NIGERIA

Nigeria’s economic freedom score is 58.5, making its economy the 104th freest in the 2018 Index. Its overall score has increased by 1.4 points, with improvements in the labor freedom and judicial effectiveness indicators outpacing declines in fiscal health and monetary freedom. Nigeria is ranked 12th among 47 countries in the Sub-Saharan Africa region, and its overall score is above the regional average but below the world average.

Although Nigerian governments since 1999 have paid lip service to free-market reforms, actual implementation has been very slow. State management of scarce resources enables political elites to favor their constituencies and sometimes to skim a little off the top for themselves. They fear that reforms will push up consumer prices and stoke further political instability in addition to annoying the middle classes who rely on government-subsidized goods and private-sector companies that depend on state handouts and protectionist policies.

BACKGROUND: A former British colony, Nigeria is Africa’s most populous country. A new constitution established civilian government in 1999. In 2015, power transferred peacefully from one party to another for the first time when former military ruler Muhammadu Buhari defeated incumbent President Goodluck Jonathan. Nigeria, Chad, Niger, and Cameroon have expelled the Islamist terrorist organization Boko Haram from many of its strongholds in northeast Nigeria but have not been able to prevent frequent attacks. Low global oil prices have battered the petroleum-based economy. Economic growth has been driven by agriculture, telecommunications, and services, but diversification has yet to help the more than 60 percent of Nigeria’s 170 million people who still live in extreme poverty.
Enforcing the skeleton of the complex property rights system that is in effect remains difficult. The underfunded judiciary has some independence but is hobbed by political interference and rampant corruption. Although some members of the judiciary were arrested in 2016 for corruption-related offenses, impunity remains widespread at all levels of government.

The top individual income tax rate is 24 percent, and the top corporate tax rate is 30 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 9.0 percent of total domestic income. Over the past three years, government spending has amounted to 11.0 percent of total output (GDP), and budget deficits have averaged 3.4 percent of GDP. Public debt is equivalent to 18.6 percent of GDP.

Business freedom is below average for the region. Wages and individual productivity are low, but overall labor costs tend to be high. Due to its low capacity, the formal sector employs only about one-quarter of all Nigerians. Nigeria regulates prices on electricity but has no price controls for manufactured goods, although pressure to restore some fuel subsidies that were cut in 2016 is increasing.

Trade is moderately important to Nigeria’s economy; the combined value of exports and imports equals 21 percent of GDP. The average applied tariff rate is 9.8 percent. Nontariff barriers impede trade. Government openness to foreign investment is below average. Financial-sector reform is ongoing, but the state still influences the allocation of credit. Measures to improve access to finance for local small and medium-size companies have been introduced.