



# Nigeria Economic Update



**Weekly  
Digest**

## ***Implementation of New Forex Restriction***

Recent reports suggest that a forex restriction on food imports into Nigeria will be implemented in the coming months<sup>1</sup>. The Apex bank had enlisted, in 2015, 41 items as invalid for foreign exchange at the Nigerian forex markets. This list is set to increase if the recent directive to ban forex for imported food items materializes. Although the key motivations behind the forex control measure include to boost local production, sustain forex stability, and conserve the foreign exchange, many underlying factors have been overlooked. Nigeria relies heavily on imported food items to meet demands of its over 180 million people, given the insufficient local food production capacity (the nation spends almost \$4 billion annually to cover the food import bill<sup>2</sup>). Essentially, current shortage in domestic food supply capacity cannot immediately replace the restricted imports. Also, the lack of structure and infrastructure for local food production sufficiency could create artificial supply gaps that are incentives to smuggling food into the country and shooting up prices and inflation. Rapid transition from small holder farming to mechanised farming is required to stem the expected rise in food prices. While the Government promotes mechanisation through the private tractor-hiring enterprise, the programme has remained unprofitable to tractor owners as most clients are small holder farmers. The tractor-hiring enterprise presents an entry point for international and local donor organizations active in the agriculture sector.

## ***Decline in Foreign Reserves***

Nigeria's external reserves dropped by \$650 million to \$44.43 billion as at August 15, 2019<sup>3</sup>. Month-on-month comparison shows that the reserve fell from \$45.12 billion recorded as at the corresponding date in July. The reserves, which have witnessed growth since the beginning of the year, have begun to decline in recent times, reflecting insufficient inflows relative to outflows. A likely pointer to the deterioration is the dwindle in crude oil revenue due to falling crude oil price. Nigeria's bonny light which was sold for approximately \$66/barrel in July 2019<sup>4</sup>, dropped to below \$60/barrel in August. While the reserves' sensitivity to fluctuations in crude oil price leaves it vulnerable to further decline, the CBN's consistent interventions in the forex market and slowing foreign portfolio investments may keep stalling the build-up of the reserve. Without a viable source of foreign exchange, inflows outside of crude oil export, the monetary authority relies on import control by prioritizing access to the official foreign exchange window. Going forward, a more robust strategy that diversifies the inflow of foreign exchange and reduces the exposure of reserves to oil revenue shocks will be more effective in sustaining growth in reserves and incentivizing foreign portfolio investments.

## ***Decline in Portfolio Investment***

Total investment at the Nigeria Stock Exchange decreased from ₦297.3 billion in June 2019 to ₦113.5 billion in July 2019, representing a significant 61.8% decline from the amount invested in June<sup>5</sup>. Both domestic and foreign portfolio investments declined during the month, with the largest fall accounted for by domestic investment - from ₦200.5 billion in June to just about ₦55.7 billion in July (72.2% decline in one month). While the foreign portfolio investors have continued to stay on the side-line due to uncertainties surrounding foreign exchange control measures<sup>6</sup>, the domestic investors may have been swayed by unimpressive half-year performance results earlier released by some listed companies. Investors are likely to hold on to government securities and closely monitor corporate performance, which may improve in coming periods as aggregate demand is potentially boosted by regulatory and political factors. Specifically, increased bank lending to meet CBN's LDR requirements, as well as budget and minimum wage implementation with the inauguration of the cabinet.

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	May'19	June'19
Headline Inflation (%)	11.40	11.22
Food Sub-Index (%)	13.79	13.56
Core Sub-Index (%)	9.0	8.8
External Reserves (End Period) (US\$ Million)	45,122.82	45,069.45
Official Rate Approx. (N/US\$)	305	305
BDC Rate Approx. (N/US\$)	362	362
Manufacturing PMI	57.8	57.4
Non-Manufacturing PMI	58.9	58.6
Crude Oil Price (US\$/Barrel)	NA	NA
Petrol (PMS-N/litre)	145.00	145.40
Diesel (AGO -N/Litre)	228.02	224.69
Kerosene (HHK -N/Litre)	315.91	316.43
MPR (%)	13.5	13.5
CRR (%)	22.5	22.5
91 Day T-Bill Rate (%)	10	10.14
Savings Deposit (%)	3.9	3.93
Prime Lending (%)	15.33	15.8
Maximum Lending (%)	31.07	31.04
Narrow Money (N'Billion)	11,385.05	NA
Broad Money (N'Billion)	34,897.62	NA
Net Domestic Credit (N'Billion)	32,175.50	NA
Credit to the Government (N'Billion)	7,310.79	NA
Credit to the Private Sector(N'Billion)	24,864.71	NA
Currency in Circulation (N'Billion)	2,111.85	NA
FAAC (N'Billion)	679.70	NA

\*Revised GDP figures/tentative figures

NA: Not Available

<sup>1</sup>BBC (2019). “Why Nigeria has restricted food imports”. Accessed August 19, 2019.

<https://www.bbc.com/news/world-africa-49367968>

<sup>2</sup> BBC (2019). “Why Nigeria has restricted food imports”. Accessed August 19, 2019.

<https://www.bbc.com/news/world-africa-49367968>

<sup>3</sup>CBN (2019). “Movement in Reserves”. Accessed August 21, 2019.

<https://www.cbn.gov.ng/IntOps/Reserve.asp>

<sup>4</sup>cbn.gov.ng

<sup>5</sup>NSE (2019). “The Nigerian Stock Exchange’s Domestic & Foreign Portfolio Investment Report July

2019”. Retrieved from, [http://www.nse.com.ng/market\\_data-site/other-market-information-site/FPI%20Report/NSE%20Domestic%20and%20FPI%20Report%20July%202019.pdf](http://www.nse.com.ng/market_data-site/other-market-information-site/FPI%20Report/NSE%20Domestic%20and%20FPI%20Report%20July%202019.pdf)

<sup>6</sup>Leadership (2019). “Investors’ Investments Decline By 7.50% In July”. Accessed August 21, 2019.

<http://leadership.ng/2019/08/02/investors-investments-decline-by-7-50-in-july/>

