

## AFRICA RISK CONSULTING

### Nigeria Monthly Briefing June 2023

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#### Nigeria Summary 23 June 2023

*Following his inauguration on 29 May, president Bola Tinubu (2023-present) impresses many by acting swiftly to implement key reforms that he promised to enact on the campaign trail. Tiubu scraps the costly fuel subsidy introduced in the 1970s and loosens foreign-exchange controls. Tinubu dismisses governor of the Central Bank of Nigeria (CBN) Godwin Emefiele on 9 June. The State Security Service confirms on 10 June that it arrested Emefiele for alleged wrongdoing concerning a multibillion-dollar public lending programme that he initiated as governor. Tensions National Bureau of Statistics (NBS) says on 15 June that the annual inflation rate increased for a fifth consecutive month to 22.4%. Inflation is expected to rise further when the impact of the government's recent decisions to scrap fuel subsidies and sharply depreciate the naira filter through the local economy.*

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#### Tinubu shakes market with reforms...

Following his inauguration on 29 May, president **Bola Tinubu** (2023-present) impressed many by acting swiftly to implement key reforms that he promised to enact on the campaign trail.<sup>1</sup> **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.<sup>2</sup> To bring an end to those challenges and double the annual economic growth to 6% initiated the following reforms:

- Eliminating costly fuel subsidies;
- Overhauled the country's exchange rate policies which effectively devalued the naira;
- Fired controversial central bank governor **Godwin Emefiele**, the architect of most of the previous government's unorthodox policies;
- Removing restrictions on dollar deposits at local banks.<sup>3</sup>

Tinubu's decision to scrap fuel subsidies that cost \$10 billion annually has caught the attention of investors, as it was a politically challenging decision to make.<sup>4</sup> The threat of political instability from removing the subsidy is partly the reason why former president **Muhammadu Buhari** (2015-2023) resisted pressure from both the **World Bank** and **International Monetary Fund (IMF)** to cut the subsidy which dwarfs the combined spending on health and education.<sup>5</sup> However, former **Central Bank of Nigeria (CBN)** governor **Godwin Emefiele** sided with the World Bank and IMF, noting that "*whether we like it or not, we must exit the subsidy*".<sup>6</sup> The government is hoping that the impact of the fuel subsidy termination may not be as big as expected as **Dangote Refinery** opened a mega petroleum refinery in Nigeria.

Tinubu had further promised to end the practice of maintaining multiple exchange rates which is dominated by a tightly controlled official rate and adopt a flexible monetary policy.<sup>7</sup> This is in contrast

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<sup>1</sup> Reuters, 16 Jun 2023

<sup>2</sup> Bloomberg, 20 Jun 2023

<sup>3</sup> Reuters, 16 Jun 2023; Bloomberg, 19 Jun 2023

<sup>4</sup> Bloomberg, 20 Jun 2023

<sup>5</sup> Bloomberg, 5 Apr 2023; Business Day Live, 5 Apr 2023

<sup>6</sup> Central Bank of Nigeria, 24 May 2023

<sup>7</sup> Bloomberg, 18 May 2023

to Buhari who preferred for the central bank to manage the national currency. A weaker naira is expected to help Nigeria cut its trade imbalances and reduce pressure on foreign reserves, which dropped to a near two-year low of \$35 billion in April, enough to pay for five and a half months of imports.<sup>8</sup>

After days of market volatility caused by the CBN's 14 June decision to allow markets to allow lenders to freely determine the price of the national currency, the naira's official and parallel rates converged on 20 June.<sup>9</sup> The naira weakened by 29% on 14 June after the CBN lifted its controls and remained volatile until 20 June. Local securities exchange firm **FMDQ Exchange** reported the naira strengthened by 1.8% to 756.61 the **United States (US)** dollar at the close of trading.<sup>10</sup> **Lagos**-based bureau de change **Forward Marketing** which compiles the parallel market data reported that the naira hovered at 757 in the unofficial market.<sup>11</sup> The convergence of the two rates adds strength to Tinubu's economic reforms, aimed at restoring Nigeria's fiscal stability and growth.<sup>12</sup> Buhari's unorthodox policies resulted in an almost 60% gap between the official and parallel market rates. CBN deputy governor **Kingsley Obiora** said on 19 June that the CBN is allowing the market to set a price and that the central bank is set to announce further reforms to loosen foreign controls "*in the next couple of weeks*".<sup>13</sup>

Obiora said that the removal of the subsidies, together with the convergence of rates will drive up economic growth in Nigeria, especially from 2024 when the reforms start making an impact:

*"I completely expect us to do 5% to 6% growth next year. Over the next four years, you may see the GDP approach something like \$600 billion to \$700 billion."*<sup>14</sup>

While Tinubu's initial reforms have excited and impressed investors, there has already been some public backlash over increasing transport costs. This could be an early indication of the huge task ahead in tackling Nigeria's myriad of problems. A local resident told **Africa Risk Consulting Briefing (ARC Briefing)** that Tinubu's reforms have been "*stunning*":

*"Even Asiwaju [boss]'s opponents must secretly admire his boldness. But we must still wait for the full impact of these reforms before we celebrate"*.<sup>15</sup>

### Central bank governor Emefiele dismissed and arrested...

President **Bola Tinubu** (2023-present) dismissed governor of the **Central Bank of Nigeria (CBN)**, **Godwin Emefiele** on 9 June, before he was arrested by Nigeria's secret police on 10 June.<sup>16</sup> The **State Security Service (SSS)** announced on 10 June that it was investigating Emefiele for alleged wrongdoing concerning a multibillion-dollar public lending programme that he initiated as governor.<sup>17</sup> In a brief statement on 9 June, Tinubu noted that the governor's suspension is a "*sequel to the ongoing investigation*".<sup>18</sup> He did not provide any more details. However, tensions between Tinubu and Emefiele have been escalating since campaigning for the February presidential election started late last year.

In January, local media reported that the SSS was investigating Emefiele for several serious allegations, including acts of financing terrorism, fraudulent activities and economic crimes of national security dimension (*see ARC Briefing Nigeria Jan 2023*).<sup>19</sup> At the time, several local media

<sup>8</sup> Bloomberg, 18 May 2023

<sup>9</sup> This Day, 21 Jun 2023; Bloomberg, 20 Jun 2023

<sup>10</sup> FMDQ Exchange, 20 Jun 2023

<sup>11</sup> Forward Marketing, 20 Jun 2023

<sup>12</sup> This Day, 21 Jun 2023; Bloomberg, 20 Jun 2023

<sup>13</sup> Bloomberg, 20 Jun 2023

<sup>14</sup> Bloomberg, 20 Jun 2023

<sup>15</sup> ARC Source, Local Resident

<sup>16</sup> Premium Times Nigeria, 10 Jun 2023

<sup>17</sup> State Security Service, 10 Jun 2023

<sup>18</sup> Premium Times Nigeria, 10 Jun 2023

<sup>19</sup> Premium Times Nigeria, 16 Jan 2023; Punch, 12 Jan 2023

outlets reported that Emefiele had been out of Nigeria for several weeks amid concerns that SSS operatives would soon arrest him, but Emefiele resumed his duties at the CBN office on 16 January after taking leave in early January under the controversial circumstances.<sup>20</sup> A statement signed by SSS spokesperson **Peter Afunnaya** on 16 January said the reports are “*fake and misleading*”, however, local media reported that the SSS filed an application marked FHC/ABJ/CS/2255/2022 at the federal high court in **Abuja** on 7 January to arrest Emefiele but that the court rejected their request.<sup>21</sup>

It was suspected in some political circles in Nigeria that certain officials from the ruling **All Progressives Congress (APC)** launched the investigation against Emefiele due to his demonetisation plan which they believe he launched to undermine Tinubu’s election (see *ARC Briefing Nigeria Mar 2023*).<sup>22</sup> The CBN’s attempt to replace high-denomination naira notes with new ones resulted in a shortage of bills that severely hobbled day-to-day business in the cash-dominant economy. Tinubu’s spokesperson, **Bayo Onanuga**, on 21 March called Emefiele “*the worst CBN governor ever in our history*” and added that “*such a man should not stay a day longer as CBN governor.*”<sup>23</sup>

Since then, Emefiele’s position as governor was in doubt. Tinubu also used his inauguration speech on 29 May to criticise the CBN and called for it to bring an end to Nigeria’s multiple-currency regime and a reduction in interest rates to boost economic growth.<sup>24</sup> Given those developments, it was not surprising that Emefiele was removed as governor, and was rather expected for months (see *ARC Briefing Nigeria Mar 2023*). It is unclear what will become of Emefiele going forward, however, the SSS said on 22 June in a court filing that he poses a threat to the nation’s security and should be denied bail.<sup>25</sup> In a surprising development, Nigeria’s stock market soared to its highest level since July 2008 on 13 June, the first trading day in the country since the ousting of Emefiele as governor.<sup>26</sup>

Emefiele was appointed as the CBN governor in June 2014, a year before Buhari assumed office, and was elected to a second five-year term in May 2019.<sup>27</sup> During his tenure as central bank governor, he became one of the most influential figures in Nigeria, and the CBN made several major interventions in the domestic economy, including unprecedented lending to the government, extending credit to several sectors and propping up the naira.<sup>28</sup> Emefiele will be replaced in an acting capacity by deputy governor in charge of operations at the bank, **Folashodun Shonubi**.<sup>29</sup> Shonubi joined the CBN’s board in 2018 from the **Nigeria Inter-Bank Settlement System**, where he was the managing director, and has more than 30 years of experience in banking.<sup>30</sup>

### **Nigeria’s inflation rate climbs for a fifth month to 22.4%...**

**National Bureau of Statistics (NBS)** published its latest data on 15 June indicating that the annual inflation rate in increased for a fifth consecutive month, from 22.2% in April to 22.4% in May. Inflation is expected to rise further when the impact of the government’s recent decisions to scrap fuel subsidies and sharply depreciate the naira filter through the local economy.<sup>31</sup>

Tinubu moved quickly to scrap a costly fuel subsidy introduced in the 1970s and loosed foreign-exchange controls (see above), with data from local exchange operator, FMDQ indicting that within days of Tinubu’s reforms, fuel prices in Nigeria almost tripled.<sup>32</sup> In a report published on 6 June, the local branch of accounting and auditing giant **KPMG** noted that Tinubu’s bold reforms could see

<sup>20</sup> Premium Times Nigeria, 16 Jan 2023

<sup>21</sup> Punch, 12 Jan 2023

<sup>22</sup> ARC Source, Local Analyst

<sup>23</sup> Bloomberg, 21 Mar 2023

<sup>24</sup> Moneyweb, 10 Jun 2023

<sup>25</sup> Moneyweb, 22 Jun 2023

<sup>26</sup> Bloomberg, 13 Jun 2023

<sup>27</sup> Yahoo News, 21 March 2023

<sup>28</sup> Yahoo News, 21 March 2023; Bloomberg, 21 Mar 2023

<sup>29</sup> Moneyweb, 10 Jun 2023

<sup>30</sup> Central Bank of Nigeria, Jun 2023

<sup>31</sup> National Bureau of Statistics, 15 Jun 2023

<sup>32</sup> Bloomberg, 15 Jun 2023

annual inflation reach 30% in June, with pressures set to grow until mid-2024.<sup>33</sup> Analysts from the Nigeria branch of leading **South African** investment bank **RMB Holdings Limited**, also predicted on 13 June that inflation will average 26.3% this year.<sup>34</sup> RMB also notes that rising inflation will likely push the CBN to hike the key interest rates, which could hit 22% by the end of the year, from its current rate of 18.5%.<sup>35</sup> Investors will keep a close eye on the CBN's actions at its next rate-setting meeting in July, particularly since Tinubu said that his government will seek to reduce interest rates to increase investment "in ways that sustain the economy at a higher level".<sup>36</sup> Nigeria's **Monetary Policy Committee (MPC)** has increased interest rates by 700 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*).

## Planner

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

## Chronology

20 Jun 2023 **Abuja (Nigeria) Central Bank of Nigeria**. **Central Bank of Nigeria** takes another step to improve liquidity in the foreign exchange market, removing restrictions on dollar deposits at local banks;

19 Jun 2023 **Abuja (Nigeria) Punch**. President **Bola Tinubu** names new security chiefs to replace those he inherited from former president **Muhammadu Buhari** as he continues to put together a team to implement pledges made during his campaign;

19 Jun 2023 **Abuja (Nigeria) Business Insider**. The **Central Bank of Nigeria (CBN)** takes another step to improve liquidity in the foreign exchange market by removing restrictions on dollar deposits at local banks a week after devaluing the naira and allowing it to trade more freely;

16 Jun 2023 **Abuja (Nigeria) Baltic Exchange Show**. The cost of shipping oil from Nigeria to **Europe** surges to just over \$64,000 a day, a jump of almost \$16,000, the biggest gain since April 2022;

15 Jun 2023 **Abuja (Nigeria) Business Day Nigeria**. President **Bola Tinubu** names prominent banker **Wale Edun** as his senior adviser on monetary policy;

14 Jun 2023 **Abuja (Nigeria) Presidency of Nigeria**. President **Bola Tinubu** suspends the head of the anti-corruption agency, **Abdulrasheed Bawa**, to allow for an investigation into his conduct while in office;

14 Jun 2023 **Abuja (Nigeria) Central Bank of Nigeria**. The **Central Bank of Nigeria (CBN)** allows for the naira to trade more freely against the dollar;

6 Jun 2023 **Abuja (Nigeria) Parliament of Nigeria**. A parliamentary report says that Nigeria spent more than \$10 billion in a decade on three oil refineries that produced hardly any fuel;

5 Jun 2023 **Abuja (Nigeria) Business Live**. A Nigerian industrial court bars the country's main labour union, the **Nigerian Labour Congress**, from stopping work to protest the removal of gasoline subsidies that cost \$10 billion last year;

<sup>33</sup> KPMG Nigeria, 6 Jun 2023

<sup>34</sup> RMB Holdings Limited Nigeria, 13 Jun 2023

<sup>35</sup> RMB Holdings Limited Nigeria, 13 Jun 2023

<sup>36</sup> Bloomberg, 15 Jun 2023

2 Jun 2023 **Abuja (Nigeria)** *Bloomberg*. The Nigerian unit of pharmaceutical giant **GlaxoSmithKline** Plc is struggling to maintain supplies of its pharmaceutical and vaccine products due to a shortage of dollars to import ingredients;

30 May 2023 **Abuja (Nigeria)** *Nigerian National Petroleum Co.* **Nigerian National Petroleum Co. (NPPC)** says the government owes it more than \$6 billion it has spent on keeping gasoline affordable;

29 May 2023 **Abuja (Nigeria)** *This Day*. **Bola Tinubu** is sworn in as Nigerian president. In his inaugural speech, Tinubu criticises the **Central Bank of Nigeria**, signalling there will be a change in how the monetary authority manages policy;

27 May 2023 **Abuja (Nigeria)** *Premium Times Nigeria*. Lawmakers increase the legal limit on government borrowings from **Central Bank of Nigeria** in an emergency sitting of the senate. The change allows the government to borrow up to 15% of the past year's budgeted revenue from the central bank, up from 5% previously.

### About Africa Risk Consulting:

**Africa Risk Consulting (ARC)** is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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