Country Forecast

Nigeria

July 2010

Economist Intelligence Unit
26 Red Lion Square
London WC1R 4HQ
United Kingdom

Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide.

The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

London
Economist Intelligence Unit
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8500
E-mail: london@eiu.com

New York
Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: (1.212) 554 0600
Fax: (1.212) 586 0248
E-mail: newyork@eiu.com

Hong Kong
Economist Intelligence Unit
60/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

Geneva
Economist Intelligence Unit
Boulevard des Tranchées 16
1206 Geneva
Switzerland

Tel: (41) 22 566 2470
Fax: (41) 22 346 93 47
E-mail: geneva@eiu.com

This report can be accessed electronically as soon as it is published by visiting store.eiu.com or by contacting a local sales representative.

The whole report may be viewed in PDF format, or can be navigated section-by-section by using the HTML links. In addition, the full archive of previous reports can be accessed in HTML or PDF format, and our search engine can be used to find content of interest quickly. Our automatic alerting service will send a notification via e-mail when new reports become available.

ISSN 0966-887X

Symbols for tables
"0 or 0.0" means nil or negligible; "n/a" means not available; "–" means not applicable

Printed and distributed by Copyprint UK Ltd, Westminster Business Square, Durham Street, London SE11 5JA

Contents

Nigeria—highlights

Political outlook

- The uncertainty generated by the death of the previous president, Umaru Yar'Adua, will dominate the early part of the forecast period. The race to succeed him as the ruling People's Democratic Party (PDP) candidate for the 2011 presidential election will be keenly fought. The central scenario is that the former vice-president, Goodluck Jonathan, who automatically became president after the death of Mr Yar'Adua, secures the PDP nomination and goes on to win the national poll. This would see Mr Jonathan and the PDP remain in power during 2010-14. There are numerous other permutations, however, including the break-up of the PDP over the choice of presidential candidate. Tensions will run high and are likely contribute to ongoing social unrest, especially at election time.

Demographic outlook

Population (m)	2004	2009	2014
Total	134.6	149.3	163.8
Male	67.6	74.0	81.0
Female	67.1	75.3	82.8
Period averages (%)		**2005-09**	**2010-14**
Population growth		2.1	1.9
Working-age population growth		2.4	2.3
Labour force growth		2.5	2.0

- Although the population growth rate will slow, it will remain high enough to retain a relatively stable age profile. Such a youthful population will have difficulty in finding employment within the formal economy, and this will jeopardise the government's attempts to reduce poverty and end Nigeria's chronic political instability. Moreover, as only minimal progress has been made in diversifying the economy away from its excessive dependence on oil and gas, the government will struggle to create enough jobs for those seeking work.

Business environment outlook

Value of index[a]		Global rank[b]		Regional rank[c]	
2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
4.43	4.75	77	75	14	12

[a] Out of 10. [b] Out of 82 countries. [c] Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

- The business environment in Nigeria is expected to remain largely static over the forecast period. Efforts to create a significantly more attractive business environment are likely to produce only modest results, owing to the slow pace of more fundamental reforms, the ongoing problem of corruption, the absence of effective government institutions, the weak capacity of the civil service to implement changes and an extremely poor infrastructure. Some improvements in infrastructure are expected, albeit from a very low base, as the government attempts to deliver on its promises to improve electricity supply and other key aspects. Nevertheless, although Nigeria remains near the bottom of the Economist Intelligence Unit's rankings—75th out of the 82 countries ranked globally and 12th out of 17 countries ranked in the Middle East and Africa region—these represent a small improvement on the historical period. A combination of small improvements domestically and other countries deteriorating externally is behind this.

Economic outlook

	2009	2010	2011	2012	2013	2014
Real GDP growth (%)	6.7	7.0	5.8	6.7	6.8	7.0
Consumer price inflation (av, %)	12.4	12.2	11.2	10.3	9.6	9.4
Budget balance (% of GDP)	-4.4	-5.1	-4.5	-3.1	-2.9	-2.6
Current-account balance (% of GDP)	12.4	13.5	11.7	11.8	10.0	8.3
3-month Treasury rate (av; %)	3.8	6.0	7.7	7.5	8.0	9.0
Exchange rate N:US$ (av)	148.9	152.0	160.0	155.0	157.0	162.0

- After a slight dip in 2011 owing to subdued external prospects and election-related political uncertainty domestically, real GDP growth is expected to be strong during 2012-14. Continued investment in the hydrocarbons sector will boost growth in oil and gas production, although insecurity will continue to hinder prospects. Non-oil growth will remain strong across a number of sectors including communication, trade and construction. Meanwhile, the financial sector should recover from the banking crisis of 2009. The need to keep monetary policy loose during the global economic downturn will prevent inflation from coming down rapidly, but improving food production and a more stable currency should lead to a downward trend in prices. The government will struggle to limit the growth in spending, given pressing development needs, but strong revenue growth from the oil and non-oil sectors should help to bring the fiscal deficit down in 2011-14. Although oil exports will remain strong, lower prices as the forecast period progresses and high capital-import demand for infrastructure development will cause the current-account surplus to fall.

Market opportunities

	2009	2010	2011	2012	2013	2014
GDP (US$ bn at market exchange rates)	184.0	221.2	243.6	290.3	329.3	376.9
GDP per head (US$ at market exchange rates)	1,233	1,453	1,570	1,836	2,044	2,301
Personal disposable income (US$ bn)	61.3	64.4	66.3	71.7	76.9	81.6
Household consumption (US$ bn)	140.8	155.1	163.6	190.8	211.9	231.1
Household consumption per head (US$)	940	1,020	1,050	1,210	1,320	1,410

- Nigeria remains an important market for many multinationals because of its abundant natural resources and the sheer size of its population, despite the extremely low level of income of the majority. However, the relatively large wealthy elite and growing middle class make up important sub-markets. Nigeria is potentially a profitable market for multinational companies that know how to operate in its complex and chaotic regulatory environment and that can overcome the logistical difficulties posed by the almost non-existent infrastructure, for example by providing their own power and water supplies.

Long-term outlook

	2011-20	2021-30	2011-30
Growth and productivity (% change; annual av)			
Growth of real GDP per head	3.1	3.2	3.1
Growth of real GDP	4.9	4.7	4.8
Labour productivity growth	1.1	2.3	1.7

- Nigeria's long-term economic performance will remain broadly positive, driven by rising oil and gas production. Even with only a slow improvement in the policy framework, headline growth rates will remain positive. However, the reform effort is unlikely to be sufficient to promote fundamental diversification of the economy. Moreover, income levels will remain very low.

Editors: Philip Walker (editor); Pratibha Thaker (consulting editor) **Editorial closing date:** July 3rd 2010
All queries: Tel: (44.20) 7576 8000 E-mail: london@eiu.com **Next report:** To request the latest schedule, e-mail schedule@eiu.com

Fact sheet

Annual data	2009[a]	Historical averages (%)	2005-09
Population (m)	149.3	Population growth	2.1
GDP (US$ bn; market exchange rate)	184.0	Real GDP growth	6.3
GDP (US$ bn; purchasing power parity)	342.6	Real domestic demand growth	7.6
GDP per head (US$; market exchange rate)	1,233	Inflation	11.0
GDP per head (US$; purchasing power parity)	2,296	Current-account balance (% of GDP)	20.5
Exchange rate (av) N:US$	148.9	FDI inflows (% of GDP)	3.4

[a] Economist Intelligence Unit estimates.

Background: Nigeria gained independence in 1960. Following the first military coup in 1966 and the civil war in 1967-70, the army became the dominant political player and was only briefly out of power. However, after the sudden death of General Sani Abacha in mid-1998, his successor, General Abdulsalami Abubakar, moved to hold elections in 1999. This poll and the next one, in 2003, were both won by a respected former military ruler turned civilian politician, Olusegun Obasanjo, Nigeria's first civilian president for 20 years. Although the April 2007 elections were beset by logistical problems and widely condemned, the victory of Umaru Yar'Adua marked the first time that political power was transferred from one civilian government to another in post-independence Nigeria. Mr Yar'Adua's death in May 2010 saw his vice-president, Goodluck Jonathan, ascend to the presidency.

Political structure: Under the new constitution, adopted in May 1999, a strong executive presidency appoints a Federal Executive Council, comprising government ministers and ministers of state from each of Nigeria's 36 states. The executive is accountable to the bicameral National Assembly. More than 30 political parties are currently registered, but most have no clear ideology; in practice, personal and ethnic ties dominate the political process. The People's Democratic Party (PDP, Mr Yar'Adua's party) is one of the few political parties to attract nationwide support. Although the 36 state governments enjoy greater autonomy than under the former military administration, they remain dependent on the centre for funding.

Policy issues: Successive governments have sought to boost non-oil sector growth, improve macroeconomic stability and develop the nation's dire infrastructure, with mixed results. Tackling corruption has also become a priority. Although offshore oil production is set to increase, output will be constrained by onshore insecurity, and no major increases in production can be hoped for before some of the troubles in the Niger Delta region are resolved. Mr Jonathan will maintain good relations with Western powers and will continue to promote Nigeria as a leading international and regional power.

Taxation: Corporate profits in most sectors are taxed at 30%. Most other taxes are fairly low, a reflection of the fact that the government receives most of its revenue from the oil sector. However, tax compliance is a time-consuming process.

Foreign trade: Exports are dominated by oil: although the slump in prices in 2009 presented a significant challenge, Nigeria weathered the storm and is set to benefit from stronger prices in 2010-14.

Major exports 2009	% of total	Major imports 2009	% of total
Petroleum	90.0	Manufactured goods	30.0
LNG	7.8	Machinery & transport equipment	19.7
		Chemicals	15.0

Leading markets 2009	% of total	Leading suppliers 2009	% of total
US	34.2	China	15.0
Brazil	10.0	US	8.6
India	9.5	Netherlands	7.9
Spain	7.0	South Korea	5.7

Political forecast

Political forces at a glance

Present government: The late president, Umaru Yar'Adua, was elected for a four-year term in April 2007. His death in May 2010 saw his vice-president, Goodluck Jonathan, take on the role of president for the remainder of Mr Yar'Adua's term, as specified in the constitution. The cabinet must contain representatives from each of Nigeria's 36 states, although very few are elected politicians. Mr Jonathan and his ministers are accountable to an elected, two-chamber National Assembly. State governments enjoy considerable autonomy under governors and elected state assemblies. Despite the return to civilian rule, the military remains a latent political force, although its direct influence has waned with the consolidation of democratic rule. Nigeria has around 40 registered political parties. However, most of these parties are weak or exist only on paper.

Party strength following 2003 and 2007 elections

	State governors		Senate		House of Representatives	
	2003	2007	2003	2007	2003	2007
People's Democratic Party (PDP)	28	27	76	85	223	262
All Nigeria People's Party (ANPP)	7	5	27	16	96	62
Progressive People's Alliance (PPA)	-	2	-	1	-	3
Action Congress (AC)	-	1	-	6	-	32
All Progressive Grand Alliance	-	1	-	-	-	-
Alliance for Democracy (AD)	1	-	6	-	34	-
Accord	-	-	-	1	-	-
Labour Party	-	-	-	-	-	1

Note. Independents made up the remaining seats in the 360-seat House of Representatives in 2003.

Source: Press reports.

The People's Democratic Party (PDP, the president's party), which has been in power since the start of the Fourth Republic in 1999, won most state governorships and comfortable majorities in both houses of the National Assembly in the 2007 elections. The party benefited from its advantages of incumbency, superior finances and greater logistical resources, but its 2007 election victories were tarnished by allegations of widespread and massive ballot frauds. The All Nigeria People's Party (ANPP) was the second most effective party, with its strongholds predominantly in parts of the north. Dozens of new parties that registered in 2006 made little or no impression in the election. However, the Progressive People's Alliance (PPA) and the Action Congress (AC), formed by disgruntled elements of the PDP, enjoyed modest local success in a process dominated by resources and personal connections rather than ideology or real party discipline.

Next election: Legislative, presidential and state elections are due by April 2011 but may possibly be held earlier in the year if electoral reforms are passed in time.

Political stability

Focus in the short to medium term will be on the presidential, legislative and state elections, and this brings with it a serious risk of political instability.

Politically motivated violence, widespread social unrest and disputes over the transfer of power are all likely to feature. Nevertheless, investors and detached observers will probably factor in some manifestation of political instability associated with power struggles in Nigeria and will re-evaluate their operations only if the instability gets seriously out of hand. Although the elections should pass off without any catastrophic breakdown in security, the political situation will remain tense during the remainder of the forecast period. Much of 2011-12 is likely to be taken up with court cases over disputed polls, much as happened after the 2007 elections. This will be an ineffective period in terms of policy execution.

In addition, Nigeria is likely to continue to be troubled by political and social tension, arising mainly from underlying problems of poverty and under-development. The fault lines that could cause instability during the forecast period include ethnic and religious divisions, popular opposition to controversial government market-orientated economic reforms, persistent political unrest in the oil-producing Niger Delta region and disagreements over the review of the country's constitution.

The continued dominance of the PDP and the feebleness of the opposition parties has meant that there is no effective political debate of government policies in parliament. As a result, the labour unions and other interest groups have been better able to galvanise popular opinion on issues related to the welfare of ordinary citizens. They have focused particularly on opposition to the deregulation of domestic fuel pricing and, to a lesser extent, the privatisation of major state-owned enterprises. The political fortitude of the administration will be tested if it acts on previous promises to sell the country's four inefficient state refineries as well as to deregulate domestic fuel pricing.

Resolving the problems in the Niger Delta will be difficult

The threat to stability arising from insurgency will also remain a latent risk. Hopes had been raised by a government amnesty for militants in the oil-producing Niger Delta region in 2009 that succeeded in disarming 15,000 gunmen, but even before Mr Yar'Adua's illness the government was struggling to live up to its promises of creating jobs and improving infrastructure in the region. The government wants to bring an end to the kidnapping of oil workers and attacks against oil installations, which have severely restricted oil production since 2006, but this will probably continue to prove to be extremely difficult. There is some concern that the political uncertainty could hinder the peace initiative in the Delta region. However, Mr Jonathan is from this region and has attached a high priority to getting the peace process back on track. Nevertheless, whoever becomes president in 2011 will have to balance calls from hardliners who will press for tough military action to end the unrest and the liberals who want the government to focus more on addressing local grievances, particularly the demand for a bigger share of oil wealth. Although a military solution would be messy and impractical, given the Delta's complex terrain, peaceful resolution will be difficult for a number of reasons, including the fact that the militants' demand for local control of mineral resources is unacceptable to the political elites in other regions of the country, especially the north. An additional complicating factor is that the militia groups form an amorphous and fragmented movement with which it is hard to negotiate and which has attracted large numbers of criminals motivated by greed rather than grievance.

The potential for ethnic-religious clashes is also a threat to political stability, especially in the north of the country, where widespread poverty has fuelled the growth of Islamic militancy. Violence in the central belt of the country, where Nigeria's large Christian and Muslim populations live uneasily beside each other in some parts, will also flare periodically. Several thousand people have died in such clashes since 1999. Although Nigeria, which has one of the largest Islamic populations in the world, is not widely associated with global Islamic fundamentalism, it remains a potential recruiting ground for terrorist groups.

The constitution is another contentious issue

At some point during 2010-14 parliament is likely to revisit the highly divisive debate on reforming the Nigerian constitution, particularly relating to the sharing of power and resources between the federal government and the states, as well as between the country's competing ethnic-regional groupings. The northern political establishment will push for greater resources to develop their region, where poverty runs highest, while southern nationalists have long resented the transfer of resources from the south to the less economically developed north. Much will depend on the next president, with accusations by southerners that Mr Yar'Adua favoured fellow northerners in his appointments likely to be turned around should Mr Jonathan retain power.

Political and institutional effectiveness

Successive presidents have pledged their determination to implement pro-business reforms in order to boost foreign investment inflows and drive up economic growth, and this is unlikely to change over the forecast period. However, progress will not match rhetoric. The National Assembly has proved very slow at moving through new legislation, passing only a handful of bills since 2007. This was partly down to Mr Yar'Adua's highly meticulous approach, which drew criticism for how long policy pronouncements took. Even prior to Mr Yar'Adua's tenure legislation was often held up for long periods owing to tensions between the executive and legislative branches of government. Mr Jonathan has had more success in his short term, but much of this has been with half an eye on impressing the electorate ahead of the upcoming elections, with progress likely to lose some momentum once the elections are over and the new administration is bedding in.

Tackling corruption is a priority

Nigeria boasts a relatively strong economic team, led by able technocrats generally in favour of structural reform. However, as always, the team's capacity to translate market-orientated policies into action will be hampered by Nigeria's complex political environment, entrenched rent-seeking interest groups and weak administrative system. Despite some reforms of the civil service, the public sector remains overstaffed, highly bureaucratic and largely ineffective. Although considerable progress has been made in strengthening institutional capacity to check more blatant forms of corruption, rent-seeking officials and politicians have found more subtle ways to defraud the Treasury, with continued corrosive effects on politics and economic management. Fighting corruption has long been a government priority, but the administration's efforts are likely to be thwarted by powerful vested interests, especially at subnational government levels, where officials face less scrutiny. Moreover, the federal government's wish to mollify the political opposition and hence avoid further instability probably means that it will not be expedient for it to back moves by its anti-graft agencies to prosecute prominent politicians already indicted for corruption. Failure to bring to trial and appropriately punish corrupt officials will continue to undermine the credibility of the government's anti-corruption stance, fuel public cynicism and provide perverse incentives for opportunistic administrators. Although the reputation of the judiciary was boosted by a series of court rulings annulling several disputed April 2007 elections won by candidates of the ruling party, the judicial system is still deeply undermined by corruption and hugely underfunded. This has resulted in poor administration of justice, including long delays in the hearing of cases.

Election watch

The main issue ahead of the 2011 elections focuses around the PDP's choice of presidential candidate. Although he is yet to declare his intentions, Mr Jonathan clearly covets the position and has proved popular enough during his short time in power so far to win the election. However, under an unwritten arrangement within the PDP, the presidency is supposed to rotate every two terms between the north and the south—an important geopolitical divide in Nigeria. As Mr Yar'Adua was from the north and served only one term, there is pressure within the party for the 2011 presidential candidate also to be from the north. Were the PDP to break up over the issue, perhaps with a breakaway contingent from the northern political establishment forming an opposition party, the election could be closely run. The closer the election the more likelihood there is of widespread malpractice at the polls, something that has been a feature of all of Nigeria's democratic elections since the end of military rule in 1999. This could quickly turn violent, and under this situation political stability could deteriorate to the extent that the military once again becomes involved in domestic politics. Although another military coup is unlikely, especially as popular support would be unlikely to be forthcoming, it cannot be ruled out.

Key players to watch

Goodluck Jonathan

Mr Jonathan is the first person from the Niger Delta to become president. Many people hope that his familiarity with the people and problems of the Delta will help the administration to resolve the crisis there. During his short time in power so far he has signalled his intentions to drive the stalled structural reform programme forward.

Olusegun Obasanjo

A former military ruler (1976-79) before being elected president (1999-2007), Mr Obasanjo is now chairman of the board of trustees of the ruling People's Democratic Party (PDP). Although this is an advisory role, Mr Obasanjo will use the position to try to continue to influence government policy, including the choice of the PDP's presidential candidate in the 2011 election. He is expected to push for Mr Jonathan, a fellow southerner, to be nominated.

Namadi Sambo

Many people had expected Mr Jonathan to select as his vice-president a northern heavyweight who would invariably become a front-runner in the 2011 presidential race. Instead, he chose Mr Sambo, a relative newcomer to national politics who lacks a significant power base. This has reinforced the suspicion that Mr Jonathan wishes to contest the 2011 presidential election himself, going against an unwritten agreement in the PDP that it is a northern politician's turn to rule the country.

Ibrahim Babangida

In April 2010 Mr Babangida became the first major politician to state publicly his intention to run for the presidency in 2011 on the PDP ticket. Mr Babangida, a wealthy and charismatic politician, remains a controversial figure because of his decision to annul the 1993 presidential elections, which led to the collapse of the Third Republic. Even if he is unsuccessful in winning the PDP ticket, he, like Mr Obasanjo, will attempt to influence who does.

Aliyu Gusau

Mr Gusau, a northerner, was appointed by Mr Jonathan as national security adviser shortly after coming to power. The move was partly aimed at placating the northern political establishment, who were concerned about a southerner taking power. Mr Gusau was runner-up to Mr Yar'Adua in the PDP 2007 primaries and is understood to continue to covet the presidency. His senior position in Mr Jonathan's government places him in a good position to launch an election bid.

Atiku Abubakar

Mr Atiku served as vice-president from 1999 to 2007. His ambition to become president in 2007 was thwarted by his personal and political disagreements with Mr Obasanjo. His performance at the election, which he contested for an opposition party, was unimpressive, but he continues to chase his political dream. In April 2010 Mr Atiku announced that he had rejoined the PDP and it is widely believed that he will seek the party's presidential nomination again.

Muhammadu Buhari

Another former military head of state (1983-85), as leader of the opposition All Nigeria People's Party, Mr Buhari has made two failed bids to become an elected ruler. On both occasions he blamed his defeat on chronic fraud and manipulation. He could become a rallying point for disaffected elements angry at the lack of progress on electoral reform.

International relations

Foreign policy will continue to emphasise Nigeria's playing an influential role in Africa, especially in the West Africa subregion. Politics will turn more inward-looking during the election period in 2011, but for the remainder of the forecast period whoever is the president will continue the tradition of projecting Africa's most populous nation as a leading power on the continent, and one deserving to represent the region in major international bodies. Nigeria will continue to play a prominent role in regional peacekeeping missions, but its capacity to extend its current commitments in the troubled areas of the continent may depend on obtaining appropriate external funding, especially if world oil prices remain relatively low.

Historically close ties with the West

Nigeria is expected to maintain its traditional close ties with the West. For their part, Western governments will continue to see Nigeria as a strategically important nation in Africa. Besides its potential role as a stabilising force in trouble-prone West Africa, Nigeria is one of the world's largest crude oil exporters. The US has identified Nigeria as a key ally in its effort to diversify the source of its energy imports away from the Middle East, and so will continue to support efforts to restore normality in the volatile oil-producing Niger Delta.

Growing ties with Asia

Nigeria's growing economic relations with the fast-growing nations of Asia, especially China, will deepen. Although the levels of Nigeria's trade with Asia are unlikely to eclipse those with the West in the medium term, Asian companies eager to globalise and secure foreign sources of raw materials are likely increasingly to beat rival Western companies in obtaining lucrative contracts and mineral rights. Stronger economic ties with Asia may foster closer political ties, as issues of human rights and good governance are less likely to complicate relations as has been the case in Nigeria's past dealings with Western democracies.

Demographic assumptions

Demographic profile

	2004	2009	2014
Population (m)			
Total	134.6	149.3	163.8
Male	67.6	74.0	81.0
Female	67.1	75.3	82.8
Age profile (% of total population)			
0-14	40.0	39.3	38.6
15-64	54.5	55.3	56.5
65+	5.4	5.4	4.9
Young-age dependency ratio	0.73	0.71	0.68
Old-age dependency ratio	0.10	0.10	0.09
Working-age population (m)	73.4	82.5	92.5
Urbanisation (% of total)	46.5	50.6	54.8
Labour force (m)	41.8	47.3	52.1

Period averages	2005-09	2010-14
Population growth (%)	2.1	1.9
Working-age population growth (%)	2.4	2.3
Labour force growth (%)	2.5	2.0
Crude birth rate (per 1,000)	38.4	35.5
Crude death rate (per 1,000)	17.5	16.1
Infant mortality rate (per 1,000 live births)	97.2	90.1
Life expectancy at birth (years)		
Male	45.4	47.1
Female	46.9	48.7
Average	46.1	47.9

Sources: International Labour Organisation (ILO), labour force projections; Economist Intelligence Unit estimates and forecasts; national statistics.

Even though the rate of population growth is set to slow over the forecast period, the country's total population is forecast to rise to 163.8m by 2014 from 140.4m in March 2006, according to Nigeria's latest official census. There were 71.3m males and 69.9m females. Nigeria is by far the most populous nation in Africa; it accounts for almost half of the population of the West Africa region and around 20% of the Sub-Saharan region. Nigeria has a very young population, with around 40% under 15 years of age.

Nigeria will maintain a relatively stable age profile

Despite slowing, the population growth rate will be high enough to retain a relatively stable age profile. Such a youthful population will have difficulty in finding employment within the formal economy, and this will not help the government's attempts to end Nigeria's chronic political instability. Moreover, as only minimal progress has been made in diversifying the economy away from its excessive dependence on oil and gas, the government will struggle to create enough jobs for those seeking work. Unemployment, therefore, will remain a problem throughout the forecast period, with public policy unlikely to be sufficiently effective to generate anywhere near enough jobs. Many young Nigerians will find work in the informal sector, but others are likely to turn to crime, itself another dilemma for policymakers. Nigeria is ranked near the bottom of the UN Development Programme's Human Development Index, at

158th of the 182 countries ranked in the 2009 report. This low ranking reflects not only the problems with infrastructure and healthcare facilities, which are poor, but also high fertility and infant mortality rates and relatively low life expectancy, at around 48.5 years by 2014.

Rapid urbanisation presents a challenge

Nigeria also faces the challenge of rapid urbanisation—with the share of the urban population expected to pass the 50% mark during the forecast period, from 36% in the 1991 census—which will strain the capacity of municipal authorities to provide adequate services. This trend is also likely to exacerbate the shortage of agricultural labour in many parts of the country unless there is a more rapid shift from labour-intensive farming to modern cultivation methods.

There is little doubt that the global crisis in 2009 has slowed the pace of poverty reduction, according to the World Bank's latest *Global Monitoring Report*. This constitutes a serious reversal, since developing countries had made significant progress in terms of human development since the 1990s. Globally, poverty had fallen by 40% since 1990, meaning that the developing world as a whole was on track to meet the key Millennium Development Goal (MDG) of halving income poverty by 2015. That said, Sub-Saharan Africa was deemed unlikely to meet the poverty-reduction goal, both because overall poverty levels in the continent were much higher and because Africa implemented reforms comparatively late, meaning that the benefits of more rapid income growth were delayed. Nigeria is already behind schedule in achieving many of its MDGs and is not expected to make sufficient progress during the review period to make up lost ground by 2015.

HIV/AIDS in Nigeria

As with many African countries, Nigeria is facing a potential health crisis caused by the HIV/AIDS pandemic. According to the government, significant progress has been made in checking the advance of the disease, with the adult prevalence of HIV/AIDS declining from 3.2% in 2001 to 3.1% in 2007, according to UNAIDS. Despite this apparently low infection rate, the Ministry of Health has been keen to stress that the problem is still potentially huge, that there are geographical pockets of infection where the level is above 20% of the sexually active population and that there are major differences in the prevalence rates in different states, ranging from 1.2% to 12%. Moreover, given the size of the country's population, a very large number of people are affected—in 2007 the number was estimated at 2.6m adults and children, the second-highest figure in Africa. Other health concerns include the high incidence of malaria, tuberculosis and Guinea worm disease. Although a national health insurance scheme was launched in 2005, Nigeria remains far from having a social security system that can cater for its needs during the forecast period.

Policy and business outlook

Business environment rankings[a]

	Value of index[b]		Global rank[c]		Regional rank[d]	
	2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
Overall position	4.43	4.75	77	75	14	12
Political environment	3.1	3.3	79	77	15	14
Political stability	4.0	4.0	76	78	14	15
Political effectiveness	2.3	2.6	80	79	15	15
Macroeconomic environment	7.2	7.5	35	26	8	7
Market opportunities	6.5	7.1	22	17	7	3
Policy towards private enterprise & competition	2.8	3.3	78	74	14	14
Policy towards foreign investment	5.1	4.6	67	71	12	13
Foreign trade & exchange controls	3.7	5.1	78	74	14	12
Taxes	5.0	5.0	70	71	12	14
Financing	4.8	4.4	61	70	10	13
The labour market	4.4	4.7	81	80	16	16
Infrastructure	1.8	2.8	82	82	17	17

[a] See Guide to the business rankings model at the end of this report. [b] Out of 10. [c] Out of 82 countries. [d] Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

The business environment in Nigeria is expected to improve slightly over the forecast period. Most of the improvements to the various subcategories in the index are relatively minor, but in the rankings Nigeria benefits from a combination of these small improvements and other countries moving backwards (Venezuela, for example). Therefore, in the Economist Intelligence Unit's global rankings Nigeria moves up from 77th to 75th out of 82 countries in the forecast period. Meanwhile, in the regional rankings Nigeria moves from 14th to 12th out of 17 countries.

The challenges are high, but so are the potential rewards

Efforts to create a significantly more attractive business environment in the country are likely to produce only modest results, owing to the slow pace of market-orientated structural reforms, the ongoing problem of corruption, the absence of effective government institutions, the weak capacity of the civil service to implement changes and an extremely poor infrastructure. Indeed, in areas where Nigeria fares worst, including financing and foreign investment, we expect a further deterioration in Nigeria's ranking, reflecting the difficulty, even in the medium term, of pushing through much-needed comprehensive reforms as well as the more rapid improvement of other developing countries. However, there are some causes for optimism, with the macroeconomic environment expected to continue to improve and market opportunities to remain high.

Nigeria's economy came out of the global economic recession in fairly good shape, despite the impact of a dip in oil prices and a crisis in the local banking sector. In particular, market opportunities will remain extensive, buoyed by the large local market, rising income levels, a rich natural resource endowment and strong potential for profits. Foreign-exchange controls are expected to be relaxed gradually, and the government has extensive infrastructure development plans, representing an opportunity for the private sector to become involved during the short to medium term as well as improving the overall business environment in the longer term.

Nigeria's business environment at a glance

Policy towards private enterprise and competition

2010-11: The government will attempt to push ahead with the privatisation programme, but progress will be slow as a result of private-sector reluctance, the various vested interests concerned and strong union opposition.
2012-14: The focus of policy will be less on privatisation and more on the promotion of local private-sector champions.

Policy towards foreign investment

2010-11: Investment in the oil and gas sectors will increase because of the global recovery and gradual improvement in the security situation in the Niger Delta region. The government is likely to encourage greater Russian and Chinese participation. Investment outside these sectors will be more modest, limited by the challenging operating environment.
2012-14: Interest will continue to focus on the oil and gas sectors, but liberalisation may open up opportunities elsewhere.

Foreign trade and exchange controls

2010-11: Stronger oil prices should allow the Central Bank of Nigeria (CBN) to push ahead with exchange-control liberalisation, although this will be susceptible to periodic reversals if the CBN perceives any threats to the naira, including falls in oil prices, which are expected in 2011.
2012-14: With oil prices remaining relatively strong, the CBN is likely to be more prepared to move ahead with a gradual programme of capital-account liberalisation.

Taxes

2010-11: Progress with tax reform will be slow as the administration attempts to placate competing interests.
2012-14: Tax reform may move up the political agenda again, on the assumption that the administration is committed to attracting new foreign investment into the country.

Financing

2010-11: Accessing financing will become easier as the global economy recovers, but reform of the local banking system after the crisis experienced in 2009 will restrict domestic borrowing.
2012-14: Funding for well planned projects will become easier to raise, particularly from domestic sources.

The labour market

2010-11: Employers will face major problems, including a shortage of skilled manual workers and poor health indicators.
2012-14: Employers will continue to struggle to find suitably qualified staff.

Infrastructure

2010-11: Government spending on the priority area of infrastructure will continue to increase. Although there should be modest improvements, corruption, a lack of capacity and poor planning will restrict development.
2012-14: Expenditure on infrastructure will increase, but project implementation will be slow and beset by corruption.

Macroeconomic environment

Value of index[a]		Global rank[b]		Regional rank[c]	
2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
7.2	7.5	35	26	8	7

[a] Out of 10. [b] Out of 82 countries. [c] Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

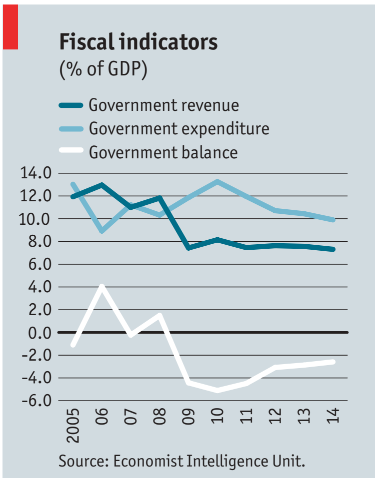
The expectation of low public debt, a stable exchange rate and a strong external position all contribute to the improvement of the macroeconomic environment in the forecast period. Most major economic indicators are expected to remain broadly favourable, although inflation will come down only slowly and the government will continue to run fiscal deficits as it expands its infrastructure development programme. Nevertheless, public debt will remain low given that the government paid off a significant proportion of outstanding debt during the previous oil price boom. High oil prices in recent years have also allowed the government to build up significant foreign-exchange reserves and, although these fell during the global economic downturn when the government adopted a stimulus package, they remain substantial enough to smooth out any excess volatility in the exchange rate. Furthermore, the expectation of a continuation of high oil and gas prices means that the balance of payments will remain in surplus, with reserves being built up once again.

Ambitious targets are unlikely to be met

Nigeria's politicians have long had lofty ideals of the country becoming one of the world's 20 largest economies by 2020. However, there remain too many factors mitigating against the achievement of sustained double-digit growth rates needed to attain the global standing sought by the country's political elite. These include deeply entrenched vested interests opposed to free-market competition, insecure property rights, the weak civil service, and confusion caused by overlaps and contradictions between local, state and federal government actions. Macroeconomic policy will continue to espouse the promotion of market-led economic growth and poverty reduction, but actions are unlikely to match up to rhetoric.

Fiscal indicators
(% of GDP)

	2009	2010	2011	2012	2013	2014
Government expenditure	11.9	13.3	12.0	10.7	10.4	9.9
Government revenue	7.4	8.2	7.5	7.6	7.6	7.3
Budget balance	-4.4	-5.1	-4.5	-3.1	-2.9	-2.6
Government debt	12.3	15.1	17.4	18.1	18.6	18.3



Fiscal policy: During the early part of the forecast period the focus of fiscal policy will be on driving through the stimulus package first implemented in 2009 and built upon in the 2010 budget. Money will be pumped into the economy to avert contraction stemming from a cash crunch caused by banks' unwillingness to lend owing to the ongoing trouble in the financial sector prompted by a banking crisis in mid-2009. However, the government's ambitious spending plans should be viewed in relation to its poor record for capital budget implementation, despite funds being made available to the relevant ministries, departments and agencies. In addition, given the high import content of major public infrastructure projects that much of the stimulus will be focused on, the ability of fiscal policy to achieve the desired goal of boosting local spending and employment is somewhat limited by the structure of the country's underdeveloped economy. Spending is unlikely to slow down until 2012 at the earliest, after the 2011 elections have been concluded and the new administration has got to grips with power. However, even then the administration has few options open to it to make sharp cuts in public spending without upsetting labour unions that are already demanding more job creation and a substantially higher minimum wage.

The government will also face mounting pressure from cash-strapped state governments for greater access to their share of any windfall earnings in oil and gas. The federal government will try to maintain its large share of income against the clamour for greater decentralisation of Nigeria's finances, but it is likely to have to bow to some of the states' demands and raise their allocations. Nevertheless, robust oil and gas prices expected in 2012-14 will allow the government to bring down the fiscal deficit, but the prospects of a budget surplus seem remote, given continued pressure from the various levels of government to keep expenditure high. Indeed, during periods of higher oil prices, expenditure pressures tend to increase proportionally. The budget deficits expected during the forecast period are not likely to be large enough to endanger overall economic stability, although they are likely to generate some inflationary pressures.

Interest rates
(%)

	2009	2010	2011	2012	2013	2014
Commercial banks' prime rate (av)	18.4	17.8	15.0	12.0	13.0	13.0
Short-term interest rate (year-end)	13.3	12.0	11.0	11.5	12.0	12.0
Long-term interest rate (av)	3.8	6.0	7.7	7.5	8.0	9.0

Boosting lending to the private sector is a priority

Monetary policy: The Central Bank of Nigeria (CBN) is expected to continue to make managing inflation its prime objective in 2010-14, but the extent to which it can implement inflation-targeting strategies will be constrained by the government's aim to lower the cost of borrowing by the private sector to encourage investment in productive activities. This has been made more complicated by the banking crisis of 2009 and the subsequent reform programme put in place by the CBN. Given the uncertainty in the sector, banks are proving reluctant to lend, with lending interest rates expected to come down only slightly in 2010. There will be a more marked decline in 2011-12, although rates are expected to stabilise after that as inflation remains stubbornly high. One matter that may affect monetary policy over the early part of the forecast period is the relationship between the current CBN governor, Lamido Sanusi, and the next president following the 2011 elections. As an appointment of Mr Yar'Adua, Mr Sanusi now has less support in the upper echelons of government and a move to replace him cannot be ruled out, although he would probably be replaced by another technocrat following the trend of recent appointments at the CBN, and so monetary policy would not be expected to suffer overall.

Policy towards private enterprise and competition

Value of index[a]		Global rank[b]		Regional rank[c]	
2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
2.8	3.3	78	74	14	14

[a] Out of 10. [b] Out of 82 countries. [c] Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Despite structural reforms, the business environment in Nigeria will remain difficult. The extent of the government's political commitment to promoting a more market-orientated and competitive economy, protecting property rights, and reducing government interference in the economy is likely to remain unclear.

- Although political opposition to market reforms will remain strong, the dire need for Nigeria's infrastructure development programme to be sped up means that the government has recognised the important role that the private sector has to play. The promotion of private-sector financing and operation of crucial infrastructure services, such as concessioning highways, is expected to continue to expand. This suggests that some level of structural adjustment may occur during the forecast period.

- Although a few local businesses, such as the Dangote Group, have grown into large corporations, growth of the domestic private sector will be constrained by the fact that many local private businesses are small and unsophisticated and operate in the informal sector. There are concerns that, given the small number of companies operating in many formal sectors—and the existing barriers to entry into many sectors—competition is limited. This would seem to be indicated by the high rates of return often quoted by companies.

There is a culture of dependence on the state

- Companies in the formal sector have been dependent on state subsidies and have been shielded by protectionist policies for so long that many are unlikely to respond favourably to government implementation of fundamental free-market reforms, and will continue to champion state intervention, both openly and discreetly, particularly with regard to foreign trade and domestic infrastructure subsidies. This culture of dependence is one of the main reasons for the lack of popular impetus for radical economic change in Nigeria.

- A new and important dimension will be added to Nigeria's structural reform effort if the administration follows through on previous pledges to liberalise land ownership. Land reform received a significant slice of the 2010 budget and Mr Yar'Adua had promised to make it easier for individuals and businesses to acquire or transfer property or to use their property as collateral to raise loans from banks. Whether the next president will share this belief is uncertain, and land reform—a contentious issue—is likely to be delayed around the 2011 election period. However, some limited progress is expected over the remainder of the forecast period given that some important reforms are already under way. The registration of land ownership is to be consolidated, with the aim of creating an electronic register. This will help to clarify land disputes and should allow quicker decisions from banks when land is used as collateral.

Policy towards foreign investment

Value of index[a]		Global rank[b]		Regional rank[c]	
2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
5.1	4.6	67	71	12	13

[a] Out of 10. [b] Out of 82 countries. [c] Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Sub-optimal FDI levels outside the oil and gas sector

Although the government will continue to welcome foreign direct investment (FDI), the level of FDI outside the oil and gas sector will remain low in relation to the potential size of the market. This reflects the complexities of the local business environment, together with bureaucracy, corruption, low productivity, poor infrastructure and low income levels that restrict the potential market.

- Full foreign ownership is allowed in all sectors apart from banking, where foreign banks are prevented from taking over Nigerian banks (although foreign banks are allowed to set up their own local subsidiaries). However, even this ownership restriction may well be lifted during the forecast period. Following the banking crisis of 2009 a number of local banks remain distressed. With the government keen to recover the vast amounts of money that it was forced to pump in to avoid an outright banking sector collapse, it is expected to reconsider the ownership restrictions. In anticipation of this a number of foreign banks have already indicated their interest in acquisition, although they are likely to face competition from the healthier local banks. Indeed, the government is likely to favour domestic takeovers even if it does allow foreign banks to bid.

- FDI into the lucrative hydrocarbons sector should become more transparent during the forecast period. The Petroleum Industry Bill, which is currently before parliament, proposes to outlaw discretionary awards of oil and gas contracts, and stipulates that licences must be given through "open, transparent and competitive" bidding processes. Nevertheless, a number of Asian investors, from China, India and South Korea in particular, who have shown keen interest in entering Nigeria on the basis that they concurrently develop local infrastructure, may still find themselves the preferred bidder on new acreage.

- We expect few dramatic changes during the forecast period in terms of improved policy or the elimination of structural obstacles in the economy, and little progress on speeding up the slow pace of privatisation and the elimination of subsidies. There is also likely to be a continued bias towards policy favouring local business, as evidenced by the recent local content bill for the oil industry that gives indigenous firms priority in the awarding of oil concessions and requires foreign companies to employ more local staff. As a result, and with other countries set to improve more rapidly, Nigeria will slip in the global rankings from 67th to 71st out of 82 countries, and from 12th to 13th in the Middle East and Africa region.

Foreign trade and exchange controls

Value of index[a]		Global rank[b]		Regional rank[c]	
2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
3.7	5.1	78	74	14	12

[a] Out of 10. [b] Out of 82 countries. [c] Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Notwithstanding the temporary foreign-exchange restrictions introduced in the first quarter of 2009 to shore up the weakening naira, the CBN is likely to make progress in liberalising the country's foreign-exchange regime. Nigeria's lower oil earnings and decreased reserves will present the CBN with challenges in managing the naira during the early part of the forecast period, but the level of retained savings should be sufficient to maintain a relatively stable foreign-exchange market, allowing further reforms to be introduced. Although Mr Yar'Adua quashed plans announced by the CBN in 2007 for further currency liberalisation, including full current-account convertibility, the bank is expected to revisit some of the less politically controversial reforms during the forecast period. However, Nigeria is a long way from fully liberalising its foreign-exchange market, hence its low global and regional rankings.

Protectionist sentiment is likely to persist

- Since late 2005 Nigeria's complicated tariff structure has been simplified, with the adoption of the common external tariff agreed by members of the Economic Community of West African States (ECOWAS). The government has also reduced the number of items on its import ban list, but it has given no indication that it will scrap remaining import prohibitions, especially those affecting sensitive industries such as textiles. Protectionist sentiment will remain strong in Nigeria and it is unlikely that any administration has either the political will or the ideological orientation to promote free trade. Crossborder smuggling is liable to remain an important feature of the Nigerian economy.

- The capacity and efficiency of Nigerian ports have improved following the recent implementation of an ambitious concessioning programme that transferred management of terminals to private operators. However, although the reforms have improved port operations and ship turnaround times, there remains the problem of corruption in the customs service, which can complicate and delay the clearance of goods. The government has promised further reforms to reduce the delay in the clearing of goods through seaports, although its target of cutting the average clearing period from two weeks to two days is ambitious for the medium term.

Taxes

Value of index[a]		Global rank[b]		Regional rank[c]	
2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
5.0	5.0	70	71	12	14

[a] Out of 10. [b] Out of 82 countries. [c] Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

In theory, Nigeria's tax regime will continue to compare favourably with those of other countries. This partly reflects the fact that general taxation is not a particularly important source of income for the government, which is overwhelmingly dependent on oil revenue, and it has historically set low tax rates. However, in practice there is still a huge range of problems. In particular, corruption within the tax authorities, coupled with ineffective policing and enforcement, means that tax compliance rates remain low. Given these problems, Nigeria's global ranking is expected to remain poor, especially as other countries push ahead aggressively with tax reform.

High oil revenue has reduced the incentives for reform

- There will be considerable political opposition to attempts by the government to raise indirect taxes or reduce subsidies. Attempts to raise value-added tax from the current level of 5% have been met with strike action from the powerful labour unions. The administration will probably introduce reforms to cut huge losses from the non-payment of taxes, but the political risk of increasing taxes remains daunting. Reducing the massive subsidies that the government currently pays on refined petroleum products and electricity will also generate considerable animosity. However, there does appear to be an acceptance within the government that the subsidies have to be slashed if more private investment into oil refineries and electricity generation is to be attracted.

- Companies in the formal sector complain of being subjected to multiple taxes as a result of tax authorities at the different tiers of government imposing a variety of levies, sometimes illegally. The fiscal rivalry between federal and subnational administrations makes it difficult for the central government to establish any new tax body with significant autonomy and the power to impose tax harmonisation.

Financing

Value of index[a]		Global rank[b]		Regional rank[c]	
2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
4.8	4.4	61	70	10	13

[a] Out of 10. [b] Out of 82 countries. [c] Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

The banking sector will take time to recover after nearly collapsing

The rapid growth in Nigeria's financial sector since the consolidation of the banking sector in 2005/06 is expected to slow down in the forecast period owing to the turmoil stemming from the banking crisis of 2009. Between August and October 2009 the CBN was forced to inject more than US$4bn into nine undercapitalised banks after an audit found that they had excessive non-performing loans. This bad debt stemmed from poor corporate governance practices, lax credit administration and a failure to adhere to credit-risk management practices. The events raised serious questions over the future of Nigeria's banking system, which had come close to collapse. The damage done represented a major setback for the banking system, which had become an engine of growth in Nigeria in recent years as oil production faltered. However, there is hope that the local banks could emerge stronger, with the CBN attempting to reform the sector, in particular by imposing more stringent and transparent financial reporting systems. Nevertheless, the questions raised over the health of the domestic banking sector have caused a deterioration in Nigeria's rank for financing in the forecast period.

- The reforms planned by the CBN may well be far-reaching, possibly including phasing out the universal banking model and replacing it with a licensing system that caters for a greater diversity of banking institutions. Under the proposed model the capital requirement of banks will vary according to the type of service that they provide and the levels of risks involved. Also contributing to change in the sector will be the fact that the banks affected will need to recapitalise, and this may prompt another round of bank consolidation in Nigeria.

- Although the reforms and merger activity will lead to another period of uncertainly, as evidenced by the reluctance of banks to lend to the private sector, the end result should be the emergence of fewer, bigger and more competitive banks. This should drive down the cost of banking and improve competition for lending in the longer term, especially for corporate clients. Moreover, the government's efforts to create a long-term government bond market may allow the development of a more active corporate bond market in the future. Coupled with the recovery of the Nigerian Stock Exchange (NSE) after two years of turbulence, the ease of raising funds is expected to improve as the forecast period progresses.

The labour market

Value of index[a]		Global rank[b]		Regional rank[c]	
2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
4.4	4.7	81	80	16	16

[a] Out of 10. [b] Out of 82 countries. [c] Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

With little prospect in the near future of resolving many of the key constraints to improving the labour market in Nigeria, and with other countries broadly improving in this area, Nigeria's ranking remains stagnant in the forecast period.

- Many of the most talented Nigerians will continue to choose to work abroad. Nigeria has a large number of very capable professional and highly skilled workers in a range of sectors. Unfortunately for the country, large numbers, particularly in the medical profession, live and work overseas, and the restoration of civilian rule in 1999 has failed to bring an end to the "brain drain". Meanwhile, expatriates will continue to find the procedure to secure work permits—and sometimes even simple entry visas—complex and costly.

- The collapse of the education system, notably the vocational system and apprenticeship schemes, means that skilled manual labour—from bricklayers to mechanics and electricians—will remain in short supply. In terms of unskilled labour, poor education, health and transport mean that, at the lower end of the scale, productivity levels are very low.

- Nigeria's much-expanded university system will continue to churn out large numbers of graduates, with a bias towards the arts and social sciences, but the economy will still suffer from a large deficit of skilled manpower, particularly in the fields of science and technology, as well as business management. Relatively fast-growing economic sectors, such as oil and gas, communications, and banking, will attract the best brains. This leaves struggling sectors, particularly manufacturing, lacking the human capital that they need to become globally competitive.

The unions are pushing for an increase in the minimum wage

- Although labour law reform in 2005 weakened the capacity of the unions to organise political or sympathy strikes, the labour movement remains powerful, capable of organising paralysing national strikes. The government has a fight on its hands against demands made by Nigeria's two umbrella labour organisations for an enormous increase in the national minimum wage to offset the rising cost of living. Even if the administration is able to convince the unions to substantially moderate their unrealistic demands, any major rise in the minimum wage (which was last adjusted in 2000) is likely to hurt the economy and diminish any prospects of rapid growth in labour-intensive sectors such as manufacturing.

- On a more positive note, although the stagnation in Nigeria's ranking for the labour market reflects the difficulties associated with the formal sector, it does not reflect the initiative and dynamism associated with the large and unregulated informal sector. This sector is highly significant in the employment market in Nigeria, particularly among the unskilled and semi-skilled.

Infrastructure

Value of index[a]		Global rank[b]		Regional rank[c]	
2005-09	2010-14	2005-09	2010-14	2005-09	2010-14
1.8	2.8	82	82	17	17

[a] Out of 10. [b] Out of 82 countries. [c] Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

Improving Nigeria's dire infrastructure is at the centre of the government's plans. Largely financed by oil revenue, but with the private sector expanding its role, these planned improvements mean that Nigeria's overall score for infrastructure increases in 2010-14. However, given the scale of the problems, Nigeria remains at the bottom of the rankings. Nigeria's poor infrastructure has been a major constraint on growth since the mid-1970s. Successive governments have failed to deliver on promises to improve and expand basic services in key areas such as power, water, telecommunications, healthcare and education. Gains will be made where the private sector becomes more involved, although significantly furthering private-sector investment in many sectors will require politically difficult changes, such as establishing pricing systems that adequately allow for profit.

Improving electricity supply will be a priority

- Despite spending billions of dollars on the sector, successive administrations have failed to significantly increase electricity generation. The spending is set to continue, as improving supplies will remain a government priority. Through engaging in concession and public-private partnership (PPP) we expect some improvement on the present (deplorably low) level of electricity supply from 2010. However, the extent of improvement in services during the forecast period will depend on whether the government is able to push ahead with the stalled privatisation of the power sector against opposition from the unions. Also crucial will be the establishment of a viable regulatory framework for the smooth operation of private power providers, including the enforcement of market-based tariffs.

- Rail could become an important means of transport if the new railway development programme to modernise and expand the network is properly executed. Having abandoned a US$8.3bn railway modernisation contract with a Chinese state-owned company, the government will seek new international investment partners. A number of mass transit rail projects are now under way and should come on line during the forecast period. However, progress is likely to be slow, with rail provision remaining far below potential demand.

- Large amounts of public money will continue to be spent on improving Nigeria's road network, but about half of the national roads are still in poor condition, exacting a considerable toll on the economy. The government will need to address mismanagement and corruption in the handling of road projects. In addition, the cumbersome process under which funds are released for public works causes delay in the execution of contracts, particularly with respect to road maintenance. On a more positive note, the government has concessioned the Lagos-Ibadan expressway, the main artery to the commercial capital and its seaports, and is working to transfer other major highways to private operators.

Economic forecast

International assumptions

	2009	2010	2011	2012	2013	2014
Economic growth (%)						
US GDP	-2.4	3.3	2.0	1.9	2.2	2.4
OECD GDP	-3.3	2.5	1.7	2.0	2.2	2.3
World GDP	-2.2	3.2	2.5	2.8	3.0	3.1
World trade	-11.2	6.8	5.3	6.3	6.4	6.3
Inflation indicators (%)						
US CPI	-0.3	1.7	1.3	1.9	2.5	2.8
OECD CPI	0.0	1.3	1.2	1.7	2.0	2.2
Manufactures (measured in US$)	-3.3	0.4	-1.4	1.6	2.4	2.9
Oil (Brent; US$/b)	61.9	80.2	78.5	82.3	78.3	75.5
Non-oil commodities (measured in US$)	-22.5	11.4	0.8	2.9	4.1	3.8
Financial variables						
US$ 3-month commercial paper rate (av; %)	0.3	0.2	0.5	1.9	3.9	5.1
N:US$ (av)	148.9	152.0	160.0	155.0	157.0	162.0

- The Economist Intelligence Unit expects that global GDP will recover in 2010, growing by 3.2% at current exchange rates. Although this will slip back in 2011 as growth in developed economies slows as fiscal stimulus packages run out, an emerging-market-led recovery will keep growth at 2.5%. This will be built on in 2012-14, with growth averaging 3%. Although robust, growth levels will continue to be constrained by fiscal consolidation, household deleveraging and financial sector rehabilitation.

- In the US, the main importer of Nigerian oil, some momentum will be regained in the medium term, with annual average growth of 2.1% in 2011-14. Meanwhile, world trade will expand by 6.8% in 2010, after plummeting in 2009. This rebound is due to a need by manufacturers to restock in order to meet demand as the global economy recovers. Trade growth in the remainder of the forecast period will average just over 6% a year, driven by faster growth in developing countries.

- We expect oil demand to recover in 2010, with China and other Asian markets taking the lead. OECD consumption will grow by 0.1% in 2010 but will begin to drop in 2011-14 as increasing use of non-hydrocarbon fuels and improved energy efficiency cut into consumption. China, the Middle East and South Asia will continue to take up an increasingly larger share of global oil demand, leading prices to average just under US$80/barrel in 2010-14. While lower than the recent boom years, such price levels are significant enough to benefit Nigeria as a large oil exporter.

- Global credit conditions are fluctuating. The world's financial sector is undergoing significant regulatory reshaping, and rebuilding balance sheets is likely to be a priority in the forecast period. There has been some activity in regional debt issuance, but increased yields because of uncertainty regarding the euro zone are slowing the flow of issuances, of either corporate or national debt.

Economic growth

%	2009	2010	2011	2012	2013	2014
GDP	6.7	7.0	5.8	6.7	6.8	7.0
Private consumption	8.7	7.3	4.8	6.4	8.2	9.3
Government consumption	7.0	10.0	9.5	7.0	8.0	7.5
Gross fixed investment	5.0	8.0	7.5	10.0	12.0	12.0
Exports of goods & services	0.4	9.9	9.6	10.7	11.1	11.5
Imports of goods & services	5.8	13.6	12.2	14.1	15.9	14.1
Domestic demand	7.8	8.0	6.2	7.0	8.6	9.2
Agriculture	5.9	5.2	5.5	5.8	5.6	5.5
Industry	0.6	4.3	2.2	2.4	3.2	3.3
Services	11.1	10.5	8.0	9.8	9.7	10.0

Economic growth will be strong, but below potential

Although election- and global economy-related uncertainty may affect growth levels in 2011, Nigeria is expected to enjoy a period of robust economic growth over the forecast period. Nigeria weathered the storm of the global recession in 2009 well owing to the continued strong performance of the agriculture and services sectors, and the foundations are there for continued strong growth, albeit below potential. Almost certainly growth will be well below the double-digit levels needed if the country is to meet the goal of becoming one of the world's top 20 economies by 2020. Continuing flare-ups of political unrest in the Niger Delta—despite the expectation of increased efforts by the government to find a solution to some of the issues involved—will constrain growth in **oil and gas production** throughout 2010-14. The government's efforts to find a solution to the Delta region's difficulties will have only limited success, owing to the complexities involved, but oil and gas production should increase from 2010 as new deepwater oilfields open or expand. These are less susceptible than the onshore fields to action by militias, but they will not be immune. The militias are well funded and well equipped, making attacks on oil installations even far out to sea quite feasible.

With oil production having contracted in 2005-09 owing to the troubles in the Delta, it has been **non-oil growth** that has driven the economy forward. This will continue to be the case in 2010-14. The **services sector** will be a major contributor, particularly from the dynamic **telecommunications sector** but also from construction, both of private- and public-financed infrastructure. The contribution of the **banking sector**—a major source of growth in recent years—will be more muted in the early part of the forecast period as the sector recovers from the troubles of 2009. **Wholesale and retail trade** will continue to perform well, especially in the emerging middle classes, but is likely to be affected by a fall in consumer confidence in 2011 if the elections lead to significant political disruption. The **agriculture sector** has also performed well in recent years, with food production steadily increasing. Agriculture will remain an important sector throughout the forecast period, not only as a contributor to overall economic growth but also as a major employer. The **manufacturing sector**, which is already performing poorly owing to dire infrastructure and strong Asian competition, will also be negatively affected by difficulties in accessing credit as banks restructure in the early part of the forecast period, but should gradually improve in the remainder as infrastructure and credit access improve.

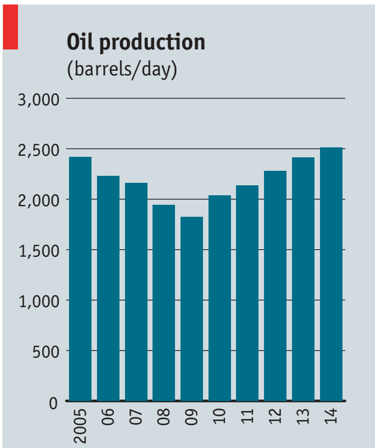
On an expenditure basis, growth in **public consumption** will slow after the fiscal expansion in 2009-10 aimed at stimulating the economy, although it will remain significant as robust oil prices allow the government to expand its infrastructure development programme. **Gross fixed investment** will also be spurred on by strong oil prices and a gradual improvement in the security situation. **Private consumption** may be hit by lower confidence early in the forecast period around election time, but will quickly rebound in line with the broadly favourable outlook for economic prospects. **Export growth** is also likely to improve as the forecast period progresses as production improves on the back of greater offshore development and slightly better security onshore. However, exports will continue to be outpaced by **import growth** as capital imports for infrastructure and consumer imports both increase quickly.

The benefits of growth will not be evenly shared

Whatever the reformist intentions of the next administration, GDP growth will be well below its optimum level owing to the weakness of Nigeria's infrastructure, notably the electricity supply, as well as the low level of income per head and major constraints in the labour market (there is a dearth of skilled and manual workers, and it is hard to find senior managers). Another concern is that, although overall growth is likely to be robust in the forecast period, its impact on reducing poverty may be far less than the headline figures would indicate. This is because of the economy's heavy dependence on the oil and gas sector, which has few linkages to the rest of the economy and tends not to create significant new employment.

Hydrocarbons sector

Within OPEC, Nigeria is one of the member states with the potential to raise oil production substantially as it moves from being an onshore to an offshore producer. However, oil output has fallen in recent years; furthermore, the rises expected during the forecast period are well below those targeted by the government. As well as difficulties onshore with militancy, development of the ultra-deepwater acreage awarded in 2000 has fallen behind schedule. Factors behind the delay include political uncertainty, which has restricted investment; concerns over how higher output would be treated in view of Nigeria's OPEC quota; the high cost of field development; the poor quality of local services (which means that much has to be imported); and inadequate infrastructure.



Source: Economist Intelligence Unit.

However, despite the fact that oilfields are not moving ahead as quickly as expected, there has still been progress, notably the coming on stream of Shell's long-delayed Bonga field in late 2005. This reached peak production of 225,000 barrels/day (b/d) during 2006. In March 2006 this was followed by the start of production from ExxonMobil's Ehra field, which is currently producing around 200,000 b/d. ChevronTexaco's Agbami field came on stream in late 2008, and this will add a further 230,000 b/d when it gets up to full capacity during 2010. Total's Akpo field began production in mid-2009 and numerous other projects, such as Bosi, Ukot and Usan, are expected to come on stream during the forecast period. However, despite the start-up of production at these offshore fields, they have failed to offset the production losses elsewhere in the industry. Militancy in the Delta will restrict production throughout the forecast period, although a gradual increase is expected as the gains in offshore production combine with some, albeit limited, improvements in the onshore situation as the government attempts to deal with the militants.

Oil production

	2009	2010	2011	2012	2013	2014
m barrels/day	1,825	2,037	2,137	2,277	2,412	2,512

Source: Economist Intelligence Unit.

The Niger Delta and the amnesty programme

Sporadic unrest in the Niger Delta, which began simmering in the late 1980s, has become a major problem for the federal government. Since the return of civilian rule in 1999 thousands of people have been killed in clashes between the security forces and militants and between rival militia groups, as well as in inter-communal conflicts over oil wealth. These clashes were particularly intense in the run-up to the 2003 elections, a trend that continued around the 2007 polls. The previous president, Umaru Yar'Adua, made solving the Delta issue one of his top priorities, and in August 2009 launched an amnesty programme. The amnesty was initially considered to be a success, with thousands of former militants handing in their weapons in exchange for a monthly allowance and the promise of training and jobs. However, the government has since struggled to live up to its promises. There is no quick or simple way to create thousands of sustainable jobs in a region where the private sector is still wary of investing and where skills levels are generally low. There is also a fear that pumping large amounts of money into government intervention agencies with poor track records, like the Niger Delta Development Commission, to fast-track development of the Delta could result in huge waste and corruption, thereby aggravating the problems. Although the new president, Goodluck Jonathan—himself from the Niger Delta—has promised to reactivate the amnesty programme, only limited success is expected, with some former militants returning to their previous ways. As a result, only small gains in onshore oil production can be expected.

A particular problem that the government has still not got to grips with is that, although much of the violence in the Delta is being committed by youths who are genuinely fighting against the neglect, exploitation and pollution of their impoverished communities, the unrest has also been driven by criminal elements using the rhetoric of justice and equity as cover. Using force to extract payments from vulnerable foreign oil firms and siphoning oil from pipelines has become a growing enterprise in the region, involving a wide range of criminals from poor unemployed youths to highly placed officials. Local politicians seeking to bolster their political bargaining position or to undermine their opponents have in the past stirred up trouble in the Delta and employed local thugs in their private militias. These criminal elements benefit from maintaining the status quo of unrest in the region, further complicating the government's task.

Furthermore, peace cannot be fully achieved until the fundamental political issues underlying the crisis are resolved. Any talks between the government and the militants are likely to be dominated by the thorny issue of petroleum revenue-sharing between oil states and the rest of Nigeria. The challenge will be to reach a compromise between the demands of the militants and other Delta nationalists for local control of mineral resources and the federal position that the endowment belongs to the entire nation and that its benefits must be spread across the country. However, given that a lasting peace in the region would be likely to boost oil revenue significantly enough to counteract any change in the revenue-sharing formula, the government and parliament will probably be more receptive to proposals to increase the proportion of oil revenue paid to oil states during the forecast period. Nevertheless, given the heavy dependence on oil revenue of the federal government and all Nigerian states, with the possible exemption of Lagos, reaching a compromise on restructuring the finances of the federation will not be easy.

The oil and gas sector in Nigeria is expected to go through some major changes during the forecast period as the much-heralded Petroleum Industry Bill (PIB) is implemented. The PIB will enable the government to renegotiate old offshore production-sharing contracts, impose higher taxes on oil companies and retake acreages not being explored. In addition, the state-run Nigerian National Petroleum Corporation (NNPC) will be restructured into several autonomous units, including a national oil company that will operate as a competitive, profit-orientated commercial enterprise, similar to the state oil companies of

Brazil, Malaysia and Saudi Arabia. The new oil company—initially to be fully government-owned but later offering equity to Nigerians—will be able to raise funds in the capital markets instead of depending on government funding as is currently the case.

The implementation of the Petroleum Industry Bill will have a major impact

However, there are concerns about the PIB as it currently stands before the National Assembly awaiting approval. Local and international non-governmental organisations are unhappy that it fails to address the environmental, social and human rights impact of the oil industry in Nigeria. The international oil companies operating in Nigeria are also concerned. Oil-firm executives feel that, if approved in its current form, the legislation could jeopardise billions of dollars of investment, as the extra tax burden would make all new planned upstream projects uneconomical. Nevertheless, oil company bosses have stressed that they are not generally opposed to a reform of the Nigerian oil and gas industry and clearly recognise the need for changes in the way that the sector is managed to make it more efficient and transparent. There are many aspects of the PIB that are welcomed by virtually all segments of the industry. For instance, the bill's attempts to make oil transactions more open and transparent should help to reduce corruption in the industry.

The government is unlikely to accede to oil company requests

The foreign oil companies are unlikely to persuade the politicians to make any major changes to the bill that would entail reducing the perceived benefits to Nigeria, especially given that many local politicians and oil officials reckon that the profits of Western oil companies have for many years been made at the expense of their nation. The debates on the PIB and the eventual implementation of the draft legislation are more likely to be affected by domestic politics, given the pivotal position of oil in geopolitical relations in Nigeria. Meanwhile, the administration will have to demonstrate considerable political fortitude to realise many of the laudable objectives of the proposed oil reform, particularly that of allowing the NNPC to operate as an independent entity, free of political interference, as well as bringing openness and transparency to an opaque oil sector that has for decades been one of the main sources of corrupt enrichment. It is therefore likely that powerful vested interests will act against its implementation.

As well as concerns about growing nationalistic demands on oil companies, another factor holding back development has been the issue of Nigeria's OPEC quota. Although in recent years Nigeria has been unable to fully meet its quota owing to the difficulties in the Delta, it is still not clear how OPEC would agree to accommodate within its quota system the near-doubling of production targeted by the Nigerian government. Although the government's targets are unrealistic, Nigeria will exceed its OPEC quota during the forecast period. The easy solution would be for Nigeria to leave OPEC (as Gabon did, for example), but this is unlikely. There is a strong feeling within political circles that being a member of OPEC enhances Nigeria's importance on the global political and economic stage. This would indicate that the government's most likely policy will be to try to find ways around its OPEC quota, at least in the short term or until a larger increase can be agreed. The most obvious way is simply to cheat on its future quotas. This option has historically been the choice of successive Nigerian governments, to the detriment of the country's reputation within the cartel. Other, more complicated options, which would in effect produce the same outcome, are not implausible, such as Nigeria obtaining some sort of special exemption from OPEC for its offshore oil production. It may also be able to reach an agreement whereby a substantial proportion of its offshore output is classified as condensate, which is currently excluded from production quotas.

The outlook for the oil sector is mixed

All these developments paint a mixed picture of the outlook for Nigeria's crucial oil sector. The ongoing unrest in the Niger Delta will continue to encourage multinational oil companies to push ahead with plans to move production offshore. However, the pace of development of the offshore industry will be severely constrained by the growing demands on oil companies and the problem of how to accommodate the output within Nigeria's OPEC quota. Nevertheless, with oil prices remaining high—albeit lower than the peak reached in 2008—the incentive to invest in one of the more promising areas for potential oil discoveries will also be high, encouraging multinationals to continue to do so, leading to a steady rise in production.

Gas production is increasing rapidly

Nigeria's proven gas reserves, both oil- and non-oil-associated, are among the largest in the world. In the gas sector, the key issue is still flaring; the government and the multinational companies had committed themselves to eliminating flaring during 2008, although this deadline was comprehensively missed, with flaring continuing to account for about 40% of the natural gas produced by Nigeria. There is, therefore, intense competition to find commercial outlets for gas. The government hopes to use much of the new gas production coming on stream to fuel domestic power stations, thus easing the electricity crisis. However, pricing remains an issue, as, despite government pledges to increase the price that it pays for gas, prices on the export market remain more attractive for companies in the sector. The government may attempt to restrict the number of gas projects aimed at the export market during the forecast period pending development of the domestic market for gas. This would create uncertainty in the sector.

The main export-orientated project so far is the Shell-led Nigeria Liquefied Natural Gas company (NLNG) project (in which the NNPC has a 49% stake, Shell 25.6%, Total 15% and ENI-Agip 10.4%), which began exporting in late 1999. The NLNG plant started up its fourth train in November 2005 and its fifth in February 2006, bringing its total capacity to 17m tonnes/year (t/y) of LNG and 3.4m t/y of liquefied petroleum gas (LPG). A sixth plant began production in December 2007, lifting Nigeria's LNG capacity to 22m t/y and its LPG capacity to 4.6m t/y. A seventh train, which could boost production to 30m t/y by 2012, is in the planning phase. Several other major gas projects are being developed, although their future depends to a large extent on the government's stance on gas exports.

Wage and price inflation

%	2009	2010	2011	2012	2013	2014
Consumer prices	12.4	12.2	11.2	10.3	9.6	9.4
Average wages	14.6	10.0	8.5	10.5	10.0	10.0
Real wages	2.0	-1.9	-2.4	0.2	0.4	0.6
Unit labour costs	-8.8	7.8	3.1	14.1	8.6	6.6

Tackling inflation will remain difficult

Bringing down inflation will be a gradual process during the forecast period. During the past two years the Central Bank of Nigeria (CBN) has struggled to control inflation, owing to high global food and fuel prices, the high level of government spending, high levels of liquidity in the economy and political uncertainty. Although some of these factors will decline in significance during the early part of the forecast period—notably, food prices are set to fall back as a result of strong domestic production, while lower oil prices compared with the boom in 2008 will limit excess liquidity—inflation will not come down especially quickly. Even though government expenditure will slow, it will remain robust, especially at state level, where fiscal laxity remains a problem. Furthermore, government spending will remain high around the election year of 2011. In the early part of the forecast period the CBN's focus will tend to focus on ensuring that monetary policy is loose enough to avoid the drying-up of liquidity that has affected many Western money markets. The CBN may tighten monetary policy from 2011, but the strength of tightening required for a major drop in inflation will be politically unpopular with a government that will continue to favour keeping interest rates relatively low in order to boost lending to the non-oil sectors of the economy. From a peak of 12.4% in 2009, inflation is forecast to moderate to an average of 9.4% in 2014.

High inflation will erode the value of real wages until the latter part of the forecast period. The unions will continue to push for large increases in the minimum wage, but the government is likely to resist these as best it can for fear of losing global competitiveness. However, we expect a continuation of the divergence in wage trends between the government and the private sector—with wages in the latter keeping in line with inflation while civil service wages continue to fall sharply in real terms. Nevertheless, formal private-sector employment in Nigeria will continue to remain very low as a percentage of the workforce.

Exchange rates

	2009	2010	2011	2012	2013	2014
Exchange rate N:US$ (av)	148.9	152.0	160.0	155.0	157.0	162.0
Exchange rate N:US$ (end-period)	149.6	156.0	157.5	156.0	159.5	164.5
Exchange rate N:¥100 (av)	10,605	9,701	9,755	9,371	9,492	10,002
Real effective exchange-rate index (1997=100; av)	148.5	164.4	173.1	193.0	202.5	206.2
Purchasing power parity N:US$ (av)	80.0	90.7	98.1	104.4	109.6	117.9

Trends in the naira will depend on the oil price

The naira is expected to continue to show some weakness in 2010-11 before stabilising during the remainder of the forecast period. Since the end of 2008 the naira has shown itself to be highly susceptible to declining confidence, primarily relating to the impact on Nigeria of the rapid fall in oil prices. The CBN was able to prevent too steep a fall by instigating a tightening of currency controls. Although this shored up the official market rate, it came at the expense of a widening gap with the parallel market rate and a deterioration in market confidence. The CBN began to remove the restrictions in mid-2009 as the global picture started to stabilise, although this saw the naira revert to a downward path. This trend was halted in the final quarter of 2009 at around the N150:US$1 level. Part of this return to stability reflected fundamentals—including strong oil prices buoying reserves—but it also appeared to reflect the CBN's preference for maintaining the value of the naira within a narrow band as both an inflation anchor and an attempt to increase business confidence by reducing exchange-rate volatility. This policy preference is expected to be maintained during the forecast period, albeit with periodic adjustments to avoid a further running-down of foreign-exchange reserves. The government has learnt its lessons from 2009, when reserves fell alarmingly quickly as it attempted to defend the naira. The slight downward trend in oil prices in 2012-14 is therefore expected to translate into a gradual fall in the value of the naira.

External sector

US$ bn	2009	2010	2011	2012	2013	2014
Current-account balance	22.9	29.8	28.5	34.1	32.9	31.4
Current-account balance (% of GDP)	12.4	13.5	11.7	11.8	10.0	8.3
Goods: exports fob	59.3	78.0	81.0	89.3	90.8	91.8
Goods: imports fob	-29.0	-34.8	-39.3	-44.2	-48.6	-53.2
Trade balance	30.3	43.2	41.7	45.2	42.2	38.6
Services: credit	2.2	2.4	2.3	2.6	2.8	3.0
Services: debit	-17.6	-20.3	-21.4	-23.5	-25.6	-27.6
Services balance	-15.3	-18.0	-19.0	-21.0	-22.8	-24.6
Income: credit	1.0	0.9	1.1	1.7	2.5	3.0
Income: debit	-11.1	-13.5	-14.1	-14.4	-14.6	-14.9
Income balance	-10.0	-12.6	-13.1	-12.7	-12.1	-11.9
Current transfers: credit	18.4	17.7	19.5	23.3	26.4	30.2
Current transfers: debit	-0.5	-0.6	-0.6	-0.7	-0.8	-0.9
Current transfers balance	18.0	17.2	18.9	22.6	25.6	29.3

Nigeria's external position is expected to remain strong during the forecast period. This represents a major change since the main Country Forecast of 2009 and is due to a large revision to the historical data. In November 2009 the IMF published its latest Article IV consultation on Nigeria. This report, and the subsequent December statistical update of the IMF database, *International Financial Statistics*, contained major revisions to Nigeria's historical current-account data. The two main changes were large upward revisions to current transfers and significant downward revisions to goods imports. The changes to transfers made sense given that the previous data failed to capture the high level of remittances that Nigeria receives. However, there are some doubts over the new import figures, given the massive amount of imports that go unrecorded via smuggling into the country. Nevertheless, this data is the most comprehensive available for Nigeria and we have therefore revised our historical data in reflection of this. These events serve to underline the serious data deficiencies involved in modelling Nigeria's macro-economy.

Oil prices will remain the single largest determinant of the health of Nigeria's external position, as diversification during the forecast period is expected to be subdued at best. With oil prices remaining relatively strong a large current-account surplus will be maintained. However, imports will grow more rapidly as infrastructure spending is scaled up and strong economic growth attracts higher levels of consumer imports. This means that the current-account surplus will gradually shrink as a proportion of GDP growth from 2012 to 2014. The services and income accounts will remain firmly in deficit, related as they are to trade and oil sector profit repatriation respectively. Private transfers from the large Nigerian diaspora will remain sizeable but will be potentially slow to recover owing to the impact of the global economic slowdown on Nigerians working in the West.

Foreign direct investment in Nigeria

Stocks and flows

Using data from the Central Bank of Nigeria (CBN), the IMF and the UN Conference on Trade and Development (UNCTAD), the Economist Intelligence Unit estimates that the stock of inward foreign direct investment (FDI) stood at US$57.2bn (31.1% of GDP) at the end of 2009. FDI inflows surged in 2005-07, with almost all going towards the oil and gas sector as prices rocketed. The fall in 2008-09 was almost equally spectacular as lower oil prices reduced investor interest in marginal fields and as the global financial crisis makes it difficult to secure finance even on viable fields. As the forecast period progresses and oil prices pick up, interest in Nigeria's hydrocarbon resources will once again grow, with FDI averaging over US$7bn a year in 2011-14. FDI outflows are modest and mainly consist of Nigerian investment in other African economies.

Origin and distribution

Most FDI inflows into Nigeria are from the oil multinationals. There has been a modest surge in non-oil sector foreign investment in recent years, after it became clear that civilian democracy and macroeconomic stability had become established. Although much of the investment was by large multinational companies that were already operating in the country, South African companies have strongly increased their presence in recent years, with Russian and Chinese companies leading the next wave.

Determinants

The main factors attracting investment by oil firms are low production costs and high-quality crude oil, both of which offset economic problems and political instability. A number of gas projects are moving ahead, stimulated by abundant supplies, growing demand and the government's policy goal of eliminating gas flaring. So far, privatisation has been a stop-start process. However, the opening-up of the mobile-phone market has been a success. Otherwise, the main rationale for investment by multinationals is to establish a presence in Africa's largest market, which could be highly profitable despite the difficult operating environment.

Impact

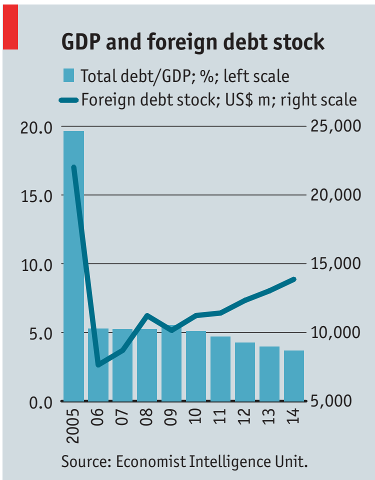
The energy sector, which has received most foreign investment to date, provides more than 80% of government revenue and the vast majority of foreign-exchange earnings. However, it is also a capital-intensive sector with limited linkages to the rest of the economy and little effect on employment. One area where FDI has had a high-profile impact is in mobile-phone networks, led by MTN of South Africa. Their success could attract other investors outside the energy sector.

Potential

With the largest population in Sub-Saharan Africa, Nigeria is potentially an important market, although the awkward business environment—characterised by impenetrable bureaucracy and idiosyncratic regulation—is likely to keep FDI inflows substantially below their potential for years to come. Established multinationals that have mastered operating in the complex and chaotic regulatory environment make substantial profits, despite the country's low income levels and the logistical difficulties caused by the almost non-existent infrastructure that obliges companies to provide their own power and water supplies and to distribute goods on a road system that is in poor repair. The government will continue to promote Nigeria as a rewarding target for foreign investment, although interest will largely be confined to the oil and gas sector, particularly offshore, in the next few years. In view of the country's OPEC quota, which is likely to constrain oil output in the future, and the government's commitment to reducing gas flaring, gas-related investments hold particular promise for the energy industry; a number of projects are currently under way. In addition, there is potential for the commercial exploitation of a range of minerals. The privatisation programme will have a relatively high profile over the next few years, but progress is likely to remain erratic. Parastatals are an important source of patronage, and privatisation faces considerable political opposition, as it is often associated with large-scale job losses. However, the failure of public enterprises to provide an adequate level of service, notably in the electricity and water sectors, and the success of the liberalisation of the telephone market make privatisation almost inevitable, even if this proves to be a protracted and convoluted process. There is considerable potential in the agricultural sector, especially in the production of food for domestic consumption.

External debt

	2009	2010	2011	2012	2013	2014
Total external debt (US$ bn)	10.1	11.2	11.4	12.3	13.0	13.9
Total external debt (% of GDP)	5.5	5.1	4.7	4.2	4.0	3.7
Debt-service ratio, paid (%)	0.7	0.6	0.7	0.7	0.8	0.9



Although external debt is expected to increase in order to help to fund the government's development plans, Nigeria's debt burden is expected to remain manageable. With growth rates picking up during the forecast period, the debt stock is expected to decline slightly as a proportion of GDP, to around 4% by 2014. Nigeria has a relatively benign debt profile owing to the actions taken during the oil boom, when the administration of the time signed a historic debt deal with the Paris Club of official creditors in October 2005. Under the deal the Paris Club agreed to restructure Nigeria's debt under Naples terms on eligible debt and to buy back the remaining debt at a discounted rate. The Paris Club subsequently wrote off US$18bn of debt, with the government buying back the remainder. As a result, the country's external debt fell to US$7.7bn at the end of 2006 (from a recent peak of US$37.8bn at the end of 2004).

There is some concern that the current government may take advantage of its improved debt profile to build up new debt, notably by borrowing from multilateral lending institutions, led by the World Bank and the African Development Bank. In April 2010 the government accepted a US$915m loan from the World Bank to be drawn over the next five years. However, the loan is highly concessional, carrying a 0.75% interest rate, and has a ten-year grace period and repayment over 40 years. Other expected borrowing will not be so concessional: the federal government also plans to issue an international sovereign bond later this year, although this may be delayed until after the 2011 elections. Although servicing such a loan will be more costly, oil-related revenue will remain high enough to avoid repayment troubles.

Market opportunities

Market outlook

	2009	2010	2011	2012	2013	2014
Population (m)	149.3	152.2	155.2	158.1	161.1	163.8
GDP (US$ bn at market exchange rates)	184.0	221.2	243.6	290.3	329.3	376.9
GDP per head (US$ at market exchange rates)	1,233	1,453	1,570	1,836	2,044	2,301
GDP (US$ bn at PPP)	342.6	370.6	397.3	430.9	471.6	518.1
GDP per head (US$ at PPP)	2,296	2,435	2,560	2,725	2,928	3,163
Household consumption (US$ bn)	140.8	155.1	163.6	190.8	211.9	231.1
Household consumption per head (US$)	940	1,020	1,050	1,210	1,320	1,410
Exports of goods & services (% change)	0.4	9.9	9.6	10.7	11.1	11.5
Imports of goods & services (% change)	5.8	13.6	12.2	14.1	15.9	14.1

Nigeria continues to be a large but difficult market

Nigeria will remain an important market for many multinationals because of the size of its population (the country accounts for 20% of the population of Sub-Saharan Africa). This is despite extremely low income levels for the majority of the population; most people have little to spend on goods other than basic necessities. Growth in GDP per head over the forecast period will continue at a fairly brisk pace, but even by the end of the period average incomes will still be very low given the endemic poverty in the country. Nevertheless, Nigeria's growing middle class and wealthy elite—the sizes of which dwarf those in most other African countries—will remain important markets. Nigeria is potentially a profitable market for multinational companies that know how to operate in its complex and chaotic regulatory environment and have overcome the logistical difficulties posed by the almost non-existent infrastructure, for example by providing their own (expensive) power and water supplies.

As the problems associated with working in the country substantially push up the cost of operations, particularly given the low productivity of labour, competition from low-cost imports will remain a major problem. Providing goods through imports may seem a more attractive option for many companies seeking to exploit the market. There is likely to be strong growth in imports from China, Nigeria's biggest supplier, including clothing and electronic products, over the forecast period. With Nigeria's young democracy becoming more settled, interest in investing in the country has been relatively high. However, so far only a limited number of companies, mainly established multinationals, have made substantial commitments of capital (although investment by South African companies is gradually increasing, especially in the telecommunications and retail sectors).

As with many developing countries, much economic activity takes place in the informal sector. Some of this is simply trade in imports of second-hand consumer goods from the US, the EU and Japan, covering a wide range of products, from clothing to refrigerators, cars and tyres, which are on sale in many of the markets in Nigeria.

Consumer expenditure

	2009	2010	2011	2012	2013	2014
US$ m						
Food, beverages & tobacco	90,154	98,481	102,959	119,273	131,453	142,327
Housing & household fuels	27,587	30,899	33,119	39,154	44,095	48,687
Clothing & footwear	3,730	3,994	4,102	4,686	5,064	5,368
Household goods & services	4,848	5,267	5,485	6,329	6,929	7,442
Health	2,312	2,637	2,869	3,145	3,443	3,691
Transport & communications	7,888	9,071	9,916	12,089	13,991	15,830
Leisure & education	1,704	1,911	2,047	2,431	2,744	3,033
Hotels & restaurants	2,048	2,309	2,480	2,970	3,370	3,742
Other	503	573	621	751	859	962
Total	**140,774**	**155,143**	**163,598**	**190,829**	**211,948**	**231,082**
% of total						
Food, beverages & tobacco	64.0	63.5	62.9	62.5	62.0	61.6
Housing & household fuels	19.6	19.9	20.2	20.5	20.8	21.1
Clothing & footwear	2.6	2.6	2.5	2.5	2.4	2.3
Household goods & services	3.4	3.4	3.4	3.3	3.3	3.2
Health	1.6	1.7	1.8	1.6	1.6	1.6
Transport & communications	5.6	5.8	6.1	6.3	6.6	6.9
Leisure & education	1.2	1.2	1.3	1.3	1.3	1.3
Hotels & restaurants	1.5	1.5	1.5	1.6	1.6	1.6
Other	0.4	0.4	0.4	0.4	0.4	0.4

Given the country's low level of income, consumer expenditure is dominated by the purchase of foodstuffs. Food, beverages and tobacco account for over 60% of household expenditure. When spending on fuel, clothing and footwear is taken into account (and given that households also have emergency expenditure, for example on healthcare), little disposable income is left for expenditure on other consumer goods, leisure or eating out. One reason that spending on transport and communications is so high is the growth of the mobile-phone market in recent years. This has had knock-on effects for retailers in terms of a fall in expenditure on other consumer goods. These trends will broadly continue during 2010-14, although rising incomes will mean that spending on essentials as an overall share will decline slightly while that on leisure items increases. This will largely be driven by the burgeoning middle class rather than by the country's poor, who will remain in the vast majority.

Social indicators and living standards

	2009		2014	
	Nigeria	ME & A (av)[a]	Nigeria	ME & A (av)[a]
Health				
Healthcare spending (% of GDP)	2.6	6.2	2.6	6.2
Healthcare spending (US$ per head)	32	238	59	328
Infant mortality rate (per 1,000 live births)	94.3	59.8	87.3	54.6
Physicians (per 1,000 population)	–	–	–	–
Food and beverages				
Food, beverages & tobacco (% of household spending)	64.0	47.1	61.6	36.1
Meat consumption (kg per person)	8.9	24.4	10.3	27.2
Milk consumption (litres per person)	8.6	46.3	10.2	50.3
Coffee & tea consumption (kg per person)	0.1	0.7	0.1	0.8
Consumer goods in use (per 1,000 population)				
Passenger cars	16	–	15	–
Telephone main lines	9	69	10	61
Mobile phone subscribers	489	731	788	1000
Television sets	–	–	–	–
Personal computers	42	107	72	158
Households				
No. of households (m)	29.5	67.4	33.1	76.5
No. of people per household (av)	5.1	4.7	4.9	4.5
Stock of dwellings (per 1,000 population)	187	–	174	–
Income and income distribution				
Average monthly wage (US$)	40	–	–	–
Gini coefficient	43.7[b]	43.0[b]	–	–
Share of household income (%):				
lowest 20%	5.0[b]	5.7[b]	–	–
highest 20%	49.2[b]	50.4[b]	–	–
highest 10%	33.2[b]	34.3[b]	–	–
top 20%/bottom 20% ratio	9.7[b]	12.3[b]	–	–

[a] Middle East and Africa. [b] Latest available year.

Sources: UN Statistical Office; World Bank; UN Food and Agriculture Organisation (FAO); Euromonitor; World Health Organisation (WHO); national statistical offices; Pyramid Research; Economist Intelligence Unit estimates and forecasts.

Long-term outlook

The long-term outlook

	2011-20	2021-30	2011-30
Population and labour force (% change; annual av)			
Total population	1.81	1.53	1.67
Working-age population	2.24	2.06	2.15
Working-age minus total population	0.43	0.52	0.48
Labour force	3.59	2.37	2.97
Growth and productivity (% change; annual av)			
Growth of real GDP per head	3.1	3.2	3.1
Growth of real GDP	4.9	4.7	4.8
Labour productivity growth	1.1	2.3	1.7
Growth of capital stock	8.6	5.4	7.0
Total factor productivity growth	-0.6	1.3	0.4

Initial conditions: The economy is highly dependent on the energy sector, which is effectively an enclave economy with few links to the wider economy bar government revenue. Moreover, the government's ability to spend the revenue wisely is hugely constrained by the extremely weak civil service, high levels of corruption and the requirement that a large proportion of revenue be allocated to states, which are even less accountable than the federal government. Although there is more dynamism in certain parts of the non-oil private sector, such as banking or communications, a background of a very weak infrastructure and decades of underinvestment in healthcare and education means that the initial conditions for the country to enter sustainable and diversified growth are poor.

Demographic trends: Despite the poor initial conditions, one factor in Nigeria's favour is its large and young population. The HIV/AIDS infection rate is also relatively low at present. However, most indicators of the health of the population are low, reflecting decades of underinvestment in healthcare facilities, which will take years to turn around even if the commitment is found. An additional problem for the government is provision of education and training facilities for the rapidly growing population, as well as long-term employment opportunities. Although there will be some success in this respect, stemming from the extra revenue provided by high oil revenue and lower external debt, it is difficult to be optimistic about the outlook without a substantial improvement in economic governance and policy implementation.

The long-term external outlook remains favourable

External conditions: Coupled with high prices, rising oil and gas production means that, in general, Nigeria will enjoy a positive international environment. The rise in importance of Nigeria as a major oil exporter will mean that Western nations, led by the US (which will remain the largest market for oil exports), will retain an interest in political developments in the country and will try to address the issues of corruption and poverty, although the rise in Nigeria's oil and gas revenue will mean that any influence that they have will be limited. Without a real commitment by the domestic leadership, Western countries will promote largely cosmetic changes rather than more fundamental reforms.

Institutions and policy trends: The real challenge for successive governments is to manage the favourable economic environment brought about by the robust hydrocarbons sector through a sustained period of economic reform and to deliver a real improvement in governance. However, the omens are not positive. Nigeria remains one of the most corrupt and poorly governed countries in Sub-Saharan Africa, and these problems will not be resolved in anything less than a long-term timeframe. Although there has been a marked improvement in economic policy in recent years, the gap between rhetoric and implementation remains huge, and improvements will continue to be slow, given that the vast range of vested interests that benefit from the chaotic status quo remain opposed to change. In addition, policy formulation will continue to be hampered by the country's federal structure—even if a positive reform agenda is promoted at national level it is often not implemented or is openly contradicted at the state level.

The outlook is clouded by the lack of diversification

Long-term performance: Nigeria's long-term economic performance will remain broadly positive, driven by rising oil and gas production. Even with only a slow improvement in the policy framework, headline growth rates will remain robust. Although some non-oil sectors will perform well—agriculture has enormous potential and the country's banks will rebound following the recent turbulence, expanding both domestically and abroad—others, such as manufacturing, are likely to remain moribund after decades of under-investment. Income levels will remain low. Moreover, Nigeria's exports and government revenue will continue to be dominated by the hydrocarbons sector. Once the current wave of new developments in the offshore oil and gas sector has run its course, Nigeria will face difficult choices in terms of economic development, and it remains unclear whether fundamental policy decisions can be made and implemented to ensure that the country can enter a longer period of sustained and more diversified growth for the future.

Income and market size

	2010	2020	2030
Income and market size			
Population (m)	152.2	182.0	211.8
GDP (US$ bn at market exchange rates)	221	477	1,037
GDP per head (US$ at market exchange rates)	1,450	2,620	4,900
Private consumption (US$ bn)	155	264	870
Private consumption per head (US$)	1,020	1,450	4,110
GDP (US$ bn at PPP)	371	811	1,882
GDP per head (US$ at PPP)	2,430	4,460	8,880
Exports of goods & services (US$ bn)	77	112	155
Imports of goods & services (US$ bn)	50	89	306
Memorandum items			
GDP per head (at PPP; index, US=100)	5.1	5.8	6.6
Share of world population (%)	2.23	2.42	2.60
Share of world GDP (% at market exchange rates)	0.37	0.38	0.40
Share of world GDP (% at PPP)	0.50	0.57	0.65
Share of world exports of goods & services (%)	0.43	0.26	0.15

Methodology for long-term forecasts

The time horizon for the detailed forecasts and analysis in the Country Forecast report is a five-year period. The Main report now also carries a new section on the long-term outlook (which replaces the ten-year outlook), including projections of key macroeconomic and market size variables up to 2030. Depending on the indicator, average growth rates in a sub-period or values at select points in time are reported.

Many companies make strategic business decisions over timeframes in excess of five years. Our long-term projections will provide information to facilitate such decisions. Long-term forecasts and scenarios are also the key to understanding some of the big economic issues that will shape global business in the coming decades. The Economist Intelligence Unit is well placed to build on and extend the five-year forecasts to produce long-term projections and scenarios because of the existing forward-looking analysis and models in the Country Forecast (in particular, the business environment rankings model and the ICT industry forecasts). These are used to forecast some of the key drivers of long-run growth, as explained in detail below.

Growth projections

The main building blocks for the long-term forecasts of key market and macroeconomic variables are long-run real GDP growth projections. We have estimated growth regressions (based on cross-section, panel data for 86 countries for the 1970-2000 period) that link real growth in GDP per head to a large set of growth determinants. The sample is split into three decades: 1971-80, 1981-90 and 1991-2000. This gives a maximum of 258 observations (86 countries for each decade); given missing values for some countries and variables, the actual number of observations is 246. The estimation of the pooled, cross-section, panel data is conducted on the basis of a statistical technique called Seemingly Unrelated Regressions.

The determinants of growth consist of the scope for convergence (based on initial GDP per worker at the start of a period); demographic variables; a set of policy variables (measuring the fiscal stance, openness to trade, and the government regulatory burden in product, credit and labour markets); a measure of institutional quality; geography (climate, location and the degree of primary export orientation); education levels and labour quality (as measured by mean years of schooling and life expectancy); the external economic environment (changes in the terms of trade); the level of development of information and communications technology (ICT); and historical legacies (history of independent statehood).

The regressions, which have high explanatory power for growth, allow us to forecast the long-term growth of real GDP per head for sub-periods up to 2030, on the basis of demographic projections and assumptions about the evolution of policy variables and other drivers of long-term growth.

Definitions of variables

The **dependent variable** is **GDPG**: Average annual growth in real GDP per head, in the 1970s, 1980s and 1990s, measured at national constant prices.

The **independent variables** include:

LnGDPPL: The natural logarithm of GDP (adjusted for purchasing power parity—PPP) per worker (that is, per population aged 15-65) in constant 1980 US dollars at the start of each decade. Expressed as an index, US=1.

LnSCHOOL: The natural logarithm of the mean years of schooling of the population aged over 15 at the start of each decade. Missing values for some countries are filled in by estimating mean years of schooling on the basis of an equation relating mean years of schooling (where available) to gross primary school enrolment ten years previously, and to secondary and tertiary enrolment ratios five years previously.

LnLIFEEXP: The natural logarithm of life expectancy at birth at the start of each decade. This variable also enters the equation in squared form, reflecting diminishing returns to growth of increases in life expectancy at high levels.

OPEN: Updated Sachs-Warner index of openness—the fraction of years during each decade in which a country is rated as an open economy according to the following four criteria: (1) average tariff rates below 40%; (2) average quota and licensing coverage of imports of less than 40%; (3) a black-market exchange-rate premium that averaged less than 20%; and (4) no extreme controls (taxes, quotas, state monopolies) on exports.

INST: Index of institutional quality (on a scale of 1-10) that is an average of five sub-indices of measures of the rule of law, quality of the bureaucracy, corruption, the risk of expropriation and the risk of government repudiation of contracts. Forecast values are based on corresponding indicators from our business environment rankings.

LABPOP: The difference between the growth rate of the working-age population (aged 15-65) and the growth rate of the total population in each decade in the 1970-2000 period.

TOT: The average annual rate of change of the terms of trade in a given decade.
GOVSAV: The average government savings ratio in each decade (current government revenue minus current government expenditure) expressed as a share of GDP.
TRADESH: The average share of trade (exports and imports of goods and services) in GDP, lagged by one decade to deal with the endogeneity of growth and trade.
GOVREG: An index on a scale of 1-10 of regulation of product, credit and labour markets. For forecast periods, the composite index is based on seven indicators from three categories of our business environment rankings model—from Policy towards private enterprise (ease of setting up new businesses, freedom to compete, price controls); from Financing (openness of the banking system, financial market distortions) and from Labour markets (restrictiveness of labour laws, wage regulation).
LnICT: The natural logarithm of an index, on a scale of 1-10, of the development of information and communications infrastructure. ICT development is found to influence growth significantly only from the 1990s, with little or no impact in previous decades. For 1990 the index is measured simply on the basis of fixed telephone lines per 1,000 population. From 2000 a more sophisticated measure is constructed, reflecting the very rapid development of ICT. The composite ICT index is based on ten indicators. Six indicators are quantitative and rely on our forecasts of fixed-line telephone penetration (lines per 100 population); mobile telephone penetration (subscribers per 100 population); the stock of personal computers (PCs per 100 population); Internet users (per 100 population); the number of Internet servers (per million population); and broadband penetration (per 1,000 population). In addition, there are four qualitative indicators from our "e-readiness" model. These include the quality of Internet connections, the development of e-business, the development of online commerce and the exposure of the population to the Internet ("Internet literacy"). Each of the ten indicators is transformed into an index scaled 1-10. The composite ICT infrastructure/use index, on a 1-10 scale, is an average of the ten component indices.
Control variables include **PRIMARY:** Share of the exports of primary products in GDP at the start of a decade; **TROPIC:** Percentage of the land area within a country that has a tropical climate; **COLONY:** History of independent statehood—a dummy variable taking the value of 1 if a country was a colony before 1945; and, in some specifications, regional dummy variables.

Summary of findings

As in other studies, income per head and human capital are found to be important determinants of growth, with the coefficient on the logarithm of GDP per worker suggesting a relatively modest pace of convergence. The measures of institutional quality and of government regulation enter significantly in all specifications. We found a strong positive impact on growth of government savings and openness in all specifications. The criteria for classifying countries as open are quite permissive. The crucial aspect of trade policy captured by the measure is that it is a high level of distortion, rather than modest levels, that is deleterious for growth. The trade share variable is also moderately significant. The openness index (which is more of a true measure of policy) is hardly affected by the inclusion of trade/GDP shares in the equation. The correlation of the two measures is only .26. Although a tropical climate is highly significant, as is the share of primary exports in GDP, other geographic indicators—such as access to the sea, distance from major growth centres and the proportion of the population residing near coastlines—were not significant. A colonial past (pre-1945) is found to have a significant negative impact on growth, even in the 1970-2000 period.

Productivity growth

The forecasts of GDP growth, of capital stock growth (based on estimated investment shares and assumed depreciation rates) and of growth in labour supply (based on projections of working-age population and assumptions on labour force participation) yield labour productivity growth and total factor productivity growth forecasts. The latter utilise the growth accounting identity, GY=b*GK+c*GL+A, where GY is growth of real GDP, GK growth of the capital stock and GL growth of human capital (the labour force adjusted for changes in skills). "A" stands for growth in total factor productivity; "b" and "c" are the shares of capital and labour in income.
Trade values are forecast on the basis of simple import (function of GDP and relative prices) and export functions. Forecast market exchange rates (that is, the differential between PPP and market exchange rates) depend on the differential in labour productivity growth between a country and the US.

Data summary

Global outlook

	2005[a]	2006[a]	2007[a]	2008[a]	2009[b]	2010[c]	2011[c]	2012[c]	2013[c]	2014[c]
International assumptions (%)										
World GDP growth	3.6	4.0	3.9	1.7	-2.2	3.2	2.5	2.8	3.0	3.1
EU27 GDP growth	2.0	3.2	2.8	0.9	-4.2	0.8	1.0	1.6	1.8	1.9
Sub-Saharan Africa growth	6.8	6.7	7.0	4.8	0.5	4.4	4.5	5.5	5.0	5.0
World trade growth	7.5	9.1	7.6	3.7	-11.2	6.8	5.3	6.3	6.4	6.3
US CPI	3.4	3.2	2.9	3.8	-0.3[a]	1.7	1.3	1.9	2.5	2.8
EU27 CPI	2.0	2.1	2.3	3.4	0.7	1.6	1.8	2.0	2.0	2.1
Manufactures export prices	3.6	3.7	8.7	8.5	-3.3	0.4	-1.4	1.6	2.4	2.9
Oil price (Brent; US$/b)	54.4	65.4	72.7	97.7	61.9[a]	80.2	78.5	82.3	78.3	75.5
€ 3-month rate	2.2	3.1	4.3	4.6	1.2[a]	0.7	0.9	1.5	2.8	3.5
US$:€ (av)	1.25	1.26	1.37	1.47	1.39[a]	1.25	1.19	1.18	1.18	1.21
¥:€ (av)	137.13	145.93	161.19	151.94	130.53[a]	116.34	110.90	109.38	108.79	110.49

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Gross domestic product, current market prices

	2005[a]	2006[a]	2007[a]	2008[a]	2009[b]	2010[c]	2011[c]	2012[c]	2013[c]	2014[c]
Expenditure on GDP (N bn at current market prices)										
GDP[d]	14,735	18,710	20,874	25,425	27,399	33,618	38,978	45,000	51,702	61,065
Private consumption	11,075	11,835	16,136	17,167	20,961	23,582	26,176	29,579	33,276	37,435
Government consumption	1,003	1,283	1,642	1,400	1,683	2,077	2,529	2,985	3,532	4,153
Gross fixed investment	804	1,547	1,915	2,031	2,640	3,859	6,132	8,190	11,749	17,278
Exports of goods & services	4,665	8,066	7,091	9,800	8,120	11,631	13,187	14,858	16,020	17,884
Imports of goods & services	2,813	4,022	5,912	4,974	6,006	7,531	9,046	10,612	12,875	15,686
Domestic demand	12,884	14,666	19,695	20,599	25,285	29,518	34,837	40,754	48,557	58,867
Expenditure on GDP (US$ bn at current market prices)										
GDP	112.2	145.4	165.9	214.5	184.0	221.2	243.6	290.3	329.3	376.9
Private consumption	84.4	92.0	128.3	144.8	140.8	155.1	163.6	190.8	211.9	231.1
Government consumption	7.6	10.0	13.1	11.8	11.3	13.7	15.8	19.3	22.5	25.6
Gross fixed investment	6.1	12.0	15.2	17.1	17.7	25.4	38.3	52.8	74.8	106.7
Exports of goods & services	35.5	62.7	56.4	82.7	54.5	76.5	82.4	95.9	102.0	110.4
Imports of goods & services	21.4	31.3	47.0	42.0	40.3	49.5	56.5	68.5	82.0	96.8
Domestic demand	98.1	114.0	156.5	173.8	169.8	194.2	217.7	262.9	309.3	363.4
Economic structure (% of GDP at current market prices)										
Private consumption	75.2	63.3	77.3	67.5	76.5	70.1	67.2	65.7	64.4	61.3
Government consumption	6.8	6.9	7.9	5.5	6.1	6.2	6.5	6.6	6.8	6.8
Gross fixed investment	5.5	8.3	9.2	8.0	9.6	11.5	15.7	18.2	22.7	28.3
Exports of goods & services	31.7	43.1	34.0	38.5	29.6	34.6	33.8	33.0	31.0	29.3
Imports of goods & services	19.1	21.5	28.3	19.6	21.9	22.4	23.2	23.6	24.9	25.7
Memorandum item										
Oil production ('000 b/d)	2,416	2,228	2,166	1,944	1,825[a]	2,037	2,137	2,277	2,412	2,512

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] Components may not sum to total due to a statistical discrepancy.

Gross domestic product, at constant prices

	2005[a]	2006[a]	2007[a]	2008[a]	2009[b]	2010[c]	2011[c]	2012[c]	2013[c]	2014[c]
Real expenditure on GDP (N bn at constant 1987 market prices)										
GDP	562	596	634	672	717[d]	767	812	866	925	990
Private consumption	374	354	414	465	506	543	569	606	655	716
Government consumption	87	118	143	165	176	194	213	227	246	264
Gross fixed investment	92	63	89	84	89	96	103	113	127	142
Exports of goods & services	149	238	236	249	250	275	302	334	371	414
Imports of goods & services	151	168	234	228	242	274	308	351	407	465
Domestic demand	553	536	646	715	771	832	884	946	1,027	1,122
Real expenditure on GDP (% change)										
GDP	6.5	6.0	6.4	6.0	6.7[d]	7.0	5.8	6.7	6.8	7.0
Private consumption	-2.8	-5.2	16.7	12.5	8.7	7.3	4.8	6.4	8.2	9.3
Government consumption	10.5	35.8	21.4	15.4	7.0	10.0	9.5	7.0	8.0	7.5
Gross fixed investment	27.5	-31.3	40.5	-5.4	5.0	8.0	7.5	10.0	12.0	12.0
Exports of goods & services	12.4	60.2	-0.8	5.5	0.4	9.9	9.6	10.7	11.1	11.5
Imports of goods & services	33.6	10.8	39.5	-2.4	5.8	13.6	12.2	14.1	15.9	14.1
Domestic demand	3.2	-3.1	20.6	10.6	7.8	8.0	6.2	7.0	8.6	9.2
Real contribution to GDP growth (%)										
Private consumption	-2.1	-3.4	10.0	8.1	6.0	5.1	3.4	4.5	5.7	6.6
Government consumption	1.6	5.5	4.2	3.5	1.7	2.5	2.4	1.8	2.1	2.0
Gross fixed investment	3.8	-5.1	4.3	-0.8	0.6	1.0	0.9	1.3	1.6	1.6
External balance	-4.1	13.0	-11.4	2.9	-1.8	-1.1	-0.9	-1.4	-2.2	-1.6

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

Gross domestic product by sector of origin

	2005[a]	2006[a]	2007[a]	2008[a]	2009[b]	2010[c]	2011[c]	2012[c]	2013[c]	2014[c]
Origin of GDP (N bn at constant 1987 prices)										
GDP at factor cost	562	596	634	672	717	767	812	866	926	990
Agriculture	231	249	266	283	300	316	333	352	372	392
Industry	159	155	152	147	147	154	157	161	166	172
Services	171	192	216	243	270	298	322	353	387	426
Origin of GDP (real % change)										
Agriculture	7.1	7.4	7.2	6.3	5.9	5.2	5.5	5.8	5.6	5.5
Industry	1.7	-2.5	-2.2	-3.4	0.6	4.3	2.2	2.4	3.2	3.3
Services	10.6	12.1	12.5	12.2	11.1	10.5	8.0	9.8	9.7	10.0
Origin of GDP (% of factor cost GDP)										
Agriculture	32.8	32.0	32.6	32.7	32.5	31.9	31.8	31.5	31.2	30.7
Industry	43.5	41.9	39.3	35.8	33.8	33.0	31.8	30.6	29.5	17.3
Services	23.7	26.1	28.1	31.5	33.7	35.1	36.4	37.9	39.3	43.0
Memorandum item										
Industrial production (% change)	2.8	0.8[b]	-0.1[b]	-2.3[b]	0.6	4.3	3.2	2.4	3.2	3.8

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Growth and productivity

	2005[a]	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[b]	2012[b]	2013[b]	2014[b]
Growth and productivity (%)										
Labour productivity growth	3.9	3.4	3.9	3.4	4.1	4.4	3.2	4.1	4.2	4.4
Total factor productivity growth	14.9	18.9	20.0	19.3	20.9	22.1	22.3	23.6	24.3	25.3
Growth of capital stock	10.3	3.8	7.6	5.9	5.8	6.0	6.2	6.7	7.4	8.0
Growth of potential GDP	20.2	22.0	24.5	22.8	24.4	25.6	25.8	27.3	28.1	29.1
Growth of real GDP	6.5[c]	6.0[c]	6.4[c]	6.0[c]	6.7[d]	7.0	5.8	6.7	6.8	7.0
Growth of real GDP per head	4.3	3.8	4.3	3.9	4.5	4.9	3.8	4.7	4.9	5.3

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

Economic structure, income and market size

	2005[a]	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[b]	2012[b]	2013[b]	2014[b]
Population, income and market size										
Population (m)	137.5	140.4	143.3	146.3	149.3	152.2	155.2	158.1	161.1	163.8
GDP (US$ bn at market exchange rates)	112[c]	145[c]	166[c]	214[c]	184	221	244	290	329	377
GDP per head (US$ at market exchange rates)	816	1,036	1,158	1,466	1,233	1,453	1,570	1,836	2,044	2,301
Private consumption (US$ bn)	84[c]	92[c]	128[c]	145[c]	141	155	164	191	212	231
Private consumption per head (US$)	614	655	895	990	943	1,019	1,054	1,207	1,316	1,411
GDP (US$ bn at PPP)	245	268	293	317	343	371	397	431	472	518
GDP per head (US$ at PPP)	1,780	1,910	2,050	2,170	2,300	2,430	2,560	2,730	2,930	3,160
Growth of real disposable income (%)	-19.7	-8.8	0.2	12.2	14.6	2.3	2.4	-1.3	4.5	6.4
Memorandum item										
Share of world exports of goods (%)	0.52[c]	0.46[c]	0.46[c]	0.51[c]	0.47[c]	0.54	0.52	0.53	0.50	0.46

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.

Fiscal indicators

	2005[a]	2006[a]	2007[a]	2008[a]	2009[b]	2010[c]	2011[c]	2012[c]	2013[c]	2014[c]
Fiscal indicators (% of GDP)										
Government expenditure	13.0	8.9	11.2	10.3	11.9	13.3	12.0	10.7	10.4	9.9
Government revenue	11.9	13.0	11.0	11.8	7.4	8.2	7.5	7.6	7.6	7.3
Budget balance	-1.1	4.0	-0.2	1.5	-4.4	-5.1	-4.5	-3.1	-2.9	-2.6
Government debt	28.0[b]	11.9[b]	12.4[b]	8.6[b]	12.3	15.1	17.4	18.1	18.6	18.3

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Monetary indicators

	2005[a]	2006[a]	2007[a]	2008[a]	2009[b]	2010[c]	2011[c]	2012[c]	2013[c]	2014[c]
Monetary indicators										
Exchange rate N:US$ (av)	131.3	128.7	125.8	118.5	148.9	152.0	160.0	155.0	157.0	162.0
Exchange rate N:US$ (year-end)	129.0	128.3	118.0	132.6	149.6	156.0	157.5	156.0	159.5	164.5
Exchange rate N:€ (av)	163.54	161.54	172.19	174.26	207.33	189.73	190.80	183.29	185.65	195.62
Exchange rate N:€ (year-end)	152.17	169.28	172.27	184.28	214.38	185.64	187.43	184.08	190.60	199.50
Real effective exchange rate, CPI-based (av)	136.27	145.96	145.88	161.67	148.49	164.45	173.09	192.98	202.50	206.23
Purchasing power parity N:US$ (av)	60.23	69.85	71.17	80.09	79.97	90.72	98.12	104.44	109.62	117.87
Money supply (M2) growth (%)	22.6	36.4	64.2	52.6	14.8	28.1	22.1	19.9	25.2	27.7
Domestic credit growth (%)	-7.2	-27.5	358.1	55.9	45.3	25.4	22.1	19.3	19.4	22.9
Commercial banks' prime rate (av; %)	17.9	16.9	16.9	15.5	18.4	17.8	15.0	12.0	13.0	13.0
Deposit rate (av; %)	10.5	9.7	10.3	12.0	13.3	12.0	11.0	11.5	12.0	12.0
Money-market rate (av; %)	7.6	10.0	6.9	8.2	3.8	6.0	7.7	7.5	8.0	9.0

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Employment, wages and prices

	2005[a]	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[b]	2012[b]	2013[b]	2014[b]
The labour market (av)										
Labour force (m)	43.0	44.1	45.3	46.3	47.3	48.3	49.3	50.3	51.3	52.1
Labour force (% change)	2.7	2.6	2.7	2.2	2.2	2.1	2.1	2.0	2.0	1.6
Wage and price inflation (%)										
Consumer prices (av)	17.9[c]	8.2[c]	5.4[c]	11.6[c]	12.4[c]	12.2	11.2	10.3	9.6	9.4
Consumer prices (year-end)	11.6[c]	8.6[c]	6.6[c]	15.1[c]	11.9[c]	12.3	10.7	9.9	9.5	9.2
GDP deflator (av)	18.5[c]	19.8[c]	4.8[c]	14.9[c]	1.0	14.7	9.6	8.2	7.6	10.3
Private consumption deflator (av)	32.0[c]	12.7	16.8	-5.4	12.4	4.9	5.9	6.2	4.0	2.9
Government consumption deflator (av)	15.6[c]	-5.8[c]	5.4[c]	-26.1[c]	12.4	12.2	11.2	10.3	9.6	9.4
Fixed investment deflator (av)	-26.9[c]	179.7	-11.9	12.0	23.8	35.4	47.8	21.4	28.1	31.3
Average nominal wages	20.2	10.4	7.5	13.8	14.6	10.0	8.5	10.5	10.0	10.0
Average real wages	2.0	2.0	2.0	2.0	2.0	-1.9	-2.4	0.2	0.4	0.6
Unit labour costs (N-based; av)	20.2	10.4	7.5	13.8	14.6	10.0	8.5	10.5	10.0	10.0
Unit labour costs (US$-based)	21.7	12.7	9.9	20.8	-8.8	7.8	3.1	14.1	8.6	6.6

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.

Current account and terms of trade

	2005[a]	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[b]	2012[b]	2013[b]	2014[b]
Current account (US$ bn)										
Current-account balance	37.3	33.9	30.8	31.6	22.9	29.8	28.5	34.1	32.9	31.4
Current-account balance (% of GDP)	33.2	23.3	18.6	14.7	12.4[c]	13.5	11.7	11.8	10.0	8.3
Goods: exports fob	55.2	56.9	66.0	83.6	59.3	78.0	81.0	89.3	90.8	91.8
Goods: imports fob	-26.0	-22.0	-28.3	-36.9	-29.0	-34.8	-39.3	-44.2	-48.6	-53.2
Trade balance	29.2	34.9	37.7	46.7	30.3	43.2	41.7	45.2	42.2	38.6
Services: credit	1.8	2.2	1.4	2.3	2.2	2.4	2.3	2.6	2.8	3.0
Services: debit	-6.6	-11.6	-14.5	-23.8	-17.6	-20.3	-21.4	-23.5	-25.6	-27.6
Services balance	-4.8	-9.4	-13.0	-21.5	-15.3	-18.0	-19.0	-21.0	-22.8	-24.6
Income: credit	0.9	1.9	2.6	2.4	1.0	0.9	1.1	1.7	2.5	3.0
Income: debit	-3.1	-10.4	-14.3	-14.7	-11.1	-13.5	-14.1	-14.4	-14.6	-14.9
Income balance	-2.3	-8.6	-11.8	-12.4	-10.0	-12.6	-13.1	-12.7	-12.1	-11.9
Current transfers: credit	15.3	17.1	18.0	19.3	18.4	17.7	19.5	23.3	26.4	30.2
Current transfers: debit	-0.1	-0.2	-0.2	-0.5	-0.5	-0.6	-0.6	-0.7	-0.8	-0.9
Current transfers balance	15.2	16.9	17.9	18.7	18.0	17.2	18.9	22.6	25.6	29.3
Terms of trade										
Export price index (US$-based; 2005=100)	100.0[c]	119.5[c]	132.6[c]	176.9[c]	114.1[c]	146.6	143.6	150.3	143.4	138.7
Export prices (% change)	41.1[c]	19.5[c]	11.0[c]	33.4[c]	-35.5[c]	28.4	-2.0	4.7	-4.6	-3.3
Import price index (US$-based; 2005=100)	100.0[c]	131.7[c]	141.9[c]	172.5[c]	158.2[c]	169.0	167.9	171.8	173.8	177.8
Import prices (% change)	-0.2[c]	31.7[c]	7.8[c]	21.6[c]	-8.3[c]	6.9	-0.7	2.3	1.2	2.3
Terms of trade (2005=100)	100.0[c]	90.7[c]	93.5[c]	102.5[c]	72.1[c]	86.7	85.5	87.5	82.5	78.0
Memorandum item										
Export market growth (%)	12.8[c]	9.4[c]	7.7[c]	0.7[c]	-13.6[c]	7.9	5.6	6.8	7.0	7.0

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimate.

Foreign direct investment

	2005[a]	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[b]	2012[b]	2013[b]	2014[b]
Foreign direct investment (US$ bn)										
Inward direct investment	4.98	4.85	6.04	4.88	5.79	6.00	6.50	8.00	7.50	7.25
Inward direct investment (% of GDP)	4.4	3.3	3.6	2.3	3.1	2.7	2.7	2.8	2.3	1.9
Inward direct investment (% of gross fixed investment)	81.3	40.4	39.6	28.5	32.6	23.6	17.0	15.1	10.0	6.8
Outward direct investment	0.0	0.0	-0.5	-0.4	-0.1	-0.3	-0.3	-0.4	-0.4	-0.5
Net foreign direct investment	5.0	4.8	5.6	4.5	5.6	5.8	6.3	7.6	7.1	6.8
Stock of foreign direct investment	35.7	40.6	46.6	51.5	57.3	63.3	69.8	77.8	85.3	92.5
Stock of foreign direct investment per head (US$)	259.7	288.9	325.2	352.0	383.7	415.7	449.7	491.8	529.3	564.8
Stock of foreign direct investment (% of GDP)	31.8	27.9	28.1	24.0	31.1	28.6	28.6	26.8	25.9	24.5
Memorandum items										
Share of world inward direct investment flows (%)	0.53	0.39	0.31	0.32	0.65	0.55	0.54	0.59	0.49	0.47
Share of world inward direct investment stock (%)	0.37[c]	0.35[c]	0.32[c]	0.36[c]	0.37[c]	0.38	0.39	0.41	0.41	0.42

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimate.

External debt

	2005[a]	2006[a]	2007[a]	2008[a]	2009[b]	2010[c]	2011[c]	2012[c]	2013[c]	2014[c]
External debt										
Total external debt (US$ bn)	22.0	7.6	8.7	11.2	10.1	11.2	11.4	12.3	13.0	13.9
Total external debt (% of GDP)	19.6	5.2	5.2	5.2	5.5	5.1	4.7	4.2	4.0	3.7
Debt/exports ratio (%)	36.0	11.5	11.0	11.4	12.8	11.5	11.2	10.8	10.9	11.1
Debt-service ratio, paid (%)	14.5[b]	10.3[b]	1.5[b]	0.6[b]	0.7	0.6	0.7	0.7	0.8	0.9

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Data sources and definitions

The sources for global and domestic data refer to historic data; the source for all forecast data, unless otherwise stated, is the Economist Intelligence Unit

Global data

US and OECD GDP growth: OECD
World trade growth: Economist Intelligence Unit aggregate
US and OECD consumer price inflation: OECD
Oil prices: IEA average import price
Non-oil commodity prices: *IFS*
Manufactures prices: UN, *Monthly Bulletin of Statistics*
US$ 3-month commercial paper rate: *IFS*
€ 3-month interbank rate: *IFS*

Domestic data

Population: US Census Bureau and NPC
Population location: NPC
Trade by country: IMF, *Direction of Trade Statistics*
Balance of payments: *IFS* and CBN, *Annual Report* and *Statement of Accounts*
Inflation: *IFS*, CBN and Federal Office of Statistics
Exchange rate: *IFS*; principal rate expressed as naira:US dollar
Interest rate: *IFS*; year-end lending rate
GDP growth and expenditure breakdown: World Bank, *World Tables*; 1987 prices
US$ GDP: *IFS*; in current prices converted from local currency at annual average market exchange rate
GDP per head: US dollar GDP divided by population
Oil production: IEA; m barrels/day
Oil price: Economist Intelligence Unit; dated Brent Blend
FDI: *IFS*, UNCTAD, *World Investment Report* and CBN
Total external debt: sum of long- and short-term debt and IMF credits
Long-term external debt: World Bank, *Global Development Finance*; year-end medium- and long-term publicly guaranteed and non-guaranteed debt outstanding, with an original maturity of more than one year
Short-term external debt: World Bank, *Global Development Finance*; year-end debt outstanding, with an original maturity of less than one year
IMF credits: *IFS* and country page on website
Total debt service: World Bank, *Global Development Finance*; principal repayments made against long-term debt, plus interest payments and IMF charges on total external debt
Debt-service ratio: ratio of total debt service paid to exports of goods and services
Interest-payments ratio: ratio of total interest paid on external debt to exports of goods and services

Abbreviations

CBN: Central Bank of Nigeria
IEA: International Energy Agency
IFS: *International Financial Statistics*
IMF: International Monetary Fund
NPC: National Population Commission
OECD: Organisation for Economic Co-operation and Development
UNCTAD: UN Conference on Trade and Development

Guide to the business rankings model

Outline of the model

The business rankings model measures the quality or attractiveness of the business environment in the 82 countries covered by *Country Forecasts* using a standard analytical framework. It is designed to reflect the main criteria used by companies to formulate their global business strategies, and is based not only on historical conditions but also on expectations about conditions prevailing over the next five years. This allows the Economist Intelligence Unit to utilise the regularity, depth and detail of its forecasting work to generate a unique set of forward-looking business environment rankings on a regional and global basis.

The business rankings model examines ten separate criteria or categories, covering the political environment, the macroeconomic environment, market opportunities, policy towards free enterprise and competition, policy towards foreign investment, foreign trade and exchange controls, taxes, financing, the labour market and infrastructure. Each category contains a number of indicators that are assessed by the Economist Intelligence Unit for the last five years and the next five years. The number of indicators in each category varies from five (foreign trade and exchange regimes) to 16 (infrastructure), and there are 91 indicators in total.

Almost half of the indicators are based on quantitative data (eg, GDP growth), and are mostly drawn from national and international statistical sources for the historical period (2005-09) and from Economist Intelligence Unit assessments for the forecast period (2010-14). The other indicators are qualitative in nature (eg, quality of the financial regulatory system), and are drawn from a range of data sources and business surveys adjusted by the Economist Intelligence Unit, for 2005-09. All forecasts for the qualitative indicators covering 2010-14 are based on Economist Intelligence Unit assessments.

The main sources used in the business rankings model include CIA, *World Factbook*; Economist Intelligence Unit, *Country Risk Service*, *Country Finance*, *Country Commerce*; Freedom House, *Annual Survey of Political Rights and Civil Liberties*; Heritage Foundation, *Index of Economic Freedom*; IMF, *Annual Report on Foreign Exchange Restrictions*; International Institute for Management Development, *World Competitiveness Yearbook*; International Labour Organisation, *International Labour Statistics Yearbook*; UN, *Human Development Report*; US Social Security Administration, *Social Security Programs Throughout the World*; World Bank, *World Development Report*; *World Development Indicators*; World Economic Forum, *Global Competitiveness Report*.

Calculating the rankings

The rankings are calculated in several stages. First, each of the 91 indicators is scored on a scale from 1 (very bad for business) to 5 (very good for business). The aggregate category scores are derived on the basis of simple or weighted averages of the indicator scores within a given category. These are then adjusted, on the basis of a linear transformation, to produce index values on a 1-10 scale. An arithmetic average of the ten category index values is then calculated to yield the aggregate business environment score for each country, again on a 1-10 scale.

The use of equal weights for the categories to derive the overall score reflects in part the theoretical uncertainty about the relative importance of the primary determinants of investment. Surveys of foreign direct investors' intentions yield widely differing results on the relative importance of different factors. Weighted scores for individual categories based on correlation coefficients of recent foreign direct investment inflows do not in any case produce overall results that are significantly different to those derived from a system based on equal weights.

For most quantitative indicators the data are arrayed in ascending or descending order and split into five bands (quintiles). The countries falling in the first quintile are assigned scores of 5, those falling in the second quintile score 4 and so on. The cut-off points between bands are based on the average of the raw indicator values for the top and bottom countries in adjacent quintiles. The 2005-09 ranges are then used to derive 2010-14 scores. This allows for intertemporal as well as cross-country comparisons of the indicator and category scores.

Measurement and grading issues

The indices and rankings attempt to measure the average quality of the business environment over the entire historical or forecast period, not simply at the start or at the end of the period. Thus in the forecast we assign an average grade to elements of the business environment over 2010-14, not to the likely situation in 2014 only.

The scores based on quantitative data are usually calculated on the basis of the numeric average for an indicator over the period. In some cases, the "average" is represented, as an approximation, by the recorded value at the mid-point of the period (2007 or 2012). In only a few cases is the relevant variable appropriately measured by the value at the start of the period (eg, educational attainments). For one indicator (the natural resources endowment), the score remains constant for both the historical and forecast periods.

Indicator scores in the business rankings model

	2005-09 Nigeria	2005-09 Regional average[a]	2010-14 Nigeria	2010-14 Regional average[a]
Political environment				
1. Risk of armed conflict	2	3.2	3	3.4
2. Risk of social unrest	1	2.8	1	2.8
3. Constitutional mechanisms for the orderly transfer of power	2	2.2	2	2.4
4. Government and opposition	3	3.2	3	3.3
5. Threat of politically motivated violence	3	2.6	2	2.9
6. International disputes or tensions	3	2.7	3	2.8
7. Government policy towards business	2	3.1	3	3.2
8. Effectiveness of political system in policy formulation and execution	2	2.7	2	2.8
9. Quality of the bureaucracy	1	2.2	1	2.2
10. Transparency and fairness of legal system	1	1.8	1	2.2
11. Efficiency of legal system	2	2.5	2	2.5
12. Corruption	1	2.4	1	2.5
13. Impact of crime	2	3.3	2	3.5
Macroeconomic environment				
1. Inflation*	3	3.8	3	4.0
2. Budget balance as % of GDP*	5	4.1	4	3.9
3. Government debt as % of GDP*	5	4.2	5	4.5
4. Exchange-rate volatility*	4	4.6	5	4.6
5. Current-account balance as % of GDP*	5	4.2	5	4.1
6. Quality of policymaking	2	2.8	3	2.9
7. Institutional underpinnings	3	3.0	3	2.9
8. Asset prices	3	3.2	3	2.8
Market opportunities				
1. GDP, US$ bn at PPP*	3	2.6	4	2.8
2. GDP per head, US$ at PPP*	1	2.8	1	2.9
3. Real GDP growth*	5	4.2	5	3.8
4. Share of world merchandise trade*	2	2.1	2	2.1
5. Average annual rate of growth of exports*	3	2.5	4	2.6
6. Average annual rate of growth of imports*	5	3.5	5	3.3
7. The natural resource endowment*	5	3.9	5	3.9
8. Profitability*	5	4.4	5	3.8
9. Regional integration	2	2.8	2	2.9
10. Proximity to markets	2	2.4	2	2.2
Policy towards private enterprise and competition				
1. Degree to which private property rights are protected	2	3.0	3	3.3
2. Government regulation on setting up new private businesses	2	2.8	2	2.9
3. Freedom of existing businesses to compete	1	2.5	2	2.7
4. Promotion of competition	1	2.2	2	2.5
5. Protection of intellectual property	2	2.4	1	2.4
6. Price controls	2	2.9	2	3.1
7. Distortions arising from lobbying by special interest groups	2	2.4	2	2.4
8. Distortions arising from state ownership/control	2	2.4	2	2.5
9. Minority shareholders	2	2.7	2	2.9
Policy towards foreign investment				
1. Government policy towards foreign capital	3	3.0	3	3.4
2. Openness of national culture to foreign influences	3	3.2	3	3.3
3. Risk of expropriation of foreign assets	3	3.5	2	3.5
4. Availability of investment protection schemes	2	3.1	2	3.1
5. Government favouritism	3	2.9	3	2.7

Foreign trade and exchange controls				
1. Capital-account liberalisation	3	3.2	3	3.4
2. Tariff and non-tariff protection**	2	2.9	2	3.4
3. Ease of trading	2	2.9	2	3.1
4. Openness of trade*	2	3.4	4	3.4
5. Restrictions on the current account	2	3.5	3	3.9
Taxes				
1. The corporate tax burden**	3	3.4	3	3.9
2. The top marginal personal income tax*	4	3.9	4	4.0
3. Value-added tax*	4	4.2	4	4.1
4. Employers' social security contributions	4	3.7	4	3.9
5. Degree to which fiscal regime encourages new investment	2	2.5	2	2.9
6. Consistency and fairness of the tax system	2	2.5	2	2.6
7. Tax complexity	2	3.2	2	3.4
Financing				
1 Health and soundness of banking sector	3	2.9	2	3.2
2. Stockmarket capitalisation	2	3.2	2	3.2
3. Distortions in financial markets**	3	3.2	3	3.2
4. Quality of the financial regulatory system	2	2.4	2	2.9
5. Access of foreigners to local capital market	3	2.6	3	2.8
6. Access to medium-term finance for investment	3	2.8	3	2.6
The labour market				
1. Labour costs adjusted for productivity*	4	3.8	4	3.9
2. Availability of skilled labour*	1	2.3	1	2.6
3. Quality of workforce	2	2.5	2	2.8
4. Quality of local managers	2	2.6	2	2.7
5. Language skills	3	3.0	4	3.2
6. Health of the workforce	1	2.9	1	3.2
7. Level of technical skills	2	2.9	2	2.9
8. Cost of living*	1	3.1	2	2.8
9. Incidence of strikes**	3	3.5	3	3.5
10. Restrictiveness of labour laws	3	2.9	3	2.9
11. Extent of wage regulation	4	2.8	4	2.9
12. Hiring of foreign nationals	3	2.9	3	3.0
Infrastructure				
1. Telephone density*	1	2.6	2	2.9
2. Reliability of telecoms network**	0	3.0	2	3.4
3. Telecoms costs*	1	2.9	2	3.4
4. Mobiles*	2	3.5	3	4.3
5. Stock of personal computers*	2	3.1	3	3.4
6. Internet use*	2	2.9	3	3.6
7. Broadband penetration*	1	2.9	1	3.6
8. R&D expenditure as % of GDP*	1	2.2	1	2.5
9. Research infrastructure	2	2.4	2	2.5
10. The infrastructure for retail and wholesale distribution**	1	2.5	1	3.0
11. Extent and quality of the road network**	2	2.8	2	3.1
12. Extent and quality of the rail network**	1	2.1	1	2.2
13. Quality of ports infrastructure	1	3.2	2	3.5
14. Air transport	2	3.3	2	3.5
15. Production of electricity per head*	1	3.0	1	3.1
16. Rents of office space*	1	2.5	1	2.5

Note. A single asterisk (*) denotes scores based on quantitative indicators. Indicators with a double asterisk (**) are partly based on data. All other indicators are qualitative in nature.

[a] Out of 17 countries: Algeria, Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Libya, Morocco, Qatar, Saudi Arabia, Tunisia, UAE, Angola, Kenya, Nigeria and South Africa.

