Economic Digest

Q3, 2021

The review contains analysis of activities across various sectors during the 1st to 3rd quarters of 2021 in Nigeria.

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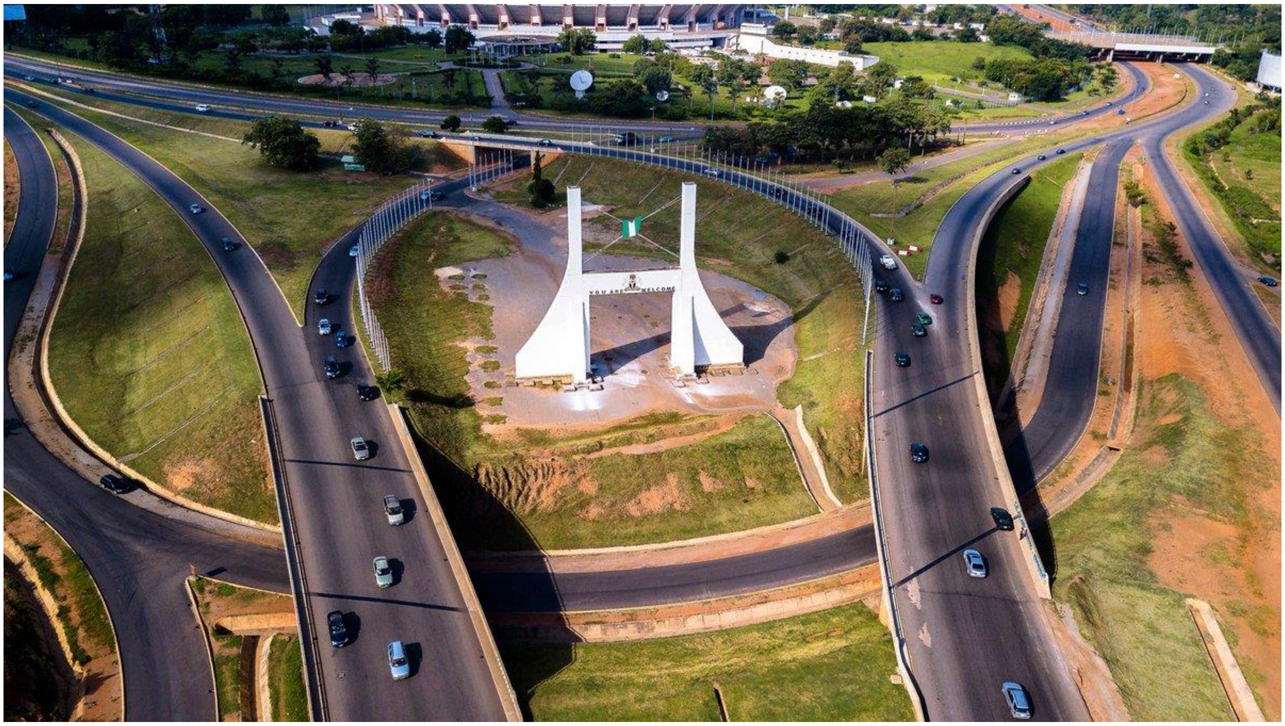
INTRODUCTION

World Bank projected that the country's economy will grow by 1.8% in 2021. International Monetary Fund (IMF), predicts that the economy will grow by 2.5%.

The Nigerian economy has experienced a slow return to normalcy in recent months. A recent economic update published by the World Bank projected that the country's economy is expected to grow by 1.8% in 2021 and further predicted that, by the end of 2021, the country's gross domestic product (GDP) would likely approach its 2010 level; thus, reversing a full decade of economic growth.

On its part, the International Monetary fund (IMF), predicts that the economy will grow by 2.5%. Despite these predictions, the Nigerian GDP only grew by 0.51% in the first quarter of 2021, indicating a slow and tortuous path to economic recovery. Furthermore, given the outbreak of a new COVID-19 variant (the Delta Variant), there are concerns as to when the global and local economic climate will return to normalcy. This development further creates uncertainty about the general outlook for the oil and gas sector and the Country's economy.

While it is expected that there would be an increase in oil exports as well as domestic demand for crude oil products, Nigeria's recovery is expected to underperform those of other oil producing countries.



SUMMARY ON NIGERIA's ECONOMIC PERFORMANCE Q3, 2021

How Q3 performance affected economy

The main drivers of the Q2, 2021 economic growth include Trade, Information and Communication (mainly Telecommunications), Transportation, Electricity, Agriculture (Crop Production) and Manufacturing.

In 2020, Nigeria experienced its deepest recession in two decades, but growth resumed in 2021 as pandemic restrictions were eased, oil prices recovered, and the authorities implemented policies to counter the economic shock.

Nigeria was highly vulnerable to the global economic disruption caused by COVID-19, particularly due to the decline in oil prices. Oil accounts for over 80 percent of exports, a third of banking sector credit, and half of government revenues.

The non-oil sector is a significant contributor to the economic performance in Q2, 2021 with growth of 6.74 per cent in real terms. The contribution of the non-oil sector to GDP increased from 91.07 per cent in Q2, 2020 to 92.58 per cent in Q2, 2021. The main drivers of the Q2, 2021 economic growth include Trade, Information and Communication (mainly Telecommunications), Transportation, Electricity, Agriculture (Crop Production) and Manufacturing. The service sector, specifically, recorded its strongest performance in more than a decade, growing at 9.27 per cent.

The Nigerian economy was expected to grow by 2.6 per cent in the second quarter of this year. And that the GDP growth data coupled with falling inflation could lead to the Monetary Policy Committee (MPC) leaving its interest rates unchanged at its September meeting. Other experts also said that with less than 570 days to the 2023 elections, an assessment of the Federal Government's scorecard, with respect to achieving its broad macroeconomic goals, revealed "under-performance" amid half-hearted and belated efforts at economic reform.

"While reforms have not been helped by the COVID-induced disruption and delays in implementation, fears are rife that the government may be switching gears firmly into campaign mode as the elections draw ever closer."

According to a United Nations analyst FDC, the short-term outlook for the Nigerian economy is benign on most fronts. Output will benefit from the base effects of the slump in 2020, increased vaccinations and higher oil prices and production.

Figure 2 Nigeria's economy is still highly dependent on Oil

Nigeria's annual inflation rate eased for the sixth straight month to 16.63% in September of 2021, down from 17.01% in August. It was the lowest rate since January, largely due to a sustained moderation in food inflation since April (19.57% vs 20.3% in August) and despite the naira's ongoing depreciation. The annual core inflation rate, which excludes the prices of agricultural produce, rose to 13.74% in September from 13.41% in the prior month. On a monthly basis, consumer prices increased by 1.15%, following a 1.02% rise in the previous month.

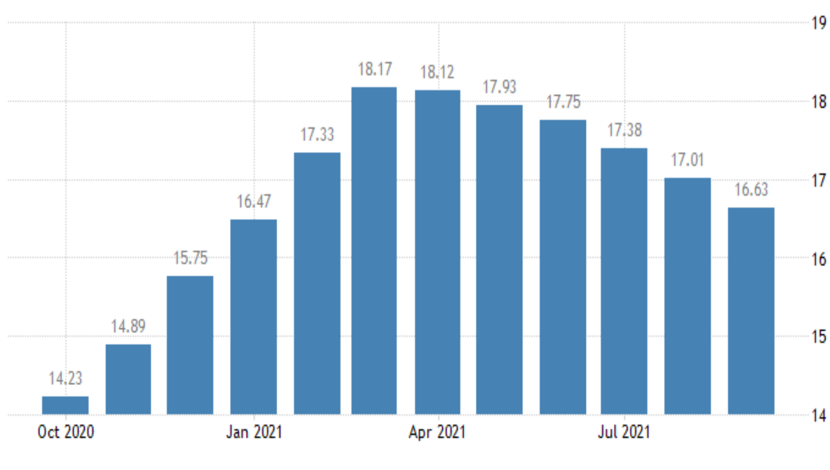


Figure 3 Inflation figures Oct 2020-Sep 2021

***Source**: National Bureau of Statistics, www.worldbank.org*

EXPERTS' VIEWPOINTS

"For Nigeria to bridge the recessionary gap and attain a long-term GDP growth trajectory that is both sustainable and job-creating, the timing and pace of economic reform are crucial and cannot be politicised. The subsidies in the economy have to be tackled. The most notable are the ones on forex, fertilisers, petrol, electricity and the money market.

"While the move to market-determined rates has been somewhat reluctant and has been met with resistance, it is necessary for the creation of economic incentives and investor confidence. Only this has the capacity to propel Nigeria to an accelerated GDP growth path."

The Fund had put the country's growth estimate at 2.5 per cent, which is a far cry from the six per cent global average projection. But Director-General of the Institute of Fiscal Studies, Godwin Ighedosa, dismissed the growth, saying it is coming from the low figure recorded last year and that it adds no value to the wellbeing of the people.

He said: "We are not seeing the positive figures that do not affect the lives of the people. Food prices are going up, which is the major concern of the average family. The prices are going up because there is a shortage of supply."

He explained that GDP will impact positively on the people if there are improvements in manufacturing, agricultural production adding: *"Unfortunately these two sectors, which would have also engaged the people in terms of employment, are currently shrinking following the severe insecurity across Nigeria. Manufacturing and agriculture activities have slowed down; this is why we are experiencing high prices today. This is what driving inflation is. So, for that reason, we have massive unemployment in our hands."*

Ighedosa said there is the tendency for the economy to start heating up; hence, the Central Bank of Nigeria (CBN) must monitor the response of key prices, including interest rates.However, Vice Chairman of Highcap Securities Limited, David Adonri, said the GDP growth was a quantum leap when compared to the contraction of -6.1 per cent in Q2 2020 and 0.51 per cent in Q1 2021.

He described the growth as flattering, noting that the performance is not reflective of the supply side of the economy, considering the current high inflation rate.

"The figure may have been magnified by the base effect of -6.1 per cent last year. For us to know how far the economy has moved, the absolute figure in naira for Q2, 2021 needs to be compared to the figure at the beginning of 2021," he said.

Adonri, however, said real growth was possible considering that the economy has continued to recover from the COVID-19 disruption and border reopening.

The Director, Centre for Economic, Policy and Research of the University of Lagos, Professor Ndubuisi Nwokeoma, described the growth as phenomenal given the increasing level of insecurity, kidnapping, unemployment and other macroeconomic challenges.

He bemoaned the prevailing insecurity in the country, urging the government to evolve new strategies to address the trend. He said insecurity was a disincentive to investment and productivity, saying the economy could only record meaningful growth if the challenge is addressed.

In his analysis, an economist and private sector advocate, Dr. Muda Yusuf, said many sectors that posted *"impressive growth numbers do not contribute significantly to the GDP,"* a situation he said called for the need to reset the economy.

"The GDP numbers suggest the need to reset, rejig and reform key sectors of the economy. We need to fix issues around the regulatory environment, tax environment, the multitude of levies imposed on businesses by all levels of government, foreign exchange policies, port environment and other structural bottlenecks to productivity in the economy.

"There are still worries about the macroeconomic challenges reflecting spiraling inflation, weakening of the currency, forex market illiquidity, spiking debt profile among others. Insecurity remains a major source of risk inhibiting investments, whether domestic or foreign. It is good to celebrate the GDP growth numbers but this should be done cautiously," he advised.

Yusuf said the impact of the GDP growth on citizens' welfare and the productivity in the investment environment is crucial for assessing the performance of the economy.

"These are the metrics that matter most, ultimately. The GDP figures are not ends in themselves; they are means to an end," he noted.

Responding to the growth in the ICT sector, which NBS put at 5.5 per cent, the Minister of Communications and Digital Economy, Dr. Isa Pantami, attributed the rising contribution of the ICT to the commitment of the current administration to the development of the digital economy.

In a statement signed by the Minister's Technical Assistant (Information Technology), Dr. Femi Adeluyi, Pantami said the 16 national policies developed by the ministry, 1,667 projects and programmes, the large-scale digital skills and general capacity-building efforts, stakeholder engagement and creation of an enabling environment have all played an important role in this achievement. Speaking to the report, the Chairman, Mobile Software Solution, Chris Uwaje, said the sector could do more with better policies.

Figure 4 Hon. Minister Communications and Digital Economy

STOCK MARKET PERFORMANCE

After the waned half-year (H1) earnings season ushered in the bears on the Nigerian Exchange, stock buyers focus has now shifted to the third-quarter (Q3) financials results of listed companies expected to be released on the Bourse next month –hopefully the result will serve as a positive trigger.

Already, some companies have started notifying the investing public of their closed period –which is the time between the completion of their financial results and the announcing of these results to the public.

In compliance with the post-listing rules of the Nigerian Exchange Limited, Living Trust Mortgage Bank Plc has issued notice of the commencement of Closed Period and Board of Directors meeting. Other companies that have issued notices of their closed period are: Fidelity Bank Plc, Nigerian Breweries Plc and Guinness Nigeria Plc.

During the closed period, insiders are prohibited from trading the company shares or making any relevant information public before it is officially announced. During this period, insiders and /or person(s) connected to them and such other interested parties who have regular access to their financial information or other sensitive information which may materially affect the price of the companies' securities are expected to observe the earnings-related closed trading period by not buying or selling the shares.

In the trading ended Friday September 24, that are trading at new lows.

"Looking ahead, it is expected that the market will remain in a lull, with occasional bargain hunting until 9M-2021 results are released," research analysts at Lagos-based United Capital said in their recent investment view for the week to October 1.

"They however expect this to influence demand for equities this week, especially as bond yields in the Naira market have moved slightly downwards recently," according to Meristem Research analysts in their September 27 note to investors. While Meristem notes that prices are currently attractive, but in the absence of significant positive triggers to drive buying interests, they expect the market to close the week in the red.

CBN's ROLE

A financial expert, Okechukwu Unegbu, has urged the Central Bank of Nigeria (CBN's) Monetary Policy Committee (MPC) to focus on policy decisions that would curb rising inflation and stabilise the Naira. Unegbu, who is a past president of the Chartered Institute of Bankers of Nigeria (CIBN), gave the advice in an interview recently.

He said the depreciation of the Naira had become inexplicable considering certain indices that were supposed to strengthen and stabilise the currency.

Figure 5 CBN Headquarters

"The MPC should do a comparative analysis to know the effect of their parameters on the economy, having retained the same parameters for about six times now. Inflation rate is still high; interest rate keeps fluctuating.

The foreign exchange market is the worst. One dollar is almost equivalent to ₦600, but when you have ₦600 in Nigeria you can still afford a decent meal of rice, beans and even beef. But in the United States one dollar cannot get you anything. It is a bit of an enigma," he said.

Mr Unegbu urged the MPC to take urgent and practical steps to strengthen and stabilise the Naira.

He added that with the recent surge in the international price of crude oil and inflow of huge diaspora remittances into the economy, the Naira ought to be more stable.

He urged the committee to also consider the rising case of unemployment and come up with policy decisions to curb it.

"The MPC should consider the effect of the surge in the price of crude oil and diaspora remittances on the economy. Members should also consider the level of unemployment because they are supposed to manage the economy by advising government," he said.

Source: *The Nation Newspaper*

AN OVERVIEW OF THE PETROLEUM INDUSTRY ACT 2021 AND ITS IMPACT ON THE NIGERIAN UPSTREAM SECTOR

The new Petroleum Industry Act 2021 which was recently assented and signed into law by the President of the Federal Republic of Nigeria on August 16th, 2021 to repeal the extant Petroleum Act 2004, has created an array of provisions and innovations that will affect the private, public sector and stakeholders in the oil and gas industry. This article aims at giving a brief overview of the salient provisions of the Act which embodies 5 Chapters, 319 Sections, and 8 Schedules.

The Petroleum Industry Act was enacted to provide for the legal, governance, the regulatory, and fiscal framework for the Nigerian Petroleum Industry, the establishment, and development of host communities and other related matters in the upstream, midstream and downstream sectors of the petroleum industry.

Furthermore, the Act establishes two new regulators, the Upstream Regulatory Commission and the Midstream / Downstream Regulatory Authority. The Act provides that the Minister of Petroleum Resources will be responsible for awarding leases and granting approval on assignment of interest on the recommendation of the Commission.

Figure 6 NNPC Headquaters

It further establishes funds such as the frontier exploration fund (30% of NNPC Limited's profit oil and gas), the Midstream and Downstream Gas Infrastructure Fund (0.5% of wholesale price of petroleum products and natural gas sold in Nigeria), the Decommissioning / Abandonment Fund and the Host Community Fund (3% of operating expenditure incurred in prior year). The enactment of the PIA should enable Nigeria to attract the desired investments to grow its oil and gas reserves and possibly achieve the seemingly elusive target of 40 billion barrels.

Source: *Resolution Law Firm*

OTHER FACTORS AFFECTING THE ECONOMY

Nigerian VAT; A Gold Mine

"TAX" is any compulsory payment to the government imposed by law, without direct benefit or return of value or service. VAT stands for **Value Added Tax,** this is a consumption tax levied at each stage of the consumption chain and borne by the final consumer of the product or service within the country. The Value Added Tax Act 1993 as amended "**An Act to impose and charge Value Added Tax on certain goods and services and to provide for the administration of the tax and matters related thereto**". [1993 No. 102, 2007 No. 53.]

VAT as a form of indirect tax introduced in France in 1954. From there it spread rapidly to other developed countries except to US where it has not been adopted to date. VAT is a reflection of the growth of an economy since purchasing power increases with economic growth. VAT has since been adopted in many countries, hence Nigerian VAT act of 1993, a global study has shown countries in Sub Saharan Africa, Europe and North America have authenticated that VAT has been beneficial to total government revenue.

Evidence so far supports the view that VAT revenue is already a significant source of revenue in Nigeria. The objective of this is to determine to which extend the Nigerian Economy has fared with revenue generated from the VAT, the direct impact on Nigerian economy, Per Capita Income, Gross domestic Product (GDP), and generally the Total Revenue (TR).

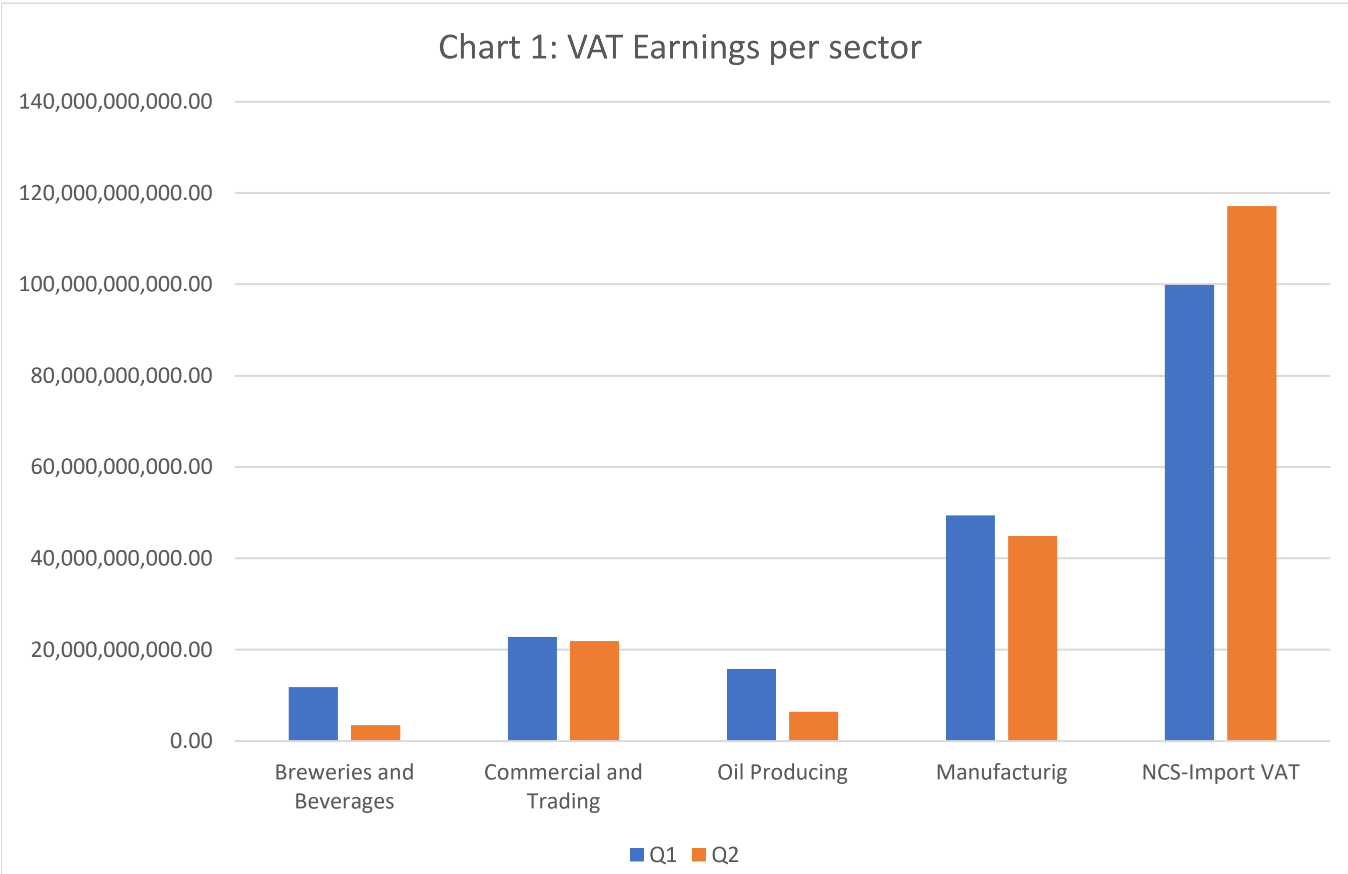
The Nigerian tax is collectively handled by the FIRS (Federal Inland Revenue Service) an agency under the ministry of Finance. Nigeria generated a total sum of ₦1.53 trillion revenue from Value Added Tax (VAT) in 2020, up by 29.3% when compared to N1.18 trillion recorded in 2019.

Despite the economic downturn experienced by the country due to the lockdown measures put in place by the government in response to the Covid-19 pandemic and decline in global oil prices, VAT revenue increased significantly in the year. A development, which is largely attributable to the increase in VAT rate from 5% to 7.5% raised occurred on the 1st February 2020) under the Finance Act implemented in February 2020.VAT data for Q2 2021 reflected that the sum of **₦512.25bn** was generated as VAT in Q2 2021, as against **₦496.39bn** generated in Q1 2021 and **₦327.20bn** generated in Q2 2020.

The KPI (Key Performance Index) from sectors including notably including state ministries and parastatals manufacturing companies, commercial trading's, transport and haulages services and lastly beverages and bottling companies to mention a few.

One of the active players in the VAT growth in Q2 included the NCS (Nigerian Customs Service) the duty and VAT charges on all imported products and has rank the NCS has one the highest KPI as revenue generated body, considering Nigeria depends on a lot of import products for use.

A graphical presentation of sectors with the highest VAT revenue is presented below.



This reflection focused on the assessment of the effect of Value Added Tax on Revenue Generation for sustainable development in Nigeria, Since VAT worked in the form of taxation that has turned out to be goldmine.

This shows that VAT is not only a viable taxation tool in Nigeria but also has great potential to generate adequate revenue for the Nigeria Government. This would also give more moderation to the governments against numerous exemptions, generous waivers to some business ventures.

This has greatly affected revenue base, leaving high annual budget deficits, and an extremely poor economic performance.

Source: *National Bureau of Statistics, Oraka, Azubia*

CONCLUSION

Despite the challenges that have plagued the oil and gas sector, the country is well on its way to recovery.

The Petroleum Industry Act 2021 and the recently concluded marginal field bid rounds spark hope for the enhancement of economic growth and an increase in Nigeria's GDP as well as creation of employment opportunities.

Furthermore, the ease in production cuts by OPEC+ and the potential increase in Nigeria's production quota bode well for the Nigerian government's revenue.

Notwithstanding, Nigeria still needs to focus on diversifying away from fossil fuels in the light of the global drive for clean energy.

However, this must be a gradual and steady process. The aggressive focus on ending gas flare, through the national Gas Flare Commercialization Program and the various gas utilization initiatives, will go a long way in reducing Green House Gas emissions while also contributing to meeting our Nationally Determined Contribution target to the United Nations Framework Convention on Climate Change by 2030.