Nigeria

High Growth Markets country profile

Nigeria is the eighth most populous country globally and the fifth largest exporter of crude oil. It is highly dependent on its capital-intensive oil sector, which provides 95 percent of foreign exchange earnings and about 80 percent of revenues. Unemployment and poverty remain a challenge, but such concerns cloud the picture of a nation with great potential. Although Nigeria's financial sector was hurt by the global financial and economic crises, gross domestic product (GDP) rose strongly between 2007–2013, due to growth in non-oil sectors and robust worldwide crude oil prices.

Country overview

Geography and climate

- **Location:** western Africa, bordering the Gulf of Guinea, between Benin and Cameroon
- **Climate:** varied; equatorial in the south, tropical in the center, arid in the north
- **Regions:** 36 states and one territory
- **Major cities:** Lagos (10.2 million); Kano (3.3 million); Ibadan (2.7 million); Abuja (1.8 million); Kaduna (1.5 million) (2009)

Political system

- **Type of government:** federal republic
- **Capital:** Abuja

Population, language and religion

- **Population:** 174.5 million
- **Urban population:** 49.6%
- **Demographics:** 0–14 years: 43.2%; 15–64 years: 52.9%; 65 years and over: 3%
- **Official language:** English
- **Prominant religions:** Muslim and Christian

Currency and central banking

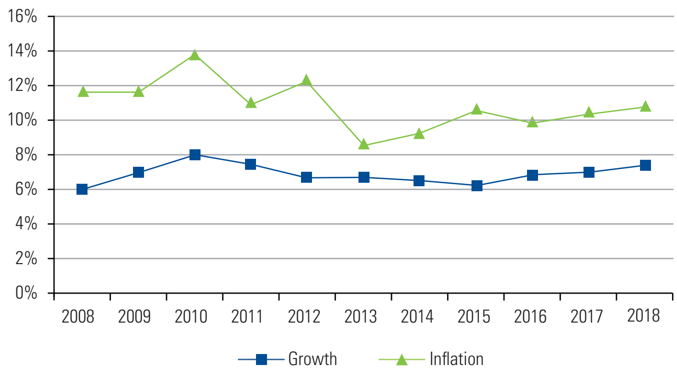
- **Local currency:** Nigerian Naira (NGN)
- **Exchange rate:** 1 NGN = US$0.0223 (1 April 2014)
- **Interest rate (average annual rate):** 10.9% (2013); 13.7% (2012); 9.7% (2011); 3.8% (2010); 3.8% (2009)
- **Foreign exchange reserves:** US$47.7 billion
- **Total debt (2013):** external: US$15.73 billion; internal public debt: 19.3% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$353.8 billion.** Real annual GDP growth is expected to average less than 7% between 2014–2018, below the average of recent years.
- **Foreign direct investment (FDI) (billions):** inbound: US$8.2 (2008); US$7.0 (2013); US$9.6 (2018 forecast); outbound: US$1.1 (2008); US$1.6 (2013); US$2.6 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$95.7 (2012); US$97.0 (2013); US$123.9 (2018 forecast)
- **Imports FOB (billions):** US$53.4 (2012); US$53.1 (2013); US$68.8 (2018 forecast)
- **Sector breakdown:** service: 29.3%; industrial: 38.2%; agriculture: 32.5%
- **Trade balance (billions):** surplus of US$42.3 (2012); US$43.9 (2013); US$55.1 (2018 forecast)
- **Stock exchanges:** Nigerian Stock Exchange

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** The government is focused on developing infrastructure, encouraging private sector-led economic growth and tackling high unemployment, to improve macroeconomic stability. Despite a marked improvement in economic policy in recent years, the gap between rhetoric and implementation remains huge. Progress will continue to be slow, given the vast and powerful range of vested interests that benefit from the chaotic status quo.
- **Competition policy:** Nigeria has limited legislation to control restrictive trade practices, and there is no legal definition of a monopoly. The Securities and Exchange Commission has the authority to deny mergers, acquisitions and corporate combinations, only if such transactions would cause substantial restraint of competition or create a monopoly. Consequently, a few multinational companies dominate the country's manufacturing sector. During 2014–2015, progress towards change will be slow, given the power of these organizations and other beneficiaries, combined with strong union opposition. 2016–2018 should see a shift in policy from broad privatization towards the promotion of local private sector champions.
- **FDI policy:** Although the oil and gas sector has historically received the largest amount of FDI in recent years, flows have increased into telecommunications, banking and retail. The government has taken steps to encourage FDI and plans to continue to liberalize the investment regime by removing various bottlenecks to the free flow of inbound finance. In 2014–2015, there is likely to be some uncertainty surrounding the implementation of the Petroleum Industry Bill (PIB), which will probably be delayed until after the 2015 elections. From 2016–2018, interest in the oil, gas and power sectors should be strong, while liberalization is likely to open up other opportunities.
- **Foreign trade and exchange controls:** Nigeria adheres to the Harmonised System of Customs Tariff, and all duties apply on an *ad valorem* basis. The government has reduced the number of items on its import prohibition list. Agricultural commodities destined for export face export levies; exports of unprocessed cocoa beans are subject to a US$5 per tonne levy; other commodities attract a US$3 per tonne levy. There are 25 free 'export processing zones' across the country. Enterprises within these areas enjoy exemption from taxes, duties, foreign exchange restrictions and import/export license requirements. Licenses are required to export petroleum products, and it is prohibited to export certain items, to preserve conservation and protect some local industries. Nigeria has relaxed its exchange controls, and, during 2014–2015, The Central Bank of Nigeria is likely to try to maintain a stable naira, to stem imported inflation. As growing dollar demand puts pressure on reserves, a one-off devaluation can be expected ahead of the 2015 elections. In the period 2016–2018, a fall in oil prices should necessitate some managed devaluation, although real appreciation is set to persist, which could harm non-oil sectors.
- **Financing policy:** Through 2014–2015, relatively favorable economic prospects should make financing easier, although the tapering of monetary stimulus by the Federal Reserve (the US central bank) could lower inward portfolio investment. Looking forward to 2016–2018, it should become easier to obtain domestic funding for well-planned projects, as local capital markets deepen and the banking sector develops.
- **Taxes:** Corporate profits in most non-oil sectors are taxed at 30 percent. The tax system in the oil and gas sector is set to change with the implementation of the Petroleum Industry Bill, although this has been repeatedly delayed. Most other taxes are fairly low — reflecting the fact that most revenue comes from the oil sector. However, tax compliance is a time-consuming process for the authorities. Gains on the sale of capital assets are taxed at a rate of 10 percent. In 2014–2015, progress with tax reform will be slow, as the administration attempts to placate competing interests. During 2016–2018, the Petroleum Industry Bill is likely to change taxation in the oil and gas sector. Tax reform elsewhere is expected to move up the political agenda, with the administration committed to attracting new foreign investment into the country.

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Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; World Stock Exchange, 2014

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