External Trade in Goods fell to N8.4 trillion in Q3’2020 (year-on-year) as Trade deficit widens

The value of Nigeria’s external trade declined by 8.7% to N8.4 trillion in Q3’2020 from N9.2 trillion in the corresponding period of 2019 (Q3’2019). However, on a quarterly basis, the external trade for Q3’2020 represented a 35.5% increase when compared with its level in Q2’2020 (N6.2 trillion). The quarter-on-quarter growth in external trade could be attributed to the relaxation of lockdown restrictions and the resumption of international travels in the third quarter of 2020. Cumulatively, in the first three quarters of 2020, the value of external trade stood at N23.2 trillion, which is 10.8% lower than its level in the corresponding period of 2019 (N26 trillion).

Figure 1: Trend of External Trade Value (N’trillion)

Trade deficit widened to –N2.4 trillion as Imports outpace Exports

Trade balance – the difference between exports and imports – remained in deficit at –N2.4 trillion in Q3’2020 compared with a trade surplus of N1.4 trillion in Q3’2019. This represents the fourth consecutive quarter of trade deficit since Q4’2019. The trade deficit for Q3’2020 was over four times larger than its level in Q4’2019 (-N579.1 billion). The worsening position of Nigeria’s trade balance was largely due to the persistent growth in imports relative to a decline in exports amidst the continued prevalence of COVID-19 across the world.
Figure 2: Trend of Import & Export Trade (N'trillion)

Data: NBS; Chart: NESG

Figure 3: Trend of Trade Balance (N'trillion)

Data: NBS; Chart: NESG
Export Earnings plunged in Q3’2020

Total value of goods exported fell sharply by 45.3% to N2.9 trillion in Q3’2020 from N5.3 trillion in the corresponding period of 2019. This could be largely due to a plunge in crude oil exports by 35.1%. Nonetheless, the contribution of crude oil exports to total exports rose to 81% in Q3’2020 from 71% in Q3’2019. Similarly, crude oil and other oil related products accounted for 93% of total exports in Q3’2020 relative to 80% in Q3’2019. Generally, the decline in export earnings could be attributed to a shortfall in domestic crude oil production coupled with lower crude oil price in the third quarter of 2020. Both domestic crude oil production and the price of Nigeria’s Bonny Light fell by 15% and 31.6% in Q3’2020, respectively, relative to their levels in Q3’2019. Nigeria’s improved compliance with OPEC’s production cut agreement partly explains the decline in average domestic crude oil production. Similarly, non-crude oil exports declined sharply by 164% to N568.2 billion in Q3’2020 from N1.5 trillion in Q3’2019. Correspondingly, the share of non-crude oil exports in the overall exports fell to 19% in Q3’2020 from 29% in the corresponding period of 2019.

Figure 4a: Composition of Exports in Q3’2019 (%)  
Figure 4b: Composition of Exports in Q3’2020 (%)

Data: NBS; Chart: NESG

Meanwhile, the non-oil exports – which excludes petrochemicals and oil-related items – dipped by 80.1% to N214.7 billion (or 12% of total exports) in Q3’2020 from N1.1 trillion (or 9% of overall exports) in the corresponding period of 2019. This reflects a sharp decline in earnings from manufacturing exports in the quarter.

Table 1: Performance of Non-Oil Exports and Components in Q3’2019 and Q3’2020

<table>
<thead>
<tr>
<th>Period</th>
<th>Share of Non-oil commodities in Non-oil exports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3’2019</td>
<td>29%</td>
</tr>
<tr>
<td>Q3’2020</td>
<td>19%</td>
</tr>
</tbody>
</table>

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Europe retains position as Nigeria’s largest export market despite COVID-19

In spite of uncertainties around the continued spread of the coronavirus pandemic across the world, Europe remained Nigeria’s largest export trading partner, accounting for 41% of total exports in Q3’2020. The second largest market was Asia which accounted for 37% of the overall exports. On a country level, Nigeria’s top five export trading partners was led by India, with a share of 16.7% in total export value in Q3’2020. In the quarter, South Africa remained the only African country among the top five largest destinations for Nigeria’s exports.

Overall Imports jumped to N5.4 trillion in Q3’2020

The value of imported commodities rose sharply by 38.5% to N5.4 trillion in Q3’2020 relative to its level in the corresponding period of 2019 (N3.9 trillion). Similarly, the value of merchandise imports represents a 35% increase when compared with total imports in Q2’2020. The rise in imports could be attributed to increase in the purchase of food and live animals, chemicals and manufactured goods, which accounted for 44.2% of total imports in the quarter.
Table 2: Performance of Merchandize Imports and Components in Q3’2019 and Q3’2020

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Imports (N’trillion)</th>
<th>Share of Total Imports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Food &amp; Live Animals</td>
</tr>
<tr>
<td>Q3’2019</td>
<td></td>
<td>9.7</td>
</tr>
<tr>
<td>Q3’2020</td>
<td></td>
<td>15.2</td>
</tr>
</tbody>
</table>

Data: NBS

*Note: Other components of overall imports include: Beverages & Tobacco, Crude inedible materials, oil, fats & waxes, as well as miscellaneous manufactured items.

Asia remains Nigeria’s largest import trading partner

The Asian region maintained its position as Nigeria’s largest import origin, accounting for 48% of overall merchandize imports, followed by Europe with a share of 34% in Q3’2020. On a country level, China was the largest source for Nigeria’s merchandize imports with a contribution of 30.5% to total imports in Q3’2020. This could be traced to the rapid economic recovery of China in spite of the continued spread of COVID-19 across the world. Other top import trading partners in the quarter were the United States (9%), Netherlands (8.2%), India (6.6%) and Belgium (3.9%).

Figure 6: Major Import Trading Partners in Q3’2020 – Share of Imports (%)

Data: NBS; Chart: NESG
**Conclusion**

- **Widening trade deficit raises concern over the growing public debt going forward**
  
  It is notable that the outbreak of COVID-19 has magnified the impact of land border closure with Nigeria's trade balance remaining in deficit since Q4'2019. The sharp decline in oil export receipts as reflected in widening trade deficit would make borrowing imperative for the Nigerian government to meet its fiscal obligations and stabilize the external balance. Having acquired an IMF loan worth $3.4 billion, the government is currently in talks with the World Bank for a credit facility worth $750 million to support the states. With Nigeria's export basket remaining undiversified and shrinking, external buffers – the difference between external reserves and external debts – would narrow further. This would undermine the credit worthiness of the country and serve as a disincentive for prospective foreign investors. The country's public debt stood at an all-time high of N31 trillion as at the second quarter of 2020.

- **Persistent trade deficit suggests acute forex scarcity and possible continuation of forex rationing**

  Against the backdrop of dwindling oil export receipts, the CBN's capacity to intervene in the FX market would be constrained. Consequently, lower Forex earnings would translate into another round of forex rationing among end-users. Limited FX supply in the face of huge FX demand would threaten exchange rate stability and put more downward pressure on the Naira going forward.

- **Value chain development is key for Nigeria to maximize the benefits of AfCFTA**

  Nigeria recently ratified the African Continental Free Trade Agreement which is expected to come into full force on January 1st 2021. Since most African countries rely mainly on primary product exports, there is need for Nigeria to leverage its agricultural base potential to develop agro-allied industries so as to reap the full benefits associated with the trade pact. Agricultural exports accounted for 28% of non-oil exports in Q3'2020. There is also the need for an urgent review of the land border closure policy as part of efforts towards promoting non-oil exports.

- **Recovery of global trade hinges on the discovery of an effective vaccine against COVID-19**

  Plans are underway in most European countries (United Kingdom, Russia) to embark on mass vaccination of citizens. The eventual discovery of an effective vaccine would be instrumental to the reversal of weak global trade volumes going forward. Being Nigeria's largest export market, the eventual recovery of most European countries (Spain and Netherlands) from recession would have a ripple effect on the Nigerian economy via trade and investment channels.
About NESG

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

www.nesgroup.org | Info@nesgroup.org

Contact

For more information about the content of this report and other research services, please contact:

NESG Research Team

Email: research@nesgroup.org
Tel:
+234-01-295 2849
+234-01-295 2003