDP and employ over 85% of the total workforce.

Authors

Olaniyi Yusuf
Managing Partner
olaniyi.yusuf@verraki.com

Niyi is the Managing Partner at Verraki and leads the Social Sector practice. He served as the Country Managing Director for Accenture in Nigeria and was responsible for all aspects of the firm's strategy, team and operations. Niyi holds a combined honours degree in Computer Science and Economics from Obafemi Awolowo University and worked at Accenture, Arthur Andersen and JKK in a career spanning over 30 years. Niyi has played critical roles in the establishment of industry infrastructure for the Nigerian banking industry including establishment of Interswitch, CRC Credit Bureau and Shared Service platforms.

Chigozie Muogbo
Research Lead
chigozie.muogbo@verraki.com

Chigozie leads the Research and Intelligence function at Verraki. He is an economist and CBAP-certified business analyst with over a decade of experience in research, investment management and business process reengineering. He holds a BSc in Economics (first class honours) from Obafemi Awolowo University, MSc in Economics from University of Lagos, an MPhil in Development Finance (distinction) from University of Stellenbosch Business School and a Certificate in Design Thinking and Innovation from Harvard Business School.

Fredrick Atseyinku Sola
Research Analyst
fredrick.atseyinku@verraki.com

Fredrick is a Research Analyst at Verraki. He is an economist and business strategy professional with over four years of experience in policy and market-based research that cuts across various sectors of the Nigerian economy. He has worked with reputable organizations such as the Lagos Chamber of Commerce and Industry, the Institute of Directors Nigeria and IT Horizons contributing immensely to their growth. Fredrick holds a B.Sc. in Economics from Delta State University, and Msc in Economics from University of Lagos.

About Verraki

Verraki is a proudly African company partnering with enterprises and governments to accelerate the development and transformation of Africa by providing business solutions designed for Africa. We build and implement technology solutions for seemingly intractable challenges, provide advisory services to drive the capacity and motivation for change, and curate innovative ventures to unlock new sources of growth across our continent.

A fusion of two words: 'Versorium' (Latin for Turn Around) and 'Meraki' (Greek word used to describe the action of doing something with soul, creativity, pouring oneself into a task), Verraki aptly captures the essence of our company; to turn around African enterprises and governments via smart, future-focused solutions and business insights, new growth opportunities, helping to unleash their potential, turnaround their performance and achieve the seemingly impossible, with the sole goal of creating a better future for Africa.

We are committed to enabling the African (start-up) story by supporting high-impact socially-conscious entrepreneurs and catalysing self-sustaining enterprises and governments within the continent to deliver affordable services across critical sectors.

Our Growth Optimisation Offering

The contemporary business environment is dramatically different from what it was ten years ago, and it continues to evolve at an increasing rate. Consumer trends, macroeconomic shifts, technological advances, changing competitive dynamics, climate change, supply chain disruptions, digitalisation and pandemics are accelerating the pace of change, leaving many businesses struggling to grow amidst the turbulence.

At Verraki, we understand client needs and provide innovative new approaches that help enterprises and governments to explore new market opportunities including expansion into new regions, identification of new channels, targeting of new customer segments, or even the creation of new product categories in a way that moves them from "surviving" to "thriving." Verraki develops and delivers the practical tools, frameworks, and organizational capabilities required to gain competitive advantage, and achieve sustainable growth, utilising customer insights, big data, and proprietary knowledge to achieve a deeper understanding of demand, customers, competitors, and opportunities.

Our seasoned executives and team have a broad range of multibillion-dollar P&L experience delivering long-term growth and optimisation vision, strategies, and management at global Fortune 500 companies.

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Contact

OFFICE ADDRESS
4th Floor, Mansard Place,
Plot 927/928 Bishop Aboyade Cole Street,
Victoria Island, Lagos, Nigeria.

NUMBER
+234 (1) 453 7151,
0901-VERRAKI

EMAIL
info@verraki.africa

WEBSITE
www.verraki.africa

verraki
Business Solutions for Africa