Nigeria's Economic Update: July 2022

Fuel Queues Are Back; But Winter is Coming for Nigerians, Businesses, FG

MPR: 13%   MAY Inflation Rate: 17.71 %

Q1 Real GDP Growth Rate: 3.11%

Nigerians pay N174 (USD0.42) averagely as the retail price for PMS on the domestic front, according to NBS (June'22), while in neighbouring countries such as Cameroun (USD1.26), Chad (USD0.87), Togo Republic (USD1.28), Benin Republic (USD1.19), and Ghana (USD2.17) on a comparative measure, given the average price of PMS at N412 (USD0.99) per litre as the Nigerian Bonny light crude sells for an average of USD118 per barrel.

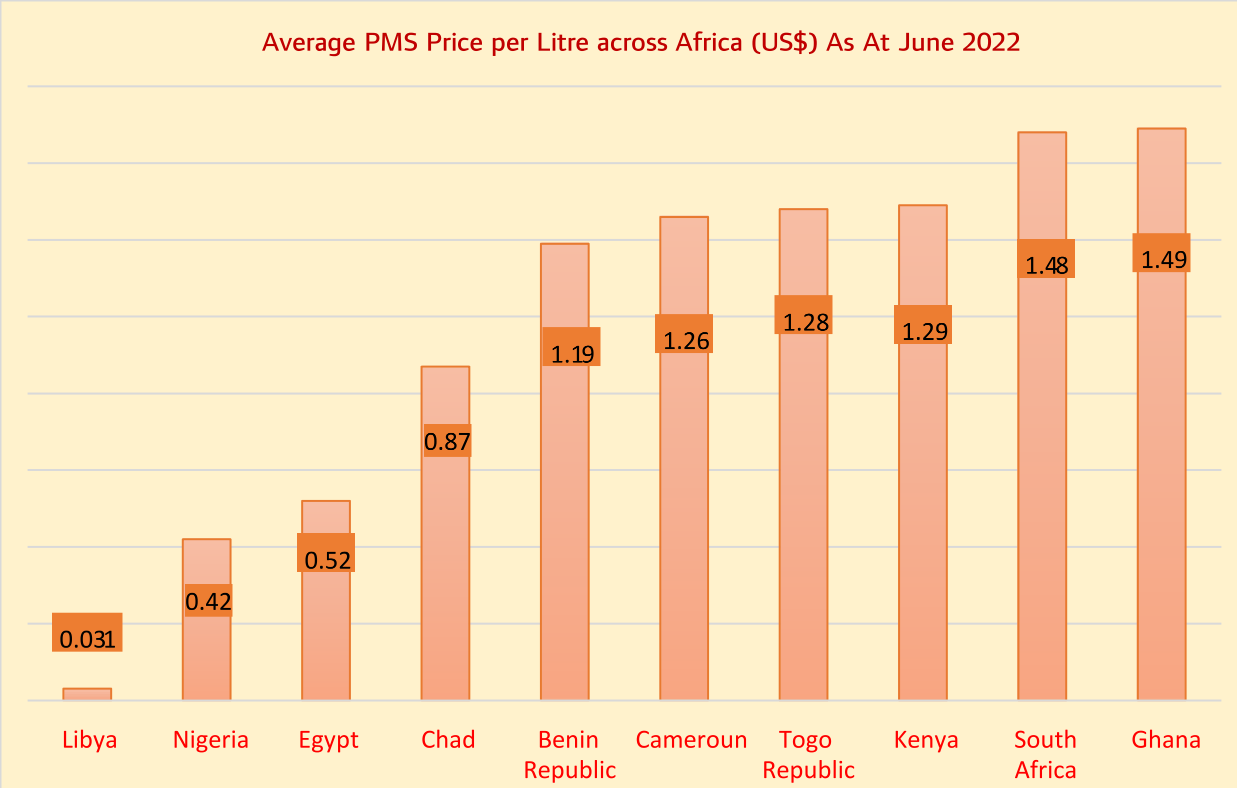
According to the NNPC, Nigeria spent N1.4 trillion on petrol subsidies in 2021 while N4 trillion is expected to be expended in the 2022 fiscal year and we see this threefold spike in subsidy to further widen Nigeria's fiscal deficit and in turn, increase the debt burden. Meanwhile, the national oil company has planned the deduction of N126 billion from the June FAAC allocation to states.

Source: OilPrice.com, Cowry Research

Over the years, Nigeria has been unable to maximise the financial benefits from what should naturally be an oil windfall as vandalism, ageing infrastructure and inadequate investments in oil fields continue to ensure that output remains significantly below the country's OPEC quota of around 1.8mbpd. Still, it is believed that the subsidy removal will be the burden of the next administration which will see subsidies absorbing a significant portion of the revenue from oil which is anticipated to rise in the near term. Basically, the planned subsidy removal on PMS by FG may leave Nigeria on a fiscal cliff.

In this report, we consider the resurgent of fuel queues, indicating fuel scarcity, in some major Nigerian metropolises that could birth dire consequences which will leave the average Nigerian in a perilous situation, worsened by the spike in the insalubrious rate of inflation, rising energy and commodity prices as well as induced pressure on profit margins of most manufacturing companies and other businesses who will record an unprecedented increase in their operating costs.

This ongoing impasse has further contributed to the soaring cost of living for Nigerians, with businesses left to grapple with rising operating costs as the price of diesel seems to never stop the upswing coupled with the lingering forex scarcity, among other structural severities. Therefore, the paucity of PMS products has opened the way for the black marketers across Lagos, Abuja and other major cities to profit from this development as they resort to hoarding the supplies and then selling at around N300 litre, compounding more nerve-wracking woes for consumers in the face of shrinking incomes. To this, the subsidy regime may present a massive incentive for smuggling across the border.



Source: GlobalPetrolPrices.com, Cowry Research

- Taking a cue from the foregoing, we comment that this mound reality is likely to place Nigerians in an even more perilous situation where price increases will negatively affect consumption levels and aggregate demand of consumers who are already embattled with sustained income squeeze. Thus, a hike in transportation costs is inevitable.
- Also, the turnover (and to an extent, the profits) of businesses, most probably the manufacturing firms will witness impairments from increased expenses as a result of the increased cost of operations which may lead to the layoff of staff in a bid to cut costs.
- However, the planned deduction by the NNPC from states' FAAC allocation for June will likely compound the financial woes of governments which may be forced into more borrowings to fund capital expenditure, and non-capital expenditure (salaries and pension payments). The above, however, may steer the thinking of the governments to cut salaries and pensions.
- On the bright side, the earnings for oil and gas firms in Nigeria are expected to soar significantly; taking due advantage of the continued rally in the crude oil price to above $100 per barrel in 2022.