

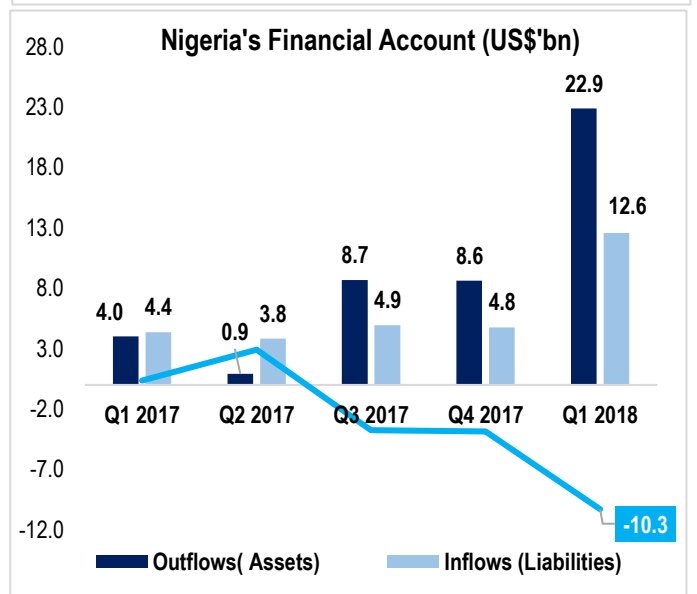
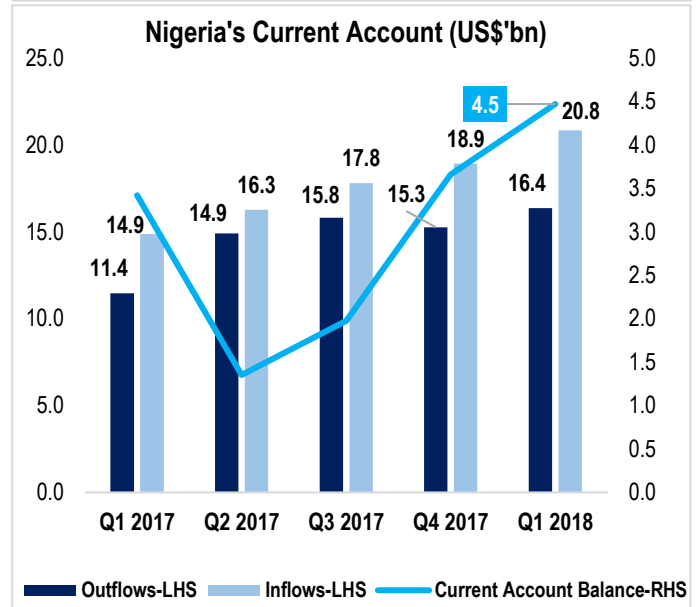
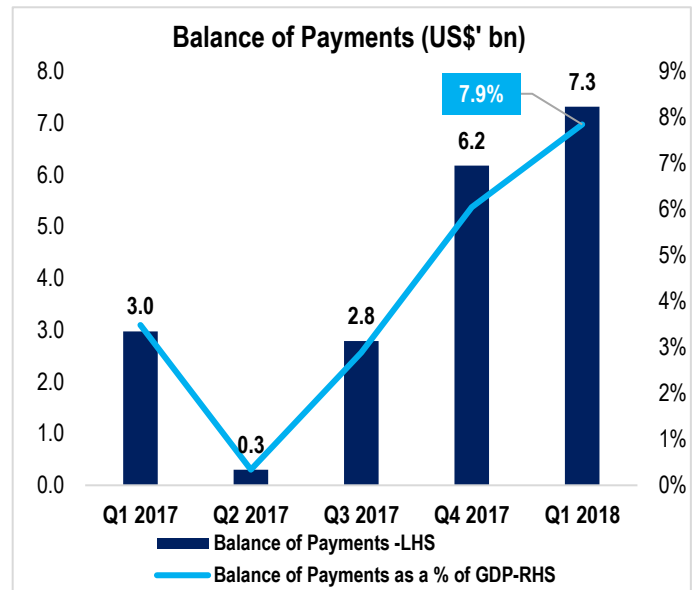
Strong Balance of Payments but Vulnerable

FSDH Research's analysis of Nigeria's Balance of Payments (BOP) position as at Q1 2018 confirms our view that the country's external position remains strong but vulnerable to developments in the crude oil and gas market. The provisional BOP figures for Q1 2018 published by the Central Bank of Nigeria (CBN), indicates that the overall BOP for Nigeria shows a surplus of US\$7.32bn in Q1 2018, an increase from a surplus of US\$2.98bn in Q1 2017. The overall BOP as a percentage of Gross Domestic Product (GDP) grew to 7.85% in Q1 2018 from 3.49% in Q1 2017. A strong BOP helps to sustain stability in the foreign exchange market and reduce exchange rate risk.

Our analysis of the current account component of the BOP shows that it increased to a surplus of US\$4.47bn in Q1 2018 from a surplus of US\$3.42bn in Q1 2017. Total inflows (consisting of exports and net current transfers) increased by 40.10% to US\$20.83bn in Q1 2018 compared with US\$14.87bn in Q1 2017. Nigeria's inflows were dominated by crude oil and gas exports, accounting for 93.28% of total exports and 64.46% of total inflows. Outflows were dominated by the non-oil imports and net payments for services.

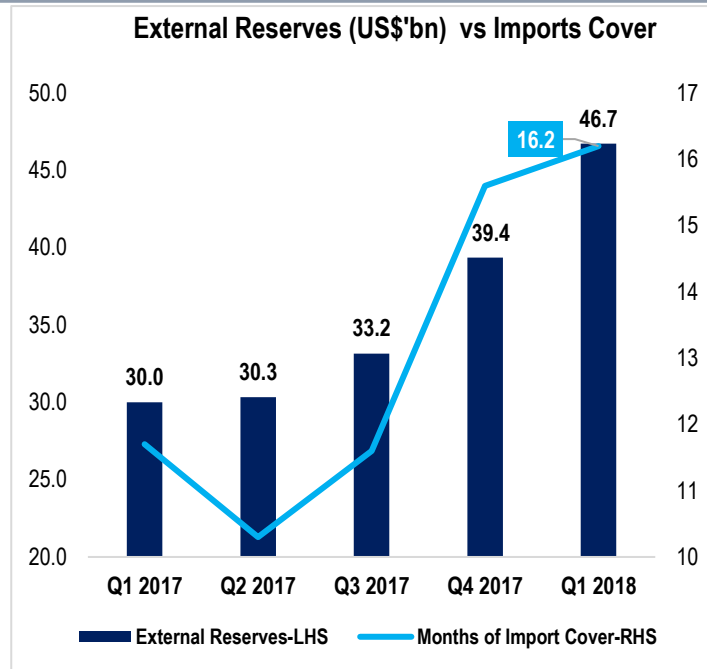
The financial account closed the quarter at a net outflow of US\$10.29bn from a net inflow of US\$355.88mn in Q1 2017. Inflows into the financial account were dominated by other investments and portfolio investments, accounting for 52.73% and 40.85% of total inflows respectively.

The BOP report shows that the external reserves as at Q1 2018 stood at US\$46.73bn compared with US\$30bn in Q1 2017. The reserves as at Q1 2018 could finance approximately 16.2 months of imports higher than the global



and West African Monetary Zone benchmarks of 3 months and 6 months respectively.

FSDH Research notes that the Nigerian economy is overly dependent on crude oil, which presents a significant downside risk. Government at all levels must intensify efforts to implement policies that would grow the non-oil sectors of the economy. This would ensure that the economy is mitigated against consequences attached to adverse developments in the crude oil market and would also encourage more foreign capital inflows in the form of Foreign Direct Investments and Foreign Portfolio Investments.



Sources: Central Bank of Nigeria (CBN) and FSDH Research Analysis
 RHS – Right Hand Side LHS – Left Hand Side

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