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COMMENT

Nigeria must put its foreign exchange folly behind it

A short-term approach to economic policy is exacerbating poverty

OPINION
Kingsley Moghalu

Nigeria has recorded a third successive quarter of negative economic growth. The recession, together with the profound structural challenges posed by the dependence of the economy on oil, calls for a serious political response.

President Muhammadu Buhari must respond with decisive action and a clear vision that will restore confidence in the economy. This will require a reappraisal of the role of the state. The government should be an enabler of growth and development, not an impediment. As the experience of other emerging markets shows, economic success does not happen without independent institutions.

Few things have been as damaging as a series of questionable foreign exchange policies adopted by the central bank. In response to sharply declining dollar revenues from oil that have depleted the country's external reserves, the bank first maintained an artificial exchange rate and refused to further devalue the naira for 16 months. This was in addition to the bank's ban on access to the foreign exchange market for importers of a range of items, from cement to toothpicks.

A growing black market for hard currency and sharply reduced output by manufacturers unable to import raw materials quickly followed. After much criticism, the central bank announced in June that it would explore a flotation of the naira. It has turned out to be anything but. The secret police have entered the foreign exchange market, arresting currency dealers who sell at rates above profit benchmarks set by the central bank.

These policies appear to have been motivated by a perceived imperative to maintain an "affordable" exchange rate because devaluation would hurt the poor. By contrast, the central banks of South Africa and Egypt, the largest African economies after Nigeria, have responded better to economic stress. The former has allowed the rand to find its market value. Egypt followed with a devaluation of the Egyptian pound in November, a $12bn bailout from the International Monetary Fund and a commitment to macroeconomic reforms.

Nigeria's policies have had effects that should bother Mr Buhari. First, a short-term, populist approach to economic thinking is exacerbating poverty, which the president has vowed to tackle. Second, political expediency in foreign exchange management has fuelled corruption, undermining the president's avowed commitment to combating the problem. Investors worry about the direction of policy and the competence of economic managers.

The first priority, therefore, is to restore some sense of normality by making the foreign exchange markets truly transparent, which would help to attract much-needed foreign currency. This should be followed by a phased approach to structural reform.

Economic policymakers in Nigeria should ask themselves how the country can become a successful capitalist economy and what role the government should play in achieving that goal. They should examine the pros and cons of different models — Chinese-style state capitalism, the European welfare state, American-type entrepreneurial capitalism, and the strategic crony capitalism that built South Korea.

Longer term, Nigeria's fiscal crisis in a world of low oil prices can be addressed only through a constitutional redesign that devolves decision-making to units that will have economies of scale. Currently, the country's 36 states, most of them financially unviable, depend on rapidly diminishing oil windfalls that accrue almost exclusively to the federal government.

Winston Churchill once boasted: "History will be kind to me, because I intend to write it." Nigeria needs its Churchill.

The writer, a professor at the Fletcher School at Tufts University, is a former deputy governor of the Central Bank of Nigeria