External Sector Committee Reports,
Economic Policy Directorate,
Central Bank of Nigeria,
Abuja

DEVELOPMENTS IN THE EXTERNAL SECTOR OF NIGERIAN ECONOMY

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HIGHLIGHTS:

- *External sector performance mixed*
- *External trade balance contracts*
- *Crude oil exports dominate merchandise exports*
- *Stock of external reserves declines*
- *External debt rises*
- *External Debt Sustainability Index rises*
- *Portfolio investment inflow increases, while FDI falls*
- *Exchange rate appreciates marginally in Q1, 2010.*

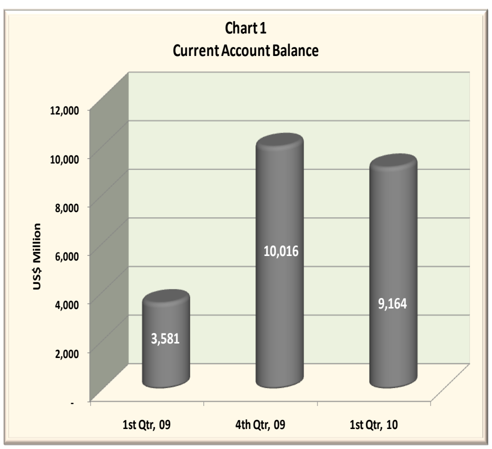
External Sector Records Mixed Developments

Introduction:

This report presents highlights of developments in the external sector of the Nigerian economy for Q1, 2010, in comparison with the levels recorded in the preceding and corresponding quarters of previous year as compiled by the Statistics Department. The report attempts to meet the objective of monitoring key external sector performance indicators of the economy in order to identify areas of policy needs.

• Current Account

As shown in Chart 1, the country's estimated current account balance in Q1, 2010 declined, when compared with the levels recorded in Q4, 2009.

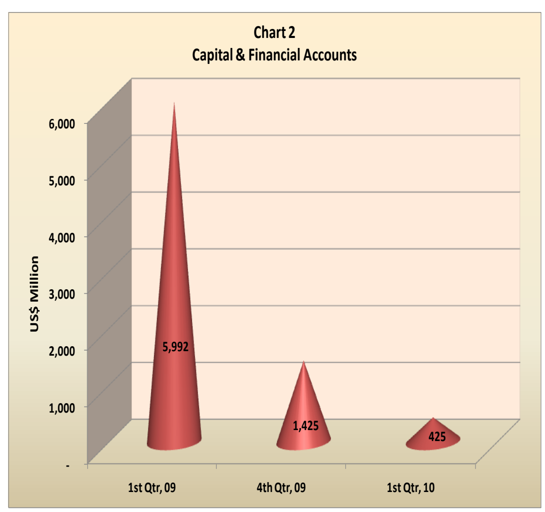


This was attributed largely to the weak demand for crude oil occasioned by the slow recovery in Nigeria's major trading partners, as well as, decline in inward transfers, especially home remittances. The movement in current account position as a result of developments in the international oil market is an indication of the vulnerability of Nigerian economy to global oil shocks, such that if the decline in current account position continues, the government may be forced to continue to draw-down on external reserves to finance imports and other foreign exchange needs. This calls for a reappraisal of the current strategy at diversifying the economic base away from oil. However, when compared with the level in the corresponding quarter of 2009, the current account balance improved appreciably (Table 1 and Chart 1).

• Capital and Financial Accounts

The balance in the accounts, stood at US$425.1 million in Q1, 2010 as against US$1.43 billion in the preceding quarter (Table 1, Chart 2). However, the dominance of short term capital in the financial account is not suitable for a long term growth of the economy. This is because such flows are volatile and could likely trigger financial crisis as experienced during the global financial meltdown of 2008 and 2009 in many countries, including Nigeria, when excessive foreign exchange outflows culminated into sharp depletion of external reserve and consequent depreciation of the exchange rate.

FDI flows are desirable because they are permanent and capable of enhancing growth in the Nigerian economy. A drastic reduction in cost of doing business especially addressing the problem of power and security would likely attract more foreign investors in to the country.



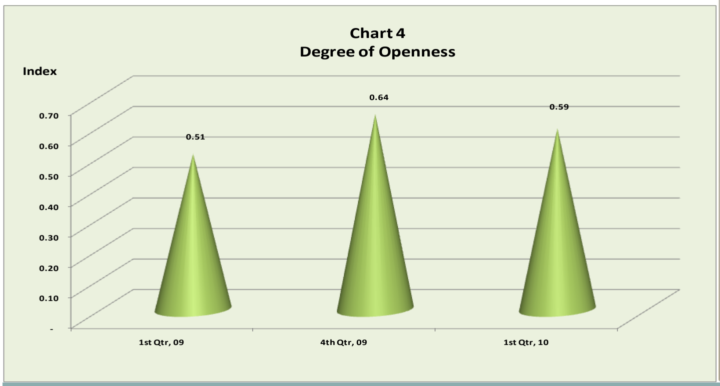
FDI Inflows

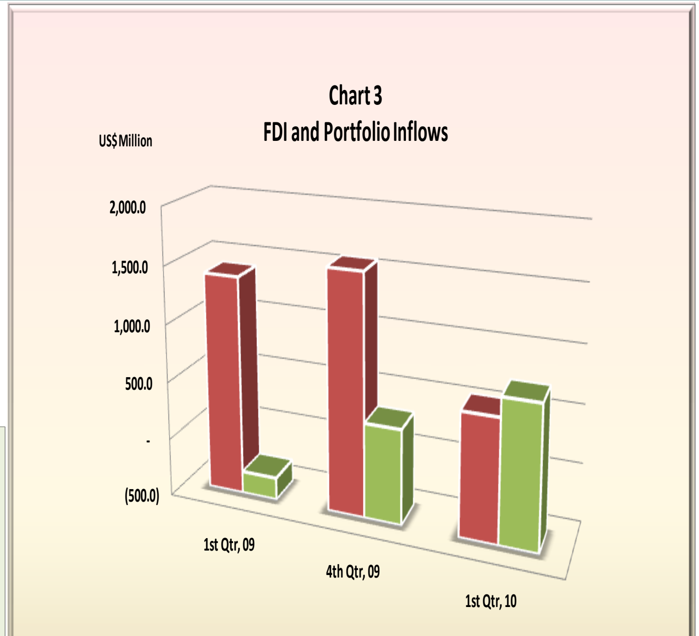
- **FDI and Portfolio Inflows:**

Portfolio Investment recorded an increase, while foreign direct investment (FDI) declined in Q1, 2010, in comparison with the levels recorded in Q4, 2009. As shown in Table 1, portfolio investment increased from US$314.62 million in Q4, 2009 to US$ 716.64 million in Q1, 2010 (Chart 3). The observed increase in portfolio investment between the two periods could be ascribed to the growing confidence in the economy.

- **Degree of Openness:**

The degree of openness depicting the share of Nigeria's total external trade to gross domestic products (GDP) fell marginally during the period under review, indicating a slow integration into the global economy. This implies that the GDP is growing faster and the output is absorb domestically rather than exported outside the economy (Chart 4 and Table 5).





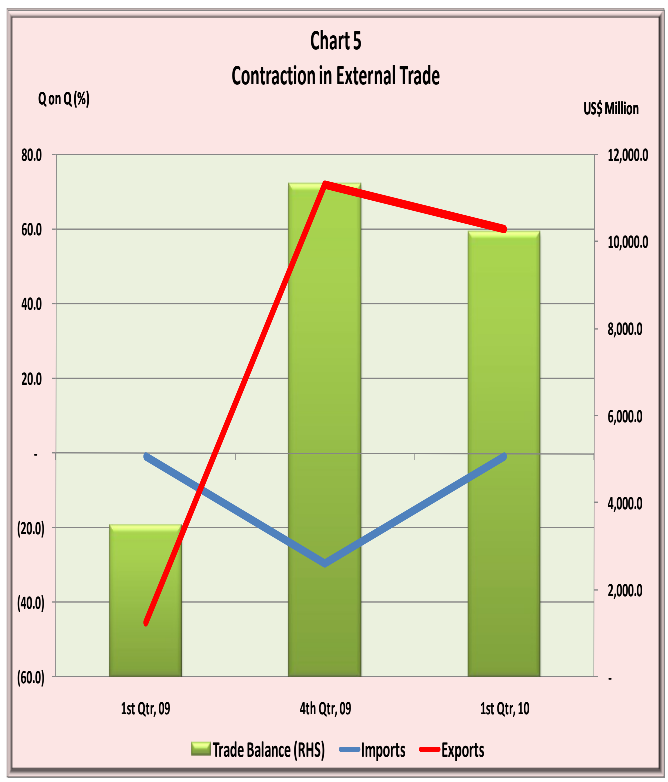
	1st Qtr, 09	4th Qtr, 09	1st Qtr, 10
FDI Inflows	1,399.4	1,569.7	550.6
Portfolio Inflows	(308.6)	314.6	716.6

Contraction in External Trade

- **Contraction in External Trade**

Available statistics revealed that Nigeria's trade balance declined in Q1, 2010 (Table 1) following a slight contraction in merchandise exports in comparison with the developments observed in Q4, 2009 (Chart 5 and Table 4). Similarly, considering quarter on quarter analysis, estimated exports reduced from 71.9 per cent in Q4, 2009 to 60.0 per cent in Q1, 2010. Quarter on quarter imports increased between the review and preceding period, from –29.48 per cent to -0.95 per cent, indicating comparative increase in the country's import bills.

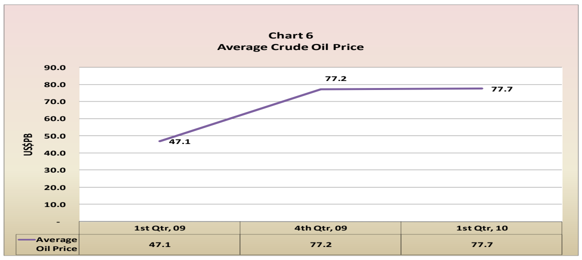
Aggregate import and export stood at US$17.8 billion and US$6.8 billion, respectively in the Q1,2010 compared with US$20.1 billion and US$7.6 billion in Q1, 2009. This resulted in the contraction of trade balance from US$11.3 billion in Q4,2009 to US$10.2 billion in Q1, 2010. The contraction in the trade balance is a reflection of the seeming slow recovery of the global economy.



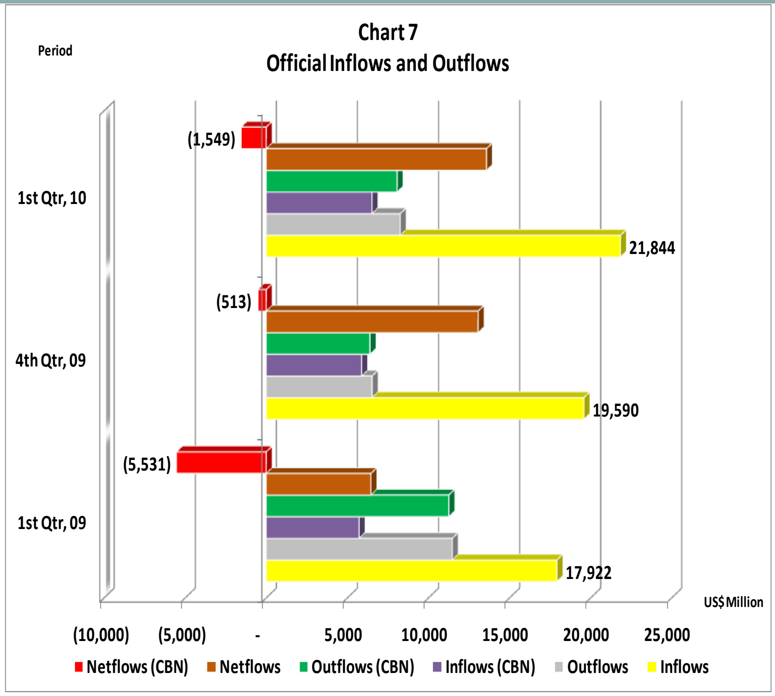
Foreign Exchange Flows

- **Inflows and Outflows:**

Available statistics (Table 2) indicated that foreign exchange inflows through the economy in Q1, 2010, stood at US$21,843.68 million against US$19,589.52 million recorded in Q4, 2009, representing an increase of 11.5 per cent. This development could be ascribed to favorable crude oil price in the international market as well as inflows associated with payments of exports arrears as shown in Chart 6.



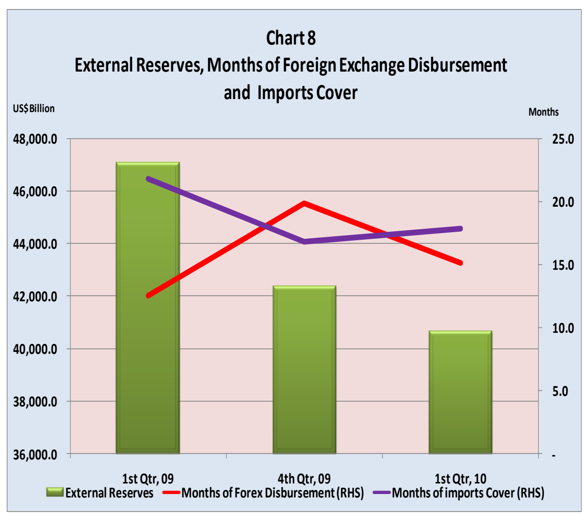
Similarly, total outflows in the period under review amounted to US$8,263.44 million, showing an increase of 26.6 per cent above the levels in the preceding quarter. Consequently, a net – inflow of US$13,580.24 million was recorded in Q1, 2010 as against the US$13,063.3 million in Q4, 2009. This is graphically demonstrated in Chart 7.



External Reserves

- **External Reserves:**

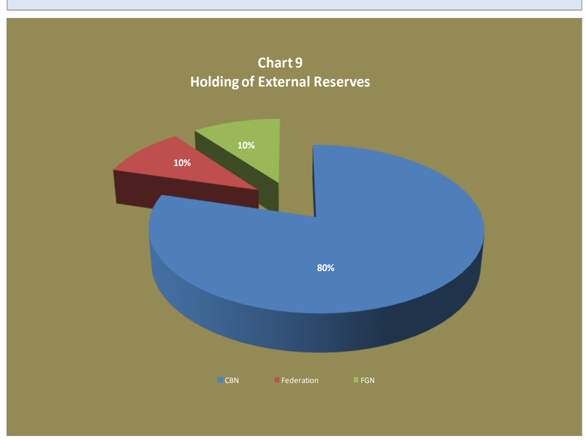
In contrast with the observed decrease in the estimated levels of exports receipts, Nigeria's external reserves, which stood at US$42.4 billion as at end Q4, 2009, declined to US$40.7 billion in Q1, 2010 (Table 1). Consequently, this impacted on the number of months of foreign exchange disbursements. Thus, the level of reserves in the review period could finance 15.1 months of foreign exchange disbursements and 18.9 months of imports cover. This is against the preceding period where the level of reserves could finance 19.9 months of foreign exchange disbursements and 16.8 months of imports cover. The development is graphically illustrated in Chart 8. Although, the external reserves was adequate in terms of import cover, but the gradual deterioration in the level of reserves is a sources of concern to the Central Bank and other policy makers. Further investigation shows that there was no accretion to reserve in February and March 2010, such that if this situation persists, the month of import cover may be below the WAMZ benchmark of 6 months in the near future if adequate checks are not put in place to mitigate the continued de-accumulation of reserves, especially through the WDAS and BDC funding which constitute over 80.0 percent of the foreign exchange outflows. As a matter of urgency, the CBN need to review its foreign exchange budget to monitor foreign exchange commitment to WDAS.



External Reserves stood at US$40.7 billion Q1, 2010

- **Holdings of External Reserves**

Analysis of the statistics on the holdings of external reserves revealed that the share of the CBN, Federation and Federal Government in total reserves stood at 79.5,10.2, and 10.3 per cent, respectively (Chart 9).



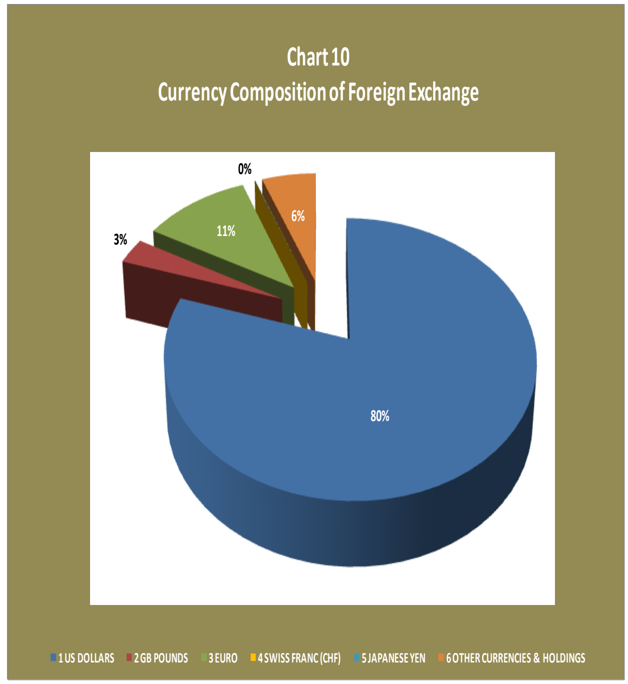
US Dollar Denominated Investments Dominate

US$ accounts for 80 per cent of the Nigeria's Currency Holdings in Q1,2010

- **Currency Composition of Foreign Exchange**

Available records from balances as per latest advice (BAPLA) revealed a total reserve of US$40,667.03 million during the period under review, representing a decline of 4.1 and 13.6 per cent when compared with the levels recorded in the preceding and corresponding quarters, respectively. Though, holdings of foreign reserves in US dollar in the review period constitutes about 80.0 per cent of the total foreign reserves holdings, it declined from US33,931.98 million in Q4, 2009 to US$32,523.00 million in Q1, 2010.

Swiss Franc (CHF) on the other hand, registered the least holdings of US$2.11 million or 0.005 per cent of the total holdings. Furthermore, the volume of Japanese Yen in total reserves during the period under review recorded increases of 28.64 and 41.93 per cent in relation to the preceding quarter and corresponding period of 2009, respectively (Table 3).



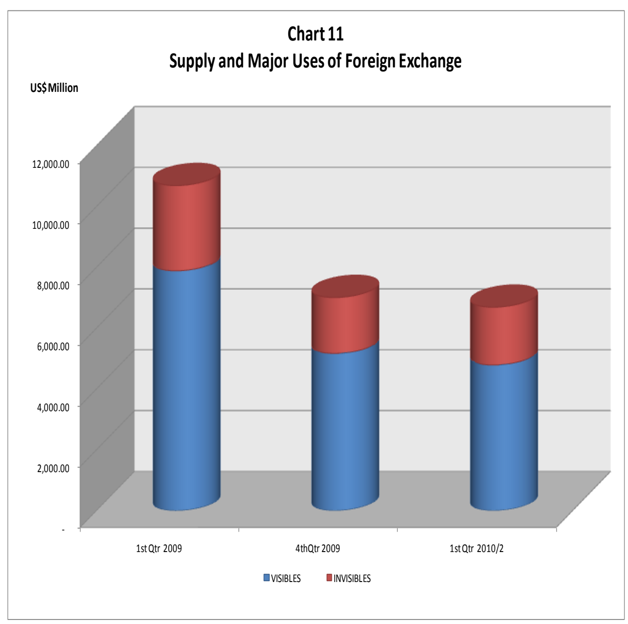
Supply and Major Uses of Foreign Exchange

Visible trade dominates foreign exchange supply

- **Supply and Major Uses of Foreign Exchange**

The aggregate supply of foreign exchange for visible and invisible trade during the period under review stood at US$6,686.5 million. This represented a 4.5 per cent moderation in relation to Q4, 2009. Compared to the corresponding period of 2009, the decline was significant at 37.4 per cent.

The total amount supplied in Q1, 2010, consisted of US$4,786.77 million and US$1,899.77 million for visible and invisible trade, representing 71.6 and 28.4 per cent, respectively. This pattern of domination by visible trade permeates during the three quarters analyzed (Table 6 and Chart 11).

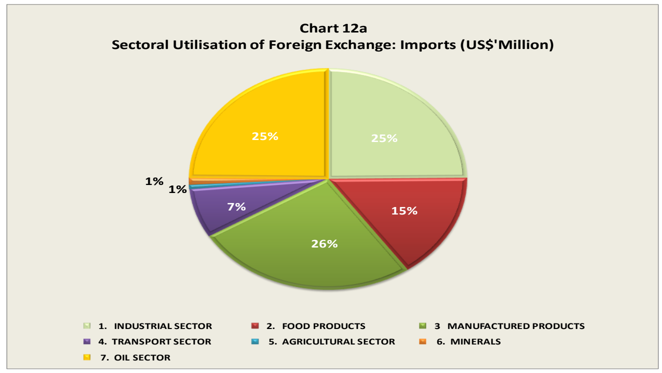


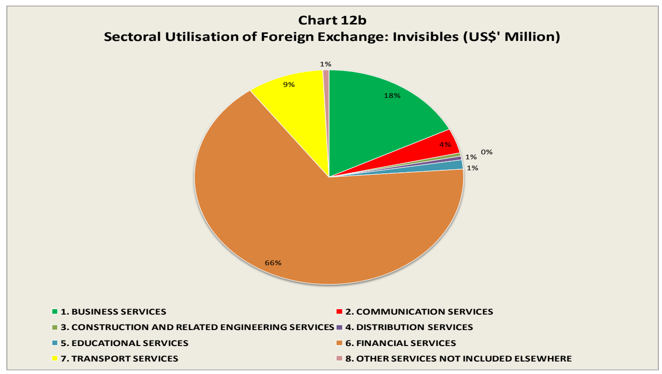
Sectoral Utilization of Foreign Exchange

- **Sectoral Utilization of Foreign Exchange**

Analysis of foreign exchange utilization by sectors revealed that US$4,786.77 million was spent on the importation of various items into the country in Q1, 2010, representing 71.6 per cent of the total foreign exchange utilized during the period. This represents a decline of 7.4 and 39.3 per cent in comparison with the levels recorded in the preceding quarter and corresponding period of 2009, respectively. As shown in chart 12a, the importation of manufactured products, industrial and oil sectors gulped 26.0, 25.0 and 25.0 per cent of the total amount utilized for imports, respectively (Table 7).

In Q1, 2010, the major components that gulped the sum of US$1,899.77 million of foreign exchange expended on invisible items included financial, business and transport services consisting of 66.0, 18.0 and 9.0 per cent, respectively (Chart 12b).



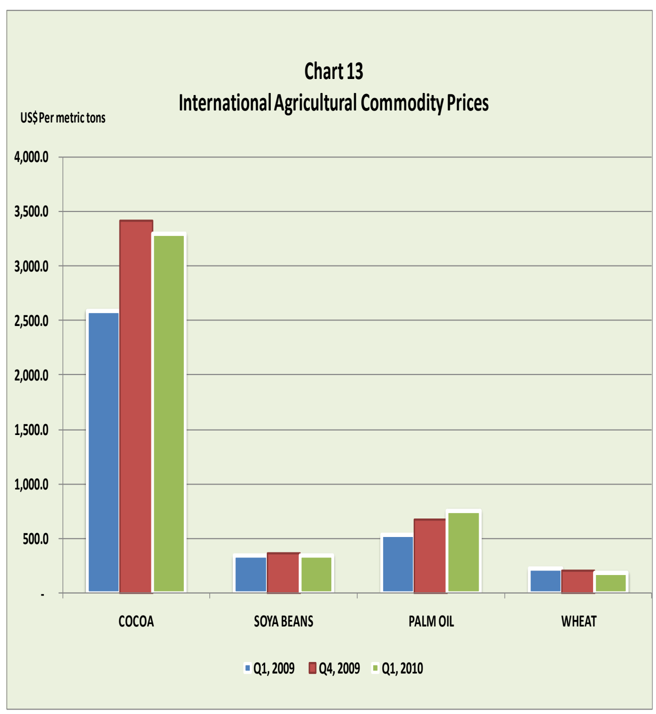


Mixed Developments in International Agricultural Commodity Prices

- **International Agricultural Commodity Prices**

Prices of international agricultural commodities monitored during the period under review showed mixed developments, when compared with the levels recorded in the preceding and corresponding quarters. For instance, while the price per metric tons of cocoa stood at US$3,418.07 in Q4, 2009, it fell to US$3,297.11 in Q1, 2010, representing a decline of 3.5 per cent. However, in comparison with the corresponding quarter, an increase of 27.1 per cent was observed. A similar development was observed in the price of soya beans (Table 7).

The price per metric ton of palm oil, which stood at US$763.41 in Q1, 2010, recorded increases of 12.4 and 42.4 per cent in relation to Q4 and Q1, 2009, respectively. In a contrasting development, wheat recorded price declines of 4.8 and 15.6, per cent in the period under review, when compared with the preceding and corresponding quarters, respectively (Chart 13).



External Debt Sustainability Index

- **Public External Debt:**

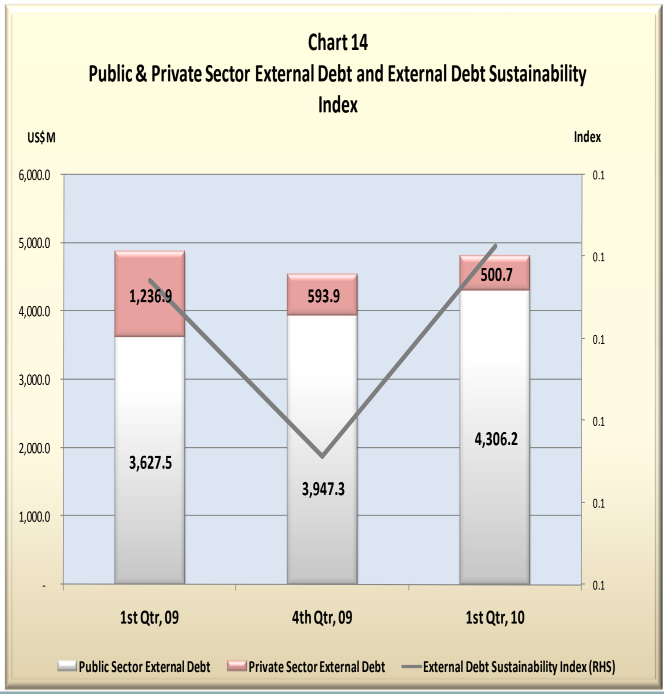
Estimated external debt sustainability index, computed as the ratio of external debt to real GDP, rose indicating a deterioration in external sector sustainability during first quarter 2010, when compared with the observed level recorded in the preceding quarter. The public sector external debt increased from US$3.95 billion in Q4, 2009 to US$4.31 billion in Q1, 2010, signifying contracting of new debt by the Federal Government. Even with this development, public sector external debt was sustainable, given the corresponding growth in GDP (Chart 14).

- **Private Sector External Debt:**

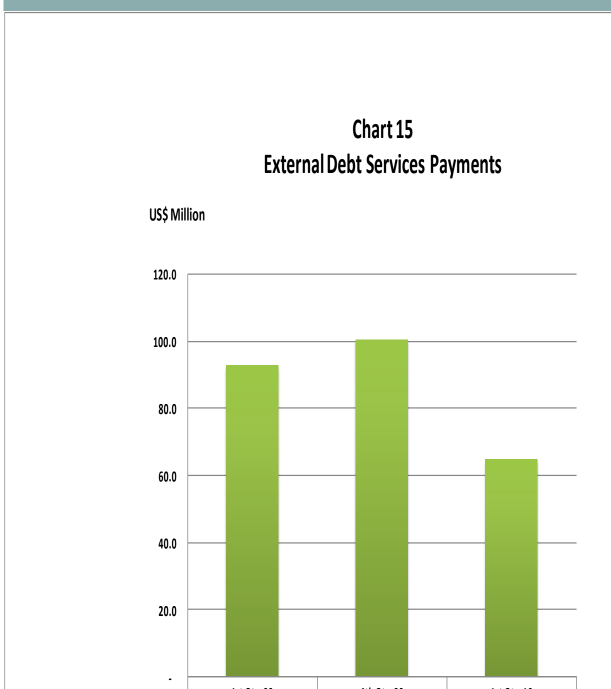
The private sector external debt as at end March, 2010 stood at US$500.74 million, when compared with US$593.93 million in Q4, 2009 and US$1,236..85 million in Q1, 2009. This class of debt represent debt drawn within the analyzed quarters only (Table 1).

- **Debt Service Payments:**

Available statistics showed that public sector debt service payments declined from US$100.6 million in Q4, 2009 to US$64.8 million in Q1, 2010 (Chart 15).



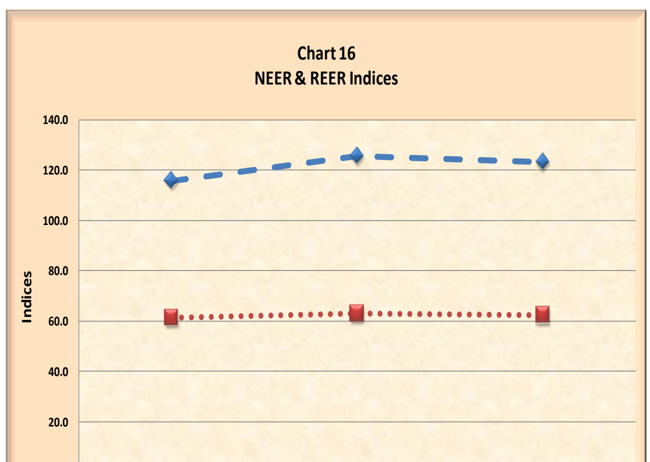
NEER and REER Indices



	1st Qtr, 09	4th Qtr, 09	1st Qtr, 10
External Debt Services Payments	93.1	100.6	64.8

- **NEER and REER:**

At 123.4 (2003=100), the real effective exchange rate (REER) and the nominal effective exchange rate (NEER) of the naira indices declined at the end of Q1, 2010, over the level recorded in Q4, 2009. That REER depreciated indicates improvements in the external competitiveness of the prices of the Nigerian trade-able goods



	1st Qtr, 09	4th Qtr, 09	1st Qtr, 10
NEER	115.9	125.8	123.4
REER	61.4	63.0	62.4

Naira Exchange Rates Converge

- **Official and BDC Rates:**

The average official exchange rate appreciated marginally as naira exchanged at N149.94 to the US dollar in Q1, 2010, as against N150.05 in Q4, 2009. Also, at the bureau-de-change (BDC) segment of the market, the naira exchanged at N152.49 to the US dollar in Q1, 2010, as against N153.16 in Q4, 2009.

As illustrated in Chart 17 and 18, this development implies that the BDC premium narrowed as the official and BDC rates move towards convergence.

- **Inter-bank Rate:**

At the inter-bank segment of the market, the naira exchanged at an average of N150.46 to the US dollar in Q1, 2010 as against N150.35 and N147.86 in Q4, 2009 and Q1, 2009, respectively. While the inter-bank rate depreciated in Q1 2010 against the Q4 2009 level, the BDC and official rates appreciated in the same period.

The continuing appreciation of the naira exchange rate has serious implications for the economy. First, the 2010 budget was predicated on N150/US$, thus the appreciation of the naira has created a shortfall in revenue to the government thereby widening the budget deficits. Secondly, the appreciation encourages more importation of goods with its concomitant high imports bills. This may lead to drawdown on reserves and if the situation persists, it may endanger balance of payments position. Finally, appreciation of the naira will make non-oil exports uncompetitive in the international commodity market, thus, the current effort to enhance growth of non-oil exports may not achieve desired objective.

In the light of the overall assessment, there may be need for the use of exchange rate to correct de-accumulation of reserves if the trend continues. This may be done by cutting down on official sales and allow market to determine the rate.

Chart 17
Exchange Rate Premium Between Official and BDC Rates

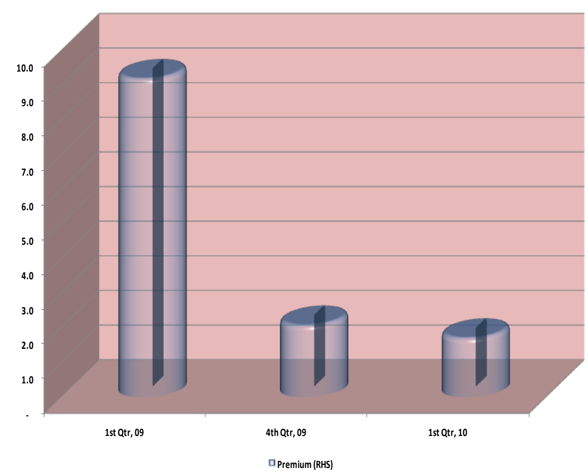
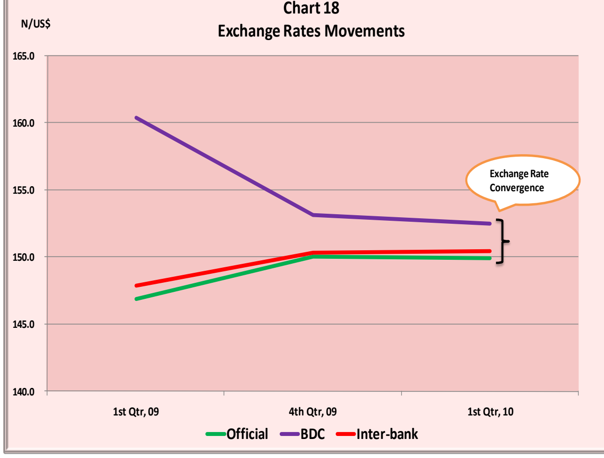


Chart 18
Exchange Rates Movements



The BDC premium narrowed indicating continued convergence of the naira exchange rate in the two markets

Table 1: Summary of Balance of Payments Account (US$' Million)

	1st Qtr, 2009	2nd Qtr, 2009	3rd Qtr, 2009	4th Qtr, 2009	1st Qtr, 2010
CURRENT ACCOUNT	3,581.25	3,985.88	5,559.02	10,015.77	9,163.95
Goods	4,648.58	5,525.92	7,934.12	12,497.28	10,960.47
Exports	11,119.96	12,726.02	16,070.53	20,057.77	17,796.91
Crude Oil & Gas	10,625.18	12,304.65	15,685.60	19,395.44	17,062.73
Non-Oil	494.78	421.37	384.94	662.33	734.18
Imports	-6,471.38	-7200.11	-8,136..41	-7,560.49	-6,836.44
Crude Oil & Gas	-1,079.29	-1,739.22	-1,981.04	-2,111.22	-2,762.54
Non-Oil	-5,392.09	-5,460.89	-6,155.38	-5,449.27	-4,073.90
Services (net)	-3,508.41	-3,817.32	-4,202.93	-3,980.46	-2,530.95
Income (net)	-1,493.19	-2,459.29	-2,742.35	-3,435.58	-3,948.99
Current transfers (net)	3,934.27	4,736.57	4,570.18	4,934.53	4,683.42
CAPITAL & FINANCIAL ACCOUNTS	5,991.81	6,755.44	3,099.00	1,425.16	425.07
Capital Account (net)	0	0	0	0	0
Financial Account (net)	5,991.81	6,755.44	3,099.00	1,425.16	425.07
Assets	5,660.20	4,740.87	-2,168.44	-525.82	412.08
Direct Investment Abroad	-31.03	-36.68	-4.98	-68.36	-54.00
Portfolio Investment Abroad	-448.75	-54.36	-178.13	-240.87	-626.76
Other Investment	221.57	1,212.69	-2,104.73	-1,177.43	-622.62
Reserves Assets	5,918.40	3,619.22	119.41	960.84	1,715.46
Liabilities	331.61	2,014.57	5,267.44	1,950.99	12.99
Direct Investment Inflows	1,399.44	1,701.53	1,180.11	1,569.65	550.62
Portfolio Investment Inflows	-308.62	337.12	389.13	314.62	716.64
Other Investment Liabilities	-759.20	-24.08	3,698.19	66.72	-1,254.27
Net Errors & Omission	**-9,573.06**	**-10,741.32**	**-8,658.02**	**-11,440.94**	**-9,589.03**
Memorandum Items					
Trade Balance	3,484.12	4,301.26	6,739.04	11,348.12	10,233.93
Current Account Balance as % of GDP	9.46	9.94	12.31	21.86	22.62
Capital & Financial Accounts as % of GDP	15.83	16.85	6.86	3.11	0.99
Overall Balance as % of GDP	-15.64	-9.03	-5.60	-2.10	-3.98
External Reserves– Stock (US$' Million)	47,081.96	43,462.74	43,343.33	42,382.49	40,667.03
Number of Months of Imports Cover	21.83	18.11	15.98	16.82	18.86
Number of Foreign Exchange Disbursement	12.5	14.3	14.4	19.9	15.12
Public External Debt Stock (US$' Million)	3,627.50	3,719.24	3,863.93	3,947.30	4,306.18
Private External Debt (US$ Million)	1,236.85	NA	NA	593.93	500.74
Effective Central Exchange Rate (N/$)	142.81	146.69	147.99	147.27	148.70
End-Period Exchange Rate (N/$)	147.16	148.22	148.79	149.58	149.28

Source: CBN

Table 2: Inflows and Outflows of Foreign Exchange through the Economy

	1st Qtr, 2009 (1)	4th Qtr, 2009 (2)	1st Qtr, 2010 (3)	Percentage Change (1) & (3)	Percentage Change (2) & (3)
Inflows	17,922.22	19,589.52	21,843.68	21.9	11.5
Inflows through CBN	5,724.61	5,883.42	6,521.13	13.9	10.8
Inflows through Autonomous Sources	12,197.61	13,706.10	15,322.55	25.6	11.8
Outflows	11,466.25	6,525.99	8,263.44	-27.9	26.6
Outflows through CBN	11,255.67	6,396.29	8,070.18	-28.3	26.2
Outflows through Autonomous Sources	210.58	129.70	193.26	-8.2	49.0
Net Flows through CBN	-5,531.06	-512.87	-1,549.05	-72.0	202.0
Net Flows	6,455.97	13,063.53	13,580.24	110.4	4.0

Sources: CBN

Table 3: Currency Composition of Foreign Exchange Reserves (US$' Million)

Currencies	1st Qtr, 2009	4th Qtr, 2009	1st Qtr, 2010	Share of Total
US Dollar	41,619,227,880.11	33,931,984,502.45	32,522,998,408.24	79.97
GB Pounds	1,151,955,068.94	1,378,329,453,05	1,284,845,185.94	3.16
Euro	4,247,259,344.65	4,664,941,237.70	4,523,467,265.10	11.12
Swiss Franc (CHF)	3,770,852,05	3,273,277.29	2,110,500.74	0.005
Japanese Yen	14,980,401.72	16,527,263.61	21,261,097.30	0.05
Other Currency Holdings	44,699,081.52	2,387,437,858.59	2,312,350,992.08	5.69
Total	47,081,902,608.98	42,382,493,319.69	40,667,033,449.40	100

Sources: CBN

Table 4: External Trade Position

	Imports % (Q on Q)	Exports % (Q on Q)	Trade Balance (US$ million)
1st Qtr, 2009	-0.94	-45.26	3,484.12
4th Qtr, 2009	-29.48	71.94	11,348.12
1st Qtr, 2010	-0.95	60.04	10,233.93

Source: CBN

Table 5 Degree of Openness and International Crude Oil Price

	1st Qtr, 2009	4th Qtr, 2009	1st Qtr, 2010
Degree of Openness	0.51	0.64	0.59
Crude Oil Price (US$ PB)	47.06	77.16	77.65

Source: CBN

Table 6: Sectoral Utilization of Foreign Exchange by DMBs for 'Valid' Transactions (US$)

	1st Qtr, 2009	4th Qtr, 2009	1st Qtr, 2010	Share of Total
A. Imports	7,884,955,662.87	5,169,059,427.87	4,786,770,869.32	100.0
Industrial Sector	2,529,477,495.92	1,453,787,457.14	1,188,963,389.23	24.8
Food Products	981,914,729.24	868,653,544.86	739,682,057.14	15.5
Manufactured Products	1,795,839,775.46	1,152,621,370.98	1,247,991,500.97	26.1
Transports Sector	513,366,318.89	300,102,052.68	345,196,120.71	7.2
Agricultural Sector	76,753,470.41	38,118,951.51	30,257,643.90	0.6
Minerals	37,557,334.47	38,868,440.26	47,180,031.30	1.0
Oil Sector	1,950,046,538.48	1,316,907,610.44	1,187,500,126.07	24.8
B. Invisibles	2,800,901,967.05	1,835,768,668.04	1,899,770,324.64	100.0
Business Services	404,189,843.19	305,473,834.77	334,629,400.23	17.6
Communication Services	113,747,252.57	82,501,347.75	71,014,656.45	3.7
Construction & Related Engineering Services		18,082,287.44	9,567,678.36	0.5
Distribution Services	2,302,473.36	10,928,050.97	10,514,836.52	0.6
Educational Services	24,822,454.94	33,125,943.06	26,453,578.89	1.4
Environmental Services			81,409.89	0.0
Financial Services	2,133,977,049.05	1,102,978,423.25	1,257,903,081.21	66.2
Health & Related Social Services	1,797,022.39	862,916.38	301,540.99	0.0
Tourism & Travel Related Services	1,728,675.02	4,015,568.31	1,327,234..26	0.1
Recreational, Cultural & Sporting Services	241,509.00	27,560.69	30,000.00	0.0
Transport Services	101,004,097.71	256,059,219.92	175,628,032.21	9.2
Other Services not included elsewhere	17,091,589.82	21,713,515.50	12,318,875.63	0.6
Total (A+B)	10,685,857,629.92	7,004,828,095.91	6,686,541,193.96	

Source: CBN

Table 7: International Agricultural Commodity Prices (Metric Tonnes)

	1st Qtr, 2009	4th Qtr, 2009	1st Qtr, 2010	% Chg (1) & (3)	% Chg (2) & (3)
Cocoa	2,594.52	3,418.07	3,297.11	27.08	-3.54
Palm Oil	536.25	679.50	763.41	42.36	12.35
Wheat	231.68	205.38	195.55	-15.59	-4.79
Soya Beans	346.55	368.29	350.86	1.24	-4.73

Sources: International Monetary Fund

Table 8: NEER and REER Indices

	1st Qtr, 2009	4th Qtr, 2009	1st Qtr, 2010
NEER	115.92	125.82	123.25
REER	61.45	62.99	61.99

Source: CBN

Table 9: Average Exchange Rates

	1st Qtr, 2009	4th Qtr, 2009	1st Qtr, 2010	Appreciation(+) Depreciation (-) Q4 2009 & Q1 2010 (%)
Official Exchange Rate (WDAS)	146.88	150.05	149.95	+0.07
Bureau de Change Rate (BDC)	160.38	153.16	152.49	+0.44
Inter-Bank Rate	147.86	150.35	150.46	-0.07
Premium between WDAS and BDC (%)	9.2	2.1	1.7	

Source: CBN