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Signing the Africa Continental Free Trade Area Agreement

On July 7, 2019, Nigeria signed the Africa Continental Free Trade Area (AfCFTA) agreement[1] – the world's largest free trade area deal since the formation of the World Trade Organization. The AfCFTA aims to, among other cardinal objectives, boost intra-regional trade which stands in favour of Nigeria and improve its low bilateral trade with other African countries. According to the NBS, exports from Nigeria to the rest of Africa accounted for 13.2% of total exports in 2018[2], far below 43.9% and 27.9% to Europe and Asia respectively; also, imports from other African countries made up only 3.5% of total imports, unrivalled with 41% and 44% from Europe and Asia respectively. By signing the AfCTA which removes tariff on about 90% of the commodities produced within Africa, trade between Nigeria and other African countries could potentially increase to 52% by 2022. However, the extent to which Nigeria would reap the encompassing benefits of the CFTA depends strongly on the improvement in efficiency of local firms, and the development of continent-wide systems upon which trade can thrive. To address the former, the inefficiency and opacity in border administration, and the lack of connective infrastructure will need to be dealt with. Furthermore, the Nigerian government may strongly consider signing the Protocol on free movement of people, which stipulates visa-free entry for up to 30 days for African nationals and the introduction of an 'African passport' issued by member states, that opened up for signature in March 2018 and has been signed by 32 countries[3].

Rise in Loan-to-Deposit Ratio

Consumer and real sector lending in Nigeria is set to increase following a new policy directive to deposit money banks. The CBN recently directed banks to maintain a minimum loan-to-deposit ratio (LDR) of 60% by the end of September 2019[4], higher than the industry average of 58.5%[5]. This means that banks must use 60% of their deposits for loans. The rationale for the policy which is to stimulate SMEs, retail, mortgage and consumer lending and investment, is also potentially able to support loan growth recovery by about 5% in 2019[6]. However, banks may need to divert focus and funds from their previously held high-yield government securities. While the anticipated increase in lending would spur growth in the real sector, many constraints exist that could hamper the process. On one hand, the lack of good consumer credit records and size of SMEs that are too risky to lend to, could weigh on banks' bad debt and subsequently, increase non-performing loans. On the other hand, taking out riskier loans to meet the minimum requirement could have negative credit effect on banks. Individual credit ratings that provide information useful in identifying risky and non-risky borrowers is required for banks to increase lending. The complete implementation of the Bank Verification Number (BVN) is a necessary step towards building credit histories of citizens.

Current Account Deterioration

Nigeria's current account reversed its surplus position in 2019Q1. The account recorded a deficit of $1.1 billion in the first quarter of 2019[7], compared with a surplus of $1.1 billion in the previous quarter. Although the non-oil exports increased to its highest since 2014Q2[8] ($2.3 billion), non-oil imports increased by $4.6 billion more than offsetting the increase in exports. In addition, the current account deterioration was triggered by a fall of $2.8 billion in crude oil and gas exports (value of crude oil exports declined from $15.6 billion in the last quarter to $12.8 billion in 2019Q1)[9]. Movements in quarterly figures of current account balance are often driven by one-off transactions that can mask the aggregate trend in the data. Particularly, going forward, Nigeria’s current account position is expected to maintain its long-term deteriorating trend given weak growth in exports and rising local demand that encourages import growth.

ECONOMIC SNAPSHOT		
Quarterly Indicators	**'18Q4**	**'19Q1**
GDP Growth Rate (%)	2.38	2.1
Oil GDP (%)	-1.62	-2.40
Non-oil GDP (%)	2.7	2.47
Unemployment Rate (%)	NA	NA
Foreign Direct Investment (US $ Million)	173.37	243.36
Portfolio Investment (US $Millions)	1,760.76	7,145.98
Other Investment (US $Million)	750.93	1,096.15
External Debt (FGN & States- N'Billion)	7,759.22	NA
Domestic Debt (FGN + States & FCT N'billion)	16,627.84	NA
Manufacturing Capacity utilization (%)	55	NA
Monthly Indicators	**Apr'19**	**May'19**
Headline Inflation (%)	11.37	11.40
Food Sub-Index (%)	13.70	13.79
Core Sub-Index (%)	9.3	9.0
External Reserves (End Period) (US$ Million)	44,792.70	45,122.82
Official Rate Approx. (N/US$)	305	305
BDC Rate Approx. (N/US$)	362	362
Manufacturing PMI	57.7	57.8
Non-Manufacturing PMI	58.7	58.9
Crude Oil Price (US$/Barrel	73.08	NA
Petrol (PMS-N/litre)	145.90	145.00
Diesel (AGO -N/Litre)	230.67	228.02
Kerosene (HHK -N/Litre	316.26	315.91
MPR (%)	13.5	13.5
CRR (%)	22.5	22.5
91 Day T-Bill Rate (%)	10.91	NA
Savings Deposit (%)	4.07	NA
Prime Lending (%)	18.23	NA
Maximum Lending (%)	30.89	NA
Narrow Money (N'Billion)	11,252.43	11,385.05
Broad Money (N'Billion)	35,167.53	34,897.62
Net Domestic Credit (N'Billion)	32,898.45	32,175.50
Credit to the Government (N'Billion)	8,001.77	7,310.79
Credit to the Private Sector(N'Billion)	24,896.67	24,864.71
Currency in Circulation (N'Billion)	2,158.70	2,111.85
FAAC (N'Billion)	616.20	679.70

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Revised GDP figures/tentative figures

NA: Not Available

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