

Nigeria: Economic woes to dominate Buhari's campaign promises

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President Muhammadu Buhari and the new APC-led government face some immediate challenges. These include: a widening budget deficit, major debt expiry, oil-sector problems and a yet unremitting militant force in the north of the country. The new administration will in the weeks and months ahead need to shift the country's focus from unfortunate legacy problems to the implementation of effective policies to counter the lagged effects of last year's macroeconomic shocks. In this note we revisit the APC's election commitments, highlight recent policy statements and provide an assessment of likely policy difficulties in 2015.

- **Difficulties in delivering on campaign promises.** The APC-led administration is unlikely to achieve many of its major campaign objectives in the near term, in our view, as it grapples with the fallout of macro shocks. On our assessment, the probability of the new administration delivering on its campaign promises during 2015 (see Exhibit 1) is:
 - Low for 6 of 10 major policy priorities – economic growth, job creation, socioeconomic development, public finances, food security and economic infrastructure.
 - High for 3 of 10 – security, corruption and governance.
 - Even for 1 of 10 – democratization.
- **No easy way out of unfortunate legacy.** Constrained fiscal space during the rest of 2015 will mean the new administration will continue to roll over the debt load to finance expenditure (see Exhibits 5-6), in our view. Fuel subsidization is politically sensitive and unlikely to be terminated (for now). The freeze in public-sector hiring and capex spending may endure. Furthermore, we think non-oil revenue is unlikely to rise in the short term due to a generalized weakening of economic conditions (see Exhibit 2).
- **Procyclical policy could deepen the macro shock.** Lackluster economic activity may have spilled over to 2Q from 1Q 2015, on fuel supply shortages (induced by the recent non-payment of fuel subsidies by government to oil marketers), an expected slowdown in the pace of federal spending (see Exhibit 3) and power supply constraints (see Exhibit 4).
- **Still, recent comments from the vice president seem promising:** Professor Osinbajo has clearly identified that the immediate priority will be economic stabilization, which will for the near term supersede long-term goals (see Exhibit 1). This should be well-received by the ratings agencies and financial markets, in our view. Moody's and S&P continue to have a stable medium-term outlook for sovereign debt (see Exhibit 7). The bond market has rallied since the 29 May election, according to data from Bloomberg. The naira has been broadly stable. All of these reflect the passing of major event risks, except for the imminent maturity of a large portion of domestic government debt.
- **Macro stabilization only likely to emerge in 2016.** The new administration should find some policy space in 2016 to begin to resolve major structural issues, in our view. A more positive macro outlook for 2016 may also relay into a relatively stronger naira, and less pressure on the central bank.

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS.

Exhibit 1: The likelihood of the APC-led government fulfilling campaign promises in 2015

No	Policy area	The APC's campaign promise ¹	Recent statements by APC leaders	CS assessment: likelihood of the APC-led government delivering on campaign promises in 2015?	CS assessment of outgoing administration ²
1	Economic growth	APC target: "achieving a real GDP growth averaging 10% annually."	The APC said that its top priorities included economic growth, fighting corruption and capacity building, at a public policy dialogue it hosted on 20 May in Abuja (according to All Africa Global Media). However, incoming Vice President Yemi Osinbajo reportedly told the public that the party's first step would be to pursue economic stabilization, and further said that economic conditions were weaker than ever.	Low Very little detail has been shed on how the APC plans to achieve the growth target set out during the election campaign period. Under weaker economic conditions we think the 10% real growth target that was set out during the political campaign will be missed in 2015. Our 2015 real GDP growth forecast is 4.9% - a decline from the 6.2% growth achieved in 2014 (see Nigeria: Transitory pain on oil price slump). The oil sector's contribution to gross value added is likely to decline, thereby implying greater diversification, but only technically so due to lower oil prices. We think economic stabilization, rather than acceleration, will be targeted by the APC over the near term.	Real growth was on aggregate 5.2% between 2011 and 2014. This is less than half the targeted growth figure (11.7% per annum between 2011 and 2015), but we think lower growth was primarily a function of the global growth slowdown post the Great Recession. Non-oil growth was actually higher at 5.8% on average over the same period, so the oil sector likely weighed down total growth.
2	Job creation	The APC wants to "embark on vocational training, entrepreneurial and skills acquisitions scheme for graduates along with the creation of small Business Loan Guarantee Scheme to create at least 1 million jobs every year, for the foreseeable future."	President Buhari stated that the new administration will aim to bolster youth employment within the first six months of taking office, as reported by <i>Leadership</i> on 27 May. <i>Leadership</i> further noted that President Buhari plans to widen the oil and gas sectors to support youth job creation. Conversely, the incoming Vice President Professor Osinbajo said on 21 May that the incoming administration's focus will be on the "agricultural sector to create jobs and contribute meaningfully to the nation's socio-economic development," according to All Africa Global Media.	Low The incoming administration will face challenges with respect to job creation. The pace of job creation already declined in 4Q, according to the National Bureau of Statistics. Forward-looking expectations for employment by the private sector have fallen to the lowest levels since 4Q 2009, according to the Central Bank of Nigeria's 1Q Business Expectations Survey. We think private-sector human capital investment will remain constrained in 2015 in the weaker economic environment. Moreover, the 2015 Budget aims to freeze the public-sector wage bill, implying a relatively slow pace of hiring, if any, by the public sector. Furthermore, on 1 May a consortium of major labor unions said that they would hold incoming President Buhari accountable in respect of the millions of jobs promised, according to the <i>Daily Post</i> . Relations between unions and the government are already strained, and a further decline in job creation is likely to fuel the frustration of labor even more over the near term.	The latest data from the National Bureau of Statistics indicate that on both the old and new estimates of the unemployment rate, the jobless rate increased between 2010 and 2014. Moreover, ILO estimates sourced from the World Bank show that the youth unemployment rate has not improved significantly, it averaged 13.7% since 2011, versus 13.8% in the prior decade.
3	Food security	Buhari's administration has stated that it wants to "provide a government-guaranteed market for agricultural produce at world-linked prices."	na	Low Given the fiscal constraints that Buhari's administration will inherit, we think it will be extremely difficult to further subsidize the domestic food market to ensure international prices are set.	The 2013 mid-term report of the <i>Transformation Agenda</i> (the previous administration's key policy strategy) noted that major policy achievements were made in the agricultural sector. These include: increased food production, effective wheat substitution to limit import dependence and a total of 2.2mn jobs had been created between 2011 and early 2013. That said, terrorism in the northern region, the major agricultural hub, had posed a continued risk to domestic food supply in recent years.

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4	Socioeconomic development	<p>The APC's Roadmap details the following key objectives:</p> <ul style="list-style-type: none"> • Every Nigerian child will have the right to "free, relevant and quality education." • "Free quality comprehensive health care based on a national health insurance scheme." • "Phased Social Security Scheme for the unemployed and vulnerable." • "Conditional cash transfers of NGN5000 to the 25mn poorest and most vulnerable citizens..." 	<p>On 26 May Vanguard reported that the APC's national chairman, John Odigie-Oyegun stated that the new administration will inherit a bulk of outstanding payments in federal salaries, oil subsidies and debt-servicing costs. He further emphasized that federal saving had been largely depleted under the prior administration.:</p> <p>The chairman also told APC representatives that "our people expect massive investment in infrastructure, public works to create jobs and cash transfer reliefs to ameliorate the harsh economic environment."</p>	<p>Low</p> <p>In our view, the probability of the APC attaining any of the socioeconomic campaign targets this year is slim. The 2015 Budget which is 3.2% smaller than the 2014 Budget was approved by the National Assembly and outgoing President Goodluck Jonathan in April and May, respectively, as reported by Reuters. It is reportedly possible for President Buhari to make changes to the 2015 Budget now that he has taken office; however, 1H is nearly over and there is limited flexibility to raise the spending ceiling given the expected fall in government revenues in the short term. Moreover, recent statements by the APC clearly indicate to the public that socioeconomic targets will be put on hold as the new administration deals with the major budgetary challenges faced over the near term.</p>	<p>On aggregate, the socioeconomic development indicators (e.g., life expectancy, improved water source, health expenditure per capita, United Nations Human Development Index) improved under the outgoing administration's tenure (2011 – 2014) compared to history, according to World Bank data. However, access to sanitation deteriorated during Jonathan's presidency (according to the World Bank data).</p>
5	Economic infrastructure	<p>According to the APC's Roadmap, Buhari's administration plans to:</p> <ul style="list-style-type: none"> • "provide captive power to critical facilities." • "build an integrated gas pipeline across Nigeria." • "construct an interstate rail and highway system." • "increase Nigeria's broadband internet capacity." • "develop an integrated inter-modal transport system." 	<p>Vice President Osinbajo has said that the stability in power supply will be attained by installing Independent Power Projects in "strategic" areas and decentralize power, according to a report from TVC News.</p>	<p>Low</p> <p>Given the extent of the power crisis, the number of difficulties faced and the lack of available internal funding sources for investment in the near term, we think the APC-led administration will not be able to resolve the power deficit in the short term. Businesses have rated insufficient power supply as the major constraint to business activities, according to the Central Bank of Nigeria's 1Q 2015 Business Expectations Survey. On 25 May, the Nigerian National Electricity Commission (in a press release) stated that "at present, 18 out of 23 power plants in the country are unable to generate electricity due to a shortage of gas supply to the thermal plants with one of the hydro stations faced with water management issues." 2,000MW (nearly half of the country's maximum generation capacity, on our estimates) are reported to have been lost in the national grid, and the NERC has further said that the industrial action in the energy sector has aggravated the problem. Furthermore, the president of the Nigerian Gas Association, Bolaji Osunsanya stated that a \$55bn investment gap needed to be financed to prevent local shortages (according to a Bloomberg report released on 21 April). We think liquid fuel sources will continue to be used to plug the power-generation gap over the near term. The new administration is likely to settle the outstanding payments with oil marketers, to ensure that fuel supply recovers. That said, the major energy deficit is unlikely to be resolved in 2015, given the budgeted freeze for fiscal investment spending.</p>	<p>Investment as a % of GDP slowed to 15% under Jonathan's administration, from an aggregate 17% in the prior decade. According to the World Bank Country Strategy report (2014), despite the increase of power capacity to 3500MW in early 2013, estimated demand was significantly larger at 10,000MW. The World Bank thinks the power deficit will continue to be a major inhibitor of growth. Moreover, the mid-term report of the <i>Transformation Agenda</i> indicated that the government would review the Multi-Year Tariff Order to make electricity provision more cost effective. This year, manufacturers have come under pressure under steep increases in the cost of electricity. Manufacturers in the Abuja state for instance, experienced a near doubling of their electricity tariff in January 2015.</p>

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6	Public Finances	The APC's Roadmap, does not explicitly mention how it plans to overcome the significant public finance pressures.	na	<p>Low</p> <p>The new administration will face a widening of the federal fiscal deficit to 1.3% of GDP in 2015, from an estimated 0.7% of GDP in 2014, in our view. We think the government will continue to issue debt in the local-bond market to finance this deficit. Additionally, the World Bank stated on 25 April that under the Country Partnership Strategy it approved financing of \$2bn per annum to Nigeria, which may help plug at least 5% of the total federal borrowing requirement we estimate for 2015. There is the possibility that Nigeria may issue another round of hard-currency bonds, which is fairly likely in our view given the country's relatively low external debt reliance (the external debt-to-GDP ratio was 1.9% of GDP in 2014, on our estimates). The use of debt to finance recurrent expenditure and debt-servicing costs is by no means sustainable, but over the short term will likely tide the government over until oil prices recover further and strategies to diversify revenue sources are put in place.</p>	The share of total federally collected revenue attributed to the oil industry remained on aggregate above 60% under the outgoing administration. This implies that the government was still largely reliant on the oil industry, and the federal budget largely sensitive to exogenous oil price shocks. Moreover, reserves in the Excess Crude Account (ECA) declined. The IMF's Article IV 2013 report noted that, "fiscal consolidation is progressing well, but fiscal buffers have been drawn down sharply." Under Jonathan's administration, recurrent expenditure (as a % of GDP) declined in line with the target since 2010, but the capital spending ratio was lower and the public-sector wage bill continued to put significant strain on the budget balance.
7	Governance and legislation	<p>The <i>APC Roadmap</i> signaled a strong commitment to anti-corruption efforts in the legislative arm. The APC promised to:</p> <ul style="list-style-type: none"> • "strengthen legal provisions to prevent stay of proceedings and other delays in corruption trials." • "speedily pass the much-delayed PIB..." and "modernize the Nigeria National Petroleum Corporation..." • "promote legislation and initiatives that protect vulnerable and disabled people from discrimination and exploitation." 	<p>President Buhari, in his inauguration speech on Friday (29 May) said that, "for their part the legislative arm must keep to their brief of making laws, carrying out over-sight functions and doing so expeditiously. The judicial system needs reform to cleanse itself from its immediate past."</p> <p>Newly elected governors have made a joint commitment to implement uniform policies across elected states – according to an APC communique released after a one-day retreat held in Abuja on 20 May (according to the <i>Daily Independent</i>).</p>	<p>High</p> <p>We think the first important changes will be to the leadership roles in the National Assembly – the highest law-making body in the country. Traditionally, the so-called <i>zoning formula</i> has applied to the highest offices in the country, i.e., the offices are representative of the six major geopolitical zones. Since the President and Vice President are from the North-West and South-West respectively, the Senate Presidency and Speaker for the House of Representatives could be selected from the remaining zones. The major contest is for the Senate Presidency. <i>Leadership</i> has suggested that George Akume (Benue, North-Central), Bukola Saraki (Kwara, North-Central) and Ahmad Lawan (Yobe, North-East) are the major contenders to replace outgoing Senate President David Mark. The inauguration of the 8th National Assembly will take place on 4 June, according to <i>The Nigerian Observer</i>.</p> <p>Secondly, once the APC has secured its standing in the National Assembly, we expect the new administration to exercise strong political will in passing policy bills toward effective policy action, in particular around anti-corruption measures.</p>	The mid-term report of the <i>Transformation Agenda</i> (2013, p. 44), indicated that "a total of 310 bills were presented for consideration at the Senate with 26 passed, 2 rejected, 9 withdrawn and 273 at different stages of reading." At the same time, the House of Representatives "considered a total of 435 Bills with 47 passed, 15 rejected, 5 withdrawn/steeped down and 368 at different stages of consideration." The PDP-led administration made numerous promises to timeously pass the PIB, vital for transformation of the crude and gas, yet it still had not been passed at the close of the PDP-led government's tenure.

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8	Corruption	The party has promised "strict enforcement of anti-corruption laws whilst strengthening anti-corruption agencies." It also aims to dissolve immunity for prosecuted corrupt officials, by amending the constitution. The APC has gone as far to say that they will "place the burden of proving innocence in corruption cases on persons with inexplicable wealth."	During his inauguration speech on Friday (29 May), President Buhari said that "the country now expects the judiciary to act with dispatch on all cases especially on corruption, serious financial crimes or abuse of office."	High Anti-corruption was a major policy priority as per the campaign agenda, and will continue to be so especially in the near term, in our view. A scenario in which the APC-led administration is able to effectively and swiftly recoup lost funds from state-oil entities, will undoubtedly be a positive factor for budgetary funding in 2015, if realized.	According to the African Union's high-level panel on illicit flows, Nigeria accounted for \$217bn of the African continent's total \$850bn lost to illicit flows between 1970 and 2008. There has been more recent evidence of irregularities. The IMF reported that both oil volume growth and oil prices had increased in 2013 relative to 2008, yet oil revenues were down by 20% over the same period. The IMF's Article IV review for 2013 also noted that "recent efforts to strengthen oil revenue monitoring are promising but more needs to be done" and the "potential fiscal gains from increasing the oil revenue yield are large." In relation to public perception, Transparency International's global corruption barometer report, showed that in 2013, 94% of domestic respondents felt that political parties were corrupt/extremely corrupt and 72% of respondents felt that the level of corruption in the country had "increased a lot" over the prior two years.
9	National Security and foreign relations	The APC's Roadmap details the following major promises: <ul style="list-style-type: none"> • "Enable states to have their own local police forces..." • "Establish a serious crime squad with state-of-the-art training and equipment to combat terrorism..." • "Initiate...a truth and reconciliation commission on ethno-religious clashes..." 	During President Buhari's inauguration speech on Friday (29 May), he stated that the Nigerian military's command center would be moved closer to the north-eastern city of Maiduguri, according to a report from BBC. President Buhari further indicated that the government will continue to strongly invest in Niger Delta (the oil capital) projects, despite the amnesty programme expiring in December 2015. The amnesty programme provides compensation to militants in the Niger Delta toward rehabilitation and has been associated with reduced violence in the region.	High A concentration of military efforts near the Boko Haram stronghold is likely to be a positive move toward making further gains against the group. However, we think the pressure on the APC to eliminate security threats has diminished because outgoing President Goodluck Jonathan's administration injected significant resources in support of the fight against Boko Haram before he left office. Numerous media reports suggest that the Nigerian army, with regional assistance from Chad, Cameroon and Niger, had made significant gains against the group since the March elections. After the President's inauguration speech, ex-militants under the Niger Delta programme rejected the December expiry of the amnesty programme, according to a 31 May report from <i>Leadership</i> . Tam Odogwu, a representative of the Niger Delta group reportedly said that, "we the Niger Delta ex-agitators and youths are very ready to support Buhari's administration but will not support the plan to end the amnesty programme and will resist any attempt to do so because it will mean another round of injustice." In our view, Buhari's administration will face challenges in appeasing the Niger Delta community over the near term.	The number of aggregate battle-related deaths per annum doubled since 2011, relative to the prior decade (according to World Bank data). Moreover, according to survey results from NOI Polls, the proportion of respondents rating security as the key area President Jonathan should have focused his attention on, increased from 12% in January 2014 to 25% in January 2015.

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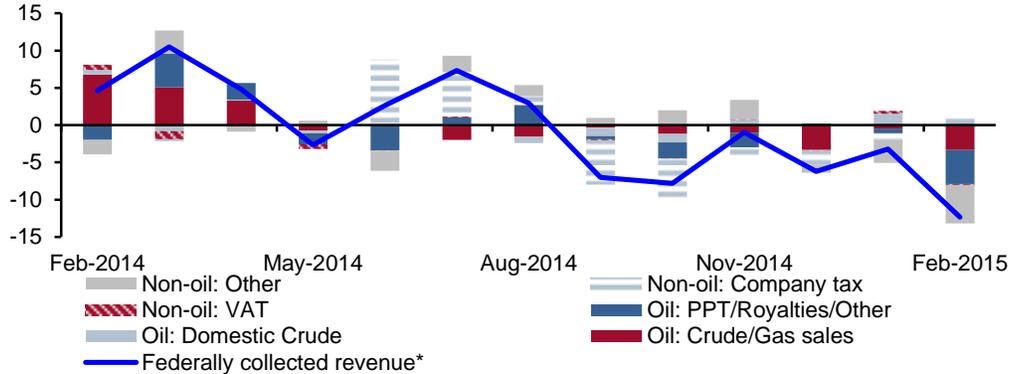
No	Policy area	The APC's campaign promise ¹	Recent statements by APC leaders	CS assessment: likelihood of the APC-led government delivering on campaign promises in 2015?	CS assessment of outgoing administration ²
10	Democracy	The APC still views the na Independent National Electoral Commission (INEC) as not being entirely independent, and wants to "stop corruption in our elections, in part by making the Independent National State Electoral Commissions truly independent from political interference."		Even The May elections were largely viewed as a great success toward further democratization in Nigeria.	The positive relations between the outgoing and incoming administrations fully support the process of national democratization, in our view. Outgoing President Goodluck Jonathan and his party, the PDP, conceded defeat to the APC after the election results were published by the INEC (according to a 1 April report from CNN). Moreover, Vanguard news service reported that Goodluck Jonathan applauded President Buhari's 29 May inauguration speech.

1. The APC campaign promises are sourced from the campaign manifesto and *Roadmap* document.
 2. In note entitled [Nigeria: Voting at a difficult time](#) published on 26 March, we assessed the outgoing administration in detail.
 Source: Credit Suisse, various sources as listed

Federally collected revenue declined for the sixth consecutive month in February 2015, on a broad-based fall in revenue collections

Exhibit 2: Contributions to sequential growth in federally collected revenue

pps, except for federally collected revenue



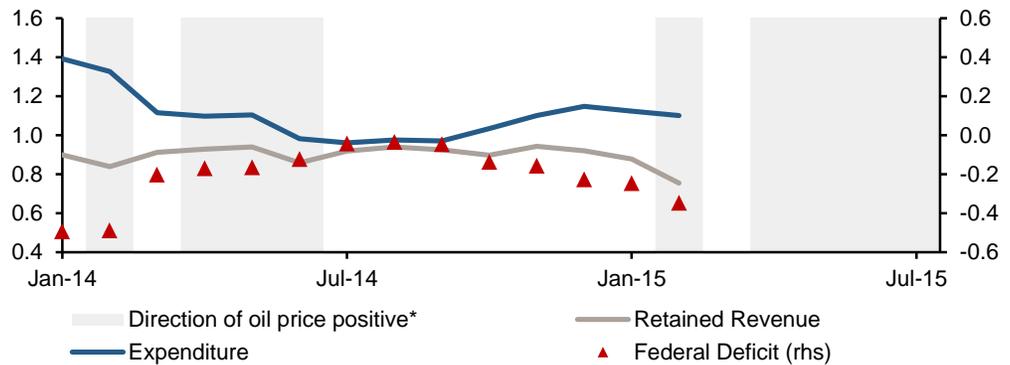
* This is the month-on-month change in the three-month rolling sum of federally collected revenue.

Source: Credit Suisse, Ministry of Finance, Central Bank of Nigeria, Haver Analytics®

As a result the federal deficit has continued to expand, and will average 1.3% of GDP in 2015, in our view

Exhibit 3: Federal budget balance

Three-month rolling sum, NGNtrn



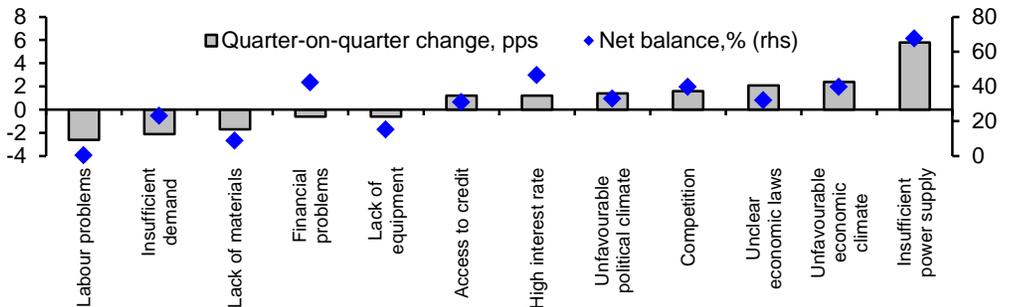
* This is a dummy variable which indicates months in which the month-on-month changes in the Bonny Light oil price are positive. From June onward, the implied change in the Bonny oil price is based on the futures market prices for Brent Crude.

Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, Ministry of Finance, Central Bank of Nigeria, Haver Analytics®

Under the budgetary pressures, it will be difficult for Buhari's administration to tackle the major constraints that businesses face in 2015

Exhibit 4: Surveyed expectations of current business constraints

1Q 2015 Business Expectations Survey



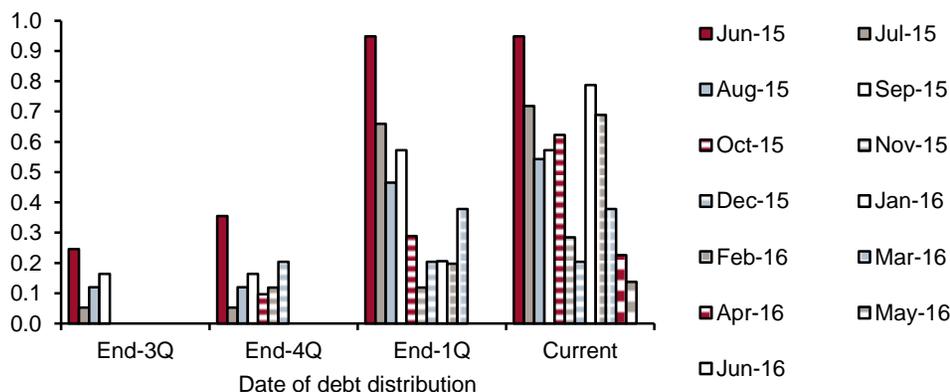
Note: A net balance (%) is the proportion of respondents that rate a category as a constraint to business activity less the proportion of respondents that rate a category as not being a constraint to business in the current quarter. A higher net balance signals that the category is increasingly limiting business activity in the current quarter.

Source: Credit Suisse, Central Bank of Nigeria, Haver Analytics®

To finance the widening deficit, the government has rolled over debt: since 3Q 2014, the 12-month ahead debt distribution has expanded. We think local-currency debt issuance will continue to be the main financing tool in the rest of 2015

Exhibit 5: Evolution of the debt distribution for June-2015 to June-2016

Monthly local-currency debt expiry (NGNtrn)



Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service

Exhibit 6. Government funding needs

As published in the *Emerging Markets Quarterly Q2 2015*

	2012		2013		2014E		2015F	
	\$ bn	% of GDP						
Total federal borrowing requirement	20.4	4.4	26.6	5.1	23.3	4.3	37.1	7.4
Overall fiscal deficit(+)/Surplus(-)**	6.1	1.3	7.2	1.4	3.6	0.7	6.3	1.3
Primary fiscal deficit	1.9	0.4	2.0	0.4	-1.4	-0.3	2.3	0.5
Interest payments	4.3	0.9	5.2	1.0	5.0	0.9	4.1	0.8
Debt amortization	14.3	0.0	19.3	3.7	19.7	3.6	30.7	6.2
Domestic debt	14.1	3.0	19.2	3.7	19.5	3.6	30.5	6.1
External debt	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0
Funding sources	20.4	4.4	26.6	5.1	23.3	4.3	37.1	7.4
Foreign financing	0.7	0.2	2.1	0.4	0.7	0.1	0.5	0.1
Domestic financing	7.3	1.6	23.2	4.4	20.8	3.8	30.0	6.0
Other funds**	0.05	0.01	0.05	0.0	0.05	0.01	0.05	0.01
Change in cash reserves* (- indicates increase)	12.4	2.7	1.2	0.2	1.8	0.3	6.6	1.3
Memo item:								
Nominal GDP (\$bn)	467.1		521.8		545.7		498.6	

Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, Haver Analytics®, Central Bank of Nigeria, National Bureau of Statistics, Ministry of Finance

The medium-term rating outlook is relatively stable as the major (political and security) risks have passed

Exhibit 7. Sovereign debt ratings

Rating agency	S&P	Fitch	Moody's
Outlook	STABLE	NEG	STABLE
Issuer rating date	2015/03/20	2015/03/30	2012/11/07
Short term local-currency rating	B	B	na
Long term local currency rating	B+	BB	Ba3
Long term foreign-currency rating	B+	BB-	Ba3

Source: the BLOOMBERG PROFESSIONAL™ service, various rating agencies as listed, Credit Suisse

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Disclosure Appendix

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