ASSOCIATES

Socio-Economic Updates

September 2024

Highlights

- Headline inflation in Nigeria declines to 32.15%
- Dangote Refinery supplies 16.5m liters of PMS to NNPC as sole off-taker
- Nigeria raises $900m at 9.75% in inaugural domestic dollar bond sale
- Oil price slump delays OPEC+ supply plans

Headline Inflation in Nigeria Falls for Second Month in August

According to the latest CPI data by the National Bureau of Statistics (NBS), headline inflation rate in Nigeria decreased by 3.74 percent to 32.15 percent in August 2024 from 33.40 percent in the previous month. On a year-on-year basis, the headline inflation rate was 6.35 percentage points higher compared to the rate recorded in August 2023 (25.80 percent), while on a month-on-month basis, the headline inflation rate in August 2024 was 2.22 percent, which was 0.06 percent lower than the rate recorded in July 2024 (2.28 percent). This shows that the average price level in August increased at a slower pace than it did in July 2024.

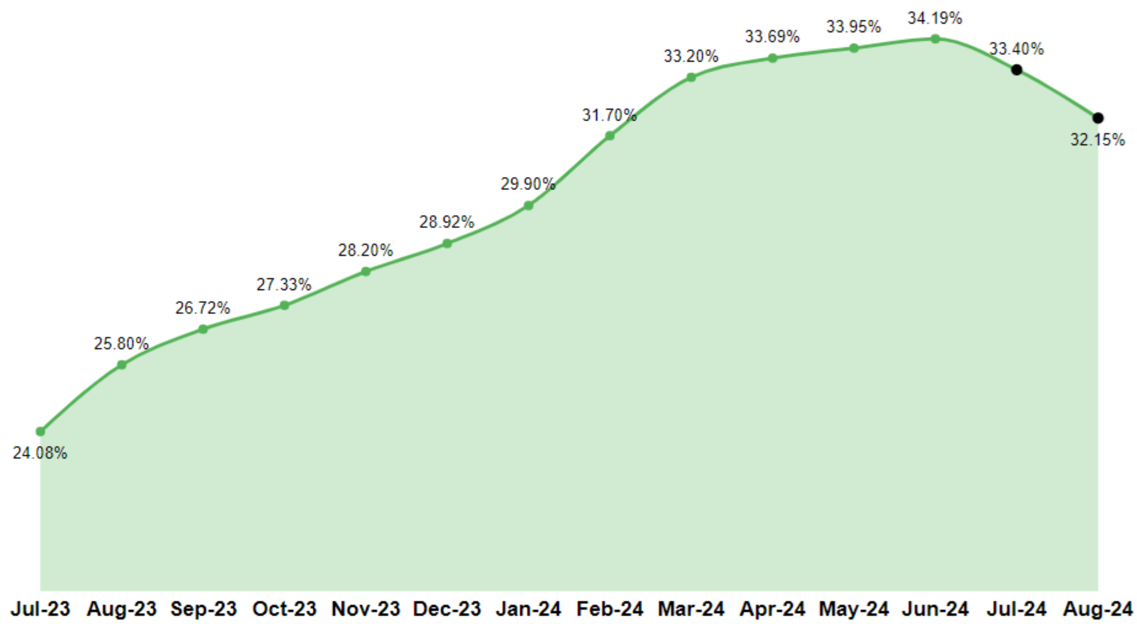

Figure 1: Nigeria Headline Inflation Trend
Source: Nigeria Bureau of Statistics (NBS) | Graph: ACIOE Analytics

This decline could be attributed to positive base effects, the continued tight monetary policy stance of the CBN, and improved food supply from the harvest season. There was also a drop in food inflation, which decreased to 37.52 percent in the month under review, down from 39.53 percent in July. The food inflation rate could be attributed to the harvest season, which has resulted in a decrease in prices of key staple food items across the country.

Impact on Monetary Policy: The September hike in fuel prices could reverse the recent disinflation trend and heighten inflationary pressures due to the over 48 percent rise in PMS prices, which already has an impact on food and transportation prices due to a heavy reliance on petrol-powered vehicles. The CBN's Monetary Policy Committee is set to meet from 23-24 September 2024. It would be expected to maintain its tight monetary policy stance on interest rates as it assesses the projected impact of the fuel price hike.

Fuel Price Hike: NNPC Commences Lifting of PMS From Dangote Refinery

The Federal Government of Nigeria has designated the Nigeria National Petroleum Corporation Limited, NNPCL as the sole off-taker of Premium Motor Spirit, PMS from the 25m-liters-per-day Dangote Refinery. This is part of the agreement that requires the National Oil Company to supply crude oil to the refinery. as. Consequently, on September 15, 2024, the NNPC commenced lifting refined PMS from Dangote for onward distribution to marketers and retail outlets across the country.

While the volume of PMS from the Dangote refinery would boost supply and improve availability, initial reports from the NNPC show that PMS from the Dangote refinery will sell at a higher pump price at retail stations than the N897/liter earlier announced by the company. According to reports, PMS from Dangote is expected to sell at N950/liter in Lagos, N992/liter in Abuja, and N1,019 in northern Nigeria.

According to reports by Punch newspapers, the Organized Private Sector (mainly oil marketers) have called for a review of the arrangement between NNPC and Dangote to enable more competition in the sector. Due to concerns over pricing and volume allocation, the oil marketers could revert to importation in a bid to break the NNPC monopoly.

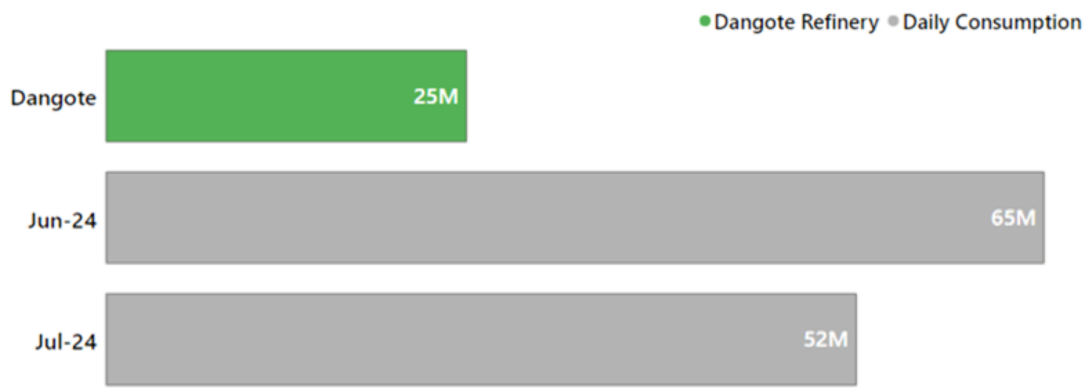

Figure 2: Dangote Refinery Sep-24 Production Volume less than Historical Avg. Daily Consumption
Source: Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA)
Graph: ACIOE Analytics

Socioeconomic Impact: The increase in PMS prices will help to reduce the growing debt burden on NNPC which has accumulated close to $6bn in debt obligations from funding the subsidy on PMS. Despite the increase, internal engagements with stakeholders indicate that NNPC will continue to fund the subsidy albeit at a lower cost. Dangote refinery will supply 16.5m liters out of NNPC's estimated demand of 55m liters. Imports of petroleum products will support the remaining balance. The imported amount is expected to decrease over the next few months as the refinery is expected to ramp up PMS production to 30m liters in October.

In addition, NNPC would still have to cover the difference between the landing cost of PMS and the prices at retail stations. Our estimates indicate that this could range from N250-400 per liter. The government will be hard pressed to increase prices due to the burden this hike is having on households and businesses in Nigeria.

Nigeria's First Domestic Dollar Bond Records 180% Subscription

In September 2024, Nigeria raised **$900m** by issuing its first domestic dollar bond, which was **180% over-subscribed**. The sale is a welcome source of currency relief for the Nigerian economy as FX shortages led to the devaluation of the naira by close to 50 percent over the past year. The 5-year bond was issued at a 9.75% coupon rate. The 9.75% coupon rate which is higher than the historically low Eurobond issuances at 6% - 8%, underscores the concerns surrounding Nigeria's fiscal position and foreign exchange risks. In addition, the US Federal Reserve's aggressive rate hike between 2020 and 2023, and earlier this year had pushed borrowing costs higher, particularly for emerging markets like Nigeria, effectively locking them out of more affordable global capital markets.

On **September 18, 2024**, the Federal Reserve cut interest rates for the first time in four years by 50bps, potentially opening the door for countries like Nigeria to reconsider re-entering the Eurobond market. This rate cut could potentially reduce the country's borrowing costs, although concerns remain about Nigeria's elevated debt servicing costs, exacerbated by the depreciating naira and inflationary pressures. As of **Q2 2024**, Nigeria's debt service payments reached **$1.12 billion**, continuing a trend of rising debt costs that has severely limited the government's fiscal flexibility.

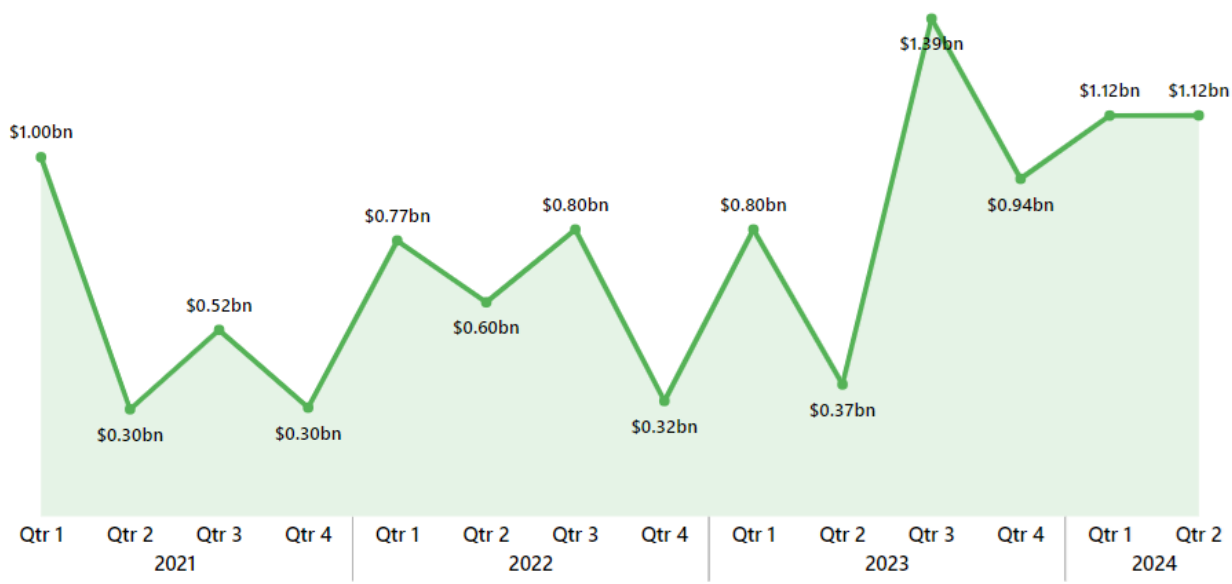

Figure 3: Nigeria Debt Servicing Trend
Source: Central Bank of Nigeria (CBN) | Graph: ACIOE Analytics

OPEC+ Members Delay Plans to Hike Production by Two Months After Oil Price Slump

OPEC+ has decided to delay its planned October 2024 production increase of 2.2 million barrels per day (mbpd) by two months. This decision is aimed at stabilizing the oil market, which has experienced price volatility since the production ramp-up notice in early September.

Implications for Nigeria

As crude oil remains Nigeria's major source of revenue, the key concerns for the country are the downward pressures on oil prices and the low production volume which will in turn result in lower revenue and foreign exchange earnings.

In August 2024, Nigeria's crude oil production marginally increased to 1.35 mbpd. This is significantly below both the government's budget assumption of 1.78 mbpd and the OPEC quota of 1.5 mbpd. Similarly, Bonny Light crude oil, Nigeria's reference grade, is currently trading around \$77.17 per barrel, slightly below the benchmark price of \$77.96 set in the 2024 budget, with further declines in price anticipated in the near future.

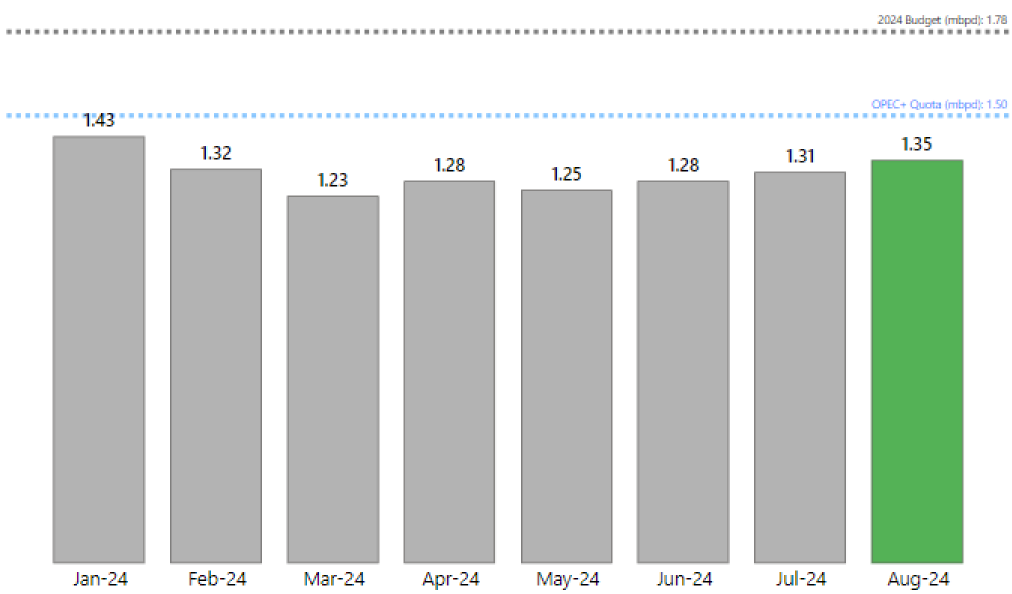

Figure 4: Nigeria Crude Oil Production Levels
Source: OPEC+ Monthly Oil Market Report | Graph: ACIOE Analytics

The country's production shortfall is particularly concerning given the slump in oil prices due to sluggish demand from China and increased output from the US, Guyana, Canada, and Brazil. The United States has ramped up production to approximately 13.3 mbpd in 2023 and expected to add 0.4mbpd in 2024, Guyana's output has surged to about 645,000bpd in early 2024 as new fields come online, up from about 400,000bpd in late 2023, while Brazil and Canada are expected to add 300,000 bpd each through 2025. The four (4) countries account for more than 80% of projected global oil supply growth. This collective increase in supply is contributing to downward pressure on global oil prices.

For Nigeria, the risk of reduced oil prices due to OPEC+'s production strategies and growing supply from non-OPEC+ sources could result in diminished revenue from its oil exports, a critical component of the nation's fiscal income and foreign exchange earnings.

The combination of continued price declines and sustained low production levels could exacerbate the country's fiscal challenges. Reduced oil revenue would strain the national budget, hindering efforts to stabilize the naira and protect foreign exchange reserves. This scenario increases Nigeria's vulnerability to external shocks, ultimately threatening the broader economy. To mitigate these risks, Nigeria must focus on ramping up production in oil and other non-oil sources to secure more stable income and strengthen its position within the volatile global oil market.