

# Country Insight Snapshot

## Nigeria

January 2016





## OVERVIEW

OVERALL COUNTRY RISK RATING: DB6C

**Very high risk** : Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

R

**Rating Outlook:** Deteriorating 

## CORE OUTLOOK

- + The large, young population creates a positive workforce and consumer market dynamic.
- + Upgrades to the transport, communication, electricity and water-supply networks provide substantial investment opportunities.
- Domestic insecurity, a weak policy framework and continued over-dependence on oil and gas threaten sustainable long-term growth.
- Nigeria is well endowed with natural resources, but has little to show for decades of exploitation in the oil, gas and mining sectors.

## KEY DEVELOPMENT

The renewed slump in global crude prices threatens economic growth and could force marginal producers out of business.

### CREDIT ENVIRONMENT OUTLOOK

R

Key Development has had a negative impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

R

Key Development has had a negative impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

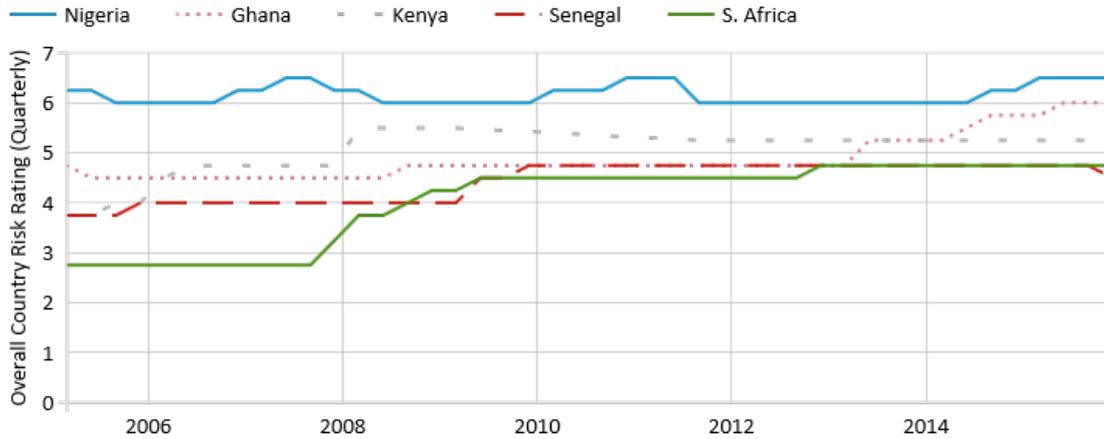
A

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

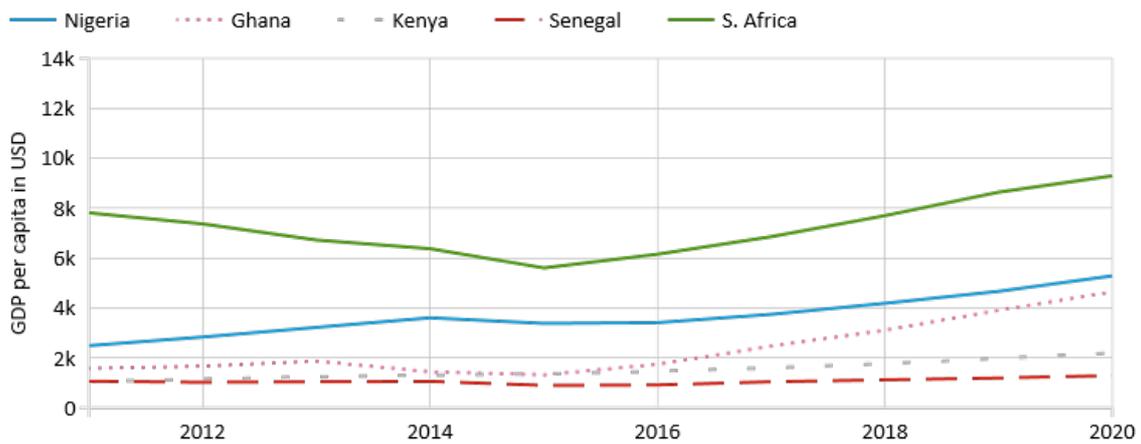
### Rating History and Comparison



Source : Dun & Bradstreet

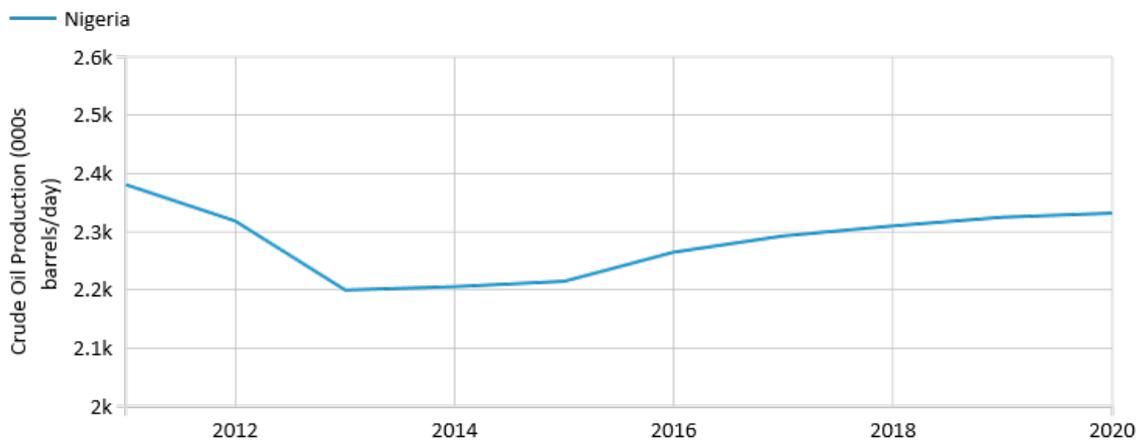
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Crude Oil Production



Source : Dun & Bradstreet



## Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	1.8	1.5	-2.2	-1.5	-1.1	0.0	0.7	1.5
Govt balance, % GDP	-1.4	-0.9	-2.1	-2.2	-2.0	-1.7	-1.1	-1.1
Inflation, annual avge %	8.5	8.0	9.0	10.0	9.3	9.0	8.5	8.0
Oil Price, USD/b	108.6	99.2	52.4	35.0	46.6	53.0	58.0	75.0
Real GDP Growth, %	5.4	6.3	4.0	4.3	5.0	4.8	5.1	5.2

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Dun & Bradstreet continues to recommend CLC trade terms on all business transactions in Nigeria. The commercial environment continues to be troubled by the drop in global crude oil prices and its repercussion on the Nigerian economy, in particular FX reserves. Business sentiment, however, has seen modest improvement recently, as measured by the *Purchasing Managers Indices* (PMI) published by the central bank. The manufacturing PMI held at 51.2 in December, unchanged from its November level and above the 50-point mark that separates expansion from contraction; the index had come in at 49.2 in October. The non-manufacturing PMI, on the other hand, jumped from 49.6 in November to 53.4 in December.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: LC

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: CLC

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-90 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 0-2 months

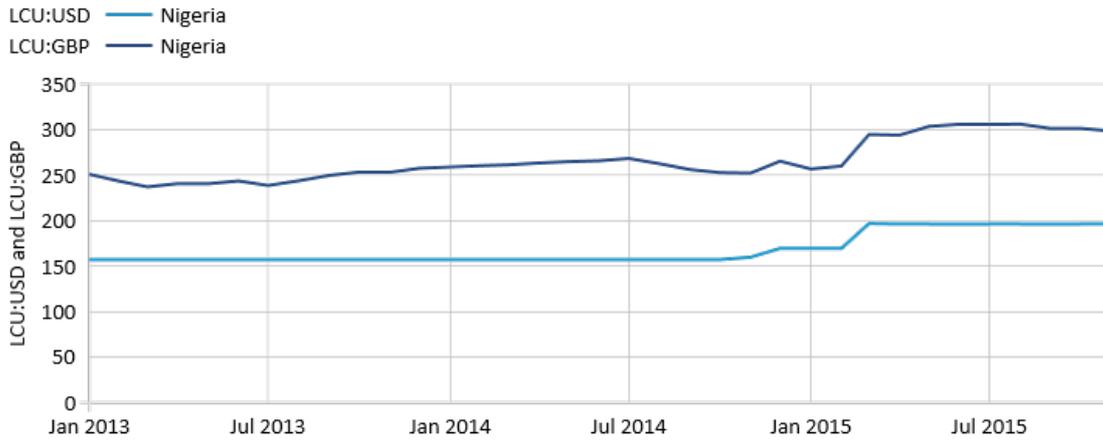
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 0-2 months

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



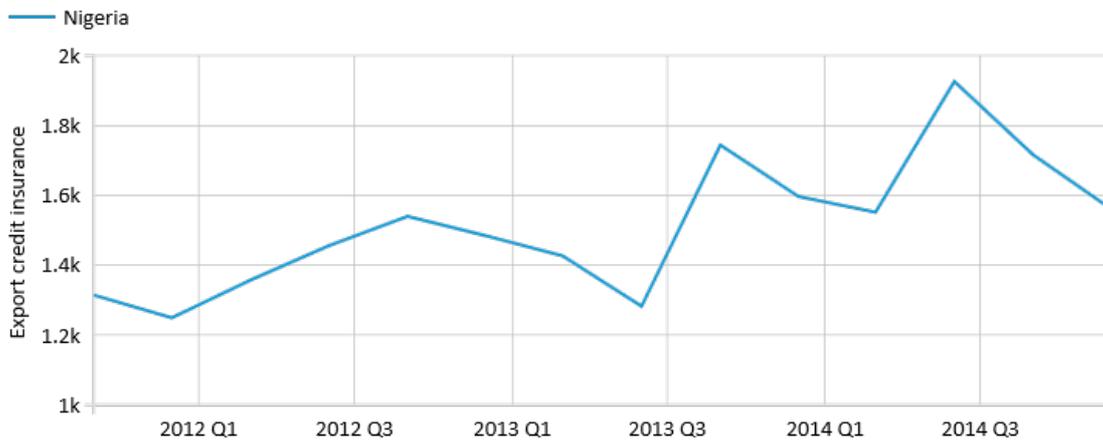
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU = Local Currency Unit*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### *Oil price slump weighs on producers*

Dun & Bradstreet has left Nigeria's country risk rating unchanged at DB6c with a 'deteriorating' trend, as the growth outlook remains dim. Following 6.3% growth in 2014, real GDP is estimated to have expanded only 4% in 2015, but is forecast to accelerate slightly to 4.3% in 2016. Despite some attempts at diversification of late, the economy is still overly dependent on crude oil exports, and the slump in global oil prices will continue to undermine growth. Global financial volatility has spiked in the first few weeks of 2016, as result of several factors including the first rate hike by the US Federal Reserve, the contagion spreading from the crashes in the Chinese stock market to other bourses, and the general increase in concern about the slowdown in global growth. The most visible consequence of this has been renewed downward pressure on oil prices; the price of a barrel of Brent crude (similar to the Bonny light crude exported by Nigeria) has averaged around USD30 recently, temporarily dropping below USD28 on 20 January. With prices likely to remain low in the near term, Nigeria's revenues will be severely impacted. Further, the Chairman of the Petroleum Technology Association of Nigeria (PETAN) has revealed that many small and marginal producers in Nigeria are at the risk of going out of business at these prices, as it costs them USD30-35 to produce a barrel of oil; oil theft and pipeline vandalism, other frequent problems, tend to drive costs up by about USD10 per barrel.

#### FX Risk

#### *New debt issue planned in 2016*

FX risk remains high on the list of headwinds facing the economy. While the naira has seen some stability in both the official (interbank) and parallel (Bureau de Change) markets in recent weeks, it is likely to face renewed upward pressure in coming weeks in response to episodes of global financial volatility, as seen in the first few weeks of January. FX weakness is also related to investor perception of the Nigerian economy's strength and the government's commitment to enact necessary structural reforms. Overall, investors have become bearish on emerging markets (including Nigeria) as evidenced by the outflow of capital from EMEs towards Western economies. The loss of investor optimism is also likely to show up in borrowing costs in sovereign debt markets. But Nigeria is willing to take the risk as the government is planning to test the appetite for a new Eurobond issue in 2016. The previous debt issue by Nigeria in July 2013 was quite successful, allowing the government to raise USD1bn in 5-year and 10-year bonds at yields of 5.4% and 6.6% respectively.

We expect borrowing costs will be significantly higher this time. In October 2015, Ghana, one of Nigeria's peers, had to pay 10.75% yield to raise USD1bn via a 15-year Eurobond. Although the government plans to launch the bond to close a widening budget deficit, borrowing at too high an interest rate could expose the budget to increased risk if the funds are not invested efficiently.



## COUNTRY PROFILE AND STATISTICS

### Overview

Africa's most populous country, Nigeria has a population of over 166m. Since independence in 1960 Nigeria has alternated between military and civilian rule. The president has executive power, and there is a federal political system, which encourages patronage and corruption.

The country is also sub-Saharan Africa's largest economy due to its significant oil exports: it is Africa's largest oil producer. However, the benefits of the oil sector do not filter down to the vast majority of the population, meaning that GDP per capita is low and agriculture remains the mainstay of the economy, accounting for almost 48% of GDP.

There are tensions between the Muslim north and Christian south, and between the ethnic Hausa, Ibo and Yoruba groups, while there is open instability in the oil-producing Niger Delta, thanks to the violence and vandalism connected to oil theft.

### Key Facts

Key Fact	Detail
Head of state	President Muhammadu BUHARI
Capital	Abuja
Timezone	GMT +01-00
Official language	English
Population (millions)	206.8
GDP (USD billions)	1,096.3
GDP per capita (USD)	5,300
Life expectancy (years)	60
Literacy (% of adult pop.)	51.1
Surface area (sq km)	923,768

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	5.31	4.21	5.49	6.22	4
Nominal GDP in USDbn	409.33	478.29	557.95	641.22	644.52
Nominal GDP in local currency (bn)	62,980	75,330	87,772	101,668	119,237
GDP per Capita in USD	2,499	2,843	3,229	3,613	3,537
Population (year-end, m)	163.77	168.24	172.82	177.48	182.2
Exchange rate (yr avge, USD-LCU)	153.86	157.5	157.31	158.55	185
Current Account in USDbn	10.67	11.14	10.15	9.61	-13.29
Current Account (% of GDP)	2.61	2.33	1.82	1.5	-2.06
FX reserves (year-end, USDbn)	35.21	46.41	45.43	36.67	27.5
Import Cover (months)	4.65	5.32	4.32	2.87	1.79
Inflation (annual avge, %)	10.9	12.2	8.5	8.1	9.2
Govt Balance (% GDP)	-1.6	-1.4	-1.4	-0.9	-2.1

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	4.3	5	4.8	5.1	5.2
Nominal GDP in USDbn	639.8	719.7	825.4	942.7	1,094.4
Nominal GDP in local currency (bn)	140,757	165,539	193,971	226,243	262,668
GDP per Capita in USD	3,422	3,752	4,195	4,673	5,292
Population (year-end, m)	187	191.8	196.8	201.7	206.8
Exchange rate (yr avge, USD-LCU)	220	230	235	240	240
Current Account in USDbn	-9.9	-7.6	0.3	6.9	16.8
Current Account (% of GDP)	-1.54	-1.06	0.04	0.74	1.54
FX reserves (year-end, USDbn)	28.9	33.2	39.9	49.8	62.3
Import Cover (months)	1.56	1.46	1.43	1.43	1.43
Inflation (annual avge, %)	10	9.3	9	8.5	8
Govt Balance (% GDP)	-2.2	-2	-1.7	-1.1	-1.1

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Nigeria	Ghana	Kenya	Senegal	S. Africa
Income per Capita (USD)	3,390	1,328	1,367	908	5,611
Country Population (m)	182.2	27.4	46	15.1	54.5
Internet users (% of population)	42.7	18.9	43.4	17.7	49
Real GDP Growth (% p.a., 2016 - 2025)	5.5 - 7	4.5 - 5.5	4.5 - 6	4.5 - 6	1.5 - 2.5

Source : Various sources/Dun & Bradstreet



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