Several economic theories posit that devaluation will most likely improve a nation’s trade balance. However, there are different schools of thought with divergent explanations of how devaluation improves or dampens a country’s economic fortune. Developing countries often face a major decision in reducing large trade deficits and in order to achieve this, they are faced with challenging policy decisions of whether to devalue exchange rate or embark on internal/external debt financing. There are arguments whether a long-run relation exists between the trade balance and nominal effective exchange rate in Nigeria.

Before independence, the Nigerian government adopted the Nigerian pound until 1973 when it was changed to naira. In 1971 the Nigerian authorities chose not to devalue its Nigerian pound during the devaluation process of the American dollar and this resulted in the appreciation of the Nigerian pound. The official exchange rate of N155/$ was fixed in 1976. The naira then was moved from N155/$ to N168/dollar. The committee also widened the band around the midpoint by 200 basis points from plus or minus three per cent to plus or minus five per cent. Today, though the naira goes for N197 at the official market, it sells for N230 to a dollar in the parallel market, a difference of about N125.

The debate

Consequently, analysts and many multilateral institutions have called for the devaluation of the naira. But the government has insisted it is not going to devalue. Just last week, a former minister of finance, Dr. Anthony Anorji joined the debate calling on the federal government not to devalue the naira. He stated that the central policy instrument in most economic programs is the exchange rate. According to him, “It is a key policy variable in the alignment of currencies and relative prices also in developed economies. A viable, stable and realistic exchange rate through impact on relative prices acts as supply incentives for needed adjustment in production structures ensures judicious use of resources attracts capital inflows and directs other foreign exchange transactions from parallel market. A good exchange rate mechanism therefore augments well for price stability and international trade.”

Another oil crisis

While Nigeria was still basking in the euphoria of oil trading at $100, another crisis erupted, following oversupply of crude oil. Suddenly, Nigeria’s crude oil-Bonny Light, which traded at $101.2 per barrel in January, last year, rose to $114.6 per barrel by June same year. Between the end of last year and February this year, it traded below $85 per barrel before the recent upsurge which took it to $45 per barrel before the recent upsurge which took it to $45 per barrel.

Before the recent crisis that has fuelled the devaluation debate, the naira was devalued in November 2014 during the Monetary Policy Committee (MPC) meeting. The midpoint of the official window of the foreign exchange market was moved from N155/$ to N168/dollar. The committee also widened the band around the midpoint by 200 basis points from plus or minus three per cent to plus or minus five per cent. Today, though the naira goes for N197 at the official market, it sells for N230 to a dollar in the parallel market, a difference of about N125.

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In his keynote address at the induction ceremony of new members of the Institute of Chartered Accountants of Nigeria (ICAN), he stated categorically, “I hold the view that our naira is even undervalued and should not be devalued.” President Buhari should continue to resist the pressure to devalue. There is nothing to gain from devaluation since we do not export anything significant except our crude oil. Any devaluation will further worsen our economic situation and will send the cost of all our imported goods to the skies.

Already, our imports are the most expensive in the world. Nigeria was removed from the community of nations that adopts letter of credit for its export business and as a result, no bank in Nigeria (not even our CBN) can operate letters of credit. We have to do this through correspondent banks and this means paying for our imports upfront with the attendant commission, fees and interest charged by the correspondent banks. Devaluation in addition to the ban on letter of credit will greatly increase the cost of imported goods,” he said.

He added, “We are an import dependent nation and since exchange rate is the price of our currency in terms of the dollar which we use to pay for our imports, it must impact on the economy. Apart from this, our exchange rate has moved from $2 per N1 to N399 to $1 between 1985 and 2016 yet, the International Monetary Fund (IMF), United States of America and other international banks have urged Nigeria to further devalue our naira.”

He argued that the central policy instrument in most economic programs is the exchange rate. According to him, “It is a key policy variable in the alignment of currencies and relative prices also in developed economies. A viable, stable and realistic exchange rate through impact on relative prices acts as supply incentives for needed adjustment in production structures ensures judicious use of resources attracts capital inflows and directs other foreign exchange transactions from parallel market.”

A good exchange rate mechanism therefore augments well for price stability and international trade. “Many countries have faced difficulties to maintain exchange rate mechanism. We remember vividly the collapse of the British exchange rate mechanism (ERM) in the 1980s and this caused a lot of problems for the world economy. The Asian Tigers (Philippines, Malaysia, Singapore, Indonesia) tried in the late 1990’s to set up an exchange rate mechanism in order to enhance trade between their countries but this collapsed after the destructive intervention of a George Soros working for the Bretton Woods Institutions.”

As for the United States, the dollar is always
the dollar and cannot be affected by any world economy. The dollar is $20, it is not to say to an extent that the developing world must restructure their economies and devalue their currencies so as to protect the dollar.

In so far as the US is concerned, he said the currencies of the developing economies are always overvalued and must be devalued at a vis-a-vis the dollar. He added that the only currency that has overcome overvaluation from the point of view of the US is the Chinese Yuan, “for which the US is now seeking a realisation just because the Chinese imports to US are cheaper. This has been when all world exchange rates collapse the dollar will be the currency standing.

“In Nigeria, between 1996 and 2003, we tried to build and maintain a realistic exchange rate mechanism and develop a viable and stable exchange for the rainy day.

This, he added, is precisely the cause of Nigeria’s present predicament in the wild and inappropriate exchange rate management.

“Nigeria’s economic policy, starting from this time when things were perfect with crude oil at $148 per barrel to the current price of about $20. He said when things were perfect with crude oil at $148 per barrel, there was no debate on whether naira should be devalued or not adding that unfortunately, government didn’t take a deliberate action to save for the rainy day.

Suddenly, oil price dropped to $110, N50 and N75. This is because of the rate being the drop in the monthly earning accrued to the nation and the depletion of the country’s foreign reserve. C’mon, if the face drop in the price of crude oil, the three tiers of government now find it increasingly difficult to meet their monthly obligations as the amount shared on a monthly basis dropped significantly. This has resorted to the current situation where state governments now owe their workers,” he added.

“Quoting a CBN figure, Osobi-Bolu observed that the foreign reserve was $426billion as at 2014, “and it dropped at the beginning of 2015 to $373 billion. Currently, it is about $280billion.” He said foreign reserve was coming down because while the earning from oil dropped, Nigerians’ appetite for imports and foreign goods had not reduced. He warned that the reserve would be totally depleted in the next one year unless drastic actions were taken to reverse the current trend. There is the need, according to Osobi-Bolu, “to curb the demands for imports and reorient our consumption pattern.”

“Devaluations are much the naira to be internally convertible again, we must realize that the naira had in the past been over-devalued with no corresponding production or productivity to follow. I hold the view that Nigeria must devalue and that President Buhari is right in resisting devaluation,” he stated.

Devaluation advocates
Head, Africa Strategy at Standard Chartered Bank, Sunu Gado, had argued for the past year, a further devaluation of the naira may not happen soon, an adjustment is imminent.

“Despite the CBN’s resolve, market observers believe that it will eventually succeed to pressures and devalue the currency (again) he said. Also, Border Fund Manager, Standard Life Investments,昆山 Curtis, had stated that a further devaluation of the naira would considerably promote competitiveness and promote more capital inflows.

“Nigeria’s foreign exchange earnings in terms of weaker currency and higher interest rates to get us back to Nigeria,” he said, arguing that when Nigeria is compared to other countries, it hasn’t had enough of a currency adjustment.

Now is the time. Devaluation is absolutely sound because that gives us the capacity to react to domestic exigencies and a determined exchange rate. I am pretty clear in my mind that I will rather devalue again would lead to demand for wage increase."

Split of the Nigerian Economy

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Ani gets support
Ani is not alone in his opposition to devaluation. At the maiden edition of the Cable Colloquium, with the theme, "The Naira on Trial: To Devalue or Not?, Edy State Governor, Adams Oshiomhole and former Vice President of the Nigerian Labour Congress (NLC), Isi Aremu, vehemently rejected devaluation.

Oshiomhole, who opened the discussion, traced the history of crude oil price fall from $148 per barrel to the current price of about $20. He said when things were perfect with crude oil at $148 per barrel, there was no debate on whether naira should be devalued or not adding that unfortunately, government didn’t take a deliberate action to save for the rainy day.

"Nigeria maintain independent monetary policy because that gives us the capacity to react to domestic exigencies and a determined exchange rate. I will rather that the price of currency is determined and supplied rather than any administrative determination.

“There are different shades of capital control and capital account. For instance, South Africa is Africa’s biggest financial hub, finance in is not a problem, finance out is a different matter entirely. One of the fundamental questions is: does the CBN must answer very quickly at least by the end of this quarter, one of which three of these will it choose: That for me will set the tone as far as the ability of monetary authority to manage our economy and capital inflows of promise progress.

Nigeria, he said, is one of the few countries that potentially could be self-sufficient adding that to do this we must produce.

"In conclusion, we need to skew relative prices and economic conditions such that they make producing Nigeria profitable and attractive. I am one of those that have argued that the naira value should be market determined and a lot of people say that is going to be devaluation. C’mon, if this is the trend, then we will not take Nigeria anywhere. We will continue simply to devalue the currency. Nigeria’s economy to be competitive; we cannot continue to be 170 out of 189 countries on the ease of doing business report. Nigeria is too large, too well endowment as its leadership should not continue to accept a position of devaluation rate almost at the bottom quarter. A competitive economy has to be built and regulation is part of that,” he said.

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