



The Nigerian Oil Crisis

Brandon Foreman
LIT 290S Final Project
Spring 2017



<http://www.stephanieobi.com/wp-content/uploads/2015/07/nigeria-flag-banner.jpg>

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



http://news.bbcimg.co.uk/media/images/57941000/gif/_57941596_nigeria_oil_304.gif



<http://3.bp.blogspot.com/-5q7tb8k9OxQ/UuquRdSaP8I/AAAAAAAAAfw/tT0HcZ41t1k/s1600/Crude+oil+everywhere.png>

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.

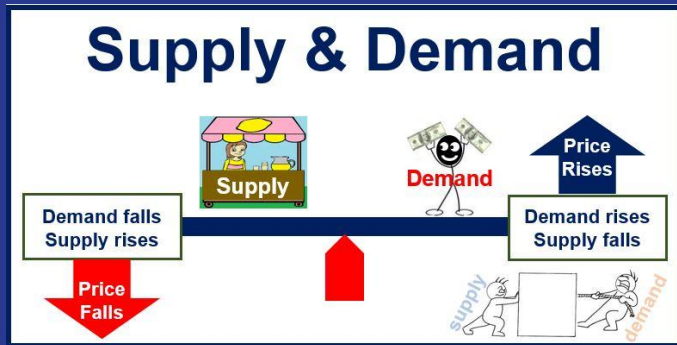
https://2.bp.blogspot.com/-TK2-kZ-yXLE/1CRVjqJDSI/AAAAAAB42U/CMvBXutotGwbj4CXy0SPD2_JtsSJSwWhAClCB/s1600/Capture.PNG

Section 2: Economic Analysis

Oil Market Overview



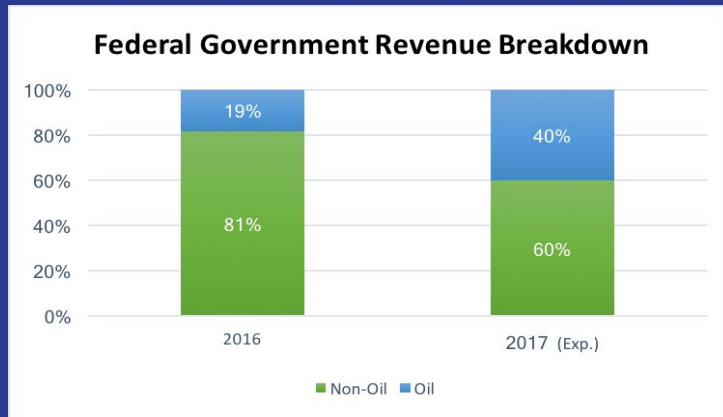
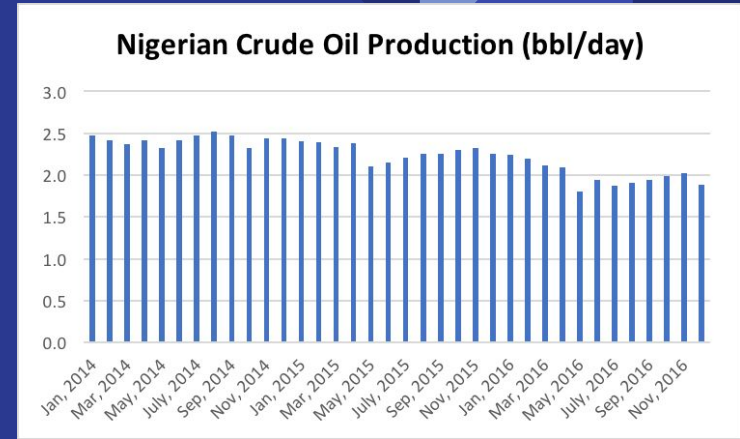
- Early 2014 – Price hovered around \$110/barrel
- Mid 2014 – Fracking emerges as a big source of oil in the U.S., worries that strong demand in China will subside
- 2016 – Low prices bankrupt many U.S. Shale oil producers, supply outages in Canada & Nigeria and OPEC production cut boost prices
- 2017 – Oil hovers around \$50/barrel as ramp up of U.S. production counterbalances OPEC cuts, demand remains constant



<http://marketbusinessnews.com/wp-content/uploads/2014/01/Supply-and-demand.jpg>

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



Containing the Damage?

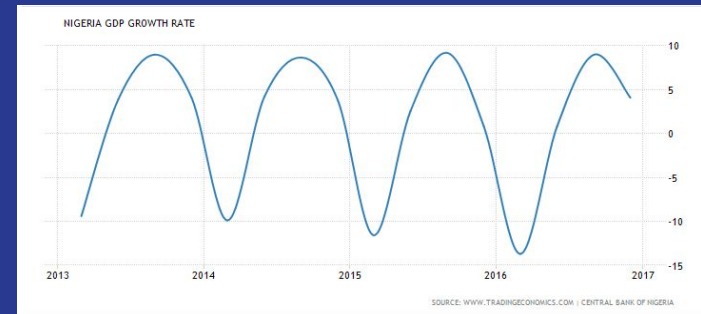
- Central Bank projected that it would no longer be able to support the local currency
- Value of the Naira tanked, inflation has skyrocketed
- Volatile GDP plus rising unemployment has scared away foreign investors



<http://www.tradingeconomics.com/nigeria/currency>



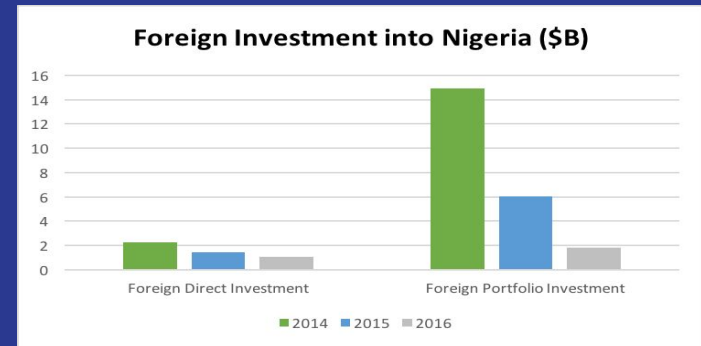
<http://www.tradingeconomics.com/nigeria/food-inflation>



<http://www.tradingeconomics.com/nigeria/gdp-growth>



<http://www.tradingeconomics.com/nigeria/unemployment-rate>



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...

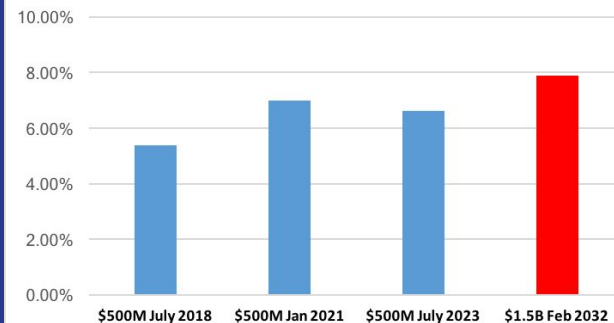
- The UN released a report in 2011 that said a full clean up could take 30 years
- Areas that "appear clean at the surface are severely contaminated underground"
- Drinking water in some communities has levels of benzene 900x above World Health Organization guidelines

| Nigerian 2017 Federal Budget and Assumptions | |
|--|-------------------|
| Expenditures | 7,298 (Billion ₦) |
| Oil Revenue | 1,985 (Billion ₦) |
| Oil Production Volume | 2.2 bbl/day |
| Average Exchange Rate | 305 ₦ / USD |
| GDP Growth Rate | 2.5% |
| Expected Deficit | 2,356 (Billion ₦) |

Nigeria: Credit Rating

| Moody's | S&P | Fitch |
|---------|-----|-------|
| B1 | B | B+ |

Coupons on Nigerian Sovereign Debt





The End