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Report Name: Government Lifts Foreign Exchange Import Restrictions but Challenges Continue

Country: Nigeria

Post: Lagos

Report Category: Trade Policy Monitoring, Retail Foods

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Report Highlights:

In 2023, food and agricultural imports have become increasingly expensive as the government has been largely unsuccessful at stemming the naira's decline relative to the U.S. dollar. Importers who source foreign exchange on the parallel market have suffered from the increasing spread between the official and parallel exchange rates. In October, the Central Bank of Nigeria (CBN) lifted foreign exchange restrictions for the importation of 43 items, including several food and agricultural products. Despite this policy change, importers report continued challenges sourcing foreign exchange - as well as soft consumer demand because of the currency's devaluation and high inflation. Importers expect challenging conditions to continue in the short-term, but also note that import demand could quickly return if the currency stabilizes, and consumer confidence recovers.

Government Lifts Restrictions on Sourcing Foreign Exchange for Selected Imports

On October 12, 2023, the CBN lifted restriction on sourcing foreign exchange from the official Nigerian Foreign Exchange Market (NFEM)[1] for the importation of 43 items, including several food and agricultural products. The restrictions were originally imposed in 2015, and according to the CBN, meant to conserve foreign exchange reserves and promote local production. The restrictions prevented the sourcing of foreign exchange to import items from the NFEM's official sources for: rice, margarine, palm kernel and palm oil products, vegetable oils, meats and processed meat products, tinned fish in sauce, vegetables and processed vegetable products, poultry and processed poultry products, eggs, milk and dairy products, maize, and sugar. The CBN noted it was lifting foreign exchange restrictions, because the policy had pushed importers to source foreign exchange on the parallel (i.e., unofficial) market contributing to the gap between the parallel market and the NFEM official rate.

No Policy Change to Import Prohibitions

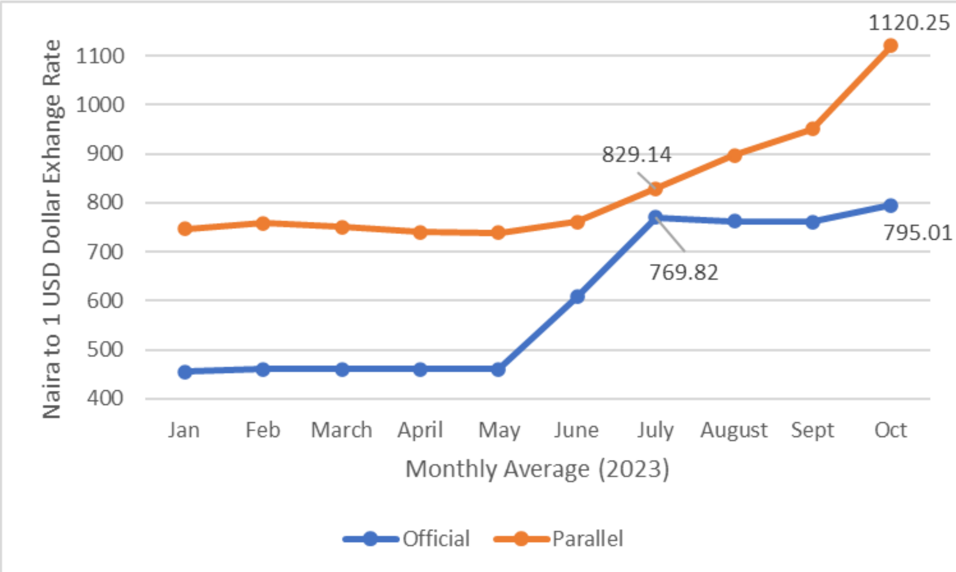
The government did not announce changes to its list of import prohibitions, which include frozen and live poultry, beef, pork, table eggs, hatching eggs, refined vegetable oils and fats, cane and beet sugar, cocoa butter, spaghetti/noodles, fruit juice in retail packs, and water with added sugar, beer, and tomato paste or concentrate for retail sale. The full list of prohibited items by harmonized system (HS) code can be found on Nigeria's Customs Service website.

Despite Lifting Restrictions, Foreign Exchange Issues Persist

Throughout the second half of 2023, Nigeria carried out several policy actions to prevent the naira's devaluation. In June 2023, the CBN abolished the country's multiple exchange rate system hoping to unify the NFEM (formerly, the I&E window) and parallel rates. In July 2023, the official exchange rate briefly converged with the parallel market (Figure 1), before again diverging in August through October. Following the government's October 2023 announcement lifting foreign exchange restrictions on the 43 items, the two rates continued to diverge. In public fora, economic analysts generally agree that the naira's depreciation in the parallel market and divergence of the two rates can be partially attributed to increasing foreign exchange demand that that cannot be met by the NFEM. Food and agricultural importers note difficulty sourcing U.S. dollars from the NFEM, which are provided at discounted rates compared to the parallel market. Importers are able to source U.S. dollars on the parallel market, but at an additional 34 percent cost compared to the NFEM rate (Figure 1).

[1] In August 2023, the CBN announced the Investors & Exporters Window (I&E window) would change to become the NFEM.

Figure 1: NFEM and Parallel Market Exchange Rates



Sources: CBN (NFEM rates) & OAA-Lagos (parallel daily rates from peer-to-peer exchange platforms)

Importers See Foreign Exchange Issues Worsening, Possible Improvement in the Future

According to OAA-Lagos contacts, the lifting of foreign exchange restrictions may eventually lead to a more stable fiscal environment and increased food and agricultural imports. However in the short-term, the scarcity of foreign exchange available at the NFEM rate is expected to worsen. Importers noted insufficient foreign exchange liquidity from NFEM sources, and thus expect to patronize the parallel market. At the same time, if the naira continues to devalue in the parallel market, they note import demand is expected to slide further as imports become relatively pricier for importers and consumers. According to the Association of Nigerian Licensed Customs Agents, in October, the naira's volatility in relation to the U.S. dollar was the primary cause of the 65 percent decline in cargo imports. In addition, importers have faced increasing customs duties since duties are assessed according to the Nigerian Customs Service's own duty exchange rate, which has devalued in line with the NFEM and parallel rates, forcing importers to pay higher fees assessed in naira.

Outlook for U.S. Agricultural Exports

In the short-term, OAA-Lagos expects continued challenges to import demand, due in part by the naira's devaluation, foreign exchange shortage, and increasing custom duties. In addition, consumer purchasing power has reportedly dropped due to persistent inflation and the government's removal of the national fuel subsidy, which raised prices of consumer fuel by three- to four-fold. Importers noted that if the exchange rate stabilizes and foreign exchange becomes easier to source, there would be strong interest in importing U.S. bulk commodity and consumer-oriented food items, such as rice, corn, meat, and processed meat products. Contacts also reported interest in importing U.S. animal feed ingredients

Attachments:

No Attachments.