Fuel, Forex & Finance Act: The positives for Professional

For ICAN Lagos and District Society

For ICAN Lagos and District Society

OUTLINE

Impact of removal of Fuel Subsidy

Impact of removal of unification of exchange rate

The impact of latest Finance Act and Other Insightful info

For ICAN Lagos and District Society

BACKGROUND

For ICAN Lagos and District Society

Nigerian Economy

- Economies are evaluated mainly by

Data as at FY-2022

1. AGGREGATE OUTPUT (GDP)- $508bn
2. INCOME PER CAPITA - $2280
3. UNEMPLOYMENT RATE – 33%-35%
4. LEVEL OF INVESTMENT - $145.2bn

Q1-2023: Ann. GDP (based on N51.24tn)

- $441.12bn @ N461.5/$ FY 22 Closing Rate
- $266.44bn @ N769.25/$ H1-23 Closing Rate

-$2,220 @ N461.5/$ FY 22 Closing Rate
-$1,332 @ N769.25/$ H1-23 Closing Rate

- Nigeria remains Africa's largest economy
  *Now number 3 due to the impact of Naira devaluation
- Accounts for 16% of African GDP ($3.14trn)
- One in four Africans is a Nigerian
- The country is in the midst of political & economic transition
- Economy at the risk of falling back into recession
  - Currency redesign sucked Naira liquidity and threatened output growth
  - PMS subsidy removal squeezing consumer spending power and reducing aggregate demand

For ICAN Lagos and District Society

Sub-Saharan Africa Countries

Rank	Country		Nominal GDP (Billion US$)[8][9]
1	Nigeria	223.8mn	504
2	Egypt	112.7mn	469
3	South Africa	60.4mn	419
4	Algeria	45.6mn	187
5	Morocco		142
6	Angola		124
7	Ethiopia		113
8	Kenya		110
9	Tanzania		76
10	Ghana		75
11	Ivory Coast		68
12	Democratic Republic of the Congo		63
13	Uganda		48
14	Tunisia		46
15	Cameroon		44
16	Sudan		42
17	Libya		40
18	Zimbabwe		38

Rank	Country	Nominal GDP (Billion US$)[8][9]
19	Senegal	27
20	Zambia	27
21	Gabon	22
22	Guinea	19
23	Mali	18
24	Burkina Faso	18
25	Botswana	18
26	Mozambique	17.9
27	Benin	17
28	Equatorial Guinea	16
29	Madagascar	15
30	Niger	14
31	Republic of Congo	14
32	Chad	12
33	Namibia	12.5
34	Rwanda	12.1
35	Malawi	11.5
36	Mauritius	11

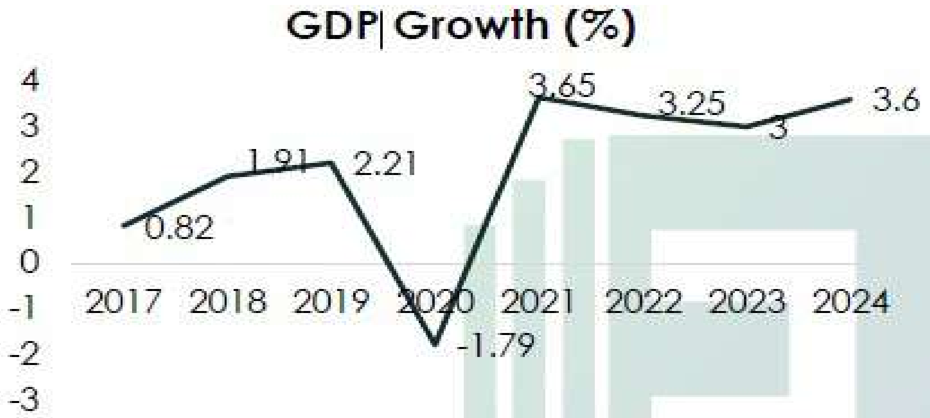
Rank	Country	Nominal GDP (Billion US$)[8][9]
37	Mauritania	10
38	Somalia	8
39	Togo	8
40	South Sudan	4
41	Eswatini	4
42	Sierra Leone	4
43	Liberia	3.9
44	Djibouti	3.7
45	Burundi	3.7
46	Lesotho	2.5
47	Central African Republic	2.5
48	Eritrea	2.4
49	The Gambia	2.2
50	Cape Verde	2.0
51	Seychelles	2.0
52	Guinea-Bissau	1.6
53	Comoros	1.2
54	São Tomé and Príncipe	0.5

For ICAN Lagos and District Society

Source: https://worldpopulationreview.com/country-rankings/countries-in-africa

= Population

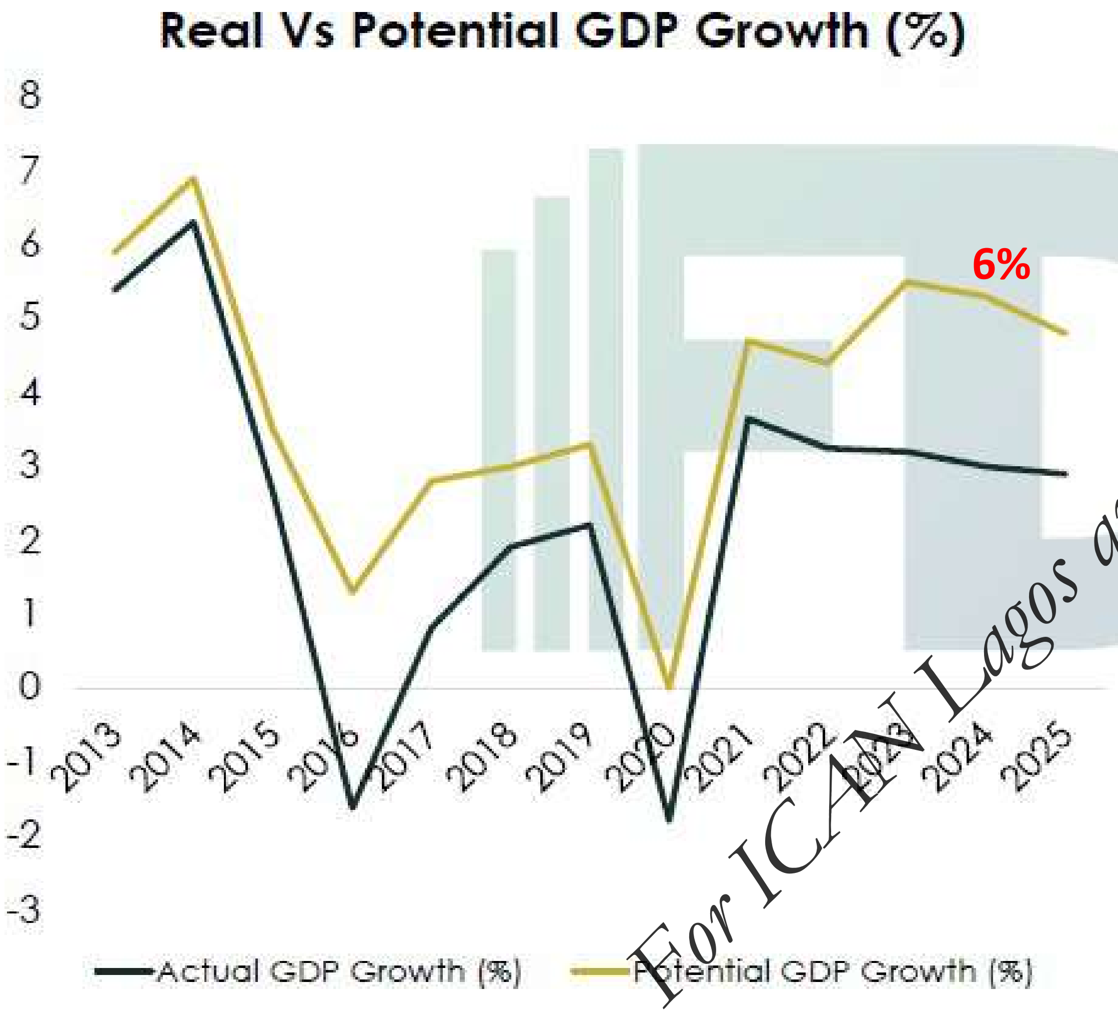
Nigerian- GDP Growth Rate



- The Nigerian economy outperformed global & regional growth at 3.1% in 2022/23
- Gross fixed investment is now approx. $145bn or 29% of GDP
- The oil sector had underperformed because of vandalism & underinvestment
- Growth rate of oil is now -4.21%
- Service sector is growing at 4.35%
- Policy change has started and is irreversible

For ICAN Lagos and District Society

Nigerian- Real vs Potential GDP Growth Rate



- No long term threat to the growth trajectory
- Productivity inhibited by policy bottlenecks and push back
- Policy harmonization and adjustment between monetary & fiscal policy should catalyze growth

For ICAN Lagos and District Society

IMPACT OF FUEL SUBSIDY REMOVAL

For ICAN Lagos and District Society

FUEL SUBSIDY: BACKGROUD

Background of Fuel Subsidy in Nigeria

- Subsidies was introduced in Nigeria in the 1970s to mitigate the 1973 oil price shock.
- It was formalized under *President Olusegun Obasanjo* regime in 1977 through the PRICE CONTROL ACT.

- Several administrations tried unsuccessfully to end the subsidy regime but lack of political will and strong opposition to reform were key obstacles.
- On 1st January 2012, President Goodluck Jonathan announced the removal fuel subsidies.
- Partial removal led to an increase in retail pump price from N65 to N140 per litre.
- Nationwide protest known as "OCCUPY NIGERIA" ensued, making Government to lower retail price back to N97 per litre, resulting in partial removal.

For ICAN Lagos and District Society

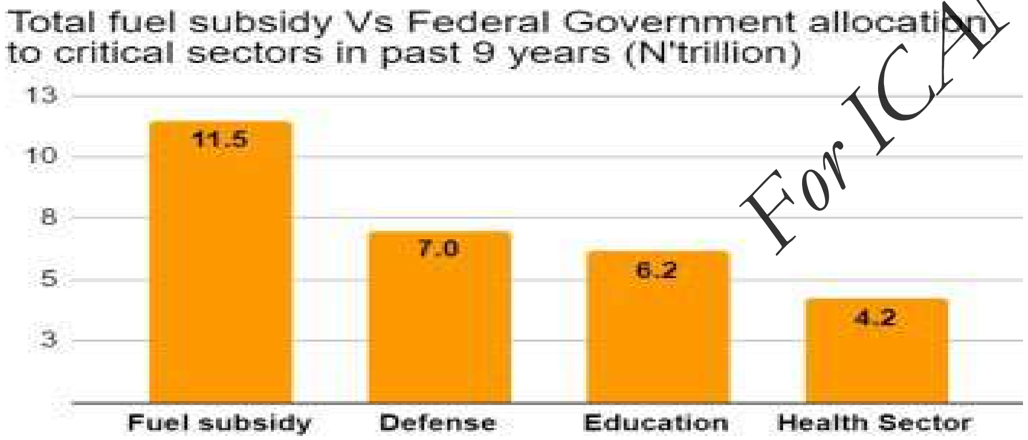
Challenges - Unsustainable financial cost of subsidy

A. Unsustainable Cost, crowding out Funds to be invested in Productive Sectors

- The amount spent on subsidies has continued to rise sharply partly due to the increase in global Crude oil prices, volume of petrol consumed, albeit debatable

- In 2022, the FGN spent NGN 4.39trn on fuel subsidies. This is 17.16% of the country's total import bill of N25.59trn as of December 2022 and 24.2% of the revised 2022 FGN budget of N18.14trn.
- In the 2023 FGN budget, N3.6trn was budgeted for fuel subsidy payments until June 30. This is equivalent to a subsidy per capita of N18,000.
- This has had a significant impact on funds available for critical infrastructure and other essential sectors, such as education (budget per capita of N5,750), health (budget per capita of N8,950), and defence.

2023 Proposed Budget
Expenditure: N20.51 trillion
Revenues: N9.73 trillion
Deficit: (N10.78 trillion)



The cost of fuel subsidies far outweighs the benefits to the Nigerian economy

Population Assumption: 200 million

For ICAN Lagos and District Society

Nigeria's Budget- FY-2022 and FY-2023 Projected

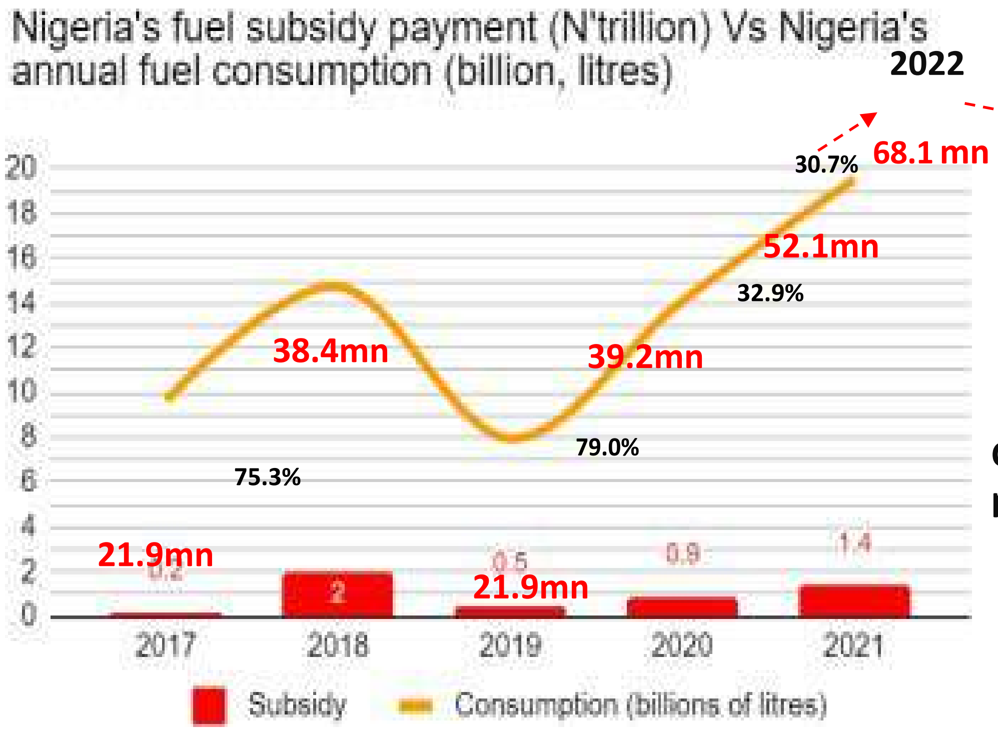
Budget Assumption/ Fiscal Parameter	2022 Approved Budget	2023 Proposed Budget	Percentage change
Benchmark oil price	US$62 per barrel	US$70 per barrel	13%
Oil production volume (bpd)	1.88 million	1.69 million	-10%
Inflation Rate (%)	13%	17.16%	32%
Average exchange rate	₦410.15/ US$1	₦435.57/ US$1	6%
GDP growth rate (%)	4.20%	3.75%	-11%
Capital expenditure	₦5.47 trillion	₦5.35 trillion	-2%
Statutory transfer	₦869.[illegible]7 billion	₦744.11 billion	-14%
Debt service	₦[illegible] trillion	₦6.31 trillion	75%
Recurrent expenditure (non-debt)	₦6.91 trillion	₦8.27 trillion	20%
Total revenue	₦10.74 trillion	₦9.73 trillion	-9%
Total expenditure	₦17.13 trillion	₦20.51 trillion	20%
Fiscal deficit	(₦6.39 trillion)	(₦10.78 trillion)	-69%

Source: *Budget Office of the Federation: HMFBNP Public Presentation of Approved 2022 FGN Budget Final*
2023 Budget Speech: Budget of Fiscal Consolidation and Transition

For ICAN Lagos and District Society

Challenges - Smuggling

B. Smuggling



2022

Apr-23

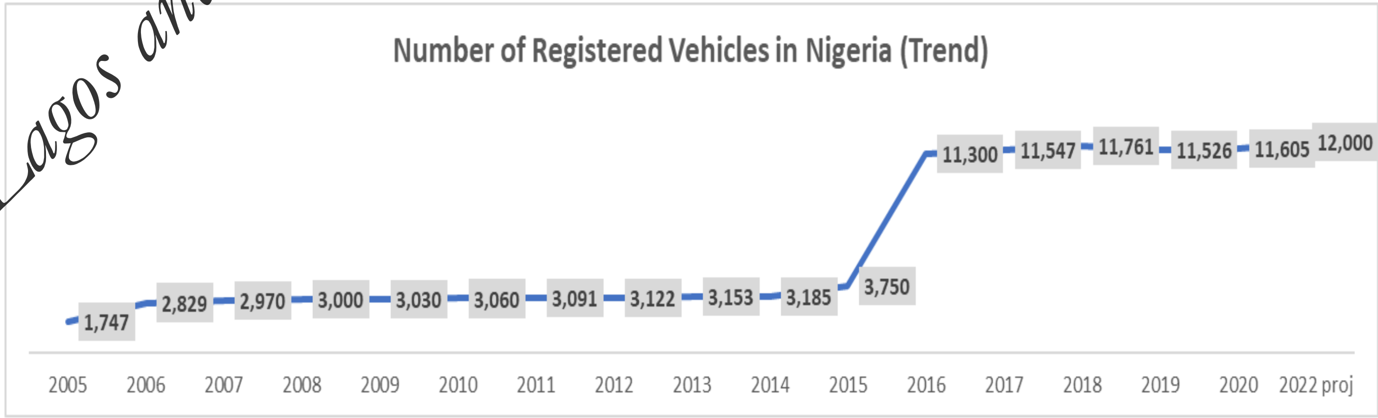
65.9mn

Jun-23

48.4mn

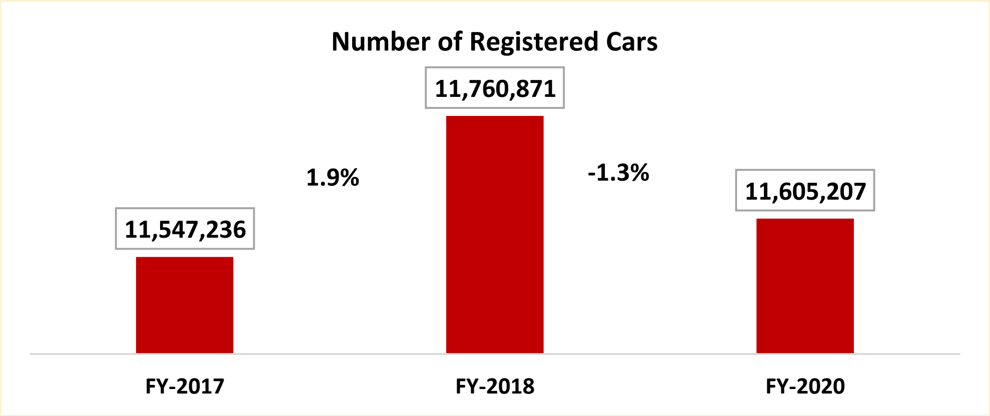
Consumption has dropped 36% post subsidy removal

- The porous borders between Nigeria and neighboring countries have created an enterprise for smugglers who purchase large volumes of petrol at a subsidized rate in Nigeria and sell at market prices in neighboring countries.



For ICAN Lagos and District Society

Challenges - Smuggling



-Info is based on available data
-2017 & 2018: Source (NBS)
-2020: CEIC Date

For ICAN Lagos and District Society

Challenges – Corruption & Lack of Investment

C. Endemic corruption

- The subsidy point for fuel is importation (or supply) rather than at the pump for eligible users only. Subsidy in the current form encourages arbitrage and other forms of corruption.

D. Lack of Investment

- The Downstream sector of the oil and gas industry had the least foreign direct investment compared to the midstream and upstream sectors, and the reason for this is not far-fetched.
- The Subsidy regime and the legal framework of the Downstream sector generally discourages investments.
- The downstream sector needs full deregulation if it would attract more private investors, and one of the impediments that will need to be removed upon full implementation of the Petroleum Industry Act is fuel subsidy.

For ICAN Lagos and District Society

Impact of Fuel Subsidy Removal

Consumers

Squeezed Purchasing Power
Due to hike in Petrol and Food Prices

Business

Drop in Sales
Increased Logistics Cost
Business Wanting to Cut Corners

E.g. (a) Max Air Flight Suspension due to contaminated Fuel, Pure/Sachet Water Companies trying to rebrand,

(b) Banks shutting down unprofitable branches, institution of strict closing times.

(c) Switching to Online platforms for meetings and worship.
(d) Re-introduction of Work from Home e.g. State Govts. (Kwara & Edo) shifting to 3-days a week work.

Ultimate Impact

Lay-offs, right-sizing of Staff

Economy

Spike in Inflation
Reduction in aggregate demand
Naira Appreciation

Ultimate Impact

Reccession if not effectively managed

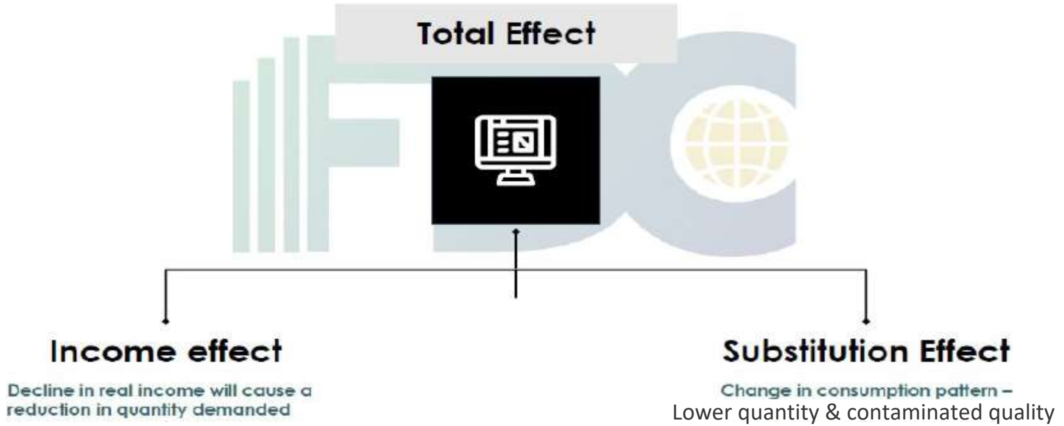
Outcome: Palliatives have to be given to support consumers/businesses.
Challenge: How do we effectively determine who receives Palliatives, method of distribution? Inaccurate data to allocate effectively? Could possibly result in Corruption

- Subsidy removal will move $10bn from aggregate consumption to the government

C ↓ G ↑

- The government must recycle the funds immediately
- Only problem is leakages but that can be curtailed
- The multiplier effect of government spending will lead to increase in the national income

Total Effect = Income Effect + Substitution Effect



For ICAN Lagos and District Society

Implications of Subsidy Removal

- *Inflation to taper as liquidity reduces in the long-run*

Source: Financial Derivatives Company, 2023

SHORT TERM PAINS

- Inflation to rise further in subsequent months.
- Rationing and reallocation of scarce resources amid numerous wants.
- Poverty rate up.
- Crime rate up in the short-term.
- Pick up in Telephone Bills/Data Subscription costs i.e. reduced purchasing power.

SHORT TERM BENEFITS

- Reduces government borrowing and debt service costs.
- Free resources for investment in other critical sectors.
- Reduce/remove incentive for smuggling and associated security risk.
- Product availability.
- Gain to Banks: improvement in E-Business Volumes and associated income.

LONG TERM BENEFITS

- GDP and productivity to increase in the long-term.
- Investment flow to the downstream sector.
- Reduces government borrowing and the associated huge deficit.
- Rationing and reallocation of scarce resources amid numerous wants.
- Stronger Naira and decline in imported inflation.
- More profitable downstream players
- Product availability.
- Improved sovereign credit rating.

For ICAN Lagos and District Society

Cost-Push Inflation

- Pump price of petrol up 170% to N500/ltr- N550/ltr
- Based on our econometric model,
  - A 100% increase in the pump price of PMS will drive up inflation by 2%
  - Hence, a 170% spike in petrol price will lead to a 3.4% surge in inflation to 5.81%

170% increase in PMS Price → **3.4% surge in headline inflation**

- Diesel price up 26% to N795/ltr in the Northern Region,

Diesel Price has however dropped 40% in Lagos (current price of N571/ltr vs N800/ltr in Jan-2023). The drop in prices can be linked to the Crude Oil Price changes , Port decongestion.

- Based on our econometric model,
  - A 100% increase in the pump price of diesel will push up inflation b 1.3% in the Northern Area, which will be offset by the drop in Price in the Lagos Region, hence Headline Inflation will not be impacted.
  - Hence, a 26% rise in diesel price will lead to a 1.3% increase in inflation

26% increase in Diesiel Price → **1.3% surge in Headline Inflation**

For ICAN Lagos and District Society

PMS Price Differential

	Average price of PMS (per litre)	Internally generated revenue (N'bn)	Average inflation rate (%)	Average poverty rate (%)	Unemployment (%)
South-West	498.00	972.60	23.12	12.12	22.07
South-South	512.33	313.56	23.68	21.28	43.85
South-East	517.00	103.72	22.91	42.44	44.54
North-Central	533.86	253.22	21.85	42.70	29.02
North-West	540.71	147.39	21.24	64.85	25.49
North-East	**552.33**	**78.30**	**20.69**	**71.86**	**41.29**

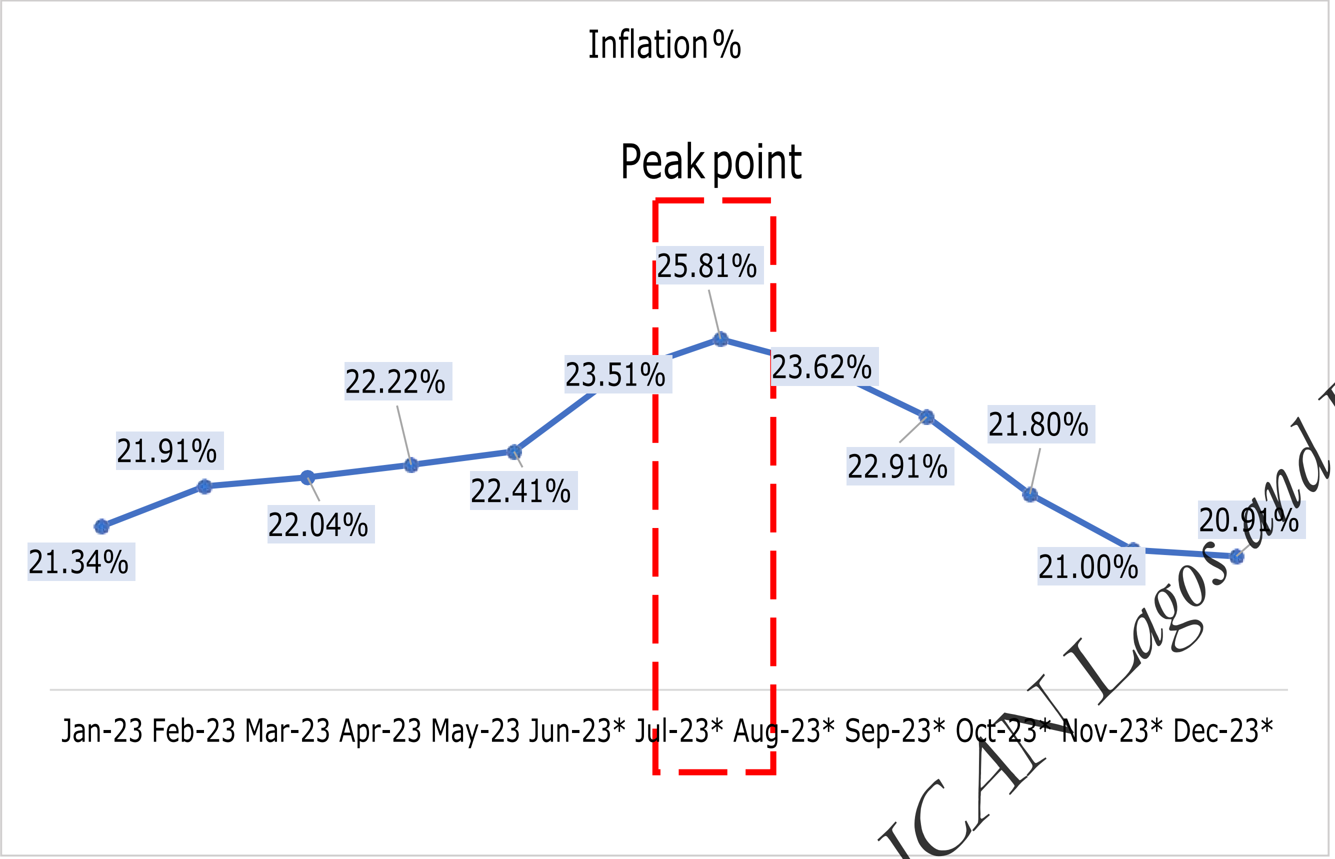
- Petrol price highest in the region with the least IGR and the highest poverty rate
- Ability of the government to increase salaries likely to be affected
- Benin Republic prices doubled as smuggling is less attractive

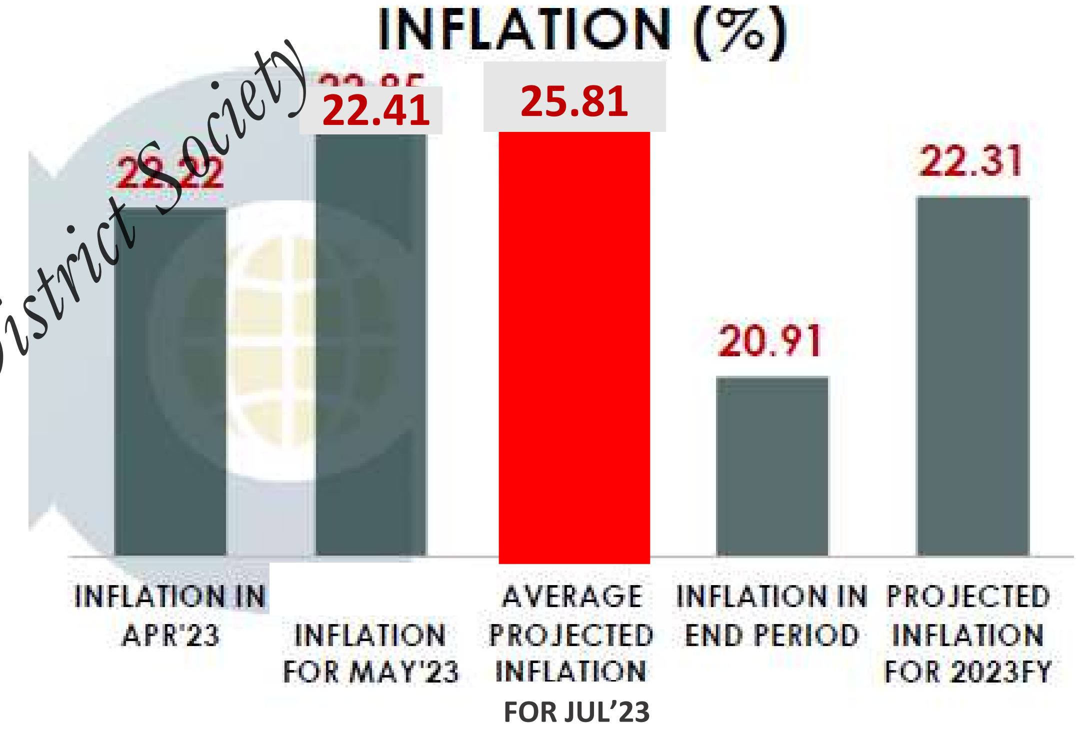
South-West and South-South IGR positively impacted by the Presence of Ports and Co-ordinated approach to Governance.

- Price differential largely reflects logistics costs - most refined products are imported via Apapa port
  - Storage facilities (tank farms)
    - About 80% of tank farms are located in Apapa, Ibafon & Coconut
  - Trucks for lifting refined petroleum products to hinterlands

For ICAN Lagos and District Society

Inflation Outlook



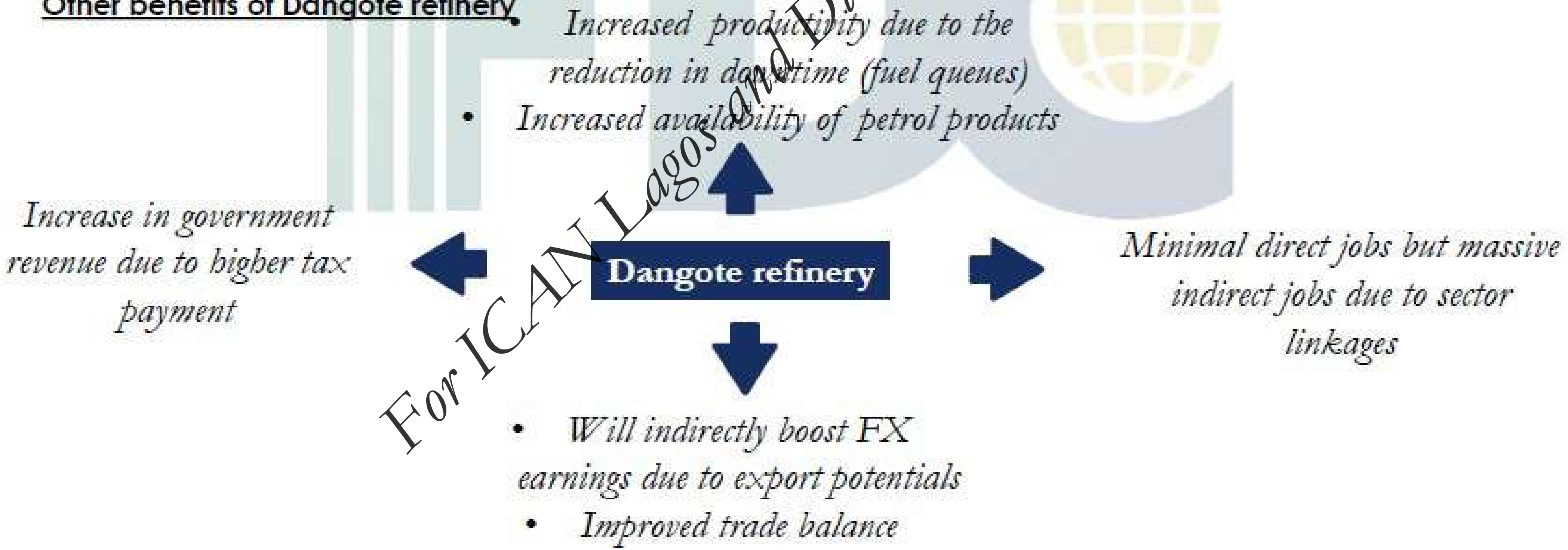


For ICAN Lagos and District Society

Dangote Refinery

- Dangote refinery is not likely to significantly reduce petrol price
- **Why?**
  - Cost savings only on haulage and insurance
  - Constitutes an insignificant proportion of total importation costs

Other benefits of Dangote refinery



For ICAN Lagos and District Society

Dangote Refinery Contd.

Fuel subsidies are the single largest cost item of the FGN's expenditure, reasons that justify the removal of petrol subsidies include :

- **Encourages Local Refining of oil**

Local refining will reduce the country's dependence on fuel imports.

The newly commissioned **Dangote refinery** is a breath of relief but not a silver bullet to end all of Nigeria's fiscal and oil sector woes.

It will require a combination of functioning public and private sector-funded refineries to meet the country's fuel consumption needs.

Dangote's refinery is the world's largest single-train refinery, with a refining capacity of **650,000 bpd**. It is expected to partly reduce the country's dependence on fuel imports and reduce the government's forex demand.

- Other reasons that justify the removal of petrol subsidies include **Eradicates arbitrage**, **Ensures market efficiency and Competition**, **Increases private sector participation and investment**, m**ore efficient use of public funds**, **Alleged corruption thereby enriching few people at the expense of the masses**, and lastly **Failure to meet the desired objective**.

For ICAN Lagos and District Society

The Nigerian Petroleum Market

PMS Consumption
77mm litres/day (subsidy era)
41mm litres/day (post subsidy era)
Source: NMDPRA

Local Production
Major Refineries Moribund
All Shut since 2019

Import Dominated
90-95% of Refined Products
Source: NNPC 2020 Annual Statistical Bulletin

NNPC

3 Major Refineries
445,000 bpd capacity
ncJer g oi ng Repa irs

Refinery	Repair Completion Date	Production Capacity (bpd)
Port Harcourt	Q3 2023	210,000
Warri	Q4 2023	125,000
Kaduna	Q4 2024	110,000
Total		

Source: The Bureau of Public Enterprises https://www.bpe.gov.ng/.

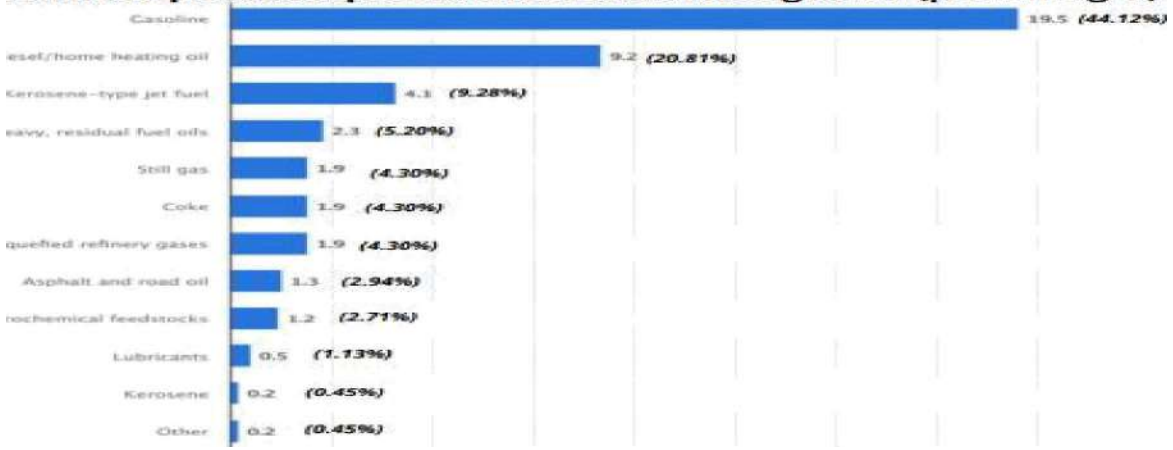
Refinery	Total Capacity (bpd)	PMS* Capacity (bpd)	PMS* Capacity (ltrs/day)
Port Harcourt	210,000	92,652	14,730,464
Warri	125,000	55,150	8,768,133
KaDuna	110,000	48,532	7,715,957
Total	**445,000**	**196,334**	**31,214,554**

*The chart to the right depicts refined products obtainable in a barrel of crude
*19.5 gallons (44.12% PMS Yield) of gasoline/PMS is obtained from a barrel of crude
*Hence for this analysis, a PMS Yield of 44.12% is applied to above table (capacity of existing refineries)

- *Port Harcourt Refinery PMS Yield was 33% as at last functional date*
- *Warri Refinery PMS Yield was 32.3% as at last functional date*
- *Kaduna Refinery is a newly built complex*

Source: The Bureau of Public Enterprises https://www.bpe.gov.ng/

Products produced per barrel of crude oil in gallons (percentages)



Source: Statista https://www.statist... 655/products-made-of-one barrel-of-crude-oil/

For ICAN Lagos and District Society

Local Market Potential (PMS) – Scenario 1 & 2

Scenario 1

Assumptions

-Repairs completed as scheduled

-Production at 100% capacity

-PMS Yield at 44.12%

	Litres Per Day
Local PMS Consumption	**41,000,000.00**
Port Harcourt Refining Company	14,730,463.52
Kaduna Refining & Petrochemical Company	8,768,133.05
Warri Refining & Petroleum Company	7,715,957.08
Projected Local Production	**31,214,553.66**
Supply Gap (Market for DORC)	**9,785,446.34**
DORC PMS Projected Output	52,542,104.00
Available for Export to DORC	**42,756,657.66**

Scenario 2

Assumptions

-Repairs completed as scheduled

-Production at 70% capacity

-PMS Yield at 44.12%

	Litres Per Day
Local PMS Consumption	**41,000,000.00**
Port Harcourt Refining Company	10,311,324.47
Kaduna Refining & Petrochemical Company	6,137,693.14
Warri Refining & Petroleum Company	5,401,169.96
Projected Local Production	**21,850,187.56**
Supply Gap (Market for DORC)	**19,149,812.44**
DORC PMS Projected Output	52,542,104.00
Available for Export to DORC	**33,392,291.56**

For ICAN Lagos and District Society

Export Market Potential (PMS)

West Africa Demand

Average Demand (Ltrs per day)	Country of Import	Refinery Presence	2019	2020	2021
Ghana	Malaysia, Belgium, UK	Y*	4,769,610.00	6,200,493.00	6,200,493.00
Equatorial Guinea	USA, UAE	N	747,159.00	667,745.40	683,644.10
Sierra Leone	Belgium, Greece, Turkey	N	254,379.20	254,379.20	270,277.90
Senegal	Russia, Belgium, Netherlands	N	1,081,111.60	874,428.50	890,327.20
Benin	UAE, Norway, Qatar	N	4,133,662.00	4,451,636.00	4,451,636.00
Burkina Faso	Ivory Coast, Niger, Malaysia	N	1,748,857.00	1,589,870.00	1,748,857.00
Liberia	China, Brazil, Greece, Turkey	N	541,350.74	524,657.10	556,454.50
Total			13,276,129.54	14,563,209.20	14,801,689.70

***Ghana's Tema Refinery is incapable of processing Ghana's sweet crude as it was designed for heavier grades of oil**

Source: The Global Economy https://www.theglobaleconomy.com

South Africa Demand

Average Demand (Ltrs per day)	Country of Import	Refinery Presence	2019	2020	2021
Angola	Togo, Netherlands, UK, Belgium	N	4,190,897.32	4,001,702.79	3,173,380.52
Botswana	South Africa, Namibia, India	N	1,678,902.72	1,604,178.83	1,691,621.68
Mozambique	India, UAE, Malaysia, Bahrain	N	1,073,162.25	1,036,595.24	1,036,595.24
Namibia	South Africa, India, Estonia, UAE	N	1,147,886.14	1,097,010.30	1,157,425.36
South Africa	Oman, UAE, India, Saudi Arabia, Italy	Y	29,412,595.00	22,448,964.40	22,448,964.40
Zimbabwe	South Africa, Singapore, Swiss	N	1,248,047.95	1,192,402.50	1,257,587.17
Total			**38,751,491.38**	**31,380,854.06**	**30,765,574.37**

Source: The Global Economy https://www.theglobaleconomy.com

For ICAN Lagos and District Society

Export Market Potential (PMS)

East Africa Demand

Average Demand (Ltrs per day)	Country of Import	Refinery Presence	2019	2020	2021
Tanzania	UAE, Saudi, India, Oman, Malaysia	N	2,440,450.45	2,330,749.42	2,459,528.89
Kenya	UAE, Saudi, India, Oman, Netherlands	N	5,327,654.37	5,087,584.00	5,367,401.12
Uganda	Kenya, India, UAE, Tanzania	N	2,767,963.67	2,642,363.94	2,788,631.98
Rwanda	UAE, Saudi, Swiss, Oman, India	N	394,287.76	367,259.97	367,259.97
Burundi	Saudi, UAE, Oman, Singapore, Tanzania	N	411,776.33	394,287.76	414,956.07
Total			**11,342,132.58**	**10,822,245.09**	**11,397,778.03**

Source: The Global Economy https://www.theglobaleconomy.com

Summary

Region	2021 PMS Avg Demand (ltrs/day)
West	14,801,689.70
South	30,765,574.37
East	11,397,778.03
Total	**56,965,042.10**

DORC	PMS Potential Export (ltrs/day)
Scenario 1	42,756,657.66
Scenario 2	33,392,291.56

For ICAN Lagos and District Society

Case study - Kenya

- ✓ Kenya, like most of its East African neighbours, depends on imported refined petroleum products (petrol, diesel, jet fuel and kerosene) mainly from the Middle East.

- ✓ In 2008, as the world grappled with high oil prices, Kenya introduced price controls to cushion the blow for its citizens.

- ✓ The Energy and Petroleum Regulatory Authority implemented a maximum price cap in 2011.

- ✓ The fuel subsidy which was introduced in October 2021 through the petroleum development levy to cushion Kenyans from high fuel prices sees the Government spending approximately **USD 66 million** to subsidize the prices of diesel, super, and kerosene.

- ✓ William Ruto kept his promise to end a Fuel subsidy that had already put a burden on the state's finances but kept the subsidies for diesel and kerosene. Kenya’s Energy & Petroleum Regulatory Authority said it had scrapped a subsidy on gasoline, raising the price by 13%.

For ICAN Lagos and District Society

UNIFICATION OF EXCHANGE RATES

For ICAN Lagos and District Society

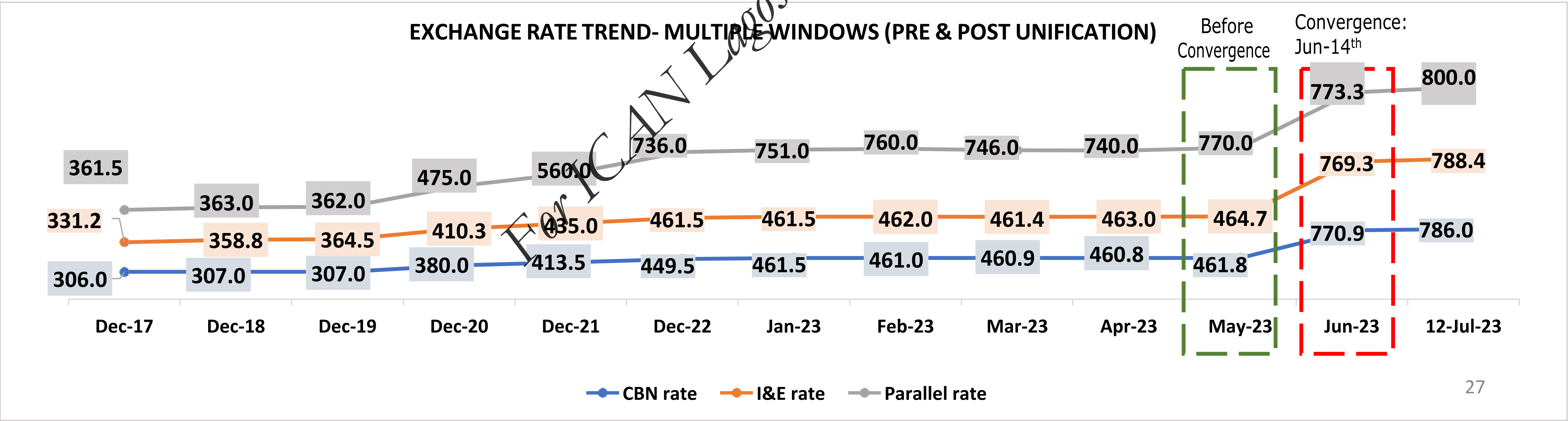
Unification of Exchange Rate – Starting Point

The multiple exchange rate system was first introduced in Nigeria in the early 1980s, during the administration of President Shehu Shagari. The system was designed to control the flow of foreign exchange and to protect the naira.

In June 2023, the Central Bank of Nigeria (CBN) abolished the multiple exchange rate system and collapsed all rates into the I&E window. This was a significant step towards a more unified and market-based exchange rate system in Nigeria.

Multiple Windows/Markets

- Official Window (CBN SMIS)
- Bureau de Change (BDC)
- Investors and Exporters (I&E) Window
- Parallel Market



For ICAN Lagos and District Society

Exchange Rate Determinants

How to Make the Naira Strong

For ICAN Lagos and District Society

Implications of Exchange rate Unification

✓ BENEFITS

- Reduction in Corruption and Leakages/Arbitrage
- Increased revenue from FX transactions, which can enable productive investments
- Reduction in Budget deficit if FX revenue exceeds FX obligations
- Increased FAAC flows for States
- Attract FX Inflows from portfolio investors, FDI, diaspora remittances and exporters' proceeds
- Capital market to appreciate as foreign investors take position
- Enhanced Export Competitiveness- in the long-run if productivity is increased.

CONS

- Rise in Government Debt in Naira Terms. (External debt of $42trn to rise by N13trn)
- Short-term Volatility in exchange rate system
- 5% increase in Debt to GDP ratio
- Increase in Foreign Debt service cost
- A further increase in price of petroleum products
- Rise in NPLs for Banks and pressure on Bank's Capital Adequacy
- If there's any gap in demand at official rate, excess will flow into the black market.

	N'tn
Debt Stock as at Q1-23	49.85
Ways and Means	22.7
Total Debt as at Q1-2023	**72.55**
FCY Debt Component* @ N460.35/$	**19.64**
FCY Debt Component @ N769.25/$	**32.82**
Revised Debt Stock as at H1-23	**85.73**

N13tn

*$42.7bn/27% of total debt

- Growth in FCY Borrowings is now curtailed by subsidy removal.

Source: Experts

For ICAN Lagos and District Society

Implications of Exchange rate Unification

CURRENT CHALLENGES

- There isn't Sufficient FX Supply to narrow the range of volatility and defend the Naira.
- There is still a backlog of unmet FX demand (estimated at $2bn-$2.5bn, Airlines account for $812mn) and associated other obligations ($5bn outstanding Futures Obligations & Bank Swaps).
- An estimate of least $50-$60 billion in reserves, with a monthly inflow of at least $6bn-$8bn/month from export earnings and other forms of capital inflow, will be required to defend the Naira at an exchange of N500-N600/$.

For ICAN Lagos and District Society

Case Studies

CUBA

- Multiple Exchange Rate Market Created in 1994.
- The system created two separate currencies
  - a) The Cuban peso (CUP) – i.e., for most domestic transactions
  - b) The Cuban convertible peso (CUC) – i.e., for transactions involving foreign currency

Rationale for creating The Multiple Exchange Rate

✓ To provide a more stable exchange rate for the CUC (pegged to the USD). This was seen to attract foreign investment and tourism.

❖ On 1st January 2021, Cuba Government unified the Exchange rate and abolish the CUC.

Rationale for Unifying the Exchange Rate

✓ The multiple FX market created a dual economy resulting to difficulty in business operations

✓ The system was unfair (i.e., give preferential treatment to those who had access to CUCs)

EGYPT

- As a result of large non-resident capital outflows in 2011, Egypt's official reserves dropped sharply, and the supply of FX was well below the demand at the prevailing overvalued exchange rate.
- The spread between the official and parallel rates widened to 60% by October 2016.
- In November 2016, the central bank devalued the official rate close to the parallel rate, removed restrictions on banks' ability to set their own buy and sell rates, eliminated the priority import list, and allowed the exchange rate to be market-determined
- This move was accompanied by a significant tightening of monetary policy, including raising key policy rates,.
- Fiscal policy was also tightened, and several reforms were implemented in the context of a 3- year program with the International Monetary Fund (IMF).
- Thisledtoedtoajumpinnon-residentinflowsandarecoveryinofficialreservestotheequivalentof6monthsofimportcoverage by 2019.

For ICAN Lagos and District Society

ANGOLA

- Bank of Angola carried out policies that led to a large currency devaluation early in 2018 and has been promoting small monthly devaluations – Crawling peg - Example
- The reforms has helped to eliminate the backlog of documented unmet foreign currency demand; narrowed the spread between the official and parallel exchange rates (from 140% in September 2017 to 18% in March 2021) and eliminate Real effective Exchange rate misalignment.
- It has also eased currency controls, increased transparency in foreign exchange allocations through regular auctions and improved communication, in a move towards a more market-based and floating exchange rate regime.
- Several reforms was implemented to continue the transition toward market determination which includes;
  - ✓ since January 2020, oil companies are authorized to sell foreign exchange (FX) directly to banks with which they have business relations;
  - ✓ Using of Electronic Platform for FX transactions (started April 1, 2020)
  - ✓ Elimination of informal restrictions imposed by banks on the withdrawal of FX deposits
  - ✓ New regulations were put in place to reduce operational cost in over-the-counter FX sales by banks which increased exchange rate flexibility

For ICAN Lagos and District Society

Case Studies

ARGENTINA

- ✓ The inability of the Argentine Government to control the prevailing exchange rate as a result of growing public debt, rising inflation, ongoing capital outflows and leakage of foreign exchange from the official market to the parallel market, led to the Government floating the currency in December 1989.
- ✓ After the exchange controls were removed and the exchange rate floated, Argentina had another bout with hyperinflation in March of 1990.
- ✓ This experience demonstrates that unifying an exchange market is not, by itself, a magical cure for a country's macroeconomic problems, unification must be bolstered with the right fiscal and monetary programs.
- ✓ On April 1, 1991, The Government installed what was known locally as a "convertibility system" to rid Argentina of hyperinflation and stabilize the economy.
- ✓ Under the Convertibility Law, the peso and the U.S. dollar both circulated legally at a 1-to-1 exchange rate (i.e., the owner of a peso had a property right in a dollar and could freely exercise that right by converting a peso into a dollar.)
- ✓ The convertibility system formed the foundation for a decade of stable pricing, strong export and economic growth.
- ✓ The convertibility system collapsed at the end of 2001as a result of a run on the banking system as people realized that there were not enough dollars in the system to cover all the deposits due the failure to adequately address the currency-growth-debt trap.
- ✓ The parallel market re-emerged as the central bank reinstated capital controls and put restrictions to access FX through official channels.

For ICAN Lagos and District Society

IMPACT OF LATEST FINANCE ACT

For ICAN Lagos and District Society

Fiscal Policy Measures (FPM) 2023- Suspended by New Government

On 20th of April 2023, the Federal Government of Nigeria issued a circular introducing new taxes in the FPM for 2023 (with effective date of May 1st 2023), however this was suspended by the new President due to concerns on multiple taxations and the increased financial strain on individuals and businesses.

Highlights of the FPM 2023

Supplementary Protection Measures

- This relates to the implementation of the ECOWAS Common External Tariff 2022-2026.
- The SPM will influence the importation of goods such as rice, woven fabrics, ceramics tiles, and sinks, among others and it is expected to have a positive impact on the Nigerian economy, such as increased revenue generation, promotion of local production, mitigation of climate change, and greater employment opportunities.

Import Prohibition list

The FPM 2023 revised Import Adjustment Taxes (IATs) for a few items including used motor vehicles above 12 years, Paracetamol tablets/Syrup, plates, sheets, films, foil and added 17 new items to the existing 172 items in the IAT list e.g. Single Use Plastics (SUPs), including plastic containers, films, and bags.

The Prohibition list is applicable only to certain goods originating from non-ECOWAS Member states.

Changes in excise duty rates

Tax on alcoholic beverages to increase from N75 to N100. According to the finance minister, N75 per litre will be charged on "all alcoholic beverages and beer not made from malt- whether fermented or not fermented".

The excise duty rate on non-alcoholic beverages is however retained at the rate of N10 per litre.

Before the new rates, the government taxed imported alcoholic beverages using advalorem rates – levying of tax or customs duties) proportionate to the estimated value of the goods or transaction concerned.

Introduction of Green Taxes

introduction of a Green Tax by way of excise duty on Single Use Plastics (SUPs) including plastic containers, films and bags at the rate of 10%. Also, an Import Adjustment Tax (IAT) levy has been introduced on motor vehicles of 2000 cc to 3999 cc at 2% while 4000 cc and above will be taxed at 4%. Vehicles below 2000 cc, mass transit buses, electric vehicles, and locally manufactured vehicles are exempted.

* cc- cubic centimeters

Telecommunication Tax

The 2023 FPM confirms the excise duty on telecommunication services earlier introduced via the Finance Act 2020 and prescribed in the Official Gazette No. 88, Vol. 109 of 11 May 2022 approved by the President.

The tax is applicable on mobile telephone services (GSM), fixed telephone and internet services, both postpaid and prepaid at the rate of 5%.

SUMMARY

- The 2023 FPM Measures received criticism and complaints, due to the concerns of over and multiple taxations leading to additional burdens imposed on the productive sectors and end-consumers

- Hence, President Bola Tinubu suspended some tax measures, to address concerns by signing four Executive Orders which includes the suspension of the 5% Excise Tax on telecommunication services as well as the excise duties escalation on locally manufactured products

For ICAN Lagos and District Society

2023 Amended Finance Act- Deferred from May 23, 2023 to September 1, 2023.

The Finance Act (FA) 2023 introduced a number of changes directed at facilitating tax administration and boosting revenue generation. The Key Highlights are summarized below:

1. Taxation of gains on the disposal of digital assets including cryptocurrency at the rate of 10%.

2. Increase in Tertiary Education Tax rate from 2.5% to 3% of assessable profits. In essence, the increase in the TET rate is expected to have impact on the cost of doing business as organizations will seek to preserve their bottom-line furthering putting pressure on the price of goods and services in Nigeria.

3. Sharing of Electronic Money Transfer (EMT) levy 15% to Federal Government, 50% to State Governments and 35% to Local Governments. Also N50 charge on electronic transfer above N10,000

4. Imposition of 0.5% levy on goods imported into Nigeria from outside Africa-the proceeds from this will be used to fund capital contributions and subscriptions due to international and multilateral organizations.

5. The FA 2023 modifies the Personal Income Tax Relief. – PITA the Personal Income Tax Act (PITA) grants a deduction for amounts paid as life insurance premiums.

6. Deletion of investment allowance on plant and equipment (previously 10%).

7. The FA 2023 introduces various administrative changes to Petroleum Profits Tax by amending and increasing the penalties included in the Act. The penalty for offences for which no other penalty is prescribed in the Act has now increased from N10,000 to N10million.

8. Companies appointed to withhold VAT at source are to remit such VAT to the FIRS on or before the 14th day of the following month (as against the previous deadline of the 21st day following the month of transaction).

9. Shipping and air transport companies that are unable to provide financial statements for the Nigerian operations are now required to submit a detailed gross revenue statement of their Nigerian operations along with invoices issued to the customers to support the revenue statement.

For ICAN Lagos and District Society

Way Forward? Explore Non-Oil Revenues

The New Government is on the right track in terms of the policies, but it's a bit aggressive due to the impact on the masses.
- Upside: some leakages have been blocked: such as Fuel Subsidies FX Subsidies, wasteful interventions (RT 200); however some unproductive tax waivers still remain

- Invest in Critical Infrastructure
E.g. Education, Power, Health, Roads, Transport
To aid productivity (positive for balance of trade), create jobs and improve standard of living.

- Fix the Data issue
Africa has a lot of growth potential, access to high quality data is crucial to enable investors make critical decisions.

- Utilize Key Assets
Such as the Refineries/Moribund Ajaokuta Steel Company

- Harmonize Multiple Taxes.
Experts have revealed over 60 types of Taxes, and over 200 unofficial taxes burdened on the manufacturing companies.

- Close the Tax Gap/remove unproductive waivers
Estimated at N20tn-N30tn
The inefficiencies need to be fixed, in terms of non-registration/non-filing

- Technology and Innovation

- Peer Countries- Comparison

South Africa: 59.4mn Population- 30% of Nigeria's Pop.
Tax Collections: Rand1.7trn/$94bn 333% > N10trn/$21.7bn (equivalent) collected in taxes by Nigeria in FY-22

Kenya: 53.0mn People- 27% of Nigeria's Pop.
Tax Collections: N8trn

For ICAN Lagos and District Society

Way Forward

NIGERIAN ECONOMY IN 2022: AN ALTERNATIVE VIEW

	Annual
TOTAL E-PAYMENTS TRANSACTION	N387 trillion
GDP CURRENT MARKET PRICE	N202.4 trillion
Multiples	1.9x
2023 FG PROJECTED REVENUE	N9.73trillion
% of GDP	4.8%
% of E-PAYMENTS	2.5%
TOTAL E-PAYMENT @ N461.5/$	$838.6 billion
TOTAL E-PAYMENT @ N769.25/$	$503.1 billion ↓ 66%
NIGERIAN GDP IN US $ @ N461.5/$	$441.1 billion
NIGERIAN GDP IN US $ @ N769.25/$	$266.44 billion

Source: NIBSS
FY-2022

Economic Activity vs Financial Flows
what are we missing?

1.5% of all E-payments: **N5.81 trillion annually**

* Already accounts for 60% of 2023 Projected Revenues

WHERE DOES REVENUE COME FROM?

ALL revenue come from assets (resources). Here are the top assets

1. people (quantity x quality x employment)
2. Intellectual property (Knowhow x Culture)
3. Businesses (Corporations + Medium Scale Enterprises + Small Businesses)
4. Capital (Financial + Machinery + Intellectual)
4. Real Estate (Industrial + Commercial + Residential + Recreational)
5. Natural Resources (Renewable v Non-Renewable, Refined v Crude)
6. Brand Assets (Perception is expensive).

TAX WHERE THE MONEY IS.

A few anecdotes

1. A property in Ikoyi valued @ $5,000,000 pays less than $5,000 in taxes, A property in Virginia, USA valued at $500,000 pays more.
2. In 2022, Nigerians transferred N783 trillion via web / internet, the FIRS collected N2.83 trillion in corporate taxes (0.4% of value)
3. Customs' N2.29trn annual waivers surpassed revenue by 71% (in 2021)

For ICAN Lagos and District Society

CONSUMPTION TAXES, SOME EXAMPLES

2.J% of web payments N19 trillion

1% of NEFT (bulk transfer) = N4.7 trillion

Property taxes on 25% of our 42m Romes (75% ore substandard - AWC) at N30k per month will yield N3.8 trillion in state taxes

RETHINKING TAX - JAYATI GHOSH

The co-cliriir of an independent tax corn rilissiori on why roe /orus should be on squeezing riiore from bid b iisiness and billionaires.

- multinationals avoid tax payments of at least $24Obn per year, and probably more, because tne current international taxation rules
- Several countries—including Brazil, India, Indonesia and Nigeria—have already imposed or plan to impose digital-services taxes, despite fierce opposition from America.

SUBSIDIES, HOW MUCH EXACTLY?

Petrol subsidy : N300bn monthly:	' Nd trillion 3.3d x 3)
Currency SUpport : N200 / SIon T 8b:	= N3.d trillion
Corporate waivers at 20a 1 rate:	= NO.3 trillion
Total:	= NI J.63 trillion
Nigeria 30J3 budget deficit:	= |N1 J.10 trillion)

HOW BAD IS THE DE&T?

The real Ya!ue of astets owned by the FG is unknown (MoFI), it is ettimoted that about Sf0 billion of assets could be verified by the End of 2023.

For ICAN Lagos and District Society

° A 10% retUrn comparable to oUr cost Of borrowing) = NO./J trillion

2023 bUdget for debt terYice: ' N6.JJ trillion

For ICAN Lagos and District Society

For ICAN Lagos and District Society