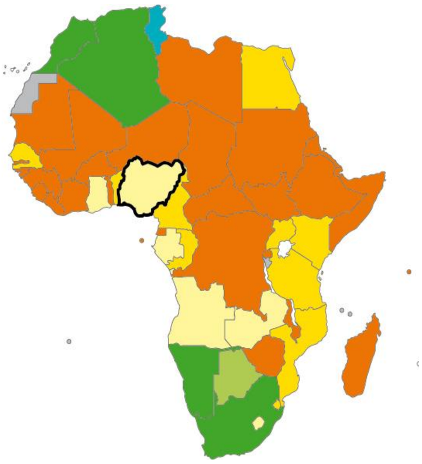
COUNTRY RISK ANALYSIS

Nigeria

CREATING CONFIDENCE IN YOUR EXPORTS



COUNTRY RISK CATEGORY

5/7

The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.

0 1 2 3 4 5 6 7

EKN'S OUTSTANDING GUARANTEES IN THE COUNTRY

Short-term transactions: SEK 24 million

Medium and long-term transactions: SEK 1,765 million

EKN'S POLICY

Sovereign risks: Restrictive risk assessment

Other public risks: Requirements for documentary credit, bank or government guarantee

Bank risks: Restrictive risk assessment

Corporate risks: Restrictive risk assessment

See “EKN'S POLICY” section

DATE

11/12/2013

Strong economy hampered by political conflicts

Nigeria, with its more than 160 million inhabitants, is Africa's most populous country and, after South Africa, it has the second largest economy. The country has access to the world's tenth largest oil reserves as well as major gas and mineral deposits. In recent years, the government has launched a number of important reforms aimed at diversifying the economy and strengthening public finances. Nigeria's growth prospects are very good. Economic growth is high and the current account balance is positive. Political divisions, ethnic tensions and corruption are the main obstacles preventing the country taking advantage of its full growth potential.

STRENGTHS

- Major oil and gas reserves and other natural resources
- Low government and external debt
- Rising international reserves
- Strong banking sector

WEAKNESSES

- Political discord and weak public institutions
- Extensive corruption and weak business environment
- Completely dependent on oil revenues which creates vulnerability
- The security situation, mainly in the north of the country

POLITICS

Extensive political challenges

The political climate and economic development in Nigeria has mainly been affected by two conflicts. One area of conflict originates from an ethnic and religious divide between northern and southern Nigeria. The second is linked to oil extraction in the Niger Delta. In addition, the country's complex federal structure, weak institutions and widespread corruption have contributed to lasting solutions to the conflict failing to materialise.

Frustration and widespread poverty in northern Nigeria has paved the way for the growth of the militant Islamist group Boko Haram, which since 2009 has carried out a series of armed attacks and bombings against the police, government buildings and the local population. The sect has an anti-western stance and aims to impose Sharia law. The government has stepped up the fight against Boko Haram and sent security forces to the northern states to regain control. Since May, a state of emergency has been declared in three states in the north-eastern part of the country. The local population is being squeezed between the security forces hunting for members of Boko Haram and terror attacks aimed at the government.

Nigeria's oil revenue has mainly benefited the economic elite, and only negligibly improved the economic conditions of the population at large. The frustration of local population in the Niger Delta has been tapped into by the local rebel groups, and for several years oil production in the Niger Delta was hampered by repeated sabotage. Oil installations were targeted, pipes burst and foreign oil workers were kidnapped. The most prominent rebel group was the Movement for Emancipation of the Niger Delta (MEND). The armed actions caused serious production disruptions for the oil industry and a major loss of income for the state. In 2009, the then government announced an amnesty for rebels in the Niger Delta in return for handing over their weapons. Since then a ceasefire has prevailed, occasionally broken by sabotage against oil installations. A lengthy process of formulating a new law has been in progress for several years that will regulate the distribution of income from the oil between the government and the international oil companies. This has meant that investment failed to materialise and oil production has consequently stagnated.

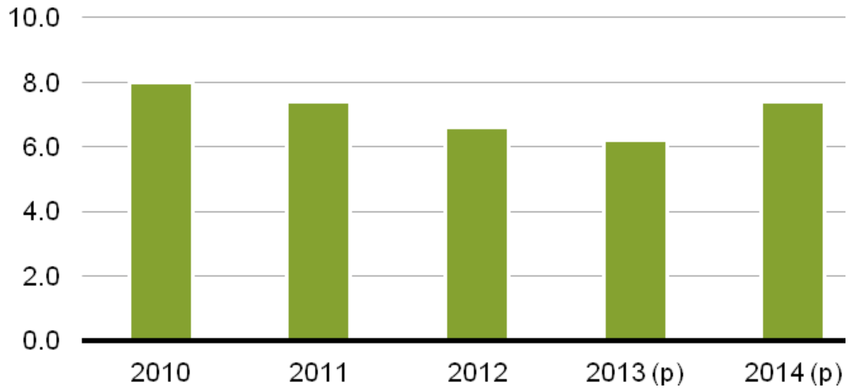
At the presidential election in April 2011, the incumbent President Goodluck Jonathan was re-elected with a large majority. Goodluck Jonathan comes from southern Nigeria. When Jonathan was re-elected for a second term, it was considered that the informal order of rotation between north and south had been broken, which caused protests in northern Nigeria. In 2015, it will once again be the presidential election and the election campaigns that will dominate domestic politics in 2014. The big challenge for the government is to manage the conflicts in the north and in the Niger Delta and to create political consensus on economic reforms. Support for the incumbent president and the fact that the government has shown signs of a willingness to reform indicate that the political situation in Nigeria is gradually stabilising. The path towards political consensus will likely continued to be fraught with adversity. However, the popular support for continuing on along the now established political path is greater than the support for terrorist activity in the North, which should imply that government policy will eventually bring increased stability.

ECONOMY

Strong growth

Nigeria's economy has shown strong growth over the past six years. GDP has grown by an average of seven per cent per year, compared with five per cent for the whole of sub-Saharan Africa. Both the global economic slowdown and the domestic banking crisis in 2008 and 2009 had little effect on the country's economy. Although the growth trend since 2010 has been decreasing, the forecast for 2014 is that the growth rate will increase. The country's large population means that GDP per capita is very low. Despite a population growth of around three per cent, GDP growth per capita has averaged 4.4 per cent over the past five years.

GDP GROWTH (% PER YEAR)



Good growth, above the average for sub-Saharan Africa. Data: IMF

The oil sector is the predominant source of income for the state budget, but it only represents 15 per cent of GDP. The agricultural sector represents the major component of GDP. Almost 80 per cent of government revenue comes from oil production. Statistics on oil production and oil revenues are not transparent and a significant share of oil revenues is expected to fall into the wrong hands which include theft and smuggling to neighbouring countries.

Fiscal policy in recent years has been tightened, as part of the Government's overall objective of bolstering public finances. The goal is to reduce current government spending, nearly 50 per cent of which goes to salaries of state employees, in order to increase the room for productive government infrastructure investment. Public finances show a marginal deficit that is expected to continue in 2013 and 2014. The national debt has stabilised at just below 20 per cent of GDP.

State governance and the allocation of oil revenues is crucial to oil wealth in the future in order to benefit the entire population. In order to make the country less vulnerable to fluctuations in oil prices, a buffer fund, the Excess Crude Account (ECA) was set up in 2005. Surpluses from oil revenues were placed in the fund, but there were no clear rules as to how the fund was to be used. Until 2009, the fund was gradually built up as the oil price rose, but was largely depleted in mid-2010 after it was used to cover the large deficit in the public budget. The government decided that year to replace ECA with a new fund, Sovereign Wealth

Fund (SWF), which is to be governed by principles of how withdrawals from the fund may be made to a much greater extent than its predecessor. For example, SWF is to be subordinate to the Ministry of Finance unlike ECA, which is currently governed by congress. The implementation of SWF has begun, but it will be some time before it has completely replaced the old fund.

The Government's reform ambitions have led to fuel subsidies being abolished in early 2012, which meant that the price of petrol more than doubled, albeit from a low level. The decision to remove the subsidy led to strikes and demonstrations, and as a concession the government decided to repeal the proposal. The subsidy was left in place but the subsidy rate decreased and the increase in petrol prices ended up at 40 per cent. In the long term, however, the government intends to abolish the subsidy completely. The government has also taken measures to improve the electricity supply. The mains system has been extended and the number of power outages have been reduced. However, the lack of electricity is still one of the biggest obstacles to the continued expansion of the non-oil sector of the economy. The government has also pushed through more market-driven electricity prices in order to make electricity consumption more cost-effective.

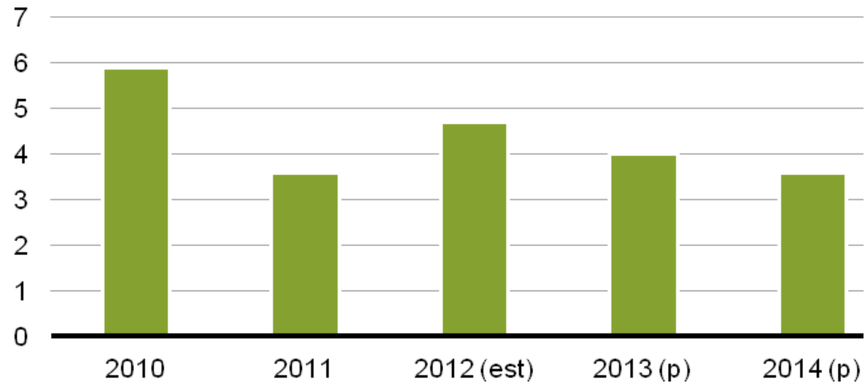
Overall, Nigeria's growth prospects for the coming years are good. Nigeria has taken steps in the right direction and the process of reforming the economy has begun. However, a lot of effort will be required to strengthen public institutions and limit the widespread corruption. Because of continuing ethnic tensions and the upcoming election campaign, the government is predicted to have difficulty pushing through its reform work in the coming year.

BALANCE OF PAYMENTS AND DEBT ISSUES

Low debt and current account surplus

The oil sector accounts for 95 per cent of total export earnings, which has resulted in a current account surplus and large international reserves. Public investment is expected to increase over the next few years, and a growing middle class is stimulating imports while export growth is expected to level off. In recent years, international reserves have corresponded to fully four months of imports. Altogether foreign trade is assessed to generate a continued current account surplus and international reserves are expected to increase from the current level to correspond to about seven months of imports in 2014.

CURRENT ACCOUNT BALANCE (% OF GDP)

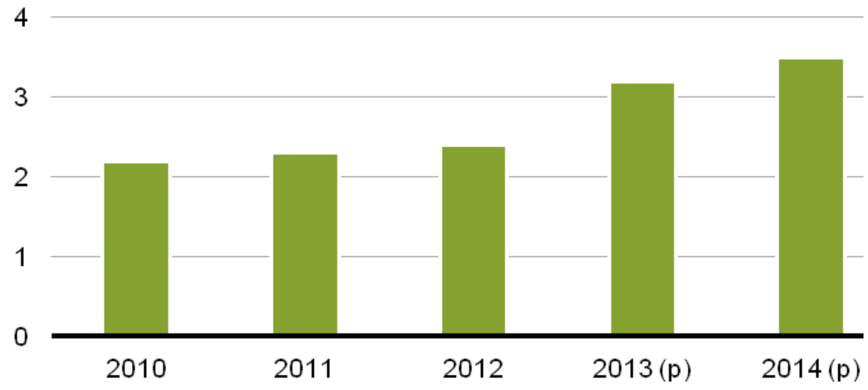


The current account balance shows a comfortable surplus. Data: IMF

Despite a complicated business environment, a continued high level of foreign direct investment is promoting Nigeria's ability to attract foreign investors. Over the past decade, foreign investment has increased more than fivefold. It is primarily the oil industry that has attracted investments from abroad and mainly from the US, UK and, to an increasing extent, China.

Nigeria's external debt is very low and almost 85 per cent of the public debt is in domestic currency. In late 2004, the external debt was just over 40 per cent of GDP and a large proportion of the debt represented fees for defaults. In 2005 and 2006, bilateral debts to members of the Paris Club were written down. The public external debt amounted to about three per cent of GDP in 2012. A level that is expected to increase only marginally. The private sector's part of the external debt is not included in Nigeria's official statistics, but with the external debt included, this would be around ten per cent of GDP, which is also a low level.

PUBLIC EXTERNAL DEBT (% OF GDP)



Nigeria's debt level is low and is expected to increase only moderately. Data: IMF

CURRENCY POLICY

Restrictions on foreign currency

The central bank's objective for monetary policy is price stability. Nigeria has a floating exchange rate, but the central bank intervenes in the foreign exchange market to reduce exchange rate variability. The Nigerian currency, the Naira, has been relatively stable in 2012 and 2013. Exchange rate stability has previously been prioritised but anti-inflationary measures have come increasingly to the fore. The central bank is expected to authorise a temporary exchange rate weakening to a greater extent than previously and within a few years the exchange rate is expected to have depreciated by five to ten per cent. The currency is not freely convertible but restrictions may be in place for import and export transactions.

FINANCIAL SECTOR

Increased supervision has strengthened banks

Nigeria's banking system was close to collapse in 2009 and the country was facing a systemic crisis. The central bank conducted a thorough review of the banking sector and declared ten banks insolvent or undercapitalised. A bank support authority was established, The Asset Management Company of Nigeria (AMCON), tasked with buying up bad loans from the most vulnerable banks. The supervision of the banking sector has been strengthened and regulations have been tightened. To meet the higher capital adequacy requirements, several banks have been merged. AMCON is expected to sell the three banks they took over in 2009 in the coming years and is expected to regain the use of funds for bank intervention within the next ten years.

The financial system in Nigeria consists of 20 commercial banks. The assets of the six largest banks represent 60 per cent of the banking sector's total assets. The banking sector is steadily becoming more and more integrated into the global financial system. 17 of the 20 banks are privately owned and local ownership dominates. Only 20 per cent of banks have foreign ownership.

For the banks that passed the 2009 review and for the newly formed banks, the share of bad loans in relation to total lending has declined. As an average, the proportion of bad loans as a share of total lending is under five per cent. The capital adequacy ratio has increased and is at a satisfactory level. Lending to the private sector has slowed due to high lending rates and increased caution by the banks.

BUSINESS ENVIRONMENT

Difficult business environment

The operational environment is complex. The accounting standard has flaws but is expected to maintain a sufficiently good level for credit risk assessment. The legal system is a mix of British law, local customs and Islamic law. The effectiveness of the system is low with extensive bureaucracy, lengthy procedures and a major level of corruption. On the World Bank's Doing Business Index, Nigeria features at a relatively low position on the ranking list, 147 out of 189 countries. This is also a decrease of several places since last year. Seen in relation to other African countries south of the Sahara, Nigeria features in the middle of the list. A factor of great importance in the country's poor position is the lack of electricity. Almost half of the population has no access to electricity. In addition, power outages are common in industry. Another factor affecting the business environment negatively is the registration of property where costs are high and the process is long-winded. Add to this the shortcomings in the rule of law and corruption. Corruption is widespread in all sectors and at all levels, as shown in Transparency International's Corruption Perceptions Index with Nigeria in position 139 of 176 countries.

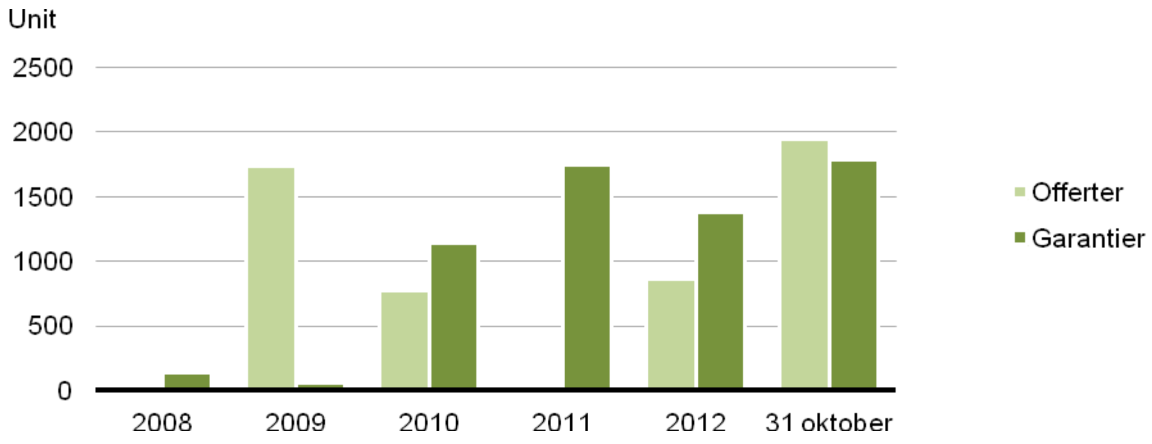
EKN's restrictiveness is based on the shortcomings in terms of transparency in companies and the corporate environment. It is therefore particularly important to consider the impact of the operational environment on the company and its ability to act in the market. Access to complete and audited financial statements is seen as extra important in gaining insight into the company.

EKN'S EXPOSURE

Telecom sector dominates

EKN's exposure in Nigeria amounts to SEK 3.7 billion, about half of which consists of guarantees and half of offers. Guarantee exposure consists mainly of transactions in the telecom sector but the transport and mining sectors are also represented. Bank risks occur to a limited extent, mainly during letter of credit guarantees.

EKN'S EXPOSURE AT DECEMBER 31, SEK MILLION



EKN's guarantee exposure in Nigeria has increased and is expected to rise further with continued high volumes of offers. Source: EKN.

PAYMENT EXPERIENCE

Good experience

EKN has extensive experience in guarantee provision to companies and banks in Nigeria. Delays for private buyers occur, but indemnification payments are few in number and small in amount. EKN has currently only one outstanding claim, the equivalent of SEK 4 million, relating to a private buyer. After Nigeria was granted debt write-downs within the Paris Club in 2005 and 2006, EKN's exposure has risen substantially. Payment experience is generally good.

EKN'S POLICY

Unchanged policy

EKN has placed Nigeria in country risk category 5 for both short and long-term guarantees. For buyers who are public, such as state energy and transport companies or line ministries, EKN requires that there is a guarantee from the Ministry of Finance.

For transactions with private banks a number of banks that EKN has good experience of are recommended, otherwise EKN conducts a restrictive risk assessment. For private companies EKN's policy means a restrictive risk assessment is conducted, with particular emphasis on complete and audited financial statements being available.

OFFICIAL COUNTRY DATA AND CREDIT RATINGS

OFFICIAL COUNTRY DATA

Area: 924,000 km² (about 2 times Sweden)

Population: 169 million (2012)

Population growth: 2.8 % (annual average 2008-2012)

GDP: USD 263 billion in 2012 (Sweden USD 526 billion in 2012)

GDP/capita: USD 1,430 in 2012 (Sweden USD 56,210 in 2012)

CREDIT RATING

	COUNTRY CEILING	SOVEREIGN RISK
Moody's:	Ba1	Ba3/Stable
S&P:	BB-	BB-/Stable
Fitch:	BB-	BB-/Stable

COUNTRY ANALYST

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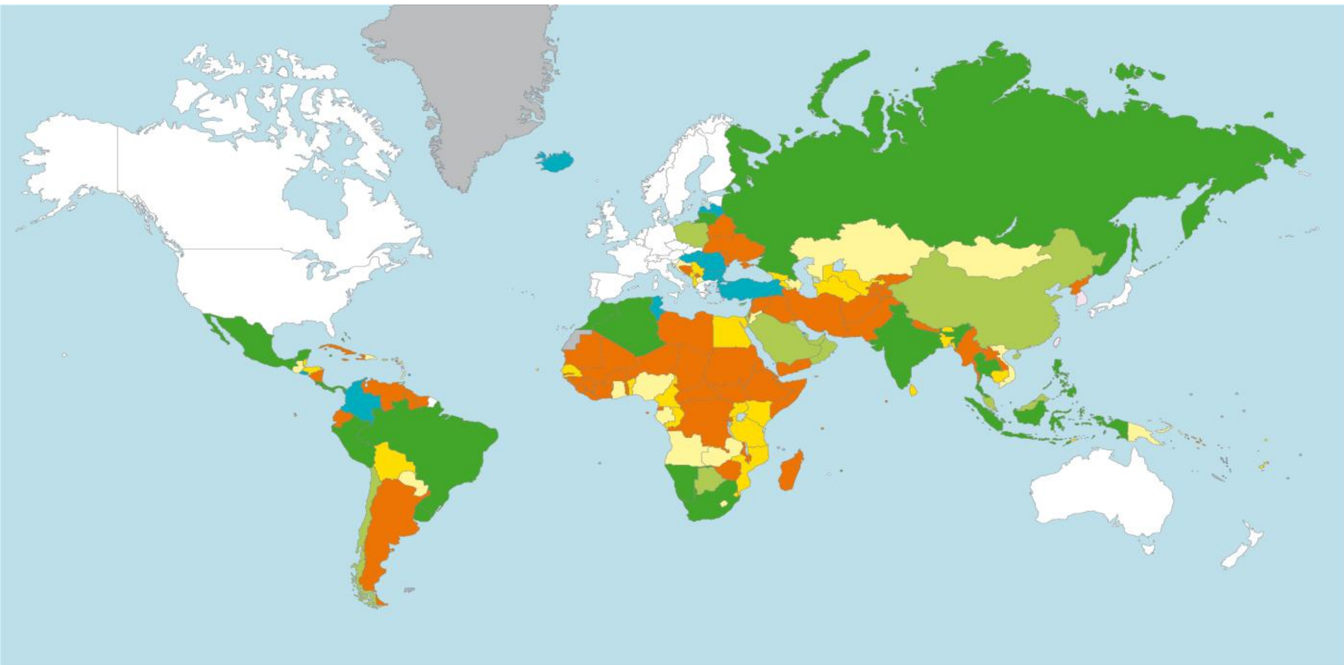
EKN'S VIEW OF THE WORLD



The country risk categories range from 0 to 7.
The lower the number the better the credit rating the country has.

EKN – CREATING CONFIDENCE IN YOUR EXPORTS
EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management. Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions..

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