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Nigeria Business Forecast Report Q4 2014

https://marketpublishers.com/r/N0BAC16F41BEN.html
Date: July 2014
Pages: 46
Price: US$ 1,195.00 (Single User License)
ID: N0BAC16F41BEN

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

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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.

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