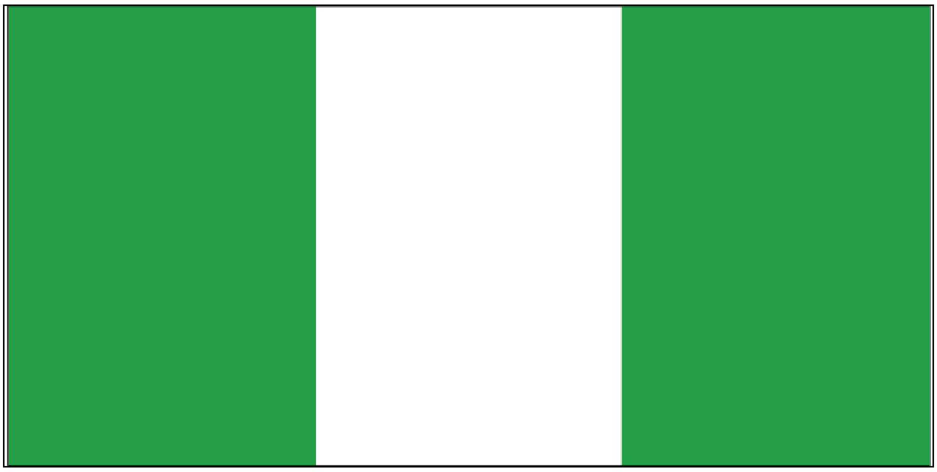
Country update **NIGERIA**



Summary

Persistent attacks by the Islamist Boko Haram sect, as well as large-scale strikes and protests following a sudden abolishment of fuel subsidies at the start of 2012, show that Nigeria is very prone to political and civil unrest. A key risk to the country's stability is that attacks of the sect further intensify and spread to the south and/or that they will further fuel tensions between Muslims and Christians in the country. Another vulnerability is that new tensions arise if president Goodluck Jonathan does not succeed in tackling corruption and waste, improving oil sectors and social services, and explaining the spending on the fuel subsidies that have been given to oligarchs in the last ten years.

Things to watch:

- Approval and accountability of president Goodluck Jonathan's policy by the Nigerians
- Security threat of Boko Haram
- Oil price trends

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Nigeria

National facts		
Type of government	Federal Republic	
Capital	Abuja	
Surface area (thousand sq km)	924	
Population (millions)	152.2	
Main languages	English (offical)	
	Indigenous languages	
Main religions	Muslim (50%)	
	Christian (40%)	
	Indigenous (10%)	
Head of State (president)	Goodluck Jonathan	
Head of Government (PM)	Goodluck Jonathan	
Monetary unit	Naira (NGN)	
Economy		**2011**
Economic size	*bn USD*	*% world total*
Nominal GDP	242	0.35
Nominal GDP at PPP	323	0.41
Export value of goods and services	107	0.49
IMF quotum (in mln SDR)	1753	0.81
Economic structure	*2011*	*5-year av.*
Real GDP growth	7.2	6.7
Agriculture (% of GDP)	35	34
Industry (% of GDP)	34	37
Services (% of GDP)	31	29
Standards of living	*USD*	*% world av.*
Nominal GDP per head	1562	14
Nominal GDP per head at PPP	2081	17
Real GDP per head	845	10

Social and governance indicators	rank / total
Human Development Index (rank)	158 / 182
Ease of doing business (rank)	125 / 183
Economic freedom index (rank)	106 / 179
Corruption perceptions index (rank)	130 / 180
Press freedom index (rank)	135 / 175
Gini index (income distribution)	42.9
Population below $1.25 per day (PPP)	64%

Foreign trade			2010
Main export partners (%)		*Main import partners (%)*	
US	36	China	15
India	12	US	10
Brazil	7	Netherlands	9
Spain	7	UK	5

Main export products (%)	*2011*
Crude petroleum	90
LNG	7
Main import products (%)	*2011*
Machinery & transport equipment	16
Manufactured goods	10
Chemicals	8
Openness of the economy	*2011*
Export value of G&S (% of GDP)	44
Import value of G&S (% of GDP)	40
Inward FDI (% of GDP)	2.6

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Introduction and update

Persistent attacks by the Islamist Boko Haram sect, as well as large-scale strikes and protests following a sudden abolishment of subsidies on fuel at the start of 2012, show that Nigeria is very prone to political and civil unrest. Meanwhile, Nigeria remains Africa's biggest oil producer and the 15th largest oil producer in the world, with an output of 2.4mln barrels per day. After the general elections of 2007, which were severely marred by electoral malpractice on all sides, last year's presidential elections were conducted more smoothly. However, unfair practices were again observed in various parts of the country and anger spilled over into violence in some northern regions. In these regions, people did not want to accept the re-election of Goodluck Jonathan of the People's Democratic Party (PDP), as president. Jonathan's policy is focused on tackling unemployment, improving the government's financial management, social services and energy sector, as well as generally boosting economic growth. Since the election of Jonathan, a southern Christian, violent outbreaks in the Muslim northern part have increased (see also the sections below).

Increased oil revenues have caused economic growth and the fiscal balance in 2011 to improve since last year's Country Risk report. The economy is expected to continue to grow around 6-7% this year, albeit slightly lower than recent years. Meanwhile the fiscal balance remained in deficit in 2011, as it declined from a last year predicted 5% of GDP to a now forecast 3% of GDP in 2011. The fiscal deficit is expected to remain around 3% this year. Furthermore, due to improved import

data quality, the current account balance surplus has been reduced and is now predicted to show a surplus of 5.3% of GDP last year, from a last year expected figure of 12% of GDP for 2011. This year, the surplus on the current account balance is expected to further decline, to 1.5% of GDP, on the back of a lower forecast trade surplus. In 2010, foreign-exchange (FX) reserves rapidly declined following a strong demand for US dollars by domestic fuel and rice importers. Foreign-exchange reserves decreased from USD 44.8bn at end-2009, to USD 34.9bn at end-2010. For 2011 and 2012, FX reserves are expected to grow again on the back of higher export receipts for oil. As a result of the decline in foreign exchange reserves, as well as a larger import bill, the import cover has deteriorated, from a comfortable 10.9 months at end-2009, to a just above acceptable level of4.8 months at end-2011.
Below, we first analyze the attacks of Boko Haram and their impact on the country. Furthermore, we analyze the recent turmoil about the fuel subsidies.

Boko Haram' sparked unrest
The Islamist sect Boko Haram is a persistent security threat to Nigeria. The sect emerged in 2003, but its attacks intensified in 2009, after the arrest of some of its members. Boko Haram in local Hausa language means 'Western education is sinful'. The sect considers all who do not follow its ideology as infidels, whether they are Christian or Muslim. The group demands the adoption of sharia, Islamic law, in all of Nigeria. The attacks staged by the group have increased in frequency and sophistication, from unrelated shootings and blasts to more coordinated actions with national and international impact. Bombings have damaged churches, police stations and even a United Nations building in Abuja. In total, almost 1,000 people have been killed. The sect is said to have links with al-Qaida in the Islamic Maghreb (QIM) and is suspected to have supporters within the Nigerian government. Boko Haram is more and more seen as a big threat by President Goodluck Jonathan. During the last days of 2011, he declared a state of emergency in four north-eastern states, where the attacks concentrate. For 2012, the government allocated the security services and armed forces naira 921bn (USD 5.5bn), about one-fifth of the national budget. However, President Jonathan is widely criticized for failing to act quickly and decisively enough against the group.
A latent risk is that the attacks would further spread to Lagos and the Niger Delta cities in the south of the country. This would substantially increase risk, threatening commercial hotels and businesses. But, for now, Boko Haram has failed to extend its influence to the south. Also Boko Haram's basis is miles away in the north and the attackers would face logistical and technical challenges in an area that is unknown for most attackers. Another risk to Nigeria's stability is the spread of Boko Haram's attacks to a large-scale dispute between Muslims and Christian. Nigeria is a divided country with a predominantly Muslim north and Christian south. After attacks in December 2011, thousands of Christians have already fled out of cities in the north-east. Also, there has been a reprisal attack on an Islamic school. If the attacks evolve into a large-scale, ethno-religious dispute, this poses the risk to derail the economy.

Removal of fuel subsidies
On January 1, 2012, the Nigerian government scrapped its subsidies on fuel imports, with little advance warning or clear palliative measures for the Nigerians. This resulted in a rise of the pump price of fuel from 65 naira a liter to 150 naira a liter, and also sparked a lot of anger among the Nigerians, who see the oil subsidies as the only benefit they get from the oil wealth. A week-long strikes and protests hit the country. Schools, petrol stations, banks, government buildings, offices and shops remained closed and foreign airlines suspended operations. The standstill of the economy was estimated to cost naira 207bn (or 0.6% in terms of 2010's GDP). Threats to shut

down oil production increased, but it did not get that far. On 15 January, President Goodluck Jonathan announced a partial reinstatement of the subsidy, lowering the price of fuel to 97 naira a liter to allow further negotiations with trade unions. The partial reinstatement, that is said to be a temporary measure, ended the strikes and protests.
President Jonathan wanted the subsidy removal to be part of an economic reforms program, meant to reduce corruption, waste and smuggling, and to boost investment in the country's dilapidated refinery industry, making the country less dependent on fuel imports. The abolishment of the subsidy was not only a proposal by the government, but also long urged by the IMF. The saved money is intended to be spend on improving the energy sector (including the oil industry) and social services. The oil industry has been long criticized for lacking transparency and mismanagement. Furthermore, the absence of a number of social services and the poor state of the social services that are available have been under fire. By the sudden removal of the fuel subsidies, the Nigerians became aware of the poor state of both sectors and the large scale of corruption in the country. Thus, the anger of the Nigerians goes wider than the dispute about fuel subsidies. Many Nigerians do not trust their government and are increasingly asking for more accountability. This may fuel further unrest. Especially, if Jonathan does not succeed in justifying the fuel subsidies that have been given to oligarchs in the last 10 years, tackling corruption and waste, and improving oil sectors and social services.

Nigeria

Selection of economic indicators	2007	2008	2009	2010	2011	2012e	2013f
Key country risk indicators							
GDP (% real change pa)	6.5	6.0	7.0	7.8	7.2	6.6	6.8
Consumer prices (average % change pa)	5.4	11.6	11.5	13.7	10.8	10.1	9.2
Current account balance (% of GDP)	16.6	13.5	7.8	1.3	5.3	1.5	2.7
Total foreign exchange reserves (mln USD)	51334	53002	44763	34919	38359	39360	43960
Economic growth							
GDP (% real change pa)	6.5	6.0	7.0	7.8	7.2	6.6	6.8
Gross fixed investment (% real change)	24.5	-6.8	9.1	-3.6	6.5	6.0	10.0
Private consumption (% real change)	6.6	-34.3	6.4	-26.7	9.0	8.5	10.3
Government consumption (% real change)	90.8	4.4	-8.1	17.8	11.0	7.0	8.0
Exports of G&S (% real change)	-11.7	43.4	-30.0	11.4	12.9	11.5	12.5
Imports of G&S (% real change)	54.4	-18.8	-15.8	-15.3	24.5	16.1	21.3
Economic policy							
Budget balance (% of GDP)	-0.2	1.5	-5.3	-3.7	-3.3	-3.0	-2.1
Public debt (% of GDP)	12	11	15	18	18	18	17
Money market interest rate (%)	6.9	8.2	3.8	3.8	8.5	8.0	7.0
M2 growth (% change pa)	58	54	21	4	14	9	15
Consumer prices (average % change pa)	5.4	11.6	11.5	13.7	10.8	10.1	9.2
Exchange rate LCU to USD (average)	125.8	118.5	148.9	150.3	153.4	160.0	165.0
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Balance of payments (mln USD)							
Current account balance	27643	28079	13153	2476	12746	3530	7430
Trade balance	37748	45885	25342	20237	34682	22160	27380
Export value of goods	66040	85729	56121	73698	103814	96740	109930
Import value of goods	28291	39844	30779	53461	69131	74580	82550
Services balance	-16902	-22113	-16479	-19231	-24051	-23110	-24330
Income balance	-11747	-15059	-14404	-18623	-22697	-20710	-24450
Transfer balance	18545	19366	18694	20092	24812	25190	28820
Net direct investment flows	5167	7145	7030	5134	5559	5800	6250
Net portfolio investment flows	800	-3403	-346	2596	750	1050	1470
Net debt flows	829	2559	-3762	1394	3038	1260	1900
Other capital flows (negative is flight)	-25403	-32712	-24314	-21444	-18654	-10640	-12450
Change in international reserves	9035	1668	-8239	-9844	3440	1010	4590
External position (mln USD)							
Total foreign debt	8628	11509	7846	9160	12288	13440	15260
Short-term debt	4944	7456	3514	4421	6341	7140	8700
Total debt service due, incl. short-term debt	5141	5535	7966	3953	4942	7000	7830
Total foreign exchange reserves	51334	53002	44763	34919	38359	39360	43960
International investment position	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	22.7	22.1	15.0	10.3	14.3	9.2	10.1
Current account balance (% of GDP)	16.6	13.5	7.8	1.3	5.3	1.5	2.7
Inward FDI (% of GDP)	3.6	3.9	5.0	3.1	2.6	2.7	2.6
Foreign debt (% of GDP)	5	6	5	5	5	6	6
Foreign debt (% of XGSIT)	10	10	10	9	9	11	11
International investment position (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	6	5	10	4	4	6	5
Interest service ratio incl. arrears (% of XGSIT)	0	0.2	0.2	0.1	0.1	0.1	0.1
FX-reserves import cover (months)	13.2	9.9	10.9	5.5	4.8	4.7	4.8
FX-reserves debt service cover (%)	999	958	562	883	776	562	561
Liquidity ratio	225	200	180	142	144	135	137

Source: EIU