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Tinubu gets off to a dramatic start

New leader defies rock-bottom expectations by scrapping fuel subsidy, writes David Pilling

Monetary shift: president Bola Tinubu plans policy changes to reinvigorate Nigeria investment — Kola Sulaimon/Getty Images

If it was the intention of Bola Tinubu, Nigeria's new president, to attract the attention of investors, he could not have picked five more potent words to achieve his aim.

"The fuel subsidy is gone," he blurted out during his May inauguration speech — departing from prepared remarks that had spoken merely of "phasing out" the costly policy. Its removal has been the third rail of Nigerian politics since subsidies were introduced in the 1970s.

The impact was immediate. The price of petrol almost tripled to N557 ($1.20) a litre. Bonds rallied. The naira weakened on expectations that exchange rate simplification might follow.

Tinubu had spoken directly about that, too. "Monetary policy needs thorough house cleaning," he said in his speech. "The central bank must work towards a unified exchange rate," he added, referring to the 40 per cent spread between the official and the parallel rate. "This will direct funds away from arbitrage into meaningful investment in the plant, equipment and jobs that power the real economy."

Days later came news of the suspension of Godwin Emefiele, the central bank governor who presided over an opaque exchange rate regime for the eight-year tenure of President Muhammadu Buhari. Not long after, news that banks could bid freely for dollars sent the naira falling by more than 30 per cent, its biggest one-day drop in history.

Tope Lawane, managing partner of Helios Investment Partners, an Africa-focused private investment firm, says rationalising the exchange rate and subsidy regimes is vital to making Nigeria investible again. "We haven't made a new investment in Nigeria in possibly six or seven years," he notes — adding that, hitherto, the continent's most populous country had been Helios' investment priority. The problem, he explains, was that "the policy environment just seemed to make it impossible. "Whether you're a private equity or a portfolio investor, the thing you cannot price in is an inability to take your money out," Lawane says. "You can bet on a stronger or weaker currency, but you need some level of liquidity to live with the bet you're making."

Worries about getting hold of dollars trumped Nigeria's positives, he says, from its huge domestic market to its buzzing tech sector — arguably the most dynamic in Africa. "The difficulty of getting your money out inhibits putting your money in," Lawane points out.

In remarks that sounded positively pro-business compared with Buhari, who had favoured state intervention and protectionism, Tinubu addressed all these private investor concerns: "We shall ensure that investors and foreign businesses repatriate their hard-earned dividends and profits home."

Chidi Odinkalu of the Fletcher School of Law and Diplomacy at Tufts University argues that Tinubu has done the minimum necessary given the hand he was dealt: "We shouldn't be impressed."

But Bismark Rewane, head of Lagos-based consultancy Financial Derivatives, says Tinubu's first weeks mark an "inflection point" in Nigeria's policy framework after the past eight years when growth and investment collapsed, oil theft spiralled, and kidnapping and violence spun out of control.

"Scrapping of the fuel subsidy is good for Nigeria," he says, noting that it was difficult to manage, politically, given politicians' low credibility with the public. "There are crony capitalist profits everywhere so, if we can get one big piece of that puzzle out, then all of the other pieces will follow."

Because much of Nigeria's debt is denominated in naira, traders believe a devaluation need not precipitate a debt crisis. Converting dollar receipts from oil revenues into a weaker naira would also strengthen government finances undermined by chronically low tax revenue, they add.

This air of optimism in the first few weeks of Tinubu's presidency comes as

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