FitchRatings

Fitch Assigns Nigeria 'BB-' Rating; Outlook Stable

Fitch Ratings-London-30 January 2006: Fitch Ratings has today assigned the Federal Republic of Nigeria Long-term foreign and local currency Issuer Default Ratings of 'BB-' (BB minus), both with Stable outlook. The Nigeria so-called "Brady" Par bond maturing in 2020 has been assigned a 'BB' rating reflecting the value of US Treasury bonds that provide collateral against the principal value of the bond. At the same time Fitch has assigned a Short-term rating of 'B' and a country ceiling of 'BB-' (BB minus).

Nigeria's ratings are underpinned by the current government's strong commitment to economic reform, including measures to improve governance, tackle corruption, accelerate privatisation and rationalise the banking system. Fitch notes that the establishment of an oil price-based fiscal rule whereby all oil revenues above a reference price (USD33 per barrel for 2006) are deposited into an Excess Revenue Account ("ERA") at the Central Bank of Nigeria and the Fiscal Responsibility Bill ("FRB") recently submitted to parliament represent an important strengthening of the macroeconomic policy framework. The current administration's reform programme is also supported by the IFIs, including the IMF under a Policy Support Instrument ("PSI") arrangement. Crucially for Nigeria's credit standing, this enabled the Nigerian government to reach agreement on resolution of outstanding debt obligations with the Paris Club ("PC") of official creditors on 20 October 2005.

The first stage of the PC agreement has already taken place with USD6.3 billion of arrears repaid by the Nigerian government and one third of the remaining debt stock of USD24bn written down. The second and final stage of the agreement involving a further payment of USD6.1bn will extinguish all of Nigeria's debt with Paris Club creditors. This will be completed following the conclusion of the next review of the IMF PSI arrangement expected in March 2006 and is incorporated into Nigeria's 'BB-' (BB minus) ratings. Reflecting discussions with Nigerian and creditor representatives, Fitch does not expect Nigeria's USD1.4bn of so-called "Brady" bonds to be subject to "comparable treatment" to Nigeria's Paris Club obligations given previous debt relief granted by commercial creditors.

Fitch estimates the government public debt burden will be equivalent to just 17% of GDP by end-2006 compared with 66% in 2004. Moreover, with public foreign debt of just USD5.1bn, (including USD2.9bn of mostly concessional debt owed to multilateral institutions), compared with USD42 billion of international reserves forecast for end-2006, Nigeria will be a net public external creditor while the public external debt service ratio will fall to just 1% of exports of goods and services in 2007.

"The current administration's ambitious reform programme and the regularisation of relations with Paris Club creditors mark an important step in Nigeria's rehabilitation with the international financial community," said Veronica Kalema, Director in Fitch's Sovereign Group in London. "Sharp reductions in the government's debt service burden will free public resources necessary to tackle the major economic and social challenges that Nigeria faces."

Nigeria's sovereign ratings are however constrained by the legacy of decades of political misrule and economic mismanagement. Nigeria has one of the lowest levels of GDP per capita of any country that is rated 'BB-' (BB minus) or above by Fitch, a testament to the economic, social and political challenges it faces, which means that an economically and politically sustainable debt burden is much lower than that of richer and more highly rated sovereigns. Under the National Economic Empowerment and Development Strategy ("NEEDS") structural reform programme, measures to improve the business environment and encourage private investment necessary to diversify the economy, create employment and raise incomes, are being pursued, but the economy and public finances remain vulnerable to adverse oil shocks. While the current administration has placed tackling corruption and improving transparency and governance at the heart of its economic and social programme - Nigeria is a leading participant in the Extractive Industries Transparency Initiative recently endorsed by the G8 and an Economic and Financial Crime Commission has been established to tackle corruption - much remains to be done, especially at state level.

Social unrest and violence in the oil producing Niger delta region, which in recent months has included attacks on oil workers and infrastructure, is not expected to permanently and materially impair oil production and exports. While political and social tensions may intensify in the run up to presidential elections in 2007, in Fitch's opinion, the risk of severe political or social volatility that would impair the government's capacity or willingness to service its obligations is currently small. Nonetheless, it will take several years of sustained effort, including by the administration that follows the conclusion of President Obasanjo's second and final term in 2007, to strengthen civil and political institutions and firmly secure economic and social stability over the long-term.

A copy of the sovereign report on Nigeria will be available shortly on Fitch's website www.fitchratings.com. A teleconference on the country's 'BB-' (BB minus) rating will be held tomorrow at 14:30 GMT.

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