Euler Hermes Economic Research

Country Risk Analysis

Nigeria

Regional superpower, with flaws

General Information

GDP	USD262.606bn (World ranking 38, World Bank 2012)
Population	168.83 million (World ranking 7, World Bank 2012)
Form of state	Federal Republic
Head of government	Goodluck JONATHAN
Next elections	2015, presidential and legislative

Strengths

- Hydrocarbons resource base, with 2.2% of global oil reserves (10th in global rankings and 42 years of additional extraction at current rates) and 2.8% of natural gas reserves (9th and over 100 years).
- Dominant economy in West Africa in terms of population and GDP and closing on South Africa as the continent's largest economy.
- High oil prices in recent years have boosted export earnings, providing a large current account surplus and accumulation of international reserves (providing import cover of around 20 months).
- Foreign debt ratios have been substantially reduced.

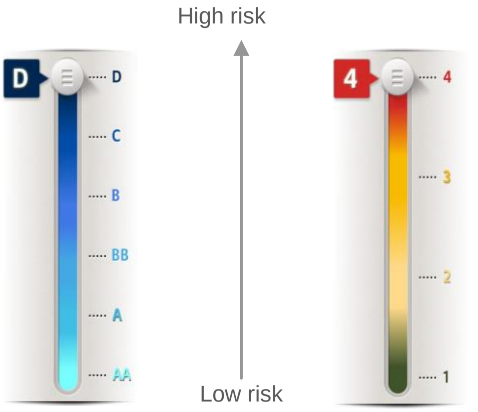
Weaknesses

- With oil and gas accounting for over 90% of export revenues, the economy is susceptible to volatility in global markets and to potential large swings in oil prices.
- The federal government is hampered by the strength of state and tribal authorities. Deep ethnic, religious and regional divisions seriously threaten 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.

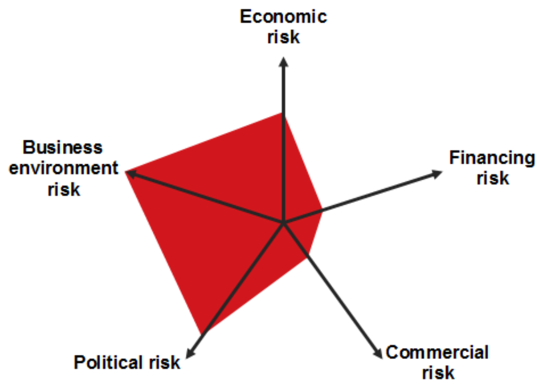
Country Rating

D4

Country Grade **Country Risk Level**



Risk Dimensions



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Economic Structure

GDP breakdown (% of total, 2011)

Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports		Rank		Imports
United States	18%	1	22%	China
Germany	15%	2	14%	India
United Kingdom	8%	3	7%	Other Gulf
France	7%	4	5%	Malaysia
Canada	4%	5	4%	Indonesia

By product

Exports		Rank		Imports
Crude Oil	79%	1	17%	Refined Petroleum Products
Natural Gas	9%	2	8%	Cars And Cycles
Refined Petroleum Products	5%	3	4%	Cereals
Leather	2%	4	4%	Plastic Articles
Other Edible Agricultural Prod	1%	5	4%	Engines

Economic Forecast

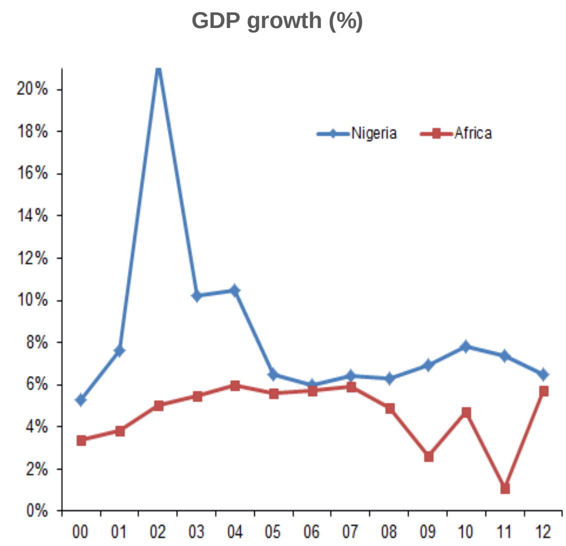
	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	6.9	7.8	7.4	6.5	6.8	6.5
Inflation (%, end-year)	12.9	11.7	10.3	12.0	9.4	9.4
Fiscal balance (% of GDP)	-3.9	-3.5	-3.4	-2.8	-2.5	-2.6
Public debt (% of GDP)	15.2	15.5	17.2	17.8	16.5	18.0
Current account (% of GDP)	7.7	1.7	9.6	13.0	13.2	12.0
External debt (% of GDP)	6.1	4.8	4.9	4.7	4.8	4.9

Sources: IHS Global Insight, National sources, Euler Hermes

Economic Overview

The oil and gas sector represents around 33% of GDP and is key to the economic development of the country. It provides around 80% of government revenues and accounts for over 90% of export earnings. Over the last ten years, Nigeria's annual GDP growth was +7.5% and was above the rate of growth for the Sub-Saharan African region as a whole. Much of the impetus for growth over that period came from the oil and gas sector, despite well-publicised loss of output and revenues because of industrial disputes and actions of criminal gangs that siphon off considerable crude oil flows through official pipelines. Crude oil output fell to less than 1.9 million barrels per day (mbpd) in mid-2013, the lowest since mi-2009. Moreover, ongoing disputes between federal and state authorities relating to oil revenue-sharing agreements continues to hold up enactment of a Petroleum Industry Bill and, in turn, this has a negative effect on foreign investment plans in the country's oil sector. Accordingly, despite high growth rates, the Nigerian economy is not performing to actual potential.

The growth outlook remains one of relatively strong growth, spurred by the oil and gas sector but also by the non-oil parts of the economy, particularly telecommunications, construction and agriculture. EH expects GDP growth of around +6.8% in 2013 and +6.5% in 2014, but the forecast for the latter year could be revised upwards if some negative structural factors can be alleviated.



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

The government adopts an overall policy of economic diversification away from oil and gas and actively seeks investment in non-hydrocarbons sectors, including mining, agriculture, financial services and manufacturing. However, the protracted legislative process to enact the Petroleum Industry Bill indicates a key negative feature in investment decision-making, specifically that uncertainties surround the direction of policy formation and implementation. This adds to other investor concerns relating to perceptions of corruption and to risks of security for personnel and assets in the country.

Even so, there is strong international investor interest in the country. President Goodluck Jonathan returned from a trip to China in July 2013 and returned with loans and project pledges equivalent to around USD1.1 billion. Also in July, a successful USD1 billion Eurobond issue provided evidence of strong appetite for Nigerian paper.

Current account surpluses are substantial, with a positive balance equivalent to +13% of GDP in 2012. EH expects the surplus to register +13% in 2013 and to remain high (+12%) in 2014. These surpluses (and a Sovereign Wealth Fund and an Excess Crude Account) reflect high oil and gas export revenues and would have been higher if the oil sector did not suffer from pipeline disruptions and significant losses of output to criminal gangs. Large current account surpluses have enabled a substantial accumulation of FX reserves, which EH expects to be around USD70 billion at end-2013. At such levels, FX reserves will provide an import cover of around 19 months.

Pressures associated with external debt repayments have diminished substantially, following foreign debt forgiveness and rescheduling under Paris and London Clubs in 2006 and 2007, respectively. Savings from previously-arranged external debt scheduling are being redirected towards improvements in healthcare, housing, education, agriculture, power and water infrastructure.

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