Nigeria’s elections uncertain despite Obi’s Lagos win; market reaction muted

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Nigeria’s outsider presidential candidate Peter Obi won in Lagos state, a ruling-party stronghold, according to the local press. If he manages a full victory, he will face difficulty in passing through reforms, Nigeria experts Leena Hoffmann-Atar from Chatham House and Ebenezer Obadare from the Council on Foreign Relations told this news service.

Local markets were relatively muted earlier this morning, with no significant directional moves observable, said a local banker.

The outcome of Nigeria’s most contested election in a generation is uncertain, with vote counting still underway. Full results are expected by Wednesday this week. Meanwhile, polls have been plagued by delays and technical difficulties in the transmission of results, said the banker.

“If Obi wins, he’s likely to face a parliament heavily controlled by [the] opposition. Hence, he may have some difficulty to pass reforms. If he, however, wins overwhelmingly and the dominant parties continue to engage in infighting, we might see elected members of Parliament migrating to the Labour Party [Obi’s party] and its further consolidation,” argued Hoffmann-Atar.

“In case the outsider won, I would not expect him to gain many seats in Parliament as Obi’s party lacks the local network of the two traditional parties: it’d be like President Biden governing with very few democratic representatives,” echoed Ohabare.

The Chatham House Nigeria expert added that turnover within the National Assembly following the elections is a key theme that attracted little attention in these elections.

Nigeria’s more than 93m registered voters will also choose 109 senators and 360 members of the House of Representatives.

To win the presidency, a candidate must secure the most votes with at least 25% of the ballots cast in at least two-thirds of Nigeria’s 36 states and the capital city Abuja. If no candidate meets these criteria, a run-off will be held 21 days after the first round.

Several polls had predicted a strong showing from the outsider Obi, although Obadare cautioned that political surveys in Nigeria are usually not very reliable and, this time, tended to over-represent Obi’s urban, young, and middle-class voters.

Despite the uncertainty surrounding the outcome of Nigeria’s election, investors see little difference in economic policymaking between the three main presidential candidates, said the two think tank experts and two international bondholders.

All four sources expected the new administration to cut energy subsidies in some form and the Central Bank to devalue the naira by year-end. “Energy subsidies will likely be removed, as consensus around this policy is at its peak since [the] 1970s, although vested interests will likely push back, so [one] should expect gradual and, in the worst case, cosmetic changes to this policy,” said Hoffmann-Atar.

Fuel subsidies accounted for 2.2% of Nigeria’s GDP in 2022 — or 15% of government expenditure — according to International Monetary Fund (IMF) estimates. The fund projects that the full removal of energy subsidies by 1H23 would yield cumulative fiscal savings of 3.7 percentage points of GDP over 2023-27.

On foreign policy and on Nigeria’s relationship with China in particular, Obadare sees no major differences among candidates and expects the authorities to continue adopting a pragmatic approach, balancing economic interests with the Asian giant against those stemming from traditional Western trading partners. “When Tinubu served as Lagos’ governor, he showed pragmatism in striking investment deals with Chinese entities; Atiku is pragmatic vis-à-vis China too,” said the Nigeria expert.

One issue that the new president, who will take office in May, will face is the policy regarding the replacement of naira banknotes, which is causing significantly more harm than good, said the two
Nigeria experts and the first bondholder. President Buhari introduced the policy last November to replace old notes with new ones, eliminating larger denominations, to rein in counterfeiting and channel cash savings into the banking sector. However, the initiative has so far been poorly executed and is fueling some unrest and the black market, as well as an increase in CFA franc transactions in some border areas in the north of the country.

At the time of writing, 56,992 polling stations out of 176,846 had submitted election results, according to Nigeria's Independent Electoral Commission online portal.

By Giovanni Riva

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