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Finance Costs for Nigerian FMCG Companies Spikes

From Q1 through to Q3 2024, finance costs for major FMCG companies in Nigeria increased by 133.3% year-on-year, reaching NGN1.074 trillion compared to N460.22 billion in 2023. Companies such as Champion Breweries, International Breweries, Nigerian Breweries, BUA Foods, Dangote Sugar, NASCON, Unilever, Cadbury, and Nestle faced increased foreign exchange losses and higher interest rates driven by the efforts of the Central Bank of Nigeria to combat inflation and the devaluation of the Naira. For FMCG companies, these challenges are compounded by declining consumer purchasing power, which has limited their ability to pass on rising costs to consumers. The result has been a triple burden of higher finance costs, squeezed profit margins, and weaker earnings, leaving many firms struggling to maintain financial stability.

Comment: The increase in finance costs highlights the impact of inflation and the struggling economy on the FMCG sector. Companies may consider disposing assets or aspects of their businesses that have rendered profit margins vulnerable. As some multinationals have exited Nigeria in 2024, 2025 may see more foreign direct investment exits or an uptick in mergers and acquisitions as investors seek to safeguard their investments.

Further, as finance costs erode profit margins and pre-tax profits decline, shareholder confidence is diminishing, and negative equity positions are becoming more common.

It is imperative that the FMCG sector considers implementing rights issues, debt restructuring, and operational efficiencies. Without bold and strategic interventions, many companies may face even greater financial distress by the end of 2024.

For more information, please click here.

Nigeria's Federal Executive Council Approves NGN47.9 Trillion Federal Budget for Year 2025

The Federal Executive Council (FEC) has approved a proposed budget of NGN47.9 trillion for the 2025 fiscal year as part of the Medium-Term Expenditure Framework (MTEF) for 2025-2027, in line with the Fiscal Responsibility Act of 2007. This decision was announced by the Minister of Budget and Economic Planning, Atiku Bagudu, following the FEC meeting presided over by President Bola Ahmed Tinubu. The main parameters for the budget include a crude oil price benchmark of US$75 per barrel, an exchange rate of NGN1,400 to US$1, and oil production estimated at 2.06 million barrels per day.

The Minister of Budget and Economic Planning, outlined the government's focus on combating inflation, enhancing economic resilience, and supporting vulnerable groups while ensuring progress in non-oil revenue streams, which have performed better than anticipated. To address the projected budget deficit, the government plans to borrow the sum of NGN9.22 trillion in 2025. The minister also revealed plans to amend the Petroleum Industry Act to reduce production costs and mitigate associated risks.

The FEC assessed the implementation of the 2024 budget, highlighting notable progress in revenue collection and expenditure management, although certain targets remain unmet. Ongoing efforts aim to sustain the January-to-December budget cycle, ensuring efficient and timely execution.

Additionally, the council approved a NGN250 billion Real Estate Investment Fund to provide long-term, affordable mortgages and US$2.2 billion in external borrowing through Eurobonds and Sukuk financing to support economic reforms.

The approval of the MTEF and associated Fiscal Strategy Papers highlights the government's commitment to stabilizing the economy, strengthening fiscal policy, and promoting sectors with high employment potential. These measures aim to foster economic recovery and improve Nigeria's financial resilience.

Comment: The Federal Government of Nigeria's NGN47.9 million budget appears not to reflect the dire state of the economy, considering the persistent fall in revenue streams and increase in the country's debt profile. The lack of realistic revenue projections may create a larger deficit which will in turn increase inflation and worsen economic instability. It is important for government expenditure to align with the actual revenue generated in the country to prevent further financial strain.

For more information, please click here.

Nigeria launches Climate Change and Health Vulnerability Assessment Report

The Federal Government of Nigeria unveiled the Climate Health Vulnerability and Adaptation Assessment Report 2024 to address the health impacts of climate change. The report was launched during the Nigeria Health Sector-Wide Joint Annual Review (JAR) which highlights the urgent need to build resilient health systems capable of withstanding the growing challenges posed by climate change.

The report identified major health risks, including malnutrition, flooding, and outbreaks of infectious diseases such as malaria, cholera, and dengue fever. It projects a 21% increase in the burden of disease due to climate change by 2050, with rising temperatures, increased rainfall, and rising sea levels exacerbating vulnerabilities across all regions of Nigeria. The report provides over 150 recommendations to serve as a foundation for decision-making, advocacy, and resource allocation.

The government has prioritized strengthening maternal and child health, expanding vaccination programs, combating non-communicable diseases, improving primary healthcare delivery, and making healthcare more affordable and accessible. Enhancing disease surveillance systems and addressing environmental challenges such as fragile food systems are also critical components of this initiative.

This effort aligns with Nigeria's commitments under the Paris Agreement and its pledge at COP26 to build a low-emission, sustainable health system. Collaborative action is emphasised, with communities and households encouraged to play a role alongside government efforts. The initiative reflects Nigeria's determination to address the interconnected challenges of climate change and health, ensuring a healthier, more sustainable future for all citizens.

Comment: This report is crucial in addressing the growing health risks posed by climate change. It identifies the major vulnerabilities and exhibits the government's commitment to improving public health resilience. In the long term, this initiative, could serve as a preventive measure to help alleviate the burden on the already overextended primary healthcare resources in Nigeria.

For more information, please click here.

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