



# Research Briefing

## Emerging markets

# Nigeria: The No. 1 African economy

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Nigeria's GDP rebasing makes the country the largest economy in Africa. The rebasing of Nigeria's GDP – the change of the base year from 1990 to 2010 and the increase in the number of industries measured for GDP calculation – raises the size of the economy of Africa's most populous nation by 75%<sup>1</sup>. Following the rebasing, Nigeria dethrones South Africa as the largest economy in Africa, albeit with a population more than three times larger.

**Robust economic performance in recent years.** Nigeria's strong growth rates and greater macroeconomic stability combined with its large and rapidly expanding population and still unsaturated markets have attracted increased attention among global investors in recent years. Nigeria received the largest amount of portfolio inflows in Sub-Saharan Africa in 2012 and 2013. The spotlight associated with being the continent's biggest economy might further boost this trend.

**Nigeria still has a long way to go if it wants to reach a similar level of economic development as South Africa.** Despite the higher nominal GDP Africa's new economic principal still trails South Africa in terms of GDP per capita by a large margin. Moreover, in contrast to South Africa's diversified economy Nigeria remains heavily dependent on primary commodities and its financial markets are dwarfed by South Africa's. In order to close the gaps in economic development, Nigeria has to substantially improve its institutions, infrastructure and business environment.

Africa's economic giants changing place

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Ranking	Country	Nominal GDP
26	Argentina	475.2
27	Taiwan	475.3
	<b>Nigeria (post-rebasing)</b>	<b>451.7</b>
28	Austria	394.7
29	South Africa	382.3
30	UAE	383.8
...		
37	Hong Kong	262.6
38	<b>Nigeria (pre-rebasing)</b>	<b>262.6</b>
39	Israel	257.6
...		
85	Ethiopia	42.5
86	Kenya	40.7
87	Ghana	40.4

Note: Nominal GDP in USD bn, as of 2012

Sources: IMF, Deutsche Bank Research

<sup>1</sup> Increase in the local currency 2012 GDP.





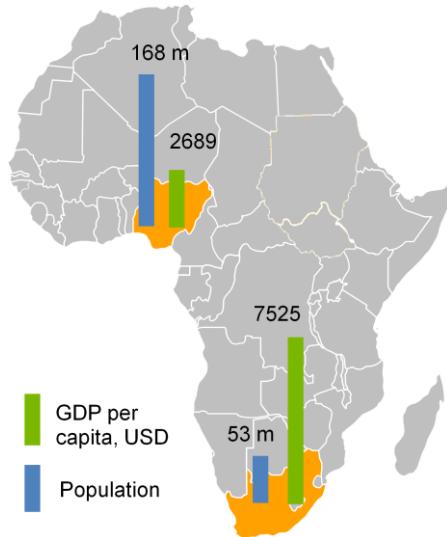
## Nigeria: The No. 1 African economy

### The consequences of Nigeria's GDP rebasing

Nigeria vs South Africa

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As of 2012



Sources: IMF, UN, Deutsche Bank Research

On April 6 Nigeria completed the process of updating its GDP base year from 1990 to 2010 to give a better indication of the size and composition of its economy. Most governments overhaul GDP calculations every few years to reflect changes in output and consumption patterns such as innovations in telecommunication, financial services and internet usage, but Nigeria had not done so since 1990, suggesting that the previous GDP framework significantly underestimated economic activity.

The statistical revision resulted in a higher-than-expected 75% increase in Nigeria's nominal GDP to USD 451 bn (in 2012). Due to the rebasing Nigeria jumps 10 places and is now the 28<sup>th</sup> largest economy in the world with a size similar to that of Austria and Taiwan. Nigeria also overtakes South Africa as the largest economy in Africa in terms of nominal GDP, albeit it has to be considered that its population is more than three times that of South Africa. This means that even after the GDP rebasing Nigeria's GDP per capita is only about one-third the size of South Africa's (see chart 2).

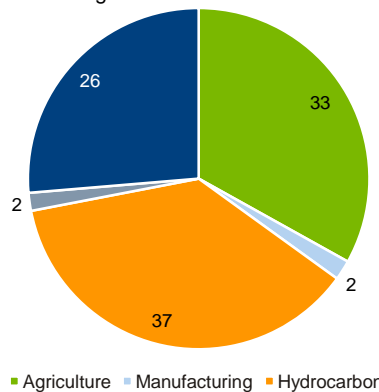
The rebasing and re-benchmarking also change the structure of Nigeria's economy. The number of industries measured by the statistics agency increases to 46 from 33 and the weighting of the different sectors changes. The share of agriculture in 2012 GDP decreases from 33% under the old framework to 22% in the new framework. Similarly, the share of the hydrocarbon sector declines from 37% to 16%. Furthermore, the size of the service sector nearly doubles from 26% to 51% (see chart 3). Within the service sector, telecommunication services increase tenfold from only 0.8% of total GDP to more than 8% in the new figures. Entertainment services (including the booming Nollywood film industry) are estimated at 1% of nominal GDP after the rebasing, while the sub-sector was unaccounted for previously. Overall, following the rebasing Nigeria's economic structure appears much more diversified and less dependent on primary commodities than before, although the hydrocarbon sector and related downstream sectors still account for a large share of GDP.

### Rebasing changes GDP structure

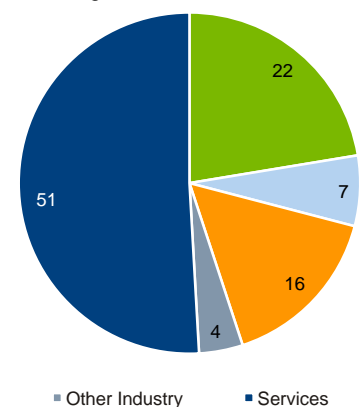
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Share in total GDP, %

Pre-rebasing



Post-rebasing



Sources: Nigeria Bureau of Statistics

The higher nominal GDP naturally changes all economic variables that are expressed in terms of GDP. This bodes well for Nigeria's fiscal accounts, as it reduces the fiscal deficit and the public debt level as a percentage of GDP. The 2012 public debt level, for example, decreases from 19% of GDP to 11% of

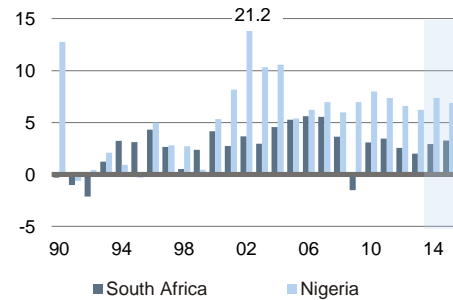


## Nigeria: The No. 1 African economy

Nigeria continuously outgrows South Africa

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Real GDP, % yoy



Sources: IMF, Deutsche Bank Research

### Becoming the No. 1 economy in Africa crowns Nigeria's strong economic performance

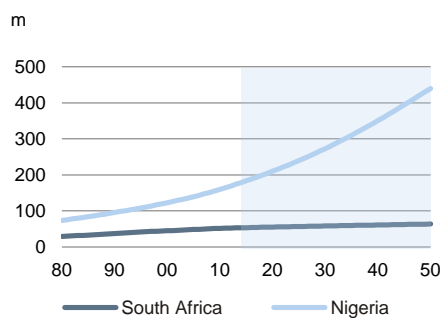
Nigeria has been among the world's fastest growing economies since the start of the new millennium. Its growth averaged at around 7% yoy over the past decade, compared with 3% in South Africa. The strong performance has been enabled by increased macroeconomic stability – prudent monetary policy succeeded in keeping the naira stable and recently in bringing inflation to single digits – as well as high prices for Nigeria's primary export good, oil.

Another reason for the booming economic performance is Nigeria's favourable demographics. Its population grew on average by more than 2.7% p.a. over the past decade, reaching 168 m in 2012. The UN projects that this trend is set to continue. It expects Nigeria's population to double within the next 25 years to 350 m (see chart 5). Already the world's seventh most populous nation today, this means that Nigeria will be the fourth most populous nation by 2040, trailing only India, China and the United States. The sheer size of the country means that Nigeria is already a vast market for products such as consumer goods, entertainment, communication and finance. With 127.6 m active mobile lines<sup>2</sup>, for example, it is the largest market for telecommunications in Africa and among the 10 largest worldwide. However, the fact that the share of cellular subscriptions is still significantly lower than in South Africa indicates that the market is still unsaturated. The picture is similar in many market segments and highlights Nigeria's sizeable potential for future growth.

Since 2009 Nigeria has been the largest recipient of FDI in Sub-Saharan Africa (SSA) and in 2012 Nigeria also overtook South Africa as the chief destination for portfolio inflows (see chart 6). The spotlight associated with being the biggest economy in Africa might help to sustain this trend.

Nigeria's population expected to continue growing at a fast pace

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Source: United Nations Population Division

### Nigeria still trails in economic development

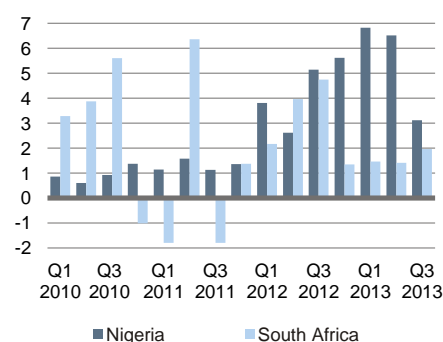
Although Nigeria now exceeds South Africa in economic size, it still has a long way to go if it wants to reach a similar level of economic development and sophistication. Nigeria's GDP per capita is still only around one-third the size of South Africa's and the World Bank estimates that more than 80% of Nigeria's population have to make do with less than USD 2 per day (compared to about 30% in South Africa).<sup>3</sup> Although in the rebased GDP the size of the agricultural and hydrocarbon sectors declined significantly, primary commodities still play an overly large role in Nigeria's economy and account for nearly all of its exports. Moreover, the manufacturing sector remains very small compared to other emerging markets.

Nigeria and South Africa still lie far apart also in terms of capital market development. The market capitalisation of the Johannesburg Stock Exchange (JSE) amounted to roughly USD 1 tr at end-2013, and was thus more than 13 times higher than the market capitalisation of the Nigerian Stock Exchange (NSE).

Portfolio inflows to Nigeria outpace those to South Africa

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Inward portfolio investment, USD bn



Sources: National Central Banks, Deutsche Bank Research

<sup>2</sup> Nigerian Communications Commission.

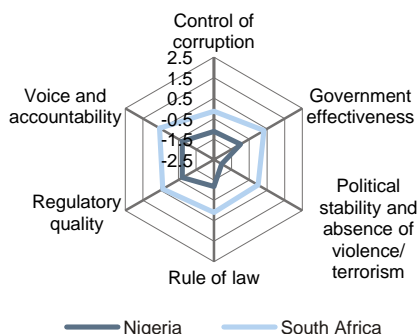
<sup>3</sup> World Bank, Poverty headcount ratio at USD 2 per day (PPP), latest data available.



## Nigeria: The No. 1 African economy

Nigeria lags behind in governance quality

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In order to close these gaps in economic development Nigeria has to improve its institutions and business environment. The country lags far behind South Africa in every sub-indicator of the World Governance Indicators (see chart 7). Especially in the “Political stability and absence of violence/terrorism” indicator, Nigeria is one of the worst performing countries in the world. This can be explained by the continuous security threat by the Islamist sect Boko Haram in the north of the country as well as sporadic tensions in the Niger delta. Nigeria also has stark problems in the business environment. In the latest World Bank Ease of Doing Business Report, the country only ranks 147<sup>th</sup>, far behind South Africa in 41<sup>st</sup> place.

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Sources: World Bank, Deutsche Bank Research

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