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Opposition People's Democratic Party (PDP) member Atiku Abubakar emerges as a frontrunner in Nigeria's February 2019 presidential elections. The Central Bank of Nigeria (CBN) monetary policy committee holds the interest rate at 14% in an attempt to curb rampant inflation as a result of the election period and a probable increase in the minimum wage nationwide. United Kingdom-based HSBC and Switzerland-based UBS close offices in Nigeria as international capital leaves the country in the wake of the \$8.1 billion dispute between the CBN and South Africa-based telecoms firm MTN. Nigeria drops one place in the World Bank's 2019 Doing Business Reports from 145th to 146th out of 190 countries.

PDP's Atiku Abubakar emerges as presidential frontrunner

President **Muhammadu Buhari's** (2015-present) chances of re-election in February 2019 have significantly diminished in recent weeks. Opposition **People's Democratic Party (PDP)** member **Atiku Abubakar**, having united the PDP after a highly competitive primary election, is now the marginal frontrunner in the race for the presidency, contested by 79 candidates.¹ This is positive news for international investors to Nigeria, as ARC understands Abubakar to be a "business friendly" candidate.²

Despite the many candidates running for the post, the presidential election is really a competition between Buhari and his ruling **All Progressives Congress (APC)** and Abubakar of the PDP. Understanding the reasons behind Buhari's and Abubakar's appeal is key to predicting the election's most likely outcome.³ Buhari's failings in government since 2015 have led to a lack of trust in his ability to rule. Seeking healthcare in **London (United Kingdom (UK))** to deal with persistent health problems, his absenteeism and perceived ill health lead voters to consider him out of touch with their needs (see *ARC Briefing Nigeria October 2018*).⁴ Buhari's failure to deliver on his key election promise of bringing about security in the north has compounded doubts about his leadership. Islamist insurgent group **Boko Haram** continues to carry out deadly attacks (see *ARC Briefing Nigeria July 2018*).⁵ The ineffectiveness of the government's mission to defeat Boko Haram, **Operation Lafiya Dole**, is evident through the appointment on 11 November of the operation's fifth commander in less than two years.⁶ Widespread violence in the **Middle Belt** between **Fulani** herders and farmers on Buhari's watch has added to a public sense that Buhari may not be fit to rule (see *ARC Briefing Nigeria June 2018*).⁷

Abubakar has a reputation for having moved back and forth between Nigeria's political parties.⁸ He was vice-president of Nigeria under President **Olusegun Obasanjo** (1999-2007) representing the

¹ Al Jazeera, 18 Nov 2018.

² Source, analyst, London.

³ Sahara Reporters, 21 Nov 2018.

⁴ Source, businessperson, London.

⁵ Business Day, 6 Aug 2018.

⁶ Eyewitness News, 11 Nov 2018.

⁷ Source, businessperson, London.

⁸ Source, political analyst, Lagos

PDP, but defected from the PDP in February 2014 to join the APC,⁹ reportedly intending to contest the presidency in 2015.¹⁰ Abubakar quit the APC on 24 November 2017, saying the party “*has failed and continues to fail our people*” (see *ARC Briefing Nigeria December 2017*),¹¹ and returned to the PDP in December:

“Atiku Abubakar has moved back and forth, like the pendulum, with the misfortune of seeking political office in different parties. He aims for the presidential ticket on each defection and has failed serially.”¹²

Abubakar has pounced upon the concerns of Nigerians regarding rapid inflation and the corollary rise of the cost of living since Buhari came to power. Upon the collapse of the global price of oil in 2016, inflation has run at a rate of more than 10% per year, peaking at nearly 19% in 2017.¹³ Many Nigerians find survival increasingly difficult, and many went on strike on 27 September in protest of the unchanged and increasingly low minimum wage set by the government in 2011 (see *ARC Briefing Nigeria October 2018*).¹⁴ Cementing his “business-friendly” image, Abubakar proposed to scrap Nigeria’s multiple foreign currency exchange rates to attract more foreign investment to the country.¹⁵

Even more important than each candidate’s manifesto is the ability to garner votes from Nigeria’s disparate regions. Both candidates are ethnic **Fulani Muslims** from the north of the country (Buhari north-west and Atiku north-east).¹⁶ Both Abubakar and Buhari have chosen Christian running mates from the south for the position of vice-president. For Buhari, his current vice president, **Yemi Osinbajo**, hails from the south-west,¹⁷ whilst Abubakar’s running mate, **Peter Obi**, is from the south-east.¹⁸ As such, the APC can be expected to garner more votes in the west and the PDP more in the east.

If Abubakar is victorious in the presidential election in February next year, investors can expect a more liberalised oil sector, reform of the foreign exchange sector which currently props up the naira and a cut in federal spending.¹⁹ If Buhari retains power, investors can expect policies to remain largely unchanged.²⁰

CBN holds interest rate at 14% in attempt to curb inflation

A **Central Bank of Nigeria (CBN)** monetary policy committee meeting on 22 November concluded that Nigeria’s benchmark interest rate would remain at the record high of 14%.²¹ This measure seeks to curb inflation across the country that has crippled many Nigerian households with an increased cost of living.²² In a bid to mitigate inflationary pressures, the CBN has also sought to decrease liquidity by issuing short-term treasury bills called open market operations (OMOs).²³

The CBN’s decision to retain a 14% interest rate was no surprise among credit analysts considering the context of Nigeria’s political and economic condition. With presidential election campaigns

⁹ Vanguard, 4 Feb 2014.

¹⁰ This Day, 18 Aug 2014.

¹¹ Vanguard, 25 Nov 2017.

¹² Source, political analyst, Lagos

¹³ tradingeconomics.com

¹⁴ Africanews, 30 Sept 2018.

¹⁵ Business Day Online, 4 Sept 2018.

¹⁶ Punch, 13 Oct 2018.

¹⁷ African Arguments, 8 Oct 2018.

¹⁸ Sun News Online, 16 Oct 2018.

¹⁹ Financial Times, 21 Nov 2018.

²⁰ Financial Times, 21 Nov 2018.

²¹ Reuters, 22 Nov 2018.

²² Bloomberg, 22 Nov 2018.

²³ Bloomberg, 22 Nov 2018.

beginning on 18 November and not to finish before the 16 February election date, an economic downturn is to be expected.²⁴ As such, the CBN is unwilling to risk easing interest rates for want of stimulating unwanted inflation.²⁵

The campaign for an increase in the national minimum wage is both a result of inflation and a potential cause of further inflation. Set at N18,000 (\$50) a month in 2011, the minimum wage has been left unchanged despite the dramatic increase in the cost of living since 2011 (see *ARC Briefing Nigeria October 2018*).²⁶ After several prominent trade unions organised a “warning strike” on 27 September demanding an increase in the minimum wage, the **National Minimum Wage Committee** has put a proposed increase to N30,000 (\$83.42) per month to parliament.²⁷ The bill is still subject to debate, albeit with accelerated hearing and passage through the **House of Representatives in Abuja**.²⁸ During this crucial electioneering period, the government is under pressure to give voters what they want by way of a big wage increase, despite the potential for an economic shock.²⁹

Investors can expect interest rates to remain high until February next year and to remain high thereafter in the case of a Buhari win. However, if Abubakar wins, the naira could devalue further, giving rise to higher inflation.³⁰ Regardless, with the minimum wage bill under heavy political pressure to be passed, investors can expect the cost of labour to rise in Nigeria.

International capital flies from Nigeria following \$8.1 billion MTN dispute

CBN governor **Godwin Emefiele** told press on 22 November that the central bank is close to negotiating a settlement deal with **South Africa**-based telecoms firm **MTN** to end a dispute in which the CBN ordered MTN to pay \$8.1 billion to Nigeria and accused the company of flouting Nigerian foreign exchange regulations (see *ARC Briefing Nigeria September 2018*).³¹ Nigerian news agency **Vanguard** learned on 14 November that the CBN plans to fine MTN \$800m, a significant reduction from the initial \$8.1 billion initially ordered.³²

The fine forms part of President Buhari’s policy to enforce tough foreign exchange regulations on big business and to attempt to keep money made in Nigeria within the Nigerian economy (see *ARC Briefing Nigeria September 2018*). However, Buhari’s policy and the actions of the CBN were perceived as too harsh by **Switzerland**-based bank **UBS** and the UK-based bank **HSBC**, both of which closed their offices in Nigeria on 5 November in a suspected fright of the government’s anti-business agenda.³³ Another global giant, **United States**-based conglomerate **General Electric** handed over leadership of a rail consortium to build a \$2 billion railway line in Nigeria, showing further evidence of a flight of global capital from Nigeria.³⁴ Foreign direct investment to Nigeria dropped from \$1.7 billion in the first half of 2017 to \$1.2 billion in the first half of 2018, underlining this capital flight.³⁵

Nigeria’s drop from 145th in 2018 to 146th out of 190 countries in the **World Bank’s Doing Business** report for 2019, with a poor score of 52.89 reflects the somewhat prohibitive and punitive business environment in the country.³⁶ Although Nigeria made several reforms during the year, it ranks well below its major African economic competitors, **Kenya** (70.31 points in 61st place) and South Africa

²⁴ Leadership, 19 Nov 2018.

²⁵ Leadership, 19 Nov 2018.

²⁶ Africanews, 30 Sept 2018.

²⁷ Daily Post, 22 Nov 2018.

²⁸ Daily Post, 22 Nov 2018.

²⁹ Vanguard, 15 Nov 2018.

³⁰ Premium Times, 15 Nov 2018.

³¹ Reuters, 22 Nov 2018.

³² Pulse, 14 Nov 2018.

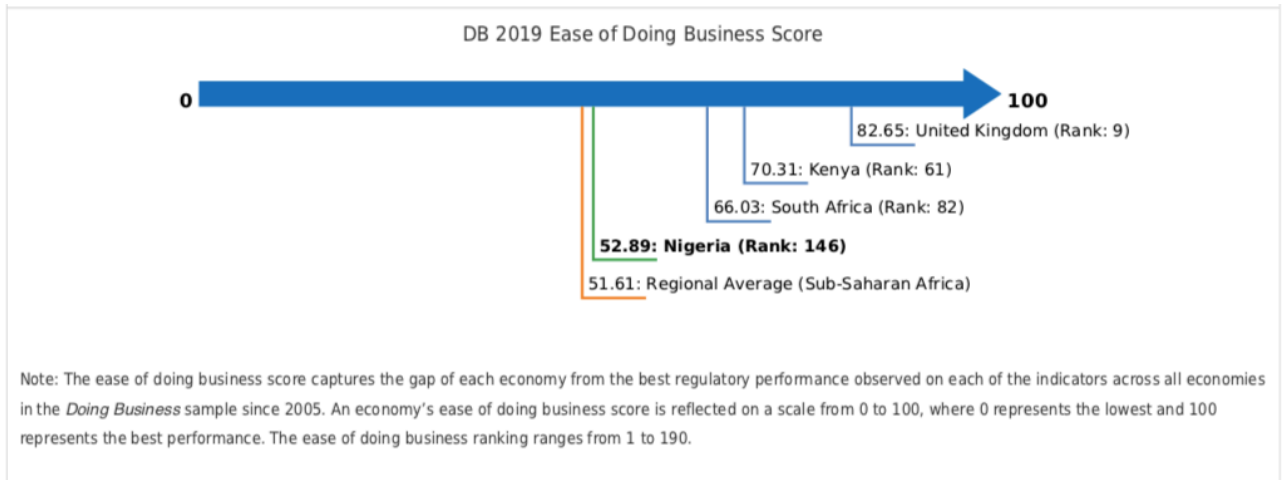
³³ IOL, 5 Nov 2018.

³⁴ Premium Times, 15 Nov 2018.

³⁵ Africanews, 3 Nov 2018.

³⁶ Doing Business 2019, p. 5.

(66.03 points in 82nd place), and only marginally above the **sub-Saharan Africa** average score of 51.61 points:



Source: World Bank Doing Business 2019, Training for Reform, Economy Profile Nigeria

Investors can expect tough regulatory measures to continue under President Buhari, but Abubakar, true to his “business friendly” image, has pledged to relax foreign exchange regulations if he wins the presidency in February, and has publicly committed to wooing foreign investors to Nigeria if he gains power.³⁷

Planner

- 1 Dec 2018 (**Nigeria**) *Vanguard*. Campaigning to begin for governorships and state assembly elections;
- 16 Feb 2019 (**Nigeria**) *Vanguard*. Voting in presidential and **National Assembly** elections;
- 2 Mar 2019 (**Nigeria**) *Vanguard*. Voting in governorships and state assembly elections;

Chronology

- 19 Nov 2018 **Lagos (Nigeria)** *Reuters*. Opposition **People's Democratic Party** candidate **Atiku Abubakar** states he will boost oil sector investment if he wins the 2019 presidential election;
- 18 Nov 2018 **Abuja (Nigeria)** *Al Jazeera*. Campaigning from 79 candidates begins for the February 2019 presidential elections;
- 15 Nov 2018 **Abuja (Nigeria)** *Premium Times*. **United States (US)**-based company, **General Electric**, hands over leadership of a rail consortium to build a \$2 billion railway line to South Africa state-owned transport company, **Transnet**;
- 14 Nov 2018 **Lagos (Nigeria)** *Punch*. Media reports that the government and **South Africa**-based telecommunications company **MTN Group** agree to reduce the \$8.1 billion fine to around \$800m;
- 14 Nov 2018 **Lagos (Nigeria)** *Reuters*. US-based diversified giant, **General Electric Co**, pulls out of a long-term concession to maintain and operate a rail line in **Nigeria**;
- 12 Nov 2018 **Abuja (Nigeria)** *EWN*. Chair of the **Economic and Financial Crimes Commission**, **Ibrahim Magu**, asks the **United Kingdom (UK)** to extradite former oil minister **Diezani Alison-Madueke** for corruption charges;

³⁷ Premium Times, 15 Nov 2018.

11 Nov 2018 **Maiduguri (Nigeria)** *EWN*. The **Nigerian** army names **Benson Akinroluyo** as head of **Operation Lafiya Dole**, which is tasked with fighting **Boko Haram**, becoming the fifth commander in less than two years;

8 Nov 2018 **Abuja (Nigeria)** *Premium Times*. The **International Monetary Fund** forecasts **Nigeria** to grow at 1.9% in 2018, up from 0.8% in 2017;

6 Nov 2018 **Lagos (Nigeria)** *Business Day*. The senate votes to investigate the **Nigerian National Petroleum Corporation's** reported \$1.05 billion withdrawal from oil venture, **Nigeria LNG**;

5 Nov 2018 **Abuja (Nigeria)** *Mail & Guardian*. The **Central Bank of Nigeria** states that foreign direct investment dropped to \$1.2 billion in the first half of 2018, down from \$1.7 billion in the first half of 2017;

4 Nov 2018 **Lagos (Nigeria)** *Business Day*. **United Kingdom**-based **HSBC** and **Switzerland**-based **UBS** close their offices in **Nigeria** for unknown reasons, though analysts speculate it is due to the tax dispute with **South Africa**-based telecommunications firm, **MTN**;

1 Nov 2018 **Abuja (Nigeria)** *Business Day*. State-owned oil firm, **Nigerian National Petroleum Corporation**, signs a crude-for-product deal with UK-based oil company, **BP**, for the next six months to help meet **Nigeria's** petroleum needs;

31 Oct 2018 **Abuja (Nigeria)** *FT*. **Brazilian** state-owned oil company **Petrobras** sells a 50% stake in deepwater oil blocks in **Nigeria** to a consortium led by **Switzerland**-based oil trader, **Vitol**;

31 Oct 2018 **Abuja (Nigeria)** *Punch Nigeria*. Special adviser to the president **Adeyemi Dipeolu** states that the government is not in a hurry to sign the **African Free Trade Agreement** due to its implications on **Nigeria's** economy;

30 Oct 2018 **Abuja (Nigeria)** *News24*. Security forces kill three supporters of imprisoned **Shiite** cleric, **Ibrahim Zakzaky**, during a protest, which may radicalise other supporters;

30 Oct 2018 **Lagos (Nigeria)** *IOL*. **South Africa**-based telecommunications company **MTN Group** CEO **Rob Shuter** hopes **Nigerian** courts will resolve its dispute with the government;

29 Oct 2018 **Abuja (Nigeria)** *Business Day*. **MTN Nigeria** CEO **Rob Shuter** states **MTN** still plans to list in **Nigeria** despite its dispute with the government over \$10.1 billion in tax and repatriation of funds;

28 Oct 2018 **Borno State (Nigeria)** *News24*. **Boko Haram** militants kill one soldier in an attack on a military base in **Gashigar**;

24 Oct 2018 **Abuja (Nigeria)** *BBC*. Parliament passes a \$14m campaign spending cap for presidential elections;

23 Oct 2018 **Abuja (Nigeria)** *Reuters*. **South Africa**-based telecommunications company, **MTN**, states it is still in talks with **Nigerian** officials to find a solution to the initial \$8.1 billion repatriation of funds dispute;

22 Oct 2018 **Lagos (Nigeria)** *Vanguard*. **China**-based mining giant, **Jin Bao Rong Group of Companies**, plans to start exploration and mining operations in **Nigeria**;

19 Oct 2018 **Lagos (Nigeria)** *Reuters*. Court case hearings for the dispute over **MTN's** \$8.1 billion repatriation of funds is set for 30 October while the hearing for the \$2 billion unpaid tax bill is set for 8 November;

17 Oct 2018 **Abuja (Nigeria)** *Reuters*. Former **Delta State** governor **James Ibori** loses his appeal over a corruption conviction in a **London** court;

17 Oct 2018 **Abuja (Nigeria)** *News24*. Information minister **Lai Mohammed** states that the central bank and **South Africa**-based telecommunications giant **MTN** could soon come to a deal on the \$8.1 billion repatriation dispute;

17 Oct 2018 **Abuja (Nigeria)** *Reuters*. The upper house of parliament approves a planned \$2.78 billion **Eurobond** issue though warns government to limit foreign borrowing and to increase revenue collection;

16 Oct 2018 **Rann (Nigeria)** *BBC*. Islamist group **Boko Haram** kills aid worker **Hauwa Liman** after kidnapping her in March;

14 Oct 2018 **Abuja (Nigeria)** *News24*. Opposition **People's Democratic Party** candidate **Atiku Abubakar** picks former **Anambra State** governor **Peter Obi** as his deputy president for the 2019 presidential elections;