The Nigerian Oil Crisis

Brandon Foreman
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Section 1: Background
Discovery of Oil

- Oil was discovered in Nigeria in 1956
- Concentrated in Niger Delta
- Previously an agricultural dependent economy, became reliant on oil

Corruption at Its Finest

- Nigerian National Petroleum Company was established in 1977, created a joint venture with Shell and other oil companies
- Constitution of 1979 gave the Nigerian federal government right to seize land
- Thousands of oil spills have occurred, disrupting not only the environment, but fishing, farming, and other industries
Enter the “Militants”

- Natives started rebelling against the government in the 1990s
  - Large scale protests
  - Kidnapping of oil workers
  - Bunkering: cutting pipelines to siphon oil to sell
- Rebellions eased when government announced Amnesty program in 2009
- Militants re-emerged in 2016, the largest and most public of which has been the Niger Delta Avengers
- The Avengers use Twitter to take credit for their actions and voice criticism of government
- From January until July of 2016, the Avengers claimed responsibility for 35 incidents of destruction

https://totallycoolpix.com/images/tcp_images_before/799/oilnigeria_017__tcp_gallery_image.jpg

Niger Delta Avengers @NDAvengers · 1h
This is inline with our promise to all international Oil companies and Indigenous Oil Companies that Nigeria Oil production will be Zero.

https://2.bp.blogspot.com/-TK2-kZ-yXLE/V1CRVjqlqjDSI/AAAAAAAAB42/U/CMybXubotGwjudCXy6SPD2_ltsISJswWhAstddefBis1600/Capture.PNG
Section 2: Economic Analysis
Early 2014 – Price hovered around $110/barrel

Mid 2014 – Fracking emerges as a big source of oil in the U.S., worries that strong demand in China will subside

2016 – Low prices bankrupt many U.S. Shale oil producers, supply outages in Canada & Nigeria and OPEC production cut boost prices

2017 – Oil hovers around $50/barrel as ramp up of U.S. production counterbalances OPEC cuts, demand remains constant
The Collapse of Oil Hit Nigeria Hard

- Nigeria’s federal government is highly dependent on oil
- Supply disruptions hit Nigeria at the worst possible time
- Volatility of oil has unleashed a chain of negative economic consequences
Central Bank projected that it would no longer be able to support the local currency.
Value of the Naira tanked, inflation has skyrocketed.
Volatile GDP plus rising unemployment has scared away foreign investors.
Fiscally Responsible?

- President Buhari’s “Zero Oil Plan” emphasizes need to remove dependence on oil through economic diversification
- Nigeria’s federal budget is bigger than it has ever been due to high expectations for capital expenditures
- Assumptions are very optimistic and still leave government with a sizable deficit (32%)

Who’s Opening the Piggy Bank?

- Nigeria’s sovereign bonds are non-investment grade and their definition indicates country is likely to default
- The economic plan has not been sound enough to attract funding from the World Bank, International Monetary Fund, or the African Development Bank
- This February, Nigeria was forced to turn to the bond market to fill its deficit and took out a $1.5B bond with a coupon of 7.875%

Not to Mention...

- The UN released a report in 2011 that said a full clean up could take 30 years
- Areas that “appear clean at the surface are severely contaminated underground”
- Drinking water in some communities has levels of benzene 900x above World Health Organization guidelines

### Nigeria: Credit Rating

<table>
<thead>
<tr>
<th>Rating</th>
<th>Moody's</th>
<th>S&amp;P</th>
<th>Fitch</th>
</tr>
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<tbody>
<tr>
<td>Nigeria</td>
<td>B1</td>
<td>B</td>
<td>B+</td>
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### Nigerian 2017 Federal Budget and Assumptions

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures</td>
<td>7,298 (Billion₦)</td>
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<tr>
<td>Oil Revenue</td>
<td>1,985 (Billion₦)</td>
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<tr>
<td>Oil Production Volume</td>
<td>2.2 bbl/day</td>
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<tr>
<td>Average Exchange Rate</td>
<td>305 ₦ / USD</td>
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<tr>
<td>GDP Growth Rate</td>
<td>2.5%</td>
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<tr>
<td>Expected Deficit</td>
<td>2,356 (Billion₦)</td>
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### Coupons on Nigerian Sovereign Debt

- $500M July 2018
- $500M Jan 2021
- $500M July 2023
- $1.5B Feb 2032
The End