

AFRICA RISK CONSULTING

Nigeria Monthly Briefing April 2023

Nigeria Summary 25 April 2023

The National Bureau of Statistics (NBS) publishes its latest data on 15 April noting that annual inflation marginally increased from 21.9% in February to 22% in March. The NBS attributes the increase in inflation to rising costs of food and non-alcoholic beverages. Finance minister Zainab Ahmed announces on 5 April that Nigeria has secured \$800m from the World Bank to provide cash handouts to poor citizens as part of efforts to end the country's popular but costly fuel subsidy by June. In a new report published on 18 April, the World Bank says that Nigeria spent almost all the revenues it earned last year servicing debt. Debt service as a proportion of government income increased to 96% in 2022 from 83% a year prior. The World Bank warns that in the absence of a significant increase in the oil revenues and tax reforms, the fiscal deficit will remain above 5% of GDP until 2025. This comes as Nigeria is struggling to find buyers for its oil resources with reportedly more than half of its April oil supply still unsold. The NBS notes on 21 April that Nigeria will change how it measures unemployment to be in line with international standards.

Inflation increases to 22% due to rising food costs...

The **National Bureau of Statistics (NBS)** published its latest inflation data on 15 April indicating that annual inflation increased marginally from 21.9% in February to 22% in March as a result of rising food costs.¹ While food inflation in Nigeria remained relatively unchanged in March, sitting at 24.5% from 24.4% in February, core inflation accelerated to 19.9% from 18.8% a month earlier.² Prices in April also increased by 1.86%. Inflation has now breached the **Central Bank of Nigeria's (CBN)** target band of 6% to 9% for ten months.

It is expected that the increase in inflation could persuade the CBN to extend its longest phase of monetary tightening since 2011 next month.³ The CBN's **Monetary Policy Committee (MPC)** hiked the interest rate on 21 March by 50 basis points to 18%, its highest rate ever recorded, stating it intends to keep extending monetary tightening to contain runaway inflation and strengthen the differential that makes local assets attractive to international investors (*see ARC Briefing Nigeria Mar 2023*).⁴ The MPC has hiked the benchmark rate by 650 basis points since May 2022.

CBN governor **Godwin Emefiele** said on 21 March that the MPC sought to narrow the gap until the differential between the two rates is closed in a bid to improve sentiment in the country.⁵ This means that the MPC will continue tightening, although moderately until the key rate at 18% is closed. Emefiele is also concerned about the upward risks to prices, including the government's plan to remove the costly fuel subsidy (see below), continued exchange-rate pressures, rising costs of other energy sources and uncertain climatic conditions.⁶

Food price inflation in Nigeria is volatile and it is expected to remain at elevated levels for the next few months, meaning millions of Nigerians will continue to feel economic pressures due to

¹ National Bureau of Statistics, 15 Apr 2023

² National Bureau of Statistics, 15 Apr 2023

³ Bloomberg, 15 Apr 2023

⁴ Bloomberg, 21 Mar 2023; Premium Times Nigeria, 21 Mar 2023

⁵ Central Bank of Nigeria, 21 Mar 2023

⁶ Bloomberg, 15 Apr 2023

rising costs of basic foodstuffs such as cooking oil, vegetables, and cereals. The removal of the fuel subsidy will further exacerbate this situation. As has been the case in several African countries such as **Morocco**, added economic pressure on citizens could lead to social unrest (see *ARC Briefing Morocco Feb and Apr 2023*).

Despite these issues, the MPC still expects economic growth in the first quarter and that the economy will grow by 3% in 2023, while the World Bank projects that the economy will grow by an average of 2.9% per year between 2023 and 2025, lower than the World Bank's regional growth projections of 3.4%.⁷ The institution also estimates that an additional 13 million Nigerians will fall into poverty between 2019 and 2025 due to the country's low growth, adding to the 41% of the population already living in extreme poverty.⁸

... as government moves to cut fuel subsidy

Finance minister **Zainab Ahmed** announced on 5 April that Nigeria secured \$800m from the **World Bank** to provide cash handouts to poor citizens as part of efforts to end the country's popular but costly fuel subsidy by June.⁹ The funds will be distributed to 10 million households registered with the national social register, which is equivalent to at least 50 million people.¹⁰ Ahmed said the government is also hopeful it will raise more resources to extend its support beyond cash transfers.¹¹ The also comes as a World Bank report published on 18 April revealed Nigeria spent almost all its revenues earned in 2022 on servicing debt, with debt service as a proportion of government income increasing to 96% in 2022 from 83% a year prior.¹²

Low revenues combined with rising interest payments have left Nigeria with almost all money after paying interest on its debts, resulting in persistent fiscal deficits that are partially financed with costly loans from the central bank and a raising debt stock to GDP, which is marginally below the government's 40% self-imposed limit.¹³

The World Bank admitted that the country is "*in a more fragile position than before the late 2021 global oil price boom*".¹⁴ However, the global lender recommended that one important measure the government can take to ease fiscal pressure is to scrap its fuel subsidy.¹⁵ The gasoline subsidy cost 2.3% of GDP in 2022, increasing from 0.7% in 2021, and is expected to drain at least \$7.2 billion from state accounts in the first six months of this year.

President-elect **Bola Tinubu**, who won the 25 February presidential election, vowed to end the subsidies in the first half of 2023.¹⁶ However, eliminating the price cap on fuel, which small businesses and millions of Nigerians use to power generators and run vehicles in the energy-deficient country, is also going to be politically challenging.¹⁷ The threat of political instability from removing the subsidy is partly the reason why President **Muhammadu Buhari** (2015-present) has 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.¹⁸ A local source told **Africa Risk Consulting Briefing (ARC Briefing)**:

⁷ Premium Times Nigeria, 21 Mar 2023; Central Bank of Nigeria, 21 Mar 2023

⁸ World Bank, 18 Apr 2023

⁹ Business Day Live, 5 Apr 2023

¹⁰ Business Day Live, 5 Apr 2023

¹¹ Business Day Live, 5 Apr 2023

¹² World Bank, 18 Apr 2023

¹³ Bloomberg, 18 Apr 2023

¹⁴ Business Day Nigeria, 24 Apr 2023

¹⁵ Bloomberg, 18 Apr 2023

¹⁶ Bloomberg, 5 Apr 2023; Reuters, 5 Apr 2023

¹⁷ Reuters, 5 Apr 2023; Bloomberg, 5 Apr 2023

¹⁸ Bloomberg, 5 Apr 2023; Business Day Live, 5 Apr 2023

"I fear that when the subsidy is removed, it will trigger inflation as never seen in Nigeria before. Tinubu should forget about a honeymoon period."¹⁹

Nigeria is continuing a trend by African governments to do away with costly but very popular subsidies. **Kenya** eliminated its fuel subsidy on gasoline on 14 September and in the process inflicted more costs on citizens, who were already struggling with the skyrocketing cost of living (see *ARC Briefing Kenya Sep 2022*).²⁰ **Algeria's** parliament also voted in November 2021 to curb spending on food subsidies that supported millions and had long helped maintain social peace, but strained state budgets as energy revenues fell (*ARC Briefing Algeria Dec 2021*).²¹ As was the case with both Kenya and Algeria, Nigeria finds itself in a similar situation where it is evident that maintaining the subsidy is unsustainable in the long run. Therefore, the government had to make an unpopular but necessary policy decision to reduce costs.

Social unrest stemming from this decision is increasingly likely as citizens will be faced with higher living expenses while the government continues to fail to provide other basic services such as security and electricity despite receiving billions of dollars annually from oil exports.

Nigeria struggles to find oil buyers

The World Bank has warned in its latest report from 18 April that in the absence of a significant increase in the country's oil revenues and tax reforms, Nigeria's fiscal deficit will remain above 5% of GDP until 2025.²² Currently, Nigeria is struggling to find buyers for its oil resources with reportedly more than half of its April oil supply still unsold.²³ The country's situation is not helped by strikes at **French** refineries and seasonal maintenance in several **European** countries which has curbed demand for oil from abroad.²⁴ Nigeria could be forced to sell its oil resources at a discount or store them in floating storage until favourable market conditions appear. However, while selling oil at a discount offers a short-term solution, it is not clear that the government has any viable long-term solutions to the problem.

The NBS also revealed on 4 April that foreign direct investment (FDI) into Nigeria decreased to \$468m in 2022 from \$698m a year earlier, as a severe dollar shortage deterred companies from expanding into Nigeria, yet another indication of the struggling revenue generation.²⁵ The NBS also said that FDI has shockingly plunged by about 90% from a high of \$4.7 billion in 2008. This adds to the mounting challenges that the new government under president-elect Tinubu will have to address, but as with declining oil revenues, it is not clear whether they have a viable remedy to the solution.

Nigeria is changing the way it measures unemployment..

The NBS noted in a presentation on 21 April that Nigeria will change how it measures unemployment and intends to start issuing new quarterly data from May, following a two-year hiatus.²⁶ Nigeria last published labour force data for the last quarter of 2020 when the unemployment rate was recorded at 33.3%.²⁷ The NBS noted that subsequent labour statistics have been "*irregular due to technical challenges*".²⁸ The NBS emphasised that its new methods

¹⁹ ARC Source, Local Resident

²⁰ The East African, 17 Sep 2022

²¹ Bloomberg, 8 Jan 2022

²² Bloomberg, 18 Apr 2023

²³ Business day Nigeria, 3 Apr 2023

²⁴ Business day Nigeria, 3 Apr 2023

²⁵ National Bureau of Statistics, 4 Apr 2023

²⁶ National Bureau of Statistics, 21 Apr 2023

²⁷ Bloomberg, 21 Apr 2023

²⁸ National Bureau of Statistics, 21 Apr 2023

will measure labour underutilisation beyond unemployment and provide a framework for the measurement of all work, whether paid or unpaid.²⁹

The new method will remove the previous age limit of 64 years and will now include individuals aged 15 years and above.³⁰ The national statistics agency also said that anyone who works for at least 40 hours a week or even temporarily, will be considered employed.³¹ The NBS also noted that a broader definition of underemployment has been adopted to include all individuals working less than 40 hours but is “*willing and available to work more*”.³²

The agency also revealed that it worked with the World Bank on its redesign of the method to calculate unemployment statistics to make sure that it is “*in line with international best practice*”.³³ The new measurement redesign by the NBS is a positive step toward getting more accurate data and it is correct in noting that the statistics will provide an “*unbiased story of the Nigerian labour market statistics as it should be told*”.³⁴

Planner

29 May 2023 (**Nigeria**) **Bola Tinubu** inaugurated as president;

Chronology

24 Apr 2023 **Abuja (Nigeria)** *Business Insider Africa*. Government makes a formal request to have agricultural products, including chilli pepper and peanuts, removed from **China’s Protocol Lists** to expand non-oil exports between the two countries;

24 Apr 2023 **Abuja (Nigeria)** *Daily Post Nigeria*. President-elect **Bola Tinubu** returns to Nigeria following a month’s holiday in the **United Kingdom (UK)**;

24 Apr 2023 **Abuja (Nigeria)** *Punch*. **Allen Onyema**, the chairman of the private domestic airline **Air Peace**, announces its readiness to evacuate stranded Nigerians in **Sudan**, for free if the government can get them to a safe and secure airport in any of the neighbouring countries bordering Sudan;

20 Apr 2023 **Abuja (Nigeria)** *Bloomberg*. Cryptocurrency exchange **Yellow Card Financial** is seeking approval to expand its services in Nigeria, where authorities have partially banned trading in digital tokens;

20 Apr 2023 **Abuja (Nigeria)** *Pulse Ghana*. Nigeria’s biggest bank by market value, **Guaranty Trust Holding**, plans to slow lending and bond trading in **Ghana** following a ₦35.6 billion (\$77m) impairment in the country;

19 Apr 2023 **Abuja (Nigeria)** *Bloomberg*. Attorney general **Abubakar Malami** urges President **Muhammadu Buhari** to end a long-running dispute with **Italian** energy giant **Eni SpA** and **United Kingdom** energy giant **Shell** to allow the companies to finally develop a prized deep water oil license;

²⁹ National Bureau of Statistics, 21 Apr 2023

³⁰ Bloomberg, 21 Apr 2023

³¹ National Bureau of Statistics, 21 Apr 2023

³² National Bureau of Statistics, 21 Apr 2023

³³ Bloomberg, 21 Apr 2023

³⁴ National Bureau of Statistics, 21 Apr 2023

- 17 Apr 2023 **Abuja (Nigeria)** *Reuters*. **United States (US)** energy giant **Exxon Mobil**'s units in Nigeria declare force majeure on oil loadings from multiple terminals in the country following industrial action;
- 17 Apr 2023 **Abuja (Nigeria)** *News18*. Aviation workers begin a two-day strike to demand higher wages disrupting domestic flight operations;
- 12 Apr 2023 **Abuja (Nigeria)** *Yahoo News*. Misleading posts on social media claim **Nobel Prize**-winning author **Wole Soyinka** asked Nigeria's president-elect **Bola Tinubu** to step down and return the certificate the electoral commission issued declaring him as the winning candidate;
- 12 Apr 2023 **Abuja (Nigeria)** *Punch*. **Bayelsa State** governor **Douye Diri** urges the **Nigerian Navy** to collaborate with the state government in enhancing security on its waterways to curb oil theft and other criminal activities;
- 10 Apr 2023 **London (United Kingdom)** *Africa News*. The **United Kingdom (UK)** announces its decision to halt the recruitment of health workers from Nigeria, placing the country on the red list of countries not to be targeted for recruitment. The decision comes after the **World Health Organisation (WHO)** last month identified Nigeria as one of 55 countries with significant health workforce challenges;
- 10 Apr 2023 **Abuja (Nigeria)** *Punch*. Nigeria-based non-profit organisation **Information Security Society of Africa** calls on Nigerian banks and other financial institutions to embark on efforts to train and retrain their employees to spot cybersecurity red flags;
- 8 Apr 2023 **Abuja (Nigeria)** *Reuters*. Local officials and police say unidentified gunmen killed at least 74 people in **Benue** state in two separate attacks over the past seven days;
- 5 Apr 2023 **Abuja (Nigeria)** *Bloomberg*. **United States**-headquartered **International Rescue Committee (IRC)** says that more than 34 million people across **West Africa's Sahel** region could face hunger by June as conflict, climate change and economic turmoil following **Russia's** invasion of **Ukraine** has deepened a humanitarian crisis;
- 1 Apr 2023 **Abuja (Nigeria)** *Nigeria Sovereign Investment Authority*. The **Nigeria Sovereign Investment Authority (NSIA)** reports a sharp 33% drop in profit for 2022 compared with a year earlier, citing macroeconomic conditions in developed and emerging markets as well as in the local economy;
- 29 Apr 2023 **Abuja (Nigeria)** *Zenith Bank*. Nigeria's biggest lender by market value, **Zenith Bank**, says it has set aside ₦123.4 billion (\$267m) in part to account for its holdings of bonds in **Ghana**, as the country restructures its debt;
- 26 Apr 2023 **Abuja (Nigeria)** *Bloomberg*. **Central Bank of Nigeria (CBN)** increases the supply of banknotes to lenders to end shortages that have hampered individual and business transactions and crippled the cash-based economy since January.

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.

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