

AFRICA RISK CONSULTING

Nigeria Monthly Briefing May 2023

Nigeria Summary 25 May 2023

The Central Bank of Nigeria (CBN) raises interest rates for a record seventh consecutive time by 50-basis points to 18.5% on 24 May. The hike comes after the National Bureau of Statistics announces on 15 May that annual inflation reached 22.2%, an 18-year high. The increase is meant to support the naira and tame high inflation that is expected to remain elevated due to the planned scrapping of a costly fuel subsidy. Africa's richest person, Aliko Dangote, launches Africa's largest oil refinery in Lagos on 22 May. The government is banking on the project to end its \$26 billion oil and fertiliser import bill. The petroleum complex could earn as much as \$21 billion in annual income when fully operational. The presidential tribunal at the court of appeals in Abuja opens a hearing on 8 May on suits filed by opposition parties to challenge president-elect Bola Tinubu's February electoral victory. The CBN allows the naira to depreciate on 18 May to a record low of 465.07 to the United States (US) dollar, the biggest drop since 29 December.

Interest rates hiked as inflation hits 18-year high...

The **Central Bank of Nigeria's (CBN)** monetary policy committee (MPC) raised interest rates for an unprecedented seventh consecutive time on 24 May, aiming to support the naira and tame high inflation that is expected to remain elevated due to the planned scrapping of a costly fuel subsidy.¹ The CBN also signed that it is prepared to continue raising rates after research revealed that the interest rate increases are yielding results.² The rate hike came after the **National Bureau of Statistics (NBS)** announced on 15 May that the annual inflation rate hit an 18-year high in April, increasing to 22.2% from 22% in March.³ Contributing to the increase in inflation was the increase in the prices of oils and fats, gas and air transport.⁴ With inflation showing no signs of slowing down, the MPC will need to continue on its policy-tightening cycle. Emeziele also said that the MPC is also motivated to close the differential 370 basis points gap to boost investor confidence.

CBN's governor **Gordon Emeziele** said on 24 May that the MPC raised the benchmark rate by half a percentage point to 18.5%, the highest level since the policy rate was adopted in 2006.⁵ The decision to hike the benchmark rate was unanimous and of the 11 MPC meeting who attended the meeting, ten voted in favour of a 50 basis-point hike and one preferred a 25 basis-point hike.⁶ The MPC has increased rates by 700 basis points since May 2022 to contain runaway inflation that for eleven months has more than doubled the MPC's target band of between 6% and 9%.⁷ Emeziele also cited research which indicated that had the CBN not acted to curb inflation, it would have been 800 basis points higher over the past year, also making it clear that the CBN will continue to act as long as inflation remains elevated:

"I am not going to give anybody an assurance that we are not going to do what we are doing because we are seeing the result of what we are doing."⁸

¹ Central Bank of Nigeria, 24 May 2023

² Bloomberg, 24 May 2023

³ National Bureau of Statistics, 15 May 2023

⁴ Bloomberg, 15 May 2023

⁵ Central Bank of Nigeria, 24 May 2023

⁶ Yahoo News, 24 May 2023

⁷ Yahoo News, 24 May 2023

⁸ Central Bank of Nigeria, 24 May 2023

The MPC's decision to increase rates also pre-empts the government's removal of a costly fuel subsidy, which is expected to keep prices elevated. 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 (see *ARC Briefing Nigeria Apr 2023*).⁹ The finance ministry estimates the subsidy will cost the state \$7.2 billion finances in the first half of 2023.¹⁰

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.¹¹ 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.¹² However, Emeziele has sided with the World Bank and IMF, noting that "*whether we like it or not, we must exit the subsidy*".¹³ The government is hoping that the impact of the fuel subsidy termination may not be as big as expected **Africa's** richest person, **Aliko Dangote** opened a mega petroleum refinery in Nigeria (see below).¹⁴

Nigeria banking on Dangote's refinery to cut \$26 billion import bill...

Dangote launched Africa's largest oil refinery in **Lagos** on 22 May, a project the government is banking on to end its \$26 billion oil and fertiliser import bill and revive its oil sector.¹⁵ Despite being Africa's largest oil producer, Nigeria imports nearly all its petroleum products as its refineries have been largely non-operational for decades.¹⁶ Emeziele said at the launch of the refinery that Nigeria's import bill alone for petroleum products averaged \$11 billion between 2014 and 2017 before increasing to \$23.3 billion in 2022.¹⁷ The country spent a separate \$3 billion on fertilisers and other petrochemicals. Emeziele warned that the cost of petroleum imports could reach \$30 billion if its reliance on imports is not addressed.¹⁸

The petroleum complex could earn as much as \$21 billion in annual income when fully operational, and Emeziele expects the refinery to lower domestic fuel costs by 20%.¹⁹ The idea of establishing the refinery, located within a free-trade zone in Lagos, was initially proposed in 2013, however, actual construction work did not commence until 2017.²⁰ The plant cost \$18.5 billion, more than double the initial \$9 billion budget, with 50% of equity funding coming from Dangote and the balance in debt from primarily local banks.²¹ Emeziele revealed that only \$3 billion of the liabilities are outstanding, with Dangote having already paid the rest himself ahead of the launch of operations.²²

Dangote said at the commissioning, presided over by Buhari and attended by presidents from **Ghana, Senegal, Togo, and Niger**, that the facility which will produce 650,000 barrels of petroleum per day. The plant comprises a petrochemical and urea fertiliser plant as well as a subsea pipeline and could start supplying its first products to the market as early as this July.²³

⁹ Business Day Live, 5 Apr 2023

¹⁰ Bloomberg, 5 Apr 2023; Reuters, 5 Apr 2023

¹¹ Reuters, 5 Apr 2023; Bloomberg, 5 Apr 2023

¹² Bloomberg, 5 Apr 2023; Business Day Live, 5 Apr 2023

¹³ Central Bank of Nigeria, 24 May 2023

¹⁴ CNN, 22 May 2023

¹⁵ CNN, 22 May 2023

¹⁶ This Day Live, 23 May 2023

¹⁷ This Day Live, 23 May 2023

¹⁸ Bloomberg, 22 May 2023

¹⁹ Bloomberg, 22 May 2023

²⁰ Bloomberg, 22 May 2023

²¹ This Day Live, 23 May 2023

²² This Day Live, 23 May 2023; CNN, 22 May 2023

²³ Aliko Dangote, 22 May 2023

Dangote was very optimistic that the oil refinery will be able to meet local fuel demand of approximately 450,000 barrels a day by the end of 2023.²⁴ He also said that once the facility is fully operational, another 40% of its production will be exported. For Dangote, the refinery presents him the opportunity to dominate the refined petroleum products industry as he did with sugar and cement, two sectors he effectively controls in Nigeria.²⁵ Buhari, who ends his eight-year tenure on 29 May, said at the launch that the refinery represents a “*significant milestone*” for the local economy and is “*a game changer for the downstream petroleum products market in the entire African region*”.²⁶

However, the industry is sceptical that the oil refinery will supply its first product in July or produce 650,000 barrels of petroleum per day. There has reportedly been no significant viable commercial activity at the refinery and local traders indicate that salespeople have not even been employed to handle petroleum products.²⁷ The IMF also does not see the facility reaching a third of its 650,000 barrels per day capacity in 2025.²⁸ It is speculated domestically that the commissioning of the plant was a chance for Buhari to preside over a last symbolic ceremony before he stands down as president next week.

Opposition parties launch last-ditch court case to unseat Tinubu...

The presidential tribunal at the court of appeals in **Abuja** opened a hearing on 8 May on suits filed by opposition parties to challenge **Bola Tinubu**’s February electoral victory.²⁹ The **Independent National Electoral Commission (INEC)** declared on 1 March that Tinubu, the former governor of Lagos and the ruling **All Progressives Congress (APC)** flag-bearer was the winner of the 25 and 26 February presidential election (*see ARC Briefing Nigeria post-election brief Mar 2023*).³⁰

The INEC confirmed that of ballots tallied in Nigeria’s 36 states and the federal capital territory of Abuja Tinubu won 37% of the total electoral votes. **Atiku Abubakar**, the former vice president and candidate of the main opposition **Peoples Democratic Party (PDP)**, garnered 29% and **Peter Obi**, former governor of **Anambra** state and flagbearer of the **Labour Party (LP)** received 25%.³¹

Opposition parties announced that they are rejecting the ‘*sham*’ electoral results over the failure of INEC to upload results on its website for over 24 hours after polling stations closed, and called for the presidential election to be scrapped.³²

While opposition parties have begun their court challenge of the elections, the process is a lengthy one and is expected to last months, beyond 29 May when Tinubu would have already assumed the presidency.³³ An election in Nigeria has never been invalidated and doing so after a president has assumed office would be an unprecedented event, not only in Nigeria but across the continent.

Naira falls to record low as Tinubu prepares to assume office...

The CBN allowed the naira to depreciate on 18 May to a record low of 465.07 to the **United States (US)** dollar, the biggest drop since 29 December, only days before Tinubu is set to be sworn in as president.³⁴ It was also the second time in three days that the naira hit a new low.³⁵ Tinubu, who will assume office on 29 May, has promised to end the practice of maintaining multiple exchange rates which is dominated by a tightly controlled official rate.³⁶ The president-elect prefers to adopt a more

²⁴ Aliko Dangote, 22 May 2023

²⁵ Bloomberg, 22 May 2023

²⁶ Premium Times Nigeria, 22 May 2023

²⁷ Bloomberg, 22 May 2023

²⁸ Bloomberg, 22 May 2023

²⁹ AFP, 8 May 2023

³⁰ Independent National Electoral Commission, 1 Mar 2023

³¹ Independent National Electoral Commission, 1 Mar 2023

³² Africa Report, 28 Feb 2023

³³ AFP, 8 May 2023

³⁴ Bloomberg, 18 May 2023

³⁵ Bloomberg, 18 May 2023

³⁶ Bloomberg, 18 May 2023

flexible monetary policy. That is in direct contrast to outgoing president Buhari who preferred for the central bank to manage the national currency.

Nikolaus Geromont, a fixed-income analyst at **South African** banking giant, **Absa Group**, said on 17 May that the naira could weaken as much as 15% after Tinubu assumes the presidency.³⁷ Geromont said that after the presidential inauguration, Absa expects the naira to trade upwards of 530 to the dollar.³⁸ A weaker naira will 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.³⁹

Planner

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

Chronology

18 May 2023 **Plateau State (Nigeria) AFP**. Local authorities say that the death toll from an attack by dozens of gunmen in north central **Plateau** state has reached 80, with survivors still searching for bodies days after the incident;

17 May 2023 **Abuja (Nigeria) Bloomberg**. The **United States (US)** is helping Nigerian security agencies investigate an attack on an US convoy in the country in which at least four people were reportedly killed;

17 May 2023 **Abuja (Nigeria) Punch**. Opposition **Peoples Democratic Party** and **Labour Party** express anger over a telephone conversation between **United States (US)** Secretary of State **Antony Blinken** and President-elect **Bola Tinubu** in which Blinken pledged stronger ties between the US and Nigeria;

16 May 2023 **Abuja (Nigeria) Bharti Airtel**. **Indian** communications giant **Bharti Airtel** says efforts by Nigeria to curb rampant kidnappings by suspending unregistered cell phone users cost the company an estimated \$110m in annual revenue;

16 May 2023 **Abuja (Nigeria) Yahoo News**. **Bayelsa State Oil & Environmental Commission** says that several international oil firms including **United Kingdom** giant **Shell** and **Italian** firm **Eni** should pay \$12 billion to repair environmental devastation in Nigeria's crude-rich **Niger Delta**;

16 May 2023 **Abuja (Nigeria) Moneyweb**. **South African** mobile operator **MTN** and **Indian** counterpart **Airtel Africa** will stop providing dedicated text message services to Nigeria banks until the lenders pay ₦120 billion (\$259m) in arrears;

11 May 2023 **Abuja (Nigeria) Bloomberg**. Nigerian oil production slumps almost 20% in April after **United States (US)** oil giant **Exxon Mobil**'s workers went on strike, ending a recent rally;

10 May 2023 **Abuja (Nigeria) Reuters**. **United Kingdom's (UK)** supreme court rules that UK firm **Shell** cannot still be held responsible for one of the largest oil spills off the coast of Nigeria over a decade later;

7 May 2023 **Abuja (Nigeria) Dangote Oil Refinery**. **Dangote Oil Refinery** announces that Africa's largest oil refinery is set for commissioning on 22 May;

3 May 2023 **Abuja (Nigeria) Bloomberg**. Nigeria's debt burden is poised to jump 50% after parliament approves president **Muhammadu Buhari**'s request to convert ₦22.7 trillion (\$49 billion) of loans from the central bank into bonds;

³⁷ Absa, 17 May 2023

³⁸ Absa, 17 May 2023

³⁹ Bloomberg, 18 May 2023

1 May 2023 **Abuja (Nigeria)** *Business Live*. Nigeria's **Securities and Exchange Commission (SEC)** is processing applications for digital exchanges on a trial basis in a mission to widen market participation in the country where the central bank restricts trading in cryptocurrencies;

28 Apr 2023 **Abuja (Nigeria)** *Bloomberg*. Nigeria's dollar bonds posted the biggest losses in emerging markets after the country signalled its plan to remove energy subsidies could be delayed beyond its initial 1 June deadline;

27 Apr 2023 **Lagos (Nigeria)** *Punch*. Citing finance minister **Zainab Ahmed**, Lagos-based newspaper, **Punch** reports that Nigeria has suspended a plan to exit fuel subsidies by June;

25 Apr 2023 **Abuja (Nigeria)** *Premium Times Nigeria*. Nigeria has spent \$2.5 billion to complete about two-thirds of an oil pipeline that will transport gas produced in the south of the country to the power-deprived north. **China** was originally meant to finance the project;

24 Apr 2023 **Abuja (Nigeria)** *Premium Times Nigeria*. President-elect **Bola Tinubu** returns to Nigeria after more than a month away in **France**.

About Africa Risk Consulting:

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