CareEdge Global assigns Long Term Foreign Currency Rating of B (Unsolicited) to the Federal Republic of Nigeria

Credit Profile

Nigeria's credit profile is underpinned by low-income levels, low investment in job creating growth, weak infrastructure, high levels of inflation, foreign exchange shortages, a low revenue base, high-interest payments and elevated debt-to-GDP.

The recent sweeping policy reforms, such as the removal of the oil subsidy, the liberalization of the Naira and the securitization of domestic debt may take care of foreign exchange shortages and improve both the fiscal and external profiles. The development of the multi-trillion-dollar National Infrastructure Master Plan- over the next two decades is deemed positive for the long term and will be watched closely. However, any policy reversals or failure to implement coherent and supportive policy measures are risks to stabilizing the economy

Strengths

- Amongst the top 3 economies in Africa though largely dependent on oil sector exports
- Track record of current account surpluses in the past and expectation of the same over the medium term

Weaknesses

- Weak fiscal profile with one of the lowest revenue-to-GDP ratios
- Poor but improving exchange rate regime
- Widespread corruption and security threats impacting both the economic structure and external position
- Dependence on oil revenue

Key Monitorables

- Change in prices of crude oil as well as the recovery in oil production and its impact on the government's revenues
- Higher transparency in data published by the Central Bank of Nigeria (CBN)
- Successful implementation of policy reforms boosting fiscal and external profiles
- Sustained measures towards ensuring flexibility of the exchange rate.

Key Rating Drivers

Economic Structure & Resilience

Nigeria is one of Africa's largest economies in terms of size (USD 375 billion in 2023) and the most populous economy in Africa. With limited investment in job-creating growth, income levels remain low (USD 5,021 GDP per capita, constant PPP). The economy remains reliant on the oil sector for exports (90% of exports base and 5% of GDP) and foreign currency. Declining levels of crude oil production- exacerbated by geopolitics globally and security issues in the Niger Delta, leading to theft domestically- as well double-digit inflation, underpins a weak economic outlook. Structurally, the economy also has high exposure to carbon transition risk.

Looking ahead, growth may stem from the recent completion of the Dangote refinery and the re-opening of other refineries may see an improvement in the trade balance and an overall improvement in business input costs. Growth from the services sector (56% GVA in 2023) is expected to remain strong particularly in the information and communications technology (ICT) and financial services sectors respectively. Over the medium, infrastructure development through the country's National Infrastructure Master Plan, especially in roads, ports and electricity, for example the Zungeru hydroelectric power project would ease infrastructure deficits and support growth. The recent reforms towards the development of non-oil export sectors, including agribusiness, may also be growth enhancing.

Fiscal Strength

General government gross (GGG) debt increased to 46.3% of GDP in 2023 from 39.4% in 2022, partly due to the depreciation of the Naira. Securitization of cash advances from the Central Bank of Nigeria (CBN), in the form of longer tenors and lower interest rates may improve the debt burden. Nigeria has one of the lowest revenue-to-GDP ratios in the world (9.6% in 2023). Muted revenues are mostly split between interest payments, and oil subsidies to cover the costs of importing refined petroleum. Revenues-to-GDP are projected to increase to around 12.4% in 2024 on the back of better oil revenues as refining capacity domestically improves, better growth, tax reforms and a recent USD 750 million disbursement from the World Bank to aid with revenue mobilisation. The improvement is expected to aid in fiscal consolidation.

External Position & Linkages

After recording a deficit in the pandemic years (-2.5% of GDP average between 2019-2021), the current account (CA) moved to surplus in 2022 at 0.2% and maintained a surplus in 2023 of 0.3%. The CA is estimated to remain in surplus at 0.6% of GDP in 2024, supported by oil production (although muted), government initiatives (such as the "Export774" Programme) to diversify the export base and higher remittances flowing through the official exchange rate market.

Nigeria has seen very low levels of net foreign direct investment (FDI) averaging around 0.4% of GDP between 2018-2022. Investment may also be impacted following Nigeria's inclusion on the Financial Action Task Forces (FATF) "grey listing" in 2023.

Foreign exchange (FX) reserves are around USD 32.6 billion (2023) and are deemed sufficient to cover around 5.4 months of imports. However, the CBN audited financial accounts revealed significant foreign-currency liabilities and as such, usable FX reserves may be much lower. However, usable reserves are expected to be sufficient to meet an upcoming principal payment of a Eurobond due in 2025.

Monetary & Financial Stability

The Nigerian government has taken active steps towards closing the gap in the parallel and official exchange rate markets, by transitioning towards a flexible exchange rate regime in 2023. Gaps between the two markets may still prevail. As such, sustained flexibility of the exchange rate will need to be a key monitorable.

Inflation has been in double-digit territory, reaching 25% in 2023, from around 19% in 2022. The recent reforms were partly responsible for the spike in inflation. However, a flexible exchange rate regime, coupled with monetary policy tightening, will lead to a more stable currency and ultimately ease pressures on inflation. Lower inflationary pressures will also come from the government doing away with deficit monetization. Ultimately, inflation is seen following a downward trend, reaching 16% and 14% by 2026 and 2028 respectively.

The ratio of non-performing loans is 4.1% (2023) and banks are well capitalized, with a capital adequacy ratio of 13.1% which is above the 10% benchmark for the banking industry. These factors indicate that the banking system can deal with the increase in credit risk caused by high inflation and the weaker Naira.

Nonetheless, overall lower economic growth may see muted loan growth. Lastly, banks are exposed to government debt, which is around 22.6% of total loans (2023).

Institutions & Quality of Governance

Widespread corruption, as well as strained financial resources, underpin the poor management of natural resources and the failure to diversify the economy. Notably, oil theft in the Niger Delta and lack of effective methods to prevent it have constrained economic growth prospects. Weak institutions have also exacerbated threats from the terrorist group Boko Haram, which has resulted in lower FDI inflows. The CBN has also been criticized for not publishing accurate data, particularly of foreign exchange reserves. Nonetheless, bold policy reforms bode well for the quality of governance and developments on this front will be watched closely.

Nigeria – Select Indicators									
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**
Economic Indicators									
Nominal GDP	USD Billion	421.7	448.1	429.4	441.4	477.4	374.9	252.7	251.2
GDP Per Capita (Constant-PPP)	USD	5,155	5,135	4,917	4,969	5,004	5,021	5,063	5,087
Real GDP Growth	%	1.9	2.2	-1.8	3.6	3.3	2.9	3.3	3.0
GFCF/ GDP	%	19.0	24.6	26.7	25.6	20.0	23.8	25.2	26.1
Gross Domestic Savings/ GDP	%	-	-	26.7	25.7	20.2	24.1	25.8	26.0
Exports (G&S)/GDP	%	15.7	15.6	9.3	11.5	14.5	16.4	24.5	22.7
Working-Age (15-64) Population (% Share in Total)	%	53.1	53.3	53.5	53.7	54.0	54.3	54.5	54.8
Old-Age (65+) Population (% Share in Total)	%	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Fiscal Indicators – General Government									
Fiscal Balance/ GDP	%	-4.3	-4.7	-5.6	-5.5	-5.4	-4.2	-4.6	-4.2
Revenue/ GDP	%	8.5	7.8	6.5	7.1	9.0	9.6	12.4	12.8
Expenditure/ GDP	%	12.8	12.5	12.1	12.6	14.4	13.8	17.0	17.0
GG Gross Debt/ GDP	%	27.7	29.2	34.5	35.7	39.4	46.3	46.6	46.8
GG External Debt (by Creditor)/ GG Gross Debt	%	-	-	38.6	40.1	40.4	36.4	35.7	-
Interest/ Revenue	%	22.6	25.0	38.1	40.8	44.9	-	-	-
External Indicators									
Current Account Balance/ GDP	%	1.7	-3.1	-3.7	-0.7	0.2	0.3	0.6	-0.1
FDI, Net Inflows/ GDP	%	0.2	0.5	0.6	0.8	-0.04	0.5	-	-
Outstanding FII Liabilities/ GDP	%	7.0	7.3	6.5	7.4	7.6	8.4	-	-
NIIP/ GDP	%	-15.9	-17.3	-19.6	-17.4	-19.6	-23.6	-	-
Foreign Exchange Reserves	USD Billion	42.8	38.1	36.5	40.2	36.6	32.6	33.3	34.2
Import Cover	Months	5.1	6.3	6.5	6.3	6.0	5.4	5.7	6.1
External Debt/GDP	%	15.8	17.3	19.3	20.6	20.6	20.6	-	-
Monetary and Financial Indicators									
CPI Inflation	%	12.1	11.4	13.2	17.0	18.8	24.7	26.3	23.0
Exchange Rate (Average)	LC per USD	301.6	306.9	358.8	401.2	426.0	668.6	-	-
Non-Performing Loans/ Total Gross Loans	%	11.7	6.0	6.0	4.9	4.0	4.1	-	-
Private debt, loans and debt securities/ GDP	%	9.9	10.1	10.9	11.9	12.4	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	B	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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