

AFRICA RISK CONSULTING

Nigeria Monthly Briefing July 2023

Nigeria Summary 26 July 2023

The Central Bank of Nigeria on 25 July raises the benchmark rate by 25 basis points to 18.75%, extending its monetary tightening cycle. The decision comes as annual inflation rises to a 17-year high of 22.79%. Nigeria's official currency exchange rate is once again widening with the parallel unofficial market rate, shaking off a brief convergence initiated by the central bank's actions. Muhammad Nami, head of the Federal Inland Revenue Service (FIRS), announces on 20 July that FIRS expects to raise ₦7.5 trillion (\$9.5 billion) in the second six months of this year after collecting a record ₦5.5 trillion (\$6.9 billion) in the first half of this year. Nigerian oil traders report poor results for July, with as much as half of the output (20-22 cargoes) meant to be loaded in July still searching for buyers. The surplus is caused in part by FIRS requesting back taxes from shipping companies, who are now opting to avoid Nigerian ports.

Monetary tightening continues and inflation soars

The **Central Bank of Nigeria** 50-basis 25 July extended its longest phase of monetary tightening to control inflation, raising the benchmark rate by 25 basis points to a record 18.75%, despite calls from president **Bola Tinubu** (2023-present) for borrowing costs to be lowered.¹ CBN acting governor, **Folashodun Shonubi**, presiding over his first meeting since replacing **Edwin Emeziele**, revealed that the decision to hike rates was split, with four of the present 11 MPC members voting for a 25 basis-point hike, two favouring a 50 basis points increase and five preferring a hold.² All MPC members voted unanimously to narrow the CBN's asymmetric corridor, meaning that the cost at which lenders borrow is 100 basis points above the monetary policy rate.³ The return on borrowers' deposits is also 300 basis points below the benchmark rate.

Tinubu, who has implemented several key reforms since assuming the presidency in May, said that high interest rates are restricting economic growth and should be lowered to encourage spending. However, Shonubi stressed that the balance of arguments around the need to curb inflation, while supporting investment and economic growth recovery, was in favour of a moderate hike. Shonubi noted that this is necessary to:

"Sustain efforts aimed at anchoring inflation expectations, narrow the negative real interest rate gap and improve investor confidence."⁴

The decision is necessary as the annual inflation rose to a 17-year high of 22.79% in June, up from 22.4% in May.⁵ The upswing in annual and monthly inflation was fuelled by higher food prices - annual food inflation accelerated to 25.3% in June from 24.8% in a month prior while monthly inflation quickened to 2.4% from 2.2%. This would have been further driven by Tinubu's decision to eliminate fuel subsidies and weaken the naira (₦), driving up transport and import costs.⁶

In response, Tinubu declared a State of Emergency (SOE) on 14 July that allows the government to take exceptional measures to improve food security and supply, as skyrocketing prices cause

¹ Nairametrics, 25 Jul 2023

² Central Bank of Nigeria, 25 Jul 2023

³ Central Bank of Nigeria, 25 Jul 2023; Nairametrics, 25 Jul 2023

⁴ Central Bank of Nigeria, 25 Jul 2023; Bloomberg 25 Jul 2023

⁵ National Bureau of Statistics, 17 Jul 2023

⁶ Bloomberg, 17 Jul 2023

widespread hardship.⁷ Under the SOE, some of steps the government can take include providing farmers with low-cost funding to buy fertilisers, seeds and other inputs.⁸ Tinubu asked Nigerian lawmakers on 12 July to approve ₦500 billion (\$638m) in spending to cushion the impact of the removal of gasoline subsidies.⁹

The quickening in both annual and monthly inflation and expectations that prices will remain elevated persuaded the CBN to hike interest rates, albeit slightly lower than the expected increase of 50 to 100 basis points. Nigeria's MPC has increased interest rates by 725 basis points since May 2022 to tame an inflation rate that for a year has been more than double the central bank's target band of 6% to 9% (see *ARC Briefing Nigeria May 2023*). The MPC also said that it forecasts the economy to grow by 2.66% this year, down from its 3% forecast made in May. The Tinubu administration is targeting a growth rate of at least 6% a year.

This particular rate hike also served as a test of the CBN's independence. Shonubi, who is hoping for a full-time appointment, was faced with appeasing Tinubu or implementing necessary monetary policy. Shonubi appears to have taken the middle ground by increasing rates but very marginally. The president has not yet responded to the development, but it will become more evident at the MPC's next meeting whether Shonubi will cede to Tinubu's demands or maintain the CBN's independence.

Central bank struggling to close naira-rate gap...

The official currency exchange rate is once again widening with the parallel unofficial market rate, shaking off a brief convergence initiated by CBN's 14 June decision to allow markets to allow lenders to freely determine the price of the national currency.¹⁰ The naira's official and parallel rates converged on 20 June with local securities exchange firm **FMDQ Exchange** reporting that the naira strengthened by 1.8% reaching 756.61 to the US dollar (USD) at the close of trading on 20 June and **Lagos-based Forward Marketing Bureau de Change**, which compiles the parallel market data, reporting that the naira hovered at 757 in the unofficial market.¹¹ However, according to data compiled by the Nigerian exchange website **NGN Rates**, the naira stands at 788 to the USD as of 26 July and at 870 to the USD on the parallel market.¹²

Nigeria's economy has been stumbling for years with investment in the country crippled by policy missteps, an inefficient bureaucracy, runaway public debt, corruption, crime and sabotage and theft of oil pipelines.¹³ Following his inauguration on 29 May, Tinubu acted swiftly to implement key reforms that he promised to enact on the campaign trail such as overhauling the country's exchange rate policies which effectively devalued the naira, eliminating costly fuel subsidies and removing restrictions on dollar deposits at local banks.¹⁴

Despite the naira weakening initiating weakening by as much as 40% since the removal of the currency peg, the dollar backlog has not been successfully eliminated, forcing local businesses to turn to unofficial sources.¹⁵ This is again self-inflicted by the CBN. After initially allowing the naira to trade freely, the central bank intervened in the market to prevent sharper losses in the currency, amid concerns that a weaker naira would fuel inflation.¹⁶ That has undermined the CBN's efforts to close the gap between the official and parallel market rates. In order to close the gap between the rates, the CBN will have to stick to its policy and let the markets self-regulate in line with the new policy implemented by the Tinubu administration.

⁷ Vanguard, 14 Jul 2023

⁸ Vanguard, 14 Jul 2023

⁹ Bloomberg, 17 Jul 2023

¹⁰ Moneyweb, 19 Jul 2023

¹¹ Forward Marketing, 20 Jun 2023

¹² NGN Rates, 26 Jul 2023

¹³ Bloomberg, 20 Jun 2023

¹⁴ Reuters, 16 Jun 2023; Bloomberg, 19 Jun 2023

¹⁵ Bloomberg, 19 Jul 2023

¹⁶ Moneyweb, 19 Jul 2023

Nigeria forecasts record \$9.5 Billion in taxes in second half of 2023...

Muhammad Nami, head of the **Federal Inland Revenue Service (FIRS)**, announced on 20 July that after a record performance in the first half of 2023, FIRS expects to raise ₦7.5 trillion (\$9.5 billion) in the second six months of this year as the government improves the tax collection process.¹⁷ FIRS collected ₦5.5 trillion (\$6.9 billion) in the first half of this year, passing the ₦5.3 trillion (\$6.6 billion) target set by the government for the period.¹⁸ According to FIRS, revenues raised from the non-oil sector contributed 69% of the total. Tax collections in June alone more than doubled to ₦1.65 trillion (\$2.0 billion), the highest amount collected in any single month.¹⁹ The presidency has confirmed that ₦590 billion (\$744m) of the June collection will be transferred to an **Infrastructure Support Fund** created to help the government offset the impact of its decision to remove fuel subsidies.²⁰

Nami said that the record collection was possible because of the positive impact of the current government's policies on the domestic economy, the continued improvement of automated tax administration processes including VAT-filing processes and improved voluntary tax compliance by taxpayers due to regular engagement with stakeholders in both formal and informal sectors of the economy.²¹ He also said that this year's record collection is a "good head start" and is a particularly notable milestone given the heavy tailwinds facing the economy, including the February general elections and the impact of the currency redesign which disorientated economic activity in Nigeria.²² Last year FIRS collected ₦10.1 trillion (\$12.7 billion) in taxes and has set a target of ₦25 trillion (\$31.5 billion) for 2024.²³ Given the several serious challenges facing the country, the record collection by FIRS is remarkable and is an indication of some of the strong policies the Tinubu administration has put in place, however, the \$31.5 billion target for next year is very optimistic as economic challenges will carry into 2024.

Nigeria's crude remains unsold as tax demands shake shipowners...

Nigerian oil traders have reported poor results for July, with as much as half of the output (20-22 cargoes) meant to be loaded in July still searching for buyers.²⁴ It was reported on 23 June that some shipping companies were avoiding Nigeria after FIRS sent out a series of multi-million dollar tax bills in a bid to reclaim unpaid duties from 2010-2019, causing wariness among some of them about sending their vessels to collect the country's barrels.²⁵ Tax authorities have given the shipowners a six-month grace period to reconcile the tax backlog through a committee involving regulators and shippers, but the traders note that the lack of sales of oil resources shows that the country needs to do more to fix the issue.²⁶

This has also had a knock-on effect - the **Baltic Exchange** reported that as on 22 June, it costs \$53,456 per day to ship oil from Nigeria, but following the tax issue announcement, freight for ships transporting about one million barrels of crude from Nigeria to **Europe** surged, increasing by as much as \$16,000 in one day.²⁷ The problem, which is not a recent issue as the country struggled last year to ship some of its crude, also appears to be an isolated case, and largely self-inflicted, as **Angola** completely sold out its crude supplies for July and while **Chad** and **Gabon** also mostly sold their supplies for July.²⁸

¹⁷ Federal Inland Revenue Service, 20 Jul 2023

¹⁸ Federal Inland Revenue Service, 20 Jul 2023

¹⁹ Yahoo Finance, 21 Jul 2023

²⁰ Yahoo Finance, 21 Jul 2023

²¹ Federal Inland Revenue Service, 20 Jul 2023

²² Yahoo Finance, 21 Jul 2023

²³ Yahoo Finance, 21 Jul 2023

²⁴ Bloomberg, 23 Jun 2023

²⁵ Bloomberg, 23 Jun 2023

²⁶ This Day Live, 24 Jun 2023

²⁷ Baltic Exchange, 22 Jun 2023

²⁸ This Day Live, 24 Jun 2023

The above issue indicates one of the many challenges the oil sector is facing. Nigeria has struggled with a decline in oil output which the government has blamed on years of low investment, massive vandalism and pipeline theft crisscrossing the oil-rich **Niger Delta** in southern Nigeria.²⁹ The continued decline in Nigeria's output is a further threat to the country's finances, particularly at a time when energy prices are skyrocketing due to the conflict in **Ukraine**.³⁰ However, the Tinubu administration's major economic reforms could help resolve the challenges facing the oil sector.

Planner

Aug 2023 **Abuja (Nigeria)** Central Bank of Nigeria's Monetary Policy Committee meeting;

Chronology

25 Jul 2023 **Abuja (Nigeria)** *Al Jazeera*. Arrested former central bank governor, **Godwin Emefiele**, denies charges of illegal gun possession;

21 Jul 2023 **Abuja (Nigeria)** *Bloomberg*. **United Kingdom (UK)**-based **Global Energy Alliance for People and Planet** is in talks with Nigeria's wealth fund to invest in renewable energy to help end blackouts impeding households and businesses in the country;

18 Jul 2023 **Abuja (Nigeria)** *Nigerian National Petroleum Company*. **Nigerian National Petroleum Company (NNPC)** increases the pump price of gasoline by nearly 15%, weeks after prices almost tripled following the scrapping of fuel subsidies and a sharp depreciation of the naira;

17 Jul 2023 **Abuja (Nigeria)** *Bloomberg*. Nigeria's biggest lender, **Access Bank**, is seeking more acquisitions in a bid to expand outside its home market, days after buying some African assets of **South African** banking giant **Standard Chartered Plc**;

16 Jul 2023 **Abuja (Nigeria)** *This Day Live*. **Central Bank of Nigeria (CBN)** slashes the mandatory cash reserve requirement for merchant banks by 70% to increase their liquidity and ability to extend loans to companies;

15 Jul 2023 **Abuja (Nigeria)** *This Day Live*. A leaked court document filed by the **State Security Service (SSS)** shows suspended central bank governor **Godwin Emefiele** was charged with the illegal possession of a firearm;

13 Jul 2023 **Abuja (Nigeria)** *Central Bank of Nigeria*. **Central Bank of Nigeria (CBN)** extends how long the country's top commercial bankers can stay in office by two years to a maximum of 12, as it seeks to strengthen management and corporate governance among lenders;

13 Jul 2023 **Abuja (Nigeria)** *Reuters*. Nigeria files charges against suspended central bank governor **Godwin Emefiele** after the high court rules that he should be charged or freed;

9 Jul 2023 **Abuja (Nigeria)** *National Bureau of Statistics*. **National Bureau of Statistics (NBS)** says that capital inflows into the country declined 28% between January and March, reaching \$1.1 billion compared with a year ago. The inflows did, however, rise 6.8% from the previous quarter;

7 Jul 2023 **Abuja (Nigeria)** *Premium Times Nigeria*. President **Bola Tinubu** sets up a panel to reform tax laws and fiscal policy in a bid to boost revenue generation and curb borrowings;

6 Jul 2023 **Abuja (Nigeria)** *Bloomberg*. President **Bola Tinubu** suspends excise taxes introduced two months ago on telecommunications services and some locally produced goods;

²⁹ Bloomberg, 8 Sep 2022; Offshore-Technology, 12 Sep 2022

³⁰ Business Live, 11 Sep 2022

3 Jul 2023 **Abuja (Nigeria)** *Moneyweb*. **World Bank** says Nigeria will save more than ₦21 trillion (\$28 billion) in two years after scrapping gasoline subsidies and allowing its currency to weaken;

3 Jul 2023 **Abuja (Nigeria)** *Bloomberg*. **Bank of America** sub-Saharan Africa economist **Tatonga Rusike** says Nigeria may need to increase interest rates by at least 700 basis points before the end of the year to curb inflation that's poised to accelerate after fuel caps were scrapped and the naira weakened;

28 Jun 2023 **Brussels (Belgium)** *European Union*. **European Union (EU)** observers say Nigeria's elections this year were marred by problems that undermined public trust in democracy;

27 Jun 2023 **Brussels (Belgium)** *Nigeria Sovereign Investment Authority*. **Nigeria Sovereign Investment Authority** CEO **Aminu Umar-Sadiq** says the wealth fund sees the potential to expand a carbon credits programme with **Switzerland**-based **Vitol SA** 10-fold in a venture currently worth \$50m.

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