Macroeconomic Snapshot

Research & Insights | KPMG in Nigeria

Thursday 22nd June, 2023

Crude Oil Price

$77.90 1.12%

$77.04 Previous

FX Reserve

$34.449b 0.13%

$34.493b Previous

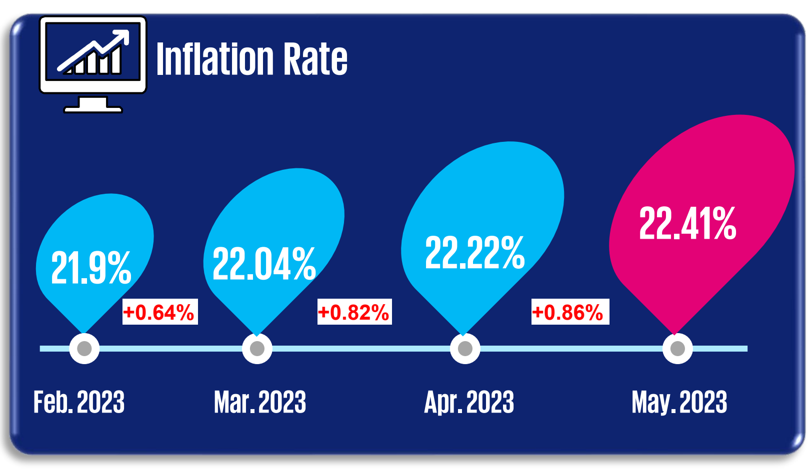
Market Capitalization

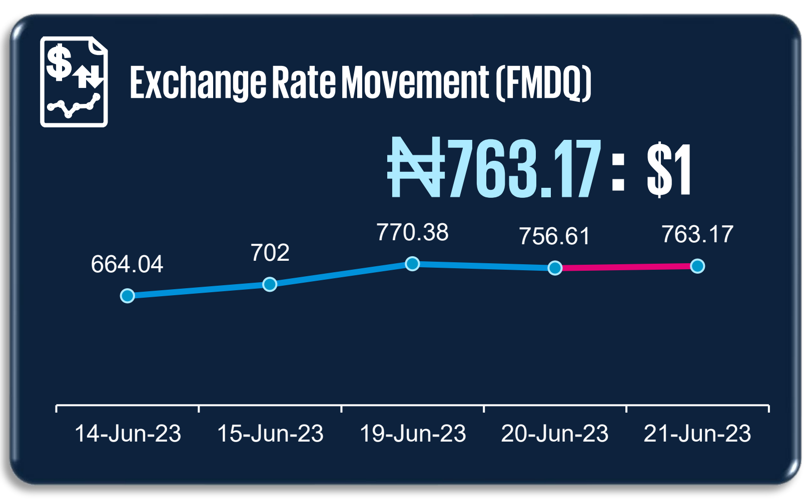
N32.13tr 5.48%

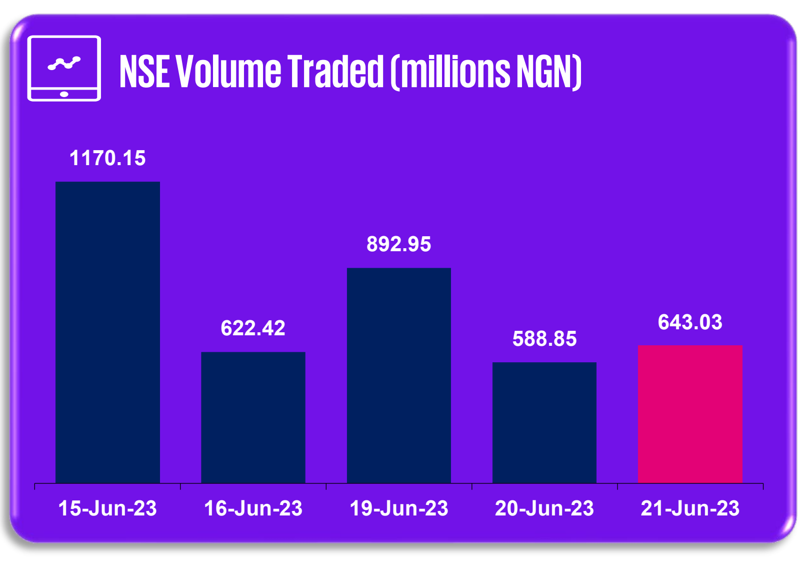
N30.46tr Previous

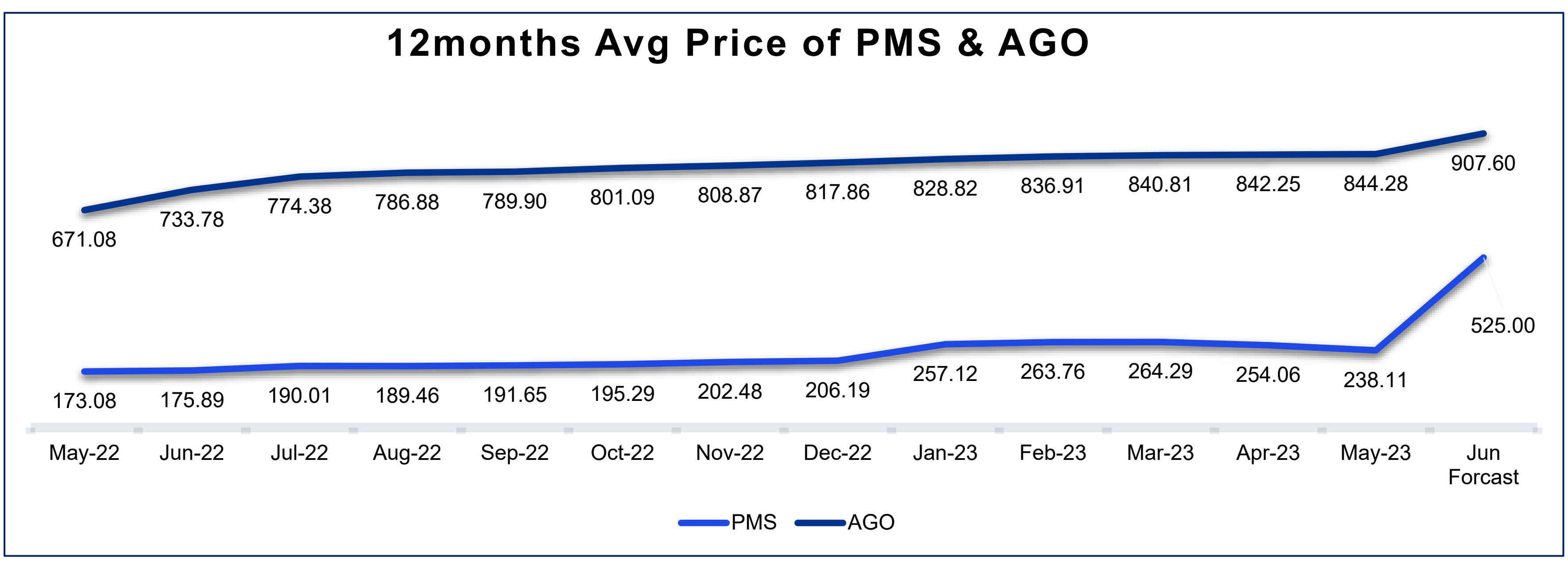
18.5% Monetary Policy Rate

18% Previous









KPMG Analysis: 7.5% VAT on Automotive Gas Oil (Diesel)

This week, we highlight the Federal inland Revenue Service (FIRS) reported communication to Automotive Gas Oil (Diesel) suppliers in Nigeria about its planned enforcement of the required Value-added Tax (VAT) on imported diesel which according to the communique was within the scope of the VAT Modification Order 2021. Although, the "order" exempts VAT paid on some petroleum products (HS Codes 2709.00.00.00 – 2710.19.12.00), however, automotive gas oil with HS code 2710.19.21.00 is not exempted from VAT.

According to the National Bureau of Statistics (NBS) Diesel price watch, the average retail price of diesel paid by consumers in May 2023 was N844.28 per litre which is a 25.81% increase over its price at the same period in 2022. While the eventual price of diesel from June 2023 is subject to various market demand and supply chain factors, including the full operation of the newly commissioned Dangote Refinery (VAT is only on imported diesel,) using May 2023 average price of N844.28 per litre, and applying the 7.5% VAT on diesel will result in an immediate increase in the average price of Diesel to N907.6 per litre.

Businesses and households particularly in urban centers use electricity generated from generation companies (GENCos) for their firms and homes and use of diesel and PMS to power their generators as a backup, also to transport their goods and services and in the case of households, to move from one place to another. Although, alternative energy sources like inverters, solar panels, electric cars, and gas to power generators and haulage are slowly gaining momentum in Nigeria as back up for power supply and transportation, the use of diesel and PMS to power generators are still most widely used.

Accordingly, the cost to power homes and businesses and to move both goods and individuals from all 3 major sources (PMS, diesel for generators and electricity tariffs) have all risen in the last few years. Firstly, electricity tariffs have risen several times from an average of N23.5 a kilowatt-hour (kWh) to N63 kWh between 2015 and 2023 and according to Nigerian Electricity Regulatory Commission (NERC) it is expected to rise further. At the same time, PMS prices rose by almost 200% following the removal of subsidies two months ago and with the relaxation of the peg on FX rates and rising crude oil prices, it is expected that PMS will rise even further in the short term. In the interim, the 2022 Finance bill and its associated tax has been introduced while the FX markets which also determines PMS and diesel prices has been liberalised leading to short to medium term rises in FX rates. Accordingly, the introduction of a 7.5% VAT on already high diesel prices at this time will further squeeze business margins for those relying on diesel and PMS as backup for power supply, transportation and distribution and will constrain household consumption expenditures further and thereby reduce demand for goods and services. On the other hand, the increases in the overall non-renewable energy costs in the country may spur more use of alternative sources of energy (renewable energy) especially with Nigeria's decarbonization efforts to transition into renewable energy consumption by 2060 to achieve net zero emission goals and get closer to a more sustainable economy. This is more likely to happen in the longer term. In the short to medium term however, and in the absence of it completing its strategies to cushion the effects of these policies and reforms, households and businesses may have to grapple with increased costs of energy to power their homes and businesses; transport themselves and their goods and at the same time deal with increased costs of goods and services as businesses costs rise due to higher energy costs. With the recent PMS subsidy removal and inflation rate of 22.41% in May 2023, consumers have already been adjusting expenditures and rationalising spending which is showing up in the earnings of various companies and could also contribute to higher inflation rates in the next few months.

We are of the opinion that while these reforms and adjustments are bold and indeed necessary to maintain long term macroeconomic stability, the timing could be adjusted to allow households and businesses adjust. We are also of the opinion that a process that allows the economy to absorb one shock before the next is preferable and puts less pressure on the macroeconomy. However, the government appears to have decided on a strategy to push through all its difficult and needed reforms all at once and as fast as possible while it is still easier to do, leveraging on its current good will and very positive ratings. This approach has however had mixed success across countries.

Sources: CBN, NBS, NGX, FMDQ & KPMG Research

Other Stories

- FG implements 7.5% VAT on diesel, Nigerians kick
- FG Pledges More Dollar Supply To Stabilise Naira
- Palliative: FG commences distribution of free solar systems
- FG, lawyers meet over PIA Implementation.
- Petrol Marketers Reveal Plans to Roll Out Cheap Fuel at N100 Per Litre
- 7.5 per cent diesel VAT may spike telecom tariff hike
- Naira devaluation pushes Nigeria's export to N42tn
- Naira Bounces Back, as Dollar Exchanges Same Rate in Official and Black Markets First Time in 8 Years

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