COUNTRY RISK ANALYSIS

Nigeria

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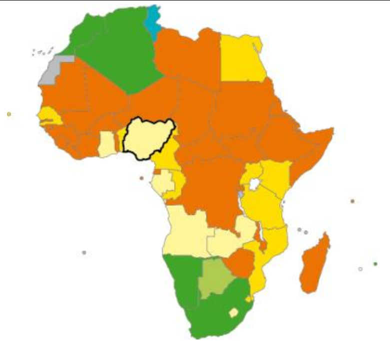


COUNTRY RISK CATEGORY

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 TO THE COUNTRY

SHORT-TERM TRANSACTIONS SEK 54 MILLION

MEDIUM AND LONG-TERM TRANSACTIONS SEK 2,877 MILLION

DATE

8/12/2014

Rich in oil but lacking in stability

With a population of over 170 million, Nigeria is the most populated country in Africa and, since the method for calculating GDP was updated during the year, also the continent's largest economy. The country has been a major exporter of oil since the 70s and has the largest oil and gas deposits in sub-Saharan Africa. Its rapid growth in recent years is however attributable to other parts of the economy, not just oil and gas, as sweeping reforms have been introduced in order to strengthen certain industries and diversify the economy. Industries such as banking, the manufacturing industry and commerce are growing rapidly. However, the distribution of income throughout the country remains very uneven and most of the population lives in widespread poverty. The security situation in Nigeria with terrorist attacks, ethnic and religious disagreements, political division and widespread corruption are getting in the way of the country's growth reaching its full potential. It is estimated that this unstable situation will persist and probably escalate by the presidential elections in February 2015.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

Strengths

- Strong growth driven by the services sector.
- Low public debt.
- A strong external position with low external debt, adequate international reserves and a positive current account balance.
- Africa's largest oil and gas reserves.

Weaknesses

- Political and security instability.
- A deficient business environment and institutional framework.
- Exports and public revenues extremely dependent on oil.
- Neglected infrastructure with a deficient road network and frequent power outages.

EKN'S POLICY

Unchanged policy

EKN has placed Nigeria in country risk category 5, for both short and long guarantees – an assessment made in collaboration with the other OECD countries. For public buyers such as state energy and transport companies or line ministries, EKN requires a government guarantee. As a result of the country previously having received debt relief, there may be restrictions with respect to commercial borrowing by government or government-owned counterparties. For transactions with banks, several systematically important banks that EKN has good experience with are preferred, otherwise EKN conducts a restrictive risk assessment. For private companies, EKN's policy stipulates a restrictive risk assessment, with particular emphasis on the availability of complete and audited financial statements. EKN's restrictiveness is based on the transparency shortcomings in companies and the business environment. It is therefore particularly important to consider the impact of the operating environment on the company and its ability to act on the market.

WHAT MIGHT CAUSE A CHANGE N THE COUNTRY POLICY?

The policy may be made less restrictive in the event of

- The diversification of the economy and exports via continuing reform efforts.
- An improvement in the business environment by combating corruption and upgrading infrastructure.
- The stabilisation of the turbulent security situation.

The policy may be made more restrictive in the event of

- A sharp fall in the price of oil, leading to a decrease in export revenues and international reserves.
- Further deterioration of the security situation and political divisions.

EKN'S EXPOSURE AND EXPERIENCE

Telecom sector dominant

EKN's exposure in Nigeria amounts to SEK 3.8 billion, with SEK 3.0 billion consisting of guarantees. EKN issued around 80 guarantees in 2014. EKN's guarantee exposure consists mainly of transactions in the telecom sector, but the transport and mining sectors are also represented. Banking risks occur to a limited extent, mainly under letter of credit guarantees.

EKN has extensive experience in providing guarantees to companies and banks in Nigeria. Delays for private buyers occur, but indemnification payments are few and small. EKN's payment experience is generally good.

COUNTRY ANALYST

EKN's country analyst for Nigeria:
Helena Ölander
Telephone: +46 8 788 01 77
Email: helena.olander@ekn.se

DISCLAIMER

The country analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damage.

RISK DEVELOPMENT

Worse security situation

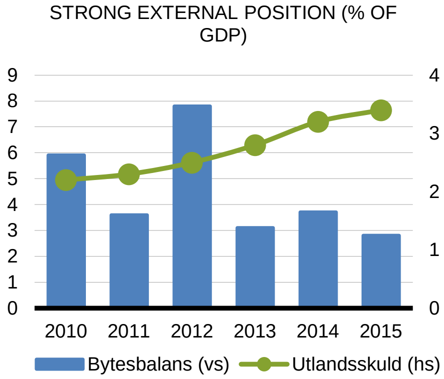
The political climate and economic growth in Nigeria have mainly been affected by two conflicts. One of them stems from an ethnic and religious dividing line between, to put it simply, Christian and oil-rich South Nigeria on the one hand and Muslim and poorer North Nigeria on the other. The Islamist group Boko Haram, originally from the northern part of the country, has been a growing security threat for a couple of years now. The group carries out armed attacks, bombings and kidnappings in their mission to introduce sharia law throughout Nigeria. In spite of increased financial and military resources from the government, the country has failed in both fighting and negotiating with Boko Haram. The second conflict is linked to oil extraction in the Niger Delta. This conflict is based on widespread discontent with the enormous income gaps, with only a small economic elite benefiting from oil revenues, while the majority of the population lives in poverty. Over a long period of time, oil facilities have been sabotaged frequently, foreign workers have been kidnapped and enormous quantities of oil have been stolen. This has resulted in major disruptions to production and loss of income. A certain degree of stabilisation has occurred in the area, but continuing theft, deficient security and a prolonged process in terms of legislation in the oil sector have made international companies hesitant to invest and left production stagnant.

The election campaigns for the 2015 presidential elections in February have dominated domestic policies this year. The sitting president Goodluck Jonathan is expected to be the PDP's official candidate, in spite of the fact that he is from the south, and according to the party's system of rotation, the candidate should be from the north. The outcome of the elections is uncertain, but the most likely scenario is that Jonathan will be re-elected. Reform efforts during this term have been relatively successful and the opposition have yet to present their candidate, due to internal splits. The run-up to the election will likely be fraught with political turbulence and increased security risks. But it is expected that broad popular support for continuing reforms and combating Boko Haram will serve as a guarantee that developments do not go backwards.

Africa's largest economy

The fact that Nigeria has overtaken South Africa as Africa's largest economy is due to re-weighting of the country's GDP components. Now that growing sectors such as telecom and the entertainment industry are included, Nigeria's economy has nearly doubled to over USD 500 billion. The services sector is growing rapidly and now accounts for half of the country's GDP, while traditional sectors such as agriculture have fallen from 35% to 20%. The oil industry now accounts for less than 15% of the domestic economy, but it makes an all the more important contribution to the external balance and public finances. Oil accounts for 95% of export revenues and 70% of government revenues. The government has attempted to reduce its dependence on oil by reforming sub-standard sectors such as agriculture, the financial market and the power industry. This diversification has had an impact to a certain degree, since non-oil-related industries in the services sector are the ones that have been the drivers of average growth of over 6% in recent years.

A falling price of oil in combination with lower production has weakened the country's current account balance and currency. Nigeria has the economic scope to temporarily manage lower oil revenues in the form of current account and international reserve surpluses that cover around five months of imports. The public finances also have somewhat of a buffer with a small, but manageable, budget balance deficit and low debt levels. Government debt is less than 15% of GDP, with external debt accounting for around 3% of GDP, which is low in global terms. In addition, a strategy to manage and distribute oil revenues is needed to reduce Nigeria's vulnerability to fluctuating oil prices in the long term.



Source:

Kommentar [DF1]: Current account balance (left) External debt (right)

Stronger banking sector

Since 2009, the financial sector has undergone extensive consolidation, with the central bank gaining recognition for doing a good job of cleaning up insolvent banks with stress tests, restructuring and capital contributions. New capital and liquidity requirements under international standards have put greater restrictions on the banking sector, and it now has an average capital adequacy ratio of 17%, in comparison to 2% in 2010. The proportion of bad loans has also fallen from 16% to an industry average below 4% in the same period. Even though the new regulations put a strain on the profitability of the banks, high demand for loans in construction, production, transport and communication are indicative of continuing growth. Private banking services are a segment with great opportunities, since less than 30% of the adult population have a bank account and mortgages are basically non-existent.

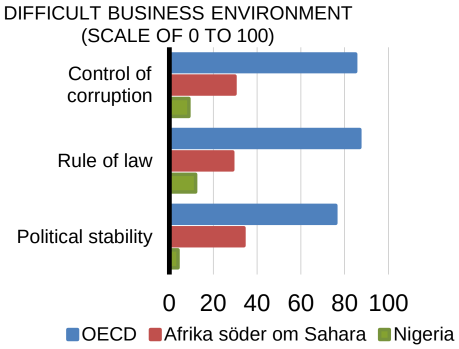
In spite of political turbulence, a complicated business environment and economic challenges, Nigeria has overall good prospects for continuing to deliver robust growth. A large, young population, along with rich natural resources and continuing reform programmes in strategic sectors, should serve a solid foundation to attract foreign investment and capital.

BUS NESS ENVIRONMENT

Difficult business environment

The operating environment is complicated. The country's accounting standard has flaws, but is considered sufficient to serve as a basis for credit risk assessments. 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 proceedings and a high level of corruption. Nigeria is ranked low in the World Bank's Doing Business Index, both globally in 170th place out of 189 countries and regionally (36th

Kommentar [DF2]: OECD Sub-Saharan Africa Nigeria



Source: World Bank

place out of 47). One factor that plays a major part in the country's poor ranking is its lack of electricity. Half of the population has no access to electricity. In addition, power outages are frequent in the industrial sector and serve as a major obstacle to the country's growth. Another factor affecting the business environment negatively is the registration of property, where costs are high and the bureaucracy is cumbersome. There are also shortcomings in the rule of law and corruption. Corruption and bribes are commonplace in most industries and on all levels. This is confirmed by Transparency International's corruption index, which ranks Nigeria in 144th place out of 176 countries.