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Nigeria Business Forecast Report Q3 2014

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Abstracts

Core Views

Nigeria's economy was the world's 24th largest economy in 2013 after the results of a recalculation of GDP were announced in early April 2014. The change represents the evolution of Nigeria's economy over recent years with secondary and tertiary industries now contributing a larger share of GDP. The agriculture sector is not only smaller relative to GDP than previously thought but is also growing more slowly suggesting that agricultural reforms have not been as successful as many assumed. Despite being measured from a much higher base, we believe that the economy will continue to expand by around 7.0% per year over the next few years as the contribution of the sluggish oil sector has been taken up by more dynamic industries such as manufacturing and services.

Nigeria is facing several challenges in the lead-up to the 2015 election, any one of which could pose a threat to broad political stability and economic development. However, we believe that the country will be able to navigate these issues and avoid disaster. Nonetheless, we note that reform of the political system will be crucial if the country is reduce its susceptibility to these kinds of risks.

Nigeria's balance of payments position is under pressure due mainly to large outflows of capital. Rather than being the result of foreigners withdrawing from the country, the data suggest that this is the result of Nigerians sending money abroad. With political and macroeconomic uncertainty likely to persist until after the election in early 2015, we believe that this pressure will remain in place for the remainder of 2014.

We believe the Central Bank of Nigeria's decision to raise the private sector cash reserve requirement but leave the public sector CRR and benchmark policy rate unchanged was an attempt to demonstrate that tight policy will remain the order of the

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day following the removal of Sanusi Lamido Sanusi. We do not expect that the decision will have a meaningful impact on financial markets or the economy. However, we believe that the authorities will tighten policy more aggressively in the months ahead, in a bid to stave off depreciatory pressure on the currency.

Major Forecast Changes

No major forecast changes

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Contents

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The rebasing of Nigeria's GDP represents the evolution of the structure and size of the economy over time rather than a sudden surge in economic activity. The oil sector's share of GDP has declined while more dynamic, fast-growing sectors such as telecoms, manufacturing and services have been given greater weight.

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Monetary Policy

CR Hike A Symbol Of Prudence, Further Tightening Ahead

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Table: MONETARY POLICY

Key Sector Outlook

Long-Standing Risks Sap Power Privatisation Drive

We have largely maintained our optimistic forecasts for Nigeria's power sector this quarter and forecast annual average growth in electricity generation of 9% through to 2023. Indeed, with the unbundling of PHCN all but completed, attention is now turning to the auctioning of 10 gas-fired power plants under the NIPP strategy - supporting our upbeat outlook. That said, there are certainly considerable downside risks to our forecasts, as highlighted by concerns about the condition of T&D infrastructure and the fact that the launch of a transitional electricity market (TEM) has been delayed due to disputes over tariffs and gas-supply shortages. We believe that a failure to secure adequate gas feedstock remains the biggest risk to Nigeria's efforts to ramp-up power generation capacity, which is needed to meet huge pent-up demand.

CHAPTER 3: 10-YEAR FORECAST

The Nigerian Economy To 2023

Infrastructure And Agriculture Hold The Keys

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 negatively impact macroeconomic stability.

Table: Long-Term Macroeconomic Forecasts

CHAPTER 4: BUSINESS ENVIRONMENT

SWOT Analysis

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Table: Emerging Markets , Real GDP Gro wth , %

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