

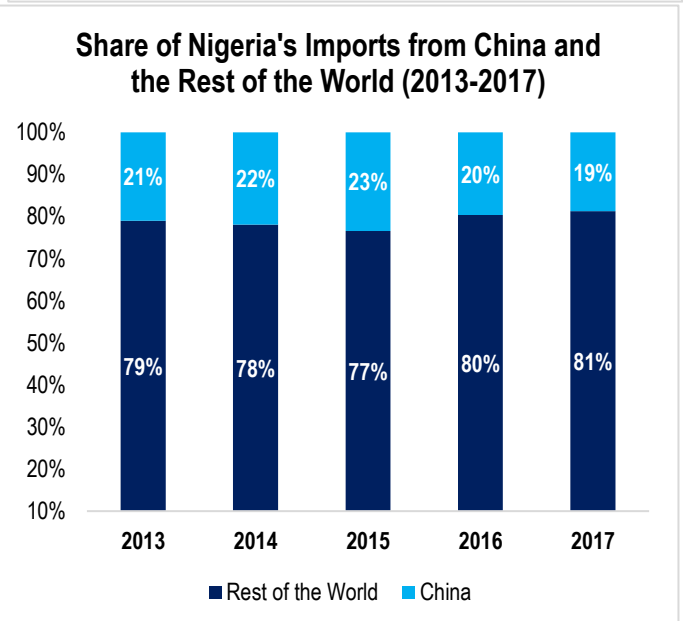
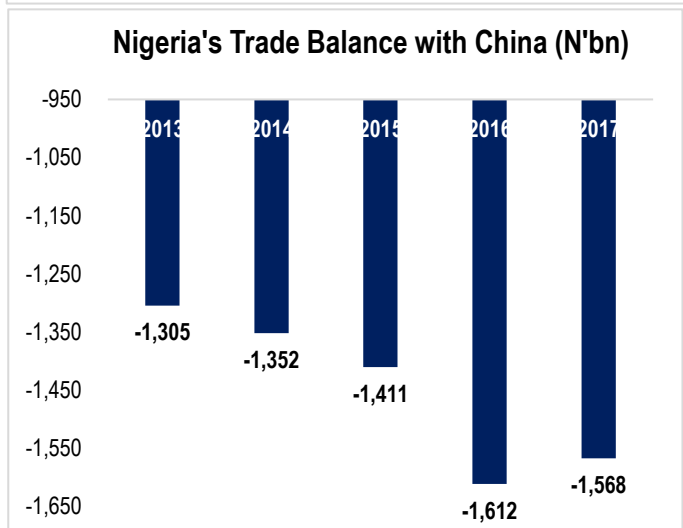
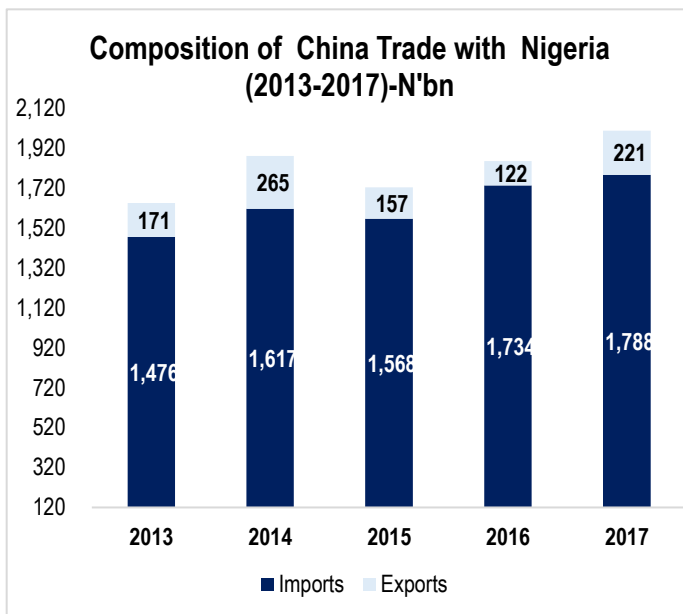
## Conditions to Derive the Full Benefits of the Currency Swap Deal

The Central Bank of Nigeria (CBN) recently signed a bilateral currency swap agreement with the People’s Bank of China (PBoC) worth about US\$2.4 billion. In local currencies, the swap is worth 15 billion Renminbi (RMB) or N720 billion. The deal is valid for three years and may be renewed following the approval of both countries. The deal will allow for the direct exchange of RMB and Naira for the purpose of trade and direct investment between the two countries.

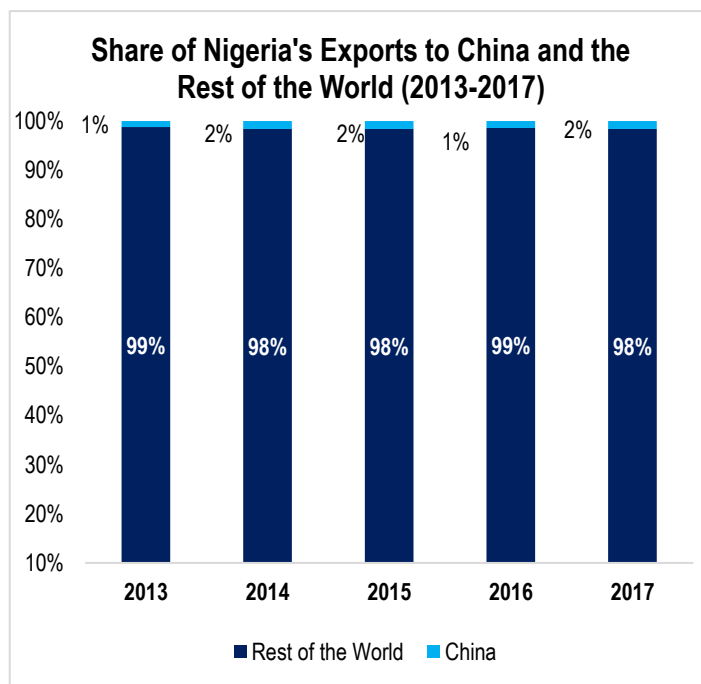
According to the PBoC, the aim of the swap arrangement is to facilitate bilateral trade, direct investment, and safeguard financial market stability. The trade is expected to reduce the demand for US Dollar by Nigerians importing from China and consequently strengthen the value of the Naira. The deal will reduce certain barriers for Nigerian importers of goods from China and reduce the cost of transactions in multiple currencies.

FSDH Research reviewed the historical trade position between Nigeria and China to determine the benefits of the swap deal. Our review in the last five years shows that Nigeria’s imports from China are higher than the exports to China, leading to a negative trade balance. China has been one of Nigeria’s largest import partners over the last five years, with imports from China accounting for an average of 20.95% of total imports between 2013 and 2017. Imports from China increased by 21.16% from N1.48 trillion in 2013 to N1.79 trillion in 2017.

On the other hand, Nigeria’s exports to China averaged just 1.50% of total exports over the period. Exports to China increased by 28.99% from N171 billion in 2013 to N220.57 billion in 2017.



FSDH Research considers that while the currency swap agreement may improve foreign exchange stability and aid external reserves management to a certain extent, it presents downside risks. The fact that it removes some trade barriers between the two countries may increase Nigeria's imports from China. This development without a corresponding increase in Nigeria's exports to China will further increase Nigeria's trade deficit with China. Nigeria needs to develop competitive advantage in the production of certain exportable goods that China currently imports in order for Nigeria to get the full benefit from this currency swap deal.



Source: National Bureau of Statistics, People's Bank of China and FSDH Research Analysis

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