Nigeria’s foreign-currency shortage

Case Discussion Questions

Questions of fact about the case:
1. Economic context:
   a. What is Nigeria’s main export? What has happened to the value of this product in recent years?
   b. What does Nigeria import?
2. State of the market for foreign exchange:
   a. What is the “theoretical” exchange rate at which the government is trying to stabilize the value of its currency, the naira?
   b. What rates does the article report money-changers have been trading at recently?

Questions to discuss:
1. In light of the economic context above, why has the naira been losing value recently?
2. Does the nature of Nigeria’s imports (your answer to 1.b) help to explain why the government is reluctant to allow the naira to lose too much value?
3. Although the central bank stated in June that its policy was to allow the naira to float freely, the author of the article and many others seem to suspect the bank was, in fact, supporting the value of the currency. What would the bank have been doing to support the currency, and what limited its capacity to keep the naira at its target level?
4. In its final paragraph, the article suggests interest rate policy could be used to support the naira’s value. What kind of interest rate policy increases a currency’s value? What are potential drawbacks to such a policy?
5. The article states that in Nigeria officers of the State Security Service have been policing activity on currency markets, causing many money-changers to drop out of the market. In this situation, which leg of the “impossible trinity” does Nigeria seem to be giving up?