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THE ECONOMIC EFFECT OF THE IRAN-ISRAEL WAR ON NIGERIA



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The ongoing tensions and military confrontations between Iran and Israel have far-reaching economic implications beyond the Middle East. For Nigeria, a major oil-producing nation in Africa, the conflict poses both risks and opportunities that could significantly affect its economy.

One of the most immediate effects is on global oil prices. Both Iran and Israel are located in the strategically important Middle East region, which holds a significant portion of the world's oil reserves. Any disruption in the Strait of Hormuz, through which about 20% of the world's oil passes, can send oil prices soaring. For Nigeria, this could temporarily benefit government revenue, as higher crude prices mean more income from oil exports, which still account for over 70% of Nigeria's export earnings.

However, this short-term gain comes with risks. A surge in oil prices typically leads to higher fuel import costs. Nigeria, despite being an oil-rich country, relies heavily on imported refined petroleum products due to insufficient domestic refining capacity. This means that domestic fuel prices could rise sharply, putting pressure on government spending and increasing inflation, which is already a pressing issue in Nigeria.

Furthermore, the escalating geopolitical uncertainty may reduce investor confidence, particularly in emerging markets like Nigeria. Foreign direct investment (FDI) inflows could shrink as investors adopt a wait-and-see approach, fearing regional spillover or a global economic slowdown. This could undermine Nigeria's economic recovery efforts, especially in the wake of recent monetary reforms and the Central Bank's push to stabilize the naira.

In the long term, prolonged instability in the Middle East could also affect Nigeria's non-oil exports, especially to countries in Asia and Europe, due to disrupted shipping routes and increased insurance premiums for cargo.

In summary, while Nigeria may temporarily benefit from higher oil prices resulting from the Iran-Israel conflict, the overall impact could tilt negative if the war intensifies. The Nigerian government must respond with careful fiscal and monetary policy coordination to cushion these potential shocks.
