



# Impact of Dangote Refinery on the Nigerian Economy

**As it is allowed to breathe freely**

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# Background to Dangote Refinery

- The Dangote Refinery (DR) is a multi-billion dollar project with the potential to provide significant backward and forward linkages with the Nigerian economy.
- This petrochemical facility is designed to process crude oil and produce various refined products, including gasoline, diesel, jet fuel, and polypropylene.
- The project began construction in 2017, with initial completion targets set for 2019 but was officially inaugurated on May 22, 2023.
- The initial diesel and aviation fuel production started in January 2024, with plans to ramp up to full gasoline production by mid-2024.
- The refinery is one of the largest single-train refineries in the world. It has the initial capacity to process about 500,000 barrels per day, increasing to 550,000 bpd by the end of the year, and aiming for 650,000 bpd by the first quarter of 2025.
  - The refinery is expected to produce 10.4 million Tons (Mt) of gasoline, 4.6Mt of diesel, and 4Mt of aviation fuel annually.



# Background to Dangote Refinery Contd.

- The refinery covers a land area of approximately 2,635 hectares with a height of 112 meters.
- It has 177 tanks of up to 4.742 billion litres capacity.
- It includes the world's largest subsea pipeline infrastructure, spanning 1100 kilometers. It also features a 435-megawatt power plant to meet its energy demand.
- At full capacity, it has the potential to meet the Nigerian requirement of refined products and also have a surplus for exports.
- Full operational capacity is anticipated by 2025, with the ability to load up to 2,900 trucks daily for distribution.
- The need to outsource crude oil supply despite the domestic overhang; the refinery has had to supplement that with imports of 9m barrels of West Texas Intermediate crude oil from the US.
- In the past 10 months, The National Nigeria Petroleum Company Plc has allocated 48.6m barrels of crude to Dangote Refinery
- The Refinery began selling to sell to the major marketers at N766/litre.
- The Nigerian Ports Authority (NPA) has also commenced the implementation of the Federal Government's directive to coordinate service provision from all regulatory, security and other stakeholders for the smooth implementation of the initiative to sell crude oil and petroleum products to the Dangote Refinery in Naira.
- NNPC's share in the Dangote Refinery which initially was 20% has been decreased to 7.2% due to payment and other strategic reasons





# Impact of Dangote Oil Refinery

The Refinery is expected to positively affect many sectors and aspects of the Nigerian economy:

## Manufacturing

- The oil refining sub sector of the manufacturing industry as been on the negative growth side for couple of years now due to the poor functioning of the countries refinery.
- Dangote refinery, which has a capacity of 650,000 barrels per day, is expected to meet 100 Nigeria's demand for refined petroleum products and have a surplus for export.
  - this can in turn boost industrialization by supplying refined products to various sectors.
  - It will also improve the performance of the manufacturing sector with the 14 sub-sectors underneath it, thereby enhancing the output of the manufacturing sector.

## GDP Growth

- The operation of the Dangote Refinery would lead to the creation of thousands of direct and indirect jobs.
  - This can have significant positive impacts on the economy, including stimulating economic growth, increasing tax revenues, improving fiscal stability, and reducing inflation.
- With reduced imports and the potential for export of surplus refined products from Dangote refinery, Nigeria's trade balance is expected to improve.
  - This would contribute positively to GDP growth and economic stability.
- Improved investments in the upstream, midstream and downstream sub-sectors will facilitate growth
- The reduction in fuel subsidies, which the government spends heavily on, could free up fiscal resources for other developmental projects.
- However, the extent of this benefit depends on how fuel pricing is managed

# Impact of Dangote Oil Refinery CONTD.

## Demand and Supply of Forex

- Nigeria is an import-dependent nation with refined petroleum being the most-imported product
- Increased production and export of refined petroleum products can generate foreign exchange earnings for the country, thereby increasing the supply of dollars in the foreign exchange market.
- With the Dangote Refinery producing PMS locally, the need for importation decreases.
  - This reduces the demand for foreign currency used to pay for imports, potentially easing pressure on Nigeria's foreign exchange reserves.
- The reduced need for foreign currency to import refined products could lead to a strengthening of the Naira, as fewer dollars will be required for these transactions.
- This, in turn, could improve the overall balance of payments.

## Money Market

**Increased Lending Opportunities:** Banks may see increased demand for loans from businesses involved in the supply chain of the refinery, including construction, logistics, and distribution.

**Deposits and Investments:** With the refinery's operations, there could be an influx of deposits as local businesses thrive, leading to more capital available for banks to lend.

**Liquidity Changes:** The influx of capital and financial activity related to the refinery could lead to increased liquidity in the financial market.

**Interest Rates:** Depending on the demand for financing and the central bank's monetary policy response, interest rates could be influenced by changes in money supply and demand.

# Impact of Dangote Oil Refinery CONTD.

## Stock Market

- Dangote revealed that the group intends to list Dangote Petroleum Refinery & Petrochemicals and Dangote Fertilizer Limited on the Nigerian Exchange Group in the first quarter of 2025.
- Listing of the \$20 billion Dangote Refinery will also represent opportunities for increased market depth, liquidity, and investor engagement.
- A successful refinery could also improve the overall performance of the energy sector, attracting more investments and potentially leading to a bullish market trend.

Major recent listing on the Nigerian Exchange:

- MTN in 2019, added about N1.83 trillion to the stock market capitalization;
- BUA Foods and Geregu Power Plc in 2022 collectively added about N970 billion to the market capitalization.
- Transcorp Power Plc in March 2024 listed 7.5 billion shares at N240 per share, boosting the overall NGX market capitalization by N1.8 trillion.
- These listings not only attracted significant investor interest but have also improved market liquidity and delivered positive performance and value to shareholders
- This is evidence of what is to come with the listing of DR



# Impact of Dangote Oil Refinery CONTD.

## Fiscal Sustainability

- Direct Tax Revenue: Over time, Dangote Refinery's tax payment will be a substantial part of government revenue
- Indirect Tax Revenue: Businesses that will be connected and growth with the refinery will also pay taxes
- Efficient Subsidy Management: It will likely reduce the "unofficial" subsidy spending by the government, facilitate a market-based arrangements, correctly gauge domestic demand, reduce leakages and efficiently allocate subsidy savings.
- Refineries Competition: This may push the government to start working on own refineries,
- Improved Infrastructure Spend and Development: There will be Increase spending for public investments in terms of infrastructure
- Improved Social Investments: Savings from fuel subsidy can be reallocated reallocated to other sectors (e.g., health, education, infrastructure) as expenditure
- Less Borrowing: Improved revenue will expect to generally lead to less borrowing and improved fiscal sustainability





# Dangote Oil Refinery: Economic Impact

- Estimates from our macroeconomic model shows that:
  - without Dangote Refinery, Nigeria's GDP growth will be expected to be 3.34% in 2024 and rose to 4.13% in 2030
  - with Dangote Cement it is projected to record 4.15% in 2024 and rise to 6.21% in 2030.
  - hence, the refinery will positively and hugely impact the economy.

	2023	2024	2025	2026	2027	2028	2029	2030
<b>GDP Current Market Price (N'trn) - No Dangote</b>	234.43	296.42	344.61	395.10	449.10	509.77	577.88	681.89
<b>GDP Current Market Price (N'trn) - With Dangote</b>	234.43	304.80	364.94	432.24	499.59	578.07	670.47	806.91
<b>GDP Current Market Price (N'trn) - With Dangote and Rebasing</b>	234.43	457.19	547.41	648.37	749.39	867.11	1,005.70	1,210.36
<b>GDP Current Market Price (\$'bn) - With Dangote and Rebasing</b>	374.95	304.80	322.01	370.49	374.69	412.91	446.98	484.15
<b>Real GDP Growth Rate at Basic Price - No Dangote</b>	2.74	3.34	2.96	2.98	3.34	3.34	3.32	4.13
<b>Real GDP Growth Rate at Basic Price - With Dangote</b>	2.74	4.15	6.04	6.39	5.08	5.34	5.71	6.21

# Sectors' Growth Potential Over Medium to Long-Term

- Going forward, the manufacturing sector has the highest growth potential among the sectors,
  - to be driven largely by, Oil refining, Chemical and pharmaceutical products, Plastic and rubber products and cement
- The need to supply the refineries crude should also positively affect the crude petroleum and natural gas component of the Mining and quarrying sector
- The Finance and insurance, Transportation and storage as well as Agriculture are sectors that will equally benefit from these development, among others.

SECTOR	RELATIVE GROWTH POTENTIAL
Manufacturing (oil refining, chem. & pharm., plastic & rubber prod; cement)	High
Mining & Quarrying (crude pet. & natural gas)	High
Financial & Insurance	Medium-High
Transportation & Storage	Medium-High
Agriculture	Medium-High
Elect., Gas, Steam & Air Con. SS	Medium
Water Ss, Sewerage, Waste Mgt & Rem.	Medium
Professional, Scientific & Technical Serv.	Medium
Trade	Medium
Real Estate	Medium
Construction	Medium-Low
Accommodation & Food Services	Medium-Low
Information & Communication	Medium-Low
Human Health & Social Services	Low-Medium
Administrative & Support Services	Low-Medium
Arts, Entertainment & Recreation	Low
Education	Low
Public Administration	Low
Other Services	Low

Source: ADSR Research and Estimates



# Key Issues for the Success of Dangote Refinery and Impacts

- Since its inception, the Dangote refinery has taken delivery of 18m barrels of domestic crude oil.
- But it has had to supplement that with imports of 9m barrels of West Texas Intermediate crude oil from the US to support daily refining of 350,000 barrels per day.
- This limits the operational function of the refinery, and should be addressed.

## Availability of Domestic Crude

## NNPC's Stake & Sole buyer Agreement

- NNPC holds an equity stake in Dangote Refinery, which allows NNPC to collaborate closely with Dangote in refining operations & decision making.
- This raises concerns about market competitiveness, pricing power, and dependency risks.

- Oil marketers, especially those already used to and gaining from the status quo, will need some time to change and embrace this change
- Current situation is forcing the refinery to explore international markets, exporting the majority of its refined products,

## Oil Marketers' Import Preference

## Crude oil sale in Naira

- The elimination of large foreign exchange demands by oil marketers will ease pressure on the naira, helping stabilize and potentially strengthen the currency.
- However, it will make the refinery the most significant users/demand of the country's forex

- The key question on how much will Dangote's petrol cost needs to be answered, transparently.
- While Nigerians expect that the products should come at a cheaper price, market realities such as global oil prices, cost of oil supply and refining margins make it unlikely especially in the short term.

## Cost of Petrol

## Production Capacity

- With a production capacity of 650,000 barrels per day (bpd) when fully operational, positions it as a key player in the African oil and gas sector, aiming to meet Nigeria's domestic fuel needs and reduce reliance on imported refined products.
- Local consumption will also be expected to become more transparent

- While the Dangote Refinery is expected to significantly reduce Nigeria's dependence on imported refined products, various factors, including capacity limitations, market dynamics, and government policies, may still necessitate continued importation and subsidy payments in the short to medium term.
- The overall impact will depend on how effectively these challenges are managed.

## Possibilities for Continuous importation & Subsidy payment

## Crude oil supply crisis

- Battling with crude oil locally to boost production would reduce investors confidence if it lingers
- Hence, there is need for some backward integration in the sector



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# Thank You

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