

Economic Ramifications on Nigerian Economy in the Wake of Russia-Ukraine Conflict?

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Introduction

The Russian invasion of Ukraine on February 24th, 2022 was received with swift condemnation across the world with the United States, European Union, and other western countries promptly imposing a series of sanctions on Russia for its aggression including oil and gas export and financial transaction (Kolaczowski,2022). The war and sanctions have led to sharp rises in the prices of crude oil to over \$100 per barrel, far beyond the budget benchmark of \$62 per barrel, on which the 2022 national budget of Nigeria is based (Afolabi 2022). The rise in oil prices ought to be good news for the economy of Nigeria but can that be the case when analyzed from a broader perspective? This is apt given the fact that major derivatives of crude oil are imported into the countries (Oyekanmi,2022). Besides the spike in prices of oil and gas, sanctions on Russia also has ramification on International trade between Russia and the rest of the world, and Nigeria is not exempted. In what ways have these affected the economy of Nigeria and what has been the response of the Nigerian government to this development?



Figure 1: Picture of Crude Oil (Dailytrust.com March 30, 2022)

Escalation of Crude Oil Price

The price of crude oil in the international market was the first to experience fissures following the conflict between Russia and Ukraine. Prices quickly rose above \$100 first time since 2014 (Kolaczowski,2022). The reason for this is that Russia is the second-largest supplier of crude oil to the global market and most European countries depend on Russian oil and gas (Kolaczowski,2022). For Nigeria, this ought to be good news as the export of crude oil generates over 70% of the country's foreign exchange. The 2022 budget benchmark was pegged at \$62 per barrel even though it is N 6.25 trillion (\$14.98 billion) which is 3.39% of Nigerian Gross Domestic Product (GDP). Within the five weeks of the crisis, the prices of oil fluctuated between \$139 to \$110 per barrel

(Azeez, 2022). However, Nigeria is not in a good position to benefit optimally from the upsurge in crude oil prices. This is premised on the fact that there is a decline in oil production from 2.57 million barrels per day (BPD) production in 2005 to the current production level of 1.31 million BPD by December 2021 which is a 50% reduction. This is below the production quota of 1.72 million BPD currently allocated to Nigeria by the Organization of Petroleum Exporting Countries (OPEC) (Adio, 2022). The shortfall in oil production is attributed to divestment by International Oil Companies, under-investment, aging infrastructure, and incessant vandalization of oil and gas facilities. Other factors include fiscal uncertainties and policy flip-flop by the government and the worrisome industrial-scale theft of crude oil all of which are undermining the Nigerian economy

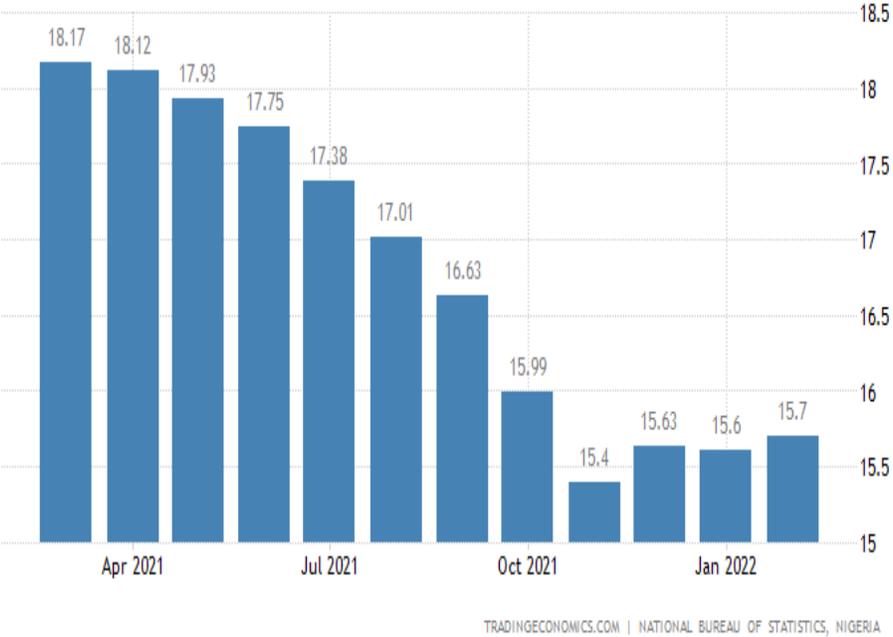


Figure 2: Inflationary Rate in Nigeria (National Bureau of Statistics,2022)

Nigeria's situation is complicated because the country is an importer of refined petroleum products. Consequently, any gain from crude oil sales owing to the surge in prices would be wiped out from the import of refined petroleum products. More so the country subsidizes premium motor spirit (PMS) and in the 2022 budget alone N3 trillion (\$7.211 billion) or 17.5% of the budget estimate was proposed as subsidy payment for this single product (Thisday, 2022). This amount is likely to increase with the rise in the price of imported refined petroleum products due to the conflict in Ukraine. The attempts in the past by the government of Nigeria to stop this subsidy regime have been met with resistance by labour organisations. Even though the Federal Government of Nigeria has not been transparent with the subsidy regime in terms of the quantity of daily consumption which has continued to increase astronomically over the years (from 30 million liters a day in 2015 to over 100 million liters), thereby increasing the subsidy bill which many analysts in Nigeria believed is reeked in corruption.

The problem of Nigeria with the importation of petroleum products particularly premium motor spirit (PMS) which is yet to be liberalized, is the none transparency of the subsidy regime. The

government, through the Nigerian National Petroleum Company, has not been able to ascertain the daily consumption of PMS in the country. NNPC officials put the current consumption at 100 million liters daily compared to 30 million liters as of 2015. Apart from corruption in the subsidy regime, the aggravation of petro smuggling in Nigeria has defiled every government solution (). With a shortfall of revenue a significant proportion of over 98% used in debt serving, the government has no choice but to borrow to keep the subsidy in place, thereby adding to the debt pile in the country.

Besides the rising subsidy bill of PMS, the other petroleum product that has been liberalized is also making their impact on the Nigerian economy. The rise in the price of diesel which is another important petroleum product in the country is having negative effects (Oyekanni, 2022). What was selling at N 200 jumped to above N600 following the crisis. The upshot in the price is attributed to not only the increase in the landing cost of refined products but also the demand for diesel in the local market, due to epileptic power supply across the country (Udegbunaknn, 2022).

The increase in diesel prices has become a major bane for businesses operating in the country as the cost of operation has risen astronomically since most organizations make use of generators for their businesses.

The most pressing impact of the Russia-Ukraine conflict is an escalation of energy prices, this is because Nigeria depends on the importation of petroleum products such as diesel, aviation fuel, kerosene, and cooking gas (Guardian,2022). The implication of the rising prices of these products is a rise in the cost of living and a falling living standard for the average Nigerians.

Spike in Cost of Transportation

Another area the Russian-Ukraine conflict has impacted the Nigerian economy is a rise in the cost of transportation. Though this started due to a scarcity of PMS caused by adulterated fuel two weeks before the crisis. The recall of the adulterated fuel by the NNPC caused the scarcity of the product which could not be normalized before the conflict between Russia and Ukraine led to rising in the price of imported petroleum products. The unpreparedness of the NNPC which is the sole importer of refined petroleum products into the country resulted in prolonged scarcity that lasted for six weeks before a semblance of normalcy began to return to petrol stations in the country. The effect was an increase in transportation costs in Nigeria According to a report by Naira metrics ride-hailing cars services such as Uber and Bolt increased their fare by over 100% due to the scarcity.

Even air travelers were also compelled to pay more for such services. The high cost of Jet A1 which is the fuel used by airplanes rose from an initial N200 to N599 a liter, compelling operators to increase airfare by 100% and reduce their flight frequency (Nairametrics, 2022).

Trade with Russia and Cost of Food

Just like many other countries in the world, the Russian invasion of Ukraine has disrupted the global supply chain of food products, particularly wheat which Russia and Ukraine control 30% of global export. Currently, wheat is one of the most consumed grains in the world. It is also used for the production of noodles, pasta, cakes, and other confectioneries. The Food Agricultural Organization recent reports suggest that the conflict has already driven food prices across the globe and Nigeria is not exempted (Ibiroga, 2022). The agency said poorer countries in northern Africa,

Asia, and the Middle East that depend heavily on wheat imports risk suffering significant food insecurity. In 2019, N349 billion (\$838 million) worth of durum wheat was imported into the country. Also, Nigeria imported N898.2 billion (\$2.159 billion) worth of wheat in nine months that ended in September 2021. The intensification of the Russia-Ukraine conflict will have the effect of disrupting agricultural activities thereby affecting the prices of bread and other confectionaries.

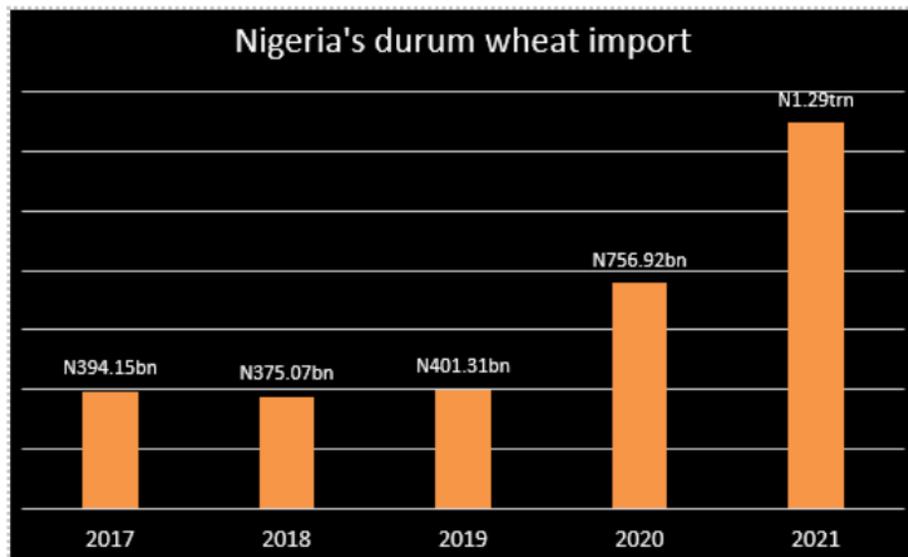


Figure 3: Nigeria’s Wheat Import (Naira metrics, 2022)

Russia- Nigeria Economic Relations

Trade between Nigeria and Russia is another area that is at risk if the conflict continues. Nigeria's import from Russia is valued at N813.19 billion (over \$2b) between January and September 2021, representing 3.7% of Nigeria's total import and the second-largest food annual food import (Nairametrics, 2022). The sanctions on Russia will affect Nigeria's import capacity as Russia is Nigeria's top source for its imported food items. Particularly durum wheat which is the third most widely consumed grain in the country (Punch, 2022). Data shows that Nigeria imported durum wheat worth over N128.1 billion in the 9 months of 2021, while it recorded an N144.14 billion durum wheat import in the previous year from Russia. Besides durum wheat, Nigeria imports seafood such as mackerel, meat, herrings, blue whittings, and other fish, all in frozen form from Russia. Ukraine on another hand imported milk preparation worth N721.45 million in the first three months of 2021 (Nchetachi, 2022). This shows that Nigeria is a huge consumer of wheat products of which only 1% of the 6 million metric tons consumed annually are produced locally. The downside to the war is that if supply from Russia is distorted for whatever reason, could spark an uptick in wheat prices as a result of the supply gap. This will result in an increase in prices of by-products of wheat, such as bread, confectionaries, and wheat meal amongst others. On the upside, however, this could force Nigeria into expanding its local wheat production as the Central Bank of Nigeria have a program of meeting the wheat needs of Nigeria locally but it is yet to yield obvious desired results.

Conclusion

Even though the location of Russia and Ukraine is far from Nigeria, the conflict between the two countries is having economic ramifications in Nigeria. Nigeria as a major oil-exporting country would ordinarily make gains from the upsurge in the price of crude oil in the international market as was the case in the 1970s and the Gulf war of 1980s but the fundamentals of the Nigerian economy has turned the situation otherwise as the impact of the conflict is negatively affecting the Nigerian economy. It is very obvious to the managers of the Nigerian state and its economy that major restructuring and reforms are required to ensure that the country takes advantage of this kind of situation in the future to reap benefits rather than losses.

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