

NIGERIA

The Forecast, 2018

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DOMESTIC POLITICS AND POLICY

Looking to the elections

2018 will begin with an increased focus on politics while policies take a lower priority. President **Muhammadu Buhari** has made his intention clear to seek re-election, despite the lack of a formal announcement. Provided his health does not worsen any time before the elections – which is a reasonable risk looking at the last year – he will be the main candidate for the ruling All Progressives Congress (APC). From the incumbent government's perspective, the greatest risk remains Buhari's physical and mental fitness over 2018 and the lead up to the general elections scheduled for February 2019.

He is ending 2017 by repairing his political relationships with troubled and marginalised allies. The most important

of these is former Lagos State governor, **Bola Ahmed Tinubu** (1999-2007), who is currently the most influential politician in the South West geopolitical zone. Tinubu has recently indicated that he would support Buhari's second term ambitions which – in addition to the internationally popular Vice President and technocrat, **Yemi Osinbajo** – provides Buhari with a key ally in the South West.

The President's 7 December visit to Kano State is another indicator that 2018 will involve many high-publicity visits to contested and less-contested regions to increase his political portfolio, which had allowed him the victory in the 2015 elections.

To solidify his support base, Buhari will reshuffle the cabinet in early 2018 to bring on board key political allies that will help him win the 2019 elections. Ministers with doubtful loyalties – and former president **Goodluck Jonathan** (2010-2015) appointees in ministries and parastatals – are going to be replaced with Buhari appointees. Minister of Women Affairs, **Aisha Alhassan** – who has openly expressed support for former vice president **Atiku Abubakar's** presidential ambition – is one example of a minister who will be replaced. Another is Minister for State Petroleum Resources, **Ibe Kachikwu**, who will be deployed to another ministry and replaced with someone closer to Buhari to lead the petroleum ministry.

To boost Buhari's anti-corruption credentials ahead of the election, names of alleged corrupt politicians will be published and more high profile arrests of opposition candidates will be carried out to destabilise the main opposition Peoples Democratic Party (PDP) and boost Buhari's popularity and credibility among his support base. The former Director General of the National Intelligence Agency (NIA), **Ayodele Oke** (2013-2017), will also face prosecution to boost the president's anti-corruption credentials.

Politics will dominate policy, while the government's technocrats, besides Osinbajo, will be moved aside for politicians who can win votes. More politicians from the PDP are expected to announce their defection to the APC in early 2018, but APC politicians that lose out after the party's convention in June 2018 will also defect to the PDP.

On the more local level, governors will continue to struggle to pay workers' salaries. This will create high levels of dissatisfaction in many states and will continue to make the APC unpopular in these areas. To counter this salary problem, Buhari will be forced to distribute more bail outs to these States. However, much of these funds will be diverted towards supporting governor re-election bids or bids of their nominees.

The budget and infrastructure projects

The early passage of the 2018 budget in January will boost government spending in the year, but the government will struggle to avoid a labour crisis in 2018 as the Nigeria Labour Congress (NLC) will aggressively push for a minimum wage increase. The NLC knows full well that the best time to get such an increase is when Buhari's eyes are set on the 2019 elections. However, most governors will oppose any minimum wage increase so Buhari will most likely restrict it to federal civil servants and ask the NLC to negotiate with state governments: a proposition that NLC will reject, which will increase the risk of national public workers' strikes, which will be resolved in favour of the NLC.

President Buhari will be keen to commission some major capital projects in 2018. This will spur capital spending to ensure that some major projects are completed ahead of the 2019 elections. The Abuja metro line will be one such project that will definitely be commissioned in 2018, or early 2019 at the latest.

Buhari will be forced to travel around the country more often in a bid to revive his dwindling support base. But these frequent travels will potentially pose a risk to his fragile health. It is going to be a tough year for the president and his handlers to balance his health needs against his political ambitions.

SECURITY

There is a risk that as Buhari turns his attention to local political matters in 2018, his much needed authority in the armed forces will wane. There are already signs of a resurgence of corruption in military procurement deals and deepening rivalries between such organisations as the Department of State Security and the Economic and Financial Crimes Commission.

Boko Haram

Boko Haram attacks in the North East geopolitical zone will escalate in 2018. The losses made by Islamic State (IS) in the MENA region have increased the risk of their relocation to West Africa, and their linking up with affiliates like Boko Haram and other jihadist groups in the Maghreb (see [Sahara Focus Forecast 2018](#) for more details).

Already, attacks have escalated in the last six months as the exhausted army struggles to overcome Boko Haram's guerrilla tactics. Increased famine, formal unemployment, federal disenfranchisement and the army's maltreatment of civilians in the North East, have all contributed to Boko Haram's recruitment of young men and women.

The Middle Belt and South East

Boko Haram attacks are expected to be compounded by increased clashes between Fulani herdsmen and farmers in most parts of the North East and Middle Belt. With most communities now armed to protect themselves, these clashes will claim more lives – on both sides – and will force the government to mediate. There is also the risk that this crisis will escalate if the Fulani attack in the South East and South South, in addition to the north. Such attacks would be made worse here because they will become politicised among opposition PDP strongholds in the context of the 2019 elections.

Demand for the release of the Indigenous People of Biafra's (IPOB) leader, **Nnamdi Kanu**, and the leader of the Islamic Movement of Nigeria (IMN) **Ibrahim El**

Zakzaky will escalate tensions in the South East and the North.

Election considerations mean that the government will be constrained in its use of significant force against these agitations, and will be forced to mediate, negotiate, and in some circumstances, give amnesty to certain groups.

The Niger Delta

Militancy will return in 2018 to the Niger Delta region as the elections approach. Politicians will use the region's militants to gain political mileage in the elections, putting oil production and investment at risk.

Efforts by Minister for State Petroleum Resources Ibe Kachikwu and Vice president Yemi Osinbajo to seal a medium-term deal with militants in the Niger Delta will intensify as oil revenues become a focus for Buhari's campaign drive.

INTERNATIONAL AFFAIRS

Nigeria's geographical and population size, complexity, and entrepreneurial energy make it an important ambassador, particularly if political instability in South Africa and Egypt continue their downward trajectory. But Abuja's diplomatic efforts rarely do justice to the country: its reputation for fraud and grand corruption continue to undermine the immense potential for soft power through film, music, and literature.

West Africa

Faced with increased attacks from Boko Haram in the North East, President Buhari will move to revive the Multinational Joint Task Force (MNJTF) – formed with Niger, Chad and Cameroon – to tackle the sect's attacks in the Lake Chad Basin. With the US\$100 million support from Saudi Arabia this should be successful in the short run until the money runs out and the funding issues resurface again.

There will be a diplomatic clash with Benin in 2018 when Nigeria seeks to enforce a diplomatic accord to stop the smuggling of rice into the country, which is undermining Nigeria efforts to be self-sufficient in rice production.

Global

Nigeria's relationship with the US will also be tested over President **Donald Trump's** recent declaration that Jerusalem is the capital of Israel. The Nigerian government

will most likely condemn the US position if it's ever forced to issue a statement.

Under Buhari, the country has sent an 87-year-old man to the US and a 77-year-old man to the UK as ambassadors. Both are non-career diplomats and will therefore require time to learn the ropes, which will not help the country's diplomatic engagement in these critical allies.

ECONOMY

The economy will grow between 1.0%–1.5% in 2017 and not more than 2.5% in 2018. The Central Bank of Nigeria (CBN) will cut interest rates by 1% in its first monetary policy committee meeting in 2018 to help boost growth and support for President Buhari's political ambitions. But the cut in interest rates will put pressure on the Naira as rising interest rates in the US and Europe and uncertainty over the 2019 elections will encourage capital outflows from the country.

The CBN's external reserves – which will be in excess of US\$40 billion by the end of first quarter of 2018 – will support the CBN's capacity to continue to bolster the Naira. The external reserves will be further boosted by an additional US\$2.5 billion Eurobond issue to be made in 2018 while interest rates in the economy will come down as the Federal Government (FG) reduces its domestic borrowing in 2018, which will help businesses to borrow at a cheaper rate and also reduce the government's domestic debt service burden.

Critical reforms, like the introduction of a market based tariff structure for the electricity sector, will not happen. Removal of subsidies on petrol will also not take place because of the political sensitivity from both decisions

The declared goals of creating 15 million new jobs and bringing growth to 7% per annum by 2020 are too ambitious on present showing.

But reforms in the 'ease of doing business' front will continue. The speed of these reforms, however, will be impacted by the focus on politics and the introduction of more political appointees into ministries and parastatals.

ENERGY

Oil & Gas

The Petroleum Industry Governance Bills (PIGB) will be passed and signed into law

in 2018. This will help boost President Buhari's economic reform and credentials ahead of the 2019 elections. However, the implementation of these bills will be delayed until after the elections. Any unbundling of the Nigerian National Petroleum Corporation (NNPC) will therefore not happen until 2019.

The government's plan to sell some of its stakes in Joint Ventures (JVs) with the IOCs will be completed before the end of 2018 because of the government's urgent need for funds to spend on larger infrastructure projects.

The state owned refineries at Port Harcourt, Kaduna and Warri, will continue to run at well below their installed capacity, and the government will not sell them even while it struggles to find private investors to rehabilitate, operate and transfer them. **Maikanti Baru** will remain as NNPC's Group Managing Director (GMD) despite the controversy surrounding his clash with the Minister of State Petroleum Resources, Ibe Kachikwu.

The NNPC will struggle to maintain steady fuel supplies if crude oil prices remain high because the cost of the subsidy will soon start eating into their operational costs, making it difficult to sustain current levels. But fear of the political cost of removing

the consumer subsidy will force the NNPC to sustain it. The consequence will be occasional fuel scarcity, which will be difficult to avoid.

There will be a marginal field licensing round in the first half of 2018 while Brazil's Petrobras will complete the sales of its stakes in oil assets in the Egina, Agbami and Akpo fields to the IOCs that already operate the assets.

Power

Power supplies will improve in 2018 as most of the generating plants come on stream and are connected to new gas supplies. Azura Power Plant and other plants will add an estimated 1,000MW to the grid.

But the major problem in the power sector is, and will remain, distribution. Nigeria is currently unable to distribute power effectively to much of the country. The sector is in disarray while the production companies, distribution companies, and regulators all blame one another for lack of payments or power supply. Little progress will be made on this in the short term.

OTHER INDUSTRY

The banking industry will be weaned off easy money from investing in government

securities as the government reduces domestic borrowing. This will force them to adopt innovative ways to lend to the 'real sector' of the economy.

Banks' balance sheets are generally expected to improve in 2018 due to higher oil prices, which will enable many of them to write back energy sector loans that they were forced to restructure during the period of low oil prices in 2015 and 2016. This will boost their profitability and capacity to issue out new loans, especially for the bigger players in the sector.

Acquisitions will also happen in the banking sector with new investors likely to buy into Diamond Bank and Skye Bank. The CBN will intervene in Unity Bank and possibly Heritage Bank if they are unable to get new investors by the end of 2018.

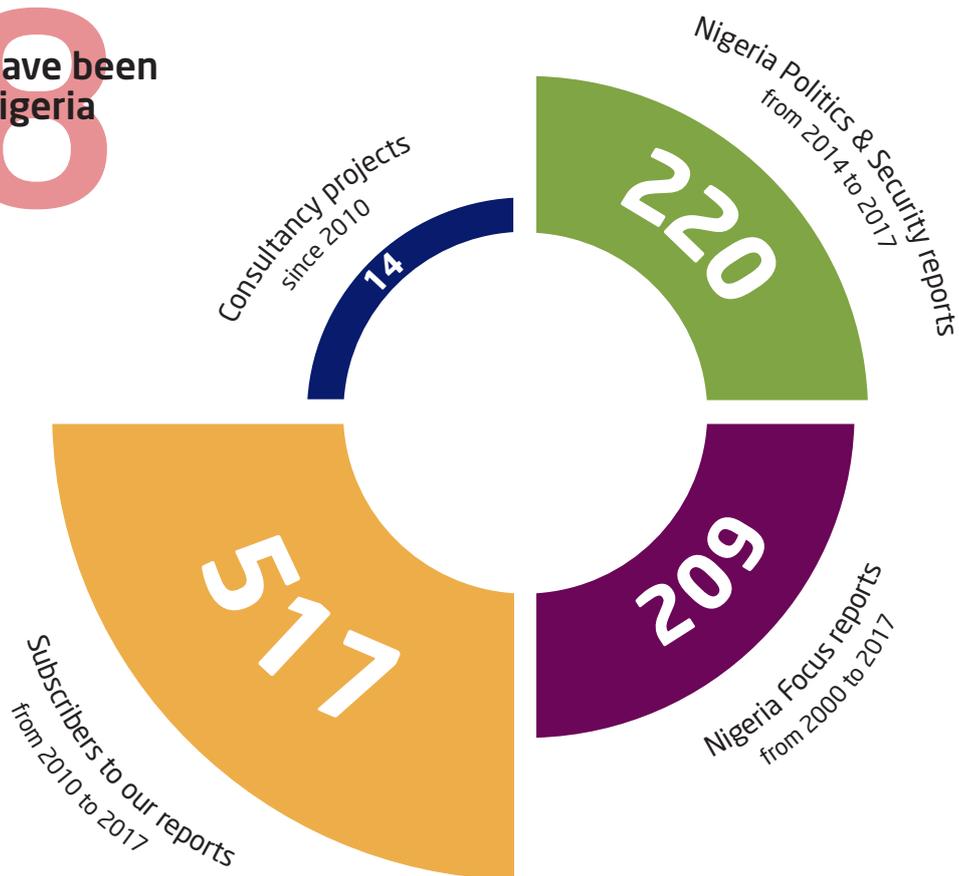
Some of the banks will consider rights issues to boost their capital, with First Bank and Sterling likely to come to the market with Rights issues early in 2018.

Mobile Telecommunication Group (MTN) will also list its shares on the Nigerian Stock Exchange (NSE), while new owners will be announced for the troubled 9mobile in January.

For more information on Nigeria, or the region, please contact Roger Cabrera, roger.cabrera@menas.co.uk | +44 (0)20 3878 5217

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FEATURES

TIMING	Monthly	Weekly (Algeria, Libya, and Nigeria) Every two weeks (Brazil, East Africa, Egypt, and Mexico)
ANNUAL FORECAST	✓	✓
QUARTERLY FORECAST	✓	✓
IN-COUNTRY EXPERT WRITER	✓	✓
RISK AREAS COVERED	Spotlight, Politics, International affairs, Economy, Energy, Stakeholder profiles, Other industry	Politics, Security, Economy, Energy, Other industry
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