SOCIO-ECONOMIC UPDATE

April 2024
Volume 1

www.acioe.com

Key Market Indicators

Item	Evaluation	Growth Index
NFEM ($/NGN) rate	1/1136.04	-13.24%
Crude Oil ($/b)	89.90	+3.37%
NGX ASI	101,777.12 (-0.53%)	-2.66%
Inflation Rate (%)	33.2	+4.73
MPR (%)	24.75	No change

Table1: Key Market Indicators

Sources: CBN, FMDQ, NBS, NGX, bloomberg.com

Last Update: 15th April 2024

CBN Stops Foreign Currency As Collateral For Naira Loans

The Central Bank of Nigeria (CBN) has banned the use of foreign currency-denominated collaterals for naira loans.
This was contained in a circular dated April 8, 2024, directed to all banks. This decision could significantly impact the Nigerian economy.

Potential Positive Impacts:

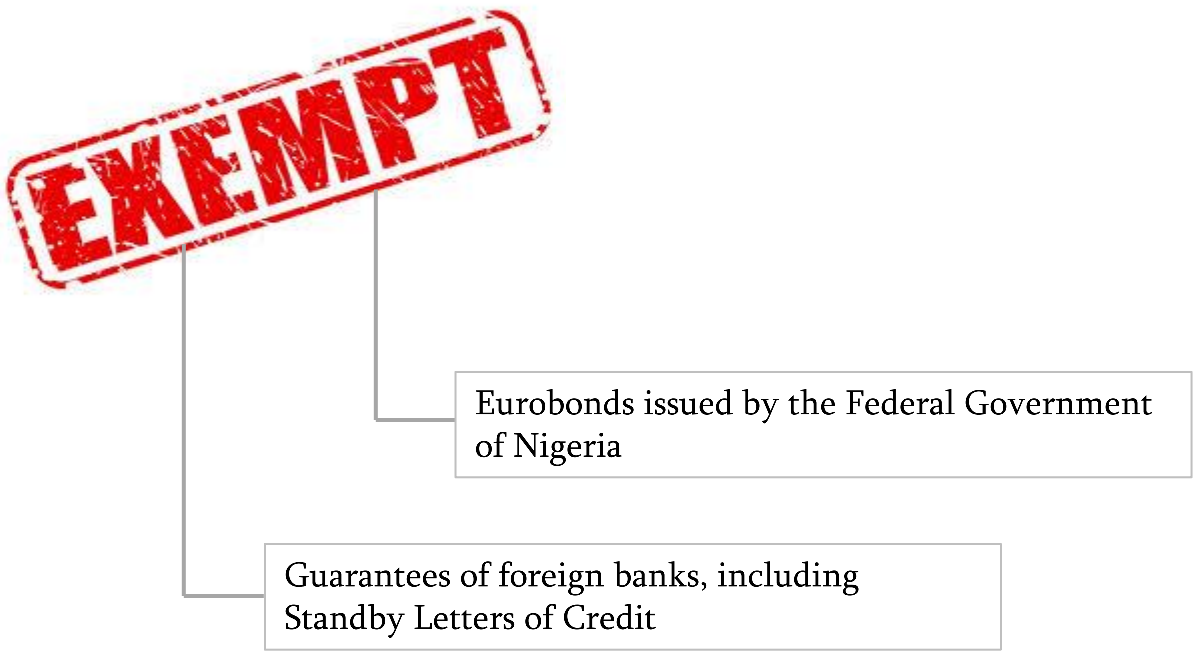
- Strengthen Naira: This policy could help stabilize and potentially strengthen the naira by reducing demand for foreign currency aligning with the CBN's recent sale of dollars to BDC operators, further increasing naira liquidity. Data shows the naira has already appreciated over 40% against the dollar recently, going from N1900/$ to N1200/$.
- Reduce Currency Mismatch Risk: The ban eliminates the risk that banks are exposed to currency fluctuations when a loan denominated in naira is secured by collateral in a foreign currency, making lending safer for banks.
- Encourage Domestic Investment: With FCY collateral no longer an option, businesses may be more likely to consider naira-denominated assets for loan security.
- Reduced NPLs: The ratio of NPLs to gross loans stood at 14.1% in December 2023. This policy will make lending safer and reduce NPLs.
- Protect FX Reserve: This policy will reduce demand for forex to protect reserves.

Potential Negative Impacts:

- Reduced Access to Credit: For some borrowers, particularly those with strong foreign currency earnings, access to loans may become more difficult or expensive. Without FCY collateral, they may be seen as having a higher risk.
- Discourages Foreign Investment: This policy could discourage foreign investors who may have preferred using foreign currency as collateral to mitigate risks associated with the naira.

Overall, the impact of this policy will depend on its execution. If alternative forms of loan security are readily available and banks don't tighten lending requirements excessively, the positive impacts on the naira and financial stability could outweigh the potential drawbacks. However, close monitoring of businesses' access to credit is necessary to avoid unintended consequences.

Figure 1: Exemptions from the Ban



Nigeria's 2024 Inflation Rate Will Drop To 24.8 Percent – World Bank

Figure 2: Annual Inflation Rate Vs World Bank 2024 Projection

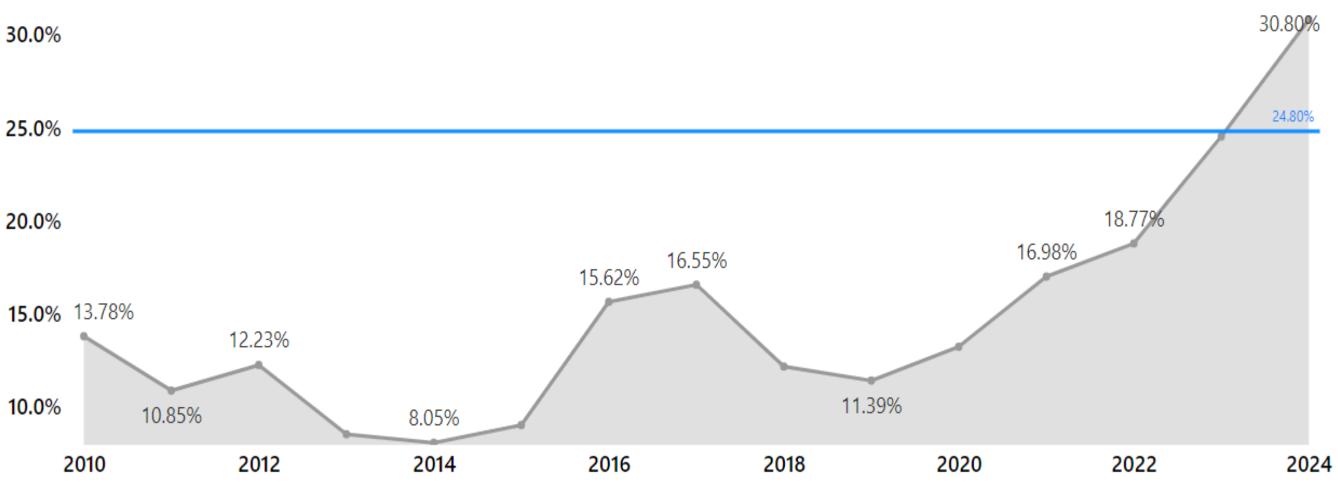
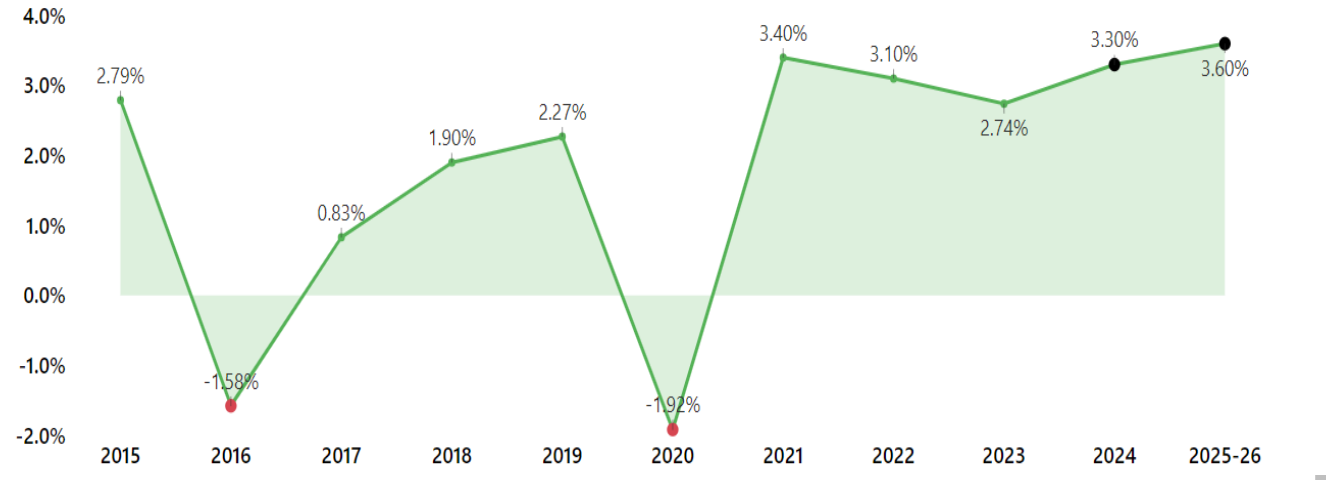


Figure 3: Annual Growth Rate Vs World Bank Projection



Highlights of the World Bank's prediction

Inflation

Downward Trend: The WB predicts a decrease in Nigeria's inflation rate from 31.7% in 2024 to 24.8% for the entire year. This aligns with a projected decline in inflation across Sub-Saharan Africa.

Still High: 24.8% remains significantly high compared to pre-pandemic levels and the global average. Nigeria is among 14 Sub-Saharan African countries still experiencing double-digit inflation.

Economic Growth

Modest Expansion: The World Bank forecasts a 3.3% economic growth for Nigeria in 2024, slightly increasing to 3.6% in 2025-2026. This growth is attributed to the gradual impact of ongoing macroeconomic and fiscal reforms.

Oil Sector: The oil sector is expected to stabilize with some production recovery and slightly lower oil prices. However, structural reforms are crucial for sustained growth in this sector.

Poverty

Slow Reduction: The report highlights the concerningly slow pace of poverty reduction in Sub-Saharan Africa, including Nigeria. Nigeria and the Democratic Republic of Congo account for a significant portion of the region's extreme poverty.

Structural Inequality: The World Bank emphasizes that addressing structural inequality is critical for accelerating poverty reduction efforts.

The World Bank's prediction suggests a potential for some improvement in Nigeria's economic situation in 2024. However, inflation remains a major challenge, and significant efforts are needed to achieve faster economic growth and poverty reduction. By monitoring these metrics throughout the year, we can better understand how closely reality aligns with the World Bank's predictions.

External Reserves Drop By $950m In 17 Days — CBN

External Reserves Decline: $1.02 billion in 18 days (March 18, 2024 - April 3, 2024)
Previous Growth: $1.28 billion in 43 days (February 5 - March 18, 2024)
Current Reserves: $33.50 billion (as of April 3, 2024)
IMF Projection: $24 billion by 2024

Impact on Nigerian Economy:

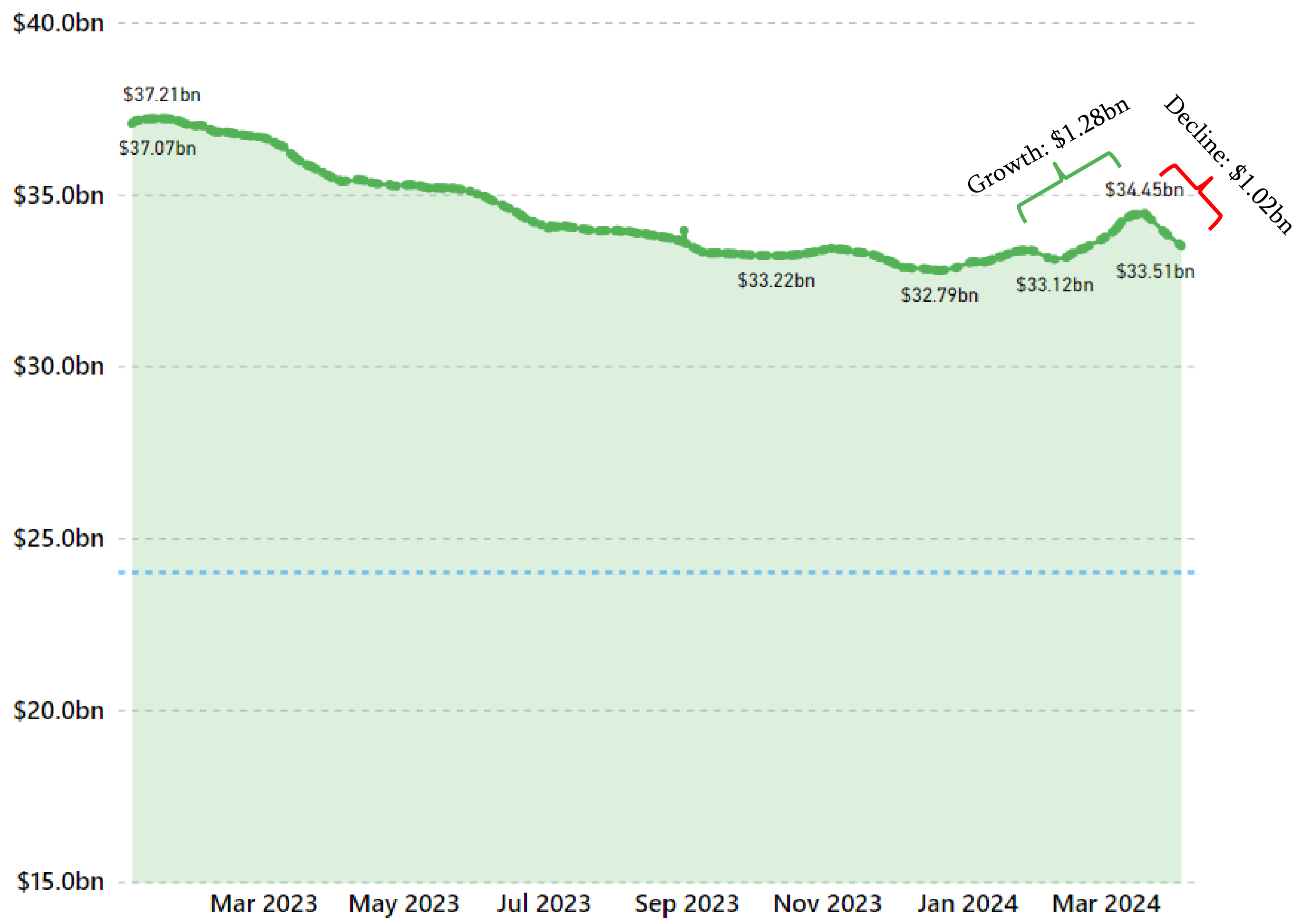
1. Pressure on Naira: CBN intervention to defend the Naira through dollar sales likely contributed to the reserve decline.
2. Investor Confidence: A substantial decline in reserves can erode investor confidence and potentially lead to a credit rating downgrade, increasing borrowing costs.
3. IMF Projection: The International Monetary Fund predicts a challenging period due to:
   - Absence of new Eurobond issuances
   - Debt repayments of $3.5 billion
   - Continued portfolio outflows

Possible Solutions:

Government Debt Issuance: The government plans to issue foreign currency-denominated domestic bonds in June 2024, which some economists believe could stabilize the Naira and reserves.

The recent drop in external reserves highlights the Nigerian economy's challenges. The pressure on the Naira and the potential loss of investor confidence could have negative consequences. The government's planned issuance of foreign currency-denominated bonds is a strategy to address this situation, but its effectiveness remains to be seen.

Figure 4: Nigeria External Reserve Trend



Oil-for-cash Loan: Nigeria To Get $1bn Oil-backed Loan From Afreximbank In May

This loan agreement could provide a short-term boost to the Nigerian economy.

Positives:

1. . Increased public treasury: The $1 billion loan will directly increase Nigeria's public treasury, which can be used for government expenditures on infrastructure, social programs, or debt repayment. This could stimulate economic activity in the short term.
2. Access to financing: Afreximbank's willingness to provide loans backed by oil suggests Nigeria has access to financing even in a tight global credit market. This could be crucial for funding other development projects.

Negatives:

1. Reliance on oil: The loan highlights Nigeria's continued dependence on oil revenue, which is vulnerable to price fluctuations and global energy transition efforts. This could hinder economic diversification in the long term.
2. Debt burden: The loan adds to Nigeria's already significant external debt burden. High debt servicing costs could crowd out spending on other vital areas.

- Nigeria's total public debt as of December 2023: $108.229 billion
- Nigeria's oil production quota for April 2024: 1.8 million barrels per day
- Current global oil price: $89.95 per barrel

The $1 billion loan is a positive development for Nigeria's government finances in the short term. However, using these funds wisely and prioritizing economic diversification to reduce reliance on oil exports in the long run is crucial. Nigeria must also carefully manage its debt burden to avoid financial difficulties in the future.

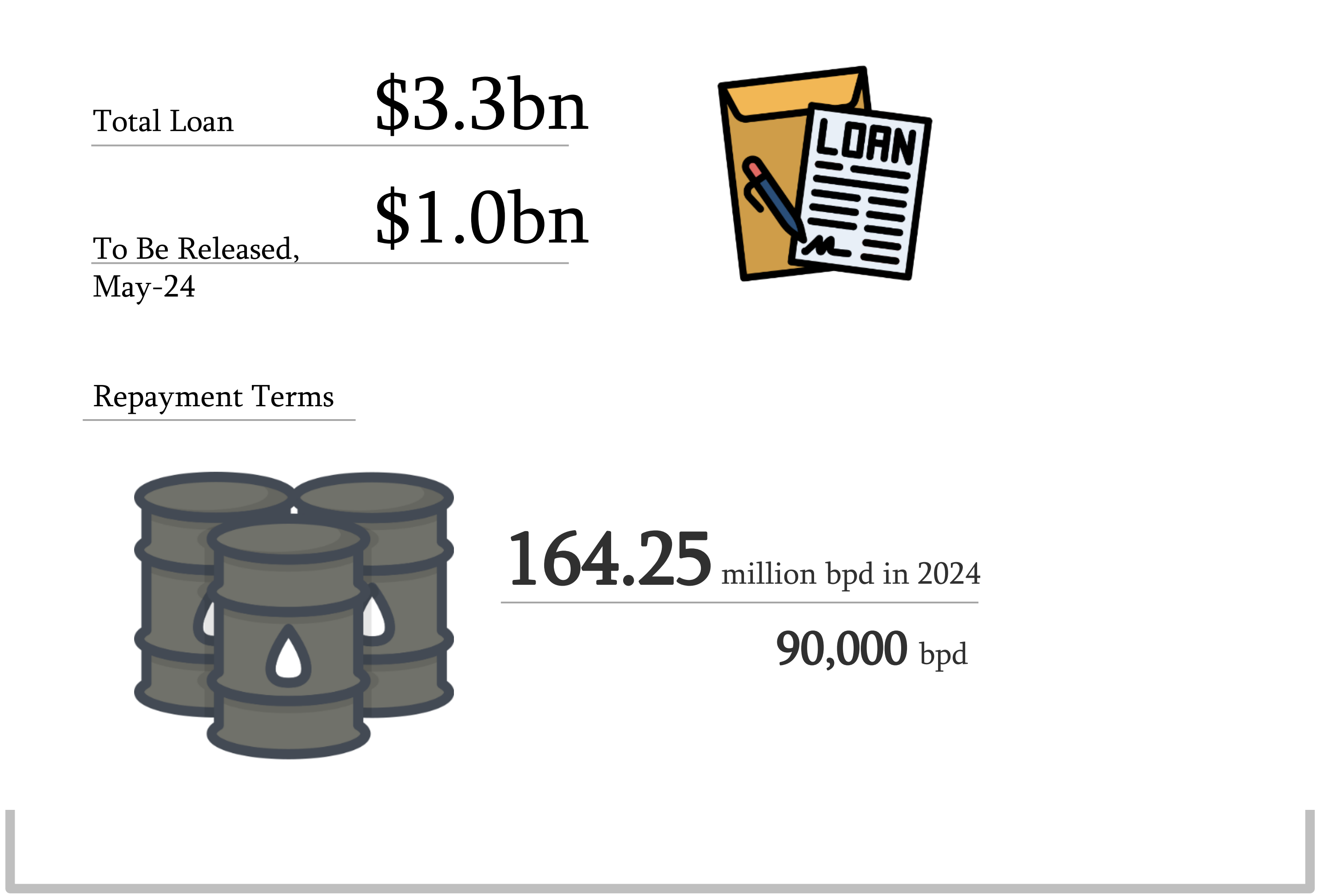


Figure 5: Oil-for-cash Loan from Afreximbank

Dangote Refinery Sets To Supply Petrol In May

The Dangote Refinery is expected to significantly impact the Nigerian economy, potentially reducing dependence on imported petrol, lowering prices for petroleum products, and easing the pressure on foreign exchange reserves.

Benefits

- Reduced Dependence on Imported Petrol: Before the Dangote Refinery came online, Nigeria relied almost entirely on imported petrol to meet domestic demand. The 650,000 barrel-per-day refinery is expected to reduce this dependence, significantly improving Nigeria's energy security.

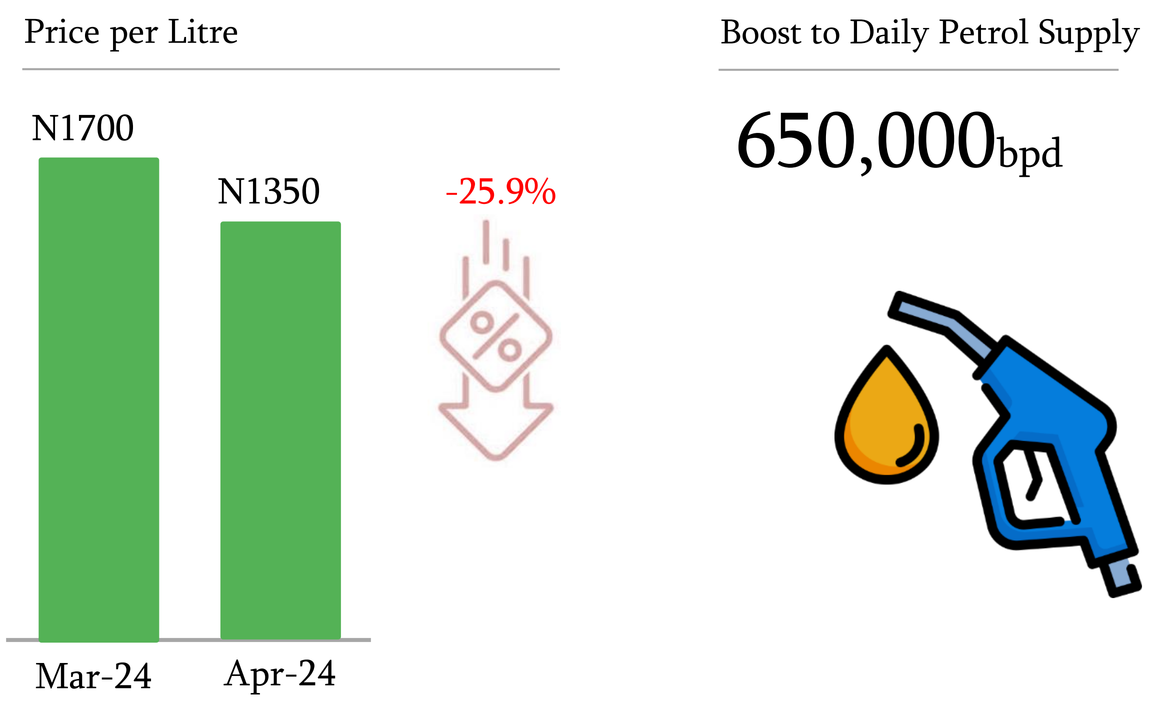
- Lower Prices for Petroleum Products: The influx of domestically produced petrol from the Dangote Refinery has already been credited with a 25.9% decrease in diesel prices, from N1,700 per liter in March 2024 to N1,350 per liter in April 2024. This trend is expected to continue, potentially leading to lower prices for other petroleum products.

- Eased Pressure on Foreign Exchange Reserves: Nigeria spends a significant portion of its foreign exchange reserves on importing petrol. The Dangote Refinery's domestic production is expected to reduce this expenditure, freeing up foreign exchange for other essential imports.

It is important to note that the full impact of the Dangote Refinery will depend on various factors, including its operational efficiency and overall market conditions.

Overall, the Dangote Refinery is a positive development for the Nigerian economy. It can improve energy security, reduce consumer prices, and strengthen the country's financial position.

Figure 7: Dangote Refinery Impacts



ASSOCIATES

ADVISORY | HEALTH | GOVERNMENT RELATIONS AND REGULATORY AFFAIRS | GENDER AND CLIMATE CHANGE | INVESTMENT FACILITATION

ACIOE Associates is an advisory services firm providing solutions in Strategy, Government Relations, Regulatory Affairs, Economic Development, Advocacy, Investment Facilitation, Health Advisory, Policy Analysis, and Sector-Driven Improvements.

Our team of experts supports leading corporations, and emerging start-ups to uncover market opportunities, develop winning strategies, optimize business performance, and minimize risks in frontier markets across Africa. We work with Institutions, Governments, and Development partners to identify and develop sustainable solutions to the most challenging economic and social development issues in the countries where we operate.

HEAD OFFICE

Abuja Office

Suite 305, 3rd Floor Yobe Investment House

Plot 1332 Ralph Shodeinde Street, Central Business District, Abuja Nigeria

Lagos Office

Eridan Space Oluwalogbon House Plot A,

Obafemi Awolowo Way, Alausa, Ikeja, Lagos

CONTACT

Phone: +234 705 457 4057

Email: contactus@acioe.com

Website: www.acioe.com

FOLLOW

Acioe associates

Acioe Associates

ACIOE Associate

AcioeAssociate