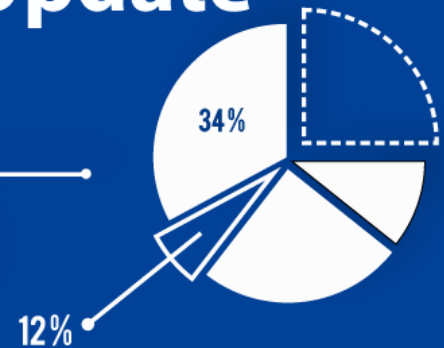




# Nigeria Economic Update



## ***Increase in Value Added Tax***

The federal government has finally approved the proposed increase of Value Added Tax (VAT), from the current 5% to 7.5%<sup>1</sup>. The increment was passed in the recent 2019 financial bill and included exemptions for food items (agro- and aqua-based staple foods) as well as services rendered by microfinance banks. The bill included a new VAT Company Compliance threshold, exempting companies with an annual turnover of N25 million or less from filing obligations<sup>2</sup>. However, the current rate is marginal when compared to the VAT rate in other lower middle-income African countries like Cote d'Ivoire, Senegal and Lesotho with VAT rates of 20%, 18% and 15% respectively. Given that VAT is a consumption tax placed on goods and services, the increase stands to weigh heavily on Nigerians. The negative effect on Nigerian consumers becomes particularly more apparent considering that the government intends to reintroduce tolls to federal roads; imposes steep fines on companies such as MTN, Stanbic IBTC bank (whose customers will bear the brunt); and has recently proposed a 5% online VAT purchase tax. While raising public revenue is critical, it is imperative that the welfare of Nigerians is not negatively affected. Alternatively, other financing options can be explored such as the use of diaspora bonds and remittances.

## ***Decline in Non-Performing Loan***

The percentage of Non-Performing Loans (NPL) as a share of total loans of Nigerian banks has declined to 6.56% as at the end of October compared to 6.67% that was recorded at the end of September<sup>3</sup>. This is a record low which has gone on to improve the resilience of the banking system as noted by the Monetary Policy Committee (MPC) in its recently held meeting on the 24th-25th November. It is also important to note that gross loans rose by N1.14 trillion between Q2(2019) to Q3(2019) indicating that the reduction in non-performing loans is as a result of improvements in the quality of loans. It is noteworthy to state that the federal government had earlier directed banks to increase their loans to the real sector by maintaining a minimum loan to deposit ratio of 60%<sup>4</sup>. A direct implication is that the improvement in the provision of credit has the potential to expand critical sectors such as manufacturing, media and entertainment, and trade (retail and wholesale). The government should tackle other barriers to businesses within its purview such as multiple taxation and inefficient bureaucratic procedures in public offices.

## ***Purchasing Managers Index Rises***

The Manufacturing Purchasing Manager Index (PMI) stood at 59.3 in the month of November, a 1.1% rise from the previous month<sup>5</sup>. This indicates a rise in sectorial expansion in transportation equipment, petroleum & coal products, and furniture sub-sectors when compared to the previous month. The sub-index of non-manufacturing PMI stood at 61.5 indicating a rise for the thirty-first consecutive month. Coupled with a similar consecutive rise in business activity index to 60.0, there are indications of expansion in the non-manufacturing sector which support claims made within the recent Monetary Policy Committee communique that GDP in Q4 2019 is expected to be driven by the non-oil sector<sup>3</sup>. Recent policy efforts to boost credit to the private sector and growth should be supplemented by efforts to address ongoing headwinds threatening industrial growth. They include: inflationary pressures that accompany December festive period, continued high level of unemployment and insecurity, and rising public debt.

ECONOMIC SNAPSHOT		
Quarterly Indicators	'19Q1	'19Q2
GDP Growth Rate (%)	2.1	1.94
Oil GDP (%)	-2.40	5.15
Non-oil GDP (%)	2.47	1.64
Unemployment Rate (%)	NA	NA
Foreign Direct Investment (US \$ Million)	243.36	222.89
Portfolio Investment (US \$Millions)	7,145.98	4,292.89
Other Investment (US \$Million)	1,096.15	1,304.43
External Debt (FGN & States- N'Billion)	7,860.88	NA
Domestic Debt (FGN + States & FCT N'billion)	17,086.20	NA
Manufacturing Capacity utilization (%)	NA	NA
Monthly Indicators	July'19	Aug'19
Headline Inflation (%)	11.08	11.02
Food Sub-Index (%)	13.39	13.17
Core Sub-Index (%)	8.80	8.68
External Reserves (End Period) (US\$ Million)	44,903.03	43,607.80
Official Rate Approx. (N/US\$)	305	305
BDC Rate Approx. (N/US\$)	362	362
Manufacturing PMI	57.6	57.9
Non-Manufacturing PMI	58.7	58.8
Crude Oil Price (US\$/Barrel	NA	NA
Petrol (PMS-N/litre)	145.00	145.5
Diesel (AGO -N/Litre)	224.96	229.08
Kerosene (HHK -N/Litre	316.03	319.94
MPR (%)	13.5	13.5
CRR (%)	22.5	22.5
91 Day T-Bill Rate (%)	9.92	9.92
Savings Deposit (%)	3.93	NA
Prime Lending (%)	15.46	NA
Maximum Lending (%)	31.07	NA
Narrow Money (N'Billion)	11,435.79	NA
Broad Money (N'Billion)	35,675.93	NA
Net Domestic Credit (N'Billion)	33,412.40	NA
Credit to the Government (N'Billion)	9,138.08	NA
Credit to the Private Sector(N'Billion)	24,274.31	NA
Currency in Circulation (N'Billion)	2,003.09	NA
FAAC (N'Billion)	769.5	720.88

\*Revised GDP figures/tentative figures

NA: Not Available

<sup>1</sup>Business Day (2019) “ Reps approve 7.5% VAT, strip NIPOST duty to collect N50 stamp duties ”  
<https://businessday.ng/business-economy/article/reps-approve-7-5-vat-strip-nipost-duty-to-collect-n50-stamp-duties/>

<sup>2</sup> KPMG (2019)“Finance Bill, 2019 passes Second Reading at the Senate” retrieved from  
<https://assets.kpmg/content/dam/kpmg/ng/pdf/tax/finance-bill-2019.pdf>

<sup>3</sup>CBN (2019). “CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 127 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 25th AND TUESDAY 26th NOVEMBER 2019” retrieved from  
<https://www.cbn.gov.ng/Out/2019/MPD/Central%20Bank%20of%20Nigeria%20Communique%20No.%20127%20of%20the%20Monetary%20Policy%20Committee%20Meeting%20of%20November%2025%20and%2026%202019.pdf>

<sup>4</sup>NBS (2019) Selected Banking Sector Data Q3 2019” retrieved from  
<https://nigerianstat.gov.ng/download/1029>

<sup>5</sup>CBN (2019) “Purchasing Managers’ Index (PMI) Survey Report”  
[https://www.cbn.gov.ng/Out/2019/STD/PMI%20Report\\_Nov%202019.pdf](https://www.cbn.gov.ng/Out/2019/STD/PMI%20Report_Nov%202019.pdf)

