nigeria

Demographics

Population	177 155 754 (July 2014 est.)
Population: world ranking	8 out of 240 countries (CIA)
Life expectancy (years)	Total population: 52.62; male: 51.63; female: 53.66 (2014 est.)
Main ethnic groups	Nigeria, Africa's most populous country, is composed of more than 250 ethnic groups; the following are the most populous and politically influential: Hausa and Fulani 29%, Yoruba 21%, Igbo (Ibo) 18%, Ijaw 10%, Kanuri 4%, Ibibio 3.5%, Tiv 2.5%
Business language	English, Hausa, Yoruba, Igbo, Fulani
Urban population	50.2%
Population below national poverty line	46% (2010 est.)

Sources: CIA, World Bank

Geography

Area in sq km	923 768
Area: World ranking	32 out of 252 countries (CIA)
Climate	Varies; equatorial in south, tropical in centre, arid in north
Natural resources	Natural gas, petroleum, tin, iron ore, coal, limestone, niobium, lead, zinc, arable land

Sources: CIA, World Bank

Sovereign ratings

S&P	BB-/Negative
Fitch	BB-/Stable
Moody's	Ba3/Stable

Source: NKC Research

Economy in 2013

Nominal GDP (US$bn)	504.32	Total government debt as % of GDP	10.58
Nominal GDP: World ranking	25 out of 188 countries (IMF)	Total external debt as % of GDP	2.20
Real GDP (% change y-o-y)	7.31	Consumer price inflation (average, %)	8.50
GDP growth: World ranking	20 out of 189 countries (IMF)	Current account balance as % of GDP	3.70
GDP per capita (US$)	2,904.82	Equity market: Size in US$	US$79.1bn
Agriculture as % of GDP	22.22	Equity market: Listed companies	200 primary listings
Industry as % of GDP	25.32	Bond market size	US$53.5bn (end Mar-14) govt bonds outstanding in the domestic market
Services as % of GDP	52.47		

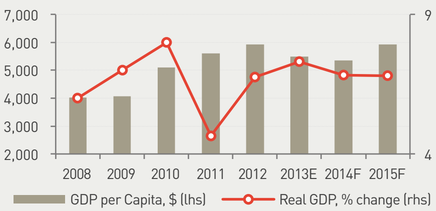
Sources: IMF, NKC Research, Bloomberg

Political environment	
Government type	Federal Republic
Head of state	President Goodluck Jonathan
Head of government	President Goodluck Jonathan
Ruling political party	People's Democratic Party (PDP)
Main opposition parties	All Progressives Congress (APC)
Elections	Senate, House of Representatives, State, State Governor and Presidential due in 2015

Source: NKC Research

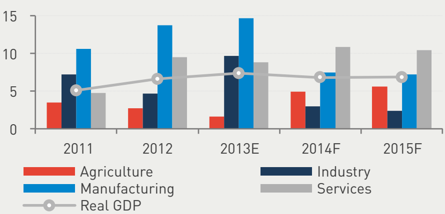
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



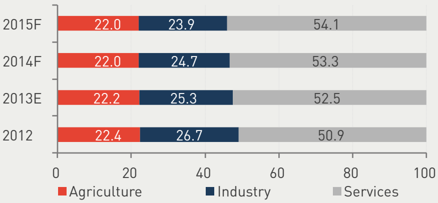
Source: NKC Research

Nigeria now has the largest economy on the continent following the release of much-anticipated preliminary rebased GDP statistics. The previous base year of 1990 has become outdated due to changes in the structure of the economy. The National Bureau of Statistics (NBS) now estimates Nigeria's GDP at N80.22 trillion in 2013 compared to N42.4 trillion prior to the rebasing. The number of economic activities surveyed for the purposes of the calculation of GDP increased to 46 from 33 previously. Better coverage (including of the informal sector), the inclusion of new industries, and methodological improvements led to significant increases in the contribution of the services sector, manufacturing, construction, and water and electricity. On the other hand, value added by the agricultural and the oil and gas sectors declined notably relative to GDP. The agricultural sector contributed 35% to GDP prior to rebasing, but is now only estimated to account for 22% of GDP.

Meanwhile, the services sector's contribution increased from 29% of GDP to 52% of GDP, with the telecommunications sector rising from 0.9% of GDP to 8.7% of GDP. The manufacturing sector is now estimated to contribute 6.8% to GDP, compared to just 1.9% previously, while the oil and gas sector's contribution has been revised down to 14.4% from 32.4% before rebasing.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

Real GDP growth averaged a stellar 7.4% per annum during 2003-12. This impressive performance has, however, not resulted in a significant reduction in poverty; some estimates even point to an increase in poverty over the past decade.

Possible reasons for this include regional and income disparities; low productivity in the agricultural sector; limited non-oil exports; very low value added; and corruption.

Real GDP growth is expected to improve to an average of 6.8% per annum during 2014-15 and further to 7% per annum in 2016-17. Although the oil and gas sector is expected to continue stagnating, growth in the overall industrial sector is expected to improve on the back of strong performances by construction and manufacturing. The agricultural sector's growth rate is expected to improve over the medium term, as the government's reform efforts start to bear fruit. The services sector is expected to remain the best performer, supported by telecommunications, trade, real estate, and business services.

International trade

Oil theft and regulatory uncertainty continue to be a major problem for companies operating in Nigeria's hydrocarbons sector. As a result, we expect to see only a 2% increase in oil production this year, following two consecutive years of decline. A stagnation in output is projected for next year. With the assumption that the Petroleum Industry Bill (PIB) will be passed after the elections, we might start to see an acceleration in oil and gas output growth from 2016 onwards, although the terms of the bill would obviously be a key consideration. We forecast a decline in the current account surplus to US$15.2 billion this year from an estimated US$18.7 billion in 2013. Apart from a large trade surplus, Nigeria's current account is further propped up by a sizable current transfers surplus. The combined trade and current transfers surplus is partially offset by large deficits on the income and services accounts.

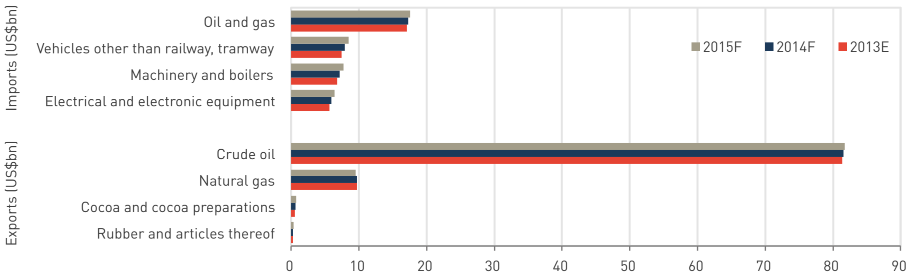
Foreign trade flows, 2013

Main exports	(US$ billion)	Main imports	(US$ billion)
Crude oil	81.40	Oil and gas	17.07
Natural gas	9.73	Vehicles other than railway, tramway	7.49
Cocoa and cocoa preparations	0.60	Machinery and boilers	6.76
Rubber and articles thereof	0.27	Electrical and electronic equipment	5.62

Source: NKC Research

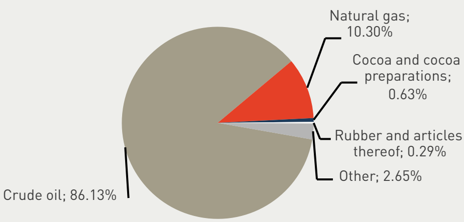
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Nigeria top four exports and imports (US$ billion)



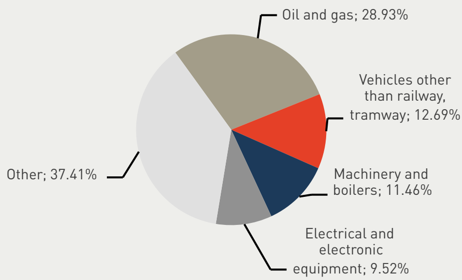
Source: NKC Research

2013 exports (% of total)



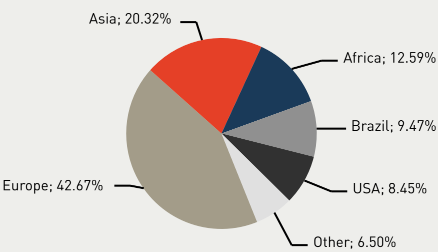
Source: NKC Research

2013 imports (% of total)



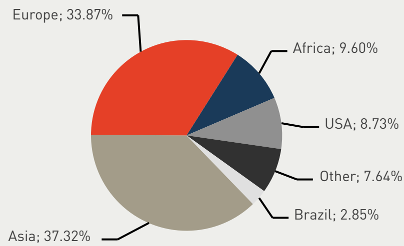
Source: NKC Research

2013 top destinations of exports (% of total)



Source: NBS Nigeria

2013 top origins of imports (% of total)



Source: NBS Nigeria

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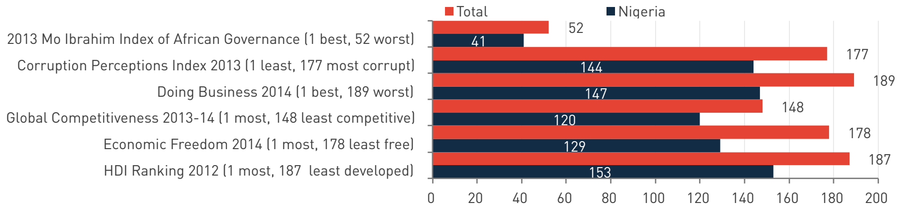
Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

Unless oil prices surge, we do not think a devaluation of the naira can be delayed for too long. Using different methods, the International Monetary Fund (IMF) estimated in an April 2014 report using information available as at December 2013 that the naira is overvalued by between 4.6% and 8.3%, which gives some indication of the size of a possible devaluation. We believe a probable range for a devaluation is 3.2% to 10%, to occur in the first half of next year. Since the previous devaluation, the naira has gradually become more overvalued, as is clear from the notable appreciation of the Real Effective Exchange Rate (REER). Apart from boosting the competitiveness of non-oil exports, the devaluation will also have a short-term impact on CPI inflation and government bond yields, but the long-run positive effects will outweigh the short-run costs. In the interim, we expect that the central bank will keep monetary policy tight in order to support the naira. The new governor of the Central Bank of Nigeria (CBN), Godwin Emefiele, held his first press briefing in his new role on 5 June. Mr Emefiele stated that, while the bank's policies have been successful in recent years in anchoring expectations and creating policy certainty, 'there exists much room for improvement'. A key theme in the new governor's speech is the importance of developmental objectives alongside that of price stability.

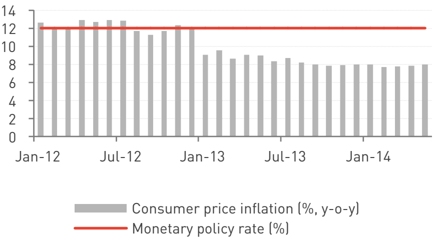
Exchange rate policy:

The IMF classifies Nigeria's exchange rate regime as 'not flexible' due to the heavily managed nature thereof. Authorities prefer to keep the exchange rate relatively stable in order to control the prices of imported products due to Nigeria's high import dependence and exchange rate pass-through. According to the central bank, large and unpredictable foreign exchange transactions in the oil sector further necessitates intervention in the foreign exchange market in order to smooth temporary fluctuations.

Fiscal policy:

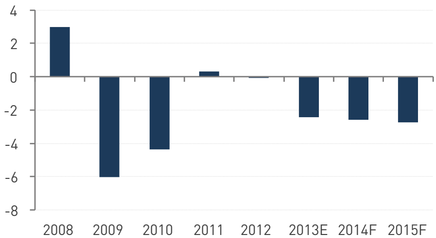
In 2013, fiscal oil revenues were 20% lower than in 2008, even though oil prices and oil production were 12% and 10% higher respectively. The IMF notes that some of this decline may be attributed to aging oil fields, higher extraction costs due to security concerns, and 'quasi-fiscal expenditure items'. In line with lower oil revenues, the Nigerian government's consolidated fiscal balance (i.e. at the local, state, and federal level) turned into a small deficit in 2012 that widened in 2013. We expect to see a further widening during 2014-15 due to election-related pressures on revenues (i.e. leakages) and spending.

Consumer price inflation and monetary policy rate



Sources: Central Bank of Nigeria, National Bureau of Statistics

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

In spite of the progress made by the Nigerian government in fiscal and macroeconomic management over the past decade, reforms in terms of improving the business environment have not kept pace. It is a very time-consuming process in Nigeria – 956 hours – to pay taxes on an annual basis. There are only two countries where it takes longer – Bolivia (1 025 hours) and Brazil (2 600 hours). The corporate income tax rate is 30% of profit, while there is also a social security contribution tax (7.5% of gross salaries), an education tax (2% of profit), an employee compensation contribution (1% of gross salaries), and a training tax (1% of gross salaries). The value-added tax rate is 5%, while capital gains and interest are both taxed at 10%. Nigeria is fairly open and welcoming to foreign investment. However, in the banking industry, foreign investors are not allowed to acquire more than 40% of an existing domestic bank, although there are no restrictions on setting up a new bank. Delays in passing the Petroleum Industry Bill (PIB) have led to lower investments in the hydrocarbon industry.

Political environment

President Goodluck Jonathan and his People's Democratic Party (PDP) are locked into a fierce electoral fight against the All Progressives Congress (APC), a new opposition party that was born from the merger of three old parties and a number of defections from the PDP.

While the APC is mainly a northern party and the PDP mainly southern, the split is more complicated than that. Much of the risk in Nigeria flows from this political contest, as both sides are politicising any issues that arise and, it seems, may be redirecting government funds for political ends in the administrations that they control. This dynamic will be important until the 2015 elections – in which both the federal and state governments will be chosen – are over.

In 2014, security risk took a serious turn for the worse as Boko Haram, an Islamist insurgency active in the north of Nigeria, stepped up its activities to a considerable degree. More than 5 000 people died in Borno State, the group's main area of operations, in the first five months of the year, and its kidnapping of over 200 schoolgirls made headlines worldwide.

The insurgency has weakened Mr Jonathan's administration, is fuelling political and social divisions between southerners and northerners, and may yet overlap with sectarian violence between Muslims and Christians in the Middle Belt. The insurgency has had real effects on stability, and there are few signs that the military is capable of defeating it.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Economic Environment

Ratings:

In March this year, Standard and Poor's (S&P) affirmed Nigeria's sovereign credit rating at 'BB-', but changed the outlook to negative. The negative outlook reflects S&P's view that risks have increased due to infighting in the ruling party, extensive oil theft, and 'the possibility of increased political influence on the central bank's management'. Meanwhile, Fitch Ratings continues to award a 'BB-' rating on Nigeria with a stable outlook.

Fitch may decide to upgrade the rating if external buffers improve, if there is a longer track record of single-digit inflation, an improvement in governance, and a continuation of structural reforms that result in 'faster, more diverse and inclusive growth and higher employment and per capita incomes'. Finally, the 'Ba3' rating by Moody's Investors Service (on a stable outlook) is equivalent to a 'BB-' rating from the other agencies.

Key indicators to watch	
Oil prices and production	The government gets up to 80% of its revenues from oil and gas, while these commodities generate around 95% of export earnings. Developments in domestic production and international prices are therefore crucial for external and domestic accounts.
Forex reserves and exchange rate	Given Nigeria's high level of oil production and relatively elevated oil prices, the actual accumulation of foreign exchange reserves has been disappointing in recent years. Reserves have fallen sharply over the past year, with this having implications for the central bank's ability to defend the exchange rate.
Monetary policy and inflation	The abrupt suspension of Sanusi Lamido Sanusi raises some concerns about the independence of the central bank, as well as the future direction of monetary policy.

Source: NKC Research

Key vulnerabilities	What is the government doing to address this?
Poor infrastructure and high cost of doing business.	With attention focused on next year's elections, not much is being done about the business environment.
Delays in passing the PIB have led to lower investment in the oil sector.	The PIB was sent to Parliament in July 2012, but it will likely only progress further after the 2015 elections.
Security, especially in the northern states, and the prospect of terrorism spreading deeper and wider in Nigeria are major elements in political risk.	The insurgency has had real effects on stability, and there are few signs that the military is capable of defeating it.

Source: NKC Research

Market participation	
Foreign investors	Foreign investors are allowed to invest in the local debt market, but are restricted to government securities with tenors of one year and above. Holders of longer-dated bonds can invest in securities of less than a year to maturity (these include commercial paper, bankers acceptances, and negotiable certificates of deposits). Repatriation of investment funds and earnings are possible at any time through certificates of capital importation.
Local investors	The banking sector (including deposit money banks, discount houses, and development finance institutions), pension fund industry, insurance companies, and retail investors make up the local investor base.

Source: NKC Research

Financial market

Foreign exchange

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/ maturity	Quotation/ settlement	Reuters page	Additional information
Spot	US$0.5m	US$350m	10 bps for US$0.5m	-	T+2	NGN=	Main cross is US$/NGN
Forwards (deliverable)	-	US$5m	Varies	Limited up to 1-year	-	-	Main benchmark is US$/NGN
Forwards (non-deliverable)	US$3m to US$65m	US$10m to US$20m	100 bps to 300 bps	Liquid up to 1 year	-	-	Main benchmark is US$/NGN
Swaps	US$5m	US$10m to US$20m	Varies	Limited up to 1 year	-	-	Main benchmark is US$/NGN

Source: NKC Research, Reuters, Bloomberg

The naira has been under notable pressure this year, with key contributing factors being portfolio investment outflows in the context of global rebalancing, and the abrupt suspension of respected central banker, Sanusi Lamido Sanusi.

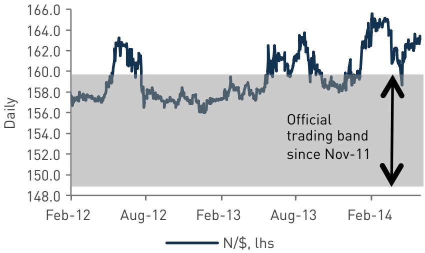
In response, the central bank has protected the naira, both directly by selling foreign exchange, and indirectly by keeping monetary policy tight. Intervention in the forex market led to reserves falling to a low of US$37.8 billion by the end of March 2014, down 22.1% y-o-y. Since then, the situation has improved slightly, supported by renewed foreign interest in domestic assets (possibly due to the rebasing of GDP), a calming of fears following Mr Sanusi's suspension, and a rebuilding of the Excess Crude Account (ECA) due to higher oil production.

That being said, with elections around the corner, and with the race being the tightest it has been for some time, we expect oil revenue leakages to persist, and hence the need for a devaluation (due to a decline in forex reserves) remains.

However, authorities may want to delay a devaluation until after elections due to the effect it will have on consumers' purchasing power. The current trading band is N155/US$ ± 3%; the naira consistently traded outside this band this year between 23 January and 2 May. After a brief stint within the band, the naira has once again weakened to above N160/US$.

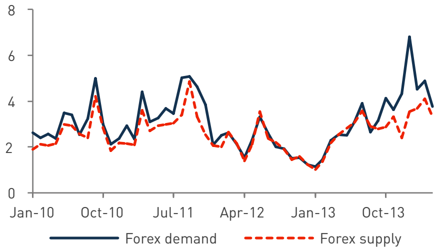
Exchange rate

Nigerian naira to US dollar (daily)



Source: Reuters

Forex demand and supply (US$ billion)



Sources: CBN

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Nigeria Stock Market (NSE)	200 primary listings	Very liquid in African context	US$79.1bn (primary listings)	T+3	Financial; Beverages	350m shares

Sources: Bloomberg

After increasing by 36.1% in 2012 (in local currency terms), the Nigerian Stock Exchange (NSE) All Share Index (ALSI) continued its strong performance in 2013, climbing by a further 47.2%. The solid performance reflected improved liquidity conditions on the exchange, renewed confidence in the banking sector, an improvement in macroeconomic stability, good economic growth prospects, and a sharp increase in foreign participation. The last factor can in turn be partly ascribed to the ultra-loose monetary policies being implemented by major central banks around the globe. As a result of this, and the US Federal Reserve starting to taper its bond-buying programme, the exchange was due for a correction. By the end of May 2014, the ALSI was up by only 0.35% y-t-d, recovering from losses in Q1 in the subsequent months. Disappointing earnings results released last year and high price/earnings ratios have also resulted in a number of consumer goods stocks doing poorly this year. Net portfolio investment in Nigeria increased notably in 2012 to US$15.1 billion from US$3.6 billion in 2011 and US$2.6 billion in the previous year. The equity component of this increased from US$1.1 billion in 2011 to US$8.1 billion in 2012.

In 2013, Nigeria received net portfolio investment of US$13.6 billion, although a notable drop-off was witnessed in Q3. We expect to see net portfolio investment outflows of US$3.5 billion this year.

Apart from the general rebalancing of portfolios caused by changes in the US Fed's policies, the Nigerian stock market's poor performance this year was exacerbated by the abrupt suspension of respected Central Bank Governor, Sanusi Lamido Sanusi, on 20 February. According to the NSE, there were net foreign equity outflows of N110.35 billion in the first four months of 2014.

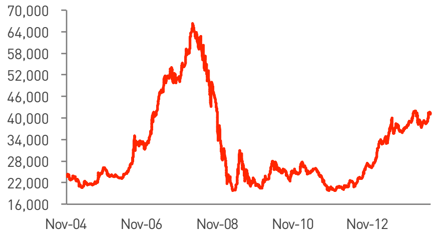
Top-five listed companies	Market capitalisation
Dangote Cement	US$23.78bn
Nigerian Breweries	US$8.09bn
Nestlé Nigeria	US$5.21bn
Guaranty Trust Bank	US$5.16bn
Zenith Bank	US$4.64bn

Source: Bloomberg

Nigeria stock market capitalisation (US$ billion)

Source: Bloomberg

NSE ALSI (Local currency)



Source: Reuters

Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bill	91, 182 and 364 day	Fortnightly or as set out in provisional auction calendar	Good	T+1, T+2	Licenced primary dealer and market makers (PDMMs)	25 bps
Treasury bonds	2, 3, 5, 7, 10 and 20 years	Monthly or as set out in provisional auction calendar	Good	T+2	Licenced primary dealer and market makers (PDMMs)	<3 years = 15 kobo; >3 years = 30 kobo;

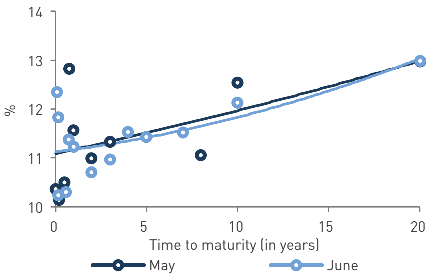
Source: NKC Research, Reuters, Bloomberg

Nigeria boasts one of the most active secondary sovereign debt markets on the continent in terms of liquidity and tradability. Nigeria's three most liquid bonds (maturing in 2014, 2019 and 2022 respectively) were included in JP Morgan's Government Bond Index-Emerging Market Index in October 2012. JPMorgan noted at the time that the inclusion might attract US$1.5 billion in inflows from foreign investors. Indeed, Nigeria's bond yields declined significantly during 2012 Q4.

Barclays also included some US$16 billion of Nigeria's local currency – denominated government bonds in its emerging markets government bond index from April 2013.

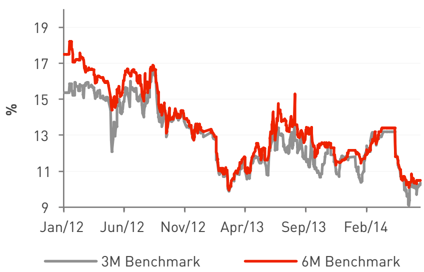
The decline in yields was further supported by a moderation in consumer price inflation, and the commencement of retail bond trading on the NSE on 1 February 2013.

Nigeria yield curve



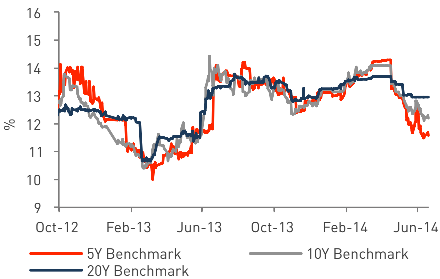
Sources: Reuters

Nigeria treasury bills (secondary market)



Sources: NKC Research, Reuters

Nigeria government treasury bonds (secondary market)



Sources: NKC Research, Reuters

The Nigerian government has approved a debt-management plan that will reduce the proportion of domestic debt in total debt over the 2013-15 period, due to domestic liabilities being more expensive than external ones. The plan envisions an increase in the proportion of foreign debt in the total to 40% by 2015 from a current level of 14%. 'We are going to have a smooth transition so that everything is well managed and there is no shock to the system', Minister of State for Finance, Yerima Ngama, stated. The government will be looking to access concessionary financing from institutions such as the African Development Bank, the Islamic Development Bank, and the World Bank.

Nigeria issued two Eurobonds in July last year. The sovereign issued a five-year US$500 million Eurobond at a yield of 5.375% and a 10-year US$500 million Eurobond at a yield of 6.625%. The funds will reportedly be used for infrastructure development.

The combined issue was more than four times oversubscribed. Some market analysts believed the bonds priced at a premium of between 35 and 70 basis points. The dual-tranche nature of the deal made sense, as the five-year security appealed to more conservative European investors, while US investors eagerly snapped up the 10-year note. US investors accounted for 73% of the 2023 issue and for 57% of the 2018 issue, while Europe accounted for 24% of the 2023 issue and for 37% of the 2018 issue.

In terms of investor type, asset managers accounted for 85% of the 2023 issue, banks for 5%, hedge funds for 3%, and pension funds/insurers for 7%. For the 2018 issue, asset managers accounted for a smaller share (79%), while banks accounted for 13%, hedge funds for 6%, and pension funds/insurers for 2%. Following the issuing of the Eurobonds in July 2013, their yields have come down notably, with the 2018 bond reaching a yield of 4.2% by 17 June.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012E	2013E	2014F	2015F
Real GDP (% change)	7.01	4.65	6.75	7.31	6.54	6.84	6.80
Nominal GDP (US$bn)	265.89	360.65	408.81	453.97	504.32	557.14	590.06
Consumer price inflation (average, %)	11.54	13.72	10.84	12.22	8.50	9.07	9.46
Budget balance, incl grants (% of GDP)	-6.02	-4.36	0.30	-0.07	-2.42	-2.58	-2.75
- Revenue (% of GDP)	11.29	12.70	17.84	15.03	12.26	11.34	10.48
- Expenditure (% of GDP)	17.31	17.05	17.54	15.10	14.68	13.92	13.24
Government debt (% of GDP)	9.59	9.74	9.86	10.83	10.58	10.73	10.89
Current account balance (% of GDP)	5.37	3.72	2.14	3.84	3.70	2.73	2.08
Trade balance (% of GDP)	9.76	8.49	7.61	8.70	7.04	5.90	5.10
NGN/US$	148.90	150.30	154.74	156.81	159.07	162.19	172.37
Short-term interest rate (%)	18.36	17.59	16.02	16.79	16.65	17.00	17.30
Foreign reserves (US$bn)	41.64	31.37	31.59	42.69	42.01	35.84	38.96
Months of import cover	10.24	5.68	4.51	6.52	6.10	4.96	5.07

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% y-o-y)	11.80	10.28	11.95	7.95	7.79	7.87	7.98
Monetary policy rate (%)	6.25	12.00	12.00	12.00	12.00	12.00	12.00
International reserves (US$bn)	32.34	32.64	43.83	42.85	37.83	38.14	36.96
91-day treasury bill rate (%eop)	7.54	14.66	12.92	11.78	13.20	10.70	10.55
NGN/US$ (eop)	151.95	162.20	156.10	159.90	165.0	160.60	162.69
Bonny light crude (US$/barrel, eop)	95.28	110.84	113.30	111.70	108.65	111.53	112.01

Sources: NKC Research, Reuters, National Bureau of Statistics, Central Bank of Nigeria

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.