

KEY POINTS



- Nigerian policymakers need to conduct and apply evaluative research to increase the potency of policies. Impacts of policies need to be analysed against the background of the intended effects.
- The country's total imports of the 43 items from the rest of the world decreased by 57.1% during the period of restriction; but data from neighbouring countries show that imports increased.
- Having lifted the forex restriction on these items therefore, there is a likelihood that forex demand at the official market will increase by around 5%, leading to further depreciation of the official exchange rate.
- Conversely, an appreciation should be expected at the parallel market, but this will be to the extent that the official market is able to meet the demand of importers of these 43 items.

How CBN's Forex Restriction on 43 Items Affects Nigeria's Import and Its Borders

On June 23, 2015, the Central Bank of Nigeria (CBN) announced a restriction on a list of 41 items that became invalid for allocation in the Nigerian Foreign Exchange (forex) market. At that time, Nigeria's external reserves were \$29 billion, the official exchange rate was ₦195.9/US\$1, and the parallel market rate was ₦220/US\$1 (a difference of 12.3% between the two rates). Two additional product categories were later added, making the list 43 items; and the importers of the restricted items were directed to source their forex from autonomous sources. The objective was to reduce foreign exchange demand for items that might be produced domestically, increase job creation, and conserve foreign reserves.

Conversely, on October 12, 2023, the CBN reversed this policy and lifted the foreign exchange restrictions on these 43 items. The Bank claimed that the restriction drove importers into the parallel market and contributed to the divergence between the official and parallel exchange rates. At the time of reversal, Nigeria's external reserves was \$33.2 billion, the official exchange rate was ₦769.51/US\$1, and the parallel market rate was ₦1,035/US\$1 (a difference of 34.50%). As stated by the CBN, lifting the restriction would likely eliminate the need for importers of these products to go to the parallel market, thereby reducing the pressure on the naira.

Like most economies, Nigeria is quite dynamic, and policymakers need to respond appropriately to the prevailing situation. This may explain why a policy like forex restriction on 43 items, which was deemed productive by the apex bank a while ago, now seems counter-productive. But in all these, one thing is very pertinent; Nigerian policymakers need to conduct and apply evaluative research to increase the potency of policies.

The impact of specific policies and programmes needs to be analysed against the background of the intended effects, and identify the unintended but desirable effects which should be consolidated, while also identifying the unintended and undesirable effects that must be ameliorated. Such studies need to be conducted both ex-ante (before) and ex-post (after).

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Applying this to the current situation, the major justification for the restriction was to reduce foreign exchange demand for items that might be produced domestically, create jobs, and conserve foreign reserves. Good evaluative research would have shown some baseline indicators, such as the imported values of these 43 items, the extent of local capacity to produce them, their prices, employment generated in the sectors producing them, and the extent of their foreign exchange use.

Having discontinued this policy, it should be easy to answer and communicate the extent to which these indicators have increased or decreased as a result of the policy, thereby measuring its impact and potency.

This Policy Brief attempts to answer one of these questions by comparing Nigeria's imports of these items before and during the introduction of forex restriction by the CBN. Further attempts are made to examine the effect of the policy on Nigeria's imports through the borders of its neighbouring countries.

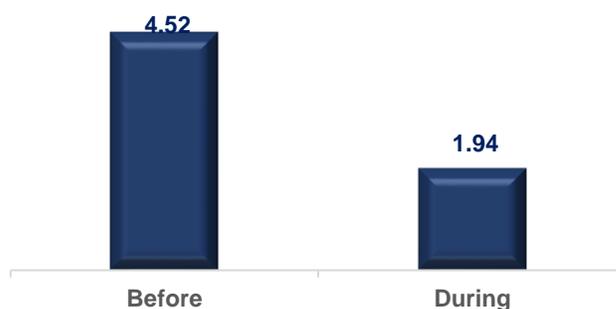
Data

The data used was obtained from the United Nations Commodity Trade Statistics Database (UN Comtrade), which is considered the most comprehensive trade database, with over 3 billion records. Data on 42 items were extracted from the database covering a period of 16 years; and classified into periods before restriction (2007-2014) and during restriction (2015-2022). The Harmonised System (HS) classification of these items was used, while the only financial item in the list, Eurobond/foreign currency bond/share purchases, was excluded.

Efforts were made to ensure that the extracted HS codes were exactly those of the relevant items, except for very few variations that might arise due to aggregation; but which were not expected to affect the results, since the same definition is used in the periods before and during the policy.

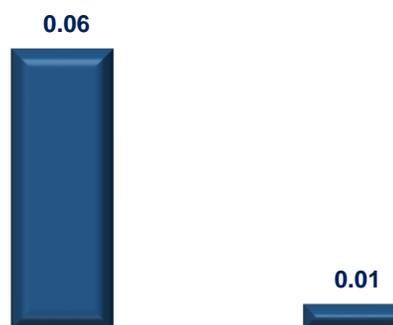
Nigeria's Imports of the Restricted Items from the World

In the eight years before the CBN's restriction, the total import of all the items from the world into Nigeria was valued at \$36.16 billion, which amounted to an average of \$4.52 billion per year. On the other hand, in the 8 years of implementing the restriction, total imports of these items dropped to \$15.51 billion, averaging \$1.94 billion per annum. Therefore, the import values of these items fell by 57.1% during the restriction period.



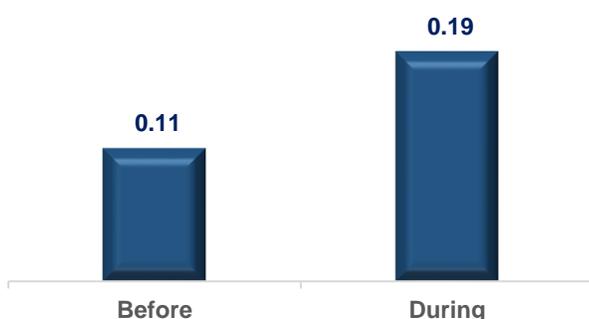
Nigeria's Imports through its Neighbouring Countries - As Reported by Nigeria

From data reported by Nigeria at Comtrade, total imports of all the items from the neighbouring countries of Niger, Chad, Benin, and Cameroon into Nigeria were estimated at \$0.49 billion before the restriction but fell precipitously to \$0.04 billion during the restriction. On average, \$0.06 billion of all the items were imported annually from these countries into Nigeria before the restriction, but this declined to \$0.01 billion during the restriction, representing a 90.9% decline.



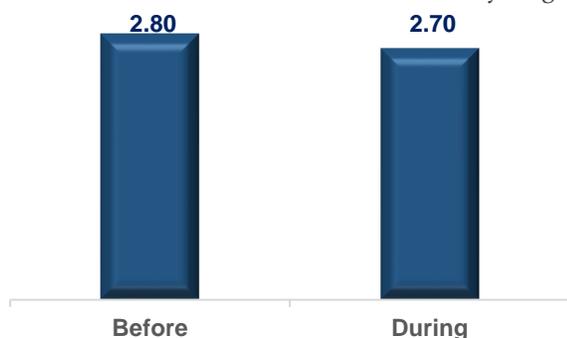
Nigeria's Imports - As Reported by the Neighbouring Countries

Applying a mirror analysis to data reported by Niger, Chad, Benin, and Cameroon; before the restriction, a total of \$0.87 billion for all the items were imported from these countries by Nigeria within a period of 8 years, with an average annual value of \$0.11 billion. However, during the restriction, the total imports of the items were estimated at \$1.5 billion, with an average annual value of \$0.19 billion. Therefore, according to the records of these neighbouring countries, the import values of these items increased by 72.6% during the restriction period, which is in contradiction to the values recorded in Nigeria.



Nigeria's Neighbouring Countries' Imports from the World

A total of \$22.43 billion for the items combined were imported into these neighbouring countries before the restriction, with an average annual value of \$2.8 billion. During the restriction, the total imports of the items were estimated at \$21.63 billion, with an average annual value of \$2.7. Therefore, the import of these items by Nigeria's neighbouring countries decreased slightly by just 3.6% during the restriction period, which is far lower than what was recorded by Nigeria.



Summary and Implications

- From Nigeria's record, its total imports of the restricted items from the rest of the world decreased by 57.1% during the period of restriction; while its imports of the same items through its neighbouring countries fell by 90.9% during this period.
- However, using the records of the neighbouring countries, a mirror analysis, Nigeria's imports of these items through its neighbours increased by 72.6% during the period of restriction.
- It is found that Nigeria's imports of these items through its neighbouring countries have generally been understated by 44% on average, but this understatement was observed to increase to 97% during the restriction.
- This suggests that the forex restriction might not have impacted Nigeria's effective imports of these items, especially as they were brought in through neighbouring countries via undocumented means, including mis-invoicing and outright smuggling.
- These cast doubt on the extent to which the intended purposes of the restrictions were met; particularly as importers that obtained their forex from the parallel market are more likely to engage in undocumented trading practices.
- Having lifted the forex restriction on the 43 items, the foregoing analysis shows that there is a likelihood that forex demand at the official market will increase by around 5%, leading to further depreciation of the official exchange rate. Conversely, an appreciation should be expected at the parallel market, but this will be to the extent that the official market is able to meet the demand of importers of these 43 items.
- If such demands are adequately met, especially in a transparent manner at the official market, cases of mis-invoicing and smuggling of these items may fall by around 50%; thereby contributing to government revenue and reducing the cost of border monitoring.
- Going forward, to measure success, the CBN needs to collect adequate data and continue to show the extent to which the pressure in the parallel market is being transferred to and addressed at the official window, as well as the impacts on inflation, premium between the official and parallel exchange rates, costs of inputs and employment, which the Bank has stated as the objectives of lifting the restriction.

Appendix: Item-by-Item Analysis (average annual values)

| Items | Nigeria's Total Imports from the World (\$' M) | | Nigeria's Total Imports through its Neighbouring Countries - As Reported by Nigeria (\$' M) | | Nigeria's Total Imports through its Neighbouring Countries - As Reported by the Neighbouring Countries+ (\$' M) | | Nigeria's Neighbouring Countries' Imports from the World (\$' M) | |
|---|--|--------|---|--------|---|--------|--|---------|
| | Before | During | Before | During | Before | During | Before | During |
| Cellophane wrappers and bags | 11.71 | 3.72 | 0.01 | 0.06 | 0.02 | 0.01 | 11.07 | 16.12 |
| Cement | 295.37 | 6.4 | 0.01 | - | 2.53 | 0.44 | 291.07 | 227.48 |
| Clothes | 116.94 | 124.61 | 0.02 | 0.11 | 0.18 | 2.65 | 301.63 | 174.74 |
| Cold-rolled steel sheets | 318.56 | 20.7 | - | - | 0.14 | - | 13.85 | 32.12 |
| Enamelware | 27.09 | 18.73 | 0.01 | - | 0.11 | - | 5.5 | 4.62 |
| Galvanized steel sheets | 0.82 | 1.43 | - | - | 0.32 | 0.01 | 14.18 | 9.66 |
| Gas cylinders | 15.89 | 21.9 | - | 0.01 | 0.02 | 0.02 | 17.5 | 9.32 |
| Glass and glassware | 227.12 | 235.65 | 0.03 | - | 0.03 | 0.01 | 29.23 | 27.9 |
| Head pan | 5.82 | 0.45 | - | - | - | - | 4.49 | 1.65 |
| Iron rods | 108.44 | 1.17 | 0.05 | - | 2.92 | 0.02 | 90.62 | 65.05 |
| Kitchen utensils | 19.74 | 2.7 | - | - | - | 0.02 | 1.65 | 1 |
| Margarine | 57.03 | 31.27 | 0.06 | 0.17 | - | 0.06 | 12.52 | 10.09 |
| Meat and processed meat products | 24.92 | 4.8 | 0.01 | 0.05 | 20.93 | 9.32 | 228.31 | 118.51 |
| Metal boxes and containers | 11.05 | 2.35 | - | - | 0.02 | - | 2.43 | 1.15 |
| Palm kernel | 0.55 | 0.1 | - | - | 0.15 | 0.03 | 1.72 | 0.9 |
| Palm oil products | 123.2 | 213.65 | 0.01 | 0.01 | 6.21 | 54.65 | 162.02 | 221.64 |
| Plastic and rubber products | 0.32 | 0.29 | - | - | - | - | 0.06 | 0.08 |
| Plywood boards and panels | 46.52 | 62.18 | 0.07 | - | 0.13 | 0.98 | 7.24 | 7.69 |
| Polypropylene granules | 363.85 | 361.66 | 0.37 | 0.05 | - | 0.04 | 11.85 | 14.04 |
| Poultry and processed poultry products | 0.15 | 0.28 | - | 0.01 | 20.92 | 9.17 | 206.91 | 103.4 |
| Reinforcing bars | 1.66 | - | - | - | - | - | 0.85 | 0.74 |
| Rice | 789.77 | 12.18 | 0.03 | - | 21.08 | 20.02 | 858.92 | 1135.16 |
| Roofing Sheets | 0.35 | 0.61 | - | - | 0.37 | - | 6.73 | 4.07 |
| Security and razor fencing and poles | 1.52 | 0.41 | - | - | - | - | 0.75 | 0.5 |
| Soap and Cosmetics | 98.51 | 57.6 | 0.01 | 0.05 | 9.47 | 13.14 | 50.46 | 40.73 |
| Steel drums | 6.41 | 1.96 | - | - | - | - | 1.93 | 0.71 |
| Steel nails | 14.42 | 1.31 | 0.01 | - | 0.26 | - | 3.46 | 2.35 |
| Steel pipes | 361.85 | 135.87 | 0.11 | 0.01 | 0.54 | 0.09 | 55.7 | 29.95 |
| Tableware | 53.23 | 15.32 | 0.02 | 0.04 | 0.16 | 0.09 | 15.2 | 16.49 |
| Tiles-vitrified and ceramic | 206.36 | 15.55 | 9.05 | - | - | - | 15.21 | 52.23 |
| Tinned fish in sauce (Geisha)/sardine | 20.51 | 2.65 | - | 0.03 | - | 0.1 | 7.53 | 7.71 |
| Tomatoes/tomato paste | 102.08 | 10.43 | 0.09 | 0.07 | 0.08 | 0.45 | 19.24 | 15.5 |
| Toothpicks | 0.51 | 0.03 | - | - | - | - | 0.23 | 0.08 |
| Vegetable oils | 127.61 | 226.65 | 0.05 | 2.76 | 13.17 | 65.27 | 175.02 | 227.19 |
| Vegetables and processed vegetable products | 268.04 | 132.53 | 0.35 | 0.66 | 5.7 | 4.6 | 56.58 | 49.43 |
| Wheelbarrows | 17.99 | 5.82 | - | - | - | - | 1.54 | 3.08 |
| Wire mesh | 5.59 | 1.51 | - | - | - | - | 0.43 | 0.4 |
| Wire rods (deformed and not deformed) | 61.8 | 14.35 | - | 0.03 | - | - | 6.98 | 7.17 |
| Wood fibreboards and panels | 21.07 | 30.15 | 0.11 | - | - | - | 0.5 | 0.57 |
| Wood particle boards and panels | 14.67 | 3.46 | - | - | - | 0.01 | 0.28 | 0.73 |
| Wooden doors | 12.6 | 0.87 | - | - | - | - | 0.76 | 1.59 |
| Woven fabrics | 557.91 | 155.07 | 50.19 | 1.41 | 2.9 | 5.9 | 110.98 | 60.09 |

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