

# Nigeria Business Forecast Report Q2 2014

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## Abstracts

### Core Views

The defection of 37 members of the House of Representatives from the People's Democratic Party (PDP) to the opposition All Progressives' Congress (APC) deprives the ruling party of its lower house majority for the first time and indicates that its woes are worsening. The challenge for President Goodluck Jonathan and his advisors will be to stop the haemorrhaging of members and to re-galvanise the party ahead of the 2015 elections. Despite its gains and the PDP's woes, the APC is facing its own challenges and is by no means a shoo-in in 2015. It will also battle to unify its disparate support base and will have to confront the PDP's significant advantages of incumbency.

We are forecasting that the Nigerian economy will expand by 7.0% in 2014, up from an estimated 6.7% in 2013 thanks to continued strong expansion in non-oil sectors. The positive impact of agriculture mean that this important sector should contribute strongly to private consumption growth.

Despite relatively benign inflation, we believe that tight monetary policy will remain in place due to rising core inflation and signs of depreciatory pressure for the currency. With that said, outgoing governor Sanusi Lamido Sanusi's successor has not yet been appointed and this introduces an element of uncertainty to the medium-term outlook.

Although Nigeria will continue to post large current account surpluses, significant net errors and omissions and lower financial account inflows will keep the balance of payments position under pressure. The authorities have adequate foreign exchange reserves to fend off any immediate threat but risks will grow if the underlying causes of balance of payments pressures are not addressed.

### Major Forecast Changes

No major forecast changes

### **Key Risks To Outlook**

The volatility of the price of oil poses a significant risk to export revenues and government receipts. A significant deterioration in the economies of Europe, the US, or other major markets could see the price again head below our current projections, with negative implications for Nigeria's economy.

While we believe that security risks will eventually be contained, if the situation significantly deteriorates, this would potentially affect investment, exports, and growth.

Ructions within the ruling party could lead to economically disruptive instability in the lead up to the 2015 elections. If Sanusi Lamido Sanusi is replaced by a more dovish central bank governor when his term expires in 2014, inflation could head higher leading to a less favourable growth environment.

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The defection of 37 members of the House of Representatives from the People's Democratic Party (PDP) to the opposition All Progressives' Congress (APC) deprives the ruling party of its lower house majority for the first time and indicates that its woes are worsening. The challenge for President Goodluck Jonathan and his advisors will be to stop the haemorrhaging of members and to re-galvanise the party ahead of the 2015 elections. Despite its gains and the PDP's woes, the APC is facing its own challenges and is by no means a shoo-in in 2015. It will also battle to unify its disparate support base and will have to confront the PDP's significant advantages of incumbency.

Table: Political Overview

Long-Term Political Outlook

'Failed State' Or African Powerhouse?

Following elections in April 2011 Nigeria is facing a number of challenges over the coming decade. This poll were largely successful, giving the country an opportunity to exorcise the embarrassing experience of 2007 when elections were riddled with what the EU described as 'rampant vote rigging, violence, theft of ballot boxes and intimidation', and claim Nigeria's place as a regional leader and economic powerhouse. The country will need to press ahead with ambitious economic and business environment reforms and develop a plan to address the root causes of violence in the Niger Delta and the Middle Belt.

### **CHAPTER 2: ECONOMIC OUTLOOK**

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We are forecasting that the Nigerian economy will expand by 7.0% in 2014, up from an estimated 6.7% in 2013 thanks to continued strong expansion in non-oil sectors. The positive impact of agriculture mean that this important sector should contribute strongly to private consumption growth. The risks to our view are to the downside and stem from the political risk and policy uncertainty.

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Although Nigeria will continue to post large current account surpluses, significant net errors and omissions and lower financial account inflows will keep the balance of payments position under pressure. The authorities have adequate foreign exchange reserves to fend off any immediate threat but risks will grow if the underlying causes of balance of payments pressures are not addressed.

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Despite relatively benign inflation, we believe that tight monetary policy will remain in place due to rising core inflation and signs of depreciatory pressure for the currency. With that said, outgoing governor Sanusi Lamido Sanusi's successor has not yet been appointed and this introduces an element of uncertainty to the medium-term outlook.

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We are forecasting average annual real GDP growth of 7.0% over the next 10 years in Nigeria as a strong non-oil economy will offset a stagnant oil sector. Agriculture, manufacturing, construction and consumer-facing industries are all set to see robust growth in the years ahead. The main risks to the economy stem from a still-volatile political environment and from an uncertain policy climate emanating from an impending change of key personnel at the central bank. A fall in the price of oil could also

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