CSEA
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Weekly SNAPSHOT

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Federal Government scraps fuel subsidy

In its first administrative steps, the new government of the federation has declared the removal of the country's controversial subsidy on fuel. Welfare advocates have defended it, but it has also come under heavy fire for its macroeconomic and budgetary lapses. For instance, subsidy costs which totalled over N10 trillion between 2006 and 2019, consumed N4.39 trillion ($9.7 billion) in 2022 alone and nearly N3.36 trillion ($7.5 billion) in the first half of 2023, have been a contributing factor in budget deficits in recent years. The decision to remove subsidies was difficult. Still, it was the right one because the exponential growth of the subsidy receipts indicates that they can no longer be managed and are not sustainable, notably when the government lacks the resources to boost the economy and generate sufficient revenues. Following the formal declaration of the subsidy removal, the Nigerian National Petroleum Company Ltd (NNPC) has adjusted its retail petrol prices upwards by at least 200 percent to between N488 to N555 per litre across the country. This has resulted in increased cost of transportation and can significantly impact the cost of production, the general price level and ultimately, the standard of living. Cushioning these effects must, therefore, become the government's next priority by leveraging more public-private partnerships to improve refineries and reduce imports of refined fuel, providing a functional transport system for the citizens, reviewing the minimum wage, and providing safety nets in the form of social protection packages for the poorest and most vulnerable groups across the country. To ensure that the money saved from eliminating subsidies is directed to critical sectors, such as education, agriculture, energy, health sector, etc., policymakers must also carefully consider their efforts to execute the necessary effective policies. This could only be done if the government stops revenue leakages and ensures all current and future borrowing are channelled towards worthwhile capital projects that would boost the economy and yield sizable Returns on Investments (ROI).

Composite PMI grows to 51.1 index points

The recent monetary policy communique of the Central Bank of Nigeria (CBN) shows that the Composite Purchasing Managers Index (PMI) in Nigeria stood at 51.1 index points in April 2023. The composite PMI (which scales between 0 to 100) is an economic indicator that measures the performance of the manufacturing and services sector of the economy by summarizing changes in the working conditions of the private companies in these sectors. When below 50, the index indicates contraction of the private sector, whereas an index greater than 50 depicts expansion, thus showing the overall health of the economy. According to the communique, Nigeria's PMI of 51.1 index points is an improvement from 42.6 index points recorded in the preceding month (March 2023). This indicates that the industrial and service sectors performed better in April, which can be attributed to a decrease in the political unrest brought on by the recently held general elections. Following the policy change on the Naira redesign, cash availability was restored, which boosted economic activity in the nation. Consequently, the PMI showed an improvement in the performance of the private sector. To guarantee a long-term increase in the performance of the private sectors, the government will need to improve the business environment. Operational efficiency can be increased by providing supportive infrastructure, particularly a robust transportation network and adequate electricity. It will be necessary to reassess anti-investment measures, such as excessive interest rate increases, to support business expansion possibilities in the industries under evaluation.

Agricultural sector declines in Q1 2023

Nigeria's agricultural sector recorded a negative growth of -0.9 percent in the first quarter (Q1) of 2023, according to the latest Gross Domestic Product (GDP) report by the National Bureau of Statistics (NBS). This is a significant reduction in the sector's growth rate when compared to 3.16 percent that was recorded in the corresponding period of 2022. The sector has been faced with a few challenges, from insecurity to infrastructural bottlenecks, and so has struggled in the last five quarters to maintain steady performance. The growth rate of the sector has averaged just 0.92 percent since Q2 2022, and its contribution to the economy has consequently declined. The sector contributed 21.66 percent of the overall GDP, making it the second top contributing sector (after the services sector) during the period under review. This, however, represents a lower level of performance than the 26.46 percent contributed in Q4 2022 and the second consecutive fall in contribution to the GDP-based indicator of the nation's economic performance. In addition to the legacy problems, the 2022 flood disaster, which damaged farmlands and wiped off plants and animals, can be blamed for the fall in the sector's performance. This disaster was recorded in practically all 36 of the nation's states. The cash shortage brought on by the CBN's policy of redesigning the naira hampered economic activity in all sectors, including agriculture. With fuel subsidy now removed by the new administration, small actors in the sector may struggle to sustain business, which can further affect overall sectoral performance. It is thus critical for the government to provide support, like insurance coverage against natural disaster, for farmers to help them boost recovery in the case of future occurrences. Policies like currency redesign must also be properly evaluated before implementation to avoid harmful effects on the economy.

ECONOMIC SNAPSHOT	+	
Quarterly Indicators	**'22Q3**	**'22Q4**
GDP Growth Rate (%)	2.25	3.52
Oil GDP Growth Rate (%)	-22.67	–13.38
Non-oil GDP Growth Rate (%)	4.27	4.44
Unemployment Rate (%)	NA	NA
Foreign Direct Investment (US $ Million)	81.72	84.23
Portfolio Investment (US $Millions)	442.08	285.26
Other Investment (US $Million)	635.87	691.23
External Debt (FGN & States- N'Trillion)	17.15	18.70
Domestic Debt (FGN + States & FCT N'Trillion)	26.92	27.55
Manufacturing Capacity utilization (%)	NA	NA
Monthly Indicators	**Jan '22**	**Jan '23**
Headline Inflation (%)	15.60	21.82
Food Sub-Index (%)	17.13	24.32
Core Sub-Index (%)	13.87	19.16
External Reserves (End Period) (US$ Billion)	40.04	36.99
Official Rate Approx. (N/US$)	414.11	461.00
BDC Rate Approx. (N/US$)	NA	NA
Manufacturing PMI	51.4	NA
Non-Manufacturing PMI	49.01	NA
Average Crude Oil Price (US$/Barrel)	88.71	84.78
Petrol (PMS-N/litre)	166.40	257.12
Diesel (AGO -N/Litre)	288.09	828.82
Kerosene (HHK -N/Litre)	437.11	1,153.40
Liquefied Petroleum Gas (Cooking Gas) (N/5Kg)	3,657.57	4,588.75
MPR (%)	11.50	17.50
CRR (%)	27.5	NA
T-Bill Rate (%)	2.49	1.39
Savings Deposit Rate (%)	1.25	4.29
Prime Lending (%)	11.68	27.63
Maximum Lending (%)	27.65	NA
Narrow Money (N'Trillion)	18.59	20.96
Broad Money (N'Trillion)	45.09	52.97
Net Domestic Credit (N'Trillion)	50.09	68.90
Credit to the Government (Net) (N'Trillion)	14.90	24.65
Credit to the Private Sector (N'Trillion)	35.18	42.25
Currency in Circulation (N'Trillion)	3.288	1.386
FAAC (N'Billion)	766.47	NA

NA: Not Available

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5. NBS (2023). Nigeria Gross Domestic Product Q1 2023. Available at Q1 GDP 2023.xlsx (live.com)