



Economic Policy Directorate,
Central Bank of Nigeria,
Abuja

DEVELOPMENTS IN THE EXTERNAL SECTOR

VOLUME 2, ISSUE 4

QUARTER FOUR 2011

HIGHLIGHTS:

- **Current account position**

- **Capital and Financial Account**

- **Foreign Capital Inflows**

- **External Trade**

- **Stock of External Reserves**

- **Exchange rate Movement**

- **External Debt Sustainability Index**

- **International Commodity Prices**

External Sector Records Challenging Performance

Summary

This report presents the analysis of activities in the external sector of the Nigerian economy for quarter four (Q4) 2011 by highlighting some major developments in the sector in comparison with the levels recorded in the preceding and corresponding quarters of 2011 and 2010. The objective is to inform the management on the developments in the external sector and their impact on the Nigerian economy. It also seeks to identify areas that require further economic policy research. Accordingly, staff estimates revealed that the external sector performance during the review period remained mixed. It was noted that the economy was faced with the challenges of high import content, gradual rise in the external debt stock and declining agricultural prices in the international market. Despite these challenges, the external reserves exceeded the international benchmark of 6.0 months of imports and the BDC premium was lower than the 5.0 per cent international threshold. These outcomes are suggestive of the need to reinvigorate the economy for increased domestic production through tackling infrastructural challenges and other factors inhibiting increased domestic production.

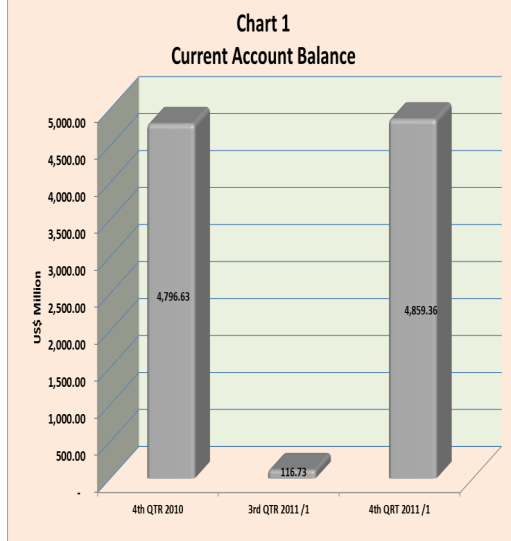
• Current Account

The current account position posted a surplus largely boosted by larger surplus in the goods account and lower out-payments in the services account and lower non-oil imports bill. As shown in Chart 1, the country's estimated current account balance which stood at a surplus of US\$116.73 million in Q3 2011 rose sharply to US\$4,859.36 million in Q4.

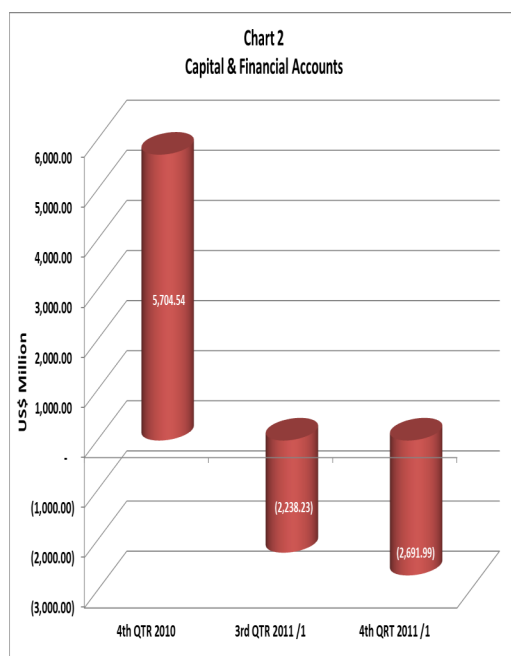
The movement in the current account position in Q4 2011 indicated an improved balance of trade position occasioned by the lower out-payments on import of goods and services and increased exports. However, the improvement in the current account balance was marginal when compared with the corresponding quarter of 2010 (Table I, Chart 1).

• Capital and Financial Accounts

Estimates indicated that the balance in the capital and financial accounts remained in deficit during Q4 2011 (Table I, Chart 2). Further analysis revealed that the



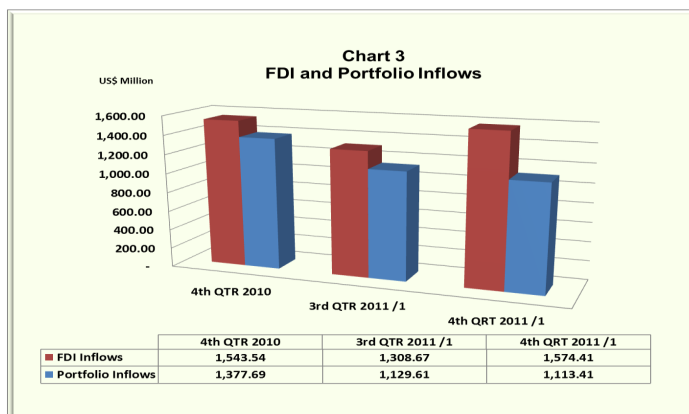
country's assets abroad increased from US\$4,817.90 million recorded in Q3 to US\$5,783.61 million during Q4, with its corresponding liabilities increasing to US\$3,091.62 million. This development was attributable to the urge of resident Nigerians to acquire cheaper foreign assets in the wake of the Eurozone debt crisis.



Foreign Capital Inflows

Foreign Direct Investment (FDI) and Portfolio Inflows

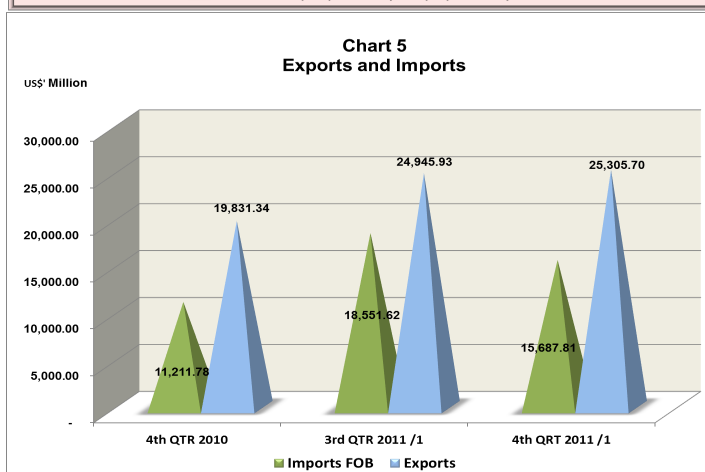
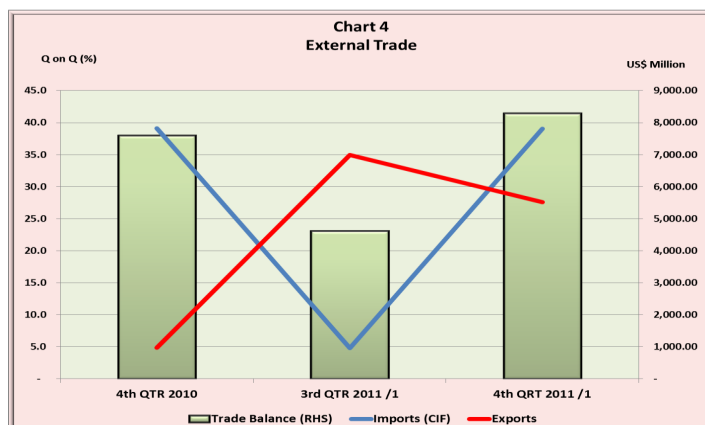
As shown in Table I, inflows from FDI rose from US\$1,308.67 million in Q3 2011 to US\$1,574.41 million in Q4 suggesting continued confidence in the Nigerian economy by foreign investors. In contrast, the portfolio investment inflows was estimated to have declined marginally from US\$1,129.61 million in Q3 2011 to US\$1,113.41 million in Q4 2011 (Chart 3).



External Trade

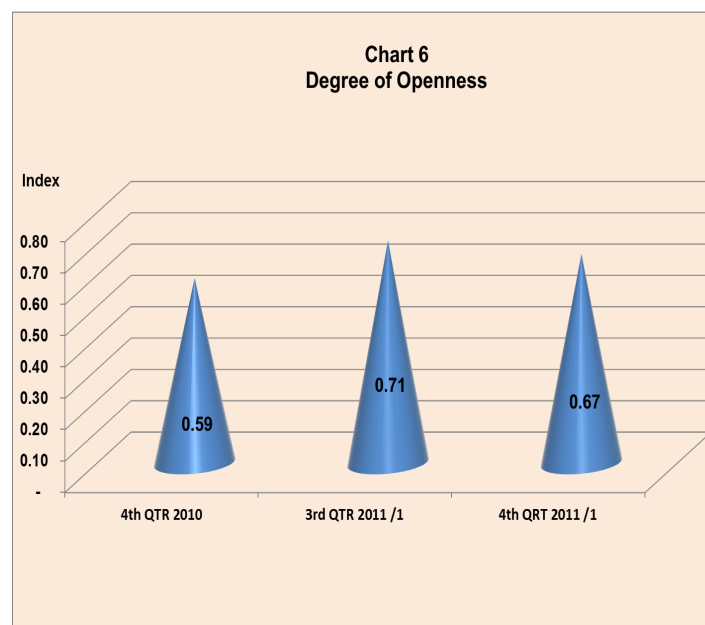
External Trade

Nigeria's trade balance position improved significantly to US\$8,290.51 in Q4 2011 from US\$4,614.54 in the preceding quarter following an expansion in merchandise exports and significant contraction in imports (Chart 4, Table 2). Exports rose from US\$24,945.93 million in Q3 2011 to US\$25,305.70 million while imports (c.i.f.) declined to US\$17,015.19 million in Q4 2011 from US\$20,331.39 million in Q3 2011.



Indicators of Integration

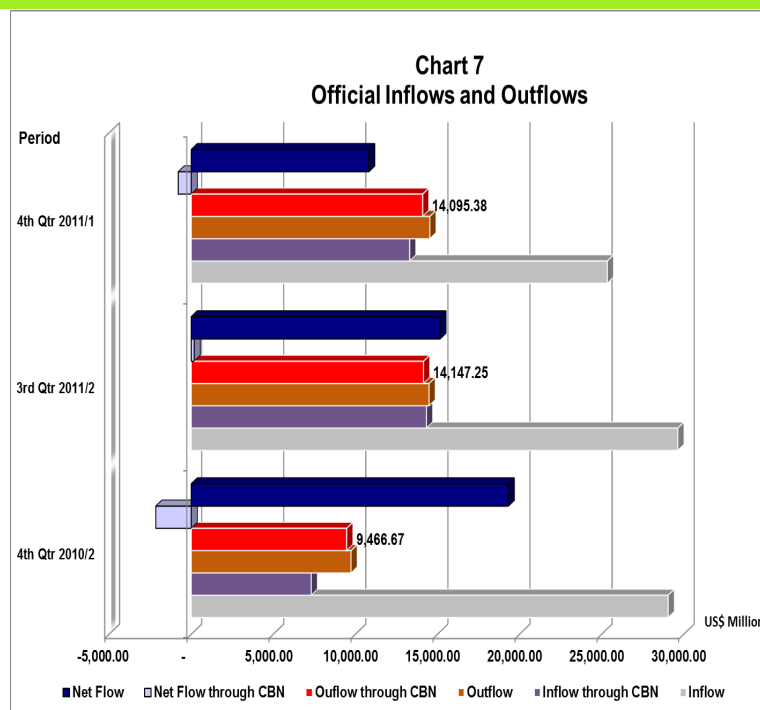
The degree of openness, measured by the share of Nigeria's total external trade to gross domestic products (GDP) was 67.0 per cent in Q4 2011 compared with 71.0 per cent recorded in the preceding quarter. Other indicators such as total trade, imports, total foreign exchange flows and net foreign exchange flows as percentages of GDP also decreased from 70.9, 30.2, 71.9 and 24.6 per cent, respectively in Q3 2011 to 66.6, 25.5, 64.8 and 17.6 per cent. The decline of major indicators of integration are indicative of the need to strengthen the domestic production base through tackling the infrastructural challenges and other factors inhibiting increased domestic production as well as competitiveness of locally produced goods.



Foreign Exchange Inflows and Outflows

• Inflow and Outflow

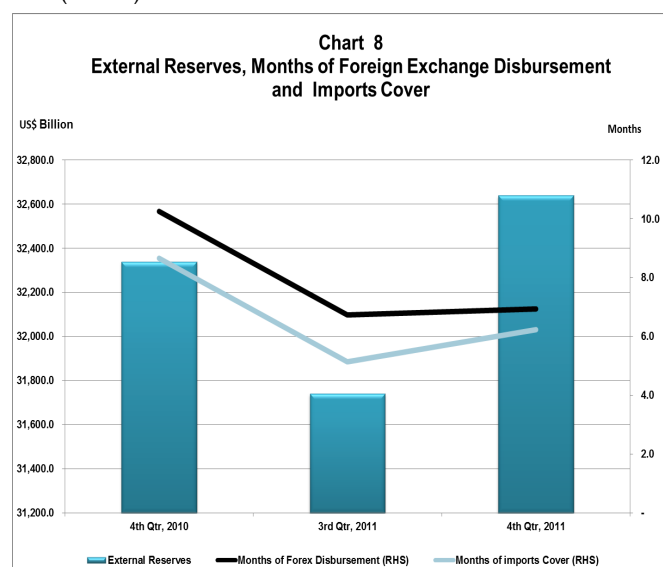
Available statistics (Table 4) indicated that foreign exchange inflows to the economy in Q4 2011, stood at US\$25,344.42 million compared with US\$29,638.22 million and US\$29,047.57 million recorded in Q3 2011 and Q4 2010. Also, total outflows in the period under review amounted to US\$14,533.65 million compared with US\$14,484.36 recorded in Q3 2011, showing a marginal increase of 0.3 per cent from the level in the preceding quarter. Consequently, a net-inflow of US\$10,810.77 million was recorded in Q4 2011 compared with the US\$15,153.86 million in Q3 2011 (Chart 7).



External Reserves

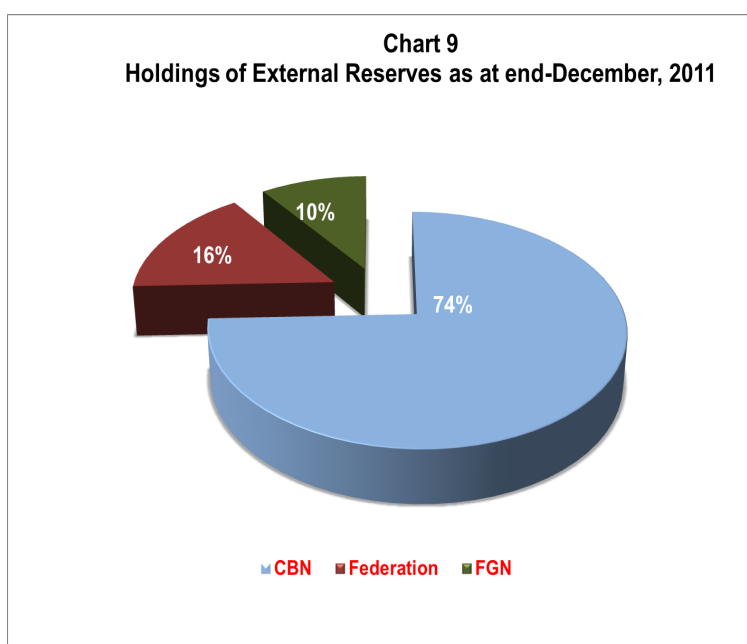
• External Reserves

The level of external reserves as at end-December, 2011 stood at US\$32,639.80 million compared with US\$31,740.23 million and US\$32,339.25 million in the preceding and corresponding quarters. The current level of reserves could finance 6.9 months of foreign exchange disbursements and 6.2 months of imports compared with 6.7 months of foreign exchange disbursements and 5.1 months of imports cover in Q3 2011 (Chart 8).



• Holdings of External Reserves

Analysis of the statistics on the holdings of external reserves revealed that the share of the CBN holdings to the total stock of reserves stood at 74.0 per cent while the share of the Federation comprised of the three tiers of government and Federal Government stood at 16.0 and 10.0 per cent, respectively (Chart 9).



US Dollar
accounted for 82.0
per cent of
Nigeria's Foreign
Currency Holdings

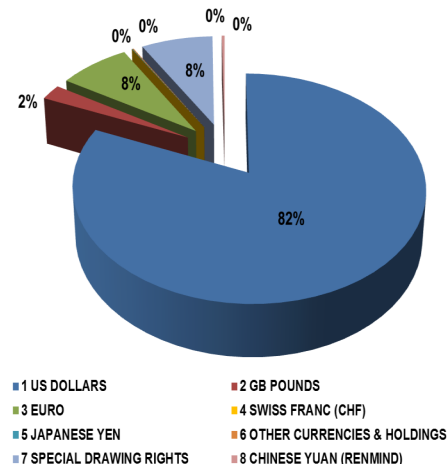
Supply of foreign
exchange decreased

Currency Composition of Foreign Exchange Reserves

Available records from the balances as per latest advice (BAPLA) revealed a total reserves of US\$32,639.80 million as at end-December 2011. The holdings of foreign reserves in US dollar constituted 82.0 per cent indicating an increase from US\$25,538.54 million in Q3 2011 to US\$26,619.00 million in Q4 2011. Other currencies in the basket include Euro (7.8%), GB Pounds (2.0%), Chinese Yuan (0.3%) and SDR (7.9%), respectively.

Further breakdown revealed that the Swiss franc (CHF) registered the least holdings of US\$1.53 million or 0.01 per cent of total holdings. The volume of Japanese Yen in total reserves during the period under review decreased from US\$22.48 million in Q3 2011 to US\$20.25 million and also lower than the US\$28.52 million recorded in Q4 2010 (Table 5). The Euro component at 7.8 per cent needs to be monitored closely and if necessary further reduced to minimize the currency and exchange rate risks associated with Euro holdings occasioned by the Eurozone debt crisis.

Chart 10
Currency Composition of Foreign Exchange



Demand and Supply of Foreign Exchange

• Demand and Supply of Foreign Exchange

The aggregate demand for foreign exchange by the authorized dealers (wDAS and BDC operators) during Q4 2011 stood at US\$10,058.06 million, indicating a decrease of 24.9 per cent and an increase of 56.3 per cent in comparison with the levels recorded in Q3 2011 and Q4 2010, respectively.

A total amount of US\$7,789.57 million was supplied in Q4 2011, comprised of US\$5,797.52 million and US\$1,992.05 million to the wDAS and BDC operators, respectively (Table 6 and Chart 11) compared with US\$10,943.25 and US\$5,843.45 million in the preceding and corresponding quarters, respectively.

Major Uses of Foreign Exchange

The aggregate supply of foreign exchange for visible and invisible trade during the period under review stood at US\$10,563.07 million. This represents a decrease of 23.9 per cent and an increase of 18.15 per cent in comparison with the levels recorded in the preceding and corresponding quarters, respectively.

The total amount supplied in Q4, 2011, consisted of US\$7,959.85 million and US\$2,603.22 million for visible and invisible trade, representing 75.4 and 24.6 per cents respectively. This pattern of domination by visible trade permeates during the three quarters analyzed (Table 7 and Chart 13).

Chart 11
Demand and Supply of Foreign Exchange

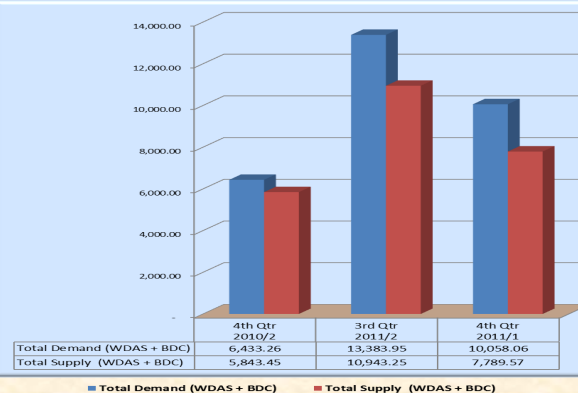
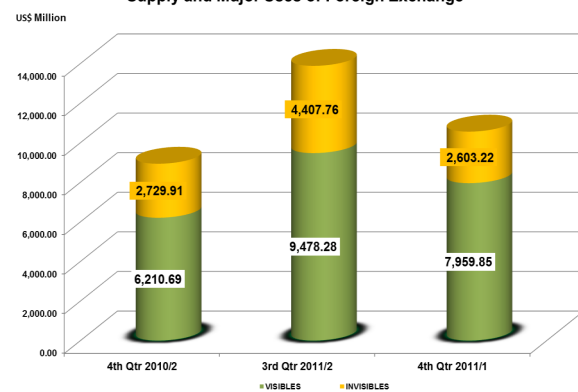


Chart 12
Supply and Major Uses of Foreign Exchange

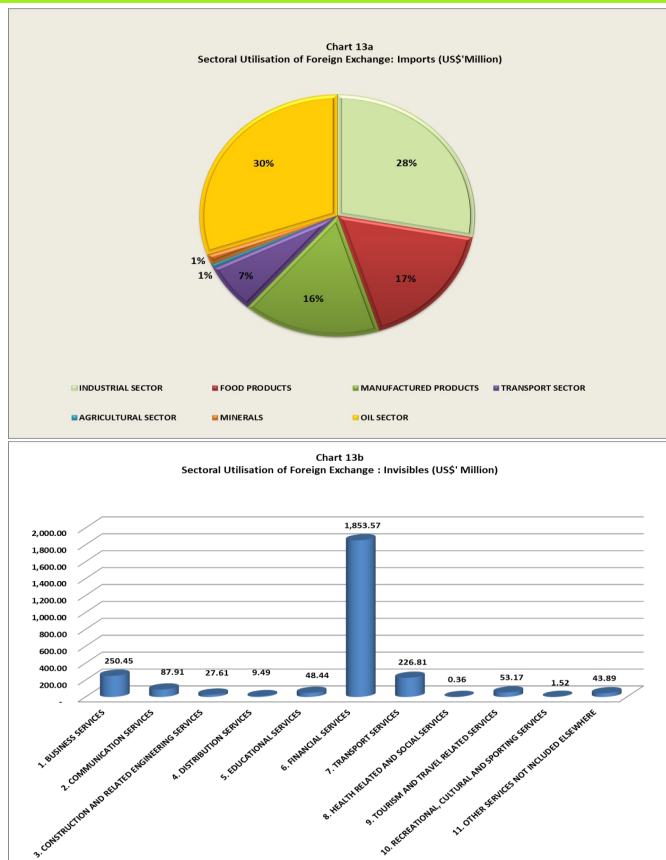


Sectoral Utilization of Foreign Exchange by Sectors

• Sectoral Utilization of Foreign Exchange

Analysis of foreign exchange utilization by sectors revealed that US\$7,959.85 million was spent on the importation of various items into the country in Q4 2011 and represented 75.4 per cent of the total foreign exchange utilized during the period. This represented a decline of 16.0 per cent, but an increase of 28.2 per cent in comparison with the levels recorded in the preceding and corresponding quarters, respectively. As shown in chart 13a, the importation of oil, industrial, food and manufactured products gulped 30.1, 27.9, 17.2 and 16.3 per cent of the total amount utilized for imports, respectively (Table 7).

In Q4 2011, the major components that gulped the sum of US\$2,603.2 million foreign exchange expended on out-payments for services included financial, business and transport services consisting 71.2, 9.6 and 8.7 per cents, respectively (Chart 13b).



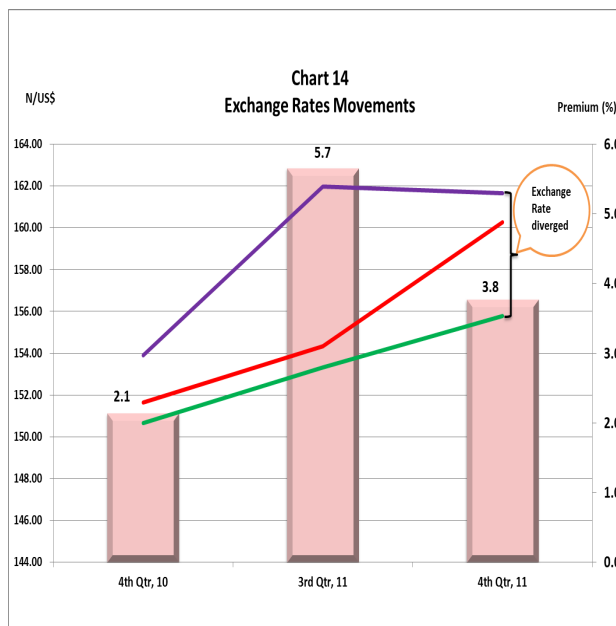
Exchange Rates Movements

• WDAS and BDC Rates

The average WDAS rate in Q4 2011 depreciated by 1.6 per cent, as the naira exchanged at N155.77 against N153.31 to the US\$ in Q3 2011. However, at the bureau-de-change (BDC) segment of the market, the naira appreciated marginally, as the naira traded for N161.64 to one US dollar as against N161.698 in Q3 2011 (Table 8). Consequently, the BDC premium narrowed to 3.8 per cent during Q4 2011 (Chart 14).

• Inter-bank Rate

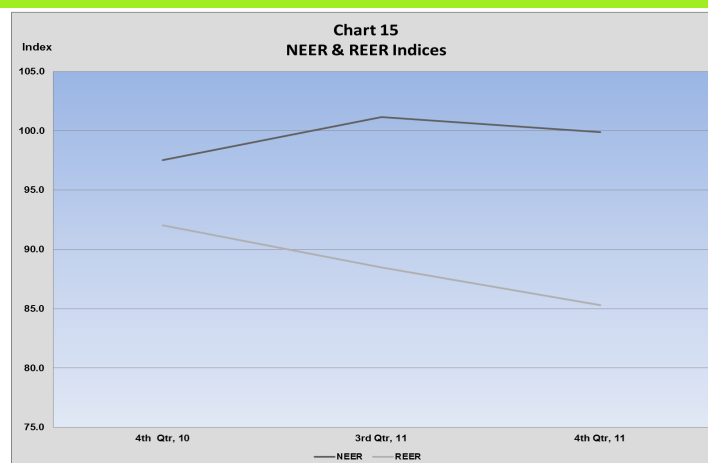
The average inter-bank exchange rate in Q4 2011 stood at N160.27/US\$ as against N154.32 and N151.65 in Q3 2011 and Q4 2010, respectively. The movement in the interbank rate was not in line with the anticipated movement in the exchange rate considering the band between the official and inter-bank rates.



Value of the Naira and External Competitiveness of the Nigerian Economy

• NEER and REER

In Q4 2011, the index of nominal effective exchange rate (NEER) of the naira depreciated to 99.9 from 101.2 in Q3 2011, indicating that the naira was slightly weaker than the currencies of its trading partners in the period under review. Also, the real effective exchange rate (REER), stood at 85.3 as against 88.5 in the preceding quarter, showing an improvement in external competitiveness of the Nigerian economy (Table 9 and Chart 15).



External Debt Sustainability Index

• Public Sector External Debt

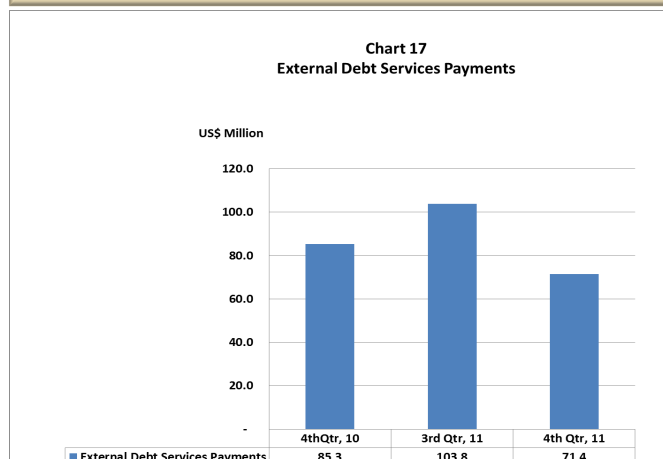
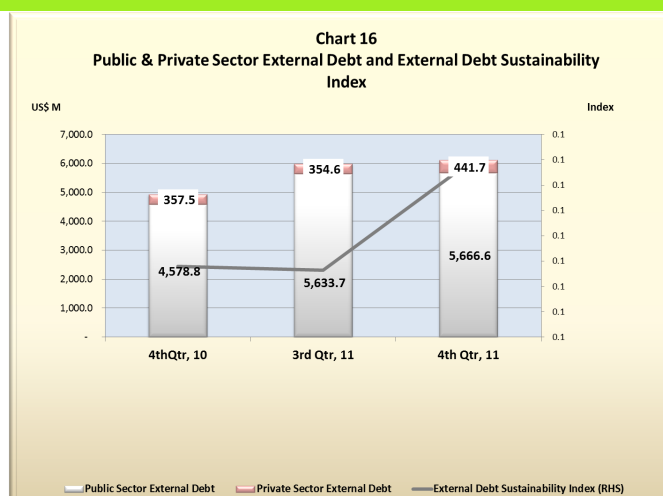
External debt sustainability index, computed as the ratio of external debt to nominal GDP remained at 0.1 in Q4 2011 just as it was in the preceding quarter. However, the public sector external debt rose from US\$5.63 billion in Q3 2011 to US\$5.67 billion in the period under review.

• Private Sector External Debt

During the review period, the private sector external debt stood at US\$441.72 million compared with US\$354.59 million in Q3 2011 and US\$357.54 million in Q4 2010.

• Debt Service Payments

The public sector debt service payments decreased from US\$103.80 million in Q3 2011 to US\$ 71.36 million in Q4 2011 (Chart 17).



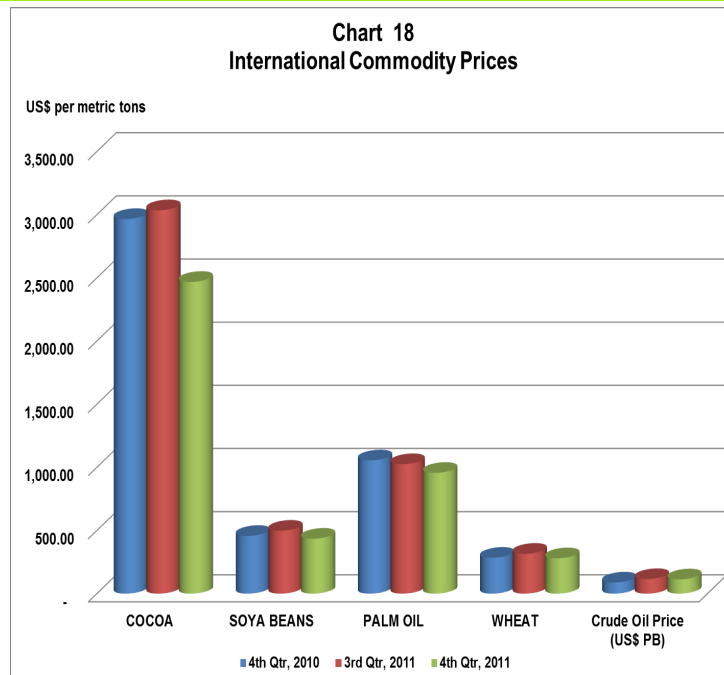
Mixed Developments in International Commodity Prices

• International Commodity Prices

The prices of the international commodities monitored during the period under review showed mixed developments, when compared with the levels recorded in Q3 2011 and Q4 2010. For instance, while the price per metric ton of cocoa stood at US\$3,035.12 in Q3 2011, it decreased to US\$2,468.10 in Q4 2011, representing a decline of 18.7 per cent. Also, in comparison with the corresponding quarter of 2010, a decline of 16.8 per cent was observed (Table 10).

The price per metric ton of palm oil, which stood at US\$956.40 in Q4 2011, recorded a decline of 6.7 per cent relative to its level in Q3 2011 and a decrease of 9.4 per cent relative to its level in Q4 2010. In a related development, wheat recorded a price decline of 11.4 per cent from the level in the preceding quarter and a decrease of 1.5 per cent, when compared with the level in Q4 2010 (Chart 18).

The average crude oil prices during Q4 2011 stood at US\$112.83 per barrel as against US\$115.19 and US\$87.97 per barrel in Q3 2011 and Q4 2010, respectively.



	4th QTR 2010	1ST QTR 2011 /2	2nd QTR 2011 /I	3rd QTR 2011 /I	4th QTR 2011 /I
CURRENT ACCOUNT	4,796.63	4,736.54	8,140.28	116.73	4,859.36
Goods	8,619.56	8,752.46	12,511.72	6,394.31	9,617.89
Exports	19,831.34	22,355.77	25,426.68	24,945.93	25,305.70
Crude Oil & Gas	19,063.03	21,414.23	24,649.14	24,292.88	24,515.00
Non-Oil	768.32	941.54	777.54	653.05	790.71
Imports	(11,211.78)	(13,603.31)	(12,914.96)	(18,551.62)	(15,687.81)
Crude Oil & Gas	(1,571.26)	(1,758.58)	(2,046.84)	(1,393.61)	(1,733.01)
Non-Oil	(9,640.52)	(11,844.73)	(10,868.12)	(17,158.01)	(13,954.80)
Services (net)	(4,762.22)	(4,437.65)	(3,955.75)	(5,893.36)	(5,000.37)
Income (net)	(4,948.62)	(5,028.48)	(5,847.16)	(5,968.63)	(5,621.80)
Current transfers (net)	5,887.90	5,450.21	5,431.47	5,584.41	5,863.63
CAPITAL & FINANCIAL ACCOUNT	5,704.54	3,124.07	(11,074.30)	(2,238.23)	(2,691.99)
Capital Account (net)	-	-	-	-	-
Financial Account (net)	5,704.54	3,124.07	(11,074.30)	(2,238.23)	(2,691.99)
Assets	3,145.07	(993.44)	(13,651.98)	(4,817.90)	(5,783.61)
Direct Investment Abroad	(233.09)	(271.94)	(292.77)	103.66	(153.69)
Portfolio Investment Abroad	(275.00)	(351.24)	(378.50)	(471.14)	(400.29)
Other Investment	1,403.41	436.07	(14,336.51)	(4,536.11)	(4,330.06)
Reserves Assets	2,249.76	(806.33)	1,355.81	85.68	(899.57)
Liabilities	2,559.47	4,117.51	2,577.68	2,579.68	3,091.62
Direct Investment Inflows	1,543.54	1,889.42	1,525.16	1,308.67	1,574.41
Portfolio Investment Inflows	1,377.69	1,106.12	1,104.51	1,129.61	1,113.41
Other Investment Liabilities	(361.76)	1,121.97	(51.99)	141.40	403.79
Net Errors & Omission	(10,501.17)	(7,860.61)	2,934.02	2,121.49	(2,167.37)
Memorandum Items	4th QTR 2010	1ST QTR 2011 /2	2nd QTR 2011 /I	3rd QTR 2011 /I	4th QTR 2011 /I
Trade Balance	7,593.33	7,556.79	11,413.03	4,614.54	8,290.51
Current Account Balance as % of GDP	8.80	9.69	15.70	0.19	7.89
Capital & Financial Accounts as % of GDP	10.47	6.39	(21.36)	(3.65)	(4.37)
Overall Balance as % of GDP	(4.13)	1.65	(2.62)	(0.14)	1.46
Imports (CIF)	12,238.01	14,798.98	14,013.65	20,331.39	17,015.19
External Reserves– Stock (US\$' Million)	32,339.25	33,221.80	31,890.91	31,740.23	32,639.80
Number of Months of Imports Cover	8.7	7.3	7.4	5.1	6.2
No. of Months of Foreign Exchange Disbursements	10.3	10.8	8.7	6.7	6.9
Public External Debt Stock (US\$' Million)	4,578.77	5,227.05	5,398.04	5,633.71	5,666.60
Private External Debt (US\$' Million)	357.5	392.17	324.11	354.59	441.72
Effective Central Exchange Rate (N/\$)	149.29	150.74	153.16	152.01	152.01
End-Period Exchange Rate (N/\$)	150.66	153.04	153.31	156.15	156.15

/I Provisional

/2 Revised

Source: Balance of Payments Statistics Office (BOPSO), Statistics Dept. CBN

Table 2: External Trade Position

	Imports (CIF) % (Q on Q)	Export (FOB) % (Q on Q)	Trade Balance (US\$ million)
4th QTR 2010	39.1	4.9	7,593
3rd QTR 2011	4.8	35.0	4,615
4th QTR 2011	39.0	27.6	8,291

Source: BOPSO, Statistics Dept. CBN

Table 3: Indicators of Integration

	4th QTR 2010	3rd QTR 2011 /I	4th QTR 2011 /I
Degree of Openness	0.59	0.71	0.67
Total trade as % of GDP	58.9	70.9	66.6
Trade balance as % of GDP	14.4	7.5	13.5
Imports as % of GDP	21.3	30.2	25.5
Export as % of GDP	37.6	40.7	41.1
Total forex flows as % of GDP	73.6	71.9	64.8
Net flows as % of GDP	36.6	24.6	17.6

Source: BOPSO, Statistics Dept. CBN

Table 4: Inflow and Outflow of Foreign Exchange through the Economy (US\$ Million)

CATEGORY	4th Qtr 2010/2	3rd Qtr 2011 /2	4th Qtr 2011 /I	% change	% change
	(1)	(2)	(3)	(1) & (3)	(2) & (3)
Inflow	29,047.57	29,638.22	25,344.42	-12.75	-14.49
Inflow through CBN	7,310.03	14,327.74	13,303.65	81.99	-7.15
Inflow through Autonomous	21,737.55	15,310.48	12,040.77	-44.61	-21.36
Outflow	9,734.43	14,484.36	14,533.65	49.30	0.34
Outflow through CBN	9,466.67	14,147.25	14,095.38	48.89	-0.37
Outflow through Autonomous	267.76	3371.11	438.27	63.68	30.01
Net Flow through CBN	2,156.65	180.49	-791.73	-63.29	-538.65
Net Flow	19,313.14	15,153.86	10,810.77	-44.02	-28.66

/I Provisional

/2 Revised

Source: Trade and Exchange Dept. and Reserves Management Dept., CBN

Table 5: Currency Composition of Foreign Exchange Reserves

Currencies	4th QTR 2010	3rd QTR 2011	4th QTR 2011	Share of Total
US Dollar	23,813,333,376.43	25,538,535,152.41	26,619,002,274.34	81.55
GB Pounds	1,290,012,205.84	788,509,666.01	760,588,408.48	2.33
Euro	4,632,717,302.13	2,684,448,904.39	2,532,172,672.92	7.76
Swiss Franc (CHF)	1,947,599.70	1,597,855.18	1,530,688.25	0.01
Japanese Yen	28,521,708.49	22,480,809.41	20,246,957.92	0.06
Other Currency Holdings	1,136,591.92	2,704,658,287.96	33,025,066.96	0.10
Special Drawing Rights (SDR)	2,579,825,052.42	2,615,974,246.90	2,571,915,593.47	7.88
Chinese Yuan (Renminbi)	-	-	101,295,415.76	0.31
Total	32,347,493,827.93	31,740,230,675.36	32,639,777,078.10	100

Source: Reserves Management Dept., CBN

Table 6: Demand and Supply of Foreign Exchange (US\$' Million)

	4th Qtr 2010	3rd Qtr 2011/2	4th Qtr 2011/1	PERCENTAGE CHANGE BTW	
	(1)	(2)	(3)	(1) & (3)	(2) & (3)
WDAS Demand	6,392.16	11,651.08	8,066.01	26.19	-30.77
BDC Demand	41.10	1,732.87	1,992.05	4,746.84	14.96
Total Demand (WDAS + BDC)	6,433.26	13,383.95	10,058.06	56.34	-24.85
Sales to WDAS	5,802.35	9,210.38	5,797.52	-0.08	-37.05
Sales to BDC	41.10	1,732.87	1,992.05	4,746.84	14.96
Total Supply (WDAS + BDC)	5,843.45	10,943.25	7,789.57	33.30	-28.82

Source: Financial Markets Dept., CBN

Table 7: Sectoral Utilization of Foreign Exchange by DMBs for 'Valid' Transactions (US\$)

	4th Qtr 2010	3rd Qtr 2011/2	4th Qtr 2011/1	Share of Total	Percentage Change Between	
	2010	2011	2011			
	(1)	(2)	(3)		(1) & (3)	(2) & (3)
A. IMPORTS (VISIBLES)	6,210,694,923.24	9,47,280,196.11	7,959,853,361.48	100	28.16	-16.02
INDUSTRIAL SECTOR	1,857,330,914.07	2,221,138,084.79	2,220,680,903.12	27.90	19.56	-0.02
FOOD PRODUCTS	1,067,801,449.91	1,700,390,779.27	1,365,216,421.48	17.15	27.85	-19.71
MANUFACTURED PRODUCTS	1,302,327,329.09	1,286,777,871.79	1,297,507,689.60	16.30	-0.37	0.83
TRANSPORT SECTOR	341,294,641.33	506,284,196.92	516,859,344.02	6.49	51.44	2.09
AGRICULTURAL SECTOR	93,381,749.10	77,423,471.52	41,286,945.56	0.52	-55.79	-46.67
MINERALS	40,660,589.69	79,008,899.81	110,620,008.73	1.39	172.06	40.01
OIL SECTOR	1,507,898,250.05	3,607,256,892.01	2,407,682,048.97	30.25	59.67	-33.25
B. INVISIBLES	2,729,909,525.21	4,407,756,598.71	2,603,220,147.95	100.00	-4.64	-40.94
1. BUSINESS SERVICES	297,562,482.70	583,607,362.87	250,446,398.56	9.62	-15.83	-57.09
2. COMMUNICATION SERVICES	101,381,181.24	54,066,972.84	87,912,042.98	3.38	-13.29	62.60
3. CONSTRUCTION AND RELATED ENGINEERING SERVICES	66,952,530.89	22,716,811.16	27,609,457.32	1.06	-58.76	21.54
4. DISTRIBUTION SERVICES	23,221,724.02	712,214.08	9,491,344.18	0.36	-59.13	1,232.65
5. EDUCATIONAL SERVICES	40,490,442.58	94,748,541.00	48,440,378.36	1.86	19.63	-48.87
6. ENVIRONMENTAL SERVICES	-	-	-	-	-	-
7. FINANCIAL SERVICES	1,981,766,479.00	3,190,340,484.29	1,853,569,802.96	71.20	-6.47	-41.90
8. HEALTH RELATED AND SOCIAL SERVICES	183,273.71	1,257,901.16	355,249.64	0.01	93.84	-71.76
9. TOURISM AND TRAVEL RELATED SERVICES	4,703,420.39	4,894,298.83	53,172,776.64	2.04	1030.51	986.42
10. RECREATIONAL, CULTURAL AND SPORTING SERVICES	109,691.00	305,259.88	1,524,668.00	0.06		
11. TRANSPORT SERVICES	192,124,342.95	339,073,723.75	226,808,032.89	8.71	18.05	-33.11
12. OTHER SERVICES NOT INCLUDED ELSEWHERE	21,413,956.73	116,033,028.85	43,889,996.42	1.69	104.96	-62.17
TOTAL (A+B)	8,940,604,448.45	13,886,036,794.82	10,563,073,509.43		18.15	-23.93

/1 Provisional

Source: Trade and Exchange Dept., CBN

Table 8: Average Exchange Rates

	4th Qtr, 2010	3rd Qtr, 2011	4th Qtr, 2011	Appreciation/depreciation
WDAS Rate	150.67	153.31	155.77	-1.6
Inter-Bank Rate	151.65	154.32	160.27	-3.9
Bureau de Change Rate (BDC)	153.89	161.98	161.64	0.2
Premium (%)	2.1	5.7	3.8	

Source: Financial Markets Department, CBN

Table 9: NEER and REER Indices (November, 2009 =100)

	4th Qtr, 2010	3rd Qtr, 2011	4th Qtr, 2011
NEER	97.54	101.17	99.90
REER	92.05	88.50	85.30

Source: External Sector Indicators Statistics Office, Statistics Department, CBN

Table 10: International Commodity Prices

	4th QTR, 2010	3rd QTR, 2011	4th QTR, 2011	Percentage Change	
	1	2	3	(1) & (3)	(2) & (3)
Cocoa (US\$/MT)	2,965.90	3,035.12	2,468.10	-16.8	-18.7
Palm Oil (US\$/MT)	1,055.20	1,025.40	956.40	-9.4	-6.7
Wheat (US\$/MT)	283.90	315.60	279.70	-1.5	-11.4
Soya Beans (US\$/MT)	457.00	498.06	434.56	-4.9	-12.7
Crude Oil Price (US\$ PB)	87.97	115.19	112.83	28.3	-2.0

Sources: International Cocoa Organization/International Monetary Fund