

AFRICA RISK CONSULTING

Nigeria Monthly Briefing December 2022

Nigeria Summary 19 December 2022

The National Bureau of Statistics (NBS) indicates that inflation accelerated for a tenth consecutive month to 21.5% year-on-year in November from 21.1% in October. The NBS states the higher inflation rate is due to rising energy costs, countrywide flooding that disrupted local food chain supply chains and an increase in the cost of imports caused by the naira's depreciation. The restoration of the operations at the Forcados oil terminal, run by United Kingdom (UK) energy giant Shell, boosts oil production in Nigeria. Export of production grades from the Forcados facility triples to approximately 230,000 barrels per day (bpd), boosting overall oil production by approximately 15% in November. Bank lenders in Nigeria are competing to boost liquidity by attracting up to 2.7 trillion naira (\$6 billion) that is outside the formal sector, taking advantage of the six weeks citizens have to replace old currency notes. United States (US) President Joseph Biden (2021-present) meets on 14 December with leaders from six African countries facing elections in 2023, including Nigeria, urging them to ensure that voting is free and fair. The February presidential elections, the CBN circulating its new bank notes, boosting oil production and taming inflation will be issues facing the government in 2023.

Inflation accelerates for the 10th month as food costs surge...

The **National Bureau of Statistics (NBS)** indicated on 15 December that inflation in **Nigeria** accelerated for a tenth consecutive month in November, reaching 21.5% year-on-year (y/y) from 21.1% y/y in October, as domestic food prices surged.¹ The NBS said the higher inflation rate arose from rising energy costs, countrywide flooding that disrupted local food chain supply chains and an increase in the cost of imports caused by the naira's depreciation.²

Annual food price growth accelerated from 23.7% in October to 24.1% in November, while core inflation quickened from 17.8% in the previous month to 18.24%.³ The monthly price index increased by 1.4%, the same pace as in October. Inflation has been more than double the **Central Bank of Nigeria's** (CBN) target band of 9% for six months and is likely to be fanned by the continued depreciation of the naira and floods pushing up food prices further which may encourage the CBN's Monetary Policy Committee (MPC) to further raise the benchmark rate in January from its current 16.5%.⁴

Hassan Mahmud, director of CBN's monetary policy department, said on 23 November that Nigeria plans to continue raising its benchmark interest rate until it closes the gap with inflation.⁵ The CBN raised interest rates for the fourth time in a row on 22 November as part of its longest unbroken cycle of monetary tightening in 11 years, saying it is committed to reining in inflation (*ARC Briefing Nigeria Nov 2022*).⁶ However, inflation increased slightly slower than economists expected in October, which gave analysts the perception that the central bank could slow the interest rate increases.⁷ CBN governor **Godwin Emefiele** said the monetary policy

¹ Bloomberg, 15 Dec 2022

² National Bureau of Statistics, 15 Dec 2022; Bloomberg, 15 Dec 2022

³ National Bureau of Statistics, 15 Dec 2022; Bloomberg, 15 Dec 2022

⁴ Bloomberg, 15 Dec 2022

⁵ Central Bank of Nigeria, 23 Nov 2022

⁶ Central Bank of Nigeria, 22 Nov 2022; Bloomberg, 22 Nov 2022

⁷ Bloomberg, 15 Nov 2022

committee (MPC) hiked the benchmark by 100 basis points from 15.5% to 16.5% in order “to make sure that we’re able to keep prices at a moderate level”.⁸ CBN has raised interest rates by a cumulative 500 basis points this year, making it one of five central banks in **Africa** that have hiked borrowing costs by five percentage points or more.⁹ The MPC further adjusted its growth projects for Nigeria’s economy downwards to 3.3% from 3.5% at its October meeting.

Nigeria’s oil output in November rises after months of decline...

The restoration of the operations at the **Forcados** oil terminal, run by **United Kingdom (UK)** energy giant **Shell**, after a 10-week interruption, has offered a boost to oil production amid tumbling crude production this year.¹⁰ The terminal resumed operations on 20 October after closing down due to damage at the loading facilities.¹¹ Export of production grades from the Forcados facility nearly tripled last month to about 230,000 barrels per day (bpd), boosting overall oil production by approximately 15% in November.¹² The **Nigerian Upstream Petroleum Regulatory Commission (NUPRC)** published its November data on 12 December noting that Nigeria produced a daily average of 1.41 million barrels of combined crude and condensate in November, up from 1.23 million barrels in October.¹³ However, the crude output of 1.19 million barrels a day in November is still almost a third below the quota allowed by the **Organization of the Petroleum Exporting Countries (OPEC+)** alliance.¹⁴ Finance minister **Zainab Ahmed** said on 15 December that the government projects that oil production will hit 1.6 million barrels of oil per day in 2023, stating that efforts are being made to actualise the target by the first quarter of next year.¹⁵

Oil production in Africa’s largest economy has steadily declined since early 2020 and reached a multidecade low in August leading to Nigeria briefly losing its crown as the continent’s largest crude producer to **Angola** and then **Libya** (*ARC Briefing Nigeria Sep 2022*).¹⁶ The government has blamed the decline in output on years of low investment, massive vandalism and pipeline theft crisscrossing the oil-rich **Niger Delta** in southern Nigeria.¹⁷ Two major terminals – **Bonny** run by Shell and **Brass**, run by **Italy**-headquartered **Eni** - continue to operate at a fraction of their capacities. **Bala Wunti**, the chief upstream investment officer at the state-owned energy company **Nigerian National Petroleum Co (NNPC)** said it’s because companies are unable to deliver crude into the plants because of insecurity.¹⁸

The continued decline in Nigeria’s output is a further threat to the country’s finances and cuts global supply at a time when energy prices are skyrocketing due to the conflict in **Ukraine**.¹⁹ An official from Shell said in July that industrial-scale theft poses an “*existential*” threat to Nigeria while President **Muhammadu Buhari** (2015-present) said on 19 August that the problem is affecting state finances “*enormously*”.²⁰ NNPC said in August that 700,000 bpd were missing from its exports due to theft, forcing some companies to shut down operations in some fields to avoid thieves. The NNPC further announced on 11 September that Nigeria loses 470,000 bpd of crude oil, equating to \$700m monthly, due to oil theft.²¹

⁸ Central Bank of Nigeria, 22 Nov 2022

⁹ Bloomberg, 22 Nov 2022

¹⁰ Business Post Nigeria, 21 Nov 2022; Bloomberg, 12 Dec 2022

¹¹ S&P Global, 21 Oct 2022

¹² Nigerian Upstream Petroleum Regulatory Commission, 12 Dec 2022

¹³ Nigerian Upstream Petroleum Regulatory Commission, 12 Dec 2022

¹⁴ Bloomberg, 12 Dec 2022

¹⁵ Leadership, 17 Dec 2022

¹⁶ Bloomberg, 12 Dec 2022

¹⁷ Bloomberg, 8 Sep 2022; Offshore-Technology, 12 Sep 2022

¹⁸ Bloomberg, 12 Dec 2022

¹⁹ Business Live, 11 Sep 2022

²⁰ Business Live, 11 Sep 2022

²¹ Offshore-Technology, 12 Sep 2022

NBS published a report on 24 November indicating that Nigeria's growth rate also slowed to 2.25% year-on-year in the third quarter (Q3) amid a drop in the country's oil production.²² The growth rate represents a 1.78% decline compared to a 4.03% growth rate in Q3 2021 and 1.29% points relative to 3.54% in Q2 2022.²³ The report said the reduction in economic growth is "attributable to the base effects of the recession" and the difficult economic climate that has impacted production activity.²⁴ The oil sector slumped in Q3, contracting by 22.7% as production declined to 1.2 million bpd on average, compared to 1.43 million bpd in the second quarter.²⁵ On the other hand, the non-oil economy attained a growth of 4.27% in the third quarter from a year earlier, mainly driven by telecommunications, trade, and transportation.²⁶ The sharp decline in the country's GDP growth indicates a drop in productivity in the domestic economy due to the recurrent contraction in the oil sector and low growth in key non-oil sectors such as banking, transportation and education.

Banks compete for \$6 billion of deposits as banknotes redesigned...

Bank lenders are competing to boost liquidity by collecting up to 2.7 trillion naira (\$6 billion) in unbanked banknotes during the six weeks citizens have to replace their old banknotes, following the announcement by CBN in November that redesigned notes will be issued until 31 January.²⁷ All lenders in Nigeria are building agent networks of men and women who operate in markets across the country selling mobile phone credit and accepting deposits or withdrawals on behalf of banks.²⁸ CBN governor Godwin Emefiele announced on 26 October that the CBN plans to issue redesigned 200, 500 and 1,000 naira notes from mid-December to prevent currency hoarding, limit counterfeit currencies and curb illegal activities such as kidnappings for ransom (*ARC Briefing Nigeria Nov 2022*).²⁹

Nigerian lenders **United Bank for Africa**, **Zenith Bank** and **FBN Holdings** have already started the process of reaching out to existing and potential clients in person and online to turn in unbanked cash notes.³⁰ The biggest lender by assets, **Access Bank**, is aiming to attract as much as 30% of the funds in circulation, in part through an expanded network of 200,000 agents to reach rural Nigerians living far from bank branches.³¹ Access Bank's head of retail marketing and analytics, **Chioma Afe**, said that:

*"We are actually going to rural markets and rural areas with our agents now to encourage people to open an account and deposit cash."*³²

Joshua Odebisi, a banking analyst at **Vetiva Capital Management** in **Lagos**, said that the banks and lenders with the largest agency networks will be more likely to attract more of the currency in circulation:

*"Being able to attract those cheap savings and current accounts will increase their capacity to create loans at a cheaper rate."*³³

Emefiele's announcement that Nigerians have until 31 January to exchange existing notes, amounting to 85% of currency in circulation, for new ones is also causing concern

²² National Bureau of Statistics, 23 Nov 2022

²³ Nairametrics, 24 Nov 2022

²⁴ National Bureau of Statistics, 23 Nov 2022

²⁵ Bloomberg, 23 Nov 2022

²⁶ Bloomberg, 23 Nov 2022

²⁷ Bloomberg, 12 Dec 2022

²⁸ Moneyweb, 12 Dec 2022

²⁹ Central Bank of Nigeria, 26 Oct 2022

³⁰ Bloomberg, 12 Dec 2022

³¹ Moneyweb, 12 Dec 2022

³² Bloomberg, 12 Dec 2022

³³ Moneyweb, 12 Dec 2022

domestically.³⁴ The deadline is tight considering that the CBN wants to clear \$6.1 billion which it says is outside banking vaults. The move to switch the notes could lead to chaos as most of the population lives in rural areas away from bank branches and 45% of Nigerians do not have banking accounts. Nigeria has 4.5 bank branches per 100,000 people compared with a global average of 10 per 100,000, highlighting the challenges that banks face in this plan.³⁵ Some local traders are also concerned that the six-week currency replacement window, which runs over the festive season, will cause a major inconvenience for them and their customers.³⁶

Biden meets with African Leaders to encourage fair elections...

United States (US) President **Joseph Biden** (2021-present) met with leaders from six African countries facing elections in 2023 on 14 December, urging them to ensure that voting is free and fair.³⁷ Biden held a private meeting at the **White House** in **Washington** (US) with leaders from Nigeria, the **Democratic Republic of the Congo (DRC)**, **Gabon**, **Liberia**, **Madagascar**, and **Sierra Leone** to discuss elections and democracy in Africa during the three-day **US-Africa Leaders' Summit**.³⁸ The US president was joined by the secretary of state **Antony Blinken**, national security advisor **Jake Sullivan** and **Samantha Power**, the administrator of the **United States Agency for International Development (USAID)**.³⁹ The US pledged to provide over \$165m to support elections and governance in Africa in 2023 and said that the six participating African countries:

"Reaffirmed their commitment to hold free, fair, and transparent elections conducted by competent, independent, and impartial national electoral bodies, as enshrined in the African Charter on Democracy, Elections, and Governance."⁴⁰

Nigeria will hold its presidential election on 25 February 2023 but analysts say that they are threatened by a long-running **Islamic** insurgency in the northeast of the country, bandit attacks in the northwest and growing separatist agitations in the south.⁴¹ The frontrunners for the presidency are septuagenarian political heavyweights including former governor of Lagos, **Bola Ahmed Tinubu** of the ruling **All Progressives Congress (APC)**, and former vice-president **Atiku Abubakar** of the **People's Democratic Party (PDP)**.⁴² However, a surge in support for businessman and former governor of **Anambra** state, **Peter Obi**, has left voters and analysts wondering about the potential for a major upset.⁴³

Key issues for 2023

The government is facing a tight deadline to replace all existing banknotes by 31 January, prompting the **International Monetary Fund (IMF)** to urge the CBN to apply caution in its plan to issue redesigned high-denomination naira notes, noting that any missteps may undermine confidence in Nigeria's financial system.⁴⁴ Many analysts are using **India** as an example of what may happen in Nigeria if the process is mismanaged – in 2016, the Indian government's move to ban high-value currency led to a prolonged scramble for cash and slowed economic growth.⁴⁵

³⁴ Central Bank of Nigeria, 26 Oct 2022

³⁵ Bloomberg, 28 Oct 2022

³⁶ Bloomberg, 28 Oct 2022

³⁷ Daily Maverick, 15 Dec 2022

³⁸ Bloomberg, 14 Dec 2022; Daily Maverick, 15 Dec 2022

³⁹ Bloomberg, 14 Dec 2022

⁴⁰ White house, 14 Dec 2022

⁴¹ Bloomberg, 14 Dec 2022

⁴² Mail and Guardian, 8 Oct 2022

⁴³ BBC, 11 Oct 2022

⁴⁴ Bloomberg, 28 Oct 2022

⁴⁵ Bloomberg, 12 Dec 2022

Nigeria will also be electing a new president on 25 February 2023 and analysts say that they are threatened by a long-running Islamic insurgency in the northeast of the country, bandit attacks in the northwest and growing separatist agitations in the south. In particular, violent attacks against the country's electoral commission offices have raised serious concerns about the security of Nigeria's February elections. In the latest attack on 4 December, assailants in the southeastern **Imo** state set fire to an office of the **Independent National Electoral Commission (INEC)**.⁴⁶ US publication, **The Associated Press** reports that approximately fifty of the INEC's offices have been destroyed since Nigeria's last election in 2019.⁴⁷ On 7 October, US media house **Bloomberg** said that businessman and former governor of **Anambra** state, **Peter Obi**, is the favourite to become Nigeria's next president. Obi has energised the youth with his message of prudence and accountability that have been amplified by an army of social media users. While Obi may have the momentum at the moment and is making the Nigerian establishment nervous, it would be a mistake to rule out the frontrunners, particularly Tinubu who has heavy financial and political elite backing. The new national carrier, dubbed **Nigerian Air**, is also expected to start operations in the first quarter of 2023.

The government will have to work to curb surging inflation which increased for the tenth consecutive month in November. However, that may prove more difficult than anticipated given that the inflation rate is likely to be fanned by the continued depreciation of the naira and floods pushing up food prices further. That guarantees that the CBN will continue raising its benchmark interest rate until it closes the gap with inflation. The government will also have to boost oil production in the next year. Crude levels of 1.19 million barrels a day in November are still almost a third below the quota allowed by the OPEC+ alliance. Nigeria has an OPEC quota of 1.753 million bpd but does not have security measures in place to prevent vandalism or theft of oil pipelines that are seriously impacting the country's oil production.

Planner

Dec 2022 **(Nigeria) Central Bank of Nigeria** MPC announces interest rate decision;
 2023 **(Nigeria)** Investment decision on the **Nigeria-Morocco** oil pipeline;
 25 Feb 2023 **(Nigeria)** Presidential elections;

Chronology

17 Dec 2022 **Abuja (Nigeria) Premium Times**. Renewable energy arm of **United Kingdom**-based energy giant **Shell** has brought closure to the purchase of **West African** hybrid solar power solutions provider **Daystar Power**;
 17 Dec 2022 **Abuja (Nigeria) Punch Nigeria**. **Catriona Laing**, the **United Kingdom** high commissioner for **Nigeria**, says Nigeria will not be able to continue farming activities on about 25% of farmlands because of climate change;
 16 Dec 2022 **Abuja (Nigeria) Vanguard**. President **Muhammadu Buhari** assures potential investors from the **United States** of massive investment opportunities in **Nigeria**, especially in the non-oil sector of the economy;
 15 Dec 2022 **Abuja (Nigeria) World Bank**. **World Bank** says in its latest report that **Nigeria's** growth has been stagnant in the past decade despite its huge potential;
 14 Dec 2022 **Washington (United States) News24**. **Nigeria** and **Rwanda** become the first African countries to sign the **Artemis Accords** on space cooperation with the **United States (US)** during the **US-Africa Leaders' Summit**;

⁴⁶ Ahram Online, 9 Dec 2022

⁴⁷ Ahram Online, 9 Dec 2022

15 Dec 2022 **Abuja (Nigeria)** *Bloomberg*. Nigerian government accuses the owners of **British Virgin Islands**-based company **Process & Industrial Developments Ltd** accuses of defrauding its way to an arbitration award worth more than \$11 billion;

12 Dec 2022 **Abuja (Nigeria)** *Premium Times*. **Nigeria Civil Aviation Authority** relaxes Covid-19 related travel protocols, including the cancellation of mandatory PCR tests on arrival into the country;

10 Dec 2022 **Abuja (Nigeria)** *Aljazeera*. **United Nations** secretary general **Antonio Guterres** calls on **Nigerian** authorities to investigate allegations of systemic and coerced abortions allegedly perpetrated by its army;

7 Dec 2022 **Abuja (Nigeria)** *Punch*. Economic experts raise concerns over a new policy announced by the **Central Bank of Nigeria** that heavily limits withdrawals of money in a push for a cashless economy;

6 Dec 2022 **Abuja (Nigeria)** *Central Bank of Nigeria*. **Central Bank of Nigeria (CNB)** slashes the daily withdrawal limit from automatic teller machines to 20,000 naira (\$44.97) a day, down from the previous limit of 150,000 naira (\$336.7) in a bid to boost digital payments;

2 Dec 2022 **Abuja (Nigeria)** *Vanguard*. First lady **Aisha Buhari** withdraws a defamation case against a student, **Aminu Adamu Muhammed**, accused of insulting her on **Twitter**, after the arrest triggers an angry reaction in the country;

2 Dec 2022 **Abuja (Nigeria)** *Amnesty International*. International human rights agency **Amnesty International** asks **Nigeria** to release a student, **Aminu Adamu Muhammed**, who has been arrested for a tweet that allegedly defamed first lady **Aisha Buhari**;

30 Nov 2022 **Abuja (Nigeria)** *Vanguard*. **Africa's** leading integrated technology company **Cassava Technologies** formally introduces its digital transformation arm, **Liquid Intelligent Technologies**, in **Nigeria**;

27 Nov 2022 **Abuja (Nigeria)** *Bloomberg*. **Securities and Exchange Commission** does not plan to include cryptocurrencies in a plan to improve trading in digital assets until regulators agree on standards that protect investors;

25 Nov 2022 **Abuja (Nigeria)** *Future Africa*. Vehicle subscription start-up, **Metro Africa Xpress Inc.**, plans to raise \$100m to deploy electric vehicles in 10 African countries as demand for cheap, low-emissions transport increases;

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.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)