CHAPTER SEVEN

EXTERNAL SECTOR DEVELOPMENTS

In 2011, the overall Balance of Payments (BOP) position swung from a deficit of ₦1,491.5 billion or 4.4 per cent of Gross Domestic Product(GDP) in 2010, to a surplus of ₦47.1 billion, representing 0.1 per cent of GDP. The current account recorded a surplus of ₦1, 336.8 billion which surpassed the deficit of ₦831.4 billion in the capital and financial account. However, the current account surplus, as a percentage of GDP declined from 5.9 per cent in 2010 to 3.6 per cent attributed mainly to the higher deficits in the services and income accounts. The impressive performance of export trade reflected favourable development in the oil sector. The price of Nigeria's reference crude, Bonny Light (37^0 API), grew on an annualized basis from an average of US$81.6 per barrel in 2010 to US$113.8 in 2011, an increase of 39.5 per cent. Similarly, the volume of crude oil production and exports increased from an average of 2.1 and 1.6 mbpd in 2010 to 2.2 and 1.7 mbpd, respectively. The capital and financial account outcome constituted 2.2 per cent of GDP. External debt increased, but remained within a tolerable limit. The external reserves rose slightly by 0.9 per cent to US$32.6 billion at end-December 2011, and could finance 6.3 months of current import commitments. Movement in the Naira/US dollar exchange rate was relatively stable throughout the year in all segments of the foreign exchange market. The external sector however remained vulnerable and faces the challenges of non-diversification and rising external debt.

7.1 BALANCE OF PAYMENTS

7.1.1 Major Developments

The external sector improved in 2011 with an estimated overall balance of payments surplus of ₦47.1 billion (US$0.3 billion), or 0.1 per cent of GDP, in contrast to a deficit of ₦1, 491.5 billion (US$10.0 billion) in 2010. The surplus in the current account declined to ₦1, 336.8 billion (US$8.8 billion), or 3.6 per cent of GDP, which was lower than the ₦1, 993.0 billion (US$13.4 billion), or 5.9 per cent of GDP, recorded in 2010. This development was accounted for by the widened deficits of 18.8 and 20.0 per cent in both services and income accounts (net). Inward transfers, however, increased by 7.8 per cent to ₦3, 355.2 billion (US$22.0 billion). The capital and financial account recorded a deficit of ₦831.4 billion (US$5.4 billion), or 2.2 per cent of GDP, compared with the surplus of ₦305.6 billion (US$2.1 billion), or 0.9 per cent of GDP in 2010. External debt stock increased by 23.8 per cent from US$4.6 billion in 2010 to US$5.7 billion, but remained sustainable.

Figure 7.1: Balance of Payments (per cent GDP), 2007 - 2011

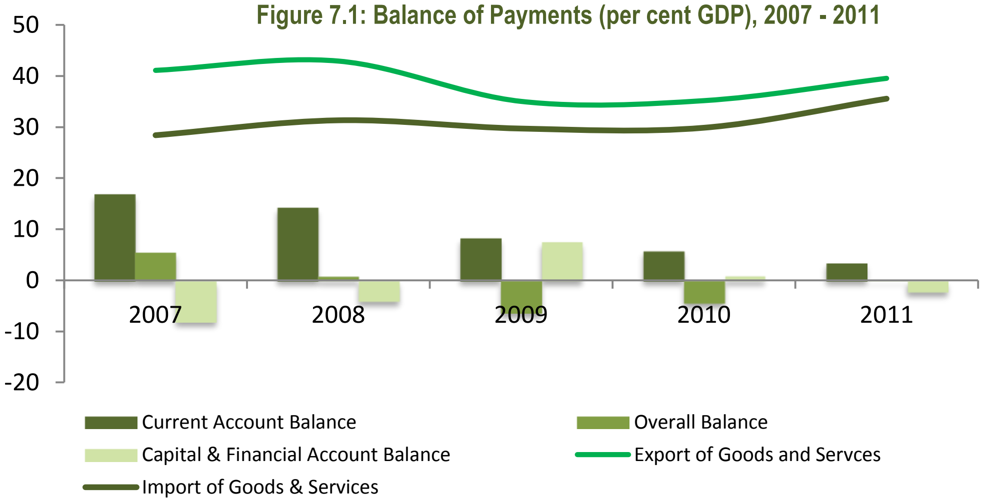

Table 7.1: Summary of the Provisional Balance of Payments Statement 1/

	N' billion				US$' billion			
	2008	2009	2010	2011	2008	2009 2/	2010 3/	2011
CURRENT ACCOUNT	3,450.59	2,057.95	1,993.00	1,336.79	29.30	13.97	13.42	8.76
Goods	5,438.77	3,773.35	4,546.10	4,746.35	46.18	25.62	30.61	31.11
Exports (fob)	10,161.49	8,356.39	11,490.30	14,231.45	86.27	56.74	77.37	93.27
Imports (fob)	-4,722.72	-4,583.04	-6,944.20	-9,485.10	-40.10	-31.12	-46.76	-62.16
Services(net)	-2,621.05	-2,453.71	-2,743.23	-3,259.47	-22.25	-16.66	-18.47	-21.36
Credit	268.32	330.24	463	521.06	2.28	2.24	3.12	3.41
Debit	-2,889.37	-2,783.95	-3,206.22	-3,780.53	-24.53	-18.90	-21.59	-24.78
Income(net)	-1,784.95	-2,144.67	-2,921.79	-3,505.31	-15.15	-14.56	-19.67	-22.97
Credit	278.77	139.26	149.96	138.10	2.37	0.95	1.01	0.91
Debit	-2,063.71	-2,283.93	-3,071.75	-3,643.40	-17.52	-15.51	-20.68	-23.88
Current transfers(net)	2,417.82	2,882.98	3,111.92	3,355.22	20.53	19.58	20.95	21.99
Credit	2,480.72	2,952.02	3,183.76	3,427.82	21.06	20.04	21.44	22.46
Debit	-62.91	-69.04	-71.84	-72.61	-0.53	-0.47	-0.48	-0.48
CAPITAL AND FINANCIAL ACCOUNT	-992.28	1862.6	305.56	-831.41	-8.42	12.65	2.06	-5.45
Financial account(net)	-992.28	1,862.60	305.56	-831.41	-8.42	12.65	2,06	-5.45
Assets	-2,157.31	248.21	-834.77	-3,096.42	-18.32	1.69	-5.62	-20.29
Direct investment (Abroad)	-124.65	-227.09	-137.03	-125.67	-1.06	-1.54	-0.92	-0.82
Portfolio investment	-560.5	-122.35	-167.85	-247.64	-4.76	-0.83	-1.13	-1.62
Other investment	-1,275.80	-966.05	-2,021.37	-2,676.05	-10.83	-6.56	-13.61	-17.54
Reserve assets	-196.37	1,563.69	1,491.48	-47.06	-1.67	10.62	10.04	0.31
Liabilities	1,165.03	1,614.39	1,140.33	2,265.01	9.89	10.96	7.68	14.84
Direct investment (in reporting economy)	971.54	1,273.82	905.73	1,360.31	8.25	8.65	6.10	8.91
Portfolio investment	157.16	70.94	556.59	792.36	1.33	0.48	3.75	5.19
Other investment liabilities	36.33	269.64	-321.99	122.34	0.31	1.83	-2.17	0.74
NET ERRORS AND OMISSIONS	-2,458.31	-3,920.55	-2,298.56	-505.39	-20.87	-26.62	-15.48	-3.31
Memorandum Items:								
Current Account Balance as % of G.D.P	14.20	8.30	5.86	3.58	14.20	8.30	5.86	3.58
Capital and Financial Account Balance as % of G.D.P	-4.08	7.51	0.90	-2.23	-4.08	7.51	0.90	-2.23
Overall Balance as % of G.D.P	0.81	-6.31	-4.39	-0.13	0.81	-6.31	-4.39	-0.13
External Reserves - Stock (US $ million)	53,000.36	42,382.49	32,339.25	32,639.78	53,000.36	42,382.49	32,339.25	32,639.78
Number of Months of Imports Equivalent	15.86	16.34	7.92	6.30	15.86	16.34	7.92	6.30
External Debt Stock (US$ million)	3,720.00	3,947.30	4,578.77	5,666.58	3,720.00	3,947.30	4,578.77	5,666.58
Effective Central Exchange Rate (N/$)	117.78	147.27	148.51	152.59	117.78	147.27	148.51	152.59
Average Exchange Rate (N/$)	118.53	148.90	149.74	153.85	118.53	148.90	149.74	153.85
End-Period Exchange Rate (N/$)	132.56	149.58	150.66	158.27	132.56	149.58	150.66	158.27

1/ The conversion for BOP purposes was based on the mid-point or the effective central exchange rate.

2/ Provisional

3/ Overall balance mirrors the movement in external reserves

Source: CBN, Statistics Department

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EXTERNAL SECTOR DEVELOPMENTS

7.2 THE CURRENT ACCOUNT

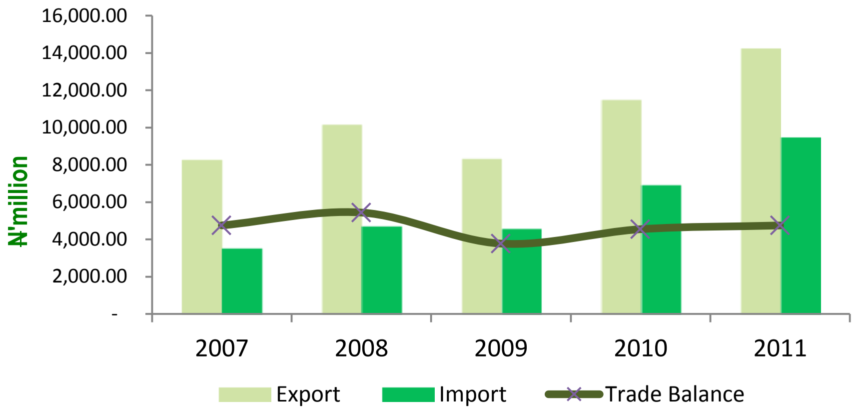
The current account recorded a surplus of ₦1,336.8 billion (US$8.8 billion) in 2011 compared with the ₦1,993.0 billion surplus (US$13.4 billion) in 2010. Trade surplus (goods account) increased by 4.4 per cent from ₦4,546.1 billion (US$30.6 billion) in 2010 to ₦4,746.3 billion (US$31.1 billion), owing to higher exports of ₦14,231.5 billion, or 38.2 per cent of GDP, which outweighed import bills of ₦9,485.1 billion or 25.4 per cent of GDP. The deficit in the services account widened by 18.8 per cent to ₦3,259.5 billion in the review period. Similarly, deficit in the income accounts enlarged by 20.0 per cent to ₦3,505.3 billion, owing to increased repatriation of dividend and distributed profits by non-resident investors. Current transfers (net), representing mainly home remittances by Nigerians abroad, increased by 7.8 per cent to ₦3,355.2 billion (US$22.0 billion).

The current account recorded a surplus of ₦1,336.8 billion (US$8.8 billion), reflecting the growth in higher exports of 38.2 per cent of GDP which outweighed import bills of 25.4 per cent of GDP and increased home remittances.

7.2.1 The Goods Account

The goods account (fob), adjusted for balance of payments, recorded a surplus of ₦4,746.3 billion, indicating an increase of 4.4 per cent. Aggregate exports grew by 23.9 per cent and represented 38.2 per cent of GDP. This reflected the substantial earnings from crude oil exports. The oil and non-oil components of unadjusted merchandise trade (imports and exports) increased by 30.7 and 22.8 per cent, to ₦16,789.8 billion and ₦7,676.8 billion, respectively. The oil sector component continued to dominate total trade as its share increased marginally from 67.3 per cent in 2010 to 68.6 per cent in 2011. The degree of openness of the economy, as measured by the ratio of total trade/GDP was 65.6 per cent as against 56.2 per cent in 2010.

Figure 7.2: Value of Imports, Exports and Trade Balance



7.2.1.1 Imports: Cost and Freight (c&f)

The total imports unadjusted for balance of payments increased by 34.4 per cent to ₦10,235.2 billion (27.4% of GDP). The huge import bills were as a result of higher demand, to meet domestic production gaps, industrial needs in the form of raw-materials and capital goods, as well as imports for production in the oil sector. A breakdown of imports, using returns by DMBs on foreign exchange utilization, revealed that oil sector imports accounted for 34.1 per cent of the total, industrial imports (23.8%), food products (16.4%), manufactured goods (14.6%), transport (5.5%), minerals (4.5%), and agricultural sector imports (1.1%).

The huge import bills were as a result of higher demand, to meet domestic production gaps, industrial needs in the form of raw-materials and capital goods, as well as imports for production in the oil sector.

(a) Imports by End-User

Analysis of aggregate imports by end-users revealed that the share of consumer goods declined by 0.06 percentage point to 43.3 per cent in 2011. Within the category, durable consumer goods constituted the bulk of the imports with a share of 28.6 per cent. Capital goods and raw material imports as a group constituted 56.1 per cent, with raw materials (chemicals) and capital goods (spare parts and agricultural machinery) accounting for 12.5 and

43.6 per cent, respectively. Miscellaneous (unclassified imports) accounted for the remaining 0.6 per cent.

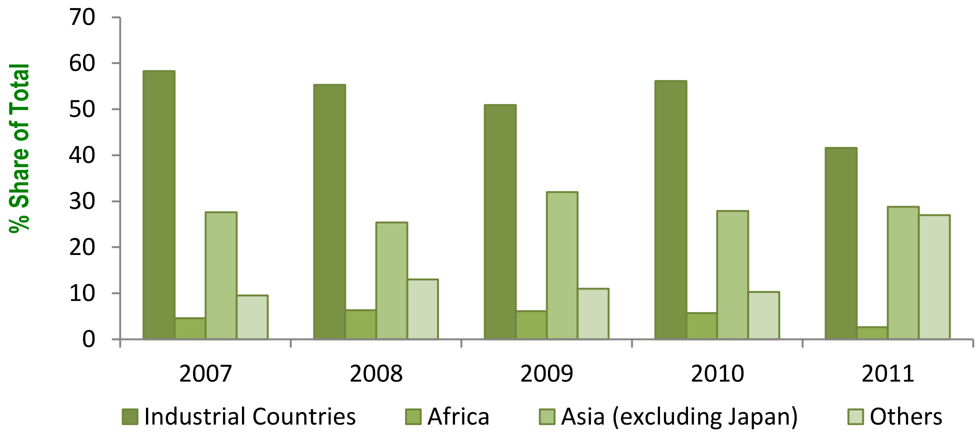
Figure 7.3: Imports by Major Groups in 2011

(b) Non-oil Imports by Country of Origin

A disaggregation of imports by country showed that, imports from Asian countries (excluding Japan) was the dominant source in 2011 and accounted for 39.6 per cent. The Peoples' Republic of China ranked highest in the group, with a share of 20.0 per cent of the total. Imports from industrialized countries accounted for 35.5 per cent, up from 35.0 per cent in 2010, with the USA topping the list with a share of 11.4 per cent. The share of imports from African countries declined from 2.7 per cent in 2010 to 2.1 per cent in the review period.

Available data revealed that imports from Asian counties (excluding Japan) became the dominant source in 2011 and accounted for 39.6 percent.

Figure 7.4: Non-oil Imports by Origin in 2011



7.2.1.2 Exports: Free on Board (fob)

The value of total exports grew by 23.9 per cent in 2011 to ₦14,231.5 billion, reflecting the substantial earnings from crude oil exports occasioned by the high international price of crude oil, as well as stable domestic production.

Aggregate exports grew by 23.9 per cent in 2011 to ₦14,231.5 billion (US$93.3 billion), reflecting the substantial earnings from crude oil exports occasioned by the high international price of crude oil, as well as stable domestic production. The oil sector accounted for 96.6 per cent of the total, while non-oil exports accounted for the remainder. The continued dominance of oil exports has made the Nigerian economy susceptible to external shocks.

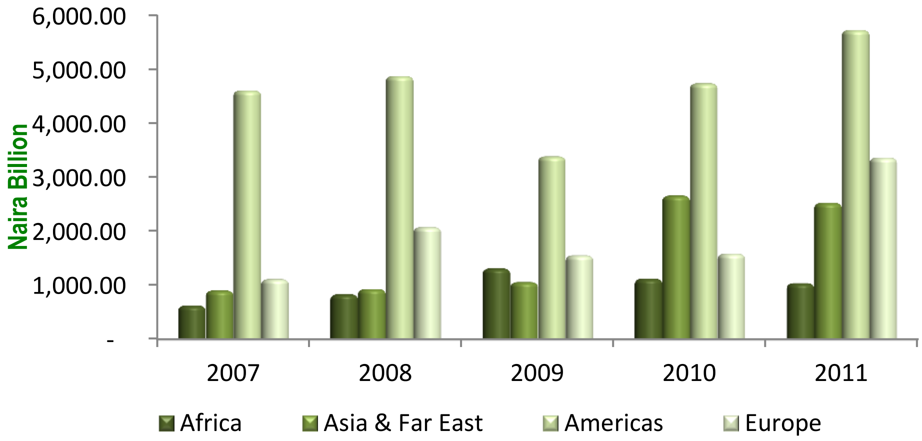
[a] Direction of Oil Exports

The US remained the largest single importer of Nigeria's crude oil, accounting for 29.2 per cent of the total.

The Americas as a group constituted the largest buyer of Nigeria's crude oil, followed by European and Asian countries. The value of oil exports to the Americas increased from ₦4,746.2 billion in 2010 to ₦5,736.3 billion. On a country-by-country basis, the United States of America (USA) remained the largest single importer of Nigeria's crude oil, accounting for 29.2 per cent of the total. Other countries in the group were Uruguay (7.2%), Canada (6.3%), Argentina (1.9%), Peru (0.6%) and Brazil (0.2%).

The share of Asia and the Far East declined by 6.4 percentage points to 20.0 per cent in the review period. In value terms, the share of exports to Asia and the Far East was ₦2,529.3 billion, with imports from India dominating the group, followed by Indonesia. Despite the Eurozone crisis, the share of the European countries' oil imports from Nigeria increased substantially from 131.5 million barrels in 2010 to 228.0 million barrels. The value also increased by 112.2 per cent to ₦3,368.9 billion with the Netherlands dominating the group, followed by Spain, France and Italy. The share of crude oil exports to African countries remained the lowest at 8.2 per cent, dominated by imports from South Africa, Cameroun, Ghana and Cote d'Ivoire. In the ECOWAS sub-region, Ghana was the largest importer of Nigeria's crude oil, followed by Cote d'Ivoire and Senegal.

Figure 7.5: Direction of Crude Oil Exports, 2007 - 2011



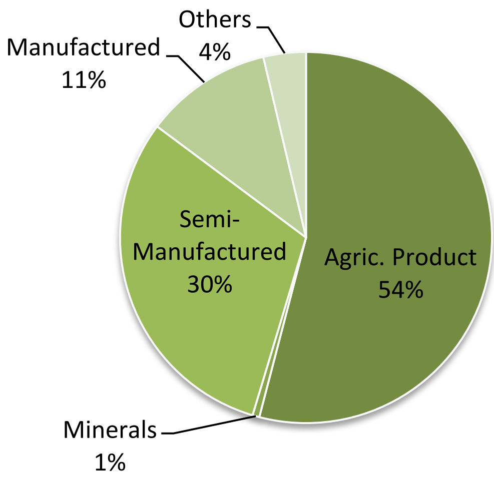
[b] Non-oil Exports

The value of non-oil exports increased by 22.4 per cent to ₦485.2 billion in 2011. This was attributed mainly to enhanced agricultural produce especially coca beans, and improvement in production, processing and packaging of Nigeria's manufactured and semi-manufactured products for overseas markets. Despite this development, the non-oil sub–sector contributed only 3.4 per cent of the total exports.

Further analysis of non-oil exports by product showed that agricultural produce, semi-manufactured goods, manufactured goods and solid minerals accounted for 54.1, 30.6, 11.1 and 0.6 per cent of the total, respectively. Other exports, which comprised petroleum-by products, charcoal, crafts and cement/lime products, accounted for the remaining 3.7 per cent.

The agricultural produce category, which contributed 54.1 per cent of the total non-oil exports, comprised cocoa beans, rubber, cotton, fish/shrimp, and others. In the semi-manufactured category, leather and processed skins accounted for 18.1 per cent, followed by cocoa products, contributing 4.3 per cent, while others accounted for 7.8 per cent of the total.

Figure 7.6: Non-oil Exports by Product in 2011



[c] Non-oil Exports to the ECOWAS Sub-Region

Aggregate non-oil exports to the ECOWAS sub-region stood at US$251.7 million in 2011. Non-oil exports to Ghana ranked highest with US$100.6 million, followed by Niger, Togo, Benin, Cote d' Ivoire and Burkina Faso with US$45.9 million, US$42.2 million, US$18.5 million, US$17.5 million and US$9.2 million, respectively. Other importing countries from Nigeria included Guinea, Mali, Liberia and Senegal. The dominant export products continued to be tobacco, plastics, rubber, footwear and poly bags.

[d] Activities of Top 100 Non-oil Exporters

Gross export proceeds by the top 100 exporters amounted to US$2.0 billion in 2011. A ranking of the earnings by exporter revealed that Olam Nigeria Limited retained the first position as in 2010 with receipts of US$444.0 million, or 22.2 per cent of the total, largely through the export of sesame seeds and cocoa beans to Japan and Europe. Bolawole Enterprises Nigeria Limited also retained second position with earnings of US$146.0 million, or 7.3 per cent of the total, from exports of cocoa beans largely to the Netherlands. Unique Leather Finishing Company ranked third with US$124.1 million, or 6.2 per cent, exports of leather to Italy. Imoniyame Holdings Limited and Saro Agro Allied Limited that ranked fourth and fifth with US$97.8 million or 4.9 per cent, and US$79.5 million or 4.0 per cent, respectively in 2011. Clean State Commodities Limited and Kolorkote Nigeria Limited were ranked ninety-ninth and hundredth with exports valued at US$0.3 million each.

7.2.2 The Services Account

The deficit in the services account (net) widened by 18.8 per cent from ₦2,743.2 billion in 2010 to ₦3,259.5 billion. This was attributed to out-payments in respect of financial services, personal and business travels, insurance, computer and information services, professional and technical services, as well as operational leasing activities. However, deficits on freight, communications and construction services reduced. The deficit in respect of transportation, travels, government services and other business services accounted for 30.5, 28.2, 4.9 and 28.3 per cent of total outflows, respectively.

The deficit in the services account (net) widened by 18.8 per cent from ₦2,743.2 billion in 2010 to ₦3,259.5 billion.

Figure: 7.7 Percentage Share of Major Invisible Services

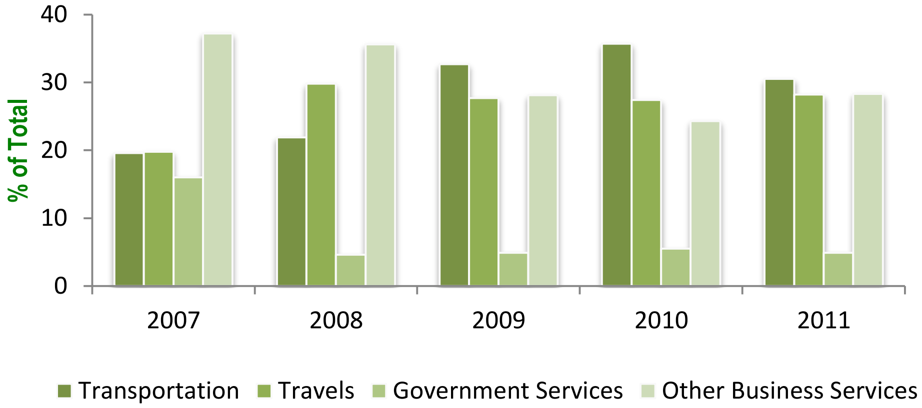


Table: 7.2 Percentage Share of Major Invisible Transactions					
Items	**2007**	**2008**	**2009**	**2010**	**2011**
Transportation	19.6	21.9	32.7	35.7	30.5
Travel	19.8	29.8	27.7	27.4	28.2
Insurance Services	1.9	2.5	2.8	2.7	3.3
Communication Services	1.7	1.7	1.2	1.3	0.8
Construction Services	0.6	0.6	0.5	0.7	0.4
Financial Services	0.0	0.0	0.1	0.1	1.4
Computer and Information Services	1.8	1.8	1.3	0.7	0.8
Royalties and Licence Fees	1.6	1.6	0.9	1.2	1.0
Government Services	16	4.6	4.9	5.5	4.9
Personal, Cultural & Recreational Services	0.0	0.0	0.0	0.3	0.4
Other Business Services	37.2	35.62	28.1	24.3	28.3

7.2.3 The Income Account

The deficit in the income account widened by 20.0 per cent to ₦3,505.3 billion in the period under review. The development was attributed to higher out-payments in respect of dividends and distributed profits, which increased by 20.5 percent to ₦3,097.9 billion. Both interest earnings on external reserves and other investment assets by the monetary authorities declined by 4.7 and 35.6 per cent to ₦389.1 billion and ₦64.8 billion, respectively. This was attributed to low interest rates in major financial centres accentuated by a continued lull in global economic recovery.

7.2.4 Current Transfers

The surplus in current transfers (net) widened by 7.8 per cent to ₦3,355.2 billion in 2011. The inward transfers, largely accounted for by personal home remittances, increased by 6.9 per cent in the review period. Also, general government transfers, which are expenses on foreign embassies and payments to international organizations, rose by 17.3 per cent.

Table 7.3: Current Transfers (₦ Billion), 2009 - 2011

	2009	2010	2011
INFLOWS (credit)			
1.General government (grants, ODA, Technical Assistance & gifts)	236.9	240.3	282.0
2. Other sector workers' remittances and other transfers in kind	2,715.1	2,943.4	3,145.8
OUTFLOWS (debit)			
1.General government (Payments to International Organizations & other payments)	17.5	25.3	18.0
2. Other sector workers' remittances and other transfers	51.5	46.6	54.6
NET CURRENT TRANSFERS	2,883.0	3,111.9	3,355.2

7.3 THE CAPITAL AND FINANCIAL ACCOUNT

The capital and financial account, at 2.2 per cent of GDP, registered a deficit of ₦831.4 billion (US$5.4 billion), as against the surplus of ₦305.6 billion (US$2.1 billion) in 2010. However, the account witnessed increased foreign direct investment (FDI) flows occasioned by an improved investment climate, especially in the oil sector, with the relative calm in the Niger-Delta region. Also, there was enhanced portfolio inflow in money market instruments as non-residents can now repatriate their capital within a year. Provisional data on FDI inflows, which comprised equity capital, reinvested earnings and other capital, increased significantly by 50.2 per cent to ₦1,360.3 billion (US$8.9 billion). FDI inflows were largely into the oil and gas, banking, manufacturing and telecommunications sub-sectors. The outward FDI

The capital and financial account at 2.2 per cent of GDP, registered a deficit of ₦831.4 billion (US$5.4 billion), as against the surplus of ₦305.6 billion (US$2.1 billion) recorded in 2010.

flows declined by 8.3 per cent to ₦125.7 billion in 2011 as a result of the lull in global economic activities occasioned by the political crisis in the Middle East and North African (MENA)countries and the Eurozone debt crisis.

Portfolio investment registered an increase of 42.4 per cent over its level in the preceding year. The increased inflow was accounted for by equity securities, (49.9 per cent) and debt securities (50.1 per cent), of total portfolio flows in the economy. The outward portfolio investment increased significantly by 47.5 per cent to ₦247.6 billion in 2011.

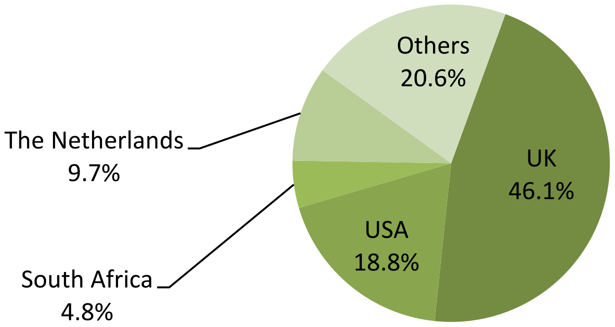
A breakdown of other investment liabilities revealed that external debt rose while fresh commitments increased debt stock from US$4.6 billion in 2010 to US$5.7 billion. These loans were additional disbursements from the International Development Agency (IDA), the African Development Bank (AfDB), and other non-Paris club creditors as well as the issuance of a US$500.0 million 10-year Eurobond. Other investment assets rose from ₦2,021.4 billion in 2010 to ₦2,676.0 billion, attributable largely to 'other sector' claims on the economy.

The external reserves at US$32.6 billion recorded accretion of US$0.3 billion over its end-December, 2010 level. This could support 6.3 months of imports, as against the 3 months requirement under the convergence criteria of the West African Monetary Zone (WAMZ).

7.4 CAPITAL IMPORTATION

Aggregate capital importation in 2011 was US$7.9 billion, as against US$6.0 billion in 2010. The highest inflow came from the United Kingdom (46.1%), followed by the United States (18.8%), the Netherlands (9.7%) and South Africa (4.8%). Other countries accounted for the remainder (20.6%).

Figure 7.8: Capital Importation by Country in 2011 (Per cent)



Further analysis of capital inflows by economic sector showed that the stock market received a boost and accounted for 51.0 per cent of the total. Investment inflow to the capital market amounted to US$4.0 billion, which was used for the purchase of shares, indicating renewed investors' confidence in the Nigerian capital market, following a series of reforms. The banking, financing and manufacturing sub-sectors accounted for 11.1, 10.8 and 6.6 per cent of total capital importation, respectively. Other sectors accounted for the remaining 20.5 per cent.

Figure 7.9: Capital Importation by Sector in 2011 (Per cent)

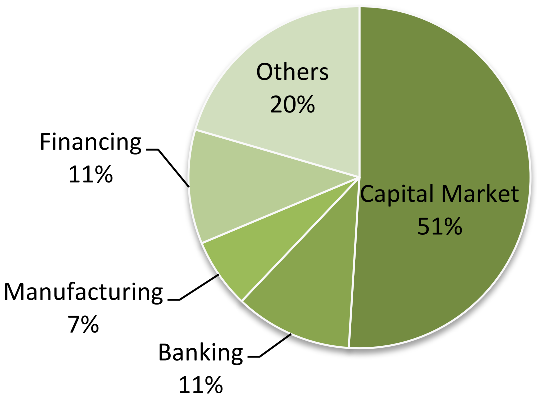


Table 7. 4: Capital Importation: Country and Sector Inflows (US$ Million)									
	2008	2009	2010	2011		2008	2009	2010	2011
United Kingdom	4,105	731	2,732	3,644	Banking	4,681	2,624	909	876
United States	4,950	3,296	1,241	1,485	Shares	3,424	1,479	3,161	4,030
South Africa	468	224	537	381	Financing	749	205	171	851
Mauritius	216	77	161	278	Telecommunication	717	336	479	296
Netherlands	154	186	0.1	765	Prod./Manufacturing	504	294	854	520
Cyprus	83	64	45	64	Servicing	94	33	179	48
Switzerland	73	69	58	47	Brewery	-	60	25	73
Luxembourg	-	4	121	25	Oil and Gas	641	114	89	22
Germany	18	23	62	221	Trading	63	37	35	26
Denmark	213	-	3	-	Construction	130	13	43	42
Sweden	22	10	90	52	Hotels	-	-	2	-
China	36	139	9	58	Transport	14	50	3	-
United Arab Emirates	151	18	75	49	Marketing	21	28	0	1
Others	682	459	860	834	Others	133	27	44	1,118
TOTAL	**11,171**	**5,300**	**5,994**	**7,903**	**TOTAL**	**11,171**	**5,300**	**5,994**	**7,903**

Source: CBN, Trade and Exchange Department

A breakdown of capital importation into its major components revealed that of the total of US$7.9billion, FDI was (22.2%), portfolio investment (57.1%), and other investments – trade credit, loans, currency deposits and other claims (20.7%). FDI inflows increased significantly by 140.5 per cent over its level in 2010 as a result of increased investment in equities. Portfolio flows at US$4.5 billion increased by 14.8 per cent, from US$3.9 billion in 2010, accounted for by 46.7 per cent growth in equities, 9.6 per cent growth in money market instruments, and 0.8 per cent growth in bonds. In the other investment category, loans, which accounted for the bulk of the inflows, increased by 15.1 per cent.

7

EXTERNAL SECTOR DEVELOPMENTS

Table 7.5: New Capital Inflows (US$' Thousand)				
NATURE OF CAPITAL	2008	2009	2010	2011
Foreign Direct Investment - Equity	4,597,675.27	3,305,678.28	668,350.88	1,498,906.99
Foreign Direct Investment - Other capital	63,605.92	20,719.32	60,602.15	254,439.30
Portfolio Investment - Equity	2,349,962.47	1,443,228.96	2,979,446.68	3,691,505.55
Portfolio Investment - Bonds	420,057.17	12,617.39	68,476.84	66,489.97
Portfolio Investment - Money Market Instruments	659,672.97	84,151.70	883,844.21	755,126.69
Other Investments - Trade Credits	15,000.00	7,915.11	154.88	1,366.51
Other Investments - Loans	2,735,581.53	816,670.00	1,399,457.35	1,611,294.41
Other Investments - Currency Deposits	-	9,199.97	-	-
Other Investments - Other Claims	328,133.49	2,708.16	2,225.41	24,640.31
TOTAL	**11,169,688.82**	**5,702,888.88**	**5,994,150.02**	**7,903,769.73**

Source: CBN, Trade and Exchange Department

7.5 THE INTERNATIONAL INVESTMENT POSITION (IIP)

Provisional data revealed that the deficit in net International Investment Position (IIP) widened to US$10.3 billion, from US$9.8 billion in 2010, reflecting an increased claims on the economy. The IIP account revealed that the value of total foreign assets and liabilities amounted to US$98.3 billion and US$108.6 billion respectively, compared with US$83.9 billion and US$93.7 billion in 2010. Both foreign assets and liabilities increased by 17.1 and 15.8 per cent, respectively.

Further analysis revealed that, assets abroad – direct investment, portfolio investment, external reserves and "other foreign assets" amounted to US$5.9 billion, US$14.1 billion, US$32.6 billion and US$45.7 billion, respectively. Both direct and portfolio investment stocks abroad increased by US$823.6 million and US$1.4 billion respectively in 2011. Compared with 2010, the total official reserves increased by 0.9 per cent to US$32.6 billion in 2011 and accounted for 33.2 per cent of Nigeria's total foreign assets.

The stock of liabilities, valued at US$108.6 billion, comprised direct investment (US$69.2 billion), portfolio investment (US$23.3 billion) and other liabilities (loans and foreign currency deposits) US$16.0 billion.

Figure 7.10: Assets and Liabilities: International Investment Position (IIP)

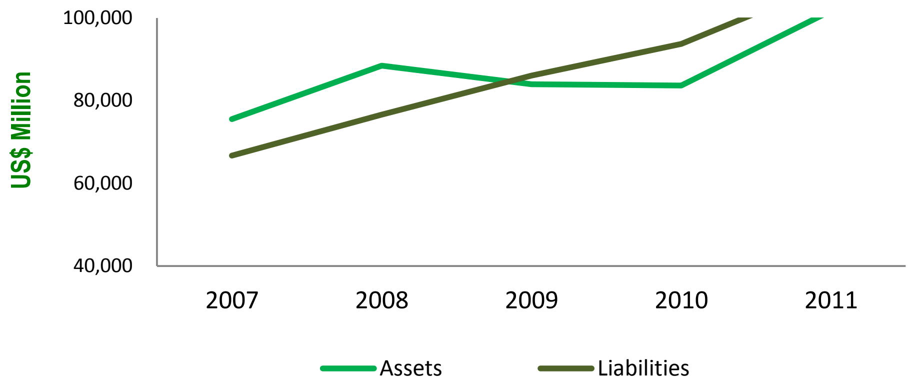


Figure 7.11: Net International Investment Position

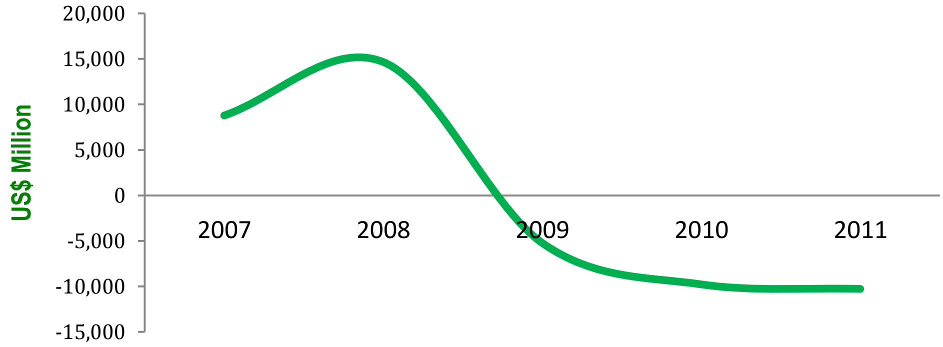


Table 7.6: International Investment Position (IIP) of Nigeria (2007-2011) [Millions of dollars]					
Type of Asset/Liability	**2007**	**2008**	**2009**	**2010**	**2011**
Net international investment position of Nigeria	**8,786.67**	**14,665.88**	**-5,224.41**	**-9,772.48**	**-10,272.20**
Assets	**75,505.24**	**91,275.85**	**80,804.65**	**83,935.26**	**98,279.48**
Direct inv estment abroad	1,506.42	2,564.69	4,118.29	5,041.01	5,864.59
Portfolio inv estment abroad	6,208.32	10,967.09	11,797.86	12,739.73	14,092.16
Equities	5,643.86	9,710.55	10,472.09	11,508.15	12,995.82
Debt Securities	564.47	1,256.55	1,325.78	1,231.59	1,096.35
Other foreign assets	16,457.34	24,743.70	22,506.00	33,815.27	45,682.95
Trade Credits	1,812.57	2,122.47	51.74	5,133.12	6,609.49
Loans	1,167.69	1,459.61	1,842.22	2,069.69	2,269.28
Currency and Deposits	13,477.08	21,161.62	20,612.04	26,612.46	36,804.18
Reserv e Assets	51,333.15	53,000.36	42,382.49	32,339.25	32,639.78
Liabilities	**66,718.57**	**76,609.97**	**86,029.06**	**93,707.74**	**108,551.68**
Direct inv estment	37,329.54	45,578.18	54,227.71	60,326.67	69,241.56
Portfolio inv estment	12,368.69	13,702.99	14,368.88	18,116.78	23,309.58
Equities	6,794.49	5,834.69	6,327.36	8,506.64	11,098.92
Debt Securities	5,574.20	7,868.30	8,041.52	9,610.14	12,210.66
Other Inv estment Liabilities	16,107.37	17,328.80	17,432.47	15,264.28	16,000.53
Trade Credits	-	-	-	-	-
Loans	9,643.14	11,138.25	11,655.32	9,712.42	9,074.85
Currency and Deposits	6,464.23	6,190.55	5,777.15	5,551.86	6,925.68

Source: CBN, Statistics Department

7.6 EXCHANGE RATE MOVEMENTS

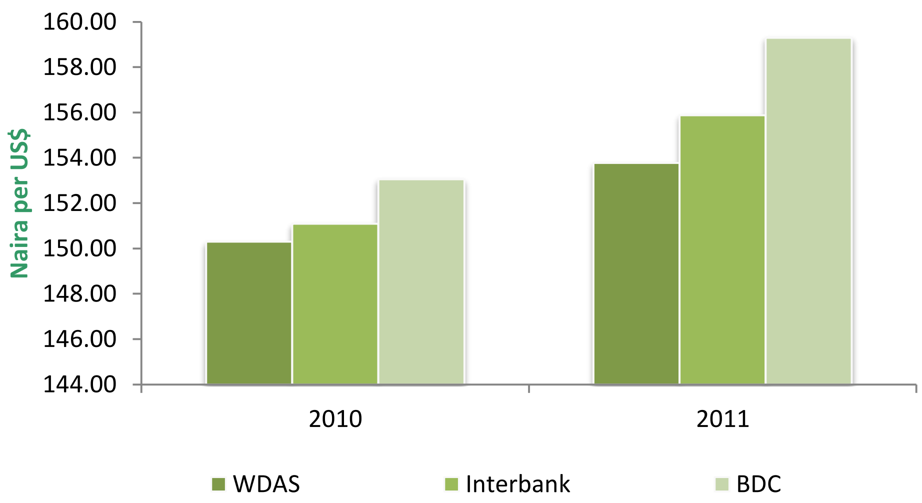
The exchange rate of the Naira to the US dollar averaged ₦153.86 per US dollar at the wDAS segment of the foreign exchange market in 2011, a depreciation of 2.3 per cent, compared with the level in 2010. At the inter-bank and BDC segments, the Naira depreciated by 3.1 and 3.9 per cent to ₦155.89 and ₦159.31 per US dollar, respectively. The year commenced with the mid-point exchange rate

The exchange rate of the Naira to the US dollar at the wDAS segment of the foreign exchange market, in 2011, depreciated by 2.3 per cent, compared with the level in 2010.

The premium between wDAS/interbank and wDAS/BDC rates widened from 0.5 and 1.8 percent in 2010 to 1.3 and 3.5 per cent, respectively, in 2011.

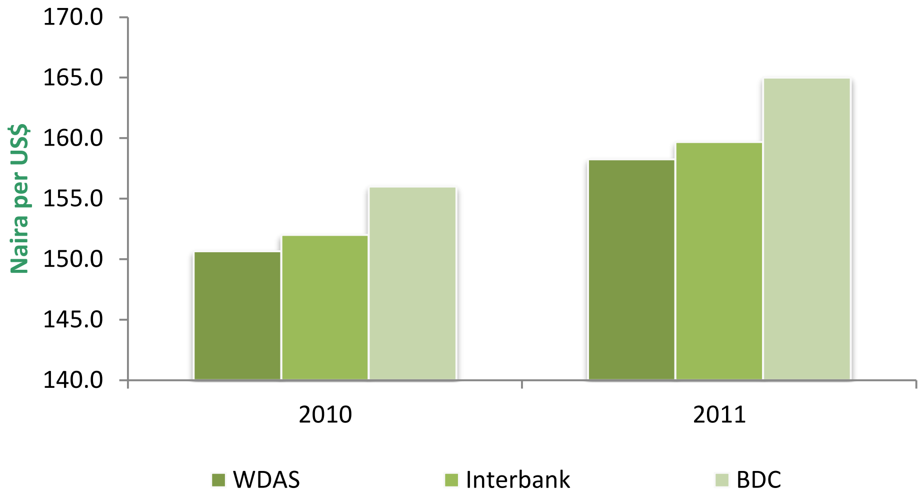
band of ₦150/US$. However, due to the pressure on the foreign exchange market and external reserves, in the fourth quarter of the year, the Bank adjusted the mid-point exchange rate band to ₦155.00 per US dollar and maintained the band of +/-3.0 per cent. This was aimed at reducing arbitrage opportunities and speculative attacks. Following these developments, the premium between wDAS/interbank and wDAS/BDC rates widened from 0.5 and 1.8 per cent in 2010 to 1.3 and 3.5 per cent, respectively, in 2011.

Figure 7.12: Average Yearly Exchange Rate of the Naira per US Dollar



The end-period exchange rate of the Naira in all the segments of the foreign exchange market depreciated. At the wDAS and interbank markets, it depreciated by 4.8 per cent below their levels in 2010 to ₦158.27 and ₦159.70 per US dollar, respectively. At the BDC segment, the Naira depreciated against the US dollar by 5.5 per cent when compared with the level in 2010, to ₦165.00 per US dollar.

Figure 7.13: End-Period Exchange Rate of the Naira per US Dollar



Analysis of the nominal exchange rate of the domestic currency, relative to other major international currencies, showed that the Naira exchanged at an average of ₦244.26, ₦212.10, ₦172.17, ₦1.19 and ₦40.62 to the British pound sterling, Euro, Swiss francs, Japanese yen and Saudi riyal, respectively. This showed a depreciation of 5.8, 6.9, 16.8, 11.3 and 2.7 per cent, respectively, relative to the levels in 2010. At the regional level, the Naira exchanged at an average of ₦0.32 and ₦239.70 per CFA francs and WAUA, a depreciation of 7.0 and 5.6 per cent, respectively, when compared with the levels in 2010.

The wDAS-forward rates for 1-,2- and 3- month tenors all opened in March 2011 at ₦/$151.31/US$ and closed at ₦156.84/US$ in December 2011. When compared with the spot rates for the respective periods, the Naira traded at a premium. The US dollar, which traded at a discount of 11.9 per cent at the beginning of the year, showed a discount of 10.8 per cent at end-December 2011.

7.7 The Nominal Effective Exchange Rate (NEER) and the Real Effective Exchange Rate (REER)

The average 13-currency Nominal Effective Exchange Rate (NEER) indices rose by 4.4 per cent over the level in 2010 to 101.18, which showed a loss of competitiveness of the Naira. The 13-currency REER index opened at 93.31 in January 2011, and closed 8.8 percentage points lower at December 2011, showing a drop in year-on-year inflation in the Nigerian economy in 2011 relative to 2010.

Figure 7.14: Nominal and Real Effective Exchange Rate Indices, 2008 - 2011

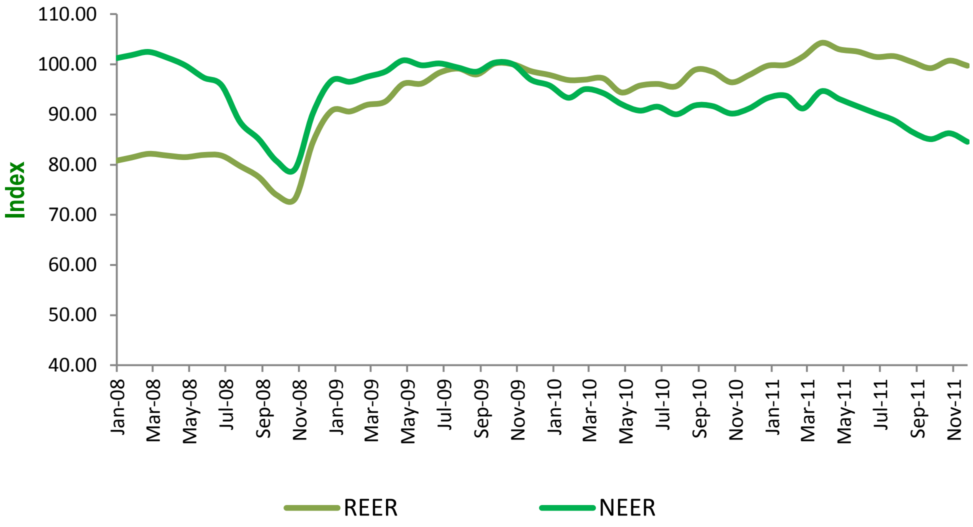


Table 7.7: Nominal and Real Effective Exchange Rate Indices (November 2009=100)

	December 2010		December 2011		
	Monthly Index	Annual Average	Monthly Index	Annual Average	%Change in Annual Average
NEER	97.87	96.88	99.73	101.18	4.4
REER	91.21	92.31	84.56	89.91	(2.6)