



Economic Policy Directorate,
Central Bank of Nigeria,
Abuja

EXTERNAL SECTOR DEVELOPMENT REPORT

VOLUME 4, ISSUE 3

QUARTER THREE 2013

Performance of the External Sector

HIGHLIGHTS:

- Performance of the External Sector
- Current Account
- Capital and Financial Account
- External Trade
- Capital Flows
- Stock of External Reserves
- Exchange Rate Movement
- Sectoral Utilization of Foreign Exchange
- External Debt Sustainability Index
- International Commodity Prices

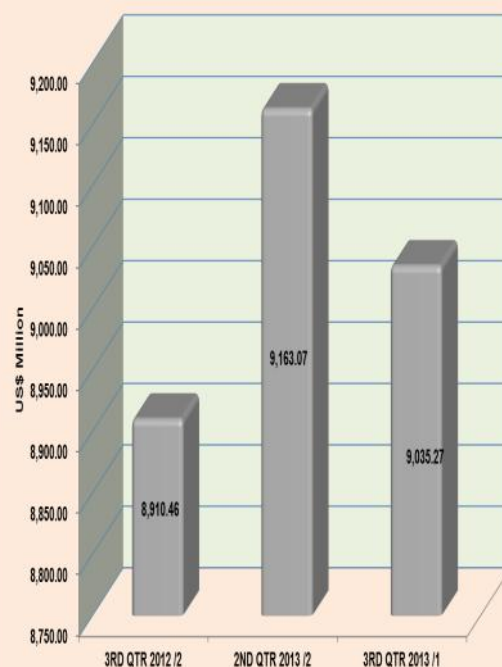
Introduction

The major developments in the external sector of the Nigerian economy during Q3 2013 are highlighted in this Report in comparison with developments in Q2 2013 and Q3 2012. The external account was slightly under pressure as reflected in the draw-down in external reserves and reduced capital inflows although the overall position posted a lower deficit of US\$0.9 billion compared with US\$2.94 billion in Q2 2013. The current account was however, in surplus, equivalent of 12.7 per cent of GDP while the transactions in capital and financial account resulted in a net capital inflow of US\$1.1 billion in Q3 2013 compared with US\$1.8 billion in Q2 2013. The foreign exchange market remained relatively calm as the premium between the wDAS and inter-bank rates was below the tolerable limit of 5.0 per cent. External debt stock continued to trend upwards at US\$8.26 billion, but within sustainable level. Policy direction should be on an efficient debt management strategy as well as reinforcing the institutional arrangements that would attract long-term foreign capital (FDI) while effectively managing the likely shock from the volatile short-term inflows.

Current Account

The sustained current account surplus at US\$9.04 billion, equivalent of 12.7 per cent GDP, was lower than the 14.01 and 13.46 per cent of GDP recorded in Q2 2013 and Q3 2012, respectively. The main drivers were the reduction in imports, lower deficits in the services and income accounts and increase in current transfers all of which compensated for the decline in the earnings from oil and gas exports. Aggregate exports declined from the level in the preceding quarter by 7.1 per cent accounted for by both the oil and gas (7%) and non-oil (13%) components. Similarly, imports and deficits in the services and income accounts contracted by 8.9, 1.9 and 10.5 per cent, respectively. The surplus in the current transfers increased marginally by 1.1 per cent above the level recorded in the preceding period.

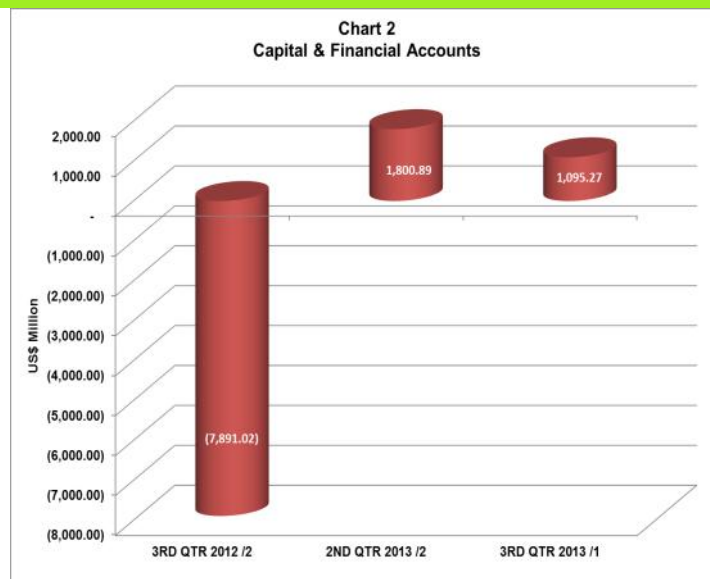
Chart 1
Current Account Balance



Current Account Balance

Capital and Financial Accounts

Transactions in the capital and financial account recorded a lower net liability of US\$1.10 billion or 1.5 per cent of GDP. Total financial assets representing financial outflows declined by 43.8 per cent from US\$6.78 billion recorded in Q2 2013 to US\$3.81 billion in the review period, and was much lower than the US\$15.39 billion posted in Q3 2012. Direct investment abroad increased by 34.6 per cent from US\$0.15 billion in Q2 2013 to US\$0.21 in the review period. However, portfolio investment assets declined by 20.9 per cent from US\$2.72 billion in Q2 2013 to US\$2.15 billion. Aggregate financial liabilities representing foreign capital inflows stood at US\$4.91 billion in Q3 2013 as against US\$7.5 billion and US\$8.58 billion in Q3 2012 and Q2 2013. Both foreign direct investment and portfolio investment components declined, by 41.3 and 52.3 per cent, respectively, below the levels recorded in the preceding quarter (Table 1, Chart 2).



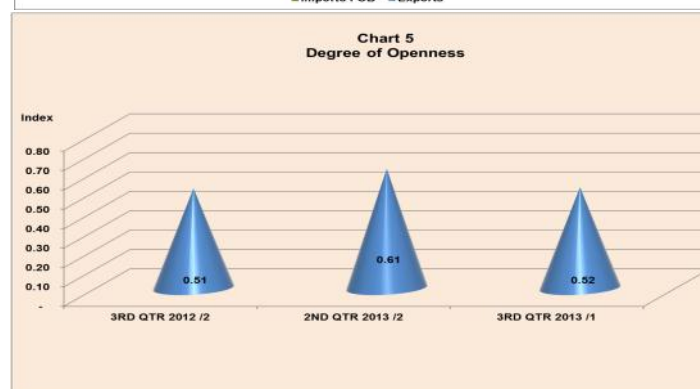
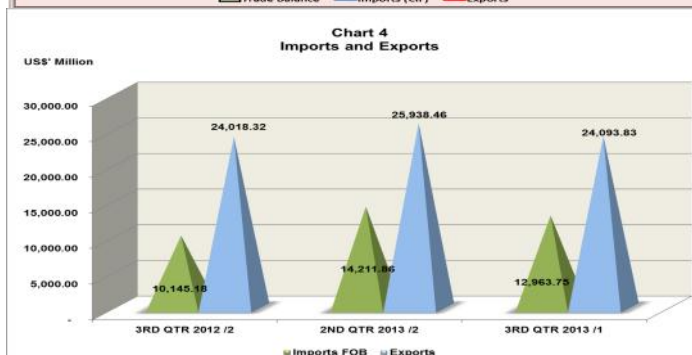
External Trade

External Trade

Provisional data revealed that Nigeria's trade balance declined from US\$10.60 billion in Q2 2013 to US\$9.86 billion in Q3 2013. Trade balance as a percentage of GDP declined from 19.07 per cent in Q3 2012 to 16.20 per cent in Q2 2013 and 13.79 per cent in Q3 2013. This development could be attributed to the decline in aggregate export proceeds induced by the fall in oil exports and reflected the country's over-dependence on oil exports and the need for the diversification of the Nigerian economy.

Integration of the Economy

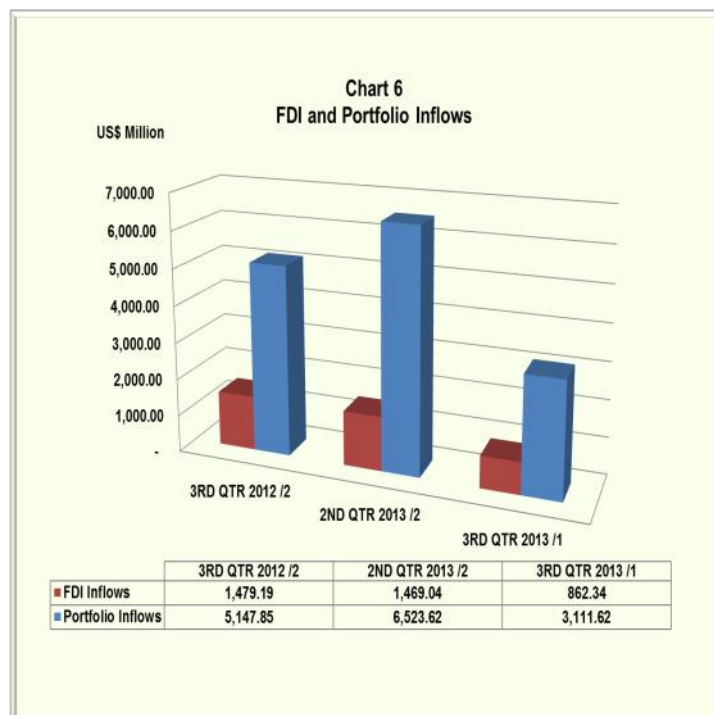
The indicators of integration- share of total trade, exports, imports, total foreign exchange flows and net flow as percentage of GDP declined in the review period to 57.7, 33.7, 18.1, 72.5 and 35.2 per cent, respectively, compared with their levels in Q2 2013. This implies that the Nigerian economy is well integrated into the global economy and should be sustained through policies that will enhance increased domestic production.



Foreign Capital Flows

FDI and Portfolio Inflows

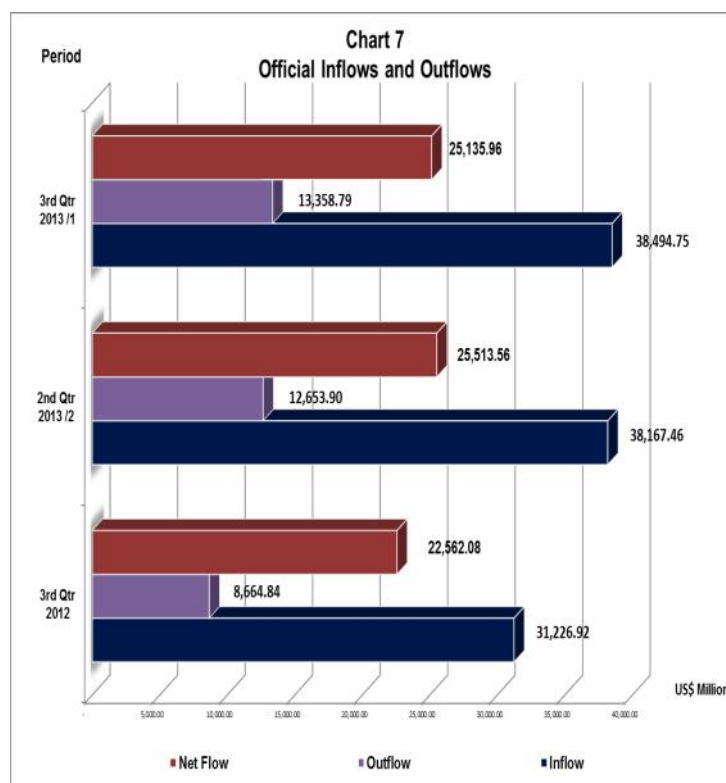
At US\$4.91 billion in Q3 2013, aggregate foreign capital inflow declined by 42.8 per cent from US\$8.58 billion in Q2 2013 due to the decline in both direct investment and portfolio investment inflows. Direct investment inflow declined from US\$1.47 billion in Q2 2013 to US\$0.86 billion in the review period. Similarly, portfolio investment inflow declined by 52.3 per cent from US\$6.52 billion in Q2 2013 to US\$3.11 billion in the review period. Other investment inflows increased by 59.5 per cent from US\$0.58 billion in Q2 2013 to US\$0.93 in Q3 2013. Portfolio investment inflow remained dominant and accounted for 63.4 per cent of total foreign inflows while direct investment inflows accounted for 17.6 per cent of total. Other investment inflows accounted for the balance. (Chart 6).



Foreign Exchange Inflows and Outflows

Inflow and Outflow

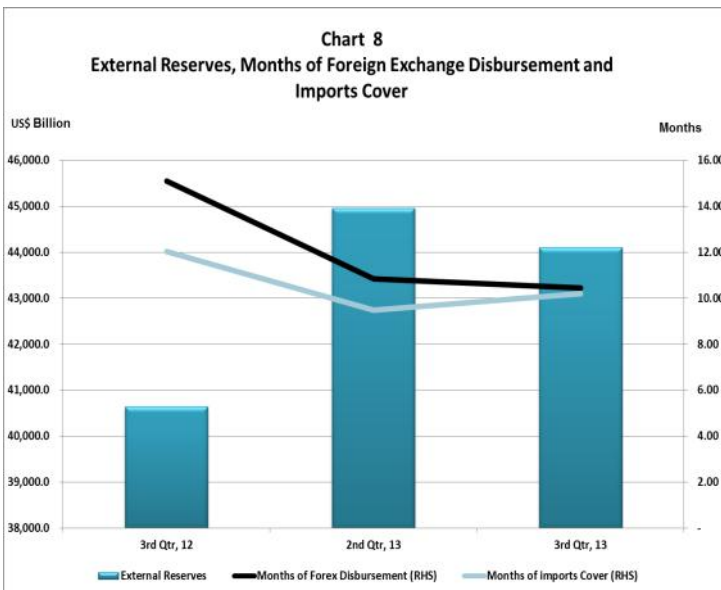
Available data revealed that foreign exchange inflows to the economy in Q3 2013 stood at US\$38.49 billion as against US\$38.17 billion recorded in Q2 2013 indicating a marginal increase of 0.9 per cent. Inflows through the Central Bank increased by 25.6 per cent from US\$9.44 billion in Q2 2013 to US\$11.86 billion in the review period while inflows through autonomous sources declined by 7.3 per cent to US\$26.64 billion. Outflows in the Q3 2013 increased by 5.6 per cent to US\$13.36 billion as against US\$12.65 billion in Q2 2013. Consequently, a net inflow of US\$25.14 billion was recorded in Q3 2013 as against US\$25.51 billion in Q2 2013 indicating a decline of 1.5 per cent. The CBN component of foreign exchange flows recorded a net outflow of US\$0.81 billion during the review period in contrast to a net inflow of US\$3.1 billion in Q2 2013. (Table 3, Chart 7).



External Reserves

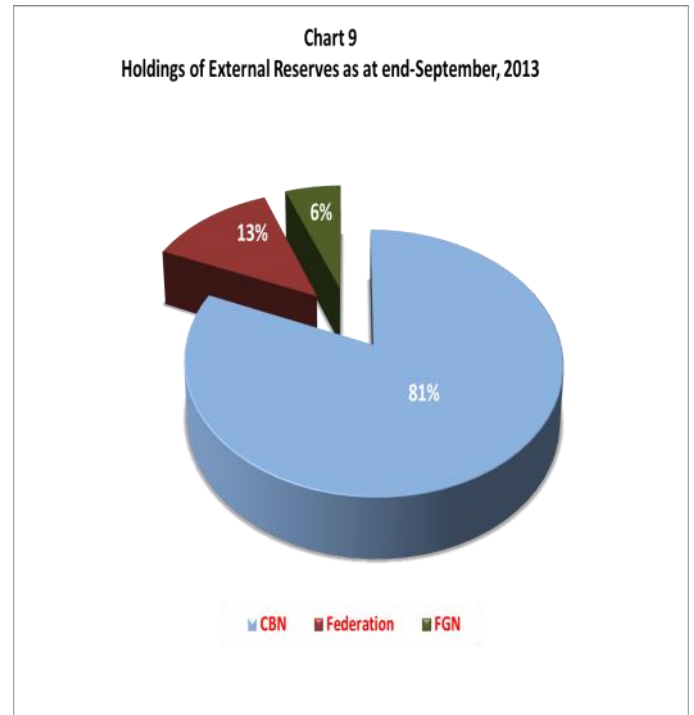
External Reserves

The stock of external reserves as at end-September 2013 stood at US\$44.11 billion as against US\$44.96 billion in the preceding quarter (indicating a depletion of US\$0.85 billion (Table 4). The depletion of reserves was mainly due to the sale of foreign exchange to authorized dealers, public sector payments and disbursements on letters of credit. The current level of external reserves could finance 10.5 months of foreign exchange disbursements and 10.2 months of import commitments as against 10.8 months of foreign exchange disbursements and 9.5 months of import commitments recorded in Q2 2013.



Holdings of External Reserves

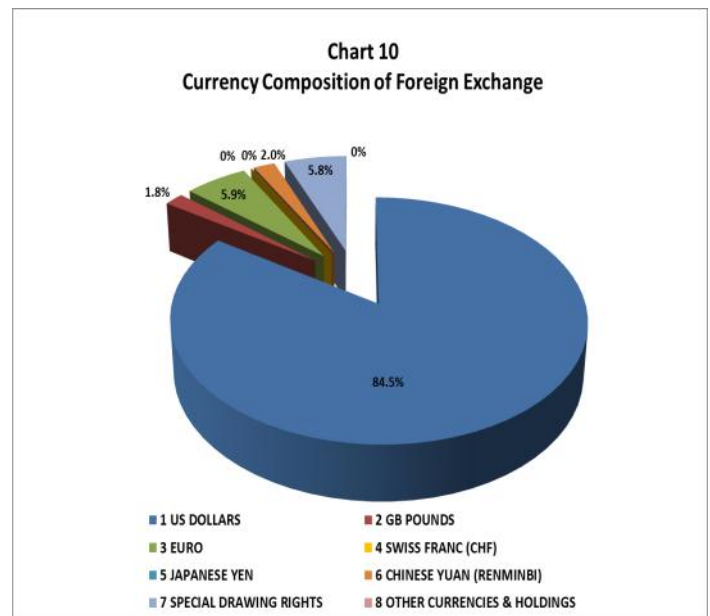
The holdings of external reserves revealed that the share of the CBN holdings in total stock of reserves stood at 81.0 per cent, while that of the Federation and Federal Government were 13.0 and 6.0 per cent, respectively (Chart 9).



Currency Composition of External Reserves

Major Currency Composition of External Reserves

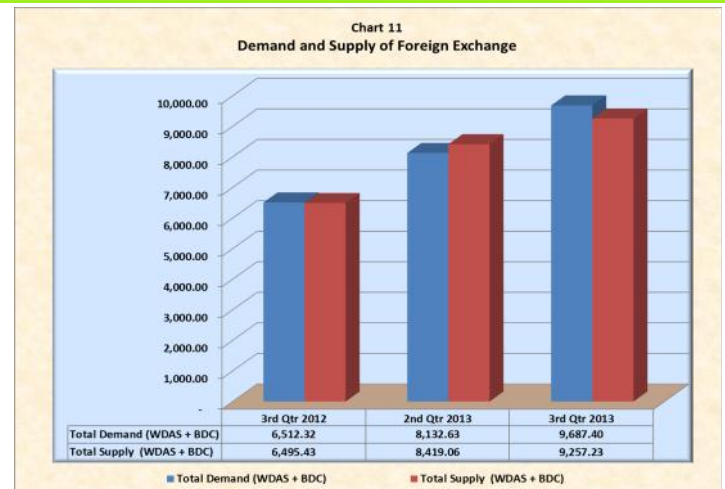
Available data indicated that the US dollar holding of foreign reserves constituted 84.5 per cent at US\$37.27 billion in the review period. Other currencies in the basket and their shares include Euro US\$2.58 billion (5.9%), SDR units US\$2.57 billion (5.8%), Chinese Yuan US\$0.88 billion (2.0%), GB Pounds US\$0.79 billion (1.8%) (Chart 9). Further analysis revealed that the reserves portfolio was dominated by fixed deposits (57.4%), funds under Asset Management (20.0%) and current account (6.0%) as well as Sovereign Wealth Fund (SWF) (1.0%).



Demand and Supply of Foreign Exchange

Demand and Supply of Foreign Exchange

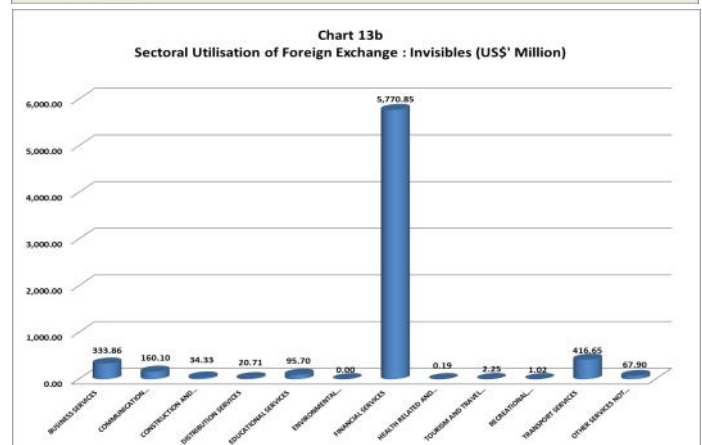
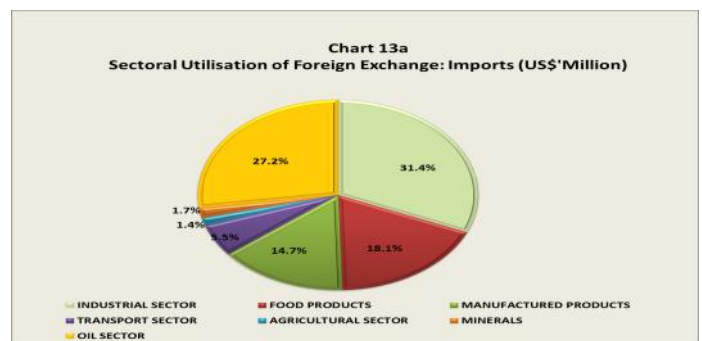
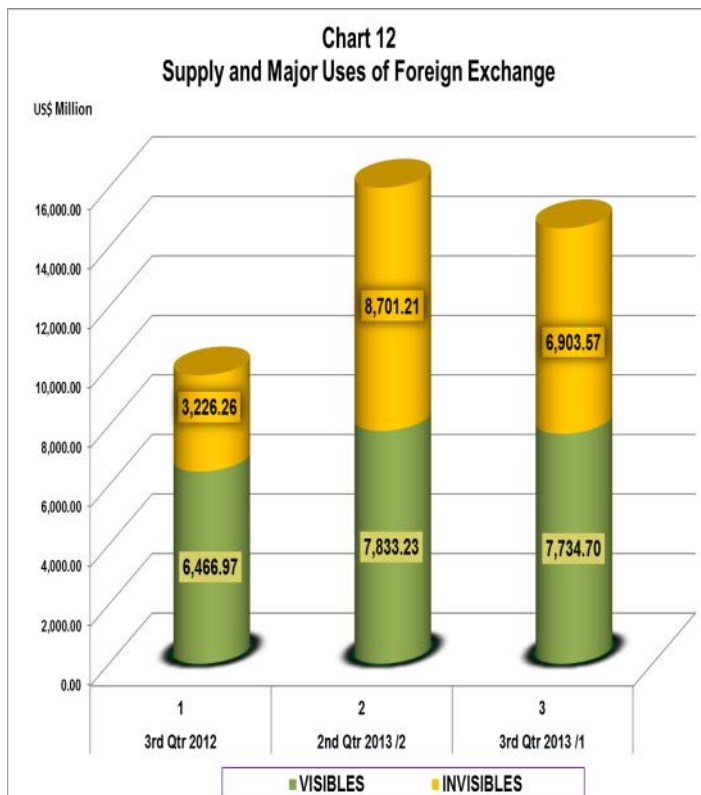
The aggregate demand for foreign exchange by the authorized dealers during the review period amounted to US\$9.69 billion as against US\$8.13 billion in Q2 2013 indicating an increase of 19.1 per cent. A total of US\$8.17 billion was demanded at the wDAS as against US\$6.84 billion in the preceding period, an increase of 19.4 per cent. Similarly, demand by the BDC operators increased by 17.5 per cent from US\$1.30 billion in Q2 2013 to US\$1.52 billion in the review period. The total amount supplied in Q3 2013 stood at US\$9.26 billion compared with US\$8.42 billion in Q2 2013. Of the total amount supplied, US\$7.73 billion was to the wDAS and US\$1.52 billion to BDC operators as against US\$7.12 billion and US\$1.30 billion, respectively, in Q2 2013 (Table 5 and Chart 11).



Sectoral Utilization of Foreign Exchange

The aggregate foreign exchange utilized during the review period stood at US\$14.64 billion as against US\$16.53 billion utilized in Q2 2013. This consisted of US\$7.73 billion and US\$6.90 billion for visible and invisible trade, respectively, compared with US\$7.83 billion and US\$8.70 billion, respectively, recorded in Q2 2013 indicating a decline of 1.3 per cent and 20.7 per cent, respectively (Table 6 and Chart 12).

Analysis of foreign exchange utilized by sectors in the review period revealed that US\$7.73 billion was spent on the importation of various items into the country compared with US\$7.83 billion utilized in Q2 2013. The importation of industrial, oil, food and manufactured products utilized 31.4, 27.2, 18.1 and 14.7 per cent of the total amount utilized, respectively (Table 6, Chart 13a). Further analysis revealed that US\$6.90 billion was utilized for services of which financial services (banking and other financial services) accounted for 83.6 per cent, while transport and business services constituted 6.0 and 4.8 per cent, respectively.



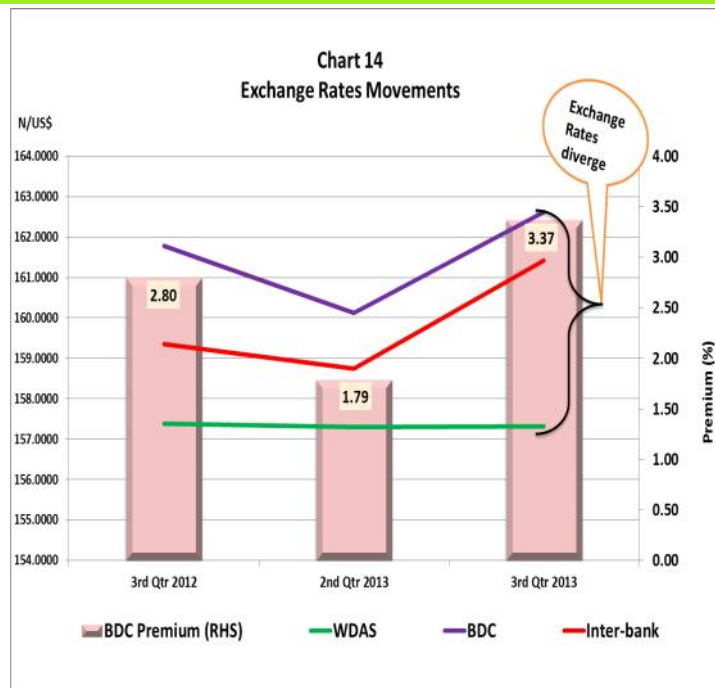
Exchange Rates Movements

Official and BDC Rates

In Q3 2013, the average official exchange rate depreciated marginally by 0.01 per cent from N157.30 to N157.31 to US\$1. Similarly, the naira depreciated by 1.5 per cent at the BDC segment of the market from N160.12 in Q2 2013 to N162.62 per US\$1 in the review period (Table 7). Consequently, the BDC premium widened by 1.6 percentage points from 1.79 per cent in Q2 2013 to 3.37 per cent in the review period. Despite the widened premium, it was within the tolerable limit (chart 14).

Inter-bank Rate

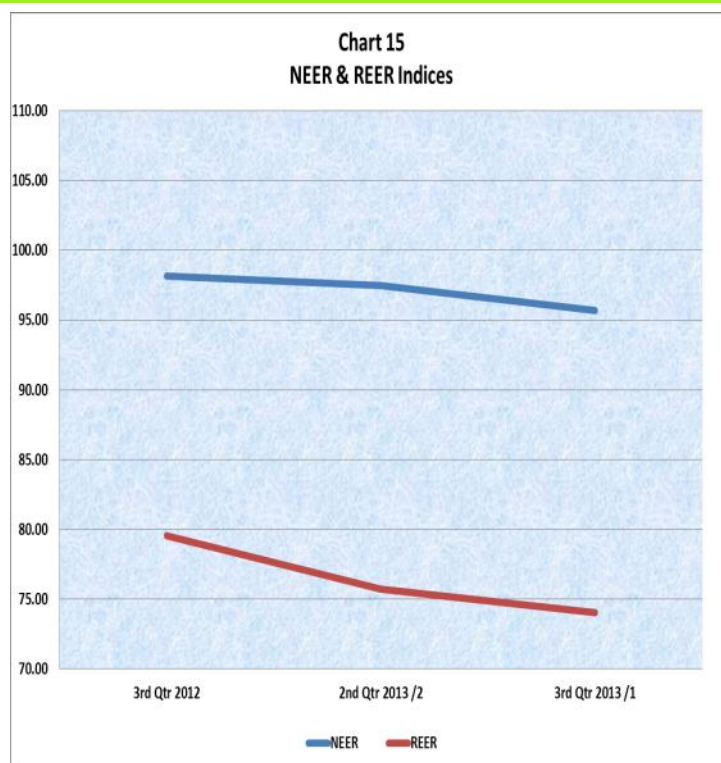
During the review period, the average inter-bank exchange rate stood at N161.41 as against N158.75 recorded in Q2 2013, showing a depreciation of 1.7 per cent when compared with the preceding quarter of 2013 (chart 14).



Value of the Naira and External Competitiveness of the Nigerian Economy

NEER and REER

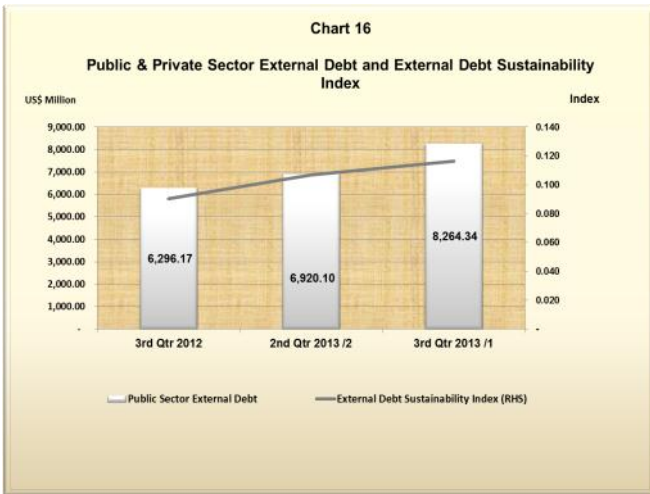
Analysis of the trade weighted average of the naira against currencies of the major trading partners showed that the nominal effective exchange rate (NEER) in Q3, 2013, declined from 97.45 in Q2, 2013 to 95.68 indicating a decline in the purchasing power of the naira compared to the currencies of the trading partners. The real effective exchange rate (REER) depreciated marginally to 74.04 as against 75.73 in the preceding quarter indicating a marginal increase in inflation and hence a decline in Nigeria's external competitiveness. Sustained improvement in infrastructure would therefore help to reduce cost of production and enhance international competitiveness. (Table 8, Chart 15).



External Debt Sustainability Index

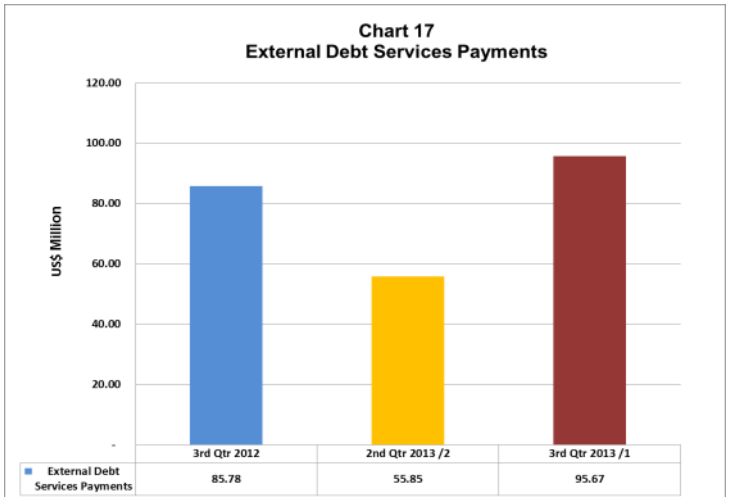
Public Sector External Debt

External debt sustainability index, computed as the ratio of external debt to nominal GDP remained at 0.1 in the review period. However, the public sector external debt rose from US\$6.92 billion in Q2 2013 to US\$8.26 billion in the review period (Chart 16).



Debt Service Payments

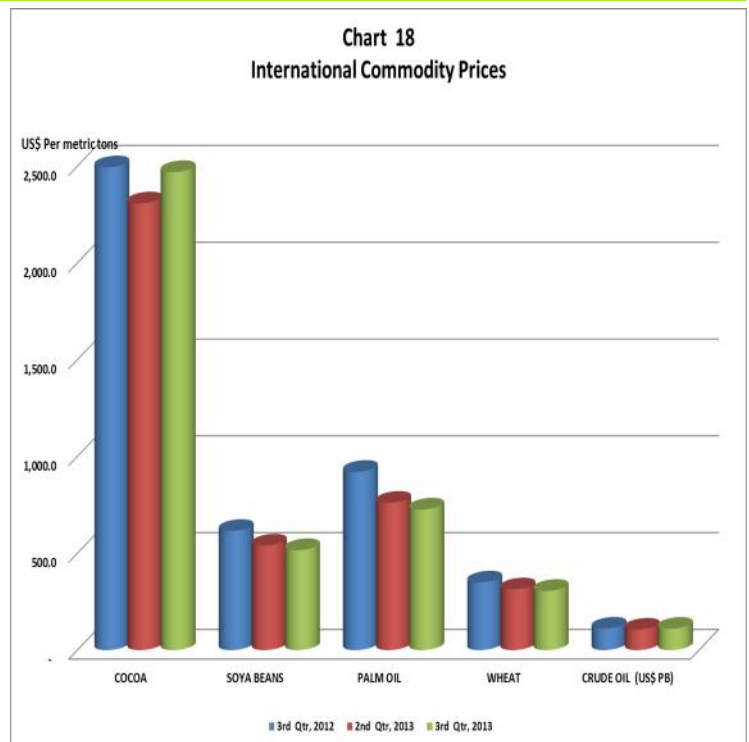
Public sector debt service payments increased from US\$0.56 billion in Q2 2013 to US\$0.96 billion in Q3 2013 (Chart 17).



International Commodity Prices

International Commodity Prices

The prices of international commodities observed during the review period revealed mixed developments when compared with their levels in Q2 2013. The price per metric ton of cocoa which stood at US\$2,307.93 in Q2 2013 increased marginally to US\$2,469.40 in the review period. The price of crude oil also increased, by 4.3 per cent, from US\$105.87 in Q2 2013 to US\$110.40 per barrel in the review period. The price per metric ton of palm oil decreased by 4.6 per cent to US\$726.17 in Q3 2013 when compared with the level in Q2 2013. Similarly, wheat recorded a price decrease of 2.5 per cent relative to the level in Q2 2013, to US\$308.89. The price per metric ton of soya beans also decreased, by 4.4 per cent, from US\$540.05 in Q2 2013 to US\$516.55 in Q3 2013. (Table 9, Chart 18).



	3RD QTR 2012 /2	4TH QTR 2012 /2	1ST QTR 2013 /2	2ND QTR 2013 /2	3RD QTR 2013 /1
CURRENT ACCOUNT	8,910.46	4,929.08	6,556.11	9,163.07	9,035.27
Goods	13,873.14	10,384.01	11,129.14	11,726.59	11,130.08
Exports	24,018.32	22,626.09	22,608.04	25,938.46	24,093.83
Crude Oil & Gas	23,349.60	21,844.63	21,644.28	25,106.15	23,370.06
Non-Oil	668.72	781.46	963.76	832.31	723.76
Imports	(10,145.18)	(12,242.08)	(11,478.90)	(14,211.86)	(12,963.75)
Crude Oil & Gas	(3,692.44)	(4,425.39)	(3,574.44)	(5,382.84)	(3,331.89)
Non-Oil	(6,452.74)	(7,816.69)	(7,904.46)	(8,829.02)	(9,631.86)
Services (net)	(4,672.45)	(6,249.07)	(4,831.65)	(5,012.41)	(4,915.04)
Income (net)	(5,682.05)	(5,167.45)	(5,039.19)	(2,950.04)	(2,638.92)
Current transfers (net)	5,391.81	5,961.59	5,297.80	5,398.93	5,459.14
CAPITAL & FINANCIAL ACCOUNT	(7,891.02)	(6,047.98)	(2,171.55)	1,800.89	1,095.27
Capital Account (net)	-	-	-	-	-
Financial Account (net)	(7,891.02)	(6,047.98)	(2,171.55)	1,800.89	1,095.27
Assets	(15,393.92)	(14,869.28)	(9,768.99)	(6,775.96)	(3,810.54)
Direct Investment Abroad	(491.72)	(664.23)	(357.11)	(152.46)	(205.21)
Portfolio Investment Abroad	(422.03)	(693.38)	(1,067.72)	(2,717.62)	(2,148.92)
Other Investment	(9,293.48)	(10,312.77)	(4,222.28)	(6,846.05)	(2,352.84)
Reserves Assets	(5,186.69)	(3,198.90)	(4,121.87)	2,940.17	896.43
Liabilities	7,502.90	8,821.29	7,597.43	8,576.85	4,905.81
Direct Investment Inflows	1,479.19	3,084.90	1,294.76	1,469.04	862.34
Portfolio Investment Inflows	5,147.85	5,615.36	6,823.24	6,523.62	3,111.62
Other Investment Liabilities	875.87	121.03	(520.57)	584.19	931.85
Net Errors & Omission	(1,019.44)	1,118.90	(4,384.55)	(10,963.97)	(10,130.54)
Memorandum Items	3RD QTR 2012 /2	4TH QTR 2012 /2	1ST QTR 2013 /2	2ND QTR 2013 /2	3RD QTR 2013 /1
Trade Balance	12,717.59	9,270.81	9,620.88	10,596.07	9,863.64
Current Account Balance as % of GDP	13.46	7.26	10.78	14.01	12.73
Capital & Financial Accounts as % of GDP	(11.92)	(8.91)	(3.57)	2.75	1.54
Overall Balance as % of GDP	7.84	4.71	6.77	(4.50)	(1.26)
Imports (CIF)	11,300.74	13,355.29	12,987.17	15,342.39	14,230.19
External Reserves– Stock (US\$' Million)	40,640.40	43,830.42	47,884.12	44,957.00	44,108.48
Number of Months of Imports Cover	12.0	10.7	12.5	9.5	10.2
No. of Months of Foreign Exchange Disbursements	15.1	16.8	22.8	10.8	10.5
Public External Debt Stock (US\$' Million)	6,296.17	6,527.07	6,670.72	6,920.10	8,264.34
Effective Central Exchange Rate (N/\$)	156.14	156.04	156.03	156.03	156.14
End-Period Exchange Rate (N/\$)	157.34	157.33	156.03	156.03	157.34

/1 Provisional

/2 Revised

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

Table 2: Degree of Openness

	3RD QTR 2012 /2	2ND QTR 2013 /2	3RD QTR 2013 /1
Degree of Openness	0.51	0.61	0.52
Total trade as % of GDP	59.88	54.42	57.72
Trade balance as % of GDP	19.07	16.20	13.79
Imports as % of GDP	15.21	21.73	18.13
Export as % of GDP	36.01	39.66	33.69
Total forex flows as % of GDP	59.81	77.70	72.51
Net flows as % of GDP	33.83	39.01	35.15

Source: BOPSO, Statistics Dept. CBN

Table 3: Inflow and Outflow of Foreign Exchange through the Economy (US\$ Million)

CATEGORY	3rd Qtr 2012	2nd Qtr 2013/2	3rd Qtr 2013/1	% change btw	% change btw
	1	2	3	1&3	2&3
Inflow	31,226.92	38,167.46	38,494.75	23.27	0.86
Inflow through CBN	13,444.07	9,442.93	11,857.34	(11.80)	25.57
Inflow through Autonomous	17,782.85	28,724.54	26,637.41	49.79	(7.27)
Outflow	8,664.84	12,653.90	13,358.79	54.17	5.57
Outflow through CBN	8,076.82	12,543.10	12,667.34	56.84	0.99
Outflow through Autonomous	588.02	110.80	691.45	17.59	524.04
Net Flow through CBN	5,367.25	3,100.17	(810.00)	(115.09)	(73.87)
Net Flow	22,562.08	25,513.56	25,135.96	11.41	(1.48)

/1 Provisional

/2 Revised

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

Table 4: Currency Composition of Foreign Exchange Reserves

Currencies	3RD QTR, 2012	2ND QTR, 2013	3RD QTR, 2013	Share of Total
US Dollar	33,813,000,897.38	38,249,837,274.98	37,272,208,254.68	84.50
GB Pounds	829,903,019.70	760,905,019.36	794,312,453.63	1.80
Euro	2,532,581,839.99	2,528,457,217.55	2,579,820,228.40	5.85
Swiss Franc (CHF)	1,534,416.09	1,518,509.60	1,579,287.38	0.00
Japanese Yen	19,230,632.70	13,721,902.80	13,905,861.21	0.03
Chinese Yuan (Renminbi)	25,469,640.58	868,671,364.10	879,036,772.07	1.99
Special Drawing Rights	2,583,443,968.44	2,519,438,274.21	2,567,348,290.88	5.82
Other Currency Holdings	835,240,114.95	14,451,437.63	267,300.38	0.00
Total	40,460,404,529.83	44,957,001,000.23	44,108,478,448.63	100.00

Sources: Financial Markets Dept. and Reserves Management Dept., CBN

Table 5: Demand and Supply of Foreign Exchange (US\$' Million)

	3RD QTR 2012	2ND QTR 2013	3RD QTR 2013	PERCENTAGE CHANGE BTW	
	1	2	3	1&3	(2) & (3)
WDAS Demand	5,360.91	6,836.74	8,165.08	52.31	19.43
BDC Demand	1,151.41	1,295.89	1,522.33	32.21	17.47
Total Demand (WDAS + BDC)	6,512.32	8,132.63	9,687.40	48.75	19.12
Sales to WDAS	5,344.02	7,123.18	7,734.90	44.74	8.59
Sales to BDC	1,151.41	1,295.89	1,522.33	32.21	17.47
Total Supply (WDAS + BDC)	6,495.43	8,419.06	9,257.23	42.52	9.96

/1 Provisional

/2 Revised

Sources: Financial Markets Dept. and Reserves Management Dept., CBN

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

	3RD QTR 2012	2ND QTR 2013 /2	3RD QTR 2013 /1	Percentage Share of Total 3RD QTR 2013	Percentage Change Between	
	(1)	(2)	(3)		(1) & (3)	(2) & (3)
A. VISIBLES (IMPORTS)	6,466,973,565.84	7,833,229,202.27	7,734,697,152.70	52.84	19.60	(1.26)
INDUSTRIAL SECTOR	1,741,618,489.96	2,190,689,463.37	2,431,267,908.02	31.43	39.60	10.98
FOOD PRODUCTS	1,237,953,080.19	1,600,472,495.04	1,400,320,549.04	18.10	13.12	(12.51)
MANUFACTURED PRODUCTS	1,068,592,969.78	1,038,574,665.51	1,139,066,349.09	14.73	6.59	9.68
TRANSPORT SECTOR	429,642,662.25	374,407,515.26	425,043,923.35	5.50	(1.07)	13.52
AGRICULTURAL SECTOR	68,166,944.77	136,803,801.93	105,719,283.91	1.37	55.09	(22.72)
MINERALS	54,017,322.84	119,877,440.09	132,152,879.94	1.71	144.65	10.24
OIL SECTOR	1,866,982,096.05	2,372,403,821.07	2,101,126,259.35	27.16	12.54	(11.43)
B. INVISIBLES	3,226,260,137.93	8,701,209,522.13	6,903,565,212.48	47.16	113.98	(20.66)
BUSINESS SERVICES	265,517,680.65	331,790,232.25	333,858,510.11	4.84	25.74	0.62
COMMUNICATION SERVICES	125,255,987.85	135,544,224.92	160,098,730.55	2.32	27.82	18.12
CONSTRUCTION AND RELATED ENGINEERING SERVICES	46,543,901.20	11,567,558.41	34,329,705.52	0.50	(26.24)	196.78
DISTRIBUTION SERVICES	12,242,105.01	10,198,596.78	20,710,264.87	0.30	69.17	103.07
EDUCATIONAL SERVICES	80,185,822.06	48,550,336.17	95,698,597.23	1.39	19.35	97.11
ENVIRONMENTAL SERVICES	91,013.00	-	-	-		
FINANCIAL SERVICES	2,143,179,622.41	7,772,741,839.88	5,770,852,808.00	83.59	169.27	(25.76)
HEALTH RELATED AND SOCIAL SERVICES	170,730.70	1,120,874.36	190,826.03	0.00	11.77	(82.98)
TOURISM AND TRAVEL RELATED SERVICES	40,179,074.33	2,809,796.30	2,252,821.01	0.03	(94.39)	(19.82)
RECREATIONAL, CULTURAL AND SPORTING SERVICES	1,923.15	-	1,021,500.00	0.01	-	-
TRANSPORT SERVICES	435,265,523.00	333,231,482.43	416,646,777.34	6.04	(4.28)	25.03
OTHER SERVICES NOT INCLUDED ELSEWHERE	77,626,754.57	53,654,580.63	67,904,671.82	0.98	(12.52)	26.56
TOTAL (A+B)	9,693,233,703.77	16,534,438,724.40	14,638,262,365.18	100.00	51.02	(11.47)

/1 Provisional

/2 Revised

Source: Trade and Exchange Department, CBN

Table 7: Average Exchange Rates (Naira per US\$)

	WDAS	BDC	Inter-bank	BDC Premium (RHS)
3RD QTR 2012	157.3856	161.79	159.36	2.80
2ND QTR 2013	157.3041	160.12	158.75	1.79
3RD QTR 2013	157.3153	162.62	161.41	3.37
Appreciation/Depreciation - 3rd Qtr 2013/2nd Qtr 2013	-0.01	-1.54	-1.65	
Appreciation/Depreciation - 3rd Qtr 2013/3rd Qtr 2012	0.04	-0.51	-1.27	

Source: Trade and Exchange Department, CBN

Table 8: NEER and REER Indices (November, 2009 =100)

Items	3RD QTR 2012	2ND QTR 2013 /2	3RD QTR 2013 /1
NEER	98.16	97.45	95.68
REER	79.55	75.73	74.04

Source: IMF_IFS web site, National Bureau of Statistics, FMD- CBN and External Sector Indicators Statistics Office, Statistics Department, CBN

/1 Provisional

/2 Revised

Table 9: International Commodity Prices

	3RD QTR, 2012	2ND QTR, 2013	3RD QTR, 2013	Percentage Change	
	1	2	3	(1) & (3)	(2) & (3)
Cocoa (US\$/MT)	2,494.12	2,307.93	2,469.40	-1.0	7.0
Palm Oil (US\$/MT)	920.89	760.96	726.17	-21.1	-4.6
Wheat (US\$/MT)	349.50	313.79	305.89	-12.5	-2.5
Soya Beans (US\$/MT)	615.85	540.05	516.55	-16.1	-4.4
Crude Oil Price (US\$ PB)	110.91	105.87	110.40	-0.5	4.3

Sources: International Cocoa Organization/International Monetary Fund