



# Nigeria Economic Update



Weekly  
**Digest**

## **Fall in GDP growth rate**

Nigeria's economy performed poorly and witnessed a second consecutive quarter of weakened growth as real GDP slowed to a year-on-year growth rate of 1.94% in the second quarter of 2019<sup>1</sup>. The rate is lower than the revised 2.1% growth rate reported for the previous quarter (2019Q1) and particularly underlines slow paced growth in the non-oil sector. While the oil sector leveraged on oil price rebounds and expanded by 6.61 percentage points to record a growth rate of 5.15% (from -1.46%), the non-oil sector slowed to 1.64%, declining from 2.47% posted in the last quarter. The trend in the non-oil sector revealed the suboptimal growth state of two major sub-sectors – agriculture and manufacturing. Agriculture subsector fell significantly from 3.17% to 1.79% while the manufacturing sector entered the negative growth rate zone (-0.13%) and contributed less to GDP QOQ (9.1%). The performance of the non-oil sectors is likely to be continually undermined by systemic issues including the lack of large-scale mechanization, inadequate backward and forward integration with local industries, and poor standardization of products. It would be beneficial for the government to create an environment that encourages private sector partnerships and public-private partnership for upscaling production, particularly in agriculture and manufacturing sectors. Regulatory agencies such as Standards Organization of Nigeria (SON) also need to deepen their efforts towards ensuring better quality and standardization of products to boost Nigeria's domestic sales and exports.

## **Introduction of VAT on online transactions**

In justifying the potentially untapped tax base existing in non-oil revenue generation, the Nigerian government has proposed an imposition of 5% VAT on all domestic and international online transactions<sup>3</sup>. If implemented by January 2020<sup>4</sup>, rather than increasing VAT tax rate, the policy aims to expand tax base by taxing online purchases/transactions to generate more revenue. However, along with possible duplication of online transaction charges, concerns have arisen about its negative impact on Nigeria's long-term cashless policy due to potential increase in prices of items paid for online which would further disincentivise the use of cards for online purchase payments. More so, the introduction of VAT on online transactions can be seen as regressive in nature given that the flat rate would more greatly affect low- and middle-income households who consume nearly all or a larger portion of their income, relative to high-income households who are more likely to save. However, new tax could also be seen as a proportional tax on the basis that middle- and high-income households are more likely to conduct online transactions, and thus would pay more. Regardless, the policy could also have a negative impact on online-based businesses and sales of digital goods and services in the country, but it could also encourage personal savings and investment, higher tax revenue for public services, and perhaps ultimately boost economic growth.

## **Business Outlook**

Overall business outlook and optimism in the macroeconomy improved marginally in August 2019. At 28.6 index points<sup>5</sup>, businesses expressed optimism in the macroeconomy, up slightly from the reported 28.1 index points in the previous month, July<sup>6</sup>. Although business respondents from the services sector continue to drive the optimism in the month, a closer review show that the positive outlook by type of business in August 2019 were also driven by businesses that are neither import nor export-oriented (21.0 index points). This may be because these businesses do not encounter exchange rate challenges that are often faced by import and export-oriented businesses. If so, then continued efforts at ensuring long-term stability in the exchange rate can help boost business performance more significantly, given that people make more investment in the presence of optimism. Particularly, strengthening the ability of monetary system to dampen the impact of shocks and foreign business cycles would be beneficial.

<b>ECONOMIC SNAPSHOT</b>		
<b>Quarterly Indicators</b>	<b>'18Q4</b>	<b>'19Q1</b>
GDP Growth Rate (%)	2.38	2.1
Oil GDP (%)	-1.62	-2.40
Non-oil GDP (%)	2.7	2.47
Unemployment Rate (%)	NA	NA
Foreign Direct Investment (US \$ Million)	173.37	243.36
Portfolio Investment (US \$Millions)	1,760.76	7,145.98
Other Investment (US \$Million)	750.93	1,096.15
External Debt (FGN & States- N'Billion)	7,759.22	NA
Domestic Debt (FGN + States & FCT N'billion)	16,627.84	NA
Manufacturing Capacity utilization (%)	55	NA
<b>Monthly Indicators</b>	<b>June'19</b>	<b>July'19</b>
Headline Inflation (%)	11.22	11.08
Food Sub-Index (%)	13.56	13.39
Core Sub-Index (%)	8.84	8.80
External Reserves (End Period) (US\$ Million)	45,069.45	44,903.03
Official Rate Approx. (N/US\$)	305	305
BDC Rate Approx. (N/US\$)	362	362
Manufacturing PMI	57.4	57.6
Non-Manufacturing PMI	58.6	58.7
Crude Oil Price (US\$/Barrel)	NA	NA
Petrol (PMS-N/litre)	145.40	145.00
Diesel (AGO -N/Litre)	224.69	224.96
Kerosene (HHK -N/Litre)	316.43	316.03
MPR (%)	13.5	13.5
CRR (%)	22.5	22.5
91 Day T-Bill Rate (%)	10.14	NA
Savings Deposit (%)	3.93	NA
Prime Lending (%)	15.8	NA
Maximum Lending (%)	31.04	NA
Narrow Money (N'Billion)	11,159.12	11,435.79
Broad Money (N'Billion)	35,018.77	35,675.93
Net Domestic Credit (N'Billion)	32,332.63	33,412.40
Credit to the Government (N'Billion)	7,581.49	9,138.08
Credit to the Private Sector(N'Billion)	24,751.13	24,274.31
Currency in Circulation (N'Billion)	2,014.07	2,003.09
FAAC (N'Billion)	762.5	769.5

\*Revised GDP figures/tentative figures

NA: Not Available

<sup>1</sup>National Bureau of Statistics (2019). “Nigerian Gross Domestic Product Report (Q2 2019)”. Retrieved from, <https://nigerianstat.gov.ng/>

<sup>2</sup>Proshare (2019). “Q2 2019 GDP: Oily Exit from Recession and Services Fuels Growth”. Accessed September 4, 2019. <https://www.proshareng.com/news/Nigeria%20Economy/Q2-2019-GDP--Oily-Exit-From-Recession-and-Services-Fuels-Growth/46884>

<sup>3</sup>firs.gov.ng

<sup>4</sup>Punch (2019). “FIRS imposes VAT on online transactions January”. Accessed September 3, 2019. <https://punchng.com/firs-imposes-vat-on-online-transactions-january/>

<sup>5</sup>CBN (2019). “August 2019 Business Expectations Survey Report”. Retrieved from, <https://www.cbn.gov.ng/Out/2019/STD/August%20%202019%20BES%20Report.pdf>

<sup>6</sup> CBN (2019). “July 2019 Business Expectations Survey Report”. Retrieved from, <https://www.cbn.gov.ng/Out/2019/STD/BES%20Report%20July%202019.pdf>