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News Story

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A $13 Billion Challenge Awaits Nigeria's President−Elect (1)

- **Tinubu must address rising debt that consumes 80% of revenue**
- **Risk of social unrest on removal of costly fuel subsidies**

By Anthony Osae−Brown and Ruth Olurounbi

(Bloomberg) −− Bola Tinubu won't have much time to celebrate his victory in Nigeria's presidential election.

Africa's biggest economy is facing a deepening fiscal crisis, acute shortages of domestic and foreign currency, and widespread insecurity. The government's ability to deal with those issues is being undermined by a gasoline subsidy that will drain 6 trillion naira ($13 billion) from state finances this year — about two−thirds of the revenue expected to be generated by oil and gas output.

For overseas investors, Nigeria's multiple exchange rates and moves by the central bank to ration dollars are also a big deterrent.

Bola Tinubu with supporters in Abuja on March 1. Photographer Kola Sulaimon/AFP/Getty Images

"The next president will be tasked with a course correction anchored on sound economic policies, fiscal and structural reforms, as well as monetary policy orthodoxy," JPMorgan Securities Plc analyst Gbolahan Taiwo wrote in a note. "The top policy priorities are clear with fuel subsidy reforms" and the liberalization of the foreign−exchange market at the top of the agenda, he said.

It's going to be politically difficult to scrap the popular price cap that's used by residents and small businesses in Africa's most populous nation to run cars and power generators in the energy−deficient country. Outgoing President Muhammadu Buhari resisted pressure from the World Bank and International Monetary Fund to end the payments that dwarf spending on education and health combined.

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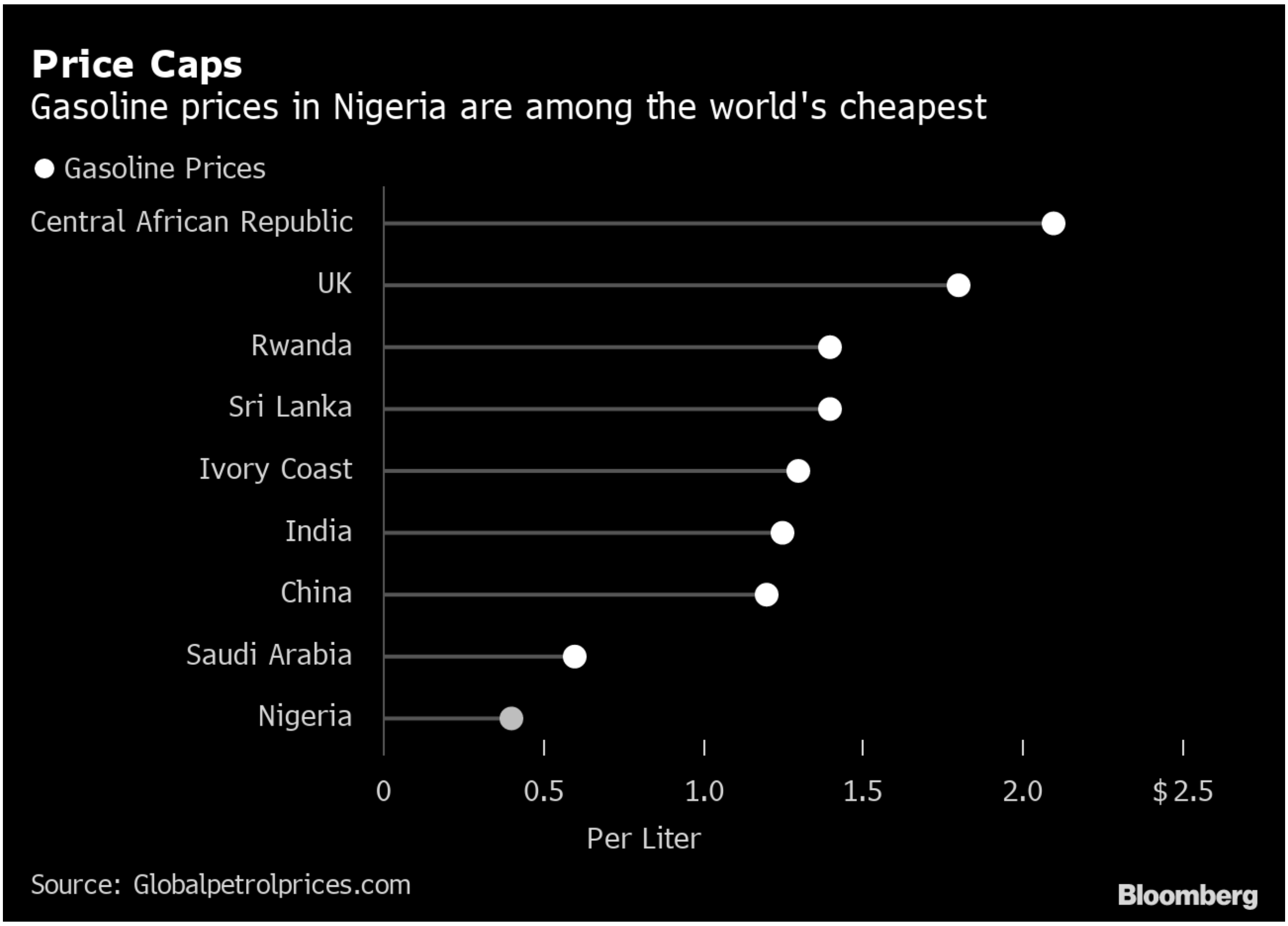

'Arbitrary' Policy

In his election manifesto, the 70-year-old Tinubu pledged to end the subsidies and use the money to fund health and education programs, as well as infrastructure and social-welfare projects. Previous efforts to end the payments triggered social unrest.

The president-elect also promised to "carefully review and better optimize" the nation's system of multiple exchange rates – a central bank policy he's described as "somewhat arbitrary." He hasn't said whether he will retain central bank Governor Godwin Emefiele, whose unorthodox policies have been criticized for being interventionist.

The IMF has cited central bank interventions in Nigeria's foreign-exchange market as a hindrance to capital inflows. Foreign direct investment in the West African nation plunged 52% to $698 million in the six years through 2021. By comparison, inflows into Indonesia increased 6% to $31 billion in the same period.

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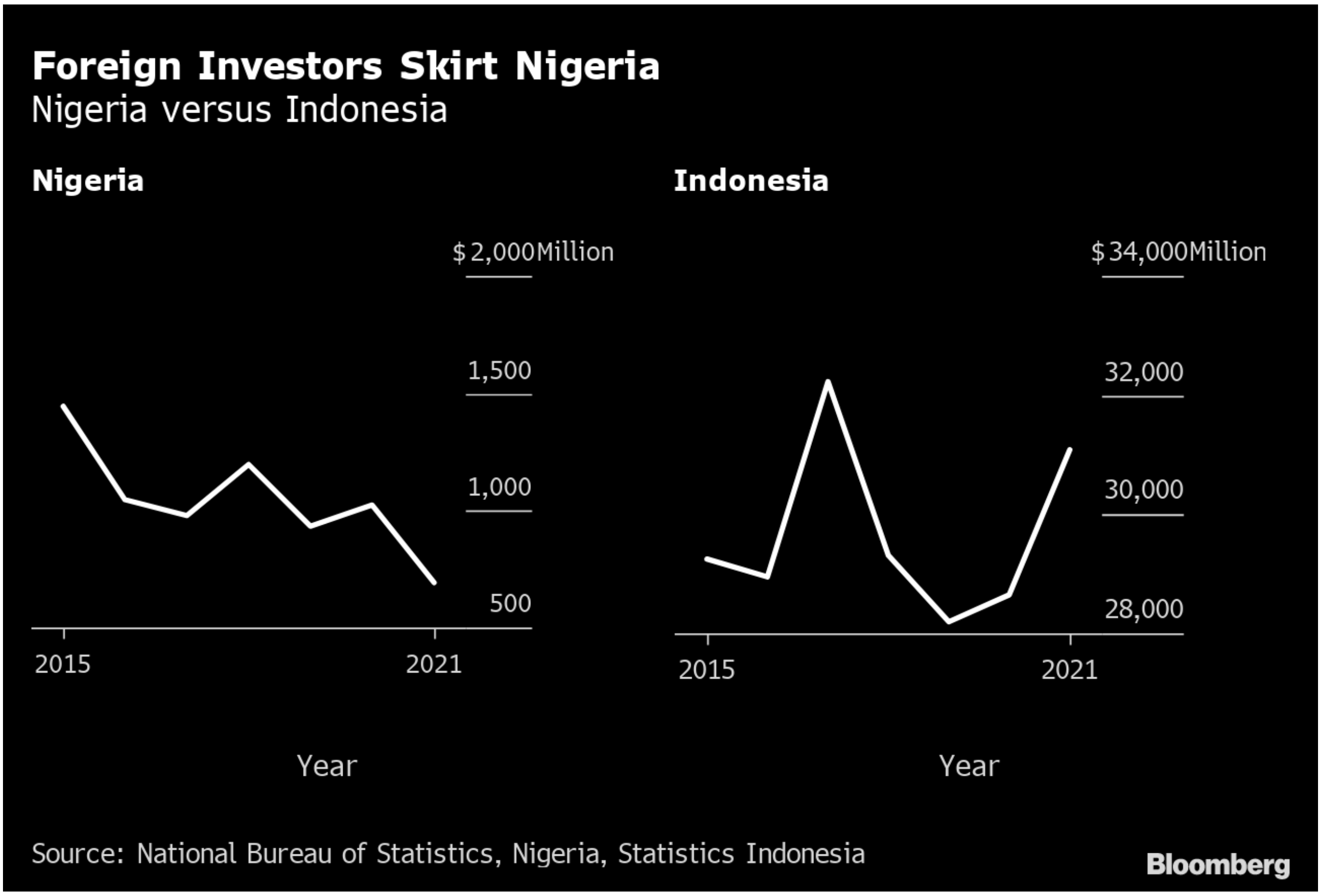

“Many of the issues that worried the Nigerian electorate in 2015 are a bigger headache in 2023 – significantly due to the self-inflicted fiscal and monetary decisions,” said Leena Koni Hoffmann, an associate fellow at Chatham House in London. “Tinubu would need to marshal an extraordinary amount of political capital and consensus to redirect and reunite a fractured and volatile Nigeria.”

Tinubu’s other campaign commitments include ensuring that his administration limits the nation’s exposure to foreign-currency debt. He plans to contract non-naira loans only for projects that “generate cash flows from which the debt can be repaid.”

Nigerian public debt has grown more than six-fold since Buhari became president in 2015 with servicing costs consuming about 80% of government income last year. The IMF projects the country may spend more on servicing its loans than it raises in revenue this year unless it significantly improves tax collection.

Tinubu will be sworn on May 29 as the country’s fifth democratically elected president since the end of military rule a quarter century ago. The former leader of Nigeria’s commercial hub of Lagos also plans to reverse a decline in oil output – setting an ambitious target to boost production of about 1.5 million barrels a day by more than 70% by 2027.

Africa’s biggest crude producer has been unable to meet its OPEC quota since the beginning of last year because of pipeline theft and dwindling investment in an industry that accounts for more than 80% of export earnings.

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“His positioning on the oil sector, including subsidy and leadership at the central bank, will be key points to watch,” said Ayodeji Dawodu, head of Africa sovereign and corporate credit research at BancTrust & Co. “This will have significant implications on Nigeria’s economic performance and direction.”

(Updates with analyst’s comment in ninth paragraph.)

--With assistance from Mike Cohen.

To contact the reporters on this story:
Anthony Osae-Brown in Lagos at aosaebrown2@bloomberg.net;
Ruth Olurounbi in Abuja at rolurounbi4@bloomberg.net

To contact the editors responsible for this story:
Arijit Ghosh at aghosh@bloomberg.net
Paul Richardson

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