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Nigeria will spend over six times more on servicing its debt in 2024 than on social services, such as building hospitals or schools, with more than 40% of its population living in extreme poverty. In his first major speech since his appointment as Central Bank of Nigeria (CBN) governor in September, Olayemi Cardoso promises major changes to rein in inflation and steady the country's faltering currency, signalling that tighter monetary policies are ahead. United States (US) ratings house Moody's upgrades its outlook for Nigeria to positive from stable on 8 December, citing several bold reform efforts undertaken by President Bola Tinubu's (2023-present) administration to reverse the deterioration of the country's fiscal and external position. State oil company Nigerian National Petroleum Co. (NNPC) will alter how its crude cargoes are priced from January 2024, a move that traders say will make handling the West African country's barrels riskier. Energy minister Ekperikpe Ekpo announces on 27 November that construction of the \$25 billion Nigeria-Morocco Gas Pipeline (NMGP), which could supply fuel to Europe, is scheduled to begin in 2024.

Debt costs dominate social spending in 2024 budget...

Nigeria will spend over six times more on servicing its debt in 2024 than on social services, such as building hospitals or schools.¹ In his first budget speech since assuming office in May, President **Bola Tinubu** (2023-present) on 29 November presented his government's 2024 budget, which projects spending of 27.5 trillion naira (\$34.7 billion), of which 30% will be directed to paying off debts.² Education spending will account for 7.9% of the budget, while infrastructure and healthcare will each consume 5%.³ However, this does not include spending on social services by the country's 36 states and the capital, **Abuja**. Social development and poverty reduction will only account for 4% of direct allocations, while more than 40% of Nigerians live in extreme poverty. Addressing lawmakers in Abuja, Tinubu said the budget,

"seeks to achieve job-rich economic growth, macro-economic stability, a better investment environment, enhanced human capital development, as well as poverty reduction and greater access to social security".⁴

Nigeria's public debt stood at 87.4 trillion naira (\$110 billion) as of June, with 38% of that amount due to external creditors, including commercial and multilateral lenders.⁵ The high debt-service costs will make it very challenging for Tinubu to double the size of Nigeria's economy to \$1 trillion by 2030 and lift 100 million of its population out of poverty.⁶

To boost revenues, the government has set an ambitious revenue target of 18.3 trillion naira (\$23.1 billion) for 2024.⁷ If the target is reached, it will narrow the budget deficit and significantly reduce debt service costs to 45% of projected revenues, compared with 98% this year.⁸ However, in previous years, collected revenue has fallen short of projections and prompted the government to borrow in order to meet its public spending needs. Tinubu also revealed that the proposed budget deficit of 9.18

¹ Business Day Nigeria, 1 Dec 2023; Bloomberg, 29 Nov 2023

² Business Day Nigeria, 1 Dec 2023; Bloomberg, 29 Nov 2023

³ Business Day Nigeria, 1 Dec 2023; Bloomberg, 29 Nov 2023

⁴ Business Day Nigeria, 1 Dec 2023; Bloomberg, 29 Nov 2023

⁵ Business Day Nigeria, 1 Dec 2023; Bloomberg, 29 Nov 2023

⁶ Business Day Nigeria, 1 Dec 2023; Bloomberg, 29 Nov 2023

⁷ Business Day Nigeria, 1 Dec 2023; Bloomberg, 29 Nov 2023

⁸ Business Day Nigeria, 1 Dec 2023; Bloomberg, 29 Nov 2023

trillion naira (\$11.74 billion) for 2024 will be funded primarily by borrowing, proceeds from asset sales, and loans from multilateral creditors, including the **African Development Bank (AfDB)** and the **World Bank**.⁹

Many Nigerians have expressed concern at the high level of debt spending for next year, particularly as it will come at the cost of much needed social spending. Many have complained that while the budget has increased year after year, poverty, unemployment and inflation have not declined.¹⁰ Economics professor and **Nigerian Economic Society (NES)** president **Adeola Adenikinju** said on 1 December that the budget does not speak to “*what matters to the people and that has to change*”.¹¹ Average Nigerians are greatly disappointed in Tinubu’s budget due to the low priority given to social spending.

... as central bank plans sweeping changes to control inflation

In his first major speech since being appointed **Central Bank of Nigeria (CBN)** governor in September, **Olayemi Cardoso** on 24 November promised major changes to rein in inflation and steady the country’s faltering currency, signaling tighter monetary policies ahead.¹² Nigeria’s bankers, wanting to see evidence that Cardoso has a strategy to combat raging inflation and the naira’s weakness, had hotly anticipated Cardoso’s speech, which came at the conclusion of an annual banking industry dinner.¹³ In his speech, Cardoso revealed that the CBN will switch to targeting inflation rather than attempting to control the money supply in its fight to slow price increases.¹⁴

“The CBN has just approved the adoption of an explicit inflation-targeting framework to enhance the effectiveness of monetary policy.”¹⁵

Cardoso said the CBN is working on the details on its inflation plan and will provide further guidance in due course in order to promote transparency and maintain effective communication with the country to “*anchor expectations*”.¹⁶ However, he was clear that surging inflation will be managed by tightening monetary conditions during the next two financial quarters. Cardoso also revealed that the policymakers will adopt orthodox central banking practice, noting the CBN’s commitment to achieving monetary and price stability:

“We will tackle institutional deficiencies, restore corporate governance, strengthen regulations and implement prudent policies.”¹⁷

The CBN’s **Monetary Policy Committee (MPC)** has increased interest rates by 725 basis points since May 2022 to 18.75% to tame an inflation rate that accelerated to an 18-year high of 27.3% in October, more than double the CBN’s target band of between 6% and 9% (see *ARC Briefing Nigeria July, Oct 2023*). The naira has depreciated by more than 40% to the **United States (US)** dollar since June. It is unclear when the MPC will hold its next meeting but Cardoso said the law required it to meet four times a year and that threshold has already been achieved for 2023.¹⁸ It is widely expected to hike interest rates for an unprecedented ninth time in a row in a bid to contain inflation, aid the naira and assert its credibility.

While the final details of the CBN’s plan to battle inflation will be revealed later, it is clear that tighter monetary policies lie ahead. Investors will be pleased that Cardoso has returned to orthodox central banking rather than the chaotic policymaking of former CBN governor **Godwin Emefiele**. While he has signalled a willingness to defend the CBN’s autonomy, it is yet to be seen whether Cardoso can

⁹ Business Day Nigeria, 1 Dec 2023; Bloomberg, 29 Nov 2023

¹⁰ Business Day Nigeria, 1 Dec 2023

¹¹ Business Day Nigeria, 1 Dec 2023

¹² Central Bank of Nigeria, 24 Nov 2023

¹³ Bloomberg, 24 Nov 2023

¹⁴ Central Bank of Nigeria, 24 Nov 2023

¹⁵ Central Bank of Nigeria, 24 Nov 2023

¹⁶ Central Bank of Nigeria, 24 Nov 2023

¹⁷ Central Bank of Nigeria, 24 Nov 2023

¹⁸ Bloomberg, 24 Nov 2023

withstand pressure from Tinubu, to whom he has been close for many years and whose economic policies he co-authored.

Moody's raises outlook to positive despite less than stellar growth

US ratings house **Moody's** on 8 December upgraded its outlook for Nigeria to positive from stable, citing several bold reform efforts undertaken by the Tinubu administration to reverse the deterioration of the country's fiscal and external position.¹⁹ Moody's affirmed Nigeria's rating at Caa1, seven levels into junk due to "*still weak*" fiscal and external positions.²⁰ In a bid to transform Nigeria's ailing economy to woo investment and achieve 6%-plus growth in coming years, Tinubu in May implemented the boldest reforms the country has seen in decades by eliminating a popular but costly fuel subsidy, devaluing the naira by removing exchange controls and ending a ban on some exports.²¹ Speaking on Nigeria's upgrade, Moody's analysts **Lucie Villa** and **Matt Robinson** said:

*"The positive outlook reflects the possible reversal of the deterioration in Nigeria's fiscal and external position as a result of the authorities' reform efforts."*²²

However, Moody's said the government's reforms may not be enough to improve the country's credit profile.²³ While investors have welcomed these reforms, local unions say they led to skyrocketing costs, with inflation, which has been in double digits since 2016, reaching an 18-year high in October and further eroding incomes and savings.²⁴ The reforms have also done very little to lift economic growth. The economy registered less than anticipated growth in the third quarter as the Tinubu government's painful reforms weighed on the non-oil sector.²⁵ According to **National Bureau of Statistics (NBS)** data released on 24 November, Nigeria's gross domestic product expanded by 2.54% in the three months through September from a year earlier, compared with a growth rate of 2.51% in the previous quarter.²⁶

The oil sector continued to drag down the economy, although to a lesser extent than in previous quarters, contracting by 0.85% as domestic production rose 1.45 million barrels per day from 1.2 million barrels per day a year prior.²⁷ Nigeria has failed to meet its **Organization of the Petroleum Exporting Countries + (OPEC+)** quota this year due to vandalism and oil theft.²⁸ For Tinubu to achieve his economic goals, it is crucial for the oil industry to recover. In the meantime, Nigeria's softer-than-expected economic performance will certainly test the president's commitment to his bold reforms. The vote of confidence from Moody's may reassure Tinubu that he is on the right trajectory.

Nigeria worries oil traders with sudden pricing change

Nigeria's state oil company, **Nigerian National Petroleum Co. (NNPC)**, will alter how its crude cargoes are priced from January 2024, a move that traders say will make handling the **West African** country's barrels riskier.²⁹ Without giving any official reasons for the change, the NNPC will begin pricing its supplies against the monthly average of **Dated Brent**, the physical-crude benchmark.³⁰ To date, the NNPC has been pricing crude based on Dated Brent's average settlement in the five days after loading.³¹

¹⁹ Reuters, 8 Dec 2023

²⁰ Moody's, 8 Dec 2023

²¹ Reuters, 8 Dec 2023

²² Moody's, 8 Dec 2023

²³ Reuters, 8 Dec 2023

²⁴ Reuters, 8 Dec 2023

²⁵ National Bureau of Statistics, 24 Nov 2023

²⁶ National Bureau of Statistics, 24 Nov 2023

²⁷ Bloomberg, 24 Nov 2023

²⁸ Bloomberg, 24 Nov 2023

²⁹ The Cable, 5 Dec 2023; Bloomberg, 5 Dec 2023

³⁰ The Cable, 5 Dec 2023; Bloomberg, 5 Dec 2023

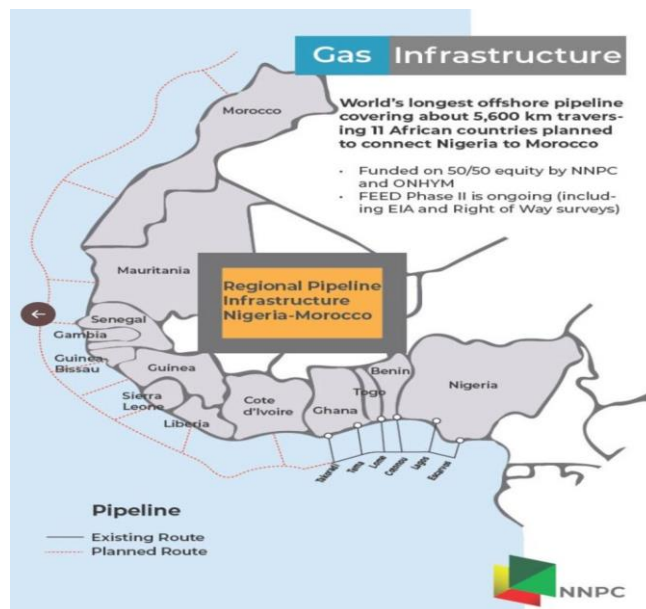
³¹ The Cable, 5 Dec 2023; Bloomberg, 5 Dec 2023

Traders argue that Nigeria's change will make its cargoes more vulnerable to the type of volatility that impacts wider oil markets, hurting the value of cargoes.³² They also argue the NNPC's new approach will require increased use of hedging due to the less precise timeframe that will be applied to cargo pricing. Lastly, the traders argue that it will be more challenging to compare the price of Nigeria's shipments to **Europe** with those from the **North Sea** and the **Mediterranean**, as well as the **West Texas Intermediate (WTI Midland)** oil benchmark central to commodities trading, which all use the five-day system. Therefore, Nigeria's oil cargoes may become less competitive in global markets. Given the eight years of chaos caused by the policies of the **Muhammadu Buhari** (2015-2023) regime, international investors were hoping that the Tinubu regime would return to sound and more orthodox policies. However, the move to alter crude pricing marks a return to the unorthodox and chaotic policies for which Nigeria has become known.

Construction of Nigeria-Morocco gas pipeline to begin in 2024

Energy minister **Ekperikpe Ekpo** announced on 27 November that construction of the \$25 billion **Nigeria-Morocco Gas Pipeline (NMGP)**, which could supply fuel to Europe, is scheduled to begin in 2024.³³ Speaking in Abuja on the sidelines of a meeting with a delegation from **Morocco**, Ekpo said "I believe by 2024, we will conclude on it".³⁴ The meeting was chaired by Morocco's ambassador to Nigeria, **Moha Ou Ali Tagma**.³⁵

The 5,600 km long gas project will span more than 11 countries along **Africa's Atlantic** coast, aiming to benefit over 400 million West African inhabitants and improve energy infrastructure in the region.³⁶ Morocco will house 1,672 km of the pipeline, which is also expected to transport Nigerian gas to **Europe** through the **North African** country.³⁷ The **Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development** and the **Saudi Arabia-based Islamic Development Bank** pledged nearly \$60m to fund feasibility and engineering studies for the pipeline, which was first conceived in 2016 and is one of the most ambitious energy projects in the world.³⁸ Once completed, the NMGP will be the second longest pipeline in the world after **China's West-East Gas Pipeline**.³⁹



³² The Cable, 5 Dec 2023; Bloomberg, 5 Dec 2023

³³ Morocco World News, 28 Nov 2023

³⁴ Nigeria Press Service, 27 Nov 2023;

³⁵ Nigeria Press Service, 27 Nov 2023

³⁶ Morocco World News, 6 Dec 2022

³⁷ Morocco World News, 6 Dec 2022

³⁸ Bloomberg, 15 Sep 2022

³⁹ Morocco World News, 28 Nov 2023

The NNPC and Morocco's **Office National des Hydrocarbures et des Mines (ONHYM)** (national hydrocarbons and mines office) signed a memorandum of understanding (MoU) on 15 September 2022 that brought closer to reality a long-standing proposal for a gas pipeline between the two countries (see *ARC Briefing Nigeria Sep 2022*).⁴⁰ However, Nigeria's then-oil minister, **Timipre Sylva**, told **French** news publication **AFP** on 1 March that the construction of the Nigeria-Morocco gas pipeline was facing delays due to administrative details that still needed to be addressed.⁴¹ Sylva said that at the time that "*there are certain agreements that you must sign with every country*".⁴² It appears that those issues have now been resolved. The ONHYM signed five MoUs in December last year with several countries that pledged their support for the implementation of the gas project (see *ARC Briefing Nigeria Dec 2022*).⁴³ So far, Morocco and Nigeria have signed MoUs with at least seven of the 13 West African countries in question, as well as the regional bloc, the **Economic Community of West African States (ECOWAS)**.⁴⁴ If the pipeline progresses, it will take 25 years to complete.

However, major doubts remain over targeting Europe as a key market for the project. During a visit to Morocco in January, **European Union (EU)** foreign policy chief **Josep Borrell** said it is uncertain if the EU will still want to use gas by the time the project is completed.⁴⁵ A senior European diplomat speaking on condition of anonymity told AFP that "*in the future, we won't be buying gas anymore*."⁴⁶ While the European market in 25 years may have an abundance of sources of gas or no longer use gas, the West African region and ECOWAS could instead be a primary market given that many of the countries spend large sums to import energy resources. Gas from the pipeline will be a much cheaper and more accessible alternative.

What to watch for in 2024...

Nigeria braces for a turbulent 2024, facing a multitude of economic and political challenges. Rising inflation, fueled by ineffective monetary policy and recent reforms, is expected to breach 30% heading into 2024, significantly impacting the cost of living and possibly triggering social unrest and demands for further government intervention. The naira's unrelenting depreciation against the US dollar could exacerbate the situation, fueling anxieties and pushing the government to implement further measures to stabilise the currency. The effectiveness of the government's measures remains uncertain, leaving the macroeconomy and financial situation precarious. Despite the **International Monetary Fund (IMF)**'s endorsement of President Tinubu's long-term reforms, Nigerians are grappling with immediate hardships, fueling major social discontent. While the **Supreme Court of Nigeria (SCN)** endorsed Tinubu's February electoral victory, millions of Nigerian youths who supported the **Labour Party's Peter Obi** remain disillusioned with the political system and say the election was "*stolen*". Adding to these issues, the IMF also predicts that **South Africa** will briefly overtake Nigeria as Africa's largest economy in 2024, highlighting the urgency for further economic reforms and development.

⁴⁰ Bloomberg, 8 Sep 2022; Offshore-Technology, 12 Sep 2022

⁴¹ Morocco World News, 1 Mar 2023; AFP, 1 Mar 2023

⁴² AFP, 1 Mar 2023

⁴³ Morocco World News, 1 Mar 2023

⁴⁴ France24, 1 Mar 2023

⁴⁵ France24, 1 Mar 2023

⁴⁶ France24, 1 Mar 2023

Planner

Dec 2023 **Lagos (Nigeria)** International conference on **Applied Economics and Finance (ICAEF)**;

Dec 2023 **Lagos (Nigeria)** **Nigeria Oil and Gas Summit**;

Dec 2023 **Abuja (Nigeria)** Government to sign the **African Continental Free Trade Agreement (AfCFTA)**, opening new trade opportunities for businesses;

Dec 2023 **Abuja (Nigeria)** **World Conference on Accountants (WCA)**;

Dec 2023 **Abuja (Nigeria)** Release of the **Monetary Policy Committee (MPC)** meeting minutes, providing insights into the **Central Bank of Nigeria's (CBN)** economic outlook and policy decisions;

Dec 2023 **Abuja (Nigeria)** Expected date for the supreme court ruling on the appeal filed by **Indigenous People of Biafra** leader **Nnamdi Kanu** against his conviction and sentence.

Chronology

11 Dec 2023 **Tripoli (Libya)** *EWN*. Libya departs 300 **Nigerians** who were possibly en route to **Europe**;

9 Dec 2023 **Abuja (Nigeria)** *Reuters*. A mega-refinery built in Nigeria by billionaire **Aliko Dangote** receives its first barrels of crude oil, an “*important milestone*” in a project that has been plagued by delays and aims to fully meet the country's fuel needs;

8 Dec 2023 **Abuja (Nigeria)** *Bloomberg*. The Nigerian naira plunges to its lowest point on record in official trading as a shortage of **United States (US)** dollars persists despite promises by the government to boost supply, weakening by 23% to 1,099 naira per dollar;

7 Dec 2023 **Abuja (Nigeria)** *BNN Bloomberg*. **India's** state-owned aircraft manufacturer, **Hindustan Aeronautics**, is in talks with Nigeria to export its homemade multi-role fighter jets;

5 Dec 2023 **Abuja (Nigeria)** *Financial Times*. President **Bola Tinubu** orders an investigation into the killing of at least 85 civilians after an army drone attack erroneously targeted a religious gathering in northwest Nigeria;

1 Dec 2023 **Abuja (Nigeria)** *National Bureau of Statistics*. The **National Bureau of Statistics (NBS)** reports that Nigerian floods last year, which claimed hundreds of lives, caused up to \$9 billion in damage,

30 Nov 2023 **Abuja (Nigeria)** *Bloomberg*. The **Organization of the Petroleum Exporting Countries + (OPEC+)**, of which Nigeria is a member, is discussing additional output cuts of about 1 million barrels a day as it seeks to overcome internal disagreements and shore up flagging crude prices;

28 Nov 2023 **Abuja (Nigeria)** *Bloomberg*. The **Organization of the Petroleum Exporting Countries + (OPEC+)**, of which Nigeria is a member, is no closer to resolving the deadlock over oil-output quotas for some **African** members that has already forced the group to delay a critical meeting amid faltering prices, according to delegates;

25 Nov 2023 **Abuja (Nigeria)** *Central Bank of Nigeria*. The **Central Bank of Nigeria (CBN)** pledges major changes to get a grip on inflation and steady the country's battered currency, signaling tighter monetary policy ahead;

24 Nov 2023 **Abuja (Nigeria)** *Central Bank of Nigeria*. The **Central Bank of Nigeria (CBN)** urges lenders to bolster their balance sheets in the face of high inflation, currency weakness and tepid economic growth.

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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