

The Nigerian Economy

Nigeria is the largest economy in Africa and is most definitely a growing economy. However, based on analysis of trends over the years 2001 to 2012 Nigeria has a relatively small and different economy when compared with the United States. Using data extracted from the World Development Indicators database and Global Financial Data, graphs of Nigeria's economy can be analyzed based on real GDP, government debt, net exports, and equity. Both Nigeria's general economic state and the correlation between economic variables can be determined based on these.

To begin, the real GDP of Nigeria showed a constant increase from 2001 to 2012. Increasing GDP is associated with increasing liquidity and a growing economy for Nigeria. Nigeria's GDP is drastically different than the US because Nigeria has a much smaller economy and is less prevalent in the Global Market. According to Nationmaster.com, the United States has a GDP about 60 times larger than Nigeria's, which says a lot about the types of economic activity they have. Nigeria's growing GDP can be associated with the fact that the country is working to expand and reconstruct their economy. According to nationmaster .com, following the financial crisis of 2008, Nigeria began efforts to develop and grow their economy as well as increase their GDP. This quote below details what was going on at the time;

Since 2008 the government has begun to show the political will to implement the market-oriented reforms urged by the IMF, such as modernizing the banking system, removing subsidies, and resolving regional disputes over the distribution of earnings from the oil industry. GDP rose strongly in 2007-12 because of growth in non-oil sectors and robust global crude oil prices (NationMaster).

Next we will analyze the relationship between exchange rate and the current account and why it exists. Over the time period from 2001 to 2012 in general, the current account increased besides during the 2008 global financial crisis. The current account decreased in the financial crisis because there was a negative shock everywhere, leading to a lack of exports and an overall global recession. On the contrary, the increasing current account over the rest of the years influenced the exchange rate going up over the time period. One can deduct that the naira was experiencing depreciation because of the increasing amount of naira it took to buy 1 US dollar. When a country experiences a depreciation it means that their currency is less valuable and thus their goods are less expensive in terms of international trade. Due to the competitiveness in prices of Nigerian goods and services over this time period, there was a current account surplus.

The government debt as a percentage of GDP for Nigeria is another interesting variable to review. From 2003 to 2006, Nigerian government debt as a percentage of GDP decreased sharply. This can be attributed to the fact that GDP saw a positive jump during this time period causing debt to be a smaller fraction of GDP. Additionally, the decreased government debt can be linked to the assistance that Nigeria received from the International Monetary Fund in August of 2000. Although Nigeria could not uphold the deal to reform their economy with the IMF, their debt position still was decreasing due to the \$1 billion they were given (NationMaster). Contrarily, Nigerian government debt increased from 2008 to 2009, which is related to the global financial crisis and the borrowing that occurred to compensate for the defaulted bank loans experienced globally. When comparing government debt to the exchange rate between US dollars and Nigerian naira, it is seen that there is a connection. The increased government debt in 2008 was paired with an increased exchange rate. This shows that when Nigeria increased borrowing they suffered from a lack of confidence from investors and traders. Lack of

confidence in Nigerian financial assets led to a lack of confidence in the currency as a whole, and triggered a depreciation of the Nigerian naira.

Looking at the equity of the United States versus Nigeria from the S & P Global Equity Indices, Nigerian's equity was higher than the United States'. This graph makes sense because the data provided is percentage change. Due to Nigeria having a smaller economy, changes in equity will have a stronger impact percentage wise. In the equity graph, both countries saw very similar changes from 2001 to 2012. It can be noted that the US hit their lowest equity index in 2008 but Nigeria saw theirs shortly after in 2009. This suggests that the equity shock that hit the United States around 2008 took about a year to fully hit Nigerian financial markets. The main reason why the countries experience similar shocks in their financial sectors is because yields on financial assets are largely dependent on the yields of United States Financial Assets. This relationship exists because of the fact that that people around the world trust the United States currency and this makes the United States extremely powerful in the global financial market.

In terms of growth rate for the United States versus Nigeria, the countries experienced very different growth. Starting with the United States, there was slow growth from 2001 to 2004 and then a slow decrease in growth until 2007, when the country saw a sharp decline until 2009. Starting in 2009, the US economy saw gradual increase in growth moving into the subsequent years. This reflects a period of slow recovery for the US. Contrarily, Nigerian growth saw gradual increase from 2001 to 2003 followed by a sharp increase until 2004, when there was an even sharper decline until 2005. This is a significant contraction of the Nigerian GDP. Following this significant shock in the GDP growth rate, Nigeria saw very little change through 2012. In general terms, the changes in GDP growth for Nigeria were much larger in scale compared to the United States, which suggests that Nigeria has been making efforts to grow their economy. The

country has mostly focused on oil production in the past, but according to the African Development Bank Group Nigeria has been focusing on delving into more diverse service areas such as retail, real estate, information, and communication (ADBG). Moving into the future, the growth that Nigeria does experience can be equated to their expansion into new industries as a way to combat risk and uncertainty that oil prices bring to their economic state.

For the graph of relative prices versus exchange rate for Nigeria from 2001 to 2012, very interesting results are being seen. In the graph, the CPI ratio and exchange rate lines converge slightly but then diverge over time. This divergence expresses that purchasing power parity is not holding over this 11-year span, and that neither prices nor exchange rates are adjusting over time to achieve purchasing power parity. Although this may seem alarming, it is actually not very descriptive of purchasing power parity because the data being analyzed is not over a long enough time span. Purchasing power parity is a theory that says prices and exchange rates will adjust in the *long run*, which would be 27 years according to the Taylor and Taylor article on purchasing power parity. The main reason why purchasing power parity did not work in this eleven-year span is because prices do not adjust that quickly and also because exchange rates in the short run jump too frequently due to the reactivity of traders in the financial markets. What is quite surprising, however, is that the CPI ratio and exchange rate do not look to be making any progress towards each other in the 11 years being analyzed. While it may be normal to see some divergence, it appears that the graphs are following a clear pattern of moving farther away from each other over time. This suggests that purchasing power parity may not be achieved in the expected 27-year time frame and that this may be something worth investigating.

Overall, the data from the World Development Indicators and Global Financial are very useful in analyzing the Nigerian and United States economies over the period from 2001 to 2012.

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Based on the data, it is seen that Nigeria and the United States have similarities and differences in their economies throughout history. However, it can be noted that real data does not always follow economic models due to factors that conflict the assumptions of those models. For example, looking at relative prices versus exchange rates in Nigeria proved that purchasing power parity does not always hold. In summary, real data is very useful because it allows economists to evaluate economic models and their prevalence in real world situations.

Works Cited

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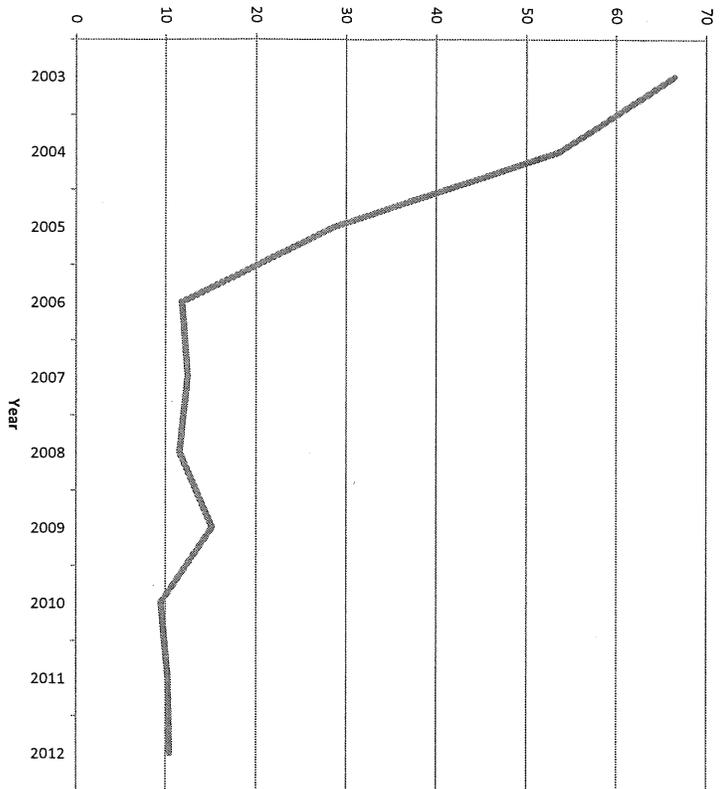
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Country Name	Series Name	Series Code	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nigeria	GDP (constant LCU)	NY.GDP.MKTP.KN	2.4712E+13	2.56E+13	2.83E+13	3.8E+13	3.9155E+13	4.24E+13	4.53E+13	4.81013E+13	5.14368E+13	5.55E+13	5.82E+13	6.067E+13
Nigeria	Nigeria GDP growth (annual %)	NY.GDP.MKTP.KD.ZG	4.4110652	3.784648	10.35418	33.7358	3.44466681	8.210965	6.828398	6.270263697	6.934416004	7.839739	4.887387	4.27927731
Nigeria	Current account balance (% of GDP)	BN.CAB.XOKA.GD.ZS	..	..	..	..	32.54304	25.11044	16.60754	14.01209224	8.182394728	3.91782	3.048997	4.41537511
United States	US GDP growth (annual %)	NY.GDP.MKTP.KD.ZG	0.97598183	1.786128	2.806776	3.78574	3.34521606	2.666626	1.77857	-0.291621459	-2.77552957	2.531921	1.601455	2.32108446
Nigeria	Current account balance (BoP, current US\$)	BN.CAB.XOKA.CD	..	..	..	..	3.6529E+10	3.65E+10	2.76E+10	29154225208	13867630391	1.45E+10	1.26E+10	2.0353E+10
Nigeria	S&P Global Equity Indices (annual % change)	CM.MKT.INDX.ZG	25.1039734	-0.28	57.54	23.9	20.6932524	33.95278	108.3033	..	-35.3987413	20.29219	-29.5426	52.9488211
Nigeria	Central government debt, total (% of GDP)	GC.DOD.TOTL.GD.ZS	..	..	..	66.43297	53.6304	28.6454509	11.78421	12.4049	11.5287729	15.13073182	9.449543	10.2327
Nigeria	Consumer price index (2010 = 100)	FP.CPI.TOTL	35.5066393	40.07868	45.70243	52.5569	61.9453982	67.04941	70.65815	78.83894418	87.93512356	100	110.8408	124.38222
United States	S&P Global Equity Indices (annual % change)	CM.MKT.INDX.ZG	-13.042456	-23.3662	26.38004	8.99354	3.00158237	13.6192	3.529202	-38.48525633	23.45381732	12.78208	-0.00248	13.40569
United States	Central government debt, total (% of GDP)	GC.DOD.TOTL.GD.ZS	51.9937058	53.50292	55.96868	56.384	56.2890963	55.29418	55.63429	64.03177718	76.31527224	85.60159	90.16213	94.3288125
United States	Consumer price index (2010 = 100)	FP.CPI.TOTL	81.2025685	82.49047	84.36308	86.6217	89.5605324	92.44971	95.08699	98.73747739	98.38641997	100	103.1568	105.291505
Both	Ratio Nigeria/US CPI		0.43726005	0.485858	0.541735	0.60674	0.69165956	0.725253	0.74309	0.79847031	0.893772978	1	1.074488	1.18131297
Both	Index of price ratio		1.00000012	1.111143	1.238931	1.3876	1.58180386	1.658631	1.699423	1.826076728	2.044030961	2.286969	2.457321	2.70162597
Nigeria	Official exchange rate (LCU per US\$, period PA.NUS.FCRF	PA.NUS.FCRF	111.23125	120.5782	129.2224	132.888	131.274333	128.6517	125.8081	118.5460167	148.9017417	150.298	153.8616	157.499426
United States	Official exchange rate (LCU per US\$, period PA.NUS.FCRF	PA.NUS.FCRF	1	1	1	1	1	1	1	1	1	1	1	1
Nigeria	Exchange rate index		0.999999955	1.084031	1.161744	1.1947	1.18019239	1.156614	1.13105	1.065761316	1.338667638	1.351221	1.383258	1.41596318
Data from database: World Development Indicators														
Nigeria	Exports	TDGXNGAM	17790.959	18377.29	23761.42	32890.9	349356.59	400190.2	476238.8	546528.7	431483.62	492964.6	570326.4	552946.83
Nigeria	Imports	TDGMNGAM	11750.6815	12357.75	15622.78	14830.8	21176.607	24186.25	31121.47	47006.778	36596.896	54055.73	70330.77	61476.176
Nigeria	Current Account Balance		6040277500	6.02E+09	8.14E+09	1.8E+10	3.2818E+11	3.76E+11	4.45E+11	4.99522E+11	3.94887E+11	4.39E+11	5E+11	4.9147E+11

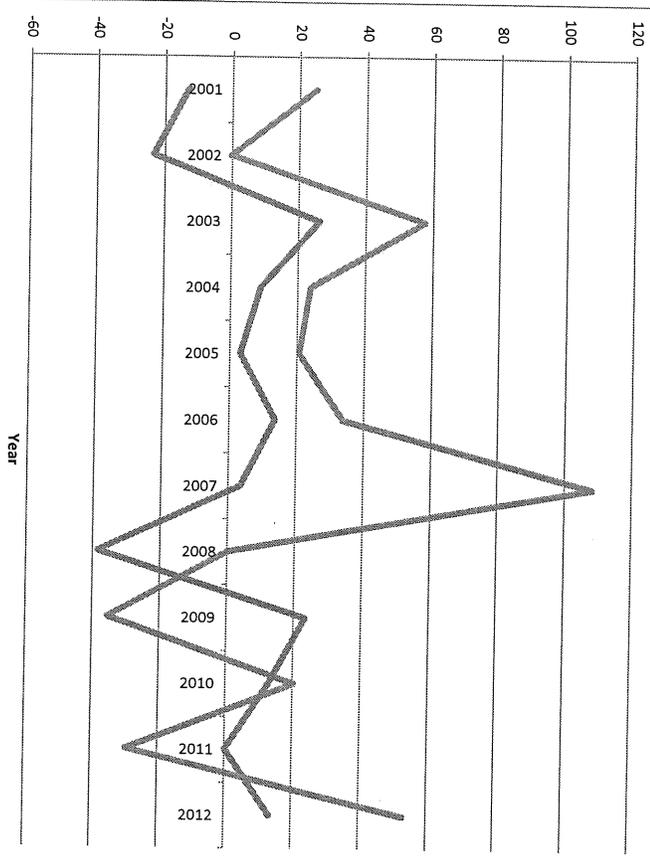
Data from database: Global Financial Data

Nigeria Government Debt (% of GDP)



Government Debt (% of GDP)
Data from database:
World Development
Indicators
Series:
GC.DOD.TOTL.GD.ZS

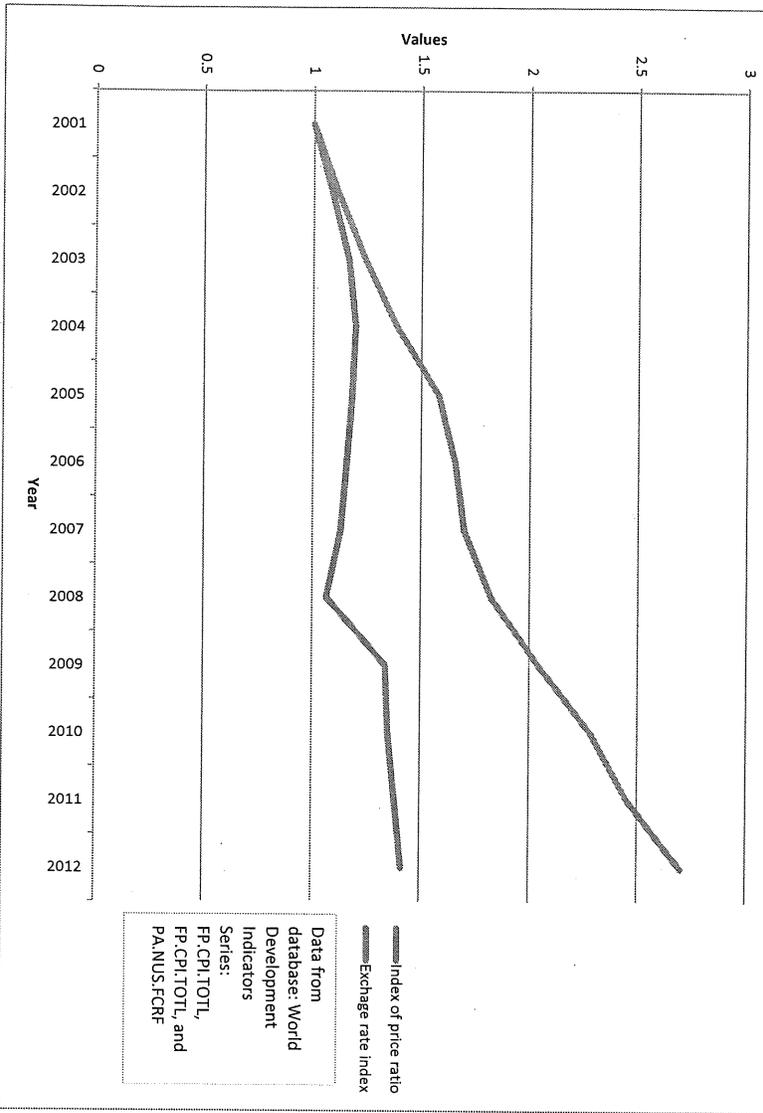
Equity Indices Nigeria vs United States



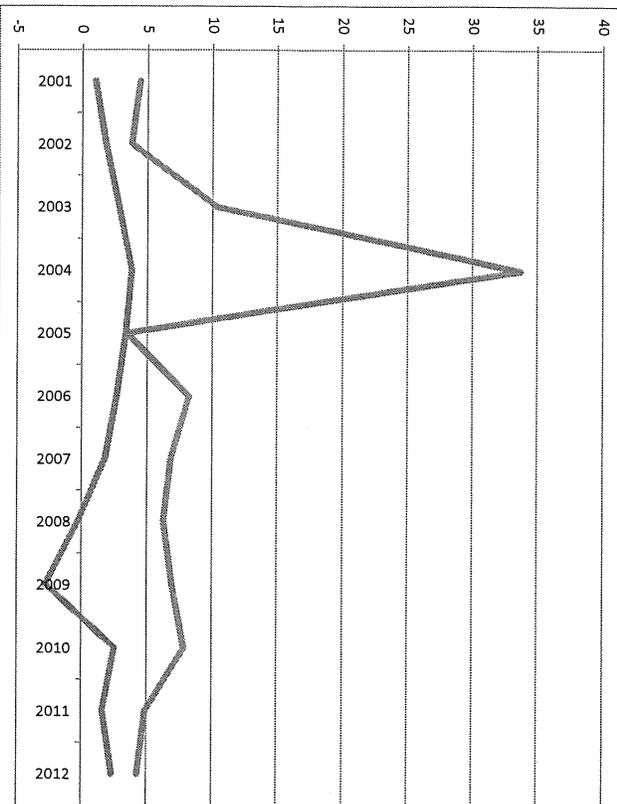
Legend:
- - - Nigeria Equity Index
— US Equity Index

Data from database:
World Development
Indicators
Series:
CM1.MKT.INDX.ZG and
CM1.MKT.INDX.ZG

CPI Ratio vs. Exchange Rate for US and Nigeria



GDP Growth Rate US vs Nigeria



Data from database: World Development Indicators
Series: NY.GDP.MKTP.KD.ZG and NY.GDP.MKTP.KD.ZG

Legend:
Nigeria GDP growth (annual %)
US GDP growth (annual %)

Nigeria Real GDP and Current Account Balance

