

Policy uncertainties and weak hydrocarbon revenues



General Information

| | |
|---------------------------|---|
| GDP | USD568.51bn (World ranking 22, World Bank 2014) |
| Population | 178.52mn (World ranking 7, World Bank 2014) |
| Form of state | Federal Republic |
| Head of government | President Muhammadu Buhari |
| Next elections | 2019, presidential and legislative |



Strengths

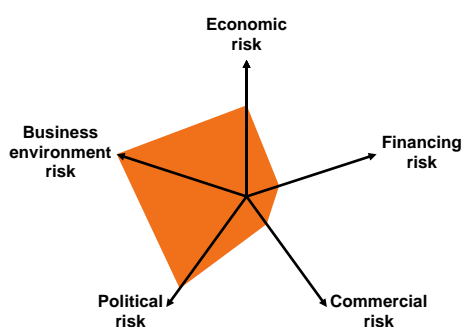
- Dominant economy in West Africa in terms of population and GDP and now the continent's largest economy.
- Hydrocarbons resource base, with 2.2% of global oil reserves (11th in global rankings and 43 years of additional extraction at current rates) and 2.7% of natural gas reserves (9th and over 100 years).
- High oil prices in 2011-2014 boosted export earnings, provided current account surpluses and accumulation of international reserves (import cover markedly in excess of the international comfort benchmark of three months).
- External debt ratios are again deteriorating but remain comfortable.

Weaknesses

- With oil and gas accounting for over 90% of export revenues, the economy is susceptible to volatility in global markets and to large swings in energy prices.
- The federal government is hampered by the strength of state and tribal authorities. Deep ethnic, religious and regional divisions provide risks to systemic stability.
- Personal and corporate security is high risk.
- Long history of economic mismanagement and corruption continue to affect perceptions of doing business in the country.
- Data provision remains poor for a country of such size and strategic importance.

Country Rating

D3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

| Exports | Rank | Imports |
|---------------|-------|-------------------|
| India | 15% 1 | 31% China |
| Brazil | 10% 2 | 12% United States |
| Spain | 8% 3 | 6% India |
| Netherlands | 8% 4 | 4% France |
| United States | 7% 5 | 4% United Kingdom |

By product (% of total)

| Exports | Rank | Imports |
|---------------------------------------|-------|---|
| Petroleum, petroleum products and | 81% 1 | 11% Road vehicles |
| Gas, natural and manufactured | 13% 2 | 11% Petroleum, petroleum products and related materials |
| Coffee, tea, cocoa, spices, and | 1% 3 | 5% Cereals and cereal preparations |
| Crude rubber (including synthetic and | 1% 4 | 5% Other industrial machinery and parts |
| Oil seeds and oleaginous fruits | 0% 5 | 5% Electrical machinery, apparatus and |

Source: UNCTAD

Economic Overview

General Overview

President Muhammadu Buhari took office in May 2015 following a successful and peaceful political transition. However, there are some daunting domestic, regional and global challenges, including sectarian divides, a Boko Haram insurgency and currently weaker oil prices. In addition, some economic policy responses to counter the negative economic consequences of reduced oil and gas earnings have raised concerns. These include the imposition of selective import controls and reticence to devalue the NGN, although currency adjustment at some stage appears probable.

Not just an oil economy

The economy centres around (but is not totally dependent on, see chart) the hydrocarbons sector and Nigeria is a significant supplier of oil and gas to world markets. However, oil output is subject to domestic interruptions through industrial strikes, infrastructure breakdowns, sabotage and illegal siphoning of pipelines. In May 2016, output fell by around -800,000 barrels (-40%) to 1.4 million barrels per day as a result of renewed attacks by militants in the Niger Delta area.

External accounts have deteriorated but external debt obligations are low

Recent governments have adopted an overall policy of economic diversification away from oil and gas and actively promoted investment in non-hydrocarbon sectors, including mining, agriculture, financial services and manufacturing. However, the oil and gas sector represents around 20% of GDP and remains a pivotal force for economic development of the country. It provides around 80% of government revenues and accounts for over 90% of export earnings. Accordingly, with Benchmark oil prices around USD50/barrel in mid-June 2016 compared with over USD100/b in 2011-2013, the current account has turned into deficit. EH expects the deficit to be around -3% of GDP in 2016.

Pressures associated with external debt repayments declined substantially following debt forgiveness and rescheduling under Paris and London Clubs in 2006 and 2007 (see chart). However, while external debt repayments are now comfortable, debt ratios are again increasing.

Weak business environment

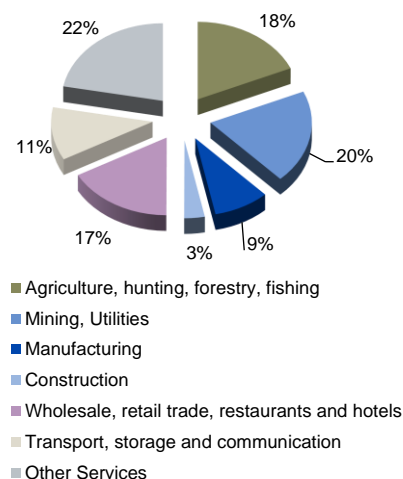
The World Bank's Doing Business 2016 survey ranks Nigeria 169 out of 189 countries assessed above Cameroon and Bangladesh but below Algeria and Guinea. Nigeria ranks 143 in terms of both the enforcement of contracts and the ease of resolution of insolvencies.

Key Economic Forecasts

| | 2014 | 2015 | 2016f | 2017f |
|----------------------------|------|------|-------|-------|
| GDP growth (% change) | 6.3 | 2.8 | 2.0 | 3.0 |
| Inflation (% end-year) | 8.0 | 9.6 | 14.5 | 13.5 |
| Fiscal balance (% of GDP) | -1.8 | -3.5 | -4.0 | -3.5 |
| Public debt (% of GDP) | 11.3 | 11.8 | 13.5 | 14.5 |
| Current account (% of GDP) | 0.1 | -2.7 | -3.0 | -3.0 |
| External debt (% of GDP) | 4.5 | 5.1 | 5.0 | 4.5 |

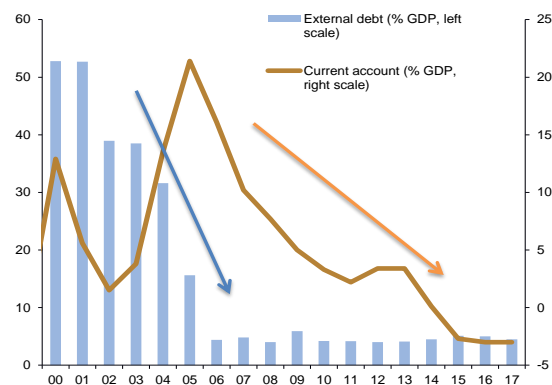
Sources: National Sources, IHS, Euler Hermes

GDP Breakdown (%)



Sources: UNCTAD, Euler Hermes

Current Account Balance and External Debt (% of GDP)



Sources: National sources, IHS, Euler Hermes

DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2016 Euler Hermes. All rights reserved.