
Country Report

Nigeria

Nigeria at a glance: 2003-04

OVERVIEW

The April elections provided a convincing victory for the incumbent president, Olusegun Obasanjo, and his People's Democratic Party (PDP) in the National Assembly. However, the polls are still generating controversy, with the opposition claiming that they were the "most rigged" elections in the country's history. As a result, political tension will remain high. However, even if the courts do overturn the results in some states, particularly the oil producing Niger Delta region, this is unlikely to affect the president's position or significantly reduce the PDP's majority in the National Assembly. As a result, the president has begun the task of consolidating his political base and holding consultations to form a new government. This is crucial given the pressing range of problems facing the country, including the need to implement constitutional reform, the tension generated by the country's religious divide, and simmering ethnic and regional tensions. As political uncertainty is likely to continue for some time, economic policy will drift for a while, but a new deal with the IMF may be possible in late 2003.

Key changes from last month

Political outlook

- The police claim to have uncovered a plan to organise mass demonstrations and plant explosives around the country in order to disrupt the presidential inauguration on May 29th. This further illustrates how tense the political situation is in Nigeria, owing to allegations of irregularities in the conduct of the recent polls. Tension will remain high for months to come.

Economic policy outlook

- The Bureau of Public Enterprises has secured agreement from the government to privatise the country's four oil refineries. Given the problems experienced with domestic fuel supplies during the election period, this is likely to provide an early test of the new administration's commitment to economic reform.

Economic forecast

- New figures from the World Bank show that Nigeria's external debt stock was US\$31.1bn at the end of 2001. Although external debt inflows will pick up slowly as political stability is restored, Nigeria's external debt stock is forecast to stabilise at around US\$32.7bn in 2003 and 2004, owing to more consistent debt-service payments.

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Outlook for 2003-04

Political outlook

Domestic politics

Although the president, Olusegun Obasanjo, and his People's Democratic Party (PDP) secured overwhelming victories in the presidential and legislative elections held in April and May, the polls were clearly flawed by irregularities and fraud. However, it is apparent that Mr Obasanjo was the popular choice, and that the PDP is the only party with nationwide support. Given the various disputes, the All Nigeria People's Party (ANPP), along with other minor parties, has, not surprisingly, rejected the election results. The fallout from the elections will be the biggest test of Mr Obasanjo's political skills since he returned to power as a civilian president in 1999. Consequently, Nigeria faces several months of political uncertainty.

The dispute is likely to intensify, as the ANPP and other opposition parties have openly stated that they have no confidence in the ability of Nigeria's judicial system to redress their complaints. They have nonetheless announced that they will file a case to challenge the election results in 21 of the country's 36 states. Reports of a plot to orchestrate mass demonstrations and a series of nationwide explosions to disrupt the presidential inauguration, coupled with the ongoing stand-off between Mr Obasanjo and the ANPP's defeated presidential candidate, Muhammadu Buhari, have once again raised fears that Nigeria's democracy is heading for collapse. Given that this happened to Nigeria's previous civilian republics following disputed elections, the scenario remains plausible. There are currently many faultlines in this impoverished and divided nation that politicians bent on fomenting trouble could easily exploit—more than 10,000 people have died in religious, ethnic and communal violence since civilian rule was restored in 1999.

However, there are important differences between the current situation and those in 1966 and 1983, when turmoil over elections led to military coups. Whereas past military takeovers had popular support, civil organisations, including Nigeria's powerful trade unions, have warned that they will resist any attempt to truncate the present democracy. In addition, the international community is likely to be less accepting of another period of military rule than it was previously. Moreover, Nigeria's armed forces, still tarnished by their last spell in government, are probably less inclined to return to power. And as many of the leading figures in both the PDP and ANPP are retired generals, the army's allegiance is likely to be divided in any political showdown in the barracks. Nevertheless, although unlikely, military intervention in politics is not inconceivable in the short- to medium-term, particularly if politicians fail to resolve the crisis and stability appears to be disintegrating.

If Mr Obasanjo's administration can survive into the second half of 2003, the prospects for political stability will become brighter in 2004. Mr Obasanjo, who has considerable political skill—although he sometimes lacks tact—is expected to invite key opposition parties to join his government (the ANPP has said that it would decline such an invitation, but this mood may pass). Opting for an

inclusive cabinet, in which achieving a balance of ethnic and regional concerns counts more than individual merit, may be politically expedient, but it is liable to result in the ineffective government that characterised Mr Obasanjo's first term in office.

The government may be made more ineffective by the PDP's increased majority in the National Assembly. Although, in theory, the president and the PDP should be in a stronger position to tackle the pressing issues confronting the country—including calls for a new constitution, a revision of the formula for sharing revenue between the competing tiers of government, and the increasingly problematic ethnic and religious divides—this will require the party to become more cohesive and disciplined than it has been during the past four years when the relationship between Mr Obasanjo and the National Assembly has been little better than a war of attrition. Unfortunately, owing to the personalised nature of Nigerian politics, this is unlikely to happen and, although there may be a honeymoon period of improved relations between the executive and the legislature, this co-operation is unlikely to last long enough to allow the government to fashion a solution to Nigeria's problems or to impose lasting order on the country.

International relations

In his second term Mr Obasanjo is likely to remain deeply involved in foreign policy matters, even though most Nigerians would prefer him to focus on domestic issues. The controversy surrounding the legitimacy of his re-election could undermine Mr Obasanjo's credibility abroad, particularly in connection with the good governance tenets of the New Partnership for Africa's Development. Moreover, the political crises in Zimbabwe and Côte d'Ivoire are unlikely to be resolved quickly, and the president's involvement in attempts to resolve them will expose him to domestic political criticism. Progress is expected to slow on a more pressing issue, the sovereignty of the Bakassi peninsula. The work of the boundary commission established in November to draw the new border with Cameroon is likely to be prolonged, given Nigeria's reluctance to cede sovereignty in accordance with the ruling of the International Court of Justice made in October 2002.

Economic policy outlook

Policy trends

Before the elections, the administration published a new policy blueprint, *A Framework for Nigeria's Economic Growth and Development (2003-07)*. Having secured re-election the government is unlikely to abandon this blueprint, which is similar to its previous policy statements in that it sets ambitious targets—including real GDP growth of at least 7% by 2007—without stating the reforms that are needed to achieve these goals. Poor policy implementation will continue to be one of the government's biggest weaknesses, particularly as the Economist Intelligence Unit expects the animosity between the executive and legislature to persist over the next few years. Poor policy implementation will be compounded by a weak civil service and overlapping tiers of local, state and federal government. Consequently, we expect long delays in approving policy and even longer delays in its implementation. However, it is possible that the IMF and the new administration will agree on a basic macroeconomic reform

programme in late 2003 or 2004, particularly as oil prices look set to fall back in 2004. Although implementation will be patchy, the IMF is likely to be under political pressure to maintain the agreement in order to support a re-elected civilian government in Nigeria. It is, therefore, likely to make concessions to the government on a range of required reforms and on non-compliance.

Fiscal policy After a prolonged debate in the run-up to the elections, the 2003 budget was eventually ratified by the National Assembly, although it has yet to be signed by the president. Based on a forecast oil price of US\$22/barrel, the budget proposes total expenditure of just under N1trn (US\$7.5bn), which is very similar to that of recent years and substantially above the N765bn initially proposed by the president. However, in recent years, the budget approved by the National Assembly (if passed at all) has often borne little similarity to the eventual budget outturn, because of the delay in passing the original budget, subsequent supplementary budgets and oil-price volatility, which has a major impact on revenue. This is likely to be the case in 2003 as well. We are forecasting a higher oil price for the year than the government and expect considerable delays in expenditure. Consequently, we expect the fiscal deficit to narrow from an estimated 4.5% of GDP in 2002 to 3.3% of GDP in 2003. Although the government will try to tighten fiscal policy in 2004, as oil prices fall and in accordance with its overall policy agreement with the IMF, getting parliament to agree on expenditure cutbacks is likely to prove difficult. As a result, the budget deficit is forecast to increase very modestly to an estimated 3.5% of GDP in 2004. The government should have little problem financing deficits of 3-5% of GDP through domestic borrowing.

Monetary policy The Central Bank of Nigeria (CBN) reduced the minimum rediscount rate by 4 percentage points in the second half of 2002 to the current rate of 16.5%, in response to political pressure to boost the non-oil sectors of the economy. Although inflation fell steadily in 2002, the reduction in interest rates was probably premature, given the government's expansionary fiscal policy and the fall in the value of the naira in the middle of 2002, and has resulted in a rise in inflation in early 2003. Moreover, the CBN will find it difficult to raise interest rates again until well after the elections and the government is unlikely to act to control its spending until late 2003. As a result, monetary policy will not be tightened until late 2003 and into 2004—and then only marginally. Consequently, inflation will remain in double digits throughout 2003-04.

Economic forecast

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2001	2002	2003	2004
Real GDP growth				
World	2.2	2.9	3.1	3.8
OECD	0.9	1.8	1.7	2.4
EU	1.5	1.0	0.9	1.8
Exchange rates				
¥:US\$	121.5	125.3	116.2	115.5
US\$:€	0.896	0.946	1.148	1.183
SDR:US\$	0.785	0.772	0.711	0.703

International assumptions summary

(% unless otherwise indicated)

	2001	2002	2003	2004
Financial indicators				
¥ 2-month private bill rate	0.17	0.10	0.10	0.10
US\$ 3-month commercial paper rate	3.61	1.70	1.24	2.44
Commodity prices				
Oil (Brent; US\$/b)	24.5	25.0	24.5	18.2
Gold (US\$/troy oz)	271.1	310.3	335.0	315.0
Food, feedstuffs & beverages (% change in US\$ terms)	-1.9	12.7	5.8	3.0
Industrial raw materials (% change in US\$ terms)	-9.7	2.2	10.2	3.5

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

The global economy is undergoing its second serious slowdown in two years. The short-term outlook in the US is very subdued and growth has slowed sharply in most major economies; the US, Germany and Japan are all close to recession. We do not expect the US to return to a trend pace of growth until the first half of 2004, and for the euro zone to lag behind. Owing to this slow, weak economic recovery, world GDP growth will be disappointing in 2003, at just 2.1%. A return to a more normal rate of growth in most major markets by the second half of 2004 will cause world GDP growth to pick up to 2.9% in 2004. Oil prices were around US\$30/b in the first quarter of 2003, but have slipped back quite quickly since then owing to the speed with which the US-led attack on Iraq was completed. Oil prices are expected to continue falling as OPEC struggles to contain output against the background of weak global demand. As a result, we forecast that the price of dated Brent Blend will average US\$24.5/b in 2003 falling to US\$18.3/b in 2004.

Economic growth

We estimate that real GDP grew by only 2.7% in 2002, because of the constraints imposed by Nigeria's OPEC oil production quota. However, as OPEC relaxed its oil production quotas significantly in January and February 2003, Nigerian oil production is set to rebound—despite the political unrest in the Delta region in March and April, which has had some impact on production. The increase in production will be accompanied by high oil prices in the first half of 2003. This will be partly offset by the fact that growth outside the oil sector is likely to be subdued in the first half of 2003, owing to the political uncertainties associated with the 2003 elections. A relatively peaceful transfer of power from one civilian government to another in 2003 would give the economy a positive boost in the second half of the year and into 2004. Nonetheless, private and government consumption and fixed investment will show only modest growth in 2003. We are therefore forecasting real GDP growth of 3.1% in 2003. The rate of growth will pick up to 3.7% in 2004, as the forecast increase in offshore oil production and investment in the gas sector continue apace, economic policy improves and political uncertainty subsides.

Inflation

The downward trend in inflation seen in 2002 seems to have come to a halt in early 2003; provisional data from the CBN show that the 12-month moving average rate of inflation rose from 11.4% in February to 11.5% in March (although this may be subject to revision). We expect inflation to rise further in the first half of 2003, owing to the fall in the naira, the loosening of monetary

policy in the middle of 2002 and the government's expansionary fiscal policy. However, inflation will trend downwards in the second half of 2003 and into 2004, as the government tightens fiscal policy and pushes ahead with some economic reforms following the elections. However, inflation will not stay in single digits for long, owing to the size of the fiscal deficit, the limited scope for raising interest rates in the face of pressure from industrialists and politicians to cut rates, and the forecast fall in the exchange rate, which will increase the cost of imports. We are therefore forecasting average annual inflation of 13.5% in 2003 and 10.6% in 2004.

Exchange rates

We expect the naira to remain relatively stable in the first half of 2003 at just under N130:US\$1, since oil prices will remain buoyant and no major policy initiatives are likely to be introduced. However, as oil prices are forecast to fall in the second half of 2003 and the government is acutely aware of the costs of defending the naira (external reserves fell sharply in 2002 when it tried to defend the currency), and is also trying to reach some sort of policy agreement with the IMF, we expect the balance of power to turn in favour of those who are willing to allow a further depreciation of the naira. Thus we are forecasting that the value of the naira will begin to fall in the second half of 2003, averaging N131.4:US\$1 for the year as a whole. The naira will depreciate further in 2004, to an average of N146.4:US\$1, owing to lower oil prices, the widening of the current-account deficit and the slow strengthening of the US dollar on global markets.

External sector

We estimate that Nigeria ran a current-account deficit of 2.9% of GDP in 2002, despite fairly high oil prices, owing to the constraints imposed on oil production by Nigeria's OPEC quota and strong import growth. The deficit will narrow very slightly to 2.8% of GDP in 2003, as the volume of oil exports increases and prices remain high during the first half of the year. However, any further increase in the volume of oil exports in 2004 will be more than offset by the fall in oil prices to below US\$20/b. This will cause a sharp reduction in the trade surplus in 2004 and, as a result, the current-account deficit will widen to 7.1% of GDP. Although changes in the current account are driven mainly by the trade account, some trends in invisible trade will be discernible in 2003-04. The income and services accounts will remain firmly in deficit, the services account because of Nigeria's heavy dependence on international services, and the income account because of profit remittances by multinational oil companies and interest charges on external debt. In contrast, current transfers will be in surplus owing to large inflows of private transfers from the Nigerian diaspora.

Forecast summary

(% unless otherwise indicated)

	2001 ^a	2002 ^b	2003 ^c	2004 ^c
Real GDP growth	3.8 ^d	2.7	3.1	3.7
Industrial production growth	1.7	1.2 ^a	1.0	2.2
Gross agricultural production growth	5.1 ^b	4.5	4.0	4.0
Consumer price inflation (av)	18.2	13.6 ^a	13.5	10.6
Consumer price inflation (year-end)	16.5	12.2 ^a	16.6	10.4
Short-term interbank rate	23.4	24.8 ^a	20.0	18.0

Forecast summary

(% unless otherwise indicated)

	2001 ^a	2002 ^b	2003 ^c	2004 ^c
Government balance (% of GDP)	-4.5 ^b	-4.5	-3.3	-3.5
Exports of goods fob (US\$ bn)	17.9 ^b	17.2	18.4	15.5
Imports of goods fob (US\$ bn)	12.3 ^b	12.6	13.0	12.1
Current-account balance (US\$ bn)	1.2 ^b	-1.4	-1.5	-3.6
Current-account balance (% of GDP)	2.7 ^b	-2.9	-2.8	-7.1
External debt (year-end; US\$ bn)	31.1	31.3	32.7	32.7
Exchange rate N:US\$ (av)	111.2	120.6 ^a	131.4	146.4
Exchange rate N:¥100 (av)	91.53	96.19 ^a	113.07	126.77
Exchange rate N:€ (year-end)	99.5	132.6 ^a	166.0	174.8
Exchange rate N:SDR (year-end)	141.9	171.8 ^a	198.7	212.6

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts. ^d Official estimate.

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