



Nigeria's Economic Update: July 2022

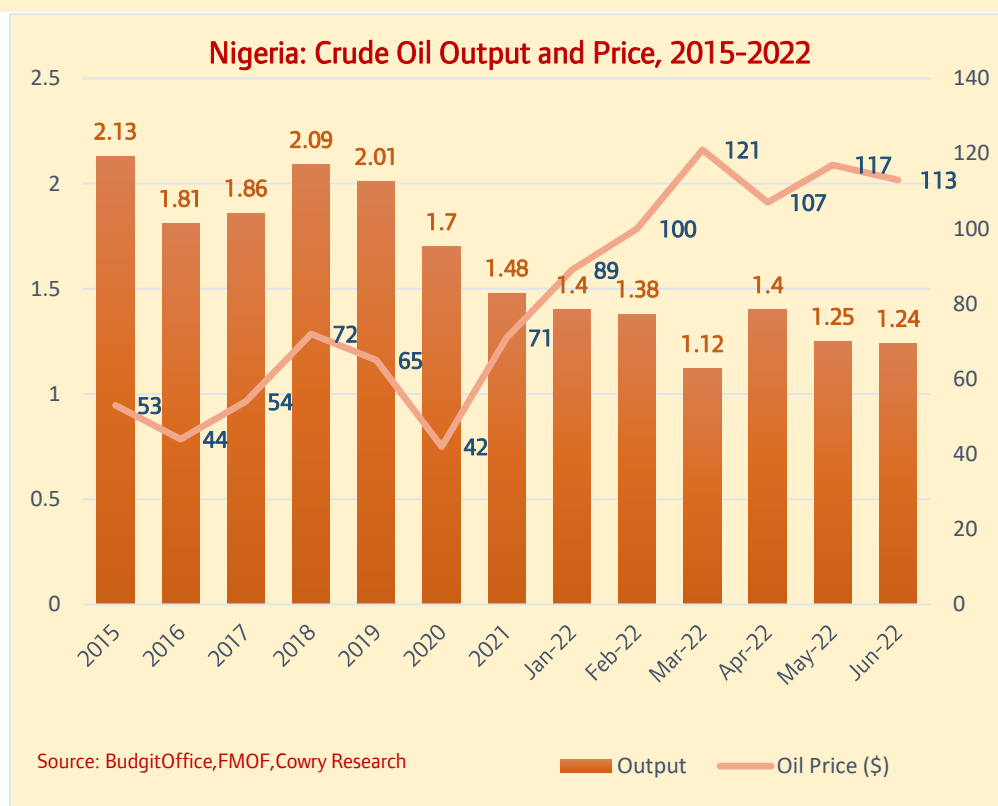
MPR: 14% June'22 Inflation: 18.60%

Q1'22 Real GDP Growth: 3.11%

Nigeria's Low Crude Oil Production Levels Threatens Estimated N6.72trn Subsidy Payment in 2023

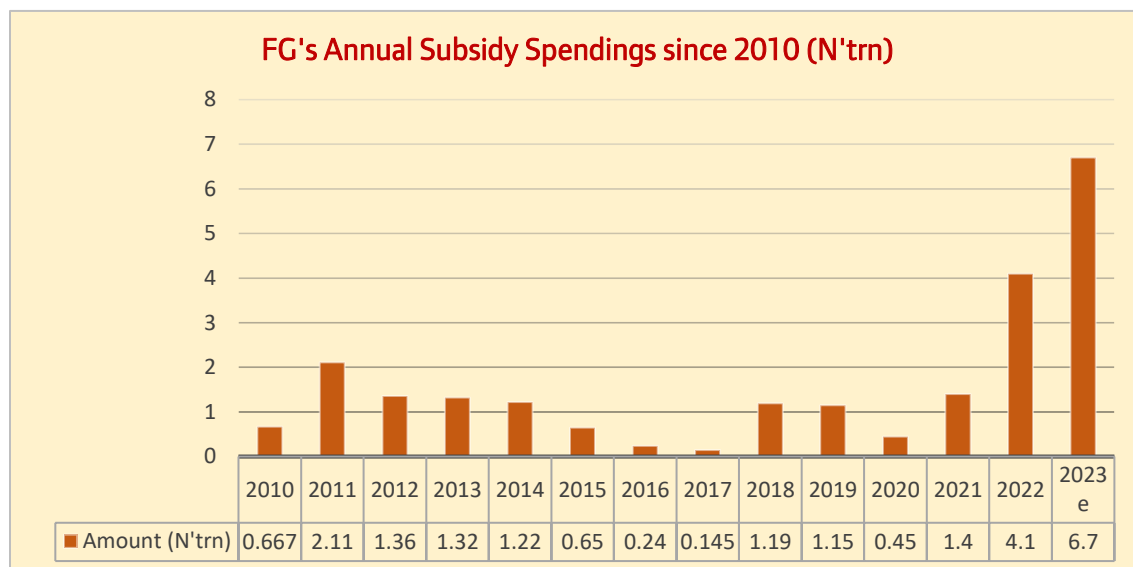
Latest report obtained from the Federal Ministry of Finance shows that Nigeria's federal government planned to spend N6.72 trillion on fuel subsidy payments for the full year of 2023. This comes after official data from the ministry revealed that FG recorded N3.09 trillion deficits in its 2022 budget implementation under 4 months (January to April).

Zainab Ahmed, the Minister of Finance, Budget, and National Planning, in the Federal Government's 2023 – 2025 Medium Term Fiscal Framework and Fiscal Strategy draft, made the revelation stating that the deficit underscored the fiscal challenges confronting the Federal Government. From the foregoing, it was stated by FG that petrol subsidy will remain up to mid-2023 based on the 18-month extension announced in early 2021, in which case only N3.36 trillion will be provided for.



This is coming in a period when Nigeria's fiscal revenue receipt is dwindling, the local currency is being sold at a wider premium against the dollar at the parallel markets, and the country's external reserves are still below the \$40 billion mark, plus Nigeria's federal government plans to spend N4 trillion on subsidy payments in 2022. Consequently, data gathered from the Ministry of Finance, Budget Office, and the NNPC puts it that Nigeria spent N1.4 trillion on petrol subsidies in 2021 while N4 trillion is to be expended in the 2022 fiscal year; opening our eyes to see that this threefold spike in subsidy will further widen Nigeria's fiscal deficit and in turn, increase the debt burden.

We had before now reported on the subtle move by FG to remove subsidy payment from its annual budget owing to its revenue burden while the NNPC (now known as NNPC Limited) has failed to remit into the government buffers in more than a year. This



prompted the resurrection of fuel scarcity across some major Nigerian metropolis as the end-game became the increase of the price of PMS above N165/litre in the face of rising commodity prices, compounding more nerve-wracking woes for consumers in the face of shrinking incomes.

Review of the 2023-2025 MTRF shows that the projected fiscal outcomes in the medium term are presented under two scenarios based on some assumptions:

1. The 2023 FGN Revenue is projected at N6.34 trillion, out of which only N373.17 billion or 5.9% comes from oil-related sources. The balance of N5.97 trillion is to be earned from non-oil sources.
2. In addition to subsidy reform, this scenario assumes an aggressive implementation of cost-to-income limits of GOEs, with these, the 2023 FGN Revenue is projected at N8.46 trillion (15.1% or N1.51 trillion less than the 2022 Budget) but N2.12 trillion more than scenario 1.

Crude oil production challenges and PMS subsidy deductions by NNPC constitute significant threat to the achievement of FG's revenue growth targets, as seen in the 2022 Performance up to April. To this, a bold, decisive and urgent action is urgently required to address revenue underperformance and expenditure efficiency at national & sub-national levels.

We believe the subsidy regime will become an expenditure for the next administration; however, there is the need for proactive actions by the federal and state governments to address the challenges of oil theft and pipeline vandalism, which are sacrosanct in improving oil output and by extension, oil revenues. For non-oil revenue, the management of government taxes, and ensuring transparency and accountability in the management of public funds can help improve the business environment for the short to medium term.