

Risk Monitor: Nigeria

NOVEMBER 2007

Domestic markets are becoming a more important driver of growth, while unrest in the Niger Delta has curbed oil production.

Debt relief has allowed the government to improve its fiscal position, though large budget deficits persist.

Tumultuous and evidently flawed elections held in April nevertheless resulted in a peaceful transfer of power.

GDP

Political unrest in the Niger Delta has recurrently disrupted oil production. Principally due to this factor, Nigeria has registered below-potential GDP growth in 2006 and 2007. Yet domestic markets in this most populous African country, boosted by Chinese investment and a solid agricultural performance, are acquiring significant, self-sustaining momentum. The US\$1.1 billion West Africa natural gas pipeline, distributing Nigerian offshore gas resources to consumers in Nigeria, Togo, Benin and Ghana, has been completed, with a 20-year contract in place providing a fiscal and regulatory framework for its operation. A trans-Sahara pipeline for gas exports to Europe is under consideration. Various power and water supply projects now underway or planned will fill some of Nigeria's many infrastructural gaps, although progress in meeting all infrastructure requirements is likely to be slow even in a best-case scenario.

Consumer Price Inflation

Inflation is a persisting macroeconomic challenge, yet the central bank's adept liquidity controls have brought yearly price rises down to single digits. The bank's new electronic data system facilitates more timely tracking of price and money supply trends. Debt relief has improved the fiscal position, but deficits are still large, especially when curtailed oil production leads to sputtering revenue flows.

Exchange Rate

The Nigerian naira is, and should remain, quite stable against the dollar, insofar as oil prices are denominated in U.S. currency. Only marginal depreciation is projected through 2009. However, a spurt in economic growth — through its stimulative effect on demand and imports — could challenge the naira's stability.

Political Risk

The April 2007 presidential election led to Nigeria's first, albeit flawed, constitutional transfer of power from one civilian leader to another. Umaru Yar'Adua, former President Obasanjo's chosen successor, is the country's first leader from the predominantly Muslim north. Despite a chronically dicey situation in the Niger Delta and sparring over corruption in multiple segments of national and regional government, the long-term trend in political violence is downward.

Recent Performance, Economic Forecast, Risk Rating

INDICATOR	2006	2007	2008	2009	Downside Risk*
GDP Growth	5.6%	5.2%	7.5%	7.8%	6
Consumer Inflation	8.3%	7.8%	7.6%	7.5%	7
Naira/US\$ Exchange Rate (end of year)	130.64	131.0	132.2	135.5	6
Political Risk	-	-	-	-	8

* Downside risk on a scale of 1 to 10, with 1 being best (least risk) and 10 worst (highest risk)