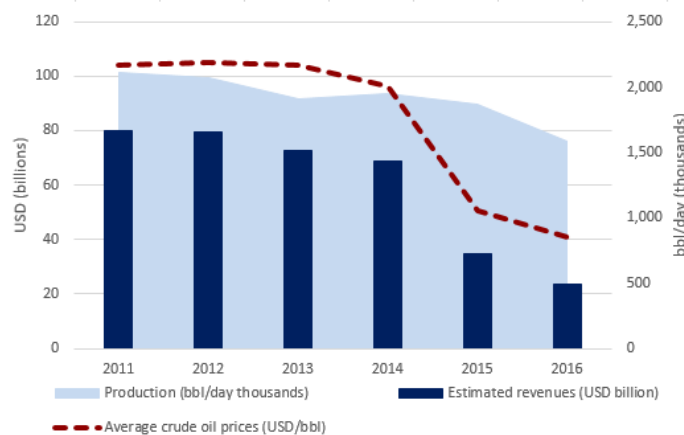


- With the Nigerian petroleum sector in crisis, the agricultural and solid minerals sectors have recently recorded positive growth. This follows strong support from the Government of Nigeria (GoN) and dynamic private sector responses, and encourages a more diversified economy. Therefore, despite the many challenges facing the Nigerian economy, some positive trends emerge.
- Declining revenues from crude oil sales resulted in a sharp decline in the availability of foreign exchange reserves in 2016 (**Figure 1**). As a result, the Central Bank of Nigeria (CBN) adopted a floating exchange rate, quickly narrowing the gap between the official and parallel (Bureau de Change, BDC) exchange rates. The resulting 40 percent reduction in the value of the Nigerian Naira (NGN) led to increasing costs for essential imported items, including food (rice, wheat, sugar, legumes, and edible oils) and non-food items. This, in turn, has reduced purchasing power, especially for poor market-dependent Nigerian households.
- In an attempt to promote local production, the Nigerian government has adopted various direct and indirect measures to restrict imports, and encourage the consumption of locally produced goods. At present, the net impact of these policies on overall food security is unclear.
- Locally-produced staple food prices declined seasonally in November and December (**Figure 2**). However, prices are more than double their 2015 and five year average levels. These trends are driven by high inflation and the continuing depreciation of the NGN. The very high prices of 2016 are believed to have incentivized an expansion in area planted and production, resulting in record high grain production in Nigeria during the 2016/17 production and marketing year.

- Although agricultural production increased in 2016/17, Nigeria remains heavily dependent on imports from regional and international markets to meet food needs, a trend that is expected to persist in the short and medium term. Furthermore, the depreciation of the NGN vis-à-vis regional currencies (such as the XOF) has led to high regional export demand. This may result in below normal stock levels in Nigeria during the 2017 lean season. The inflationary impacts of the depreciating NGN are stronger than the effects of this year's supply response, and prices are expected to remain at their very high levels through the current marketing year and lean season.

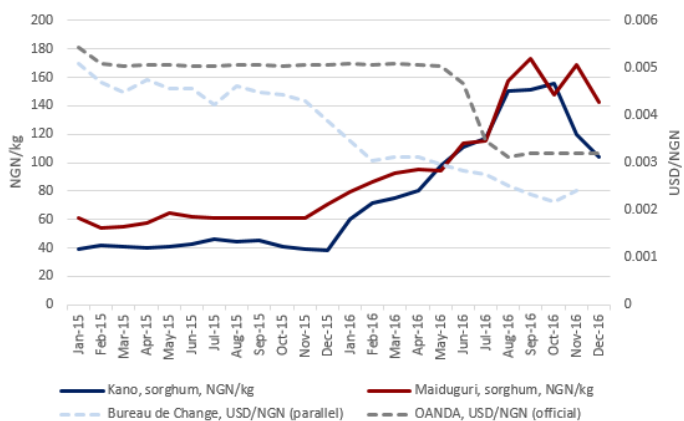
Figure 1. Nigeria Fuel exports and earnings and global price trends (2010-2016*)



Source: CBN and NNPC while other FEWS NET estimates are based on OPEC and World Bank data.

Note: The values for 2016 are tentative, and assume stable export revenues between October and December.

Figure 2. Nigeria exchange rate and staple food price trends in selected markets (Jan 2015- Dec 2016)



Source: FEWS NET, CBN, Oanda, BDC.

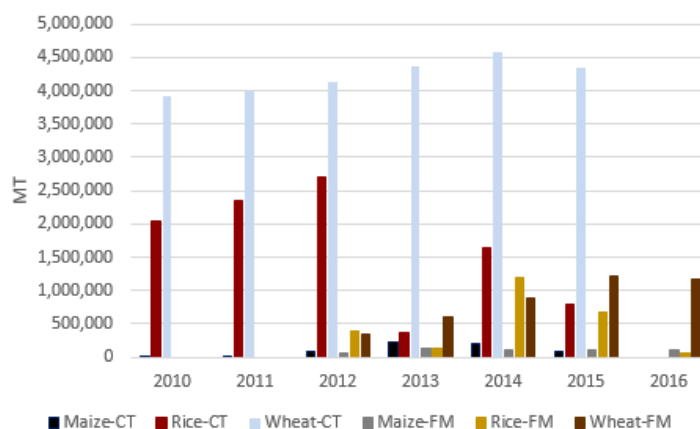
In June 2016, FEWS NET released an alert describing the [national and regional implications of declining global crude oil prices on the Nigerian economy and subsequent currency depreciation since 2015](#). Within the context of this national economic shock, [more than 3 million people in Northeast Nigeria already face significant food insecurity due to the Boko-Haram conflict](#). The Nigeria Market Update Report provides a summary of the national macroeconomic context, market functioning and physical market access in the northeast, as well as national and regional staple food and livestock prices.

- The Nigerian economy is in a state of transition, with very strong changing supply and demand side dynamics, and various programs and policies at play. The underlying current situation is reorienting the historically petrol-based economy away from those essential petro dollars and simultaneously encouraging the development of the local agricultural sector. This context, coupled with favorable agro climatic conditions during the 2016/17 rain fed production season resulted in record high production of most staple foods. This is despite the ongoing unrest and conflict across the surplus-producing (sorghum and millet in particular) northeastern part of the country (Borno, Yobe, and northern Adamawa States).

- Average international crude oil prices fell by over 40 percent over 2015 and has only begun to show signs of recovery albeit insignificantly in January 2017, leading to a 40 percent drop in Nigerian export earning and doubling the government deficit ([IMF, Feb 24, 2016](#)). Low global crude oil prices in 2015 and 2016 resulted in significantly reduced export earnings in Nigeria (**Figure 1**), where oil accounts for approximately 70 percent of government revenue. As a result, Nigeria's foreign reserves have dropped by more than \$2 billion USD since the start of 2016 to \$26.4 billion ([CBN](#)). Low foreign exchange reserves coupled with the [Central Bank of Nigeria's \(CBN\) decision](#) to allow the Naira to float against the US dollar in June 2016 resulted in about 55 % depreciation of the official NGN rate between June and November 2016 (to 305.18 NGN/USD), while the parallel (Bureau de Change rate) depreciated by 18% over the same period (to 415 NGN/USD). The gap between the two rates has narrowed ever since, but has not been entirely closed. This put upward pressure on imported food and local fuel prices (**Figure 2**), with secondary impacts on local substitute foods through high transaction costs and increased demand.

- Nigerian economic policies often have swift and widespread impacts, and have varied considerably over the past decade (**Table 1**). Most recently, the government has sought to discourage the imports of some goods that could be produced locally (a protectionist approach), through import tariffs and duties, outright bans on some imported goods, and by limiting the availability of crucial foreign reserves for the private sector to use for imports of specific commodities. Measures have also been taken to increase access to financing in order to encourage local agricultural production. Rice, a core staple food among the Nigerian population, has been subject to a combination of these measures in an effort to boost the local production and milling sectors and reduce Nigeria's very large dependence on imports (**Figure 3**).

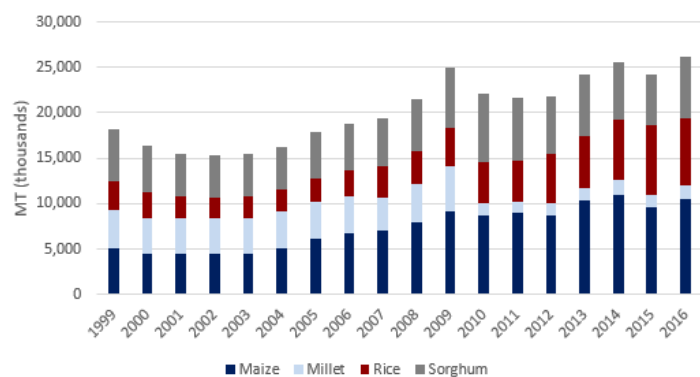
Figure 3. Nigeria staple food imports, MT (2010-2016)



Source: UN COMTRADE and Fleetmon data.

Note: UN COMTRADE (CT) data consider all imports to Nigeria, captured via reported report values from trade partners to avoid under-reporting, while Fleetmon (FM) data only consider imports via ports.

Figure 4. Nigeria staple food production, 000s MT (1999-2016)



Source: NAERLES and FEWS NET.

Note: Figures for 2016 are preliminary.

- Resulting very high local agricultural commodity prices, coupled with the various support measures to the agricultural sector outlined above, encouraged increased domestic production during the 2016/17 rain fed production year, by potentially more than 10% compared to last year and more than 15% compared to the previous five-year average (**Figure 4**). A rapid FEWS NET assessment in early November 2016 found that new actors have entered agricultural production (farming), creating opportunities for multiplier effects along the value chains including processing (milling). Producers are producing and selling as much as possible given the very high market prices. These trends are expected to continue through the irrigated growing seasons in 2016 and 2017. FEWS NET will monitoring the distributions of gains and losses along the value chain in subsequent bulletins.

Table 1. Recent Nigeria food and fuel policy changes and implications

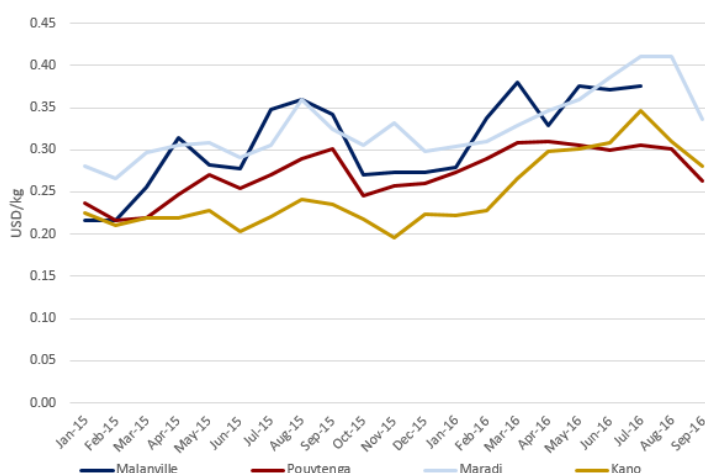
Policy	Notes	Impacts
Changes to the fuel price subsidy	<p>In early 2016, the Nigerian government opted to remove the fuel price subsidy. This led to immediate upward pressure on fuel prices at the pump.</p> <p>As of late October 2016, the Nigerian National Petroleum Corporation (NNPC) indicated that the price regime follow a modulation mechanism where price per liter of petrol follows international market price trends. However, the operating price per liter still shows an increase of about 60 percent compared to the full subsidy regime price.</p>	<p>The fuel subsidy removal has significant impacts on movement of commodities from surplus production to deficit areas.</p> <p>This has constrained the supply of commodities to markets due to cost associated with transportation as well as other transaction costs.</p> <p>This has contributed to the overall price increases observed in Nigeria this year.</p>
Decision to allow the Naira to float against US Dollar	<p>After depreciating over several months at the parallel market rate, the Central Bank of Nigeria made the decision to allow the Naira to float against the US Dollar in late June 2016. This led to the rapid depreciation of the official and parallel (Bureau de Change) rates. While the gap between the two has narrowed, it has not closed.</p>	<p>This immediately put upward pressure on import parity prices and put downward pressure on export parity prices, thereby discouraging imports and encouraging exports of competitive commodities particularly within West African neighbors and other Sahelian countries.</p>
Access to no collateral loans for agriculture (CBN)	<p>For the 2016/17 production year, the CBN made 75 Billion NGN (205 million USD) available for disbursement via no collateral loans to farmers across Nigeria and the participating states also provided counterpart funding.</p>	<p>Access to these funds during a year of very high producer prices encouraged various actors in the private sector to leave other activities and sectors of the economy and move into farming while many subsistence farmers increased their area planted.</p>
Goods ineligible for CBN forex	<p>The CBN maintains a list of 41 prohibited imported commodities that are ineligible for access for foreign exchange reserves since June 2015. The major food items included in the list are rice, vegetables, poultry, oils, tomatoes and meat products. Rice is now subject to the standard import duty (ranging from 5 to 20 percent) and a levy (ranging from 0 to 60 percent). Altogether, the tariffs applied on rice ranges from 30 to 70 percent depending on whether the importer has a processing mill in Nigeria for backward integration.</p>	<p>This policy coupled with high import parity prices (due to the depreciating currency) discouraged rice imports in 2015 and 2016 and put upward pressure on prices.</p> <p>Brown rice (to be milled) is subject to the lowest import duties and levies with a view to enhance backward integration, since the country is yet to attain self-sufficiency in rice production. The continued ban on rice importation through the land borders has exacerbated the reduction in rice supplies to the market, thus leading to higher prices. However, the latest good seasonal production has slightly eased the pressure on rice prices.</p>
Prohibited exports	<p>As of late September 2016, the Nigeria Customs Service and the National Export Promotion Council included maize on the list of prohibited export items.</p>	<p>While the prohibition is officially in place, its enforcement has not been strictly monitored. Unofficial cross border estimates of grains leaving Nigeria to the neighboring countries have more than doubled since mid-2016 due to the depreciation of the Naira and resulting higher purchasing power of traders in neighboring countries.</p>

Source: FEWS NET; Nigeria Customs Service, Central Bank of Nigeria and Federal Ministry of Finance.

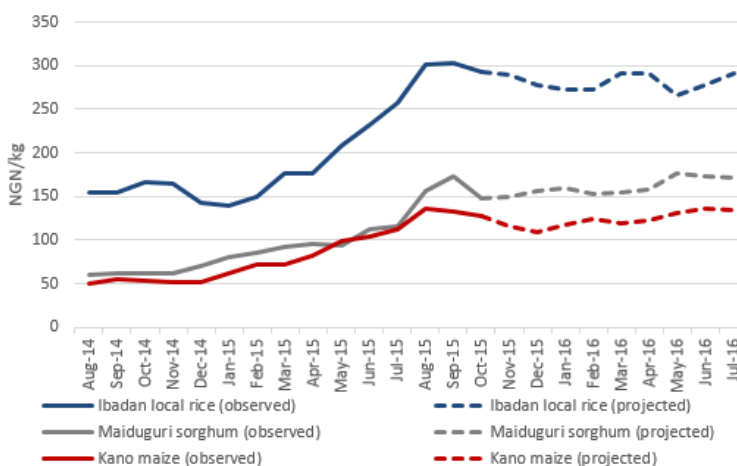
- As prices for imported commodities have increased, and the quality of locally produced substitutes (rice) have improved, consumers have started to more easily accept and appreciate locally produced rice in particular. This has ensured adequate demand pull, despite the very high prices. Another, albeit much more limited source of strong and increasing demand, is regional markets. Indeed, with the depreciation of the NGN, Nigerian exports of local cereals like maize, sorghum, and millet became more competitive on regional markets (**Figure 5**). This is despite very high nominal prices (in NGN), since most of the traders operate at the parallel market exchange rate.

- Nigeria's economy represents 65 percent of total West African GDP ([ReSAKSS](#)) and accounts for 44 percent of regional cereal demand ([FEWS NET](#)). Nigeria is also the region's largest livestock consumer, importing 30 percent of requirements. As Nigerian purchasing power and demand declined in the face of its depreciating currency, livestock prices in Niger and other neighboring countries have crashed, affecting pastoral incomes and terms of trade. Reduced demand and prices for some livestock in Burkina Faso, Cameroon, and Niger are being reported. Although net-average regional cereal prices remained stable, cash crops earnings (cowpeas, peanuts), which typically peak from November to January, did not happen this 2016/17 consumption year as Nigeria's (regional net importer) capacity to purchase decreased. Pastoralists, cash crop producers, and migrant laborers from the Sahel who are dependent on Nigerian markets continue to experience incomes' decline.

- The current shifts underway in the Nigeria economy will likely remain very dynamic for at least the next 12 to 24 months, as the various sectors of the economy (agriculture, solid minerals, and services) realign and reorient themselves to the new situation. Global fuel prices are expected to recover a bit (according to OPEC 2017 oil outlook), but will not reach the high levels of 2012-2014. Increased second season planting is expected, favored by attractive prices to producers. Large food and feed processors are expected to continue buying until April 2017. After that point, they will stop buying and start selling to the regional market. Processors will use export earnings to gain dollars to be able to then buy on the international market, as they did during the June to August lean season of 2016.
- Imports of wheat in particular are expected to continue to rise due to increasing demand as the overall wheat milling capacity in Nigeria continue to rise. Unlike the case for imported rice, the local FOREX policy will have little to no impact on wheat importation since most of the wheat millers have direct access to foreign currency through selling to regional markets and other exportation of wheat products. Though the economy is expected to begin recovering in 2017, the net buyers (the rural poor and urban consumers in particular) will continue to face very high prices in the near term, thereby eroding their food access. Prices will increase very rapidly during the 2017 lean season, although not at the same rates as seen in 2016 (**Figure 6**).

Figure 5. Maize prices in West African reference markets (USD/kg)

Source: FEWS NET.

Figure 6. Price projections for selected commodities through 2016/17 Marketing year

Source: FEWS NET.