Q3 2019

Nigeria

Country Risk Report

Includes 10-year forecasts to 2028

Contents

Executive Summary

Core Views

- The victory of incumbent Muhammudu Buhari in the February 2019 elections suggests little scope for structural reform in the years ahead, weighing on the economy's long-term growth prospects.

- Buhari's economic campaign pledges focus on employment and infrastructural work, with the government expected to play the key role, underscoring his broadly statist mindset. There is little to suggest that the president will enact the reforms that would facilitate a substantial rise in foreign direct investment. Moreover, multiple security challenges are likely to act as further headwinds to reform.

- We expect Buhari to maintain the existing multiple exchange rate system, with a notable differential between the official rate (used for government business) and the market-determined NAFEX rate (which applies to investors and exporters). Maintenance of the system will act as a deterrent to investors, and a potential drain on official reserves.

- The proposed 2019 budget targets a reduction in the fiscal deficit to 1.3% of GDP, but this is unlikely to be attained. Although state oil revenues will be boosted by the start-up of key fields, the projected increase in oil revenues seems likely to be overly ambitious. Meanwhile, rising current expenditure will drive the fiscal deficit to widen over the coming years.

- Inflationary pressures will increase in 2019 on the back of continued high food prices and increased demand-side pressures, fuelled by the planned 67.0% increase in the national minimum wage and a 50bps reduction in interest rates by the Central Bank of Nigeria (CBN) in March. However, the authorities will remain keen to bolster still muted economic growth and job creation, and we expect the CBN to maintain a neutral policy stance over the rest of 2019, before implementing another modest rate cut in 2020.

- Nigeria's current account surplus will be supported in 2019 by an ongoing recovery in the country's oil production and rising international Brent crude prices. However, after 2019, oil exports will be on a broad downward trend. This, combined with rising import growth, will see the current account surplus gradually narrow.

Key Risks

- Insecurity remains a key risk in Nigeria, with violent groups undermining economic activity across the country. Any further escalation from groups such as Boko Haram and the Niger Delta Avengers, or a worsening of conflict in the Middle Belt area, would see our growth forecasts revised down.

- Power sector reforms are crucial for long-term productivity gains. If these are slowed or stalled, this would lead to lower long-term trend growth than we currently expect.

- The economy remains vulnerable to a shock via sudden exchange rate reform. We believe that a move to a unified rate will be deferred until 2020, when the coming onstream of new refineries should ease the impact of an effective devaluation of the official exchange rate, at which fuel is still bought.

Country Risk Summary

Economic Risk Index

Oil is a pillar of the Nigerian economy, and when prices were high and production robust, it helped the country garner large foreign reserves, a relatively healthy current account position and low foreign debt (the country paid off much of its debt in 2006). However, since the price slump in 2014, and a series of Niger Delta Avengers attacks, the structural weakness of an overreliance on oil exports has been highlighted. While the economy will benefit from the beginnings of a cyclical upswing over the coming years, the trajectory of its recovery remains highly vulnerable to further shocks or a downturn in investor sentiment.

Political Risk Index

Nigeria faces a range of risks to political stability. The country first transferred executive power democratically in 2007 in elections that were viewed as non-credible by many international observers. Elections held in early 2015 were a vast improvement, garnering international praise, although there were some questions over aspects of the 2019 vote. Sectarian conflict is rife in many parts of the country, with inter-religious tensions occasionally erupting into massive violence in which hundreds are killed. Militants in the oil-rich Niger Delta have staged repeated attacks on oil installations, making the region a centre of low-level conflict. Tensions have risen in the Delta region following the February 2019 elections, while the risk of attacks on government institutions and suicide attacks on public places will likely continue in the north. That said, Islamic insurgency organisation Boko Haram does not present an existential threat to the government.

SWOT

Economic – SWOT Analysis

Strengths

- External debt is still low by regional standards.
- The agricultural sector has significant potential, as does the large consumer market.
- Nigeria has considerable oil reserves.

Weaknesses

- The business environment is in dire need of reform, with heavy bureaucracy and high levels of corruption a key obstacle to private sector development.
- Unemployment levels remain high, with underemployment even more widespread.
- A deficient power sector weighs heavily on productivity.
- Vulnerability to Dutch Disease has left the economy highly dependent on oil revenues.

Opportunities

- Plans to reduce the state's holding in oil joint ventures could lead to increased efficiency in the crucial oil sector.
- Privatisation of the power sector stands to attract investment and boost efficiency across the economy.
- Agricultural reforms stand to improve the productivity of this important industry.

Threats

- A largely unionised society and ongoing poverty could make further reforms difficult.
- Niger Delta militancy could mean oil production remains under capacity, threatening export and fiscal revenues.
- Economic policy remains personality-focused and this poses a threat to investor certainty.

Political – SWOT Analysis

Strengths

- Constitutional limitations on presidential powers and an unwritten rule whereby the presidency rotates between Muslim (northern) and Christian (southern) politicians in theory prevent individuals or ethnic, religious, geographical groupings from dominating power.
- An active and fairly free media play a key role in the democratisation process.

Weaknesses

- Ethnic, political and economic divisions have meant historical disunity among the population.
- High levels of corruption (Transparency International ranks Nigeria 144th out of 180 countries in its 2018 Corruption Perceptions Index) make policy implementation difficult.
- The Christian-Muslim population split (thought to be around 50-50) continues to be a source of tension, and serves to exacerbate conflict between herders and pastoralists in the Middle Belt region.

Opportunities

- Election tribunals have overturned the results of several state governors in the ruling party, further strengthening the country's democratic mores.
- The corruption record is improving slowly: Nigeria's ranking in Transparency International's index has climbed in recent years, while Muhammudu Buhari, re-elected in February 2019, has made tackling corruption a key electoral pledge.

Threats

- High oil revenues have not fed through to the population and around 90.0% of Nigerians are living on less than USD2.0 a day. Poverty, high levels of unemployment and a rapidly growing population create the conditions for civil unrest.
- The government's ceasefire with the Niger Delta Avenger insurgency is strained and hostilities could easily resume before a stronger peace agreement is reached.
- Strife between Fulani herdsmen and pastoralists will cause tension in the Middle Belt region.

Economic Outlook

Economic Growth Outlook

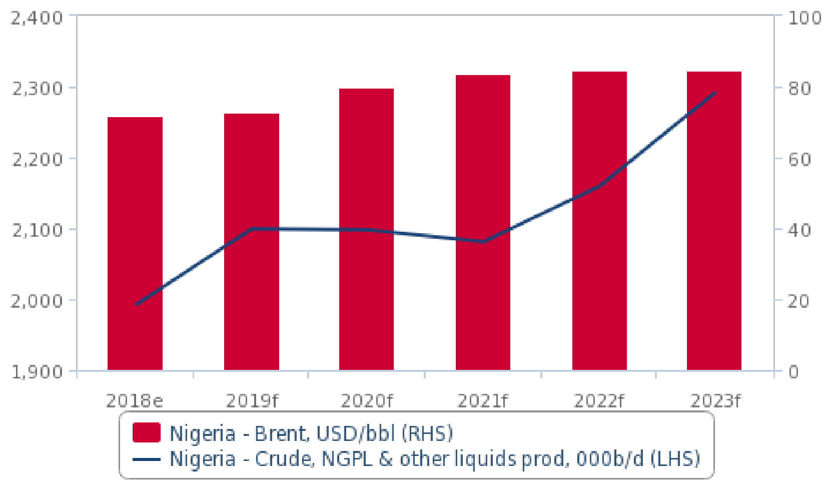
Slow Progress On Reform Will See Nigerian Growth Levels Disappoint

Key View

- We at Fitch Solutions expect a modest improvement in GDP growth in 2019, with a slight relaxation in monetary conditions and higher fiscal spending around the February elections helping to drive expansion.
- Upturns in oil supply arising from the start-up of key production assets including the ExxonMobil Egina field will provide further tailwinds for growth.
- Economic expansion in 2020 and beyond is likely to remain below long-term averages, given the government's failure to implement key reforms. We thus expect GDP growth to average 3.4% between 2019 and 2028, less than half the level seen over 2000-2015.

Oil Will Provide Support For Broader Economic Expansion In 2019

Oil & Gas Production, International Oil Price



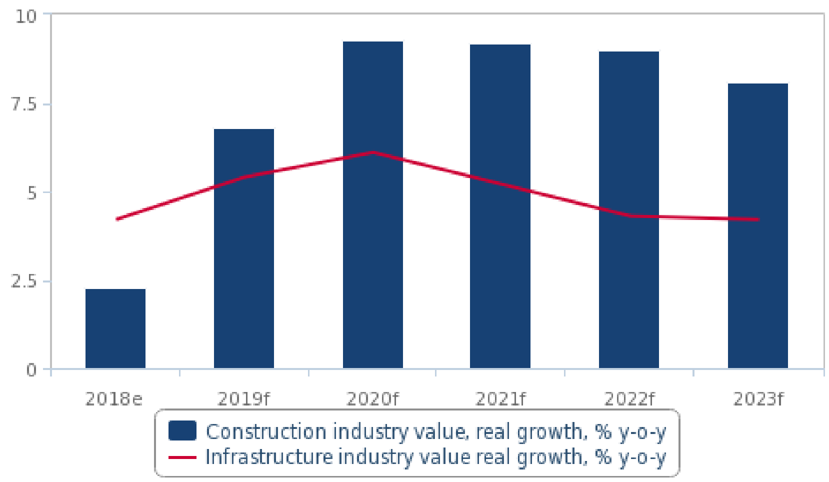
e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

We at Fitch Solutions expect GDP growth to accelerate slightly in 2019, from 1.9% in 2018 to 2.3% in 2019. Private consumption will receive a modest boost from the Central Bank of Nigeria (CBN)'s March reduction of interest rates, from 14.0% to 13.50% (*see 'Nigeria Set To Maintain Neutral Monetary Policy Stance', May 3*), and from the roll-out of the new national minimum wage. In mid-April 2019 Muhammudu Buhari, re-elected president in February, signed into law a 66.7% increase in the monthly minimum wage from NGN18,000 to NGN30,000. There is a clear risk that this will fuel inflation and thus erode consumer purchasing power, but in the short term the increased minimum wage will bolster economic expansion, as will higher fiscal spending around the February 2019 elections. Given the constraints in Nigeria's operating environment, which continue to deter private sector investors, public spending continues to act as a major driver of investment (particularly in the industrial sector) and thus development. The government will remain committed to infrastructural ventures such as the USD1.5bn Lekki Deep Sea Port and Lagos Light Metro (due to begin operations in 2022) – not least because of Buhari's wish to tackle unemployment – and these will help support underlying economic expansion.

Upturns in oil supply will provide further tailwinds for growth in 2019. Our Oil & Gas team forecasts Nigerian oil and gas production to increase by 5.4% y-o-y in 2019, driven by the start-up of key production assets including the **ExxonMobil** Egina field. Egina will contribute 200,000 barrels per day (b/d) at plateau, which is expected by end 2019. Given the dominance of the sector in the Nigerian economy, rising oil production should provide tailwinds to headline economic growth during the remainder of 2019, although there are downside risks to this projection. Nigeria's participation in OPEC+ production cuts of 53,000b/d for at least the first half of 2019 (with cuts likely to be extended, or potentially tapered, in H219) will act as a partial constraint. Equally, increased instability in key oil producing areas (*see Domestic Politics Outlook*) could further restrict increases in oil output and thus broader GDP growth.

Infrastructure Investment Will See Some Construction Growth

Growth In Construction, Infrastructure Sectors



e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

However, we expect economic expansion in 2020 and beyond to remain below long-term averages. Our previous growth projections had been based on the assumption that opposition candidate Atiku Abubakar would win the presidency and make at least some progress with reform (*see 'Abubakar To Win But Struggle To Implement Wider Reform Agenda', January 25*). However, Buhari's victory suggests little scope for structural reform in the years ahead, weighing on the economy's long-term growth prospects. We expect Buhari to remain ideologically disposed towards state intervention in the economy – for example, retaining the current multiple exchange rate system (*see Currency Forecast*) – and this will likely deter investors, thus slowing efforts to diversify the economy by attracting investment in agriculture, solid minerals and other sectors.

There is some scope for expansion in sectors including construction. Buhari's economic campaign pledges focused on employment and infrastructural work, and included the creation of six regional industrial parks and economic zones; the completion of road and rail projects including the Lagos-Calabar rail link, 2nd Niger Bridge and East-West road and the implementation of a USD550mn rural electrification programme. Our expectations for a gradual increase in oil prices should create fiscal space for some infrastructure investment, as well as progress on various major projects, and our Infrastructure team thus expects some modest growth in the construction sector, which expanded by just 0.8% y-o-y during Buhari's first term. However, with little broad reform, we expect the economy to remain stuck in a low-growth cycle, with expansion dictated by the hydrocarbons sector. Here too prospects for reform appear muted, notwithstanding to a statement by the budget and national planning minister, Udo Udoma, that the government aims to reduce its stake in joint venture oil companies from 55.0-60.0% at present to 40.0% during 2019. Any such efforts will face opposition from politicians within both the ruling All Progressives Congress and main opposition People's Democratic Party, on the perceived grounds that it will erode the federal government's main source of income. During the 2016 recession a similar plan was rejected by the Senate. It is also unclear whether international oil companies would regard increased stakes in joint venture companies as an attractive proposition given increased militancy in key oil producing areas and the lack of progress on the Petroleum Industry Bill, which is likely to be crucial for future oil production growth. Overall, we expect growth to slow to 1.9% in 2020 – when a further increase in international oil prices will be counterbalanced by a slight decline in local production and an expected slowdown in the world economy, which will constrain export-oriented sectors – and an annual average of 3.7% over 2021-2028. This is well below long-term averages of 7.4% over 2000-2015, and expansion will remain vulnerable to external commodity developments.

GDP By Expenditure Outlook

Total consumption is the main driver of GDP in Nigeria, comprising 83.0% of annual expenditures. Although there has been a recovery in net exports and investment as oil prices have recovered following their collapse in H214, consumption continues to dominate.

Private Consumption: Private consumption will remain largely stable over the coming years according to our forecasts, averaging 77.8% of total GDP between 2019 and 2028, entailing an average contribution of 2.5 percentage points to real growth over this period. Nigeria's rapidly growing population will see the country's households continue to dominate national expenditures.

TABLE: GDP GROWTH FORECASTS

	2017	2018e	2019f	2020f	2021f	2022f
Nominal GDP, NGNbn	111,133.5	131,065.1	152,954.0	175,785.0	198,555.9	221,938.7
Real GDP growth, % y-o-y	0.8	1.9	2.3	1.9	2.9	3.7
GDP per capita, NGN	582,197.2	669,125.3	761,107.5	852,693.1	939,035.2	1,023,494.2
	2023f	**2024f**	**2025f**	**2026f**	**2027f**	**2028f**
Nominal GDP, NGNbn	248,990.5	280,900.6	317,631.8	359,193.2	407,637.1	459,700.2
Real GDP growth, % y-o-y	4.1	3.5	4.0	3.4	4.0	4.0
GDP per capita, NGN	1,119,821.6	1,232,218.5	1,359,190.4	1,499,542.6	1,660,481.3	1,827,342.6

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

TABLE: PRIVATE CONSUMPTION FORECASTS

	2017e	2018e	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Private final consumption, NGNbn	83,878.8	101,087.7	118,093.3	135,402.0	153,359.7	171,591.1	191,619.2	217,296.2	247,117.9	281,566.1	321,728.7	364,840.3
Private final consumption, % of GDP	75.5	77.1	77.2	77.0	77.2	77.3	77.0	77.4	77.8	78.4	78.9	79.4

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

TABLE: GOVERNMENT CONSUMPTION FORECASTS

	2017e	2018e	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Government final consumption, NGNbn	6,193.1	7,744.3	9,275.5	10,698.5	12,212.0	13,953.9	16,004.6	18,322.1	20,876.2	23,673.6	26,666.8	29,837.0
Government final consumption, % of GDP	5.6	5.9	6.1	6.1	6.2	6.3	6.4	6.5	6.6	6.6	6.5	6.5

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Government Consumption: Government consumption as a proportion of GDP will remain stable at around 6.4% over the next decade. Any efforts to constrain the government's enormous wage bill will be offset by the uptick in public infrastructure spending and support of pro-poor policies by successive governments, whatever their political dispensation.

Gross Fixed Capital Formation: Investment will play a key role in supporting Nigeria's economic growth over the coming decade, averaging 18.7% of total GDP between 2019 and 2028. Wide-ranging reform efforts could see this figure rise sharply, but in the near term we expect only slow progress on reforms and continued uncertainty over the country's economic and political trajectory, given potential resistance to reform by vested interests. This will keep investors relatively cautious.

Net Exports: Although we expect some strength in Nigeria's hydrocarbons sector over the short term, weak investment into the oil industry since the collapse in crude prices in 2014 has left long-term prospects looking weak, with our Oil & Gas team expecting production growth to average just 0.3% a year over the 2019-2028 period. This will see the country's net exports account for an average of 0.1% of real GDP growth between 2019 and 2028.

TABLE: FIXED INVESTMENT FORECASTS

	2017e	2018e	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Fixed capital formation, NGNbn	20,111.7	23,570.2	27,588.8	31,758.5	36,602.1	41,348.7	46,800.1	53,071.3	60,182.9	68,247.4	77,392.6	87,763.2
Fixed capital formation, % of GDP	18.1	18.0	18.0	18.1	18.4	18.6	18.8	18.9	18.9	19.0	19.0	19.1

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

TABLE: NET EXPORTS FORECASTS

	2017e	2018e	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Net exports of goods and services, NGNbn	-26.3	-2,470.2	-3,320.9	-3,588.9	-5,375.5	-6,948.1	-7,693.6	-10,352.0	-13,479.3	-17,621.2	-21,924.1	-27,019.1
Net exports of goods and services, % of GDP	0.0	-1.9	-2.2	-2.0	-2.7	-3.1	-3.1	-3.7	-4.2	-4.9	-5.4	-5.9

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Outlook On External Position

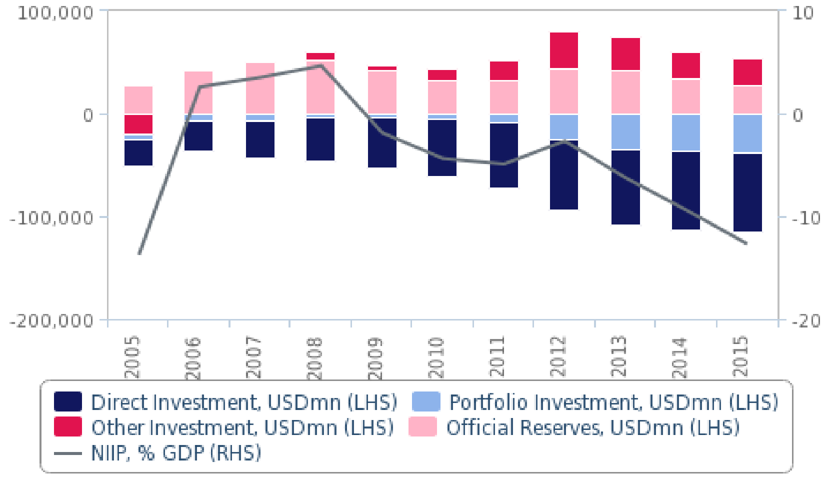
Nigeria's net international investment position will remain in negative territory as structurally lower oil prices lead to a broad downward trend in its current account from 2020. That said, the threat of capital flight is limited by the large role foreign direct investment plays in Nigeria's liabilities position.

Net International Investment Position (NIIP): Years of foreign investment and government borrowing from abroad have left Nigeria's NIIP in negative territory despite having tended to run current account surpluses. The deepening of the country's net negative liabilities position is only likely to continue over the coming years as structurally lower oil prices will limit the size of Nigeria's trade surpluses (and even see the balance move into deficit from 2022). However, while exposure to foreign liabilities leaves the economy vulnerable to a sudden deterioration in investor sentiment – as was the case in 2014 and 2015 at the height of the global collapse in crude oil prices – the fact that most of these liabilities take the form of foreign direct investment limits the potential risk from capital flight. Furthermore, at just -15.9% of GDP in 2017, the size of Nigeria's deficit in its NIIP is small compared to elsewhere in the region.

External Debt: In addition to its relatively small NIIP, Nigeria's external position benefits from a low external debt burden, which reached just 12.5% of GDP in 2018 according to our estimates, compared to a regional average of some 45%.

Growing Liabilities Pose Only Limited Risk To Economy

Net International Investment Position

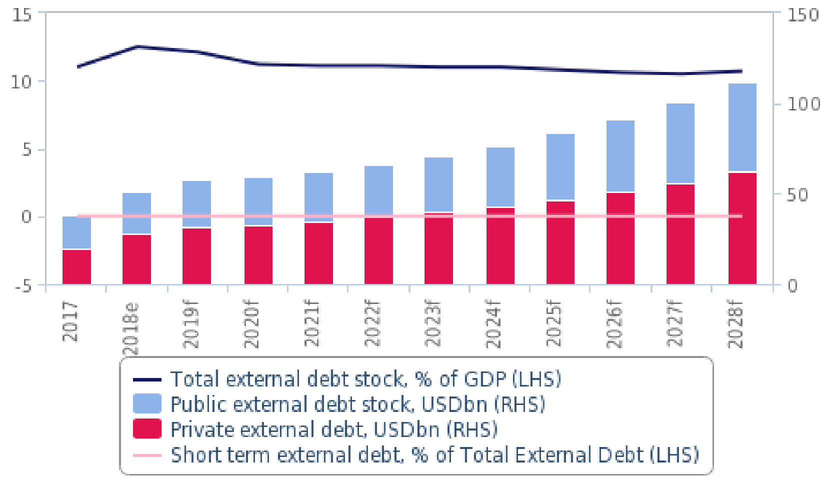


Source: CBN, Fitch Solutions

Foreign obligations fell dramatically in the early 2000s as growth accelerated and the country's creditors wrote off large portions of its debt. While we believe that Nigeria's total external debt stock will steadily rise over our long-term outlook period to 2028, it will likely remain in sustainable territory thanks to a low base, solid oil prices and a cyclical upswing in real GDP growth. We thus expect external debt to average 11.0% of GDP across the next decade.

External Debt Stock Will Remain In Sustainable Territory

Total External Debt (2017-2028)

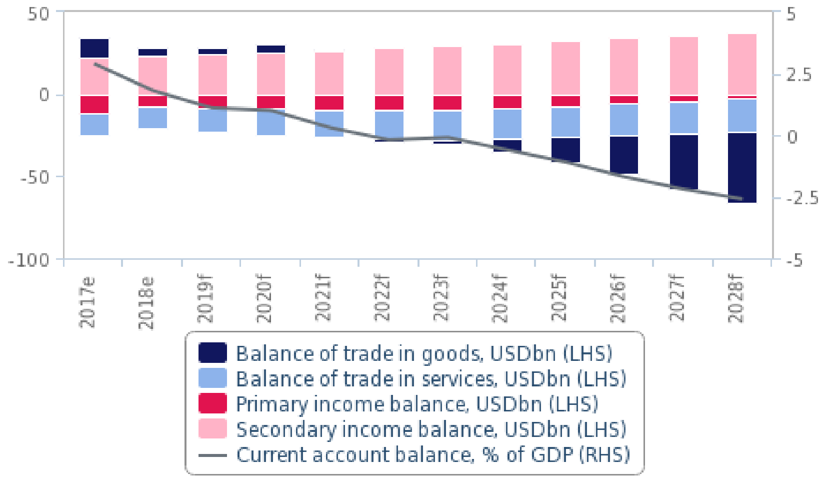


e/f = Fitch Solutions estimate/forecast. Source: World Bank, Fitch Solutions

That said, the cost of servicing external debt is likely to rise over the coming years. Notably, exchange rate risk is increasing in line with the rising level of external debt, and the change in composition of debt. Recent recourse to eurobond financing (now accounting for around 55.0% of external debt) has added considerably to this exposure. In terms of currency risk, exposure is principally to the US dollar, meaning that any substantial devaluation of the naira – which is not our core forecast – would substantially increase debt-servicing costs. Meanwhile, exposure to interest rate risk is rising in response to a decline in the share of concessional debt.

Current Account Will Slip Into Deficit

Current Account Balance (2017-2028)



e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Balance Of Payments: Although a recovery in the price of crude oil – comprising around 90.0% of Nigeria's total export revenues – will keep the country's current account in surplus until 2022, we believe goods trade dynamics will begin deteriorating notably

TABLE: CURRENT ACCOUNT BALANCE FORECASTS

	2017e	2018e	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Balance of trade in goods, EURbn	11.6	4.8	3.5	3.7	0.6	-1.6	-2.1	-6.5	-11.7	-18.9	-26.3	-34.0
Balance of trade in goods, % of GDP	3.6	1.3	0.8	0.8	0.1	-0.3	-0.4	-1.1	-1.9	-2.7	-3.4	-4.0
Balance of trade in services, EURbn	-11.7	-11.7	-12.6	-12.8	-13.2	-13.8	-14.3	-14.7	-15.0	-15.4	-15.8	-16.1
Balance of trade in services, % of GDP	-3.6	-3.2	-3.0	-2.9	-2.8	-2.8	-2.7	-2.6	-2.4	-2.2	-2.0	-1.9
Primary income balance, EURbn	-10.2	-6.1	-6.9	-7.3	-7.4	-7.8	-7.6	-6.7	-5.8	-4.6	-3.4	-2.2
Primary income balance, % of GDP	-3.2	-1.7	-1.6	-1.6	-1.6	-1.6	-1.4	-1.2	-0.9	-0.7	-0.4	-0.3
Secondary income balance, EURbn	19.5	19.6	20.5	20.6	21.3	22.3	23.4	24.6	25.8	27.1	28.4	29.9
Secondary income balance, % of GDP	6.0	5.4	4.9	4.6	4.6	4.5	4.4	4.3	4.1	3.9	3.6	3.5
Current account balance, EURbn	9.2	6.6	4.5	4.2	1.3	-0.9	-0.5	-3.3	-6.7	-11.8	-17.0	-22.4
Current account balance, % of GDP	2.9	1.8	1.1	1.0	0.3	-0.2	-0.1	-0.6	-1.1	-1.7	-2.2	-2.6

e/f = Fitch Solutions estimate/forecast. Source: Central Bank of Nigeria, Fitch Solutions

TABLE: CAPITAL AND FINANCIAL ACCOUNT BALANCE

	2013	2014	2015	2016
Capital account, USDbn	0.0	0.0	0.0	0.0
Financial account, USDbn	-36.4	-32.8	-20.2	-10.4
Capital and financial account, % of GDP	-7.2	-6.0	-4.2	-2.6
Net FDI inflows per capita, USD	-39.8	-35.7	-24.8	-30.9
Net portfolio investment, USDbn	-16.9	-8.7	-4.2	-2.1
Net other investment, USDbn	-12.7	-17.8	-11.4	-2.6

Source: Central Bank of Nigeria, Fitch Solutions from 2020 due to steady import growth and maturing oil fields. As it stands, we are yet to see the kind of economic reform and improvements to Nigeria's operation environment that could yield the uptick in investment needed to diversify export revenues, and the victory of incumbent Muhammudu Buhari in the February 2019 elections suggests that there will be little progress on wide-ranging reforms. Such trends will see the current account reach a deficit of 2.6% of GDP by 2028 according to our forecasts.

Monetary Policy

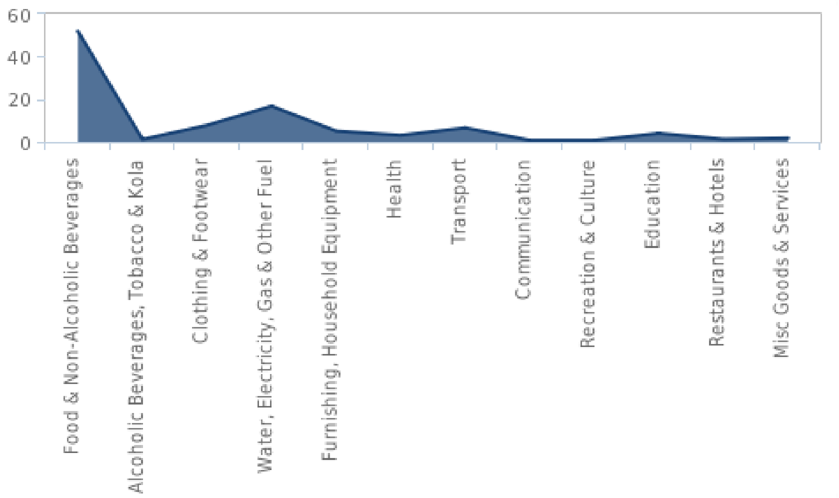
Nigeria Set To Maintain Neutral Monetary Policy Stance

Key View

- Inflationary pressures will increase in 2019 on the back of continued high food prices and increased demand-side pressures, fuelled by the planned 67.0% increase in the national minimum wage and a 50bps reduction in interest rates by the Central Bank of Nigeria in March 2019.
- However, the authorities will remain keen to bolster still muted economic growth and job creation, particularly given that boosting economic expansion was one of the key campaign pledges of Muhammudu Buhari, who was re-elected as president in February 2019.
- We expect the central bank to maintain a neutral policy stance over the rest of 2019, before implementing another modest rate cut in 2020. However, there are clear upside and downside risks to this forecast.

Food Price Trends Will Continue To Play A Major Role In Determining Inflation

Breakdown Of CPI Basket, %

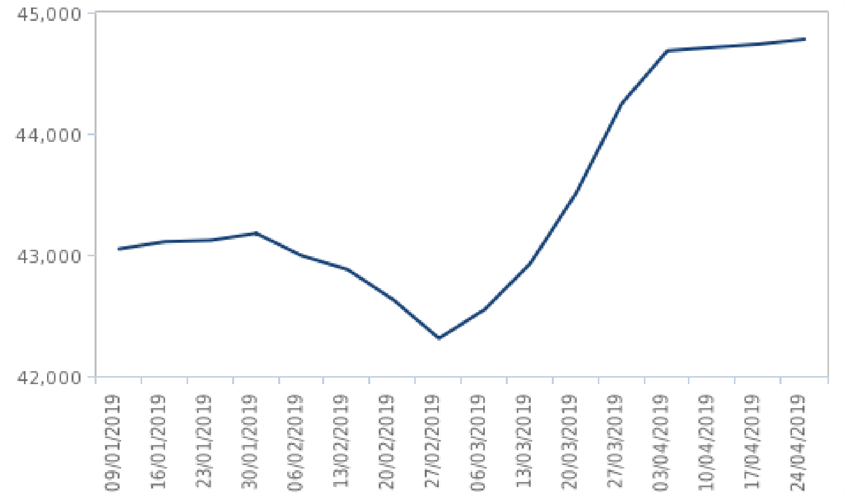


Source: National Bureau of Statistics, Nigeria, Fitch Solutions

Inflationary pressures will remain high in 2019, on the back of continued high food prices and increased demand- and supply-side pressures. Average annual inflation stood at 11.25% y-o-y in March 2019, slightly down from 11.31% in February. However, inflation over the 12 months to March averaged 11.4% – well above the Central Bank of Nigeria (CBN)'s target range of 6.0-9.0% – and inflationary pressures will remain elevated during the remainder of 2019. Food comprises 51.8% of the consumer price index, and local food supplies continue to be subject to disruption because of ongoing conflict in the Middle Belt area, where farmers and pastoralists are competing for scarce land resources. Moreover, restrictions on access to foreign exchange for importers of staple goods including rice and meat continue to exert upward pressure on the prices of imported foodstuffs.

Foreign Exchange Reserves Will Continue To Provide Support

Gross Foreign Exchange Reserves, USD



Source: Central Bank of Nigeria, Fitch Solutions

This will be compounded by demand- and supply-side pressures in H219. Demand-side pressures will be fuelled by the March rate cut, and by the planned rise in the national minimum wage. Legislation to boost the minimum from NGN18,000 (USD49.7) to NGN30,000 has been approved by the Nigerian Senate, and will come into force once signed off by the executive. Meanwhile, supply-side pressures will arise from the CBN's continued imposition of foreign-exchange restrictions on a series of goods as part of efforts to stimulate local industry. More than 40 items are already subject to such restrictions – a contributory factor to elevated food-price pressures – and Godwin Emefiele, the CBN governor, has suggested that up to 50 goods could be targeted. Given these factors, we expect average annual inflation to rise from 12.2% in 2018 to 13.4% in 2019, and 14.2% in 2020.

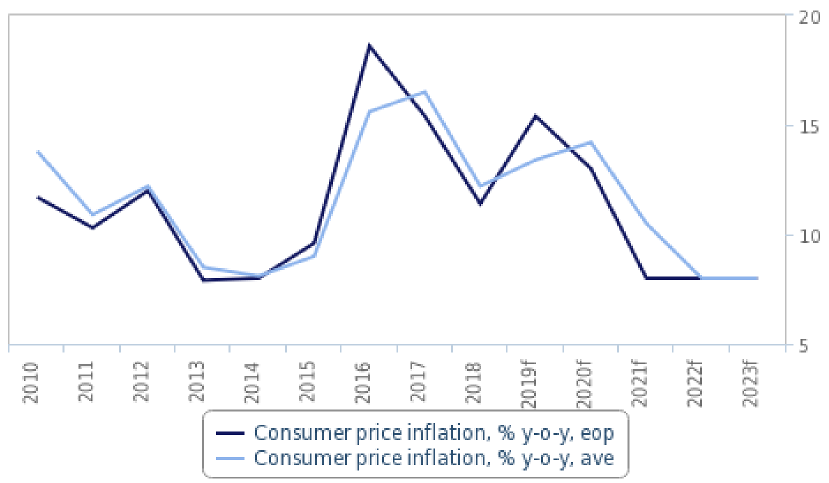
At the same time, however, the authorities will seek to bolster still-muted economic growth and job creation. While real GDP grew by 2.4% y-o-y in Q418, compared with a rate of 1.8% in the preceding quarter and 2.1% in the year-earlier period, the economy continues to underperform. The oil sector expanded by 1.1% in 2018, down from 4.7% in 2017, and while the non-oil sector expanded by 2.0% – compared with just 0.5% in 2017 – this is well below the levels seen in the decade to H116, when Nigeria entered full-year recession for the first time since 1987. High local borrowing costs and the crowding out of the private sector remain key constraints on growth. While credit to the private sector rose by 5.4% in Q119, according to the CBN, this remained well under the bank's provisional benchmark of 12.4%, while credit to government grew by 11.4%. All told, we expect GDP to expand by 2.1% in 2019 – a substantial improvement on the estimated 2016-2018 average of 0.4%, but under half of the 2010-2015 average – before accelerating to 3.3% in 2020, giving the CBN further scope for monetary easing. Against this backdrop, we see the CBN maintaining its policy rate at 13.50% in 2019 following the 50 basis point (bps) cut in March 2019. Only six of the 11 members of the monetary policy committee (MPC) backed the rate cut, and given the upside risks to inflation, we expect the MPC to adopt a cautious stance in 2019, before instituting another small rate cut in 2020 as the wider global economy slows somewhat and the authorities seek to stimulate economic activity.

However, there are clear downside and upside risks to this view. The March 2019 rate cut suggests that the authorities are prioritising economic growth over efforts to contain inflation, and a 50bps point cut is unlikely to provide substantial stimulus for economic expansion. Meanwhile, Buhari's re-election points to maintenance of the existing, largely managed exchange rate regime, which will partly contain inflationary pressures. Given exchange rate stability, and the announcement by the US Federal Reserve (Fed) that it does not expect any rate rises this year, we expect the CBN to remain fairly dovish – offering scope for a further small rate cut in 2019 – without triggering risk-off capital flows. Set against that, a return to risk-off sentiment – arising from renewed international trade tensions, for example – a sharp rise in inflation, or sustained pressure on the NGN/USD rate or foreign exchange reserves could see the CBN be forced to reverse policy direction. Moreover, there is a risk that investors will regard any further rate cuts as politically motivated. Emefiele's first term is due to end in June 2019, and the confluence of this and Buhari's re-election may undermine the CBN's credibility from an investor perspective.

Monetary Policy Framework

Long-Term Inflation Outlook: Nigeria's inflation rate has been fairly high over the past decade, averaging 11.9% over the 10 years to 2018. It has also been fairly volatile within that period, ranging between 8.1% and 16.5%. Price growth ticked up between end 2014 and 2017: the oil price collapse in the second half of 2014 led to a 20% currency devaluation, followed by a devaluation in June 2016 which saw a further rapid sell-off. While inflation moderated to an average of 12.2% in 2018, price pressures remain elevated – in part due to continued disruptions of the food supply chains because of instability in key producing areas – and we expect average inflation to remain above the central bank's target high of 9.0% until 2022. Thereafter, we expect the rate to fall into high single-digit levels.

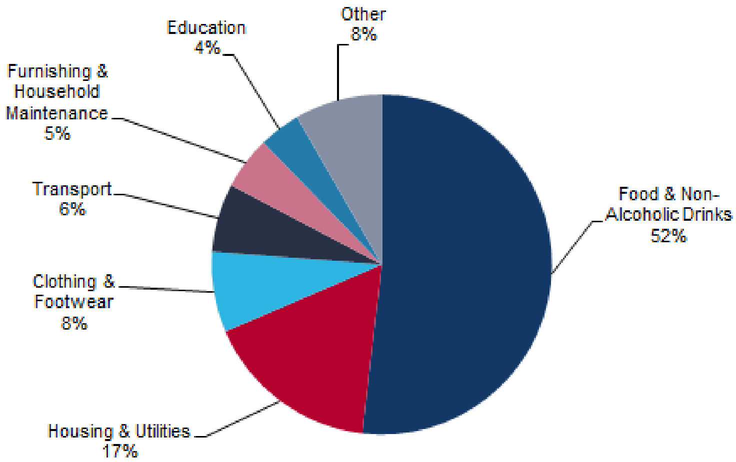
Inflation Will Decline Over Forecast Period
Consumer Price Inflation (2010-2023)



f = Fitch Solutions forecast. Source: Central Bank of Nigeria, Fitch Solutions

Inflation Credibility: Inflation has remained outside the Central Bank of Nigeria (CBN)'s target range of 6.0-9.0% since 2015, calling into question the efficacy of its policies. The central bank also remains subject to political pressures. The CBN made great strides in improving its reputation following the banking crisis of 2009, under the governorship of Lamido Sanusi in particular. Sanusi kept interest rates high in order to rein in inflation even while business voices were calling for cuts, sticking to the central bank's remit of controlling price growth. However, Sanusi was dismissed by former president, Goodluck Jonathan, following allegations the governor made over a missing USD20bn, raising questions over the independence of the central bank.

Food Dominates
CPI Basket, %



Source: National Bureau of Statistics, Nigeria

Since the election of President Muhammadu Buhari, the bank's independence and its credibility has been called into question further by the unorthodox policies it has been pursuing, not least its decision to maintain the exchange rate at the expense of economic growth, and cutting interest rates in November 2015 when many anticipated a raise. In June 2016 the bank adopted a more orthodox monetary policy, allowing greater exchange rate flexibility and embarking on a hiking cycle in a bid to improve real interest rates in the high inflation environment. However, the currency has not been allowed to free-float entirely, and the government continues to publicly call for interest rate cuts. The first term of the current governor, Godwin Emefiele, ends in June 2019. We expect him to be reappointed by Buhari.

Central Bank Targets And Operations: Emefiele has talked of his desire for the bank to play a more developmental role, encouraging job creation and using moral suasion to persuade commercial banks to lend to small and medium enterprises. However, critics say that this is distracting the CBN from its primary role. The bank's core mandate is laid out in the Central Bank of Nigeria Act, and its principal objectives are given as maintaining external reserves in order to safeguard the currency, promoting monetary stability, acting as banker and financial adviser to the federal government and acting as banker of last resort to banks.

Since 1986 the CBN has used an indirect approach to target price growth, utilising market instruments. The bank cites open market operations as its primary instrument, complemented by reserve requirements, foreign exchange intervention and movement of public sector deposits in and out of domestic banks. The bank has since 2002 operated on a medium-term (two-year) framework, which seeks to avoid the over-reaction to temporary shocks which a short-term (one-year) framework can engender.

Fiscal Policy And Public Debt Outlook

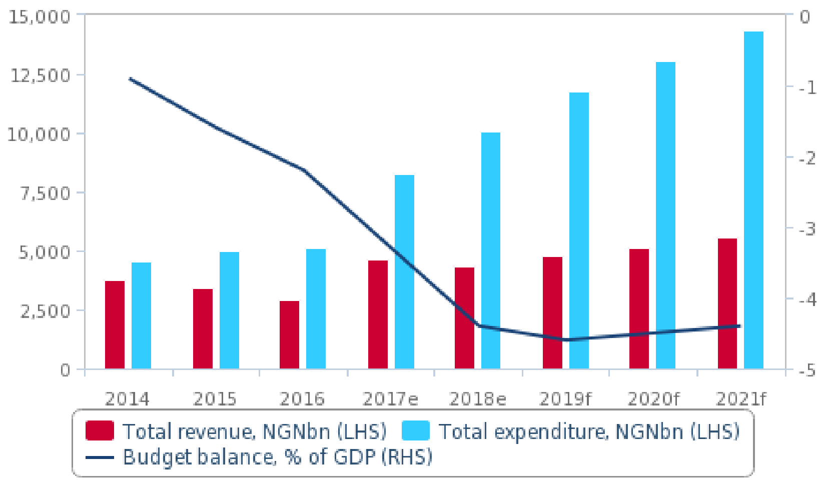
Revenue Constraints Driving Nigerian Fiscal Deficit To Widen

Key View

- We at Fitch Solutions expect Nigeria's fiscal revenues to be bolstered by gradually increasing oil exports over the coming quarters. However, we believe the government's expectations for average crude oil production of 2.3mn b/d in 2019 and 2.4mn (b/d) in 2020 will prove overly ambitious.
- Expenditure growth will outpace that of revenues, due to increased spending to tackle security challenges and a higher public sector wage bill raising current expenditure.
- We forecast the fiscal deficit to widen from 4.4% of GDP in 2018 to 4.6% in 2019 and 4.5% in 2020.
- We expect the public debt burden to remain manageable, but increasing debt servicing costs and revenue constraints will see the government's capacity to support economic growth via capital spending remain limited.

Fiscal Deficit Remaining Structurally Wider Over Coming Years

Fiscal Balance & Components



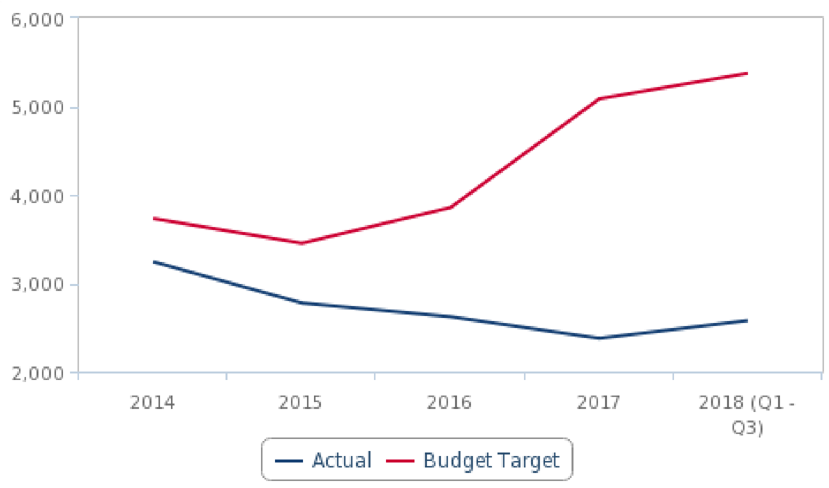
e/f = Fitch Solutions estimate/forecast. Source: Central Bank of Nigeria, Budget Office of the Federation, Fitch Solutions

While Nigerian state revenues are set to increase over the coming years, we believe revenues will continue to fall short of the government's targets. Our Oil & Gas team expects oil prices to continue recovering gradually over coming quarters (*see 'Brent: Strong Fundamentals To Drive H2 Gains', April 2*), while domestic output growth will be underpinned by the **ExxonMobil** Egina field, set to add 200,000 barrels per day (b/d) at peak by 2020. The oil sector accounted for an annual average of 67.4% of total federal government revenues from 2008 to 2017. The government's revenue targets in its 2019-2021 Medium-Term Expenditure Framework (MTEF) are based on a benchmark oil price of USD60.0 per barrel (/bbl) in 2019 and USD56.46/bbl in 2020, below our forecasts for Brent crude oil to average USD73.0/bbl and USD80.0/bbl over those years respectively. However, the government also expects oil output of 2.3mn b/d in 2019 and 2.44mn b/d in 2020, levels that have not been seen since 2014 and above our 2.1mn b/d forecasts for both years.

Efforts to bolster revenue generation will face continued headwinds over 2019 and 2020. According to Budget Minister Udoma Udo Udoma, the government intends to cut its stakes in joint oil ventures to 40.0% from the current 55.0-60.0% by the end of 2019. Selling petroleum stakes would provide a marked one-time increase in government revenues.

Constrained Revenue Generation Sees Ambitious Targets Missed

Total Retained Revenue (NGNbn)

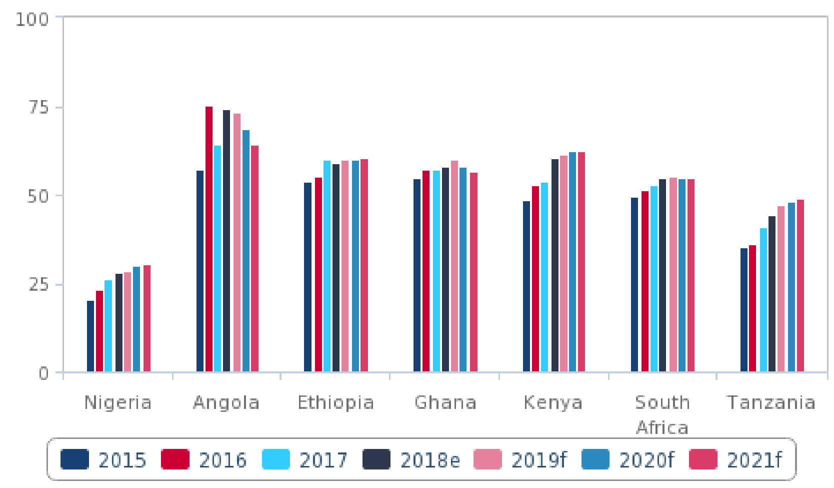


Source: Budget Office of the Federation, Fitch Solutions

However, the plan would face significant opposition in the Senate, which rejected a similar plan in 2016, due to the state's reliance on income from the oil sector. We expect rising oil prices will further disincentivise the Senate from approving this in 2019.

Debt Burden Remains Low, But Servicing Constrains Fiscal Options

Selected Sub-Saharan African Countries – Total Government Debt, % Of GDP



e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Meanwhile, widening the tax base will remain challenging. According to the Joint Tax Board (JTB), the number of Nigerian taxpayers rose from 10mn in 2015 (compared to 68.9mn people in work in Q415) to 19mn in 2018 (compared to 69.5mn people in work as of Q318). The JTB expects the number of taxpayers to rise to 45mn in 2019 with the implementation of a new taxpayer registration system. While the registration system may provide some support to revenue growth, we do not expect this target to be met.

Rising current expenditure will drive the fiscal deficit to widen over the coming years. On April 30 the Senate approved the 2019 budget, with expenditure of NGN8.91trn (USD29.1bn at the naira's official interbank exchange rate), although the measure has yet to be signed into law by President Muhammadu Buhari. Planned spending was increased from the initial NGN8.83trn budget outlined by Buhari in December 2018, largely due to increases in planned defence expenditure to address regional security issues (*see Domestic Politics Outlook*). The increase in the national monthly minimum wage from NGN18,000 to NGN30,000 – which Buhari signed into law in April – will further add to rising current spending. Personnel costs, the largest component of current expenditure, will account for 27.7% of planned total spending in 2019 and 27.6% in 2020 according to the MTEF, based on the earlier budget figures. We expect the higher minimum wage to see spending exceed these projections, contributing to the deepening fiscal deficit.

Limited revenues will see cuts to capital expenditure over coming years. According to the Budget Office, capital expenditure over the first three quarters of 2018 totalled NGN930.5bn. This was well below the budget target of NGN2.2bn for the period. In the MTEF, capital spending is set to be cut over the coming years to NGN2.6trn in 2020 compared to the initially planned NGN3.2trn for 2018. This will help to contain the extent of the fiscal deficit deepening over the short term, but reflects the government's limited capacity to bolster still-sluggish growth in areas such as infrastructure and agricultural sector development.

The widening fiscal deficit will see the government debt burden increase over coming years, raising debt servicing costs. We forecast Nigeria's total government debt to rise from 28.0% of GDP in 2018 to 28.8% in 2019 and 30.1% in 2020. The rise in public debt amid weak revenue growth over recent years has seen repayment costs relative to government income increase, a trend we expect to continue over the coming years. Prior to the Senate approving the increased budget in April, the MTEF projected the debt service to revenue ratio rising from a planned 28% in 2018 to 31% in 2019 and 38% in 2020. The debt burden is still low compared to other major economies in Sub-Saharan Africa – with debt burdens over 50.0% of GDP – as well as broader emerging markets, and we expect it to remain manageable over the coming years. However, downside risks to potential oil revenues and the country's security situation could see the government borrow more heavily than anticipated, further constraining its ability to implement spending in support of economic growth over a multi-year time frame.

Structural Fiscal Position

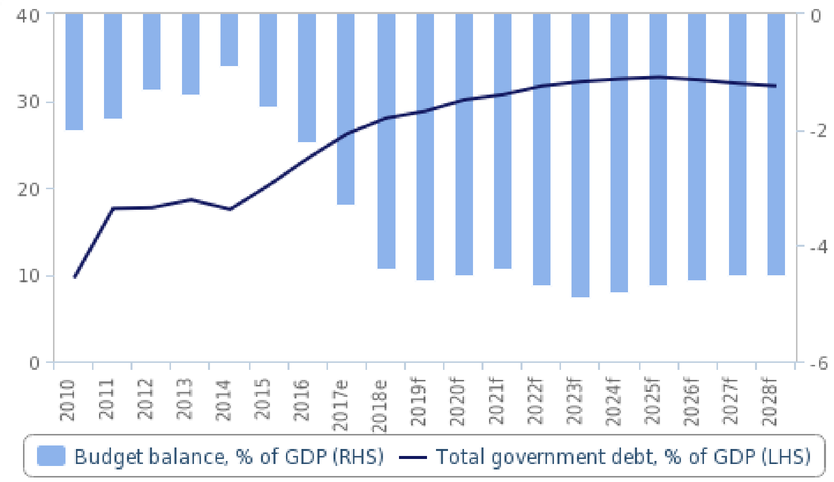
Nigeria's tax base will remain highly dependent on oil revenues given the lack of private sector enthusiasm thus far for the government's efforts to diversify into new sectors. Central government debt is low as a proportion of GDP compared with other emerging markets, but the debt is set against a low revenue base, and is rising rapidly. The high and rising levels of debt service – as well as the need for substantial security-sector spending – will restrict the government's ability to provide growth-supportive spending over the medium term.

Government Debt: Despite weak economic growth and a severe decline in government revenues amid the collapse in oil prices between 2014 and 2016, Nigeria's public debt burden remains one of the most affordable in Sub-Saharan Africa and will continue to be so over the next decade according to our forecasts. We believe relatively small deficits and a low base will see total Nigerian government debt average 31.5% of GDP over the 10 years to 2028, below other major economies in the region with burdens over 50.0%. Furthermore, as of Q317, 61.3% of total government debt (Federal and State) was held domestically, mitigating some of the impact posed by currency risk.

The cost of servicing domestic debt has increased over recent months in response to tighter monetary policy and the increase in the budget deficit since 2014. While this has seen interest payments on government obligations account for a higher proportion of public revenue (particularly over 2018 when short-term notes were due to mature), we do not believe this marks a structural shift in Nigeria's fiscal position or any meaningful risk to sustainability.

Budget Balance Will Remain Negative

Gross Debt & Fiscal Balance (2010-2028)



e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Budget Balance: Despite the government's best efforts to promote revenue diversification, Nigeria's hydrocarbons industry will likely continue to dominate the country's fiscal picture. As it stands, our Oil & Gas team see crude production remaining stagnant over the next decade, growing at an average rate of just 0.3% per annum, meaning that as oil prices begin to plateau around USD85.0 per barrel in the second half of our long-term outlook period to 2028, revenues from the sector look set to stagnate. Reforming regulation is an important step in attracting greater volumes of foreign investment, and planned reforms to overall industry governance, local content requirements and fiscal arrangements could see production growth remain in positive territory, supporting

TABLE: FISCAL AND PUBLIC DEBT FORECASTS

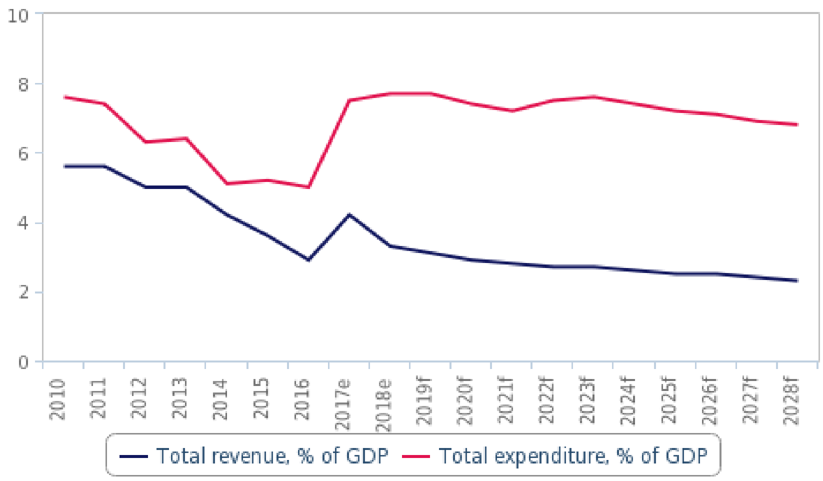
	2017e	2018e	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Total revenue, NGNbn	4,622.6	4,353.6	4,817.1	5,174.9	5,556.8	6,093.2	6,714.8	7,346.6	8,047.1	8,824.6	9,688.8	10,650.4
Total revenue, NGN, % y-o-y	56.6	-5.8	10.6	7.4	7.4	9.7	10.2	9.4	9.5	9.7	9.8	9.9
Total expenditure, NGNbn	8,302.1	10,057.8	11,777.4	13,036.7	14,340.4	16,554.1	18,853.5	20,815.1	22,995.2	25,420.4	28,121.4	31,133.4
Total expenditure, NGN, % y-o-y	60.9	21.1	17.1	10.7	10.0	15.4	13.9	10.4	10.5	10.5	10.6	10.7
Budget balance, NGNbn	-3,679.5	-5,704.1	-6,960.3	-7,861.8	-8,783.6	-10,460.9	-12,138.7	-13,468.5	-14,948.1	-16,595.8	-18,432.6	-20,483.0
Budget balance, % of GDP	-3.3	-4.4	-4.6	-4.5	-4.4	-4.7	-4.9	-4.8	-4.7	-4.6	-4.5	-4.5
Total government debt, EURbn	84.5	101.9	120.8	133.7	142.9	155.9	170.0	186.3	206.1	226.5	250.0	270.2
Total government debt, % of GDP	26.2	28.0	28.8	30.1	30.7	31.7	32.2	32.5	32.7	32.4	32.0	31.7

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

public revenues going forward. Progress in implementing elements of the Petroleum Industry Bill to reform the oil sector will likely remain slow over the coming years, potentially dragging on oil revenues over the long term.

Spending Will Outpace Revenues

Government Spending & Revenue (2010-2028)



e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Dependence on the oil sector will leave the treasury's accounts vulnerable to swings in commodity prices – as seen between 2014 and 2016, when government revenues fell by 45.8% – and progress with developing alternative sources of revenue will likely prove slow. Other sectors often touted by Sub-Saharan governments pushing for reform, such as manufacturing and agriculture, require substantial investment into the infrastructure that would make them regionally or globally competitive. In Nigeria, estimates for how much money is needed to adequately finance the required infrastructure development go as high as USD3trn over the next 30 years. Finding the private sector investment needed to meet this figure will prove difficult given the unattractive regulatory environment hindering many industries in Nigeria. Meanwhile, we see little scope for the government to fund more of the development itself, given the large portion of government spending that goes towards recurrent expenditure, particularly public sector salaries.

Currency Forecast

NGN: Political Considerations Will See Multiple Exchange Rate System Continue

Key View

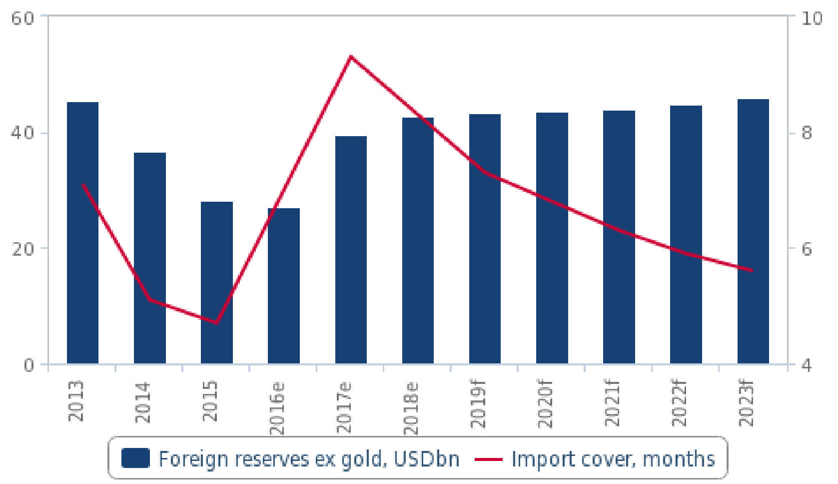
- We at Fitch Solutions expect broad exchange rate stability on both the official interbank and 'investor and export' (quoted as the NAFEX rate) markets over the short term.
- The authorities will continue to use restrictions on foreign-exchange access and drawdowns of foreign exchange reserves to shore up the value of the naira on both markets.

- However, the currency will continue to come under depreciatory pressures, and we expect the value of the naira to decline modestly over our long-term outlook, with the interbank rate ending 2020 at NGN330/USD.

Short-Term Outlook (three-to-six months)

We at Fitch Solutions expect the naira to remain at around its current levels of NGN305.00/USD and NGN360.00/USD on the official interbank and 'investor and export' (also known as the Nigerian Autonomous Foreign Exchange Rate, NAFEX) markets respectively over our short-term outlook period. Muhammudu Buhari, elected to a second presidential term in February 2019, has been a strong proponent of the existing exchange rate regime, under which the official interbank rate is used primarily as a reference rate for the country's crude-for-refined products swaps. Although little actual currency exchange takes place at this rate, the system allows the government to subsidise sectors deemed important for economic or political reasons, including the **Nigerian National Petroleum Corporation**, which budgets for petrol imports at the official rate. A devaluation would require either an increase in retail fuel prices or a hike in fuel subsidies, both of which would be viewed as politically unpalatable by the Buhari administration. We thus expect that the official interbank and NAFEX rates will continue to be heavily managed by the authorities (*see 'Buhari Victory Signals Slow Progress On Reform In Nigeria', February 27*).

Import Cover Set To Shrink
Reserves & Import Cover (RHS)



e/f = Fitch Solutions estimate/forecast. Source: IFS, Fitch Solutions

The Central Bank of Nigeria (CBN)'s determination to shore up the value of the naira is underscored by the widening of restrictions on foreign-exchange access. Some 43 items ranging from textile materials to cement are subject to restrictions which mean that importers cannot access foreign exchange for such items, and the list could be expanded further. Although the strategy is chiefly designed to stimulate local industries, it will also serve to reduce demand for foreign exchange and thus depreciatory pressures on the naira.

TABLE: FITCH SOLUTIONS CURRENCY FORECAST

	Spot	2018	2019f	2020f
NGN/USD, ave	306.95	305.03	307.50	320.00
NGN/EUR, ave	350.10	359.93	364.39	395.20
Policy Rate, % eop	14.00	14.00	13.50	13.00

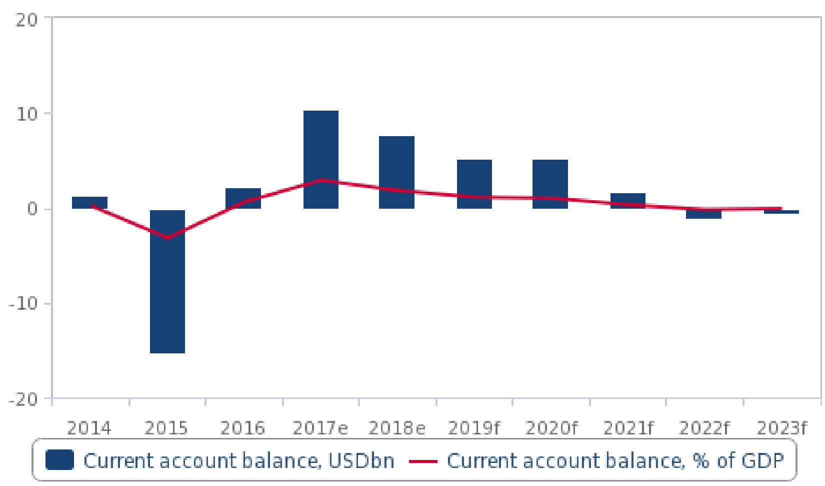
Source: CBN, Fitch Solutions. Last updated: May 7 2019

Long-Term Outlook (six-to-24 months)

We expect the existing multi-tiered exchange rate system to be maintained even over our long-term time horizon. Nigeria's stock of foreign reserves currently remains above seven months of import cover, and our core expectation is for rising oil prices to bolster foreign exchange reserves and thus the authorities' ability to support the currency. Our Oil & Gas team expects the price of Brent crude to average USD73.0 per barrel (/bbl) in 2019 and USD80.0/bbl in 2020, up from USD71.7/bbl in 2018. Moreover, the Dangote oil refinery is scheduled to come onstream in 2020. Although we believe that this timescale may be overly optimistic, improved domestic refining capacity will ease import pressures, providing further stability for the naira. That said, the CBN cut its benchmark interest rate by 50 basis point (bps) to 13.5% in March 2019, and we expect it to make another small rate cut in 2020 as the wider global economy slows somewhat and the authorities seek to stimulate economic activity (*see Monetary Policy Outlook*). This will exert some downward pressure on the naira, as investors look for more attractive returns elsewhere. Overall, we expect the official interbank rank to depreciate only modestly over 2019 and 2020, ending 2020 at a rate of NGN330/USD.

Shift To Current Account Deficit Will Add To Depreciatory Pressures

Current Account Balance



e/f = Fitch Solutions estimate/forecast. Source: CBN, Fitch Solutions

Risks To Outlook

The risks are weighted firmly to the downside. The re-election of Buhari suggests that there will be relatively little progress on oil sector reform – the president has yet to sign into law the Petroleum Industry Governance Bill, deemed the most straightforward element of overarching industry reform, despite modification of the legislation to address some of his concerns. In this environment, industry growth will largely be driven by international price rises. A negative external shock to the oil sector could thus see reserves decline more heavily than anticipated, leading to a sharper downward adjustment of the naira. Equally, tighter global financial market conditions could undermine growth, lead to a market sell-off and put additional pressure on the exchange rate. Revisions are also possible should the president become ill, or be absent for a prolonged period. Yemi Osinbajo, the vice-president who would deputise in this eventuality, is a technocrat who oversaw initiatives including partial currency devaluation during Buhari's first term (when the president was absent).

10-Year Forecast

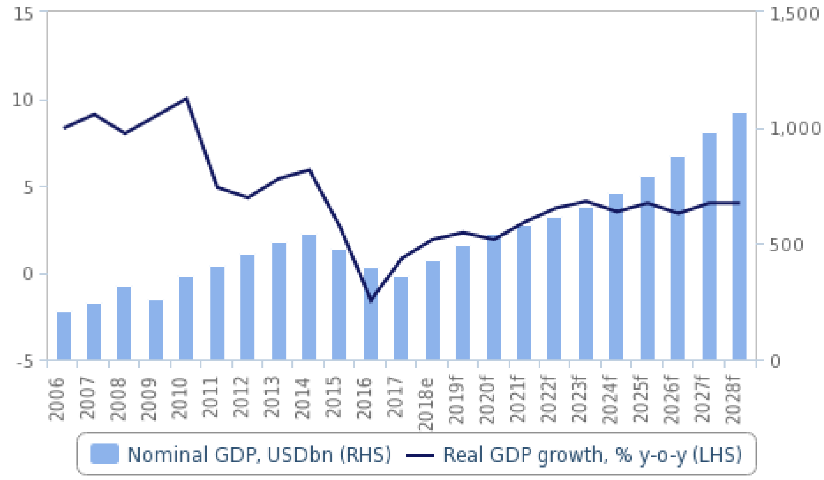
The Nigerian Economy To 2028

Economic Diversification Will Remain Challenging Given Operating Challenges

Key View: *Over the next 10 years Nigeria's economy will struggle to return to the robust levels of real GDP growth recorded prior to the collapse in oil prices. With substantial increases in oil production unlikely, the country will have to develop alternative sectors, but this will likely prove difficult in Nigeria's challenging operating environment.*

Growth Will Recover But Struggle To Reach Previous Highs

Long-Term GDP Growth Outlook



e/f = Fitch Solutions estimate/forecast. Source: NBS, CBN, Fitch Solutions

We do not expect oil production to return to 2010-2014 levels during the next 10 years, and this, combined with a challenging operating environment, will pose significant challenges to Nigeria's economic outlook. A large and fast-growing population (expected to reach 251.6mn by 2028) will ensure opportunities are on offer for investors willing to take on substantial risk, and this will see economic activity slowly accelerate from the recession recorded in 2016. However, the unfriendly business environment, and the instability of the commodity-dependent economy, will keep fixed investment below the levels required to move the country away from its oil dependence. We forecast real GDP growth will average 3.4% per year over our long-term outlook from 2019 to 2028, compared with 6.1% in the 2010-2014 oil boom years.

TABLE: LONG-TERM MACROECONOMIC FORECASTS

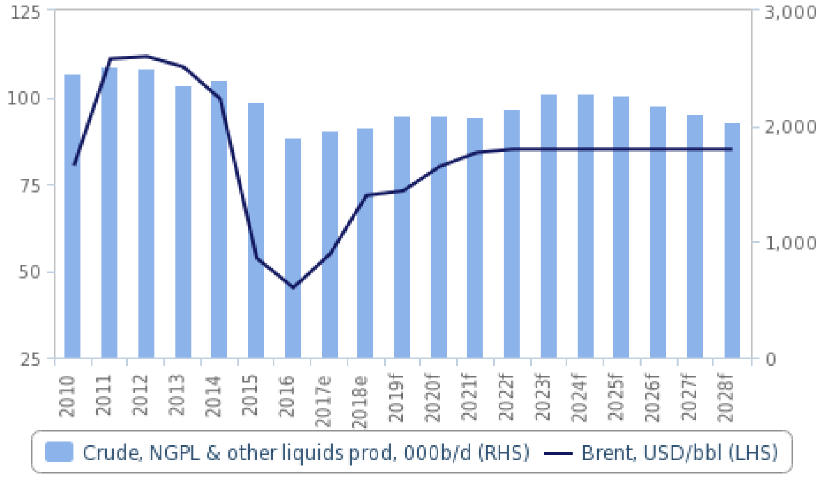
	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Nominal GDP, USDbn	497.4	549.3	584.0	619.9	665.8	723.0	794.1	881.5	985.8	1,072.8
Real GDP growth, % y-o-y	2.3	1.9	2.9	3.7	4.1	3.5	4.0	3.4	4.0	4.0
GDP per capita, USD	2,475	2,664	2,761	2,858	2,994	3,171	3,397	3,679	4,015	4,264
Population, mn	200.96	206.15	211.45	216.84	222.35	227.96	233.69	239.54	245.49	251.57
Consumer price inflation, % y-o-y, ave	13.4	14.2	10.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Exchange rate NGN/USD, ave	307.50	320.00	340.00	358.00	374.00	388.50	400.00	407.50	413.50	428.50
Current account balance, % of GDP	1.1	1.0	0.3	-0.2	-0.1	-0.6	-1.1	-1.7	-2.2	-2.6

f = Fitch Solutions forecast. Source: National sources, Fitch Solutions

Insufficient Investment Will Hamstring Diversification

A combination of low prices and long-term constraints on production suggests that the oil sector will not be the economic driver that it was previously. Crude exports have historically accounted for 90.0-95.0% of total merchandise exports and around 70.0% of government revenues. While this has led to substantial economic growth in previous years, the outlook over the next decade is far less positive. Our Oil & Gas team forecasts production growth to average only 0.3% per year between 2019 and 2028.

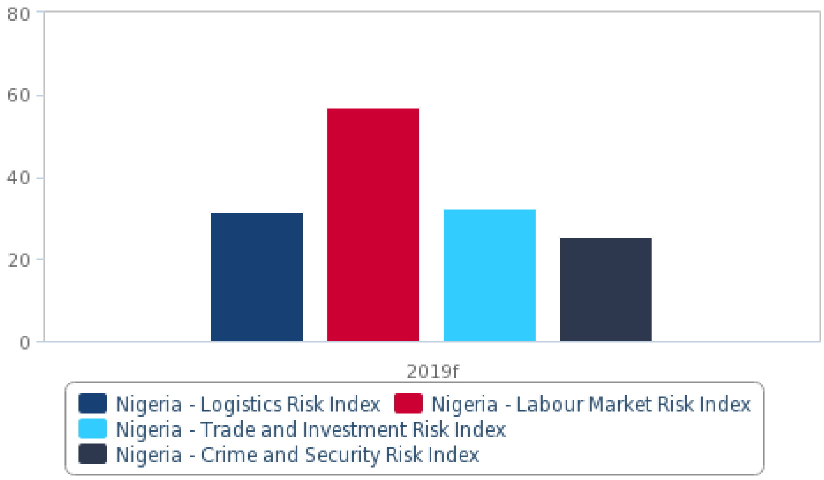
Falling Oil Production Will Necessitate Economic Diversification
Crude Production & Oil Price



e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

However, we believe the economy will struggle to diversify away from its long-standing oil dependence, due to a poor operating environment hindering investment into alternative sectors.

Insecurity And Poor Logistics Make For Difficult Operating Environment
Operational Risk Indices, Scores Out Of 100



Note: Higher score indicates lower risk. Source: Fitch Solutions

Given the country's growing population, the most pressing sectors for the Nigerian economy to diversify into would be those that create significant opportunities for employment, such as agriculture and manufacturing.

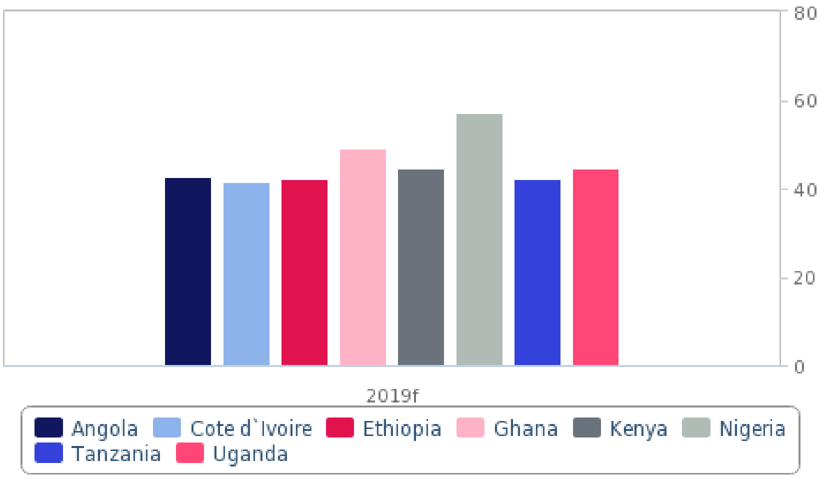
Both have been touted as a route to meaningful economic development in commodity-dependent economies in the region, given their ability to create jobs and value. However, developing these sectors requires substantial surrounding infrastructure, including a reliable power supply and adequate storage and transport links to move produce to market (s*ee 'Little Change & Modest Growth For Infrastructure', January 23*).

Nigeria will find it difficult to attract the level of investment it needs to develop this infrastructure while its operating environment remains such a headwind to businesses. While performing relatively well in terms of labour costs, the country scores poorly in other components of our proprietary Operational Risk Index, including Crime and Security Risk (25.3) and Logistics (31.6). These scores are a reflection of the country's multiple armed insurgencies, high levels of corruption and USD8bn shortfall in annual government infrastructure spending according to the projects that are required.

While Muhammudu Buhari, who was re-elected president in February 2019, has promised to focus on infrastructure, and notably developing the country's transport network. This will nonetheless struggle to keep up with the increasing demands of a rapidly growing population. Roads and ports are incredibly congested, making it difficult for goods to reach their intended markets in a timely fashion, reflected in the regional discrepancies in prices. This is particularly a headwind in the country's agriculture industry, where produce must be transported to markets before spoiling. Similarly, developing the manufacturing sector will prove equally difficult given the poor quality of electricity supply, in which Nigeria comes 137th out of 138 countries ranked by our Power and Renewables teams.

Nigeria Offers Attractive Labour Market

SSA – Labour Market Risk Index, Scores Out Of 100



Note: Higher score indicates lower risk. Source: Fitch Solutions

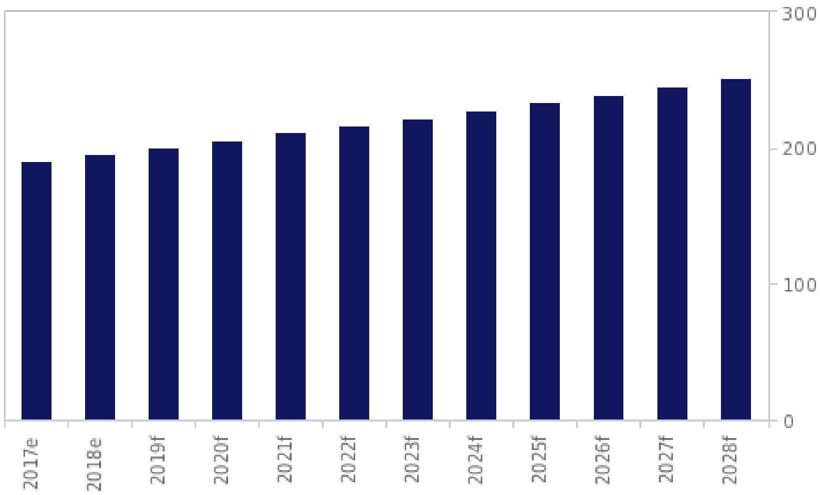
Demographic Dividend Comes At A Cost

Continued population growth over the coming decade, which we believe will average 2.5% per annum between 2019 and 2028, will offer some tailwinds to headline GDP. Perhaps more importantly, this growth will translate into a lower dependency ratio (the non-working age population as a percentage of the working age population) – falling to 79.8% in 2028 from 87.2% in 2018. The expansion of Nigeria's labour force will also keep businesses supplied with a large pool of relatively cheap workers, which will be vital in keeping the country relatively attractive for foreign investors given low levels of female participation. The outlook for strong population growth informs Nigeria's score of 83.3 out of 100 for Labour costs in our proprietary Operational Risk Index, ranking first in Sub-Saharan Africa. Not only does this growth increases the country's resources and long-term potential output, it simultaneously entails a shift in demand as the swelling population increases Nigeria's already large markets for consumer goods.

However, we caution that this growth will also come attached to certain risks. While a source of support for the economy, a growing population will require more jobs, more food and more investment into Nigeria's public services and infrastructure. As of Q318, Nigeria's National Bureau of Statistics estimated that 23.1% of the working-age population was unemployed, and a further 20.1% underemployed. Unless future governments are able to capitalise on the country's 'demographic dividend', the growing population will be as much a source of political unrest as it will a boon for GDP growth. Both Boko Haram and the Niger Delta Avengers, two insurgent groups based in Nigeria's north east and south east respectively, have been able to draw on pools of disenfranchised young men, who feel left out from the benefits of the country's oil boom prior to the collapse in crude prices.

Rapid Population Growth Both An Opportunity And Risk

Population, mn



e/f = Fitch Solutions estimate/forecast. Source: UN, Fitch Solutions

While neither Boko Haram nor the Avengers pose an existential threat to the Nigerian state, they both undermine the narrative that a rapidly growing population is largely a positive sign for the country's economy. Combating both groups has demanded significant government spending on non-productive areas of the budget, including amnesty payments to ex-combatants, and increasing military expenditure, using up resources badly needed to re-invigorate the country's dilapidated infrastructure network. In 2016, the Avengers' attacks on pipelines in the main oil-producing region led to a substantial decline in crude output, contributing to the recession experienced that year, and there are signs of a rise in attacks in the Niger Delta in the wake of the February 2019 elections. A growing workforce and falling dependency ratio add to a country's long-term potential output, but in the case of Nigeria, this has to be matched by robust investment creating new opportunities in order to avoid social unrest.

Our long-term macroeconomic forecasts are based on a variety of quantitative and qualitative factors. Our 10-year forecasts assume in most cases that growth eventually converges to a long-term trend, with economic potential being determined by factors such as capital investment, demographics and productivity growth. Because quantitative frameworks often fail to capture key dynamics behind long-term growth determinants, our forecasts also reflect analysts' in-depth knowledge of subjective factors such as institutional strength and political stability. We assess trends in the composition of the economy on a GDP by expenditure basis in order to determine the degree to which private and government consumption, fixed investment and the export sector will drive growth in the future. Taken together, these factors feed into our projections for exchange rates, external account balances and interest rates.

Political Outlook

Domestic Politics

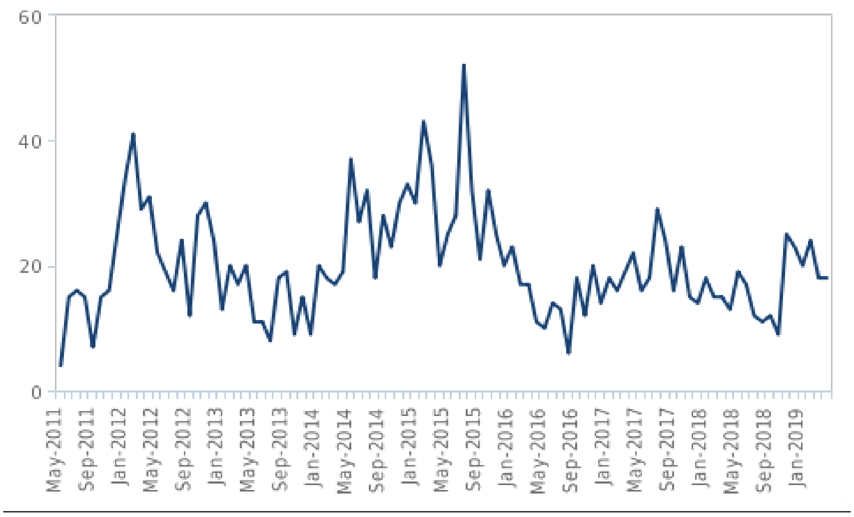
Nigerian Security Risks Will Remain Elevated, Further Constraining Reform

Key View

- We at Fitch Solutions expect security risks in Nigeria to remain elevated over the coming quarters, with the government of Muhammudu Buhari – who was re-elected president in February 2019 – facing a number of localised conflicts.
- Long-standing issues in the north and centre of the country will be accompanied by elevated tensions in the south, where existing separatist sentiments and militancy will be compounded by increasing dissatisfaction with mainstream politics.
- Given that Buhari based his campaign in part on an improvement in the overall security situation, the government will seek to tackle these conflicts, but will lack the resources to do so effectively.
- The focus on ongoing security risks will act as a further headwind to reform, which in any case will be constrained by the need to balance the demands of various political interest groups, as well as Buhari's broadly statist approach.

Boko Haram Will Remain A Threat

Number Of Boko Haram Incidents Per Month



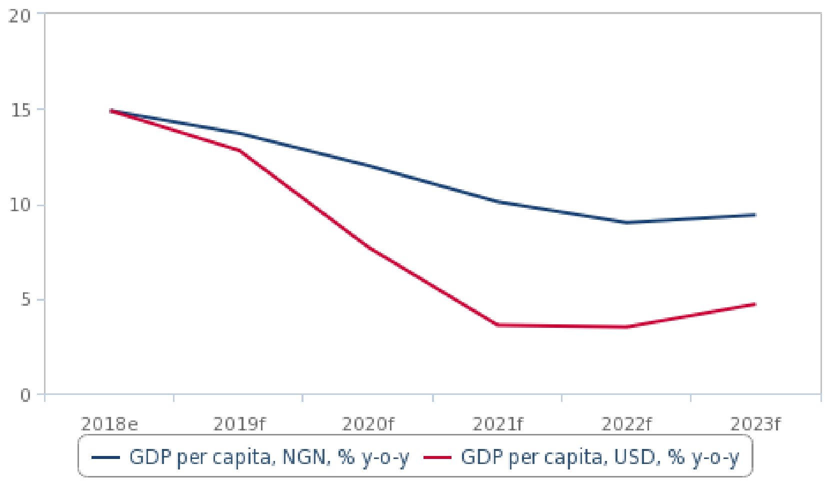
Source: Council On Foreign Relations, Fitch Solutions

We at Fitch Solutions expect security risks to remain elevated over the coming quarters, with the government of Muhammudu Buhari – who was re-elected president in February 2019 – facing a number of localised conflicts. These broadly fall into three areas, which together cover much of Nigerian territory. In the north and north east Boko Haram – an Islamist militant group which the Buhari government claimed in December 2015 to have 'technically defeated' – has demonstrated an increasing ability to launch attacks using new tactics and more sophisticated hardware. The UN estimated that more than 250,000 people have been displaced from north-east Nigeria, and in January 2019 the UN High Commissioner for Refugees agency calculated that more than 30,000 people had fled into Cameroon in a single weekend.

Prevailing insecurity in the north east will also see a continuation of the trend whereby traditionally nomadic Muslim Fulani herders in the north are increasingly pressured to migrate south, exacerbating the risk of ongoing violence between herders and farmers in the Middle Belt. Tensions stem from the nomadic herders' livestock grazing on land owned by farmers but have been intensified by ethnic and sectarian divisions, and there is little to suggest that the government has a viable strategy for tackling the issue. For example, formal land titling is likely to prove too controversial given that it would effectively prevent one or other group from accessing communal holdings, and would thus undermine Buhari's efforts to balance the demands of various political interest groups.

GDP Per Head Will Recover Only Slowly

GDP Per Capita



e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

These long-standing issues will likely be compounded by increased levels of unrest in the south. Prior to the elections the Niger Delta Avengers (NDA) – a militant group – pledged to 'cripple' the economy if Buhari were elected. Moreover, very low electoral participation rates in the region – with turnout in Lagos, Abia and Rivers states as low as approximately 20% – underscores a broader dissatisfaction with mainstream politics in the area. There has been an increased incidence of attacks on oil facilities in the south since the election, with five oil-sector workers being kidnapped during the second half of April. We anticipate continued militancy in the southern states, since we expect the government to focus on developments in the north.

Given that Buhari based his campaign in part on an improvement in the overall security situation, the government will seek to tackle these conflicts. The 2019 budget, passed by the Senate at end-April but yet to be signed into law, projects a slight increase in the fiscal deficit, citing the need to provide more funding for the security and intelligence agencies 'to deal with additional emerging/ unforeseen security challenges'. However, given the complex and disparate nature of the security challenges, the government will lack the resources to tackle them all effectively. Moreover, because of ethno-religious ties, and support-base considerations – Buhari is a Fulani Muslim whose main support base is in the north west of the country – we expect the government to prioritise efforts to tackle Boko Haram. This threatens to entrench discontent in the south, where voters wish to see hydrocarbons revenue used for local development, rather than tackling distant conflicts.

The focus on ongoing security risks will act as a further headwind to reform, which in any case will be constrained by the need to balance the demands of various political interest groups, as well as Buhari's broadly statist approach. While Buhari's economic campaign pledges focused on employment and infrastructural work, there is little to suggest that his second term will be radically different from his first (*see 'Buhari Victory Signals Slow Progress On Reform In Nigeria', February 27*). We expect Buhari to maintain the existing multiple exchange rate system, which implies maintenance of petrol subsidies. Equally, we foresee little practical progress on government suggestions that the Nigerian National Petroleum Corporation (NNPC) will reduce its 55.0-60.0% stake in joint venture oil companies to 40.0% across the board, or on passage of the broad Petroleum Industry Bill. Overall, we do not expect any radical policy shifts, either in political or economic terms. This suggests that Nigerian growth will remain highly dependent on the hydrocarbons sector, and – because there is little linkage between the capital-intensive oil sector and the wider economy – that average incomes per head will stagnate. This presents long-term political risks such as elevated public discontent and unrest for Nigeria.

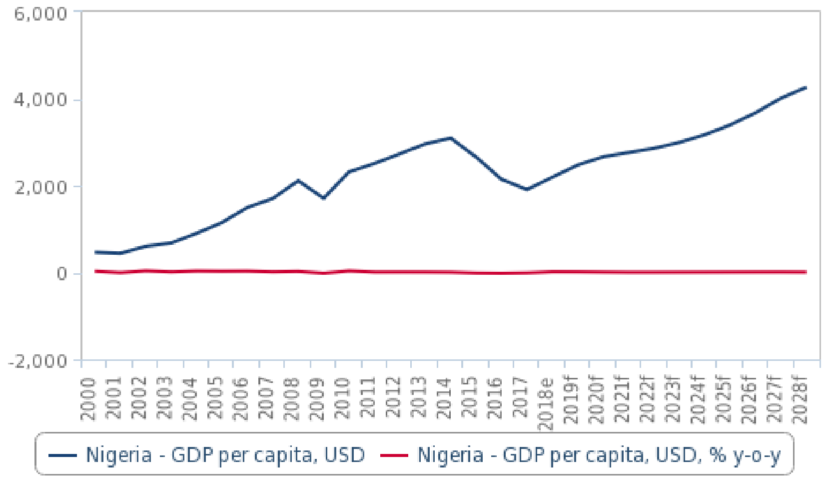
Long-Term Political Outlook

Demographics Pose Potential Time Bomb

***Key View:** Rising population levels, high unemployment and competition for diminishing resources in a period of slower economic growth will exacerbate ethnic and religious grievances in Nigeria over the next decade, and the country will continue to face security challenges on three major fronts. Our core view is that the Nigerian state will survive these interlocking political challenges, although they will weigh on growth by deterring investment and impeding private consumption. There is a downside risk, however, that ethno-religious divides will lead to the breakup of the state over the longer term.*

Recovery From Recession Will Be Slow

GDP Per Capita



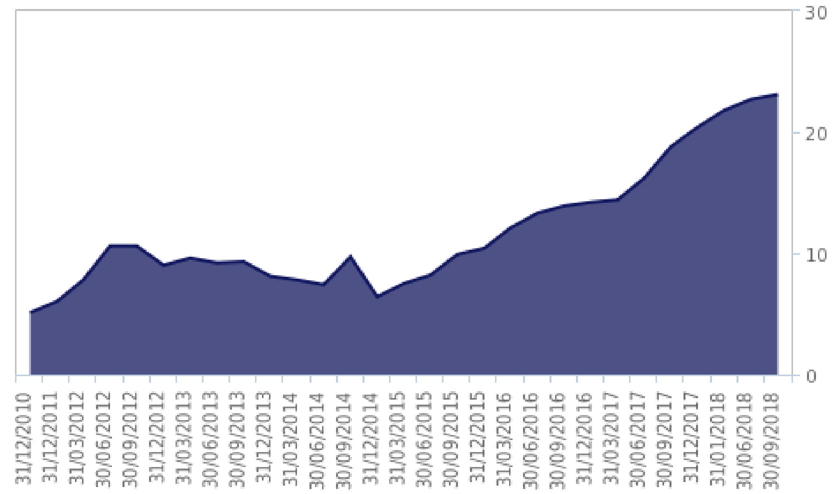
f = Fitch Solutions forecast. Source: National Sources, Fitch Solutions

The next several years will be a severe test for the Nigerian polity, as a weak recovery from the 2016 recession weighs heavily on household wealth and undermines the state's ability to provide services and infrastructure investment, aggravating already high ethnic and regional tensions. The largest population in Africa by some margin, the roughly 190mn people of Nigeria come from a range of disparate backgrounds, and their management as part of a cohesive whole is far harder when the rewards on offer from belonging to the Nigerian state are diminished – or are perceived as being squandered by a corrupt elite. There are already security concerns on three distinct fronts – the Boko Haram insurgency in the north of the country, clashes between Fulani herdsmen and pastoralists in the Middle Belt region and pipeline sabotage in the Niger Delta. With the population continuing to expand rapidly, competition for resources will become increasingly fierce, exacerbated by the ravages of climate change.

That said, even in the face of the aforementioned challenges, it remains our core view that broad-based political stability will endure. Democracy will become increasingly entrenched and social unrest, while likely to increase, will remain contained at a sub-regional level. The country enjoyed its first democratic transfer of power in 2015, and while there were questions over the conduct of the 2019 elections, the key (defeated) opposition candidate sought to mount a challenge to the result through the courts rather than via mass public protests. Furthermore, we believe that Nigeria's membership of the Economic Community of West African States (ECOWAS), the local regional body, will prevent any undemocratic transfer of power from taking root.

Unemployment Will Rise Further

Unemployment, %



Source: National Bureau of Statistics, Nigeria, Fitch Solutions

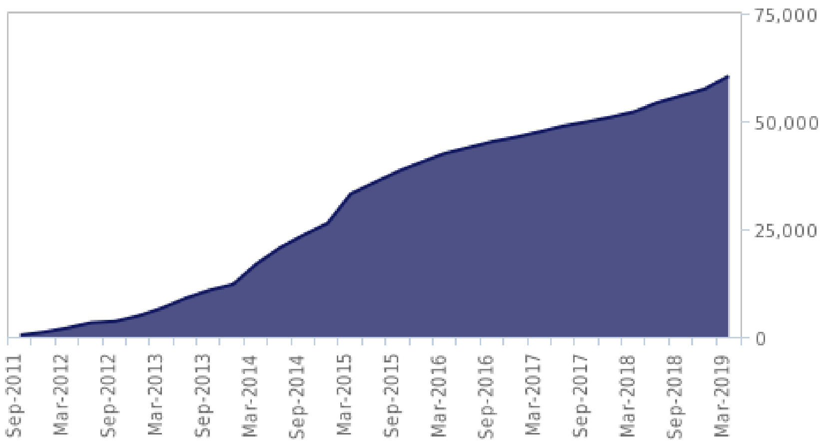
Risks And Challenges To Stability

Booming Population Threatens Unrest: While Nigeria's large population should boost growth significantly, in the absence of sufficient employment opportunities there is substantial risk that the country's demographic dividend will turn into a demographic time bomb, with potential for the booming population to threaten political stability. New employment opportunities will be severely limited by constrained real GDP growth, while high fertility rates will see new entrants to the job market every year. According to the National Bureau of Statistics, the size of the labour force increased from 75.94mn in Q315 to 80.66mn in Q316, 85.1mn in Q317 and 90.5mn in Q318. As of Q318, unemployment had risen to 23.1%, with rates even higher among the youth demographic, and we believe it is likely greater than the reported figures, given the size of the unofficial economy in Nigeria, especially in rural areas. In Borno State, in the far north east of the country, unemployment was recorded at 29.1% in 2011, and has likely climbed higher still in the intervening years given recent economic and political turmoil. Heavy reliance on crude oil production has had a particularly deleterious effect on the north, as the effects of Dutch disease have resulted in cheaper foreign imports and the closure of previously profitable textile mills, undermining employment opportunities. We see little prospect of any substantial improvement in job prospects in the region within the scope of our 10-year forecast period, as power generation will remain unreliable and unrest and only slow progress on reform will deter investment. Moreover, with rampant corruption having concentrated wealth in the hands of political elites, the country suffers from significantly unequal wealth distribution. This could further a sense of grievance and raises the potential for destabilising protests.

Islamist Insurgency Will Keep Its Allure: As unfavourable demographics are likely to prevent any significant improvement in living standards, in the poorer regions of the country in particular, the attraction of radical ideologies will remain a pertinent danger to stability in Nigeria. This was demonstrated by the rise of Boko Haram in the north-eastern region over the past 15 years. The promise of salvation, the opportunity to attack a supposedly sacrilegious central government, or even simply in many cases financial remuneration, will entice recruits into militant groups. With greater attention now being paid to the region by the central government, we do not expect that Boko Haram will manage to take control of huge swathes of territory again as seen in 2014 and 2015, and the threat to the state from such groups is far from existential. Nevertheless, there has been a rise in the number of attacks in the run-up to and after the February 2019 elections, and strikes on government institutions and suicide attacks on public places will likely continue. This will weigh on regional economies by deterring investment and displacing communities.

Terror Groups Will Continue To Kill

Boko Haram Fatalities



Source: Nigeria Security Tracker

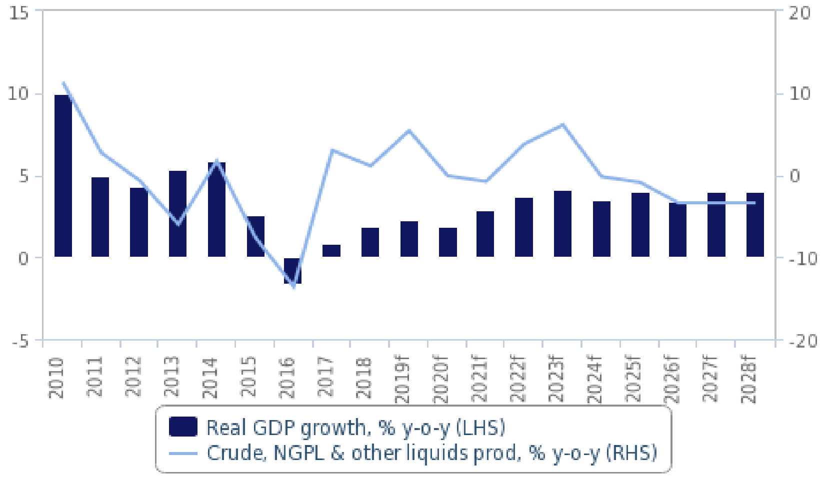
Climate Change Will Heighten Middle Belt Tensions: In the poorer Sahelian regions, resources will be further constrained in the coming years by the effects of climate change, as water supplies and arable land diminish while at the same time populations expand. This will be a particular flashpoint in the Middle Belt Region, encompassing states such as Kwara, Kogi and Niger, which delineates the line between Nigeria's mainly Muslim north and the predominately Christian south. Competition between different ethnic and religious groups for diminished resources will be a major source of unrest in the region, a trend already apparent in regular clashes between Fulani tribesmen and pastoralists. There have long been tensions between the nomadic cattle herders, who are largely Muslim, and the settled Christian farmers. However, competition over land and resources has been exacerbated in recent years by the expansion of the arid Sahel region, which has pushed the Fulani tribesmen further south in their search for grazing pastures for their herds. Attacks by Fulani militants on farmers have been increasing throughout the Nigerian ethnically mixed region.

Delta Grievances Must Be Managed: A third source of political risk is in Nigeira's oil rich south east, where grievances against the central government could lead to renewed sabotage of oil pipelines and related infrastructure. This had a calamitous effect on growth in 2016, with the cessation of amnesty payments to the previous generation of militants in the region resulting in the emergence of the Niger Delta Avengers. Subsequently the state has made strenuous efforts to contain unrest, including maintaining amnesty payments to militants, and meeting some, but not all, of their demands for greater investment in the Delta region.

In contrast to the northern states, the south east is rich in resources and largely ethnically homogenous. However, far from presenting an advantage regarding its stability within the Nigerian state, these characteristics present a challenge. The region has long fought for a greater share of the oil wealth which flows from its land, and perceptions that government funding is being diverted to tackle far-distant insurgencies in the north will likely entrench dissatisfaction. Equally, the fact that the south-east region is ethnically distinct lends itself to calls for secession from the Nigerian state. This was the cause of the Biafran Civil War in the 1960s, and there have been rising calls for Biafran independence once more from 2016. There is a clear risk that, if concerns over access to state resources are not placated, unrest in the south could have the potential to destabilise the central government.

Further Avenger Attacks Could Derail Growth Again

Real GDP & Oil Production Growth



f = Fitch Solutions forecast. Source: National sources, Fitch Solutions

Regional Underperformer: These multiple political challenges contribute to Nigeria's Long-Term Political Risk Index score of just 45.8 out of 100. This is lower than its Short-Term Political Risk Index score of 46.7, and compares to an average of 48.9 across the 48 states we cover in Sub-Saharan Africa. These threats to stability are likely to temper at least some investors' enthusiasm in the coming years, especially in these regions of the country in which the risks are the greatest. This will only exacerbate Nigeria's weak growth and heighten the aforementioned challenges.

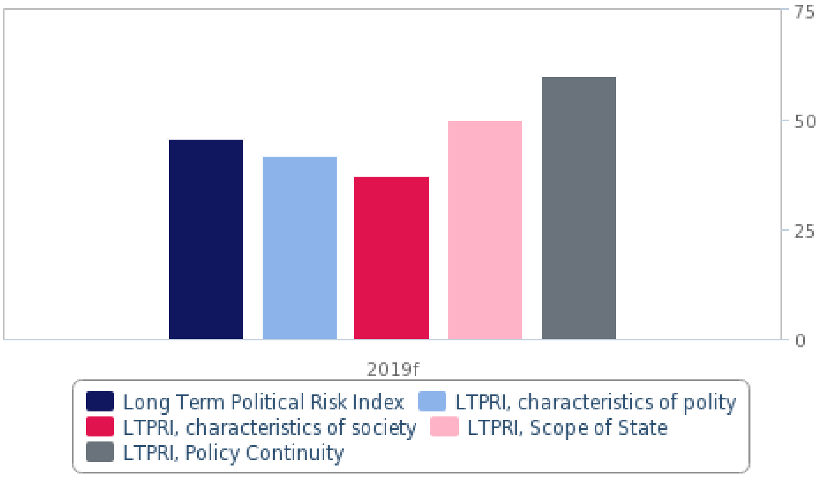
Prospects For Change

Core Scenario: The State Holds On: It is our core view that political stability will remain precarious in many parts of Nigeria, but that the country will not fall foul of a major security crisis or social unrest. Although Nigeria allowed the Boko Haram insurgency to control territory and cities at the height of its power, its ability to challenge the central government was limited, and once the Buhari administration turned its proper attention to the group, it quickly fell back. Despite corruption having weakened the Nigerian military, it remains capable of pushing Islamist groups back out of cities. Ultimately, we believe the ethnic, religious and cultural divisions between many of the groups with grievances against the state are too great for them to unite and attack the government en masse.

In light of a marked deterioration in political stability in Nigeria, concerns over a potential military coup might arise should the government's popularity wane significantly. However, we believe that democracy will become increasingly entrenched in Nigeria, not least as a result of its membership of regional body ECOWAS. The bloc's successes at economic integration have been highly limited, it has more success in the political sphere, having successfully brought to an end the 2012 military coup in Mali and the 2017 electoral crisis in The Gambia. As its largest economy by some margin, Nigeria would be much a harder problem for the bloc to solve; however, the country's membership is an important check against undemocratic processes. Finally, it is our core view that popular protests will not existentially threaten the Nigerian state. Nigeria's large population and relatively high level of social media usage is reminiscent of the 'Arab Spring' seen across North Africa and the Middle East in the early 2010s, which toppled governments and led to structural political change in many of the affected countries. However, unlike the nations that experienced the Arab Spring, Nigeria is a democracy. With the entrenching of normal democratic functioning in the country, this will limit the extent to which the population feels that violent protests are their only options with which to remove a government which they feel is failing to address their concerns.

Risks On A Number Of Fronts

Long-Term Political Risk, Scores Out Of 100



Note: Higher score indicates lower risk; f = forecast. Source: Fitch Solutions

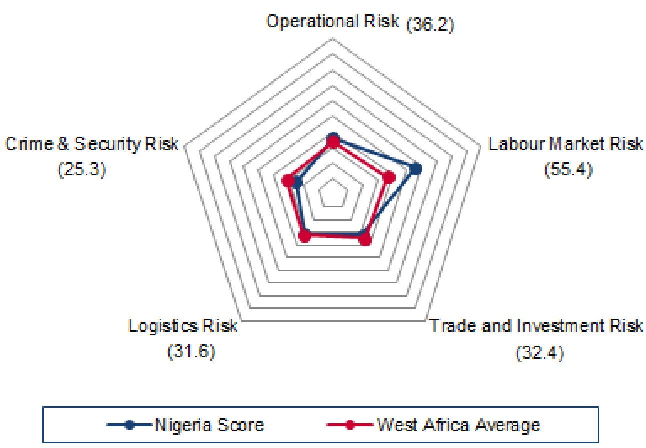
Scenario Two: Things Fall Apart: While our core scenario is for broad-based stability, the demographic time bomb we have outlined above offers substantial risk to political stability, as reflected in our scores for Nigeria. Should ongoing urbanisation lead to a coalescence of currently disparate political groups against the political elite and their self enrichment, a more existential threat to the existing order could develop. In this scenario, and if oil prices collapse once again, or key export markets become less reliant on Nigerian crude (as happened with the US following the shale revolution there), then the resultant economic crash could prove catastrophic to political stability. In such a bearish scenario, there are risks that the Nigerian state could cease to exist in its current form, with a popular street uprising of the like seen in Burkina Faso or the North African countries toppling the government. Other major threats are Biafran separatism leading to calls for ever greater autonomy, and the central government losing control of regions in the north once more. The implosion of Nigeria would lead to considerable regional turmoil and a massive ramp-up in migrants fleeing to Europe.

Scenario Three: Economic Policies Reap Political Gains: On the other side of the coin, there is a chance that the threats currently facing Nigeria will be effectively managed, with the state strengthened over time. Crucially, we believe this is only likely to happen in an environment in which we see significant economic reforms and improvements to the business environment, improving job prospects for a larger portion of the population. A more stable economic environment would entail greater political stability, with less competition for resources leading to less antagonism between different groups. Rising wealth and education levels, coupled with strengthening institutions, would see democracy further entrenched, making the risk of a return to military coups d'état increasingly unlikely.

Operational Risk

Operational Risk report series provides a comprehensive overview of potential risks facing investors operating in a country, as well as a cross-country regional evaluation of threats and advantages. The Operational Risk service evaluates Logistics Risk, Trade and Investment Risk, Labour Market Risk and Crime and Security Risk. Below are sections from these reports.

Security Risks And Infrastructure Gaps Encumber Industrial Growth
Nigeria & Regional Average – Operational Risk Scores



Note: 100 = Lowest risk; 0 = highest risk. Score shown in brackets is the country-specific score. Source: Fitch Solutions Operational Risk Index

Nigeria's economy remains strongly reliant on the oil sector and will struggle to return to the robust levels of economic expansion and industrial activity recorded prior to the collapse in oil prices. Businesses operating in Nigeria face heightened security costs, an uncertain regulatory environment, limited labour and capital mobility and uncompetitive import conditions, particularly amid still-weak oil revenues. Nigeria's non-oil sector growth potential remains constrained by the acute shortcomings in the country's utilities and transport sectors, high levels of social instability in restive regions of the country and high structural reliance on sustained oil output for fiscal support and FX liquidity. Rampant criminal activity and recurrent militant attacks on critical infrastructure – particularly in the Niger Delta – threaten the safety of foreign workers, business operations an the wider economy given the economy's fundamental reliance on oil revenues. Cyclical security risk flashpoints also disrupt the country's predominantly gas-reliant power supply

TABLE: OPERATIONAL RISK

	Operational Risk	Labour Market Risk	Trade And Investment Risk	Logistics Risk	Crime And Security Risk
Nigeria Score	36.2	55.4	32.4	31.6	25.3
West Africa Average	33.7	36.7	35.0	32.0	31.1
West Africa Position (out of 16)	6	1	12	9	12
SSA Average	34.5	38.3	34.4	33.3	32.0
SSA Position (out of 48)	17	1	27	24	33
Global Average	49.6	49.7	49.9	49.0	49.8
Global Position (out of 201)	155	59	163	164	174

Note: 100 = lowest risk; 0 = highest risk. Source: Fitch Solutions Operational Risk Index and limits freight transit routes. Meanwhile, pervasive corruption further obfuscates already convoluted bureaucratic procedures, thereby raising legal costs and deterring foreign direct investment. Over the longer term, contingent on successful completion of planned energy and transport infrastructure development projects, we expect a modest uptick in economic activity, however slow reform momentum will mitigate rapid improvements in secondary and tertiary sector development over 2019-2023. Taking these factors into account, in the Operational Risk Index Nigeria ranks in seventh place out of 16 West African states, with a weak score of 36.2 out of 100. On a global comparison, the country ranks in a low 155th out of 201 states surveyed globally, notably behind Cote d'Ivoire, Kenya, Ghana and South Africa.

Crime And Security (25.3/100): Crime and security risks in Nigeria are substantial and investor confidence is dampened by the threat of terrorist attacks and vandalism particularly in the economically important hydrocarbons sector. Organised criminal groups are also active across the country, and businesses are exposed to the threat of violent crimes such as kidnapping of foreign workers, as well as fraud and cybercrime. The country's security forces, though large in size are largely underfunded and overstretched, while endemic corruption often hinders efficient law enforcement. The fundamental causes of Nigeria's fragile security climate remain unresolved, while wide wealth disparities and weak macroeconomic fundamentals, particularly since 2015, leave the country susceptible to further bouts of instability. Businesses already operating in the country face high security costs and risks are compounded by the dearth of adequate insurance coverage and alternative risk-mitigation strategies.

Trade And Investment (32.4/100): In the short-to-medium term, subdued global oil prices and high risk of disruptions to critical energy infrastructure will slow macroeconomic growth. Liquidity challenges and the slow progress of regulatory reforms in key sectors such as energy, transport, construction and telecommunications will continue to weigh on the country's economic development and diversification efforts. In addition, Nigeria's business environment is significantly weakened by rampant corruption, burdensome bureaucratic procedures and a weak legal framework.

Logistics (36.3/100): Long-term economic growth will be supported by the increasing opportunities for investment in Nigeria's expanding industries. However, power and transport sector reforms are crucial for long-term productivity gains. At present, gas supply shortages, economic volatility, the ongoing FX liquidity problems and regulatory challenges facing companies operating in the power sector will remain the key barriers to improving power supply over the short-medium term. Furthermore, we maintain that private investment in the power sector is unlikely to be forthcoming even as some of the economic challenges recede – on account of the significant risks to market entry and major structural problems throughout power sector value chain. Energy-import reliance remains high, while pipeline and refinery infrastructure is poor and oil theft is common, raising risks of sporadic fuel shortages and disrupting business operations. In terms of transport risks, rail links are limited and Nigeria's roads are the dominant mode of overland freight transport, but supply chains face severe disruption due to poor quality infrastructure and chronic congestion in urban areas and at border posts, while trade procedures are stifled by onerous bureaucracy and corruption. In rural areas, freight and passenger security remains a key concern, particularly in restive regions. In addition, rapid population growth and industrial demand, while logistics infrastructure upgrades gradually come online, means demand will continue to outweigh supply, with risks set to intensify over the short-to-medium term.

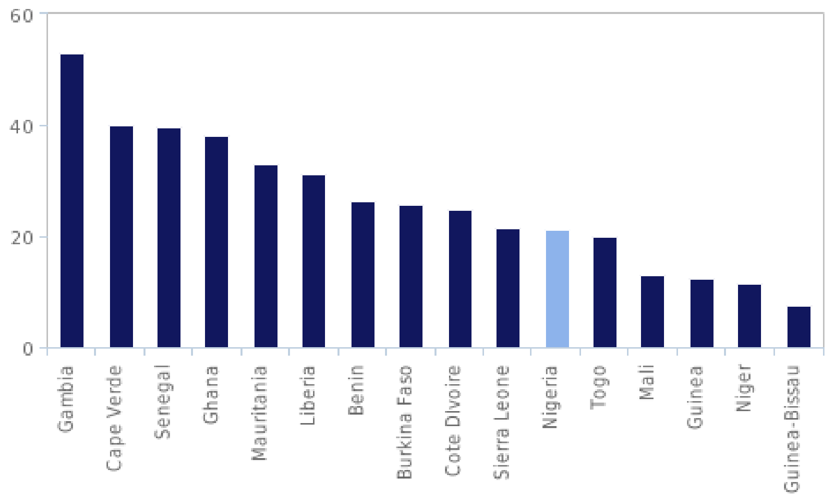
Labour Market (55.4/100): Nigeria has a large pool of skilled and unskilled labour relative to other countries in Sub-Saharan Africa owing to its vast population and the sheer number of people completing various levels of education. However, corruption, poor infrastructure and frequent strike action negatively affect the quality of offerings at the country's educational institutions at all levels, leading businesses to invest extensively in training or the recruitment of skilled foreign workers. Significantly high security risks, particularly in the northern regions of the country, limit labour mobility, as urban-based and foreign workers are likely to require additional compensation in order to work in insecure and poorly serviced areas.

Business Crime

Businesses operating in Nigeria need to budget for private security in order to protect company assets and staff, owing to the high risks posed by terrorist and organised criminal groups operating in the country. Additional costs for companies include hardship and danger pay requirements, legal risks associated with corruption and weak law enforcement. At present, Nigeria's financial and cyber crime risks stem from endemic corruption and weak monitoring mechanisms, which contribute to the large size of the parallel market, especially for hard currency, and the frequency of internet and mobile money-based fraud. Nigeria obtains a score of 21.1 out of 100 for Business Crime Risk, putting it in a low 11th place out of 16 West African states, between Sierra Leone and Togo.

High Organised And Financial Crime Risks Raise Operating Costs

West Africa – Business Crime Risk



Note: 100 = lowest risk; 0 = highest risk. Source: Fitch Solutions Crime And Security Risk Index

Latest Business Crime Analysis

- Nigeria has seen a surge in violent crime such as robbery and kidnap for ransom, adding to the Buhari administration's security challenges, which include militant attacks in the northeast and festering unrest in the oil-rich Niger River delta. In April 2018, Nigerian police reported that 17 people were killed by gunmen who invaded a southwestern town of Offa in Kwara state and robbed five banks. Due to weak police force capabilities, military troops are on security duty in all of the country's 36 states. Businesses operating in the country will face rising private security costs in the near term as the state struggles to cope with the multifarious security challenges it faces.

- Security remains a concern to investors in Nigeria due to high rates of violent crime, kidnappings for ransom and terrorism. In addition, longer-term impact of the government's Niger Delta peace efforts remains unclear and criminal activity in the Delta – in particular, rampant oil theft – remains a serious concern.

- In July 2017, Nigerian troops destroyed more than 10 illegal refineries, which process oil stolen from the pipelines of multinational companies, including Shell and Eni, by heating it in car-sized metal containers. The Nigerian army has stepped up efforts to shut down illegal refineries in an effort to reduce risks posed by criminal networks in the oil-rich South of the country. However a more effective long term solution would be to create employment opportunities for populations in the oil-rich south.

- Piracy in the Gulf of Guinea has increased at an alarming rate in recent quarters, in line with the macroeconomic headwinds afflicting the region. The International Maritime Bureau advises that vessels stay at least 200 nautical miles from the coast of Nigeria. Companies providing security for oil explorers have been asked to partner with the navy and share intelligence that can help fight piracy, smuggling and crude theft in the region.

White Collar And Organised Crime

Financial crimes such as fraud, embezzlement and money-laundering also continue to threaten businesses operating in Nigeria. Although financial reporting is more developed than in most countries in the wider Sub-Saharan Africa (SSA) region, high levels of corruption and weak enforcement leave businesses exposed. Investors in Nigeria also face a growing threat of cybercrime, as Nigerians are increasingly connected to the internet but remain largely unprotected by cybersecurity. Perpetrators conduct attacks for financial gain by taking advantage of the absence of regulations and businesses' lack of security software. While legislation has now been newly enacted in order for a legal base to be established to actually prosecute cybercrime, enforcement agencies need to be better equipped with skills and tools in order to effectively combat this form of crime. As a result, Nigeria receives a score of 22.3 out of 100 for Financial Crime and Cybercrime Risk, placing it in seventh place out of 16 countries in West Africa and 22nd out of 48 countries in the wider SSA region.

Businesses operating in Nigeria face elevated costs to ensure the protection of their staff, financial and physical assets owing to the terrorist threat and widespread organised crime. In addition to the hiring of private security, in particular for businesses operating in the country's northern region and in the Niger Delta, there are high costs to repairing damage caused by terrorist attacks and sabotage and financial losses caused by property theft and cybercrime. Finally, hardship and danger pay requirements for skilled workers further increase overall operating costs for businesses in Nigeria. The country scores 20.0 out of 100 for Business Costs of Crime, putting it in 10th place out of 16 states in West Africa.

Financial Crime: Internet fraudsters, corrupt officials and businessmen, as well as criminal and terrorist organisations, take advantage of the country's porous borders, endemic corruption, inadequate law enforcement and poor socioeconomic conditions to launder money from criminal activities. Drug traffickers reportedly use Nigerian financial institutions to conduct currency transactions involving US dollars derived from the sale of illicit drugs.

In 2011, Nigeria passed the Money Laundering (Prohibition) Act, which provides for, among other things, that no person or body corporate shall, except in a transaction executed through a licensed financial institution, make or accept cash payments of a sum exceeding NGN5mn or its equivalent in the case of an individual, or NDN10mn, or its equivalent in the case of a body corporate. Any financial institution or designated-financial institution which fails to comply with the above provision, by making the appropriate compliance report to the regulatory authorities commits an offence and is liable on conviction to a fine of not less than NDN250,000 for an individual and not more than NDN1mn for a body corporate, for each day that the contravention continues.

The main Nigerian regulators in terms of this legislation are the Central Bank of Nigeria, Nigerian Financial Intelligence Unit (NFIU) and SCUML (Special Control Unit for Money Laundering). The NFIU became a stand-alone unit in terms of anti-money laundering enforcement in 2014 (prior to this it was subsection of the Economic and Financial Crimes Commission, EFCC). However, pervasive corruption, a lack of investigative capacity, inadequate legislative authority, and interagency dysfunction have hindered or blocked numerous prosecutions and investigations related to money laundering. For example during the period of January 1 2014 to September 30 2014, there were 722 suspicious transactions reported to the relevant Nigerian authority, as well as 3,878,984 suspicious currency transactions reported. However for the same period, there were zero prosecutions or convictions for any money laundering criminal activities in relation to these. This is highly indicative that the performance of Nigeria's anti-money laundering enforcement agencies needs to improve.

Nigeria is also a member of the inter-Governmental Action Group against Money Laundering in West Africa (GIABA). In its most recent report dated May 2015, GIABA commended Nigeria on the fact that more than 40 Boko Haram members have been prosecuted and convicted for terrorism related crimes, under Nigeria's Terrorism Prevention Act (in terms of terrorist financing activities). There has been an increased effort to prosecute financial crimes over the past few months (especially in relation to former government officials as the EFCC recently worked with British authorities to arrest the former Nigerian Oil Minister on charges of money laundering and bribery in October 2015.

The proceeds of corruption also pose a risk to the financial sector, however often such transactions are cash based. For instance, in February 2017, Nigerian authorities recovered USD9.75mn and GBP750,000 from a residence in Kaduna state during a law enforcement operation. In addition, NGN1.25bn was recovered from a public servant. According to the findings, out of the 37 accounts frozen/forfeited, six banks are yet to provide relevant information on the amount accrued into the identified suspicious accounts. The Economic and Financial Crimes Commission (EFCC), also revealed that they had secured 135 convictions, out of which 46 were from Lagos zone, 30 from Abuja zone, 22 from Port Harcourt zone, 19 from Kano zone, 15 from Enugu zone and three from Gombe zone.

Given the size of the country's financial sector, Nigeria adopted the use of IFRS in terms of financial reporting standards used for certain companies and organisations from 2010. Actual implementation of IFRS was phased in, with all quoted companies (those listed on any stock exchange) and companies with significant public interest having to adopt IFRIS from January 1 2012, all other public interest entities from January 1 2013, and SMEs from January 2014. While an internationally recognised financial reporting system is required to be used by listed companies, endemic corruption, however, means actual compliance with IFRS is not stringently enforced – therefore compounding the levels of financial crime present in Nigeria.

Prevalent financial crimes include money-laundering, bribery and embezzlement, bank and real estate fraud and identity theft. Advance fee fraud (also known as '419 fraud' in reference to the fraud section in Nigeria's criminal code), remains a lucrative financial

TABLE: BUSINESS RESPONSE TO WHITE COLLAR CRIME AND ORGANISED CRIME RISKS

Risk Level	Business Response
High	• Provide in-house cybersecurity teams or outsource to well-established firms. • Prepare for internet and telecommunications disruptions during periods of political unrest (see 'Political Unrest: A Growing Risk for SSA Telecommunications', March 28 2017). • The storage of information on secure servers and back-up of information is strongly advised. • Raise awareness of cybercrime threats to all employees and affiliates. • Have backup measures in place in case of ransomware attack. • Piracy in the Gulf of Guinea has increased at an alarming rate in recent quarters, in line with the macroeconomic headwinds afflicting the region. The International Maritime Bureau advises that vessels stay at least 200 nautical miles from the coast of Nigeria. Companies providing security for oil explorers have been asked to partner with the navy and share intelligence that can help fight piracy, smuggling and crude theft in the region. • Increase security personnel and video surveillance, especially if located near major industrial hubs, oil installations and crowded urban areas. • Avoid mining activities in high conflict risk zones and ensure supply chains, particularly in the extractive industry are legitimate. • Hire private security for travel to remote regions, as foreign embassies are unable to provide normal levels of assistance in regions that have poor connections and high levels of insecurity. • Provide employees with danger and hardship pay and assist in finding secure accommodation. • Conduct due diligence into potential business partners. • Companies operating in the Niger Delta must be aware of the high theft rate for oil and oil-related products by gangs and local criminals. • Carry out monitoring for suspicious payments and activity associated with money laundering.

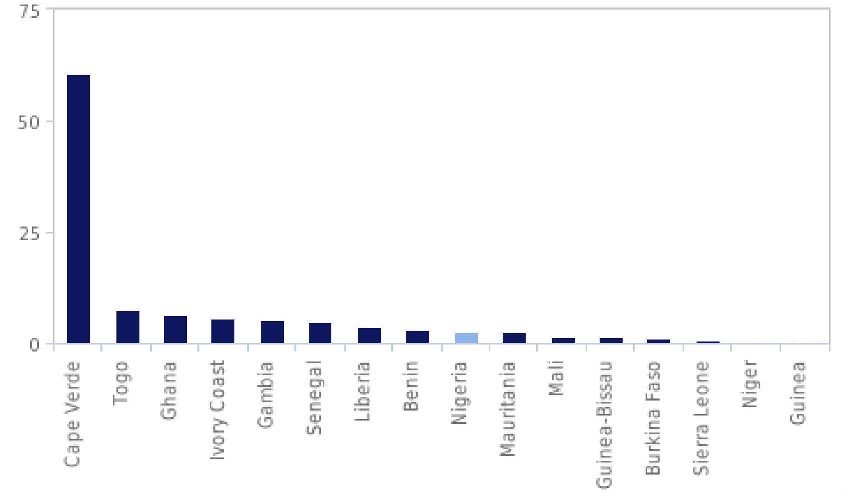
Source: Fitch Solutions

crime that generates hundreds of millions of illicit dollars annually. A recent FBI report estimated USD12.7bn in losses to financial fraud in West Africa, much of which is attributed to Nigeria. Money laundering in Nigeria takes many forms, including investment in real estate, wire transfers to offshore banks, political party and campaign financing, deposits into foreign bank accounts, abuse of professional services, such as lawyers, accountants, and investment advisers, reselling imported goods, such as luxury or used cars, textiles, and consumer electronics purchased with illicit funds, and bulk cash smuggling.

Cybercrime: Cybercrime has become a major threat in Nigeria over recent years and the country is now thought to have one of the highest cybercrime rates in the world. One of the world's largest cyber-based heists in recent history was perpetrated by the former director of Union Bank of Nigeria over a multi-year period, who orchestrated a 419 scam (the Nigerian criminal code for the advance-fee fraud); defrauding a Brazilian bank of USD242mn. Other than this case, it is individuals rather than large organisations, however, who seem to be the primary victims of cybercrimes. Based on a 2012 survey, 30% of Nigerians reported to have been victims of cybercrimes, with total losses estimated at USD1.4bn.

Weak Cyberprotection Remains A Key Concern

West Africa – Secure Internet Servers (per mn people)



Source: World Bank

As an increasing number of Nigerians use the internet and are active on social networks such as Facebook and Twitter, opportunities for criminals are rising. Nigeria's internet penetration rate is the 12th highest in SSA, standing at 35.4 users per 100 people according to the latest available data from the World Bank. Only a small percentage (6.3%) of the Nigerian population currently use the internet for their transactions, which is low compared globally, but the highest in West Africa.

The rising use of cryptocurrencies and the concomitant cypto-related scams in the cyber-market also raise risks for Nigerian consumers, particularly during periods of FX illiquidity and import restrictions. In 2017, peer-to-peer bitcoin trading in Nigeria increased by nearly 1,500%, surpassed only by China. According to data from LocalBitcoin, a popular bitcoin exchange available in over 180 countries, weekly bitcoin trade volume in Nigeria crossed NGN1bn in August 2017 and more consumers have since clamoured into the crypto-market seeking yields as the price of Bitcoin rose. Cryptocurrency use in Nigeria, as seen in other states with acute financial barriers or foreign currency liquidity challenges (such as Zimbabwe) will see an increasing proliferation in the short-medium term. Whether or not the Nigerian Bitcoin rush slows could be mitigated by regulation as the Central Bank has raised concerns about its role in terrorism financing and money laundering.

According to the head of the Advance Fee Fraud and Cybercrime section of the state aparatus, the biggest threat in Nigeria is associated with phishing, a form of social engineering that attempts to acquire sensitive information such as usernames, passwords, and ATM card details by masquerading as a trustworthy entity in electronic communications.

Insider threats are also a major risk to organisations in Nigeria, with employees or former employees using insider information concerning an organisation's security practices, data and computer systems. As companies take austerity measures such as downsizing and salary cuts in reaction to the falling crude oil prices and the devaluation of the naira, there is a heightened risk that employees, former employees or contractors resort to cybercrime as a means to maintain their standard of living. The Computer Audit and Security Associations in Lagos has led efforts to facilitate information security, reduce security breaches and take steps to contain cybercrime in Africa. The Nigerian government is aware of the high risk of the internet becoming an instrument of terrorism in Nigeria and the Computer Security and Cybercrime Bill was passed in 2014, providing a starting point to reduce the elevated threat of cybercrime in the country. As a result, organisations now have a legal basis for prosecuting cybercrime.

Progress has been made, as Nigeria's number of secure servers rose from 1.68 per 1mn people in 2013 to 2.8 per 1mn people in 2015. However, awareness of cybersecurity issues remains very low in Nigeria, leaving consumers and businesses highly vulnerable to online scams. While the number of secure servers per 1mn people in Nigeria has improved, this rate is still very low (the West Africa regional average for secure servers is approximately 6.8 per 1mn people), and companies are still at a high risk of being the victims of cybercrime unless they purchase adequate security software and train employees.

Nigeria Key Developments – Data localisation: The Guidelines for Nigerian Content Development in the ICT sector issued by NITDA on December 3 2013, require ICT companies to host all consumer and subscriber data locally and for government ministries, departments and agencies to source and procure software from only local and indigenous software development companies. Enforcement of the guidelines is largely absent as the state lacks capacity and resources to monitor digital data flows. Federal government data is hosted locally in data centres that meet international standards.

The National Office of Technology Acquisition and Promotion (NOTAP) has the main objective of regulating the international acquisition of technology while creating an environment conducive to local technology. To this end, NOTAP recommends local technical partners to Nigerian users in a bid to reduce the level of imported technology which currently accounts for over 90% of technology in use in Nigeria. One of NOTAP's major activities is the review of Technology Transfer Agreements (TTAs), a requirement for importing technology into Nigeria and for companies operating in Nigeria to access foreign currency. NOTAP reviews the legal economic and technical aspects prior to approval of TTAs and subsequent issuance of a certificate. One of the main risks concerning the TTA is the length of the approval process which can take up to three months. NOTAP states that it plans to have an automated system in place to streamline the TTA process thereby reducing the approval process to one month or less.

Organised Crime

Organised crime is a major issue in Nigeria, where gangs operate throughout the country with relative impunity, presenting significant risks to businesses. Criminal groups in Nigeria are involved in a wide range of activities including drug and human trafficking, extortion, prostitution, passport falsification, illegal immigration and cloning of credit cards. Drug and human trafficking operations are often linked. Thousands of Nigerian women have been kidnapped and/or illegally transported to Europe. Such criminal activities are largely facilitated by the widespread corruption in Nigeria, combined with the country's central location along major illegal trafficking routes. The National Drug Law Enforcement Agency (NDLEA) frequently arrests drug couriers at Murtala Mohammed International Airport (MMIA) in Lagos and traffickers are increasingly exploiting the country's seaports and land borders to avoid the risk of detection travelling through MMIA. In addition, the Niger Delta region experiences frequent attacks and other crimes by armed local groups who continue to fight for control of the region's resources, particularly oil. Oil pipeline vandalism and oil theft, known locally as 'bunkering', is common and a major source of lost revenue and disruption to businesses.

Pirate attacks and kidnappings in the Gulf of Guinea have increased in recent years, particularly with the slump in oil prices, and armed gangs board commercial and private vessels to kidnap or rob passengers and crews. There has been a trend of pirates stealing fishing boats and engines to conduct piracy operations. The Nigerian Navy has limited capacity to respond to criminal acts at sea while the government of Nigeria continues to pressure private maritime security companies out of the market. Travel to the Gulf of Guinea by foreigners should also be avoided because of the threat of piracy.

In February 2017, the Nigerian navy stopped two pirate attacks on oil tankers in the country's Atlantic waters and freed 21 crew members, according to statements released by the military. Troops intercepted a vessel seized by pirates near Bonny Island, rescuing 21 crew members. They also stopped gunmen from boarding another tanker which had picked up cargo from the Qua Iboe Terminal run by Exxon Mobil Corp.'s local unit. Nevertheless, maritime criminality in Nigerian waters, including incidents of piracy and crew kidnap for ransom, has increased in recent years and law enforcement efforts have been limited or ineffectual while security measures at some Nigerian port facilities are still inadequate. Nigeria's waters have been identified by the International Maritime Bureau as one of the major hot spots of piracy where vessels should stay at least 200 nautical miles from the coast.

The oil industry faces high risks from organised criminal networks whose operations are interwoven with regional militancy in the oil-rich south of the country. In 2016, militant attacks cut oil production to 1.4mn barrels per day in August 2016, triggering Nigeria's worst economic slump in 25 years. Following talks with the government, the militants have suspended their sabotage, however risks of a resurgence in violence remain high. The illicit refineries are just one component of oil theft in Nigeria, a mammoth industry estimated to be worth as much as USD8bn a year. They offer a rare job opportunity to thousands of unemployed men in the Niger Delta suffering from extreme poverty. For militants such as the Niger Delta Avengers, who are calling for a greater share of the wealth to be invested in the Niger Delta, illegal refining represents a chance to take back oil profits from corporations and the Nigerian government. In 2017, the Nigerian military stated that one of its priorities is to crack down on the illicit refineries that are believed to fund the operations of the militants. However a more effective long term solution would be to create employment opportunities for populations in the oil-rich south. In 2016, the country lost around 250,000-400,000 barrels of crude daily to pirates in the Gulf of Guinea and sustained militant attacks on critical infrastructure in the Niger Delta. Attempts by local governments and the UN to put a stop to piracy and oil bunkering have seen some success, but the intricate nature of piracy and illegal fuel markets make it difficult to track and target.

Our core view remains that oil production will continue its steady ascent on the premise of relative stability in the restive Niger Delta region (see 'Full Year Wasted but Bright Times Ahead', February 17 2017). However, risks to stability are high. International oil companies operating in Nigeria remain cautious with their capital allocation, and any resumption in violence could further delay much needed investment in Nigeria's petroleum sector. The security situation in the oil producing Niger Delta has improved since the height of the troubles in 2016 – however, risks of a resurgence remain and will weigh on future investment. In January 2017, monthly pipeline vandalism increased to 60 incidences recorded. The sharp rise in vandalism breaks the monthly trend of decreasing frequency of militant attacks since July 2016 when the insurgency was at its pinnacle, reaching 311 recorded attacks. Pipeline vandalism poses a serious threat to Nigeria's oil production recovery.

As a result, costs for investors are high, particularly in the oil sector, taking the form of stolen goods, injury to employees and ransom demands. The UK government estimates that USD10.2bn worth of its trade with the region is at risk of theft across the Gulf of Guinea coast. Markets are also havens for criminal activity and the high number of counterfeit goods hurts local producers, particularly in the textile industries. President Buhari has indicated that combating corruption and organised crime is a priority. However, the NDLEA budget has remained flat or decreased in recent years, and Nigerian government funding for law enforcement agencies remains insufficient to adequately combat organised crime. The US is, however, working closely with the NDLEA and other law enforcement agencies to strengthen capacity through training and funding. The US also promotes greater cooperation between the Nigeria Customs Service (NCS) and the NDLEA to improve coordination at the vulnerable seaports and porous land borders. These measures have helped to improve the NDLEA's ability to conduct complex cases, but weak enforcement continues to hold back progress.

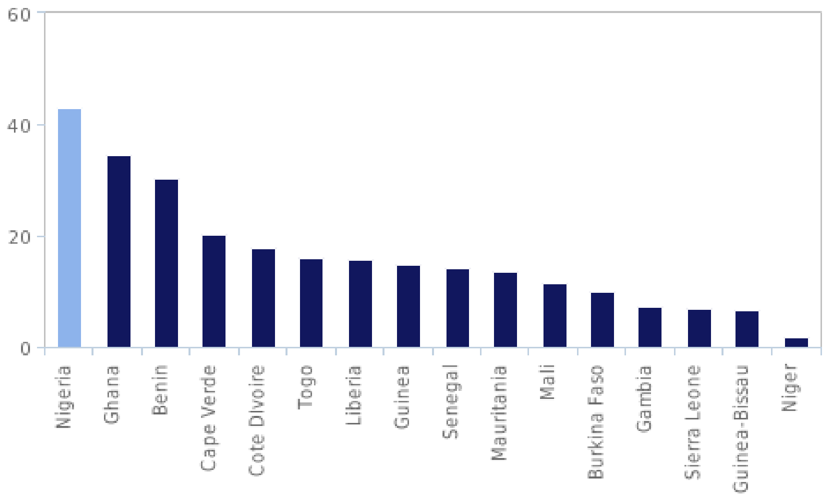
Business Response: Businesses operating in Nigeria face considerable costs associated with crime and security risks, taking the form of investment in private security and the potential economic losses incurred by terrorist and piracy attacks, financial and cybercrime. As a result of the high terrorist threat and incidence of violent crime, there is also a need for higher pay, particularly for foreign employees. This is illustrated by the US Department of State, who currently offers those working in Nigeria hardship pay of 30% on top of basic compensation for Abuja, Lagos and other cities.

Education

Significant quality and access gaps in Nigeria's education system, underpinned by limited state-funding for the sector result in wide disparities in educational attainment levels across different geographical and income groups – with rural communities less likely to acquire basic skills such as literacy and numeracy.

Low Literacy Levels Dent Labour Competitiveness

West Africa – Education Risk



Note: 100 = lowest risk; 0 = highest risk. Source: Fitch Solutions Labour Market Risk Index

Employers will face restricted recruitment options over the medium term, particularly outside of urban areas due to the weak infrastructure and high levels of conflict risk in areas such as northern Nigeria and the Niger Delta which has led to the displacement of millions of people and left many children out of school. While there are a high number of graduates – few have on-the-job training and many skilled workers emigrate in search of better economic opportunities abroad. Nigeria, therefore, scores a below average

43.1 out of 100 for the Education pillar of the Labour Market Risk Index, placing, behind Ghana in first position out of 16 states in West Africa. The country is less competitive on a global scale where it ranks in a low 119th place out of 201 countries worldwide.

Latest Education Analysis

- According to UNESCO, Nigeria has the world's highest number of out-of-school children, mainly due to the violence perpetrated by terrorist groups. The ongoing threats of militant attacks and pastoral conflict have caused the displacement of millions and led to significant loss of life in the country. Elevated security risks have prevented many young people from attending school. According to the Nigerian government, the total value of destroyed houses, school property and public buildings in the North East of the country stood at the equivalent of USD9.6bn, while Borno state incurred some USD5.6bn of losses. In addition to exacerbating the lack of skilled labour in particularly vulnerable areas such as the northern and south-western regions, these security risks have wider ramifications for employers. Indeed, it will also be difficult to attract skilled labour from urban areas and foreign workers alike that will likely require hardship and danger pay on top of basic compensation.

- There is high risk of cyclical bouts of labour unrest that can negatively affect the education sector in the country. The threat of fresh strikes in the education sector in H218 loomed large as the Nigerian government failed to honour agreement with university workers, according to media reports. The unions- Senior Staff Association of Nigerian Universities (SSANU), Non-Academic Staff Union of Educational and Associated Institutions (NASU) and National Association of Academic Technologists (NAAT) – went on a comprehensive and indefinite strike action on December 4, 2017 over the sharing of NGN23bn the government released to the universities as earned allowances. The workers suspended the strike in mid- March 2018 after an agreement with the government. Although the unions gave the government five weeks to implement the agreement, this had not been done 13 weeks later.

- According to the Nigeria Defence Headquarters, Boko Haram insurgents offer financial incentives, such as soft loans, to recruit young people in restive areas. High levels of poverty and poor military protection in vulnerable areas are key factors causing many young people to join militant groups such as Boko Haram and Niger Delta Avengers. In our view, this trend will have a negative long-term impact on the education sector, such that employers will face a dearth of skilled workers, particularly outside of major urban centres.

- Almost half of the country's youth do not have the opportunity to develop skills to find work in a modern economy due to structural weaknesses in the education system and the disruption caused by violent militant incursions. Boko Haram's call to install strict Islamic law in mainly Muslim northern Nigeria may attract some students in madrasas, schools where children as young as five, known as the 'Almajiri', are left in the care of Qu'ranic scholars. The Almajiri is a pool of young men vulnerable to the blandishments of Boko Haram. All do not necessarily become Boko Haram, but they are vulnerable to their doctrines. A significant number of Boko Haram members, including its founder, Mohammed Yusuf, and current leader Abubakar Shekau, attended madrasas.

General Education

Investors face myriad labour market risks stemming from Nigeria's largely under-funded education sector. Considerable deficiencies in the quality of both secondary and primary education, exacerbated by spatial and gender disparities, mean many students are unprepared for additional education or the demands of the job market and this translates into a shortage of qualified workers that necessitates the costly importation of foreign workers- particularly in the economically important hydrocarbons, telecommunications and financial services sectors. Furthermore, regional security risks have had a devastating impact on the education sector, as terrorist groups can launch attacks on schools, particularly in the northern areas, though risks to urban areas in the major cities are limited. Due to these considerations, we give Nigeria a score of 37.7 out of 100 for General Education, ranking the country first out of 16 states in West Africa. The country performs poorly on a global comparison, ranking 128th out of 201 countries, scoring well below the majority of key major oil-producing countries in Africa such as Algeria and Egypt.

Nigeria runs a federal system overseen by Ministry of Education. The federal government controls public schools while state schools are controlled at the regional levels. The education system at the federal level is managed by the Ministry of Education. This includes management of federal universities and schools. State public schools and tertiary institutions are controlled regionally by the Ministry at the state level. This implies that the standard of education across states differs depending on the quality each state can deliver. Basic universal education suffers most because primary education is neither fully controlled by the federal government, nor by the state or the local government, while corruption and poor governance further dent optimal outcomes.

The Nigerian education system is currently in the process of transitioning from a system of 9-3-4 to a 1-6-3-3-4 year structure. Proponents of the change to the system believe it will afford pupils the opportunity to adjust more easily to school life, improve mental alertness and sharpen their understanding capability. School attendance is compulsory for nine years. The new schooling system exposes children aged five to a one-year Early Child Education programme before they advance to six-year basic schooling. In primary school children spend six years learning biblical and Islamic studies, English language, mathematics, science, and an ethnic language according to geographical location. At primary schools in cities, they may study computer science, French and other disciplines. At the end of the first phase of their education children sit for their common entrance examination to study further. The first three of six years of secondary education take place at junior secondary school which may be privately or state funded. Education is intended to be free although most state-owned institutions requite their students to purchase their books and uniforms, something which may be impossible for the poorest people.

Following six years at primary level, children attend a further three years of lower secondary education, followed by three years of upper secondary education, before moving on to tertiary education if they choose to. However, many children fail to complete their studies, particularly those in vulnerable areas, due to poverty and regional security threats. In fact, it is in secondary school that paths significantly diverge for the next generation in Nigeria. Tuition at elite private high schools is superb by regional standards and globally competitive, and students write GCE O- levels to prepare for their senior secondary school exams. The situation is very different at rural secondary schools. Teachers are often undereducated and ill-prepared and schools may run out of allocated funds.

Over the past five decades, the development of Nigeria's education sector has proceeded unevenly. While the government has enacted several initiatives to improve the public school and university systems, ensuring that all citizens have access to higher quality, affordable schooling remains a major challenge. High levels of poverty and the persistent misallocation of resources largely due to widespread corruption have meant that the majority of the working-age population will remain unskilled in the medium-to-long term.

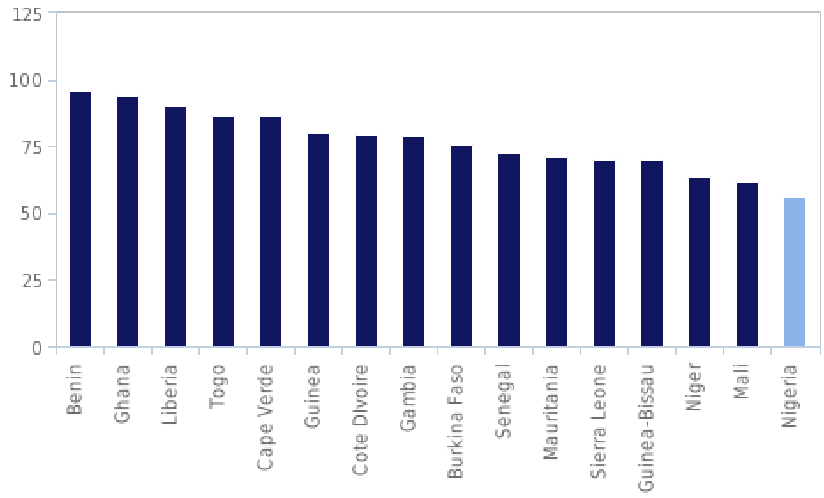
According to UNESCO, Nigeria has the world's highest number of out-of-school children, mainly due to the violence perpetrated by terrorist groups. The ongoing threats of militant attacks and pastoral conflict have caused the displacement of millions and led to significant loss of life in the country. Elevated security risks have prevented many young people from attending school. According to the Nigerian government, the total value of destroyed houses, school property and public buildings in the North East of the country stood at the equivalent of USD9.6bn, while Borno state incurred some USD5.6bn of losses.

In Nigeria, education continues to be tuned to the advantage of wealthier city people who have better chances of access quality facilities and converting their skills into real jobs. This state of affairs is underpinned by the existence of poor facilities in rural areas. Furthermore, UNESCO recommends that 26% of the nation's budget should be allocated to the educational sector to boost national development. However the joint expenditure of the federal and 36 state governments on education is an estimated 8.5% of total government expenditure and furthermore there is a huge gap in the funding of education at the different levels of the government. In addition of this sum, about 82% goes towards recurrent expenditure (such as salaries that are under pressure for increases from teachers' unions) and only 18% is left for capital expenditure.

Primary Education: Primary education begins at the age of 6 for the majority of Nigerians. Under the new system, students spend six years in primary school and graduate with a school-leaving certificate. Subjects taught at the primary level include mathematics, English language, science and one of the three main native languages (Hausa, Yoruba and Ibo). Private schools also offer computer science, French and art. The main risks for primary education stem from the varying quality of primary school education across different geographical locations and economic backgrounds, with states in the northern part of the country recording relatively low primary school enrolment and completion rates. This means that companies may face restrictions as to where they can base their operations due to varying levels of skill in the labour force across different parts of the country.

Wide Disparities In Access To Quality Education Dent Appeal

West Africa – Primary School Enrolment Rate (net)



Source: UNESCO

Though more than 88% of the labour force has attained at least a basic education, learning outcomes are generally poor (particularly in public schools) as evidenced by the country's significantly low literacy rates of 51.1%, where Nigeria ranks fifth out of 16 states West Africa, but well behind Ghana (71.5%) Nigeria's underperformance in primary education is reflected in the country's low net primary education enrolment rate of 56.2%, the lowest in West Africa. According to the Ministry of Education, Nigeria's adult illiterates increased from 25mn in 1997 to 35mn in 2013. The ministry also revealed that almost 11mn children of school age were out of school. The high illiteracy rate reflects the limited access to education and low-quality education. While access to basic education is increasing, the gender gap is markedly high, both in basic and higher education.

Poor learning outcomes are most severe in the northern regions of the country. For example, more than 66% of students in the north remain illiterate even after completing primary school, compared with only 18-28% of students in the south, according to data compiled by the World Bank in 2015. Students in the north east have the lowest literacy outcomes from schooling, with 91%

and 72% of students unable to read after completing grade 4 and grade 6 respectively. This highlights the dearth of potential workers with at least basic skills in vulnerable and non-urban areas. Businesses will have to incur significant training costs for these groups as a result. Weak labour mobility (between north and south) also means that firms will face difficulty attracting talent from the southern regions to the north for work.

In addition, child labour is prevalent in Nigeria and provides important contributions to family income, with the downside risk of high dropout rates in vulnerable communities. It is particularly common for children in rural areas who help on the family farm or with trading activities resulting in sustained underemployment among the youth and poor skills development. In most cases this causes slow progression through school due to multiple obligations, and in some cases exclusion from school altogether. Those who do have access to education are affected by poor quality of schooling, which is evident in low levels of basic skills. Many actual and potential workers lack the basic literacy, numeracy, cognitive and non-cognitive skills that would support productivity growth in both the formal and informal sectors.

As Boko Haram continues to wage targeted attacks against civilians in north-eastern Nigeria and its neighbouring countries, more than 1mn children have been forced out of school, leaving them more susceptible to violence, poverty and child marriage. A major element of the terrorist group's terror strategy has been attacking schools and vulnerable girls and women, further devastating an already compromised public academic system. The conflict has been a huge blow for education in the region, and violence has kept many children out of the classroom for more than a year, putting them at risk of dropping out of school altogether. Hundreds of schools have been attacked across Nigeria, and more than 1,500 schools remain closed due to the conflict. According to UNICEF, about 600 teachers have been killed since the start of Boko Haram's insurgency, which will have a negative effect on the already high student to teacher ratio, which currently stands at 37.55. In some cases schools that have not been attacked have been closed, teaching has been suspended and teachers forced to abandon their classrooms.

Even before the rise of Boko Haram, which roughly means 'Western education is forbidden', the area had a paltry enrolment rate. Millions of children of primary school age were already out of school in Nigeria, Cameroon, Chad and Niger before the crisis began, according to UNICEF. The attacks are not only interrupting children's learning and putting them at risk for grave injury, they also leaving them susceptible to long-term risks. Lack of education also comes with the increased risk of infant mortality, contracting communicable diseases, engaging in criminal activities, radicalisation and being forced into child marriage.

A number of organisations, including UNICEF, are working to find ways to get children back in school. Together with governments, nonprofits and other partners, UNICEF has been able to reach 67,000 students by setting up temporary learning spaces and renovating and expanding schools. It has also trained teachers in providing psychosocial support to children who have been uprooted by the conflict. Still, security issues and lapses in funding have precluded the organisation from reaching additional children in need.

Over the next four years to 2020, the Kaduna state government plans to use a USD100mn World Bank education grant to rehabilitate and renovate schools, train teachers and encourage female education. According to state authorities, more than 4,269 primary schools in Kaduna are in total disrepair and need urgent attention to restore the system. More than 40% of teachers in the state are not qualified. The state aims to offer them the opportunity to obtain the minimum qualification of National Certificate of Education.

Furthermore, the Nigerian government is taking steps to address the literacy challenge in the country as part of its goal of achieving self-sufficiency, reducing poverty and driving sustainable development. The government has increased funding for nomadic education, which currently serves around 500,000 of the 3.5mn nomadic school aged-children in the country. In 2013, the federal government said it had handed over 64 new Almajiri schools in northern Nigeria to the designated state authorities. The schools are intended to provide education to thousands of children reduced to begging in the north in the absence of proper facilities and with the longstanding decline in traditional Almajiri education.

Since primary education is the generally responsibility of the respective state governments, there is a wide variation in terms of the quality of infrastructure, teaching, enrolment and completion rates across the different states. For example, primary education is free and compulsory in a number of states, while others charge a fee which may exclude children from poorer families. Meanwhile, the practice of Islamic education, mostly in the northern part of the country, affects educational attainment levels in those areas, particularly for female students.

The variations in literacy rates is a major consideration for businesses, as companies requiring skilled labour have to locate their operations in regions with higher literacy rates such as Lagos and Abuja. This partly explains the concentration of formal economic activities in the southern part of the country. Companies that have to establish operations in the north owing to the nature of their businesses, for example branch operations or firms in the extractive industries, often face high labour costs due to the short supply of educated local labour or relocation costs for educated labour from other parts of the country.

On the upside, Nigeria is also home to a growing number of private schools, many of which offer international-standard education. In general, while the public school system is in a state of disarray, many private schools are far superior to public schools in Nigeria. Indeed, tuition costs at the country's best private schools exceed USD25,000 annually, leaving it out of reach for the majority of the population. Students from private schools and the country's top public universities are better equipped for most technical roles; however, they are more expensive to employ and many often migrate to developed states.

Secondary Education: Private organisations, the state government or the federal government manage secondary schools in Nigeria. Students spend six years in secondary school. At the end of three years, they take the junior secondary school exam which is a qualifying exam for senior secondary school. By senior secondary school class, students are taking the GCE O Level exam, which is not mandatory, but most students take it to prepare for the senior school exam. The senior school exam is taken in the last year of school.

As with primary education in Nigeria, there are huge variations in the standards of secondary education in the country between the different regions. The standards are generally higher in the south, where there are fewer religious and cultural inhibitions to education. Narrower gender gaps in the region also ensure that females are as educated as their male peers. Generally, the quality of education varies between regions as well as type, with better-funded federal government-owned and private schools generally having higher standards, better learning infrastructure and higher-quality teaching staff than many state government-owned schools. Generally, public education and training systems lack quality and labour market relevance, leaving workers ill-prepared for the labour market. Many workers lack the right skills to meet the requirements in available job openings or have limited opportunities to access high-quality pre-employment or skills upgrading training programmes that promote higher-productivity jobs.

Overall, Nigeria has the highest percentage of workers with secondary education and above in West Africa at 67.5%. This is a reflection of high secondary school attendance and completion rates owing to the implementation of free and compulsory education up to this level in some states. This policy has helped to boost secondary school enrolment rates to 90%- the highest in the region. Female secondary school enrolment in Nigeria is also rising, thereby boosting the size of the country's skilled labour force. From an investor perspective, the large percentage of the labour force with secondary education or above, and high secondary school enrolment rates for men and women in comparison to other countries in the region, offer an abundance of semi-skilled labour- though educational quality issues may require additional investment in on-the-job training.

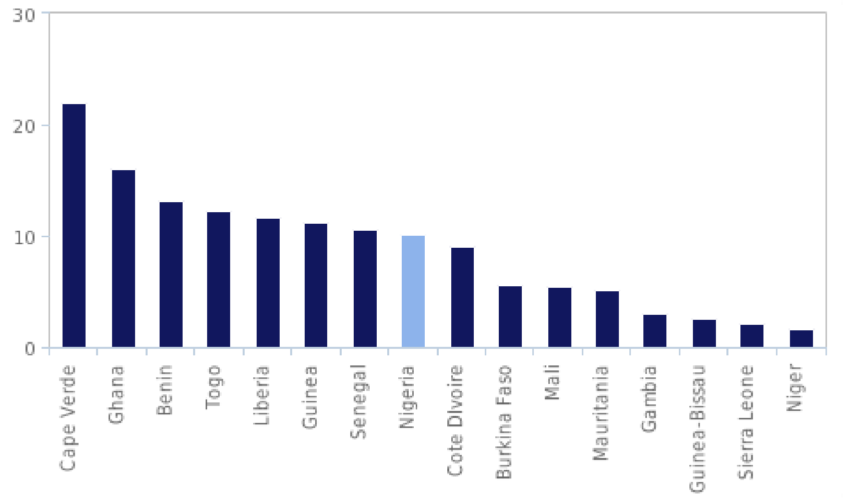
Nevertheless, we stress that despite the basic skills acquired at the secondary and tertiary education levels in Nigeria, businesses generally retrain a considerable proportion of fresh graduates, especially those requiring technical or practical skills. This is due to poor infrastructure, limited research study programmes and a lack of practical learning materials in many public schools.

Tertiary Education

Nigeria generally performs well in terms of tertiary education due to the sheer numbers of graduates the country produces annually. Nevertheless, the country's tertiary education sector still faces many of the problems that affect the general education system in the country, including spatial disparities in access and quality as well as security risks in vulnerable areas. Despite a high number of science and engineering graduates, the variable quality of higher education in the country means firms will have to invest significantly in the training of graduates for technical roles. Consequently, we give Nigeria a score of 48.4 out of 100 for its Tertiary Education, a score that places the country first out of 16 West African states and second out of 48 SSA states, behind South Africa, but a low 98th globally.

Structural Risks Exacerbate Critical Skills Deficit

West Africa – Gross Tertiary Enrolment Ratio



Source: UNESCO

The government has adopted tertiary education as a mechanism for development and largely controls it. Nigerian universities are classified based on ownership and they can be grouped into federal universities (36 accredited institutions), state universities (about 44 institutions) and private universities (68 accredited institutions) according to the Nigeria Universities Commission. There are also 66 polytechnics, 52 monotechnics and about 75 research institutes. Generally- the medium of instruction is English and the academic year runs from October to September. There remains a less than inadequate fit between national priorities and university strategies. According to the Nigerian government the University of Ibadan, University of Lagos and the Obafemi Awolowo University are the leading public institutions, although according to the Time Higher Education rankings, none of Nigeria's universities rank in the top 400 in the world in comparison to the regional leader South Africa, where three universities rank in this category, highlighting the uncompetitive educational outcomes in these institutions.

There are a number of challenges that the education sector in Nigeria remains confronted with, notably there are academic staff shortages in all areas of the education sector in Nigeria particularly in the critical areas of Science and Technology. The quality of tertiary education in Nigeria is undermined by poor funding; lax implementation of teaching standards and controls, and frequent strikes by teaching and non-teaching staff of universities and polytechnics Furthermore the sector is vulnerable to large-scale strikes by academic staff and brain drain effects as many talented graduates and academics seek opportunities abroad.

The gross tertiary enrolment ratio in Nigeria stands at a low 10.2, ranking the country eighth in West Africa for this indicator, between Senegal and Cote d'Ivoire and well behind Ghana. Capacity limitations at all institutions mean that the number of graduates in special disciplines such as science is low- at just over 300 annually. However the number of graduates in engineering, manufacturing and construction stands at a regionally high 10,900 graduates per annum, well ahead of Ghana which trails with around 6,000 graduates per annum for the same indicator.

There are only a handful of universities that specialise in science and engineering degrees. Otherwise, most universities offer a wide range of programmes and produce an almost equal proportion of science and humanities graduates. However, the quality of graduates from public universities is impacted by the poor infrastructure and frequent shutdowns, leading most large businesses, especially in the manufacturing and financial services sectors, to conduct extensive graduate training programmes for fresh graduates. Some of these training programmes last for as long as six to 12 months, raising training costs. Smaller firms that are unable to afford such programmes attach their graduate recruits to supervisors for extra coaching in order to hone the basic skills they acquired at the university. Either system is expensive and time-consuming for businesses, although the cost of not retraining the students may be higher for businesses that overlook it.

Another option for businesses is to hire Nigerians that have studied abroad and are willing to return home. Many businesses, particularly multinational firms, are tapping into this pool of Nigerian professionals, often called 'repats' in local employment circles, through dedicated recruiters and career fairs on a regular basis. Although their overall remuneration package, including relocation costs, is significantly higher, businesses are able to save on the training costs they would have incurred on local graduates.

A major problem of tertiary education is that the higher education segment is defined primarily by a lack of capacity. Nigeria's large youth population (0-18 years), just over 90m people, points to rapidly expanding demand for education and training of all types for years to come; however, demand does not meet supply, and utility will remain low due to a lack of resources. The National Universities Commission estimates that less than 15% of the 1.7mn university candidates every year can be absorbed by the country's 148 main universities in the country, including only accredited private institutions, which highlights the inability of the existing schools – public and private – to meet the demand for university education. This situation is especially acute at federal public institutions.

The lack of capacity and quality in domestic tertiary institutions has resulted in many students seeking placement abroad. Nigerians spend almost USD500mn in total at higher education institutions in Europe, South Africa, the US and increasingly China on an annual basis. In 2013, there were around 18,000 Nigerians studying in UK universities and around 8,000 in the US, according to the Nigerian government. Many of these students often end up seeking employment abroad, resulting in a dearth of skilled workers available to firms in the country.

The limited number of university spaces available in Nigeria also weighs on the supply of graduates and overall size of the skilled labour pool, restricting the number of students that are able to achieve this level of education. The government is working to boost capacity by increasing the number of universities and training facilities countrywide with assistance from international donors and the private sector. Furthermore, growing demand for higher education over the past decade has resulted in a rapid increase in private sector universities, which were not allowed to set up shop in Nigeria until 1999. Since then, the number of private universities has expanded dramatically, from three in 2000 to 24 by the end of 2005 and 51 by 2013. In recent years private institutions have accounted for almost 20% of total enrolment in the country, though this figure is expected to rise rapidly in the foreseeable future, indicating an increase in domestic labour growth and skills development. Not all institutions are accredited and investors must remain wary of hiring graduates from non-accredited private institutions as corruption is rampant in the country.

Domestic learning institutions are more affordable for those students who cannot afford to attend university abroad, thereby increasing the stock of skilled workers in the market over the medium-to-long term. Tuition fees at the country's major private universities vary from approximately USD1,000 to USD1,500 at the low end to USD3,500 to USD5,000 at the high end. Nevertheless, in a country where more than 60% of the population lives below the national poverty line (of USD1 per day- according to the World Bank) these prices are still well out of range for the majority of Nigerians. Personal and student loans are mostly non-existent, due to the fact that only around 20% of the population participates in the formal banking system, making it nearly impossible for banks to assess creditworthiness. Consequently, tuition fees and most large expenses are paid for on a cash basis, often from long-term savings and the dropout rates remain high as this is unsustainable. In light of this the government aimed to establish a new Nigeria Education Bank, which would offer low-cost loans and other types of financing to qualifying citizens- however weak oil prices mean that there is limited fiscal capacity to carry such plans out.

Research and Development: In the post-industrial era there has been a growing acknowledgement of the important role which knowledge and technology play in driving production and economic growth. The pursuit of a 'knowledge – based' economy will underpin long term economic growth in emerging economies such as Nigeria. Key to achieving competitiveness in this arena is based on how much investment is funnelled into research and development (R&D) from the public and private sectors, education and training of personnel, and the development of new management work structures. This focus on the creation of a knowledge-based economy therefore also places additional pressure on government to upgrade the human capital available, through increasing their skills and capacity via increased access to better education or on-the-job training.

Nigeria plans to use its Vision 20:2020: Economic Transformation Blueprint (2009) to place it among the top 20 economies in the world by 2020. One of the nine strategic targets of Vision 20:2020 was initially to set up a USD5bn endowment fund to finance the establishment of a National Science Foundation. This fund was pledged by former President Olusegun Obasanjo (1999 – 2007) towards the end of his mandate and has failed to materialise- where prospects look increasingly bleak amid weak implementation and limited fiscal support due to still-low oil prices and corruption. Progress towards other targets is hard to evaluate for lack of data, examples being the target of investing a share of GDP in R&D comparable to that of the 20 leading economies or that of increasing numbers of R&D personnel. One of the goals of Vision 20:2020 is to diversify the economy, yet, by 2015, oil and gas still accounted for 35% of Nigeria's economic output and 90% of its exports, according to OPEC.

Although Nigeria has had a National Biotechnology Development Agency since 2001, the National Biosafety Management Agency Bill lingered in parliament for years; the bill was finally passed in 2011 but was still awaiting presidential consent. In 2012, an International Centre for Biotechnology was established under the auspices of UNESCO at the University of Nigeria in Nsukka. The institute provides high-level training (including at sub regional level), education and research, particularly in areas related to food security, conservation of harvested crops, gene banking and tropical diseases.

The success of Nigeria's ambitious programmes will rest on its strategy for developing human resources. Despite this, federal spending on R&D in 2007 represented only about 0.22% of GDP, according to the UNESCO Institute for Statistics, and over 96% of this was provided by the government. In 2011, the Federal Executive Council approved the allocation of 1% of GDP to set up a National

Science, Technology and Innovation Fund. This strategy features in the Science, Technology and Innovation Policy approved by the Federal Executive Council in 2011, which recommends putting in place reliable funding arrangements to ensure that R&D focuses on national priorities, this has also failed to materialise. Furthermore, Nigeria's legal and institutional infrastructure for protecting intellectual property rights (IPR) remains in need of further development and more funding, even though there are laws on the books to deal with enforcing most IPR violations. The areas where the legislation is deficient include online piracy, geographical indications, and plant and animal breeders' rights.

Global Macro Outlook

Headwinds To Growth Moderate, But Risks Remain

The outlook for the global economy has improved over the past four weeks as some high frequency data from China, Europe and the US in particular strengthened, allaying fears of a more pronounced slowdown. Our forecast of 3.0% global growth in 2019 remains unchanged since last month, but we continue to highlight that the risks remain to the downside. Over the past month there has been a strengthening in Chinese economic data with the manufacturing purchasing managers' index back in expansionary territory in March 2019, and real estate and fixed asset investment growth trending higher. In the US, sentiment indices have improved slightly, particularly towards the housing market, while the labour market remains resilient, adding 196k jobs in March 2019. And while manufacturing activity in the eurozone, and in particular Germany and Italy, remains under pressure, services have strengthened, and we expect a slight broad rebound over the coming months as a stabilisation of the Chinese economy feeds through. As we move closer to the end of the year, we also expect base effects to start to kick in on the trade front, which should provide a further tailwind to the global economy.

Nonetheless, given how far along we are in the economic cycle, we continue to monitor downside risks, which we believe remain prevalent. First, the fiscal impulse in the US may be fading quickly, and monetary policy is still marginally tightening, which could result in the US economy remaining sluggish for longer. Second, while US-China trade negotiations are showing progress, US-EU trade tensions are escalating once again, and this puts the eurozone at risk. Third, rising oil prices will start to place upside pressure

TABLE: GLOBAL MACROECONOMIC FORECASTS (2018-2023)

		2018e	2019f	2020f	2021f	2022f	2023f
Real GDP Growth (%)							
	US	2.9	2.5	2.0	1.8	1.9	1.9
	Eurozone	1.9	1.5	1.5	1.5	1.5	1.5
	Japan	0.7	0.5	0.6	0.5	0.4	0.4
	China	6.6	6.2	5.7	5.3	5.4	5.4
	World	3.2	3.0	2.9	2.8	2.9	2.9
Consumer Inflation (ave)							
	US	2.4	2.3	2.3	2.2	2.1	2.1
	Eurozone	1.7	1.6	1.7	1.7	1.8	1.8
	Japan	1.2	1.6	1.9	2.1	2.4	2.5
	China	2.1	2.3	2.2	2.2	2.3	2.3
	World	2.9	3.1	2.8	2.7	2.7	2.7
Interest Rates (eop)							
	Fed funds rate	2.25	2.50	2.50	2.50	2.50	2.50
	ECB refinancing rate	0.00	0.00	0.50	1.00	1.50	1.75
	Japan overnight call rate	-0.10	-0.10	0.00	0.25	0.50	0.75
Exchange Rates (ave)							
	USD/EUR	1.18	1.19	1.24	1.26	1.26	1.26
	JPY/USD	110.50	110.00	109.00	108.00	107.50	107.00
	CNY/USD	6.62	6.70	6.70	6.65	6.75	6.65
Oil Prices (ave)							
	OPEC basket (USD/bbl)	69.78	70.00	77.00	81.00	82.00	82.00
	Brent crude (USD/bbl)	71.69	73.00	80.00	84.00	85.00	85.00

e/f = estimate/forecast. Source: Fitch Solutions on inflation and expectations of the same later on in the year and could restrict the dovish pivot of certain policymakers. Fourth, risk assets have had a very rapid and linear rally since late December 2018, and we are mindful of a correction, which given the late nature of the cycle could prompt investors to take more defensive positions, weighing on overall sentiment.

Developed Markets

Developed markets (DMs) have entered a period of less dynamic expansion. After peaking at an estimated 2.2% in 2018, we project DM growth to moderate to 1.9% in 2019 and to lose further momentum in 2020, coming in at 1.7%. The deceleration will largely reflect weaker growth in the US, the UK and the eurozone due to various factors, including lingering trade frictions, uncertainty over Brexit and waning spillover effects from the US fiscal boost. Lower trend growth in China will also weigh on DM growth through the trade channel. A number of factors will, however, contribute to mitigating the deceleration in growth. Unemployment will remain

TABLE: DEVELOPED MARKETS – REAL GDP GROWTH, % y-o-y

	2017	2018e	2019f	2020f
Developed Markets Aggregate Growth	**2.3**	**2.2**	**1.9**	**1.7**
G7	2.1	2.1	1.8	1.6
Eurozone	2.4	1.9	1.5	1.5
EU-27	2.4	2.0	1.6	1.6
Selected Developed Markets				
Australia	2.5	2.8	2.5	2.6
Austria	3.0	2.1	1.6	1.7
Belgium	1.7	1.4	1.1	1.4
Canada	3.0	1.8	1.5	1.9
Czech Republic	4.4	3.0	2.8	2.6
Denmark	2.3	1.3	1.8	1.7
Finland	2.7	2.3	1.7	1.4
France	2.2	1.5	1.6	1.4
Germany	2.2	1.6	1.2	1.4
Hong Kong	3.8	3.0	2.0	2.3
Ireland	7.2	6.7	4.4	4.1
Italy	1.6	0.9	0.3	0.5
Japan	1.9	0.7	0.5	0.6
Netherlands	2.9	2.5	1.7	1.5
Norway	1.8	1.7	1.6	1.4
Portugal	2.8	2.1	1.6	1.5
Singapore	3.6	3.3	2.8	2.9
South Korea	3.1	2.7	2.3	2.5
Spain	3.0	2.5	2.2	2.0
Sweden	2.4	2.7	2.3	1.9
Switzerland	0.2	2.2	2.8	1.4
Taiwan	2.9	2.6	2.3	2.2
UK	1.8	1.4	1.5	1.6
US	2.2	2.9	2.5	2.0

e/f = estimate/forecast. Source: Fitch Solutions close to multi-year lows in several DM economies, including Germany, the US and the UK, supporting wage growth and household disposable incomes. Furthermore, the synchronised dovish tilt of the major central banks will see monetary policy conditions remain fairly accommodative in the quarters ahead.

We have previously noted how current, record-low policy rates could constrain central banks when using the monetary lever as stimulus. As growth weakens at a time when nominal interest rates are close to zero across DMs, fiscal policy is the main conventional policy tool left to stave off a sharper slowdown. Due to different levels of public debt and deficits, some DM countries are better positioned than others to use the fiscal lever to support growth. Australia and Canada have relatively ample fiscal buffers due to a combination of healthy public finances and better past growth performance. Both countries will implement expansionary fiscal

TABLE: EMERGING MARKETS – REAL GDP GROWTH, % y-o-y

	2017	2018e	2019f	2020f
Emerging Markets Aggregate Growth	**4.8**	**4.7**	**4.5**	**4.6**
Latin America	**1.8**	**1.5**	**2.2**	**2.7**
Argentina	2.9	-2.5	-0.5	3.0
Brazil	1.1	1.1	2.0	2.4
Mexico	2.1	2.0	1.7	1.8
Middle East And North Africa	**1.8**	**2.1**	**1.9**	**2.9**
Saudi Arabia	-0.9	2.3	2.4	2.6
UAE	0.8	2.0	2.6	3.7
Egypt	4.2	5.3	5.2	5.3
Sub-Saharan Africa	**2.9**	**2.6**	**3.4**	**4.0**
South Africa	1.3	0.8	1.2	2.1
Nigeria	0.8	1.9	2.4	3.3
Emerging Asia	**6.6**	**6.4**	**6.1**	**5.8**
China	6.9	6.6	6.2	5.7
India*	6.7	7.1	6.8	6.7
Indonesia	5.1	5.2	5.3	5.4
Malaysia	5.9	4.7	4.2	4.2
Philippines	6.7	6.2	6.1	6.3
Thailand	4.0	4.1	3.5	3.6
Emerging Europe	**3.9**	**3.2**	**1.8**	**2.8**
Russia	1.5	2.3	1.6	1.7
Turkey	7.4	2.6	-1.9	3.5
Hungary	4.1	4.9	3.6	2.7
Romania	7.0	4.2	3.5	3.0
Poland	4.7	5.1	3.9	3.5

*e/f = estimate/forecast; *Fiscal years ending March 31 (2009 = 2009/10). Source: Fitch Solutions* policies this year to further boost growth. By contrast, fiscal policy will be broadly neutral in Italy going forward as a result of high debt and a sluggish growth outlook. In the US, expansionary fiscal policy is set to continue in the years ahead – despite already high and rising deficit and public debt levels – due to an ongoing rise in mandatory commitments, defence and debt servicing costs.

Emerging Markets

The dovish pivot by the US Federal Reserve (Fed) and risk-off sentiment has continued to buoy emerging markets (EMs) since the start of 2019, despite the backdrop of slowing growth. This combination of dynamics has resulted in an easing in the policy dilemma that EM policymakers faced in 2018 between supporting economic growth on the one hand and maintaining financial market stability on the other hand.

The more robust financial market conditions have for now anchored a greater focus on reviving otherwise sluggish growth via both monetary and fiscal levers. Central bankers are using the cover of subdued inflation, stronger currencies and the ripple effects of the Fed's 'pause' to shift towards a more neutral or even dovish bias. Furthermore, a heavy election calendar in key EM nations provides yet more incentive for policymakers to spur growth and directly bolster voter support through greater fiscal accommodation. A prime example of this situation is in India, where the central bank has cut rates twice by a cumulative 50 basis points (bps) to 6.00% in the first two meetings of the year, while lawmakers have eased their prior focus on fiscal consolidation to support growth in the midst of what is expected to be a tightly fought general election. We have also seen interest rate cuts in Nigeria and Egypt, and greater use of cautiously dovish language in other EMs – notably in the Philippines. However, the latitude for policymakers to intervene to support growth in some of the more macro economically vulnerable countries is more limited, and here central banks will likely err on the side of caution for fear of exposing themselves to capital outflows in the event of a return of risk-off sentiment.

As risks to growth remain skewed to the downside, we feel there is more scope for central banks to loosen monetary policy through the rest of 2019, while governments vying for re-election are going to come increasingly under pressure to water down or reverse some of their reforms and austerity from prior years. However, low-base effects combined with the prospect of a broader stabilisation in growth increase the risk that inflationary pressures resurface towards end 2019.

In terms of growth, our regional EM forecasts for 2019 show an unchanged picture compared to last month, with very few revisions at the country level – all of which remain tilted to the downside. Overall, we expect EM growth to slow by 0.2 percentage points (pp) y-o-y to 4.5% in 2019, before rebounding modestly in 2020 to 4.6%. The most substantial month-on-month revision lower to our real GDP growth forecasts is in South Africa, where we lowered our 2019 forecast by 0.5pp to 1.2%, as sporadic power shortages due to load-shedding by **Eskom** and weak levels of business confidence continue to weigh on the economy. On a more positive note, the agricultural sector will return to modest growth after contracting in 2018. Sub-Saharan Africa remains one of only two EM regions where we see accelerating growth of 3.4% in 2019, up from 2.6% in 2018.

Latin America is the second region where we see growth accelerating in 2019, rising by 0.7pp to 2.2% – largely driven by Brazil. It is therefore notable that we have revised down Brazil's growth forecast by 0.2pp to 2.0% due to weakness in the mining and industrial sectors, coupled with policy uncertainty. We believe President Jair Bolsonaro's administration will struggle to enact a comprehensive pension reform, which will keep investment subdued relative to more optimistic expectations since he took office. In MENA, we also revised our growth forecast for the UAE lower by 0.5pp, to 2.6% due to weaker-than-expected growth in 2018 in both Dubai and Abu Dhabi. Nevertheless, we believe activity will accelerate more substantially in 2020 as Abu Dhabi oil production rises while the World Expo increases tourism and retail activity.

Index Tables

	Short-Term Political	Trend	Regional Rank	Global Rank
Cape Verde	78.3	=	1	28
Ghana	71.7	=	2	55
Benin	69.6	=	3	67
Equatorial Guinea	61.9	=	4	103
Senegal	61.9	=	4	103
Gabon	57.9	-	6	121
Gambia	57.5	=	7	125
Sao Tome and Principe	57.5	=	7	125
Congo-Brazzaville	56.0	=	9	130
Cameroon	54.2	=	10	135
Liberia	52.3	=	11	143
Guinea	50.8	=	12	148
Sierra Leone	49.6	=	13	149
Togo	49.4	=	14	150
Côte d'Ivoire	48.1	-	15	154
Niger	47.9	-	16	155
Burkina Faso	46.9	=	17	159
Nigeria	**46.7**	**=**	**18**	**160**
Mauritania	46.0	=	19	163
Mali	35.4	=	20	176
Guinea-Bissau	32.3	=	21	179

Regional ave 53.9/Global ave 62.7/Emerging markets ave 59.2

	Long-Term Political	Trend	Regional Rank	Global Rank
Cape Verde	75.5	=	1	37
Ghana	73.5	=	2	45
Gabon	63.1	=	3	86
Benin	62.3	=	4	91
Senegal	60.2	=	5	104
Gambia	53.5	=	6	132
Burkina Faso	53.3	=	7	134
Sierra Leone	48.5	=	8	149
Togo	47.6	=	9	152
Nigeria	**45.8**	**=**	**10**	**154**
Sao Tome and Principe	45.8	=	10	154
Côte d'Ivoire	45.7	=	12	156
Congo-Brazzaville	45.6	=	13	157
Guinea	43.8	=	14	163
Cameroon	43.3	=	15	165
Liberia	41.7	=	16	167
Mauritania	40.5	=	17	170
Niger	39.7	=	18	173
Equatorial Guinea	38.3	=	19	174
Mali	34.7	=	20	177
Guinea-Bissau	30.9	=	21	179

Regional ave 49.2/Global ave 61.9/Emerging markets ave 57.1

	Short-Term Economic	Trend	Regional Rank	Global Rank
Côte d'Ivoire	59.2	+	1	66
Nigeria	**54.8**	**-**	**2**	**80**
Cameroon	54.2	+	3	84
Burkina Faso	52.3	=	4	90
Ghana	48.8	-	5	100
Congo-Brazzaville	48.5	+	6	103
Mali	47.7	=	7	107
Togo	47.7	=	7	107
Gabon	44.8	-	9	126
Guinea	44.0	=	10	130
Guinea-Bissau	43.8	=	11	131
Liberia	43.3	=	12	134
Senegal	42.9	-	13	137
Niger	42.7	-	14	139
Benin	42.5	=	15	141
Equatorial Guinea	40.2	=	16	148
Gambia	37.7	=	17	159
Sierra Leone	34.8	-	18	169
Cape Verde	34.6	=	19	170
Mauritania	33.1	=	20	174
Sao Tome and Principe	31.5	=	21	181

Regional ave 44.2/Global ave 53.1/Emerging markets ave 48.8

	Long-Term Economic	Trend	Regional Rank	Global Rank
Côte d'Ivoire	56.3	=	1	74
Nigeria	**54.0**	**-**	**2**	**83**
Ghana	52.1	-	3	93
Cameroon	52.0	-	4	95
Gabon	50.6	=	5	106
Togo	49.3	=	6	113
Senegal	49.0	-	7	114
Burkina Faso	47.3	=	8	124
Mali	45.8	=	9	129
Benin	44.1	=	10	136
Liberia	42.7	+	11	141
Guinea	42.3	=	12	145
Niger	41.5	-	13	148
Equatorial Guinea	40.0	=	14	157
Guinea-Bissau	39.4	=	15	160
Sao Tome and Principe	38.1	=	16	165
Mauritania	36.3	=	17	168
Cape Verde	36.2	=	18	169
Gambia	35.7	-	19	173
Congo-Brazzaville	35.4	=	20	174
Sierra Leone	27.4	-	21	184

Regional ave 43.6/Global ave 54.4/Emerging markets ave 49.9

TABLE: NIGERIA – MACROECONOMIC DATA AND FORECASTS

	2018e	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Nominal GDP, USDbn	429.7	497.4	549.3	584.0	619.9	665.8	723.0	794.1	881.5	985.8	1,072.8
Nominal GDP, EURbn	373.6	407.7	439.5	463.5	492.0	528.4	573.8	630.2	699.6	782.4	851.4
GDP per capita, USD	2,193	2,475	2,664	2,761	2,858	2,994	3,171	3,397	3,679	4,015	4,264
GDP per capita, EUR	1,907	2,028	2,131	2,191	2,268	2,376	2,517	2,696	2,920	3,187	3,384
Real GDP growth, % y-o-y	1.9	2.3	1.9	2.9	3.7	4.1	3.5	4.0	3.4	4.0	4.0
Private final consumption, % of GDP	77.1	77.2	77.0	77.2	77.3	77.0	77.4	77.8	78.4	78.9	79.4
Government final consumption, % of GDP	5.9	6.1	6.1	6.2	6.3	6.4	6.5	6.6	6.6	6.5	6.5
Fixed capital formation, % of GDP	18.0	18.0	18.1	18.4	18.6	18.8	18.9	18.9	19.0	19.0	19.1
Population, mn	195.88	200.96	206.15	211.45	216.84	222.35	227.96	233.69	239.54	245.49	251.57
Consumer price inflation, % y-o-y, ave	12.2	13.4	14.2	10.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Lending rate, %, ave	21.4	19.4	19.0	18.8	15.8	12.9	11.9	11.9	11.8	11.9	12.0
Central bank policy rate, % eop	14.00	13.50	13.00	11.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Exchange rate NGN/USD, ave	305.03	307.50	320.00	340.00	358.00	374.00	388.50	400.00	407.50	413.50	428.50
Exchange rate NGN/EUR, ave	359.93	364.39	395.20	426.70	451.08	471.24	489.51	504.00	513.45	521.01	539.91
Budget balance, USDbn	-18.7	-22.6	-24.6	-25.8	-29.2	-32.5	-34.7	-37.4	-40.7	-44.6	-47.8
Budget balance, % of GDP	-4.4	-4.6	-4.5	-4.4	-4.7	-4.9	-4.8	-4.7	-4.6	-4.5	-4.5
Goods and services exports, USDbn	53.6	60.1	65.9	68.1	72.0	77.4	77.7	77.4	75.1	73.0	71.1
Goods and services imports, USDbn	61.7	70.9	77.1	84.0	91.4	98.0	104.3	111.1	118.3	126.0	134.2
Balance of trade in goods and services, USDbn	-8.1	-10.8	-11.2	-15.8	-19.4	-20.6	-26.6	-33.7	-43.2	-53.0	-63.1
Balance of trade in goods and services, % of GDP	-1.9	-2.2	-2.0	-2.7	-3.1	-3.1	-3.7	-4.2	-4.9	-5.4	-5.9
Current account balance, USDbn	7.8	5.3	5.2	1.6	-1.1	-0.7	-4.2	-8.5	-14.9	-21.5	-28.2
Current account balance, % of GDP	1.8	1.1	1.0	0.3	-0.2	-0.1	-0.6	-1.1	-1.7	-2.2	-2.6
Foreign reserves ex gold, USDbn	42.8	43.3	43.7	44.1	45.0	45.9	46.8	47.8	48.7	49.7	50.7
Import cover, months	8.3	7.3	6.8	6.3	5.9	5.6	5.4	5.2	4.9	4.7	4.5

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

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