



Nigeria Economic Update



Weekly
Digest

Fall in Foreign Capital Inflows

Capital importation into Nigeria dropped significantly in first quarter of 2019 with more than 26 states unable to attract any form of foreign investment during the quarter. At \$5.82 billion, total capital imported declined significantly by 31.4% relative to \$8.49 billion capital imported in the previous quarter¹. By type of investment, while other investments (loans, and other claims) increased QOQ by 19% to \$2.4 billion, both foreign direct and portfolio investments declined during the quarter. Foreign direct investment fell by 8.41% to \$222.89 million, however, portfolio investment, Nigeria's biggest source of capital importation, declined the most by about 40% from \$7.15 billion in 2019Q1 to \$4.29 billion in 2019Q2. The numbers suggest that investors seem weary of the weak economic and business environment and are taking a risk-averse stance. With the presence of internal push factors such as rising government debt, declining economic performance, and static business climate, we expect a continuous decline in foreign capital inflows. To attract capital inflows, there is need to boost investor protection by improving regulations on protecting minority investors, as well as managing conflict of interest between the government and investors in order to reduce the risk exposure to foreign investors.

Impending Food Crisis

Reports suggest that the World Bank has raised renewed concerns over Nigeria's food crisis², as the institution asserts that Nigeria is unable to provide enough food for its over 180 million citizens, particularly for those in northern Nigeria. Earlier reports had stated that at least 22.7 million northern Nigerians are at risk of drifting into acute food shortage crisis in 2019³, compared to 20.4 million reported for 2018⁴. While the World bank attributes Nigeria's food crisis to poor policies over past government administrations and neglect of the agricultural sector, root causes such as conflict, instability, and climate change shocks still drive food insecurity, and if not mitigated, food crisis could worsen in the short term. While the government has undertaken initiatives such as the Anchor Borrowers Programme to support domestic production, more will need to be done to improve agriculture yields in order to grow more food using the same amount of input. Training on better farming techniques as well as an improved fertilizer distribution system (e.g. the E-wallet system) can be put in place to achieve this. In addition, food imports should be liberalised under the soon-to-be implemented African Continental Free Trade Area (AfCTA) agreement.

Worsening DISCO Performance

Reports from the Transmission Company of Nigeria (TCN) show that the level of electricity distribution by the 11 electricity distribution companies (Discos) nationwide has significantly dropped by 46.73% to 2,962.82 megawatts⁵ (MW) as at September 5, 2019. The decline also shows unutilized power distribution of 3,274.9MW given that the certified distribution capacity of the 11 Discos is 6,235.7MW⁶. The shows that while a higher percentage of power is generated, Discos still opt to take less due to some operational constraints which also put them at risk of disconnection from the national grid. For instance, some Discos had failed to renew their security cover and their debt profile showed huge amounts being owed to TCN for energy service⁷ (three major discos owed about N231 billion). The financial and operational constraints faced by the DISCOs are further worsened by their inability to access commercial financing due to their highly leveraged balance sheets. To improve DISCO position and performance, there is need to design a set of balanced incentives to ensure aggressive reduction in Aggregate Technical, Commercial and Collection (ATC&C) losses. There is also a need for financial restructuring and recapitalization as well as the implementation of credible Business Continuity Plans, where required, to allow Discos attract investors.

ECONOMIC SNAPSHOT		
Quarterly Indicators	'19Q1	'19Q2
GDP Growth Rate (%)	2.1	1.94
Oil GDP (%)	-2.40	5.15
Non-oil GDP (%)	2.47	1.64
Unemployment Rate (%)	NA	NA
Foreign Direct Investment (US \$ Million)	243.36	222.89
Portfolio Investment (US \$Millions)	7,145.98	4,292.89
Other Investment (US \$Million)	1,096.15	1,304.43
External Debt (FGN & States- N'Billion)	7,860.88	NA
Domestic Debt (FGN + States & FCT N'billion)	17,086.20	NA
Manufacturing Capacity utilization (%)	NA	NA
Monthly Indicators	June'19	July'19
Headline Inflation (%)	11.22	11.08
Food Sub-Index (%)	13.56	13.39
Core Sub-Index (%)	8.84	8.80
External Reserves (End Period) (US\$ Million)	45,069.45	44,903.03
Official Rate Approx. (N/US\$)	305	305
BDC Rate Approx. (N/US\$)	362	362
Manufacturing PMI	57.4	57.6
Non-Manufacturing PMI	58.6	58.7
Crude Oil Price (US\$/Barrel)	NA	NA
Petrol (PMS-N/litre)	145.40	145.00
Diesel (AGO -N/Litre)	224.69	224.96
Kerosene (HHK -N/Litre)	316.43	316.03
MPR (%)	13.5	13.5
CRR (%)	22.5	22.5
91 Day T-Bill Rate (%)	9.93	9.92
Savings Deposit (%)	3.93	3.93
Prime Lending (%)	15.8	15.46
Maximum Lending (%)	31.04	31.07
Narrow Money (N'Billion)	11,159.12	11,435.79
Broad Money (N'Billion)	35,018.77	35,675.93
Net Domestic Credit (N'Billion)	32,332.63	33,412.40
Credit to the Government (N'Billion)	7,581.49	9,138.08
Credit to the Private Sector(N'Billion)	24,751.13	24,274.31
Currency in Circulation (N'Billion)	2,014.07	2,003.09
FAAC (N'Billion)	762.5	769.5

*Revised GDP figures/tentative figures

NA: Not Available

1National Bureau of Statistics (2019). "Nigerian Capital Importation (Q2 2019)". Retrieved from, <https://nigerianstat.gov.ng/>

2Guardian (2019). "Nigeria's food crisis alarming, World Bank warns". Accessed September 9, 2019. <https://guardian.ng/news/nigerias-food-crisis-alarming-world-bank-warns/>

3Food Security Information Network (2019). "Global Report on Food Crises 2019". Retrieved from, http://www.fsinplatform.org/sites/default/files/resources/files/GRFC%202019_Full%20Report.pdf

4 Food Security Information Network (2019). "Global Report on Food Crises 2018". Retrieved from, https://docs.wfp.org/api/documents/WFP-0000069227/download/?_ga=2.107188994.1835439616.1568033743-568813211.1568033743

5 tcn.org.ng

6Punch (2019). "Discos' Overall Power Distribution Level Plunges to 2,962MW, Says Report". Accessed September 9, 2019. <https://www.thisdaylive.com/index.php/2019/09/05/discos-overall-power-distribution-level-plunges-to-2962mw-says-report/>

7Legit (2019). "FG orders disconnection of three major discos from national grid". Accessed September 9, 2019. <https://www.legit.ng/1245796-fg-orders-disconnection-3-major-discos-national-grid.html>