



Proshare **Confidential**



Nigeria External Economy and the White Noise of **Import Dependency**

November 2017

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Executive Summary

Every open economy is confronted with costs and benefits, the ongoing trade off made between the two define the external objective of that particular nation. Nigeria being an open economy is not left out of especially as it seeks to rebalance the dynamics of its external economy, from export concentration to wider sources of external injections.

In this edition of our Proshare Confidential report we carried out an in-depth study of the Nigerian external economy in order to understand the reverberating effect of the export and import dynamics of Nigeria.

The bitter spill of 2015 taught an important lesson, that when external injections (exports) wean they automatically force the trio of government revenue, spending and consumption to readjust to the new reality. Thus, identifying the nature of Nigeria's external economy has become important especially in relation to:

- a. How diverse our imports are?
And
- b. The ratio of Nigeria's total import to GDP as an open economy?

By doing this, it allows us either validate the long held perception that Nigeria is truly an import dependent nation or not. The conclusion arrived

at provides the needed hindsight on the how best to achieve a rebalancing either between exports and imports or within the export pool.

In addition, an analytical study on external injections and weather we have gotten it right with regards export diversification was carried out. Therefore taking a holistic view at both external injections and fostering how best to achieve export rebalancing was the ultimate goal of the study. At the same time considering the ripple effect of weak revenue injection coupled with crude pegs on the nation's current account. While the study admits that pegs do shield net flow, regardless it has less influence on current account as invisibles soften.

In similar vein, the study takes a look at the cash flow direction and the factor that affects both inflows to the Central bank and invisibles, given its chunk of autonomous. We further took a cursory look at the global and sub-regional economies and likely falls out from the lack of policy Conesus, Nigeria's budget for 2018 and weather it can provide the needed V recovery. A study of Morocco and its ability to attract foreign direct investment became necessary, given the desperate need for less volatile inflow



The ability of an economy to achieve a balance between its domestic (government spending consumption and investment) and external components is very important in achieving targeted objectives. For developing economies that are resourcedependent, exports are becoming more inelastic while demand for capital goods keeps growing. This compounds the task of determining the best means of managing the domestic economy as it contends with the reality of leaner revenue and growing population.

Countries that have resisted the need to readjust have suffered a jolted in their domestic economies as weaker invisibles affect their current account

adversely. Sadly such countries are once again experiencing the bitter pill of a revolving door scenario. Whereby the inward shift by the external economy has left the domestic economy weakened and hardpressed.

Therefore this edition of Proshare confidential will take a look at both the export and import components of Nigeria. It becomes pertinent, especially now when expenditure policies are been adopted. Besides it allow us to take an in-depth look at diversification, if such is deep enough to address the present weak export to GDP ratio.

Objective of the study

Understanding the dynamics between exports and imports is critical especially for a country like Nigeria whose foreign exchange inflow is largely from crude oil. Moreover it spares it spares it current account unnecessary shocks as the currency and export serve as absorber

Thus, the essence of this study is:

- To take a cursory look at the global economy
- Provide a brief analysis of the

sub-regional economy while providing a cue from Morocco on how it improved its external economy

- Take a critical look at the budget
- Provide an hindsight on the export dynamic
- Compare Nigeria's exports to GDP ratio with other nations
- Analyze the import component
- Compare Nigeria's import to GDP ratio with other countries

- Determine the factors responsible for the shift in both exports and imports in Nigeria
- Show the revenue and expenditure streaming from the external economy
- Show the aggregate foreign exchange through the economy
- Ascertain the health status of the nation's current and capital account
- Diversification and the measures needed
- Provide an analytical study of Foreign Direct Investment

Background to the Study

Global Economies

Advance Economies: Low Inflation

Table 1: Current Macroeconomic Indicators of Advanced Economies

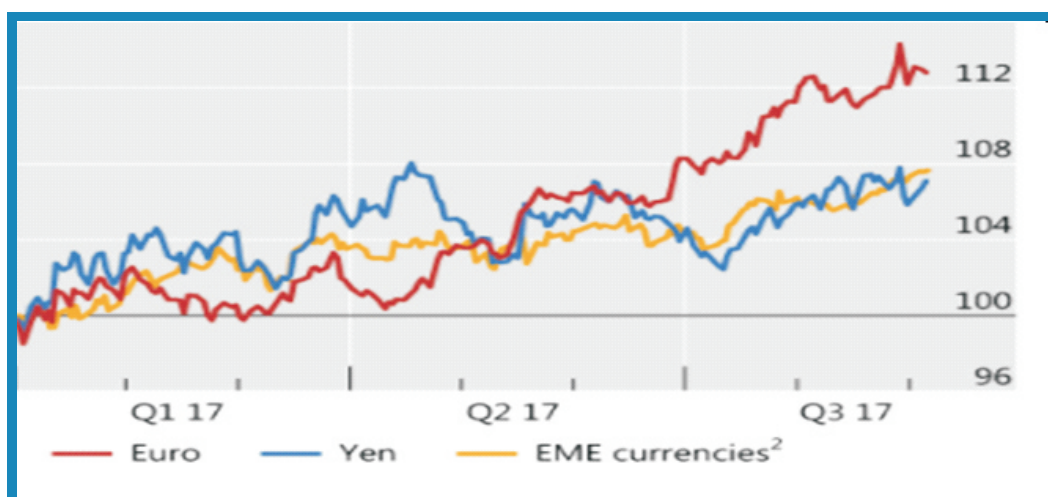
Country	Interest Rate	Inflation	Unemployment
US	1.25	2.2	4.1
Japan	-0.1	0.7	2.8
Germany	0	1.6	3.6
France	0	1.6	0.6
UK	0.5	3	4.3
Canada	1	1.6	6.3
Australia	1.5	1.8	5.5
Italy	0	1	11.1
Spain	0	1.6	16.38

Source: Trading Economics

Growth in advanced countries has maintained an uptick, reinforcing earlier small push in growth. The Euro area has sustained its recovery as

growth continues to bolster. The end product has been an upward trajectory in the Nominal effective exchange rate of the Euro.

Fig1: Nominal Effective Exchange Rate

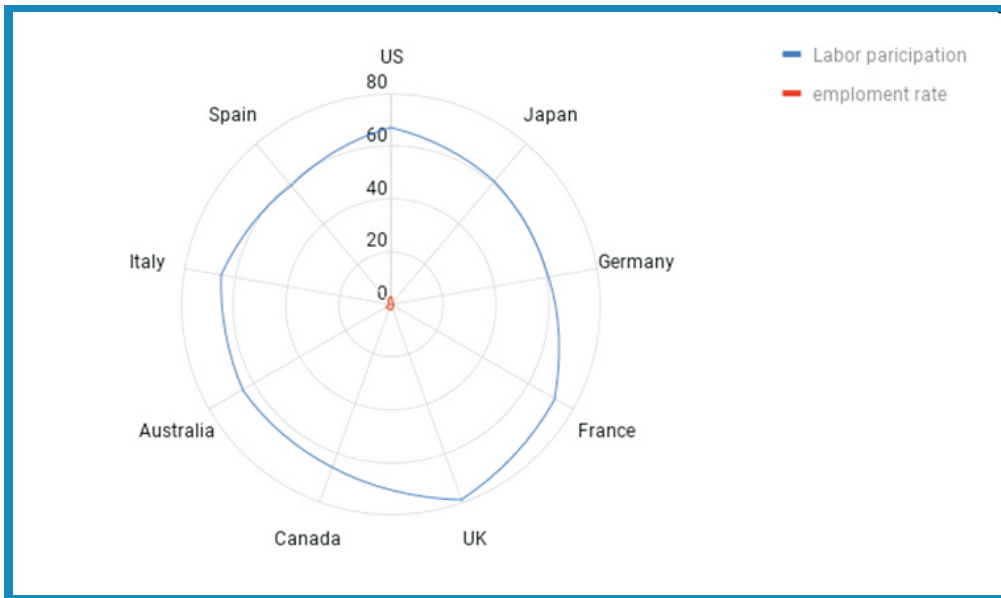


Source: Bank of International Settlement (BIS)

Inflation remains largely elusive in the Euro area, which shows inflation remain weak as it distance off from expectation. The inability to spring inflation surprise as fiscal policy remain convulsive inflation lethargic.

Interest rate within the Euro area will most likely remain at zero rates; till the end of the year though labor participation has improved wage growth is within tepid growth levels in the Euro Area and Japan.

Fig2: Labor Participation and Wage growth as at October 2017

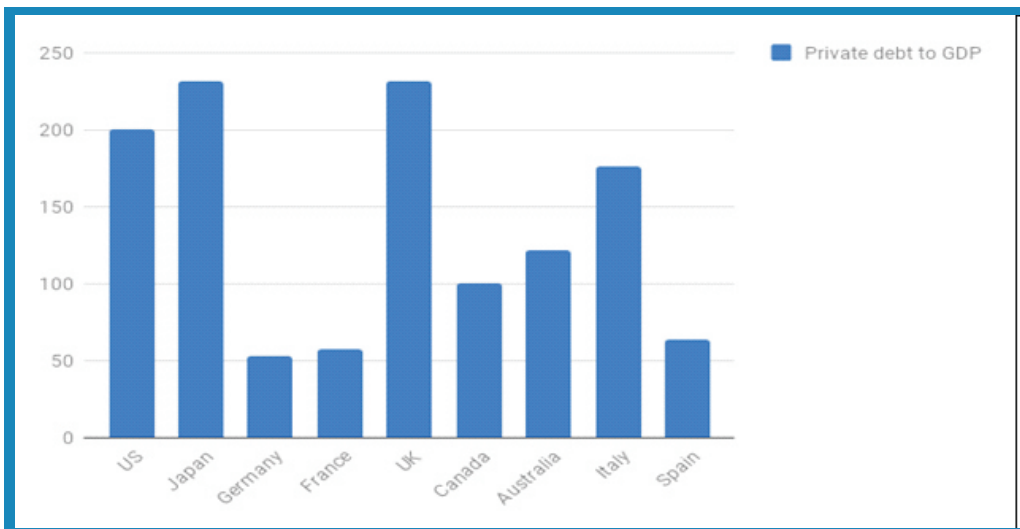


Source: Trading Economics

The ratio of private debt to gross domestic product of developed economies resides within high levels, currently low interest rates has stalled deleveraging in the private

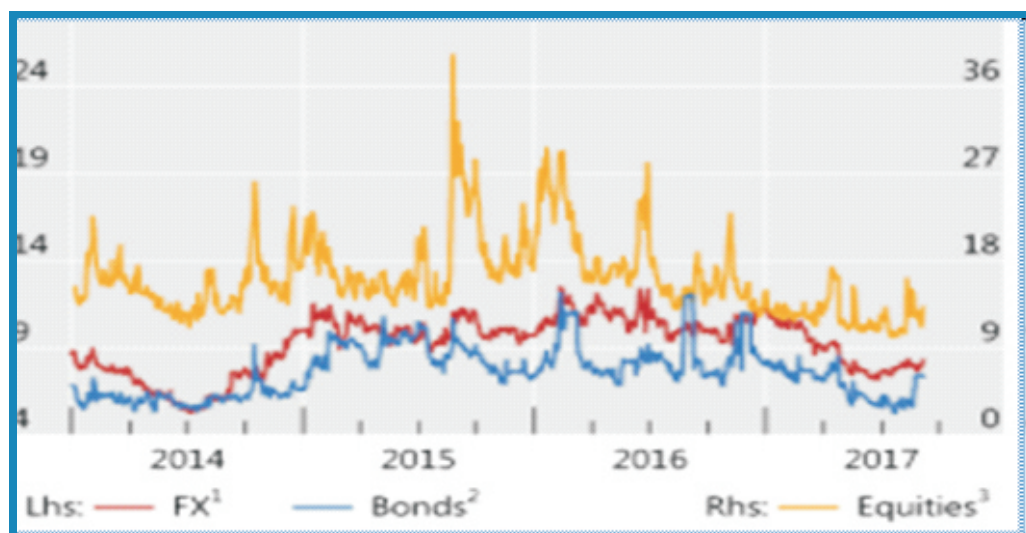
sector. Urgent deleveraging is needed in places like the United States, Japan and the United Kingdom so as to avoid triggering a turn-around in the cycle.

Fig 3: Current Private Debt to GDP for Developed Economies



Source: Trading Economics

Fig4: Bonds, Equities and FX



Source: BIS

The volatility earlier experienced in developing economies have gradually tailed off as cyclical pressure subtle. The shed off in the dollar further supported the decline in bond volatility, as lighter foreign exchange diluted yield. Regardless it is unlikely to have implied volatility in bonds retreat back to levels of 2014 due to the on-going tightening cycles.

Improved macro condition and the reversal in monetary policy have triggered a downward trajectory in equity volatility. Strong wage growth has provided the needed scaffold for further tightening in the fund rate. At the same time that seems unlikely in 2018. However the inability to reach a policy consensus is a drag on growth.

Headwinds:

- The growing political uncertainty in Germany, makes it harder to reach a policy consensus
- The continuous tightening in the United States will widen rate premium, thereby affecting foreign inflow in developing economies
- Private debt to GDP ratio in advanced economies is rising, if not addressed could sow the seed of another credit crisis
- Immigration inflow is still a concern as it further bolster extreme right position
- The tension in the Korean peninsula

Sub-Regional Economy

Table 2: Current Macro Indicators Across Selected African Countries

Africa	Interest Rate	Inflation	Unemployment
South Africa	6.75	5.1	27.7
Egypt	18.75	30.8	11.98
Kenya	10	5.72	11
Morocco	2.25	0.4	10.6
Tanzania	5.1	12	10.3
Ivory coast	4.5	1.1	9.32
Rwanda	6	5.3	16.7
Nigeria	14	15.98	14.2
Ghana	21	11.6	5.77
Ethiopia	7	12.2	16.8
Senegal	4.25	0.4	12.5
Angola	16	25.18	26
Botswana	5	3.2	17.6

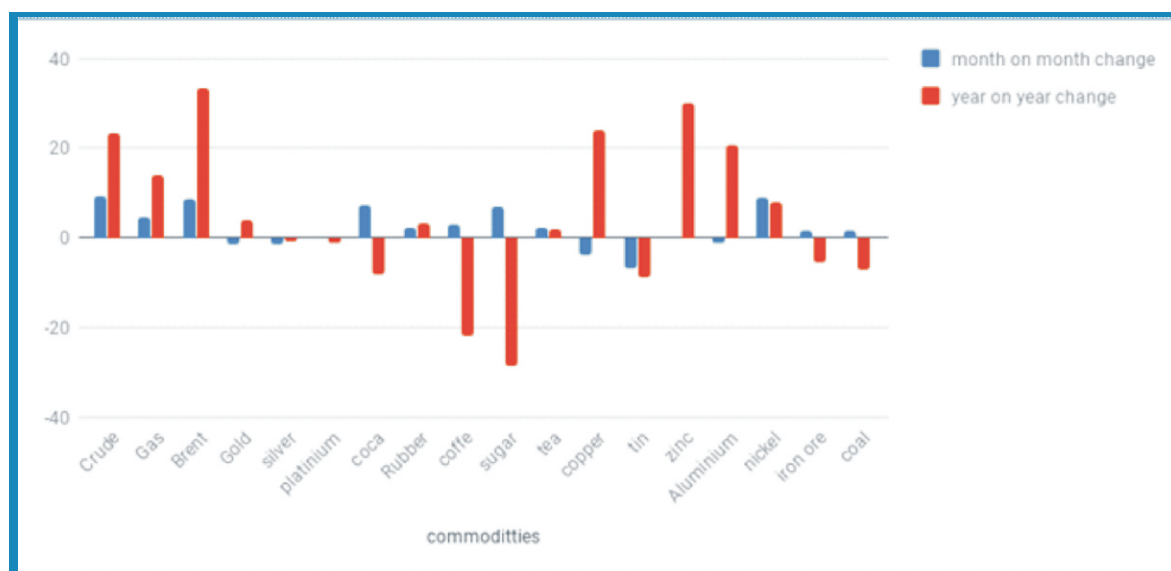
Source: Trading Economics

Across board unemployment still remains a concern in the African sub-region. The fall out is both a product of cyclical reversals and inherent structural contours in the individual economies. The inherent growth gaps and high youth unemployment necessitate policy re-calibration in so as to avoid triggering wide social

unrest in the region.

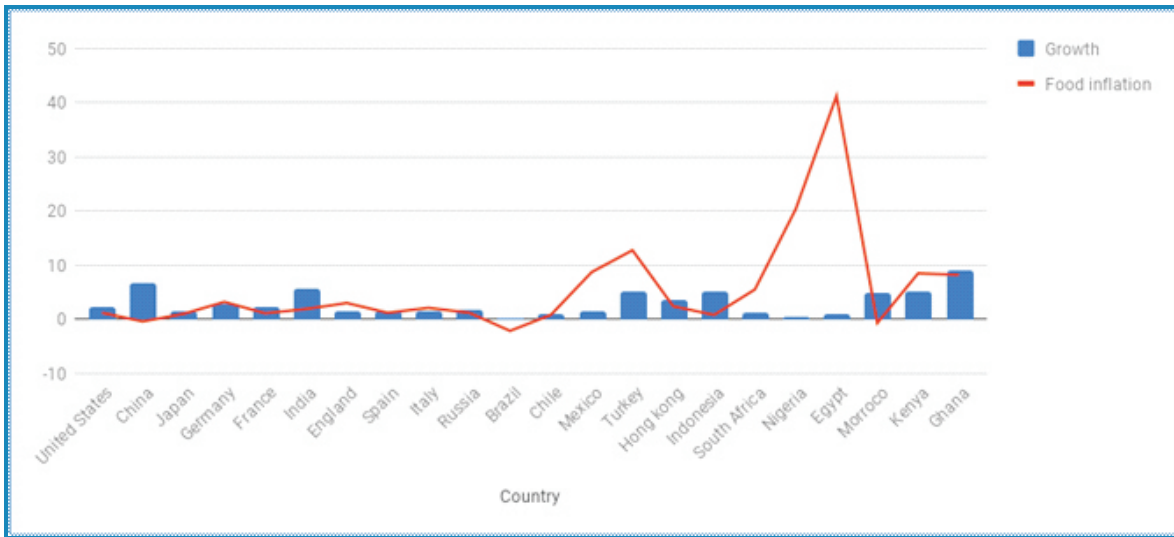
Commodity prices are experiencing a gradual uplift especially in crude oil. However, such upward momentum is still too little to return to earlier levels of consumption. Thus, it is essential that fiscal consolidation be maintained coupled with proper prioritization of expenditure.

Fig 5: Changes in the Prices of Commodities



Source: Trading Economics

Fig 6: Global Output and Price Stability



Source: Trading Economics

Figure 6 broadly divides the global economy into 3 groups

- Countries with relatively low growth and low inflation, like the Euro area and Japan are stuck in a missing inflation cycle
- Most part of Sub Saharan

Africa is characterized by low growth and high inflation. Inflation is largely cost push.

- While in some countries there is a presence of high growth but inflation is tamed; such as Emerging economies like Turkey

Morocco: Gleaning Foreign Direct Investment to work

Morocco went a notch down in the recent ease of doing business from 68 to 69, regardless the kingdom of Morocco has consistently maintained a growth path even when most African and Middle East countries are either experiencing a slip in growth or already in negative growth territory. The healthy fundamentals are a product of sound macro-economic policies.

Comparatively, Morocco has done a good job with regard to price stability compare to other countries. Morocco's headline and food inflation stand at

0.4% and -0.7% respectively, moreover the downturn in oil prices has helped to clamp inflation. The dirham had strengthened against the Euro, recovering earlier grounds.

Morocco's debt to GDP has consistently been on the rise as it stands at 67.4% to GDP. It is expected that the present fiscal consolidation taken on by the kingdom will decelerate the debt growth. The elimination of subsidies in 2015 has also provided room for fiscal maneuvering.

Morocco has largely benefited from inward Foreign Direct Investment (FDI). Presently, the nation is the second highest recipient of foreign direct investment in Africa and the Middle East. Morocco's foreign direct investments to gross domestic product stand at 19% to GDP.

Over the years, there has been a consistent improvement in the nation's open market policy; the ripple effect is a healthy trio of trade freedom, business freedom and financial freedom. Therefore it is not surprising that trade constitute 84% of Morocco GDP.

In accordance with the emergency plan, Morocco has provided reliable infrastructure in its port, improve its telecommunication facilities coupled with sound macro-economic policies has made Morocco an FDI hub. At the same time, it has leveraged on its strategic position, which is close to Europe.

In addition, Morocco carried out the following policies such as

- Apart from sound economic

policies, morocco implemented policies that favor commercial interest of multinational enterprises (MNE) such as institutional and framework, strong business freedom and monetary autonomy.

- Morocco has consistently fostered commercial policies that blister MNE participation
 - The kingdom has encouraged more liberal gender policies
 - It has encouraged cross border trade, especially within Africa
 - Morocco has signed a OECD tax laws and where necessary it has provided tax exemption in specific trade free zone
 - Construction of free trade zone to promote FDI
 - It has an average applied tariff of just 3%
 - Morocco has continued to invest in green fields, for instance the kingdom invested in 81 green projects in 2016 alone.
 - Provision of tax exemption for 5 years for foreign investors
- Lastly it has a well-organized trade promotion council

Table 3: Foreign Direct Investment

FDI INTO THE MIDDLE EAST AND AFRICA BY PROJECT NUMBERS IN 2016		
Country	Projects 2016	% change
UAE	245	-18%
South Africa	105	-19%
Morocco	80	13%
Egypt	69	15%
Saudi Arabia	69	-12%
Iran	59	556%
Nigeria	49	-4%
Kenya	38	-55%
Côte d'Ivoire	33	27%
Israel	32	7%
Other	352	-18%
Total	1131	-11%

Source: FDI

Table 4: Percentage contributed by each country

Country	Percentage Contributed
France	22
United Arab Emirates	15.2
Saudi Arabia	11.8
USA	9.6
Qatar	7.8
UK	7.7
Mauritius	5.9
Switzerland	5.7
Netherlands	4
Turkey	3.1

Source: Office of the Ministry of Finance

Certainly, Nigeria can learn a few from Morocco on how to attract foreign direct investment. Moreover in a time when Nigeria is in need of more stable

foreign exchange to drive growth, the Moroccan scenario provides some clues.

Domestic Economy

Preamble: Can 2018 end up been the 'V' year?

On November 7, 2017, the proposed 2018 budget proposal was made available to the legislature by the Federal Government. The executive hampered on the need for an early passage of the budget, in order to avoid stalling fiscal spending and rolling

over project. At the same time the executive, was quick to point out that it wanted to revert back to the January to December calendar. The budget hinged on some assumptions as shown in Table 5 below.

Table 5: Assumptions

Indicators	Oil Production	Oil Price	Inflation	Exchange
Projected Outcome	2.3million/barrel	\$45	12.45%	305

Source: Office of the Budget of the Federation

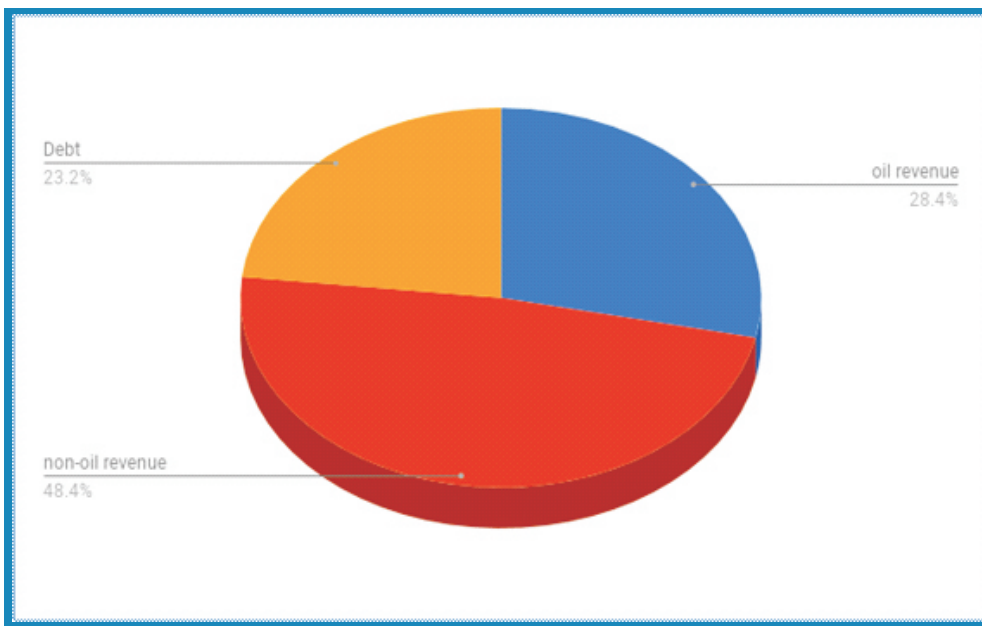
- The assumptions are in line with the Medium Term Framework (MTF)
- Recent development in oil price, supports a \$45 per barrel oil price projection
- Headline inflation should experience a gradual deceleration in 2018, although push factors will largely remain. Regardless 12.45% projection on inflation is safe.

- 2.3 million Barrels per day could be overly optimistic, given the volatility in oil producing areas.
- With respect to the exchange rate, we don't see government

abandoning the present crawling peg.

The recent uptick in oil price does favor a gradual tilt towards a free float.

Fig 7: Projected Revenue for 2018



Source: Budget of the Office of the Federation

- Projected oil revenue stands at N2.442 trillion constituting 28.4%, of revenue. Price do support targeted oil revenue but quantity could be a threat given the volatility in the Niger delta region. Oil revenue remains largely feasible, price do provide cover for quantity shortfalls.
- Non-oil revenue stands at N4.244 trillion making up 48.4% of projected revenue, cyclical factors such as fewer taxable population coupled with feeble household consumption remain a threat. The random nature of

independent revenue and weak earning from the solid minerals adds to the threat.

- Debt financing will be N2trillion in 2018, which is 23.2% of projected revenue. Although 50% of the debt will be sourced externally, allowing government to short circuit the money market and improve its liquidity space.
- Obviously what it gains in its liquidity ratio, it loses in asset ratio. Therefore shoring up productive asset by the fiscal side and buffering up reserves are critical.

Can 2018 provide the V recovery or desperately needed upward slant?

A V recovery is when the economy rises from a negative downturn or trough with a strong momentum far higher or equal to the momentum responsible for the downturn. For instance when output slumps by 3%, for a V recovery to be achieved, initial growth levels has to be above 3%.

Therefore Nigeria will need growth levels above 2.5% to achieve a V recovery. Besides any growth level below 3.2% will be referred to as one lagging behind the annual population growth and thus will be more of a lagging growth.

The recent uptick in growth from 0.55% to 1.4% is cheery to note. Growth produced is largely oil induced; thereby the lopsided nature makes a V recovery unlikely. On the

back of the recent growth momentum can 2018 produce amore upward leaning slant similar to a V recovery?

Performance in the non-oil sector still remains in negative territory suggesting, such sectors are experiencing bloodletting. Moreover private capital to gross fixed formation is low. Therefore more robust growth from the non-oil sector coupled with substantial investment by the private sector can only provide the needed slant similar to a V recovery.

Obviously government spending cannot provide such slant; thereby re-integrating private investment properly will provide the needed ace card for an upward slant.

External Economy:

Imports

Table 6: Exports in 2012 and 2016

Importing Item	2012 (Trillion)	Percentage Of Imports In 2012	2016	Percentage Of Imports In 2016	Change
Live animals , animal products	298.8	0.053	269.7	0.03	(0.10)
Vegetable products	577.2	0.10	413.6	0.047	(0.28)
Animal or vegetable fats and oils	35.2	0.006	67.3	0.0076	0.91
Prepared foodstuffs	391.2	0.07	461.4	0.052	0.18
Mineral products	178.3	0.03	2,570.8	0.29	13.42
Products of the chemical or allied	450.2	0.08	736.2	0.083	0.64
Plastics and articles thereof	317.7	0.05	463.3	0.053	0.46
Raw h ides and skins	5.9	0.0010	9.4	0.001	0.58
Articles of wood	14.2	0.0025	13.8	0.0016	(0.02)
Pulp of wood	132.8	0.024	162.4	0.018	0.22
Textiles and textiles articles	94.4	0.017	114.7	0.013	0.22
Footwear and headgear	12.9	0.0023	43.5	0.005	2.36
Articles of stone and construction materials	105.8	0.019	78.1	0.009	(0.26)
Natural or cultured pearls	0.8	0.00014	0.9	0.0001	0.07
Base metals and articles of base metal	520.3	0.09	482.3	0.054	(0.07)
Machinery and mechanical appliances	1,283.3	0.23	2,068.4	0.23	0.61
Transportation items	1,111.4	0.2	683.7	0.078	(0.38)
Optical, photographic and medical	56.3	0.01	115.2	0.013	1.04
Arms and ammunition	0.0	0	0.1	0	23.20
Miscellaneous manufactured articles	37.8	0.007	62.7	0.007	0.66

Source: CBN

- Total value of imported goods at the end of 2016 grew by 30% to stand at N8.816 trillion.

- The value of import was largely driven by a fall in Naira, as volume fail to reflect an uptick

- The total value of imports stand at 7.5% and 10.53% to GDP and nominal consumption
- The total value of Mineral products and machinery at the end of 2016 alone stood at N4.29 trillion, which makes up 52% of total imports.
- The total cost of Food and agricultural products imported standat N 1.12 trillion, which is 1.13% and 1.15% to GDP and nominal consumption. They make up 14.2% of total imports
- Total value of clothing and textile materials imported in 2016 stood at N 285.6 billion, which is 3.2% of total imports. At the same time 0.3% of nominal consumption.
- Transportation imports such as vehicles and aircrafts stand at N683.7 billion, which is 7.8% of total imports

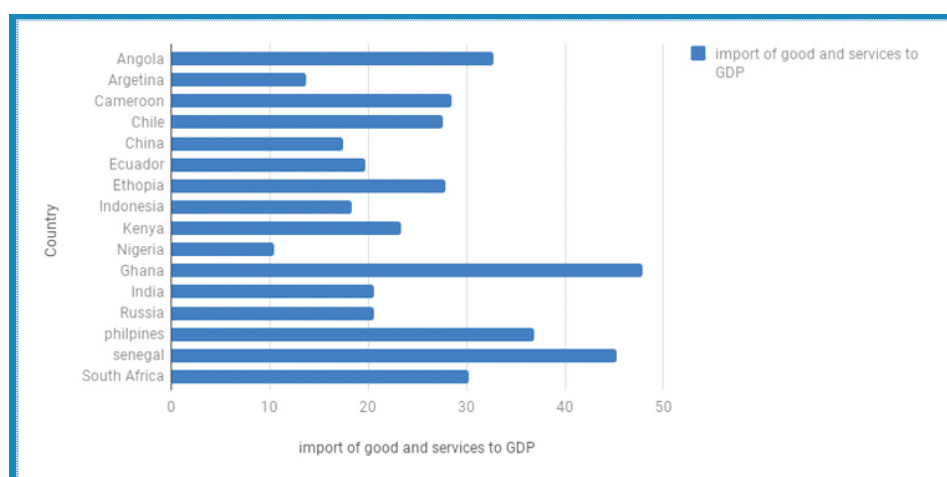
Fig 8: Trends in imports over a year and 5 year period



Source: CBN

- There has been a gradual slump in imports of livestock and vegetable when compared to 2012. This has shrunk by 10%.
- Transportation items imported have shrunk by 38%, as cross border trade and macro-economic condition are largely responsible
- Importation of optical, cinematography items have grown by 134%, as it highlights the growing size of the creative industry.

Fig 9: Import of Goods and Services to GDP among selected Countries



Source: World Bank

Fig 9 shows that Nigeria is one of the countries with the lowest import to GDP ratios in the world. The fact that two (2) commodities make up 52% of total imports and total imports of goods alone just make 7.5% of GDP, betrays the picture of a highly import dependent economy.

Many will consider an import of goods and services to GDP of 10.42% for an open economy to be healthy when compared to many other countries, whose import-leakage expenditure is still relatively small to GDP.

Exports

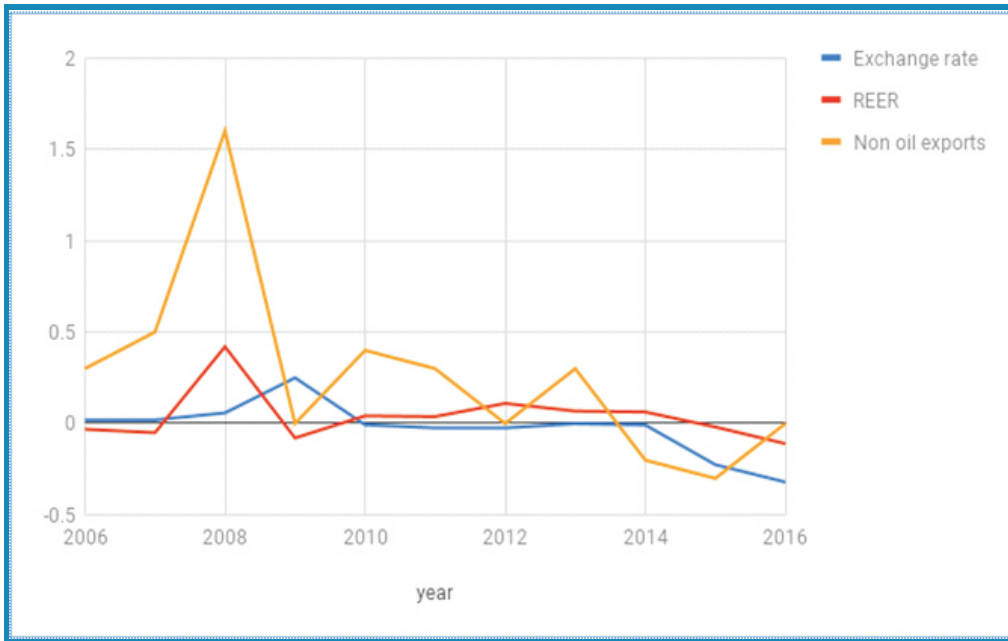
Table 7: Exports from 2000-2016

Year	Oil Export	Non-Oil Export	Total	Oil To Total Export	Non-Oil To Total Export
2000	1,920.90	24.8	1,945.70	0.987	0.013
2001	1,839.90	28	1,868.00	0.985	0.015
2002	1,649.40	94.7	1,744.20	0.945	0.054
2003	2,993.10	94.8	3,087.90	0.969	0.031
2004	4,489.50	113.3	4,602.80	0.975	0.025
2005	7,140.60	106	7,246.50	0.985	0.015
2006	7,191.10	133.6	7,324.70	0.981	0.018
2007	8,110.50	199.3	8,309.80	0.976	0.024
2008	9,861.80	525.9	10,387.70	0.949	0.051
2009	8,105.50	500.9	8,606.30	0.942	0.058
2010	11,300.50	711	12,011.50	0.94	0.059
2011	14,323.20	913.5	15,236.70	0.94	0.059
2012	14,260.00	879.3	15,139.30	0.941	0.058
2013	14,131.80	1,130.20	15,262.00	0.92	0.074
2014	12,007.00	953.5	12,960.50	0.926	0.073
2015	8,184.50	660.7	8,845.20	0.93	0.074
2016	8,178.80	656.8	8,835.60	0.93	0.074

Source; CBN

- Total value of exports stands at N8.835 trillion,
- Oil exports still constitute 92.5%, which is 7% to GDP
- Exports remain largely oil concentrated, making external injections largely vulnerable to shocks
- It highlights the need for urgent diversification in external revenue pool

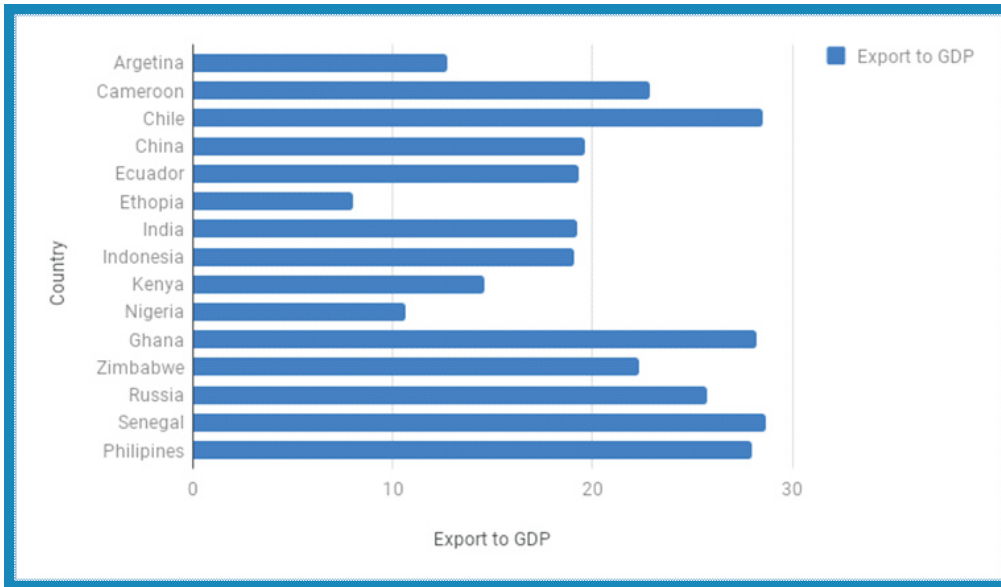
Fig 8: Movement in Exchange rate from 2006-2016



Source; CBN

- Weaker exchange rate has correlation with non-oil exports. Thereby as the naira shed value, it created supports for exports
- Although in recent time's real effective exchange rate (REER) also moves in tandem with non-oil exports, earlier trends in 2013 validates this position. Regardless, structural factors still hampers price competitiveness, thereby weak real effective exchange is limited in the face of structural contours
- It also underlines the reality that, exports can adjust to world income, but weak competitiveness poses a greater threat to exports as it limits the opportunity to maximize favorable income changes to export.

Fig 9: Export of and Services to GDP among selected countries



Source: World Bank

Nigeria has a weak export of goods and services to GDP ratio of 10.62%, largely due to its high export concentration. It is not surprising to see its ratio lag behind its peer, since most emerging economies have their export to GDP ratio between 18% and 30%. Moreover, it shows that Nigeria has limited export- injections when compared to GDP; except for countries like Argentina where there is lean private capital coupled with years of unsustainable consumption rate, have chipped off their potential growth level.

The ripple effect from weaker revenue

Cash Flows: Paper Trail, Let's make it rain

Cash flows are largely reflective of the direction of the external economy, more importantly this involves the trail of cash either as injections or

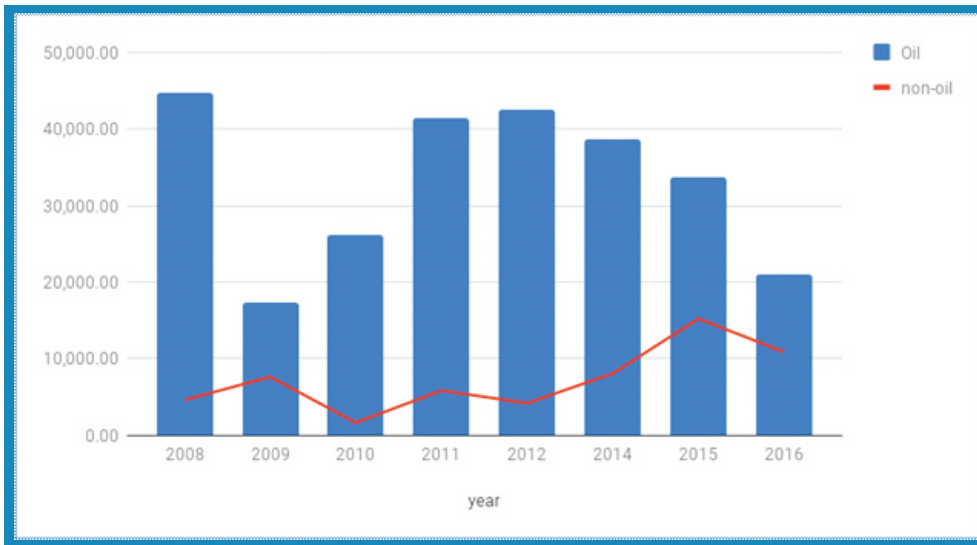
due to highly concentrated export pool will leave the domestic economy weak. In such circumstance, we ignore the reality that concentrated exports, weak productivity, poor competitive levels and year of growth gap is largely responsible. We are quick to slip to the white noise that import obsession is solely responsible for the negative external economy and the currency that accompanies it.

Thereby the remedy is not a conscious and direct effort at curbing imports but rather sound macro policies that improve exports.

leakages. Cash flow is a gauge of the financial freedom of an economy in external terms; thereby capital mobility and exchange rate stability

Autonomous Inflow through the Central Bank of Nigeria

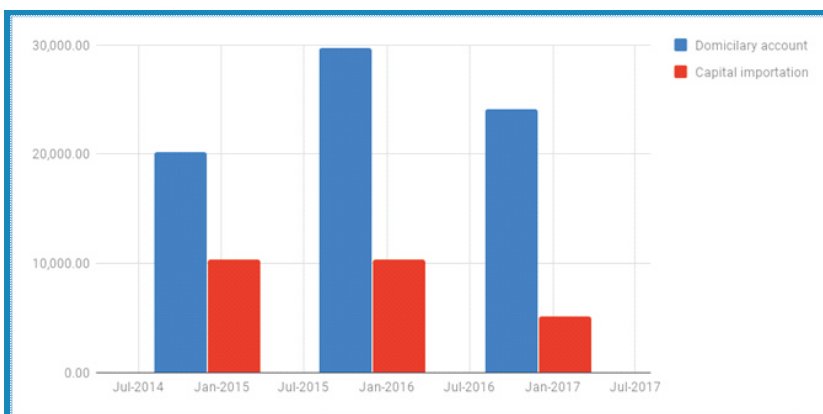
Fig 11: Oil and Non-oil flow



Source: CBN

- Total oil receipts stood at \$21 billion, which is 5.16% of GDP
 - Oil receipts through the Central bank slump by 60% nearing levels of 2010
 - Non-oil receipts fell by 38% to reach \$10.08 billion, certainly far higher than 2010. With swaps
 - It is expected that recent uptick in oil prices will ensure an up lift in oil receipt through the CBN in 2018
 - We expect a blistering in revenue from interest on reserves and investment due to the buffering in reserves
 - Certainly the proposed sale of non-oil asset in 2018 will bolster revenue from other official channels
- Growing size of domiciliary account do not just depict growing chunk of foreign denominated assets, they are also funnels for channeling remittances. Besides they could be referred to as stabilizers to invisibles especially in periods of volatile capital inflows.

Fig 12: Domiciliary Account and Capital Importation



Source: CBN

- Domiciliary account fell by 18.5% compared to the previous year of 2015, to stand at \$24.13 billion
- Exchange rate instability coupled with central banks pegged exchange rate policy affected the growth of domiciliary account. However it stands at 5.9% to GDP and 63.7% of invisibles
- Expectedly, recent stability in exchange rate and improved global economy will be a leg wind to domiciliary account.

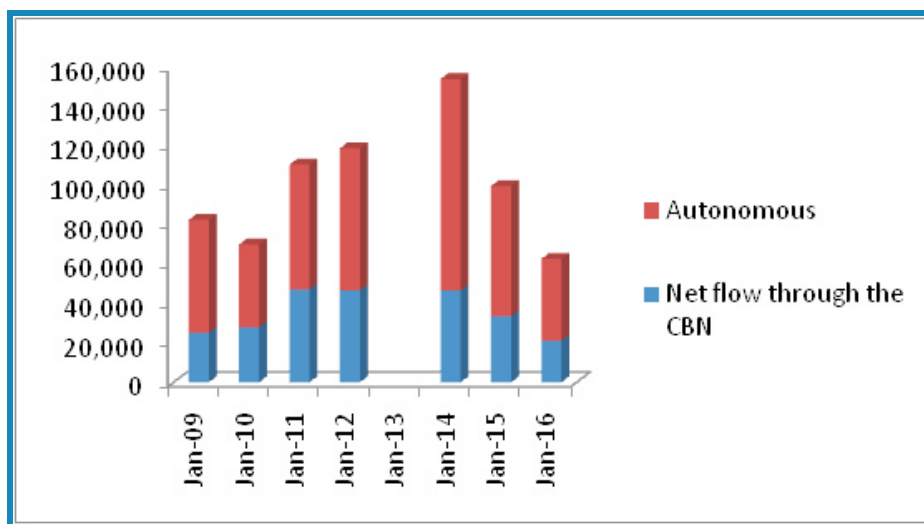
Earlier foreign exchange policy which was peg oriented deflated the size of domiciliary accounts, as holders of Dollar denominated asset avoided been caught up in Dollar trap scenario. However beyond just providing

remedy to the exchange imbroglio, leveraging on Dollar denominated asset residing on shore is important.

Countries like India, Panama and Switzerland have used such channel to achieve the following:

- Improve dollar liquidity
- Buffer up the size of their invisibles, limiting pressure on their currency
- Access long term funding from on shore funds at attractive rates
- Sustain a positive net flow position, even when demand is on an uptick
- Bolster their autonomous market, concurrently influencing supply following finance positively

Fig 13: Inflow from 2012 to 2016



Source: CBN

- Inflow stood at N 62.47 trillion representing a 37.1% fall compared to the previous year. The slip was largely due to a softening in invisibles
- External debt servicing in 2015 and 2016, stood at \$395 million and \$356 million
- The slump in over the counter purchases from \$12.09 billion

in 2015 to \$3.34 billion in 2016, was due to lack of exchange channel. Thereby affecting the derivative market negatively

- Outflow was largely capped due

to the lock down in exchange rate channels. Thus, the CBN protected its positive net flow at the expense of an exchange rate channel

Current Account

Fig 14: Current Account



Source: CBN

- The slump in foreign inflows, coupled with the crude peg led to a plummeting current account in 2015.
- Pushing the account to a negative balance of 3.2%, highlighting the adverse effect of pegs on current account. While pegs can shield net flow, it fails to achieve that with

current account

- Moreover with an economy of \$500 billion with limited exchange channels, pegs do not just weaken current account. They leave the economy exposed to overshoot, underline the reality that such peg has long reached its breaking point.

Projections for the 2017

- Certainly the growth of invisibles is largely determined by the exchange rate policy. The recent exchange rate stability will filter positively in capital importation, derivative market

and domiciliary account.

- The increase in oil price and exchange rate stability will buffer up inflows from oil companies

Key Findings

Global

- There have been a consistent uptick in the nominal effective exchange rate of Euro, regardless the Euro is expected to maintain a lid on rates
 - Growth in the Euro has been on track but inflation remains largely missing
 - Wage growth in Euro countries and Japan remain largely weak, unemployment still remain within high region due to structural contours
 - There has been a weaning in implied volatility experienced in bond rates. Rates won't return back the 2010 levels
 - A prolonged cycle have led to an astronomical rise in private debt to GDP
 - There have been a rise in commodity price but still not enough to avert a fiscal restructuring
- There is broad division in the global macro economy, advanced economies are experiencing timid growth and inflation surprises remain Herculean as fiscal policies remain tight. On the other hand, developing economies especially in Sub Saharan remain weak but inflation is high.

Domestic finding

- Government spending alone cannot provide a 3.5% growth in 2018
- Nigeria import to GDP is just 10.3% and 7.5% to nominal consumption
- Mineral and machine make up 52% of total import, reflective of some degree of concentration
- Livestock and food stuff imported in 2016 was N 1.12 trillion, this makes up 14% and 1.13% of nominal consumption
- Nigeria's export to GDP is among the lowest compare to many other countries
- The nature of Nigeria's export is heavily concentrated, with oil being the major import injection.
- Nigeria export to GDP is one of the lowest and far lower when compared to emerging economies, which is between 18% and 25%
- Real effective exchange rate and global income are limited in driving exports, due to weak competitive levels
- Inflows for 2016 shrunk by 37.1%, when compared with 2015 figures. The shrink was largely due to plummeted invisible side of autonomous inflow.

Measures

Certainly, we conclude that Nigeria is not an import dependent country; rather the degree of export concentration is the major concern. The inability to address export concentration and buffer up revenue-injection has created vicious cycles that end up with a slow motion economy. Such cycle's best depict the revolving door effect on the domestic economy as a result of weak and high concentrated export revenue, leaving

household weaker.

Therefore it is not surprising to see such flawed sided revenue end of the external economy bite heavily on cash flow. It is encouraging that government has embarked on an export diversification policy to reduce our export concentration. Regardless government has not been clear about the nature of its diversification.

Fig 15: Types of Diversifications

Diversifications	What It Entails
Vertical	This is a direct shift from production of primary goods to secondary goods or tertiary: moving from basic extraction to processing
Horizontal	Takes place within the same sector, either primary secondary or tertiary: adjustment in the country's export mix by adding new product to the existing basket mix
Diagonally	A shift that entails imported goods to produce secondary or tertiary goods: using imported intermediate goods to produce exported manufactured goods

Source: UNCTDA

So far our diversification remained blurred whereby policy objective remain largely conflictive. At the same time we have not carried the necessary analysis, which will anchor our diversification drive. This is due to the fact that we fail to factor the following:

- What is the position of its international division of labor?
- What is the position of Nigeria

on the global supply chain

- What is the nation's prospect with regard demand

Such factors, will eventually determine the following:

- Targeted investment policies that build up new areas of comparative advantage. At the same time establishing

- guidelines through which local firms tap into it
- Designing incentive, that encourage foreign direct invest in to non-traditional areas such as manufacturing, IT and creative sector
- Infrastructural development
- Investing more in human capital
- Selective decisive measures through tax's and export subsidies to diversify exports

Conclusion

Policy trade-off between private investment and expenditure largely rubs on how both export-injections and import-leakages emerge. Policy posturing in the domestic economy is responsible on how external injections and leakages, take shape. Except in circumstances where external shock press hard on domestic economy realign to a new reality like in 2016. At the same time earlier trade off will determine how much of realignment is needed to respond to external shocks.

In such circumstances demand managing policies become inevitable

The inability to spur export led injection create the wrong perception that imports are largely responsible for the maleficent, while ignoring the basic reality that government spending is tailored to drive export injections and attract private investment. The nature of government spending and policies inherent is of greater concern.

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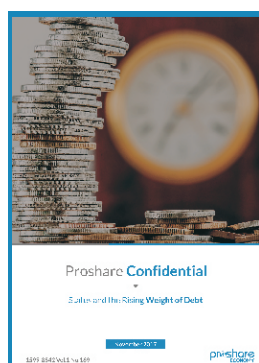
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