Nigeria

A dynamic and diversifying economy

The second largest economy of Africa will continue to grow fast in 2013. Although oil export still accounts for the bulk of its foreign exchange government budget revenues, non-oil GDP will remain the main engine of growth. Since early 2000, the expansion of the service sector has taken the lead of Nigeria's economic diversification. Public investment and a large and growing middle class should continue to support rapid growth in the coming years. However, Nigeria will have to overcome economic and institutional challenges in order to promote a more inclusive economic growth.

Robust GDP growth in the second largest economy of Africa

Nigeria is the second largest economy of Africa (nominal GDP of USD240bn in 2011) after South Africa (USD420bn). However, thanks to a faster GDP growth, Nigeria is expected to continue catching up with South Africa over the next decade. With average annual GDP growth of 8.6% over 2000-2011, Nigeria recorded the world's 10th fastest economic expansion over the last decade.

In 2012, in spite of the global economic downturn, GDP growth decelerated only moderately over the first three quarters of the year, to 6.4%y/y, compared with 7.4% on average in 2011. While construction and services remained dynamic, agriculture was hit by bad climatic conditions. In the meantime, floods along the Niger river and theft led to the stagnation in oil production at around 2.1mbpd over the first ten months of 2012. Nevertheless, although oil receipts account for 87% of Nigeria's export revenue and 75% of its budget revenue, real GDP growth is mostly supported by the non-oil sector. Non-oil GDP contributed 8 percentage points to the 8.6% annual average GDP growth recorded over 2000-2011(chart 1).

Boom in services

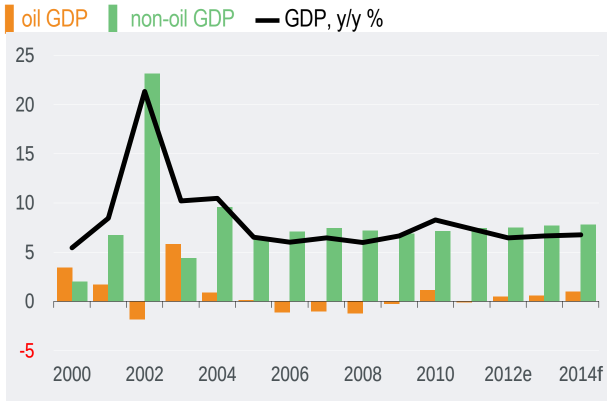
The ongoing diversification of Nigeria's economic structure is first to be seen in the rapid expansion in services. Their share in total GDP increased to 37% in 2011 from 25% in 2000. This is more than the oil sector, whose share in real GDP declined to less than 15% of GDP in 2011 from more than 32% in 2000. Agriculture and construction have remained broadly stable as a share of real GDP since 2000, accounting for respectively 40% and 2% of GDP in 2011.

The main sub-sectors of services are wholesale and retail trade (50% of services and 19% of GDP) and communication (15% of services and 6% of GDP), followed by finance[1], transport and utilities, each accounting for about 3% of GDP. Very dynamic over recent years, telecommunications (+34% per year on average since 2002) and wholesale & retail trade (+14% per year) still have a huge potential to grow, supported by the rapid expansion in domestic demand.

[1] The country recorded a severe banking crisis in 2008-2009, resulting in a USD 21.5bn bailout. Subsequent banking regulation and supervision reforms have delivered more solid foundations for the sector's stability.

1 Non-oil GDP is the main engine of economic growth

y/y% and contributions in percentage points of GDP



Sources : Central Bank of Nigeria, BNP PARIBAS

Domestic demand : a wide developing market

Domestic demand accounts for 85% of GDP, split between government expenditure (42%), private consumption (32%) and private investment (13%).

With a mind to strengthen the underlying structure of the Nigerian economy, the federal government has ramped up its capital investment spending since 2008. Its plan should sustain considerable capital-expenditure growth to the end of the decade. The focus will continue to be on transport infrastructure development and power supply. These projects will boost government expenditure, investments and jobs over the coming decade. They should also result in a small government budget deficit, possibly financed by a new Eurobond in 2013.

Furthermore, Nigeria is potentially one of the biggest consumer markets in the world. With about 165 million people in 2012, it is home to one in six Africans and its demographic growth rate is fairly high (averaging 2.8% per annum over 2000-2011). Projections are for Nigeria to have the world's fourth largest population by 2050, with more than 400 million people from which should emerge a large middle class.

Moreover, the middle class in Nigeria is made of rather young people (70% are less than 40 years old) who are thus prone to purchase equipment goods over the coming years.

Medium-term economic and institutional challenges

GDP growth is expected to remain dynamic in 2013, supported by public investment and increasing oil production, thanks to the come into stream of new deepwater oilfields. GDP growth is expected to average about 6 ½% over 2013-2017. This, however, is still below the double-digit levels required if the country's population is to see any real large-scale improvement in their living standards (GDP per capita estimated at USD1650 in 2012). A large part of the economy is still informal and in the formal sector, the unemployment rate is high, at around 24%. In order to secure more job-intensive economic growth and manage to increase the per capita income, Nigeria will have to overcome a series of economic and institutional hurdles in the coming years.

- Low competitiveness

Nigeria's huge revenue from mineral products has not been used to increase its industrial structure so far. Thus its ability to produce and export manufactured goods is still very limited. Nigeria's competitiveness is considered among the lowest in the world, ranking 127 out of 142 countries in the World Economic Forum 2012 Global competitiveness report. To improve its competitiveness, Nigeria will have to improve the institutional environment and the business climate, upgrade the overall level and quality of infrastructure and facilitate the supply of financial services. In particular, finalizing the regulation of the oil industry is of crucial importance if Nigeria wants to secure a strong level of foreign direct investment in the future.

- Governance and political risk

Nigeria ranks among the worst in the world in the World Bank's governance survey. Only marginal improvements have been made by the country since 1998, notably in terms of regulatory quality and voice and accountability (chart 2). However, much remains to be done. Political stability continued to deteriorate. Only 4% of the 213 countries surveyed presented a worse level of political stability than Nigeria's in 2010 (last figure available). Ethnic and religious tensions have increased markedly over recent years, as illustrated by attacks from the terrorist group Boko Haram in 2011 and 2012. Together with the turbulences in the Niger Delta, they represent a source of insecurity (political destabilization) and of economic disruption (cuts in oil production, destruction of infrastructure) over the short to medium term.

- Corruption

Nigeria ranks among the most corrupt countries in the world: 139 out of 176 countries in the Transparency International Corruption Perception Index (2012). This is better than Angola (157) but worse than Ethiopia (113). Although President Jonathan launched some investigations I there have been no high-level corruption prosecutions since he was elected in April 2011. The situation is unlikely to improve significantly until the 2015 presidential election.

- Difficult business climate

A high degree of political risk, poor governance and widespread corruption all translate into a very difficult business climate. In the World Bank 2013 Ease of Doing Business survey, Nigeria ranks 131 out of 185 countries. This is slightly better than sub-Saharan Africa's average (140) but worse than Ghana's (64) and Kenya's (121). Infrastructure bottlenecks (for instance getting electricity) and regulation-related issues (registering property, paying taxes, trading across borders) hamper business development in Nigeria.

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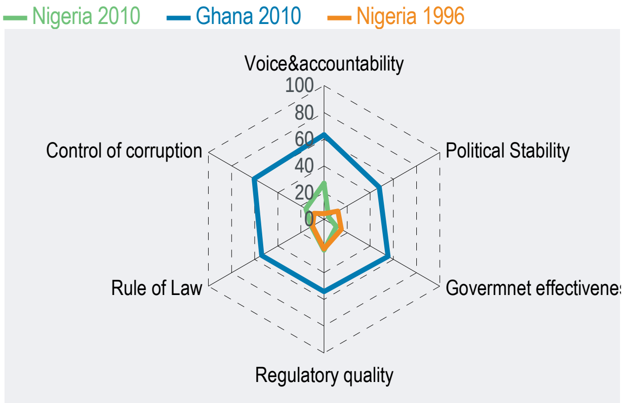
2 Poor governance indicators

Percentile rank among all countries, ranging from 0 (lowest) to 100 (highest) rank.



Source : World Bank

Summary

	2011	2012f	2013f	2014f
Real GDP growth (%)	7.4	6.5	6.6	6.8
Inflation (CPI, year average, %)	10.9	11.4	10.5	9.5
Gen. Gov. balance / GDP (%)	-3.0	-2.8	-2.5	-2.8
Gen. Gov. debt / GDP (%)	17.9	17.5	17.7	18.0
Current account balance / GDP (%)	6.2	7.3	5.3	4.5
External debt / GDP (%)	4.4	4.2	4.6	4.5
Forex reserves (USD bn)	33	41	43	45
Forex reserves, in months of imports	4.0	4.5	4.6	4.6
Exchange rate NGN/USD (year end)	162	155	158	162

Sources: IMF, local sources, BNP Paribas

f : BNP Paribas forecast