Euler Hermes Economic Research

Country Report

Nigeria

Super-Size me: high potential, low achievements

General Information

GDP	USD486.8bn (World Ranking 23, World Bank 2015)
Population	182.20mn (World Ranking 7, World Bank 2015)
Form of state	Federal Republic
Head of government	President Muhammadu Buhari
Next elections	2019, presidential and legislative

Strengths

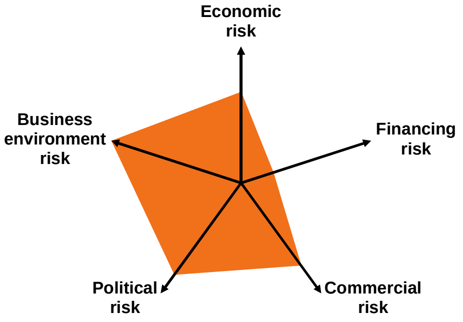
- Dominant economy in West Africa in terms of population and GDP and now the continent's largest economy.
- Hydrocarbons resource base, with 2.2% of global oil reserves (11th in global rankings and 43 years of additional extraction at current rates) and 2.7% of natural gas reserves (9th and over 100 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.
- Weak investment level.

Country Rating

D3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
India	17%	1	32%	China
Brazil	9%	2	8%	United States
Spain	9%	3	8%	Netherlands
Netherlands	9%	4	5%	India
South Africa	6%	5	5%	Belgium

By product (% of total)

Exports		Rank		Imports
Petroleum and related products	76%	1	11%	Petroleum and related products
Gas, natural and manufactured	14%	2	11%	Road vehicles
Coffee, tea, cocoa, spices	2%	3	6%	Other industrial machinery
Other transport equipment	1%	4	5%	Telecom, sound rec. products
Oil seeds and oleaginous fruits	1%	5	4%	Electrical machinery (and related)

Source: UNCTAD 2015

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Economic Overview

Big is beautiful…or not

Nigeria is a land of opportunity locked in a poor governance trap inhibiting gravitational growth drivers. The country's main strength is its size and increasing urbanization.

A Euler Hermes index covering 54 African economies shows Nigeria has the best Consumption Potential, driven by urban population growth and good internet access. Moreover, urbanization could support Nigeria's effort to capitalize on its infrastructure potential as the gap between basic and full access is among the widest in the continent.

However, bad governance stifles growth potential. The World Bank's Doing Business 2017 survey ranks Nigeria 169 out of 190 countries. The outcome is poor confidence in the economy. Currently, 75% of corporate transactions are paid in cash (0-day DSOs). If these transactions earn a 30-days payment term, it would free up about USD 11bn of cash (about 3% of GDP) and act as a big stimulus.

The cost of poor governance is also sizable in terms of investment. The investment ratio is 12% of GDP, a clear sign the country doesn't build its capital stock. Sustainable investment ratios (30% of GDP) allocated to closing the infrastructure gap would add USD 70bn to Nigeria's GDP.

Poor governance exacerbates financial and economic vulnerability

Nigeria is not just an oil economy and domestic consumption has grown. Still, petroleum exports remain the main source of hard currency. When the oil price slump crisis erupted, Nigeria faced an acute dollar scarcity, a particularly complex problem in a 0-day DSO economy. The economy came to a sudden stop in 2016, and GDP growth collapsed from +2.7% in 2015 to -1.5% in 2016.

Moreover, poor public spending implementation (a stimulus was delayed by about 6 months) and a self-defeating exchange rate policy added to the credit crunch. In June 2016, the Central Bank decided to devalue the Naira. It then got rapidly bogged down by a fixed exchange rate regime despite a wide margin with the black market exchange rate. The regulator introduced tough capital controls to tame speculative pressures, drying up liquidity in the country. The progressive easing of these controls is good news and should allow some growth recovery: it will be gradual (+1% in 2017 and +2.5% in 2018).

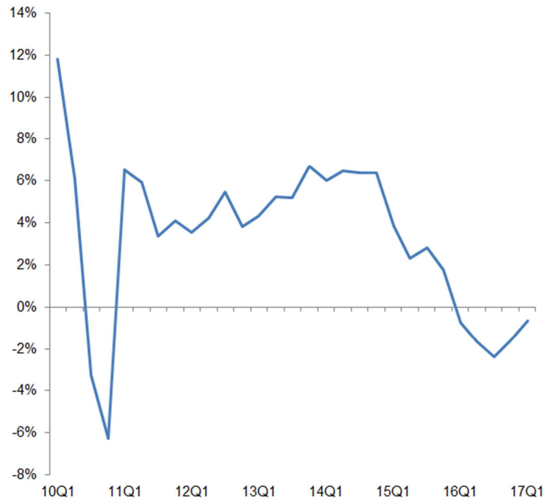
Overall, external debt is residual (5% of GDP in 2017) and public debt is under control (23.5% of GDP). The country as a whole is in a sound position, but the aforementioned bottlenecks are fuelling the insolvency risk in the private sector.

Key Economic Forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	2.7	-1.5	1.0	2.5
Inflation (%)	9.0	15.6	15.0	12.0
Fiscal balance (% of GDP)	-3.5	-4.5	-5.0	-4.5
Public debt (% of GDP)	12.0	18.6	23.5	25.0
Current account (% of GDP)	-3.1	-0.7	-0.4	-0.8
External debt (% of GDP)	2.2	3.5	5.0	6.5

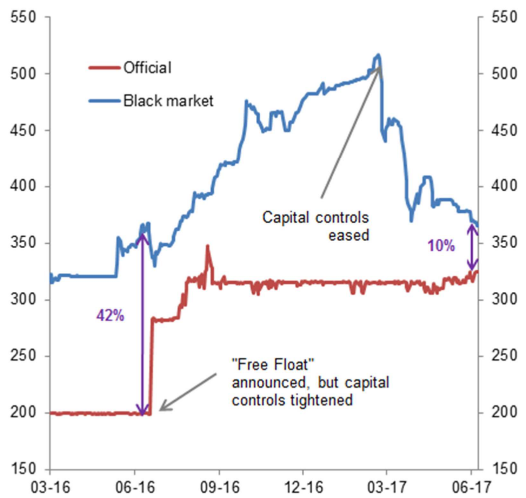
Sources: National Sources, IHS, Euler Hermes

GDP growth (y/y)



Sources: IHS, Euler Hermes

Exchange rate: Naira vs. USD



Sources: Bloomberg, Aboki, Euler Hermes

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