

Political maturity but economic deterioration

General Information



GDP	USD521.80 bn (World ranking 25, World Bank 2013)
Population	173.62 mn (World ranking 7, World Bank 2013)
Form of state	Federal Republic
Head of government	Muhammadu Buhari
Next elections	2019, presidential and legislative



Strengths

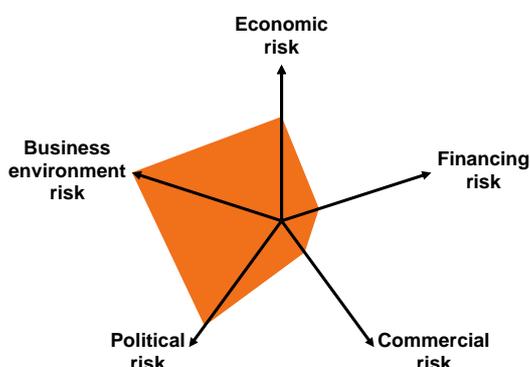
- Dominant economy in West Africa in terms of population and GDP and now the continent's largest economy.
- Hydrocarbons resource base, with 2.2% of global oil reserves (11th in global rankings and 43 years of additional extraction at current rates) and 2.7% of natural gas reserves (9th and over 100 years).
- High oil prices in recent years (2011-14) boosted export earnings, provided current account surpluses and accumulation of international reserves (import cover markedly in excess of the international comfort benchmark of 3 months).
- Foreign 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	14% 1	24% China
United States	11% 2	11% United States
Brazil	10% 3	6% Netherlands
Spain	7% 4	5% India
Germany	5% 5	5% Belgium

By product (% of total)

Exports	Rank	Imports
Crude Oil	79% 1	23% Refined Petroleum Products
Natural Gas	12% 2	5% Cars And Cycles
Refined Petroleum Products	3% 3	4% Plastic Articles
Other Edible Agricultural Prod	1% 4	3% Engines
Non-Edible Agricultural Prod.	1% 5	3% Cereals

Source: Chelem (2013)

New political regime...existing and fresh challenges

President Muhammadu Buhari took office on 29 May 2015 (presidential and legislative elections were held in March). We do not expect a significant change in policy direction. Buhari tends towards business-friendly programmes and local and international investors will be encouraged by the apparent successful peaceful political transition. It was a significant development for Nigeria and, perhaps, for Sub-Saharan Africa that an incumbent head of state and the ruling party were both voted out of office and that the election results were accepted by the defeated parties.

The new regime faces some daunting domestic, regional and global challenges, including sectarian divides, a Boko Haram insurgency and currently weaker oil prices.

GDP growth has been strong (see chart) and above the average for Sub-Saharan Africa as a whole; over a ten-year period to end-2014 Nigerian annual growth averaged +6.4%. However, even such high rates of growth do not represent the economy's actual potential; for example, oil output and revenues are reduced significantly because of industrial disputes and actions of criminal gangs that siphon off considerable crude flows through official pipelines. Moreover, ongoing disputes between federal and state authorities relating to oil revenue-sharing agreements continue to provide uncertainties and have a negative effect on foreign investment plans in the country's oil sector.

We expect GDP growth will be supported by robust non-oil developments (particularly telecommunications, finance and agriculture) and GDP growth will be +4.5% in 2015 and +5.5% in 2016.

Weaker oil revenues will move the current account into deficit...

The oil and gas sector represents around 33% 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. However, recent governments 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. Benchmark oil prices at mid-June 2015 (USD65/barrel) were down -43% y/y and are unlikely to recover to >USD100/b (as in 2011-14) in the forecast period. As a result, Nigeria's current account surplus (+4.6% of GDP in 2012) will turn to a deficit in 2015 and in 2016.

... but external debt obligations are low

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

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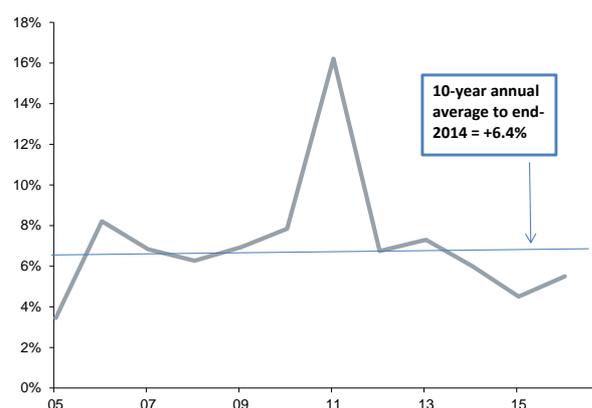
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Economic forecasts

	2013	2014	2015f	2016f
GDP growth (% change)	7.3	6.0	4.5	5.5
Inflation (% end-year)	7.9	8.0	11.6	8.1
Fiscal balance (% of GDP)	-1.6	-1.4	-2.8	-2.9
Public debt (% of GDP)	11.4	12.1	13.4	15.2
Current account (% of GDP)	1.2	0.1	-2.9	-2.4
External debt (% of GDP)	2.6	2.8	3.6	4.2

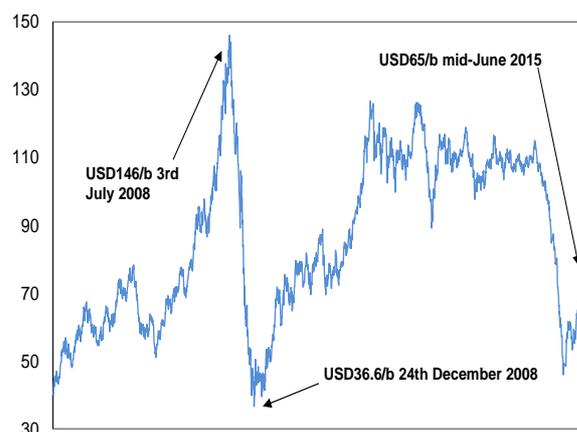
Sources: IHS, national sources, Euler Hermes

GDP growth profile (%)



Sources: IHS, Euler Hermes

Brent Oil Prices: USD/barrel (2005 to mid-June 2015)



Sources: Euler Hermes