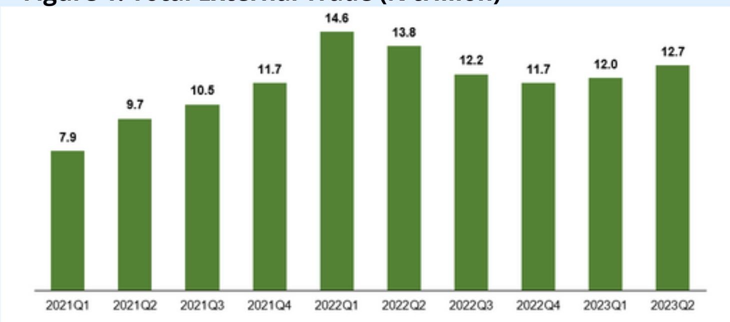
NESG 2023Q2 FOREIGN TRADE ALERT

September 2023

External trade fell by 8 percent (year-on-year), as trade surplus persisted in 2023Q2
Nigeria's external trade value declined to N12.7 trillion in the second quarter of 2023 from N13.8 trillion in the corresponding period of 2022 (see **Figure 1**). However, on a quarter-on-quarter basis, the value of external trade rose by 5.8 percent compared with its level in 2023Q1 (N12 trillion). Cumulatively, the external trade value stood at N24.7 trillion in the first half of 2023, which is 13 percent lower than its level in the corresponding period of 2022 (N28.4 trillion).

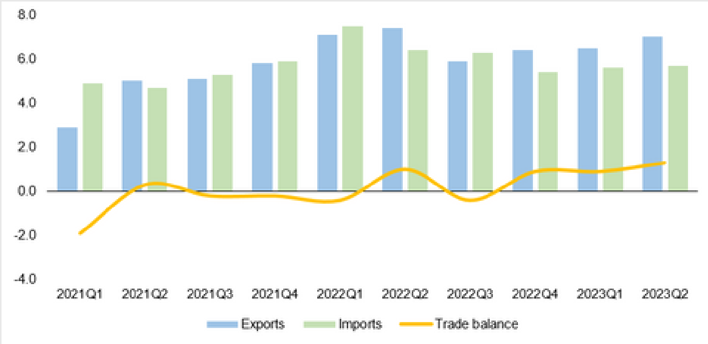
Figure 1: Total External Trade (N'trillion)



Data: NBS; Chart: NESG Research

Remarkably, growth in exports outpaced that of imports, resulting in a trade surplus of N1.3 trillion in 2023Q2, which is higher than the trade surplus of N1 trillion and N927.2 billion recorded in 2022Q2 and 2023Q1, respectively (see **Figure 2**). Moreover, in H1'2023, the trade surplus stood at N2.2 trillion compared with the trade surplus of N618.8 billion in H1'2022.

Figure 2: Imports, Exports & Trade Balance (N'trillion)



Data: NBS; Chart: NESG Research

Oil Export and Non-Oil Export Earnings fell (year-on-year) in 2023Q2. The total value of goods exported declined by 5.4 percent to N7 trillion in 2023Q2 from N7.4 trillion in 2022Q2 (see **Figure 2**). This is attributable to a drop in oil exports to N6.3 trillion in 2023Q2 from N6.7 trillion in 2022Q2. Lower oil exports were largely driven by a decline in average domestic crude oil production to 1.2 million barrels per day (mbpd) in 2023Q2 from 1.6mbpd in 2022Q2, according to the NBS. Cumulatively, total export earnings fell to N13.5 trillion in H1'2023 from N14.5 trillion in H1'2022.

However, non-oil exports – which accounted for 9.8 percent of total export earnings in 2023Q2 – rose to N688.7 billion in 2023Q2 from N669.4 billion in 2022Q2 (see **Table 1**). The increase in non-oil exports – which exclude petrochemicals and oil-related items – was due to the rise in the earnings from all categories of export commodities, except raw materials and energy products. Similarly, the shares of raw materials and energy products in the total non-oil exports fell in the quarter.

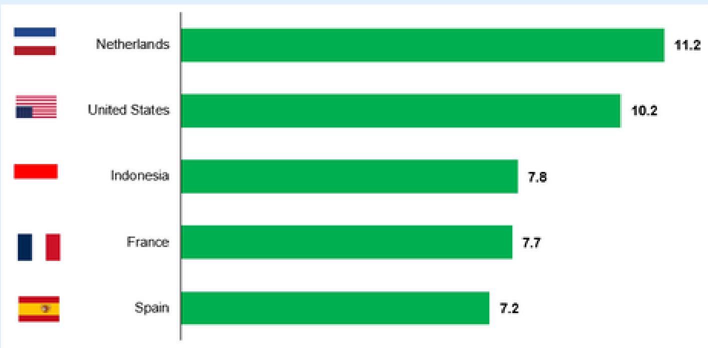
Table 1: Performance of Non-Oil Exports and Components in 2022Q2 and 2023Q2

Period	Non-oil exports (N'billion)	Share of Non-oil commodities in Non-oil exports (percent)				
		Agric products	Raw materials	Solid minerals	Energy goods	Manufactured goods
2022Q2	669.4	28.1	36.2	2.7	2.4	30.6
2023Q2	688.7	40.8	21.2	4.9	2.3	30.8

Data: NBS

Europe remained Nigeria's largest export destination in 2023Q2. Europe maintained its position as Nigeria's largest export market, accounting for 45.1 percent of total exports, followed by Asia, with a share of 24.6 percent in 2023Q2. On a country level, Nigeria's top five (5) export destinations, led by the Netherlands, accounted for 44.2 percent of total merchandise exports in 2023Q2 (see **Figure 3**). The bulk of goods exported in the quarter was crude oil.

Figure 3: Major Export Destination in 2023Q2 – Share of Exports (percent)



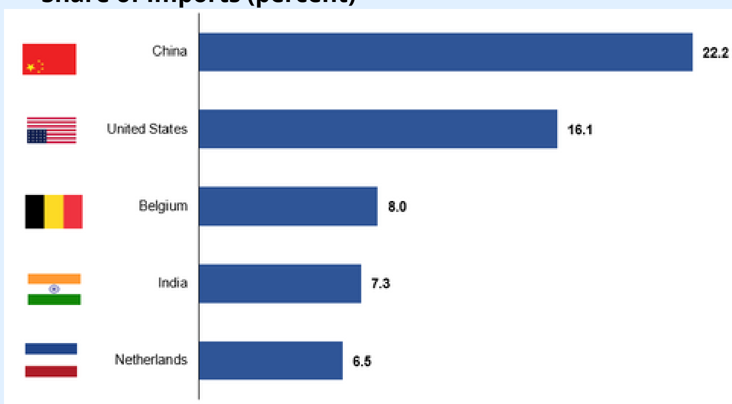
Data: NBS; Chart: NESG Research

Overall imports dropped to N5.7 trillion in 2023Q2. The value of imported commodities fell by 10.9 percent (year-on-year) to N5.7 trillion in 2023Q2 from N6.4 trillion in 2022Q2 (see **Table 2**). This is attributable to the decline in import bills across the various tradable items except machinery and transport equipment. The most significant drop in import value was recorded in mineral fuel products.

On a cumulative basis, the value of imported commodities stood at N11.3 trillion in H1'2023, which is 18.7 percent lower than its level in H1'2022 (N13.9 trillion).

Asia remained Nigeria's largest import trading partner in 2023Q2. In 2023Q2, Asia accounted for 40.4 percent of Nigeria's merchandise imports, followed closely by Europe with a 34.3 percent share. On a country level, China maintained the lead as Nigeria's largest import trading partner, with a share of 22.2 percent in total imports in the quarter (see **Figure 4**).

Figure 4: Major Import Trading Partners in 2023Q2 – Share of Imports (percent)



Data: NBS; Chart: NESG Research

Table 2: Performance of Merchandise Imports and Components in 2022Q2 and 2023Q2

Period	Total Imports (N'trillion)	Share of Total Imports (percent)					
		Food & Live Animals	Mineral Fuel	Chemicals	Manufactured goods	Machinery & Transport Equipment	Others
2022Q2	6.4	10.8	38.2	14.7	7.3	22.9	6.1
2023Q2	5.7	11.5	28.8	11.3	7.6	34.7	6.1

Note: *The category "others" include beverages & tobacco; crude inedible materials; oil, fats & waxes; miscellaneous manufactured commodities and articles*

Data: NBS

CONCLUDING REMARKS

* **The persistent improvement in Nigeria's trade balance position is remarkable but is not without downside risks.** While elevated crude oil prices have largely supported the record of trade surplus since 2022Q4, domestic crude oil production remained weak and below the country's OPEC output quota (1.7mbpd). Unless efforts are geared towards improving domestic crude oil production through higher investment inflows into the oil and gas sector and curtailing oil theft, the trade surplus could be reversed despite higher global oil prices. In addition, the increase in non-oil exports suggests that proactive steps should be taken to improve the attractiveness of Nigeria's non-oil commodities to foreign buyers. Also, improvement in non-oil exports could insulate the economy against the adverse effect of any shortfall in oil exports.

* **The persistent decline in the value of petroleum product imports is a welcome development, but continued reliance on imported refined fuel products is more concerning.** The fact that over 80 percent of local demand for petrol is met through fuel importation has not only put intense pressure on the hard-earned foreign exchange (FX) earnings but has also contributed to rapid exchange rate depreciation, despite exchange rate unification, in recent times. This suggests the urgent need for the Nigerian government to step up measures to revitalise the local refineries to save the economy from protracted FX shortages. The FX savings from the import substitution strategy could result in substantial external reserves accretion.

* **The fact that Nigeria remains a net importer of agricultural products suggests that the country is vulnerable to imported inflation.** Despite having the potential to ramp up the local production of food and livestock, Nigeria continues to rely on imported agricultural products to meet the expanding domestic demand. Aside from constituting a drain on the available FX pool, persistent importation of food items could drive up imported inflation usually permeated into the economy through weak local currency. The imported food inflation averaged 18.8 percent in 2023Q2, higher than its level in 2022Q2 (17.7 percent). Over a similar period, the Naira fell by 18 percent and 20 percent against the US dollar at the official and parallel FX markets, respectively.

About the NESG

The NESG is an independent, non-partisan, non-sectarian organisation, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought to explore, discover and support initiatives to improve Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high-level interactive public-private sessions and special presentations to the executive and legislative arms of government.

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