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Research Update:

Nigerian Outlook Revised To Negative As Falling Oil Receipts Test Government's Institutional Capacity; Ratings Affirmed

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Rationale

On March 27, 2009, Standard & Poor's Ratings Services revised its outlook on the Federal Republic of Nigeria to negative from stable. At the same time, the 'BB-' foreign currency and 'BB' local currency long-term sovereign credit ratings were affirmed. The 'B' foreign and local currency short-term ratings and the 'ngAA+/ngA-1' national scale ratings were also affirmed. The Transfer & Convertibility Assessment on Nigeria remains 'BB-'.

The institutional policy response to the global economic downturn and the consequent sharp fall in the price of oil, on which Nigeria is overwhelmingly reliant, motivated our revision of the ratings outlook. We believe the adverse terms of trade shock will hurt Nigeria's credit profile both on the fiscal and external side. Nigeria's 2009 federal government budget calls for a 3% of GDP deficit. The legislature raised spending from the president's initial proposals, however, which already appeared optimistic as they are based on a rise in oil production that may be difficult to attain given long-standing constraints on output stemming from unrest in the Niger Delta. In addition, if Nigeria abides by its OPEC quota, production would fall far short of budget. Consequently, considerable uncertainty surrounds the outlook for public finances, and there is a risk that the government's fiscal balance sheet, which is among the strongest of all 'BB' rated sovereigns, will deteriorate beyond our central assumption.

On the external side, we forecast a 7.2% of GDP current account deficit in 2009 from an estimated 6.3% of GDP surplus in 2008. The deteriorating outlook prompted the Central Bank of Nigeria to impose currency controls in order to preserve foreign exchange reserves, reported at year-end 2008 at 35% of forecast 2009 gross external financing needs. These currency controls have caused a re-emergence of the parallel foreign exchange market, following its conversion with the official rate. Notwithstanding assurances that funds are available for the legitimate current transactions of corporations, these controls will hurt the banks' access to cross-border funding and will weaken portfolio investor confidence. We also expect the quality of banks' credit and security portfolios to weaken given the turbulence in local capital markets and the sudden slowdown in economic growth, and bank profitability to be lowered by recently imposed lending and deposit ceilings. We expect bank lending growth to fall sharply to 6% in 2009, following an estimated average of more than 80% over the past two years, which will in turn constrain overall GDP growth to 1.5% this year.

Outlook

The negative outlook reflects the increased risk that the institutional response to falling oil revenue will result in a continued worsening of the business environment and a deterioration of Nigeria's balance sheet beyond our central assumptions. The ratings are unlikely to be raised in the near term given Nigeria's deteriorating terms of trade outlook and the opacity of public accounts. The ratings could stabilize at the current level if progress is made in the key areas identified by the current administration: reducing Niger Delta militancy; improving the non-oil business environment; and an improvement in governance that reduces political and social tensions.

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Nigeria (Federal Republic of)		
Sovereign Credit Rating		
Foreign Currency	BB-/Negative/B	BB-/Stable/B
Local Currency	BB/Negative/B	BB/Stable/B
National scale rating	ngAA+/--/ngA-1	
Senior Unsecured (13 issues)	BB	
Senior Unsecured (1 issue)	BB-	
Senior Unsecured (14 issues)	ngAA+	
Transfer & Convertibility Assessment	BB-	

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Ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.