

Nigeria Business Forecast Report Q4 2014

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Abstracts

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Core Views

Political risk was one of the dominant discussion themes during BMI's visit to Nigeria in June. Although there was some acknowledgement that the deteriorating security situation is part of the electoral cycle as the January 2015 elections approach, there is a sense that the emergence of Boko Haram has crystallised the usual threat associated with elections.

Nigerian economic growth will slow to 6.5% in both 2014 and 2015 (from 6.7% in 2013) as security issues, elections and uncertainty about monetary policy weigh on private consumption and investment. The impact of these issues will not be too significant or longlasting and our forecasts therefore remain relatively robust, small downgrades aside. However, we note that risks are to the downside.

Although there is some concern that monetary policy will be loosened under the new central bank governor, this is unlikely in the lead-up to the February 2015 election due to pressure on the currency. The trajectory of policy after the election is more difficult to predict but we believe that the aggressive loosening expected by some is unlikely.

Increased spending, much of which relates to upcoming elections, is as much to blame for Nigeria's recent fiscal deterioration as lower-than-planned oil production. The deficit will remain small at only 2.2% of GDP in 2014 and a low debt-to-GDP ratio means that a fiscal crisis is not imminent. However, challenges to the oil sector over the longer term mean that risks will build if the issue of fiscal opacity is not dealt with.

The naira will remain volatile over the next six months as downside pressure will

emanate from the approach of elections and shifting global financial market sentiment. However, central bank support will prevent the unit from depreciating significantly. Pressure should subside after the election but uncertainty over the trajectory of monetary policy poses risks to this view.

Contents

Executive Summary
Core Views
Key Risks To Outlook

CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis

BMI Political Risk Ratings

Domestic Politics

On The Ground: Political Risk Concerns At The Fore

Political risk and concerns about the trajectory of monetary policy were two of the dominant discussion themes during BMI's visit to

Nigeria in June. Our contacts on the ground largely share our upbeat view on real GDP growth but highlighted the aforementioned issues as the biggest threats to the economy.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Ratings

Economic Activity

Security Issues To Weigh On Northern Consumption

Nigerian economic growth will slow to 6.5% in both 2014 and 2015 as security issues, elections and uncertainty about monetary policy

weigh on private consumption and investment. The impact of these issues will not be too significant or longlasting and our forecasts

therefore remain relatively robust, small downgrades aside. However, we note that risks are to the downside.

Table: Economic Activity

Exchange Rate Policy

NGN: Manageable Pressure With Downside Risks

The naira will remain volatile over the next six months as downside pressure will emanate from the approach of elections and shifting

global financial market sentiment. However central bank support will prevent the unit from depreciating significantly. Pressure should

subside after the election but uncertainty over the trajectory of monetary policy poses risks to this view.

Table: Currency Forecast

Monetary Policy

Monetary Loosening Unlikely Despite Mixed Policy Signals

Although there is some concern that policy will be loosened under the new central bank governor, this is unlikely in the lead up to the

February 2015 election due to pressure on the currency. The trajectory of policy after the election is more difficult to predict but we

believe that the aggressive loosening that some are expecting is unlikely.

Table: Monetary Policy

Fiscal Policy

Small Fiscal Deficit Belies Profligacy

Increased spending, much of which relates to upcoming elections, is as much to blame for Nigeria's recent fiscal deterioration as lower-than-

planned oil production. The deficit will remain small at only 2.2% of GDP in 2014 and a low debt-to-GDP ratio means that a fiscal

crisis is not imminent.

Table: Fiscal Policy

CHAPTER 3: 10-YEAR FORECAST

The Nigerian Economy To 2023

Power Sector Key For Long-Term Productivity

Despite being measured from a higher base following the recalculation of GDP in early 2014, Nigeria's economy will grow by around

7.0% per year over the next 10 years thanks to increasing productivity in the non-oil sector. Although the oil sector will not contribute

much to headline growth, it will be crucial to macro-economic stability as it will remain the most important source of export and fiscal

revenues. Major risks to the economy include a deterioration in the security situation, a fall in oil prices and/or production, and slower-than-

expected improvement in the power sector.

Table: Long-Term Macroeconomic Forecasts

CHAPTER 4: BUSINESS ENVIRONMENT

SWOT Analysis

BMI Business Environment Risk Ratings

Business Environment Outlook

Institutions

Table: BMI BUSINESS AND OPERATION RISK RATINGS

Table: BMI LEGAL FRAMEWORK RATING

Table: LABOUR FORCE QUALITY

Infrastructure

Table: AFRICA - ANNUAL FDI INFLOWS

Table: TRADE AND INVESTMENT RATINGS

Market Orientation

Table: TOP EXPORT DESTINATIONS, USDmn

Operational Risk

CHAPTER 5: KEY SECTORS

Pharmaceuticals & Healthcare

Table: Pharmaceutical Sales , Historical Data And Forecasts

Table: Healthcare Expenditure Trends , Historical Data And Forecasts

Table: Government Healthcare Expenditure Trends , Historical Data And Forecasts

Table: Private Healthcare Expenditure Trends , Historical Data And Forecasts

Telecommunications

Table: Telecoms Sector -Mobile -Historical Data & Forecasts

Table: Telecoms Sector -Wireline -Historical Data & Forecasts

Table: Telecoms Sector -Internet -Historical Data & Forecast

Other Key Sectors

Table: Oil and Gas Sector Key Indicators

Table: Infrastructure Sector Key Indicators

Table: Food and Drink Sector Key Indicators

Table: Autos Sector Key Indicators

Table: Freight Key Indicators

CHAPTER 6: BMI GLOBAL ASSUMPTIONS

Global Outlook

Global Recovery Still On Track

Table: Global Assumptions

Table: Developed States , Real GDP Growth H, %

Table: BMI VERSUS BLOOMBERG CONSENSUS REAL GDP GROWTH
FORECASTS, %

Table: Emerging Markets , Real GDP Growth , %

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