

A Critique of Floating-Managed Exchange Rate Policy as a Macro-Economic Stabilization Tool - A Case of Nigeria

Adeniyi, Babatunde Afees¹ and Daud, Saidat Adebola²

¹Agricultural Technology Department, Oyo State College of Agriculture and Technology, P.M.B. 10, Igboora .

²Agricultural Extension and Management Department, Oyo State College of Agriculture and Technology, P.M.B. 10, Igboora

Corresponding author's: Adeniyi

-----ABSTRACT-----

From the point of view of classical and neo-classical economists, all economies of the world usually experience vicious business cycles involving period of boom (equilibrium and full employment) and period of depression or recession when the economy will not be at full employment as a result of lack of adequate demand or lack of adequate supply due to low purchasing power or low productive capacity. Floating-managed exchange rates macro policy was introduced in the year 2015 by Monetary authorities in Nigeria in order to prevent further depletion of reserve as a result of decreased in crude oil prices and escalation of inflation rate (which according to NBS, 2016,) was above 16.5% as well as unemployment rate of about 22% with attendant consequences like; inability of government at all levels to pay their workers', mass retrenchment of workers (in both the private and public sectors), persistence and continuous rise in food prices, hunger and malnutrition, and high crime rate (which are the hallmarks of an economy in recession). This article therefore examines the effectiveness of the floating-managed exchange rate policy that was adopted by the monetary authorities as part of the measure to ensure that the economy quickly get out of the recession. The authors found out that managed-floating exchange rate may not stimulate export by attracting foreign direct investment into the real sector as expected and therefore concludes that in order to revive the Nigerian naira's relationship with the US dollar (and other foreign currencies) and save the economy from slipping further into recession in the nearest future, the managed-flexible exchange rate macro policy has to be blended with appropriate fiscal policy like; localization of petroleum products refining, enhancement of access to credit facilities and promotion of Agricultural policies so as to drive self-reliance, promotion of export and reduction of imports.

Keywords: Exchange Rate, Recession, Agriculture, Export

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I. INTRODUCTION

Since the establishment of Central bank of Nigeria, Nigeria's exchange rate policy has been aimed at preserving the external value of the domestic currency and maintaining a healthy balance of payments position. Over the years, more than ninety percent of the Nigeria's foreign exchange earnings were usually dependent on crude oil export receipts (C B N, 2016). Recent findings by Adeniyi et al (2018), Mgbame, et al (2015) and Busayo, (2013) had revealed that the crude oil prices are highly volatile and has a direct impact on the foreign exchange earnings of Nigerian government. Thus, when the world oil price is high, the revenue shared by the three tiers of government in Nigeria rise correspondingly (and as it has been observed since the early 1970s, this has been eliciting comparable expenditure increases, which had been difficult to bring down when oil prices collapse and revenues fall concomitantly as we witnessed recently).

Foreign exchange policies influence the economic activities and to a large extent, dictate the direction of the macroeconomic variables of a country. According to Udoe, (2009) the mechanism of exchange rate determination are different systems of managing the exchange rate of a nation's currency in terms of other currencies and this should be properly done in a way that will bring about efficient allocation of scarce resources so as to achieve growth and development. Though, there are different types of exchange rate policies practiced all over the world, countries tend to adopt a combination of different regimes of exchange rate such as; adjustable peg, crawling peg, target zone/crawling bands, and managed float, that suits their prevailing economic conditions of a peculiar period. The debate over what determines the choice of exchange rate regimes has continued unabated over some decades now.

Jhingan (2005), posited that to maintain both internal and external balance, a country must control its exchange rate. Friedman (1953), argued that in the presence of sticky prices, floating rates would provide better

insulation from foreign shocks by allowing relative prices to adjust faster. While Mundell's (1963), suggested that in a world of capital mobility, optimal choice of exchange rate regime should depend on the type of shocks hitting an economy: real shocks would call for a floating exchange rate, whereas monetary shocks would call for a fixed exchange rate.

Recently, Nigerian' gross domestic products (GDP) contracted for three consecutive time and the economy went into recession principally as a result of consistent reduction in the price of crude oil which is her main source of revenue and also due to little or no investment in infrastructure or savings and diversification of its revenue sources during the period of boom (when crude oil was been sold at high prices) and near total depletion of her reserve which has therefore made it difficult to continue imports subsidization policy (pegged exchange rate), the central bank of Nigeria in the year 2015, announced the movement away from pegged exchange rate policy to managed- floating exchange rate policy in other to get the economy back on track and thereby allow the Nigerian Naira to assume it's true value in the comity of other Nation`s currencies.

This piece, therefore seeks to examine the issues surrounding the recently introduced floating-managed exchange rates regimes by monetary authorities in Nigeria by providing answers to the following questions:

- How has the floating-managed policy affect the cost of living (inflation rate)?
- How has it affected the un-employment rate?
- Has the new policy attracted foreign direct investment and increase non-oil export?

These questions were addressed via a detailed review of the literature and careful analysis of historical data and current data.

Background of Nigeria's Economic Problems

Recent statistics from International Monetary Fund (IMF) that Nigerian economy (Nigeria's real Gross Domestic Product (GDP) (growth rate)) had contracted to -1.8 percent from -0.36 percent in the first quarter and -1.5 percent in the second quarter, confirmed the fact that the economy of the country recessed. In a recession, unemployment rate will be high, economic activities will be low and this will give rise to deficit.

According to Bloomberg, 2016, rigid principles of administrative controls in a free market economy, plunge in oil production and crude oil price slump were some of the major factors that have been identified as causes of Nigerian financial crisis. Nigeria recent economic travail could be traced back to the crude oil price boom year of 2013 (when crude oil was being sold at \$100 per barrel, so that the total dollar Nigerian earnings at that time was about \$70 billion dollars a year and the total dollar demand was approximately \$60 billion per year). Therefore, the difference between the dollar supply and dollar demand in Nigeria at that time was about \$10 billion dollars which we saved as reserve (CBN, 2015).

Also, according to a 2015, NNPC report, the total cost of extraction of a barrel of crude oil in Nigeria was about \$20 because Nigeria did not produce oil directly but does it through joint venture partners like; ExxonMobil, Shell, Chevron, and AGIP. Their production cost per barrel was about \$20. After deducting production costs, the profits were then shared 60:40 between Nigeria and the oil majors. So when oil was trading at \$110 Nigeria had a margin of around \$80 as profit to share with its multinational partners. But when crude oil price dropped to \$45 per barrel, the \$80 profit margin turned to \$15 (as the cost of getting the oil out of the ground (\$20) still has to be incurred). The implication of this is that while oil prices have dropped by 60%, the revenues available to Nigeria have dropped by 81%. That is, revenues have dropped much more than oil prices have dropped. It therefore implies that Nigeria was practically earning almost nothing then, even when its budget bench mark was fixed at \$43 per barrel and this was the major reason why Nigeria encountered foreign exchange rate challenges.

So, as a result of the above and other factors in the year 2015, Nigeria was cash strapped and its economy slipped into recession and more Nairas is chasing fewer dollars (higher naira/dollar exchange rate) and as expected for a perfectly elastic market, we should, therefore, see a corresponding devaluation of the Naira which is what has compelled the Nigerian monetary authorities to adopt managed-floating exchange rate policy in order to save the situation from degenerating further.

Historical Background of exchange rate administration in Nigeria

Exchange rate is the price of one country's currency expressed in another country's currency. It is used to convert foreign prices into domestic currency and vice versa. These prices determine which goods are traded and where they are shipped or sourced. The difference in relative prices determines the flow of agricultural products and the patterns of trade.

Under pegged exchange rate regime, a stronger Nigeria Naira makes Nigeria's Exports more expensive in other countries; it also reduces the cost of imported products, resulting in lower prices for imported products

in Nigeria. A weaker Naira under floating regime is expected to stimulate exports by attracting investment into the economy through higher prices for producer and discouragement of importation. But currency depreciation and currency appreciation are, in most cases, short term in nature. Their effects occur during the first several months after the exchange rate change.

So, prior to 1971, Nigeria operated a fixed exchange rate system, following the Breton Wood agreement, Nigeria's exchange rate was kept constant at #1 = \$0.40 irrespective of the development within the domestic or external sector of the economy.

Also, in 1972-1974, the monetary authority, (Central Bank of Nigeria), opted to peg the naira to dollar and shortly after the naira was pegged to dollar, the dollar was devalued by 10 percent in order to stimulate exports. This action inadvertently caused a devaluation of the naira by the same percentage, hence the exchange rate of one naira to \$1.52 emerged, and the floating system was discontinued giving way to a system of pegging the naira to a basket of currencies.

The period coincided with the oil boom era and Nigeria therefore adopted a policy that led to progressive depreciation of the naira from #1.00 = \$0.65 in 1974 to #1.00 = \$1.85 in 1981, despite the growing deficits in the non-oil current account and the prevalent international inflation.

As a result of this policy, the naira became over valued in real terms and the policy of industrialization through import-substitution was translated to one of high proportion of imported input needed for such unit of output (CBN, 1998).

The slump in the world oil market in 1991, coupled with the emergence of large deficit on current account made it unwise to continue the policy that led to the appreciation of the naira. Consequently, the monetary authorities began a policy that led to the depreciation of the naira while it systematized the policy of exchange control through the use of comprehensive import licensing scheme as well as outright prohibition of some goods (NBS, 2014).

The depreciation of the naira has several implications for economic development in Nigeria. First, the argument that, the depreciation of the naira would stem imports since the increase costs arising there from would discourage importers is faulty because the economy is heavily import dependent, the propensity to import is very high in Nigeria today, thus the imports are price inelastic. Secondly, it was argued that, depreciation usually make export products cheap or at least competitive in the international market, thus enhancing demand. This argument did not take into account two important factors: the elasticity of demand for the export and the pricing pattern. The reality that emerged shows that Nigeria export products are essentially inelastic and the prices of the export products are fixed by the international market and are not positively correlated to changes in the naira exchange rate. Other adverse effects of depreciation include: unemployment, lack of direct foreign private investments, increased external debts, balance of payments disequilibrium and low per capita income. It also undermined the international competitiveness of non-oil export, making planning and projections difficult at both micro and macro levels. In addition business capacity utilization in Nigeria became low up to 40 per cent with accumulated inventories while a number of small and medium scale enterprises were strangled as a result of the low dollar/naira exchange rate (Busayo, 2013).

Foreign Exchange rate managements in Nigeria have witnessed different significant changes over the past four decades. Nigeria maintained fixed exchange rates from 1960 till the breakdown of the Bretton Woods Monetary System in the early 1970s. Between 1970 and mid 1980 when Nigeria exchange rate policy shifted from fixed exchange rate to a pegged arrangement and finally, to the various types of the floating regime since 1986 following the adoption of the Structural Adjustment Programme (SAP) (Sanusi, 2004 and Udoye, 2009).

The objectives of an exchange rate policy include determination of an appropriate exchange rate and ensuring its stability. Over the years, efforts have been made to achieve these objectives through the applications of various techniques and options to attain efficiency in the foreign exchange market. Exchange rate arrangements in Nigeria have transited from a fixed regime in the 1960s to a pegged regime between the 1970s and the mid-1980s and finally, to the various variants of the floating regime from 1986 with the deregulation and adoption of the structural adjustment programme (SAP). A managed floating exchange rate regime, without any strong commitment to defending any particular parity, has been the most predominant of the floating system in Nigeria since the SAP.

The shift from a fixed to a flexible exchange rate regime has been one that many developing countries in recent years have been adopting. According to Were (2001), exchange rate regimes determine the ability of an economy to effectively respond and adjust to exogenous shocks. In developed countries the shift in exchange rate regimes occurred in the 1970's after the collapse of the Bretton Woods System which had been in existence since the end of World War II.

According to Nandi (2008), one of the objectives of the Bretton Woods System was to maintain a fixed exchange rate. This was essential at the time as there was an urgent need to take care of the international payments system that was vital for world trade and commerce.

Since fixed exchange rates are not supposed to change - by definition - they have no volatility. A floating exchange rate may or may not be volatile depending on how much it changes over time. However, since floating exchange rates are free to change, they are generally expected to be more volatile.

A fixed exchange rate denotes a nominal exchange rate that is set firmly by the monetary authority with respect to a foreign currency or a basket of foreign currencies. By contrast, a floating exchange rate is determined in foreign exchange markets depending on demand and supply, and it generally fluctuates constantly.

A fixed exchange rate regime reduces the transaction costs implied by exchange rate uncertainty, which might discourage international trade and investment, and provides a credible anchor for low-inflationary monetary policy. On the other hand, autonomous monetary policy is lost in this regime, since the central bank must keep intervening in the foreign exchange market to maintain the exchange rate at the officially set level. Autonomous monetary policy is thus a big advantage of a floating exchange rate.

If the domestic economy slips into recession, it is autonomous monetary policy that enables the central bank to boost demand, thus "smoothing" the business cycle, i.e. reducing the impact of economic shocks on domestic output and employment. Both types of exchange rate regime have their pros and cons, and the choice of the right regime may differ for different countries depending on their particular conditions. In practice there is a range of exchange rate regimes lying between these two extreme variants, thus providing a certain compromise between stability and flexibility.

Prior to 1971, Nigeria operated a fixed exchange rate system, following the Breton Wood agreement, Nigeria's exchange rate was kept constant at #1 = \$0.40 irrespective of the development within the domestic or external sector of the economy. However, in the 1970s, unprecedented changes occurred in the international financial system, such that intransigent high rate of both inflation and unemployment compounded by low productivity and instability in the industrialized countries compel them to change their exchange rate policies. Thus, the early 1970s witnessed the advent of the floating rate system.

In 1972-1974, the monetary authority, (Central Bank of Nigeria (CBN)), opted to peg the naira to U.S. Dollar even though most of Nigeria's trading partners allowed their currencies to float and stabilize at a realistic level. Shortly after the naira was pegged to the U.S. Dollar, the dollar was devalued by 10 per cent in order to stimulate the U.S. exports. This action inadvertently caused a devaluation of the naira by the same percentage, hence the exchange rate of U.S. \$1.52 to the naira emerged, and the floating system was discontinued giving way to a system of pegging the naira to a basket of currencies. The period coincided with the oil boom era and Nigeria therefore adopted a policy that led to progressive depreciation of the naira from #1.00 = \$0.65 in 1974 to #1.00 = \$1.85 in 1981, despite the growing deficits in the non-oil current account and the prevalent international inflation.

This situation was exacerbated by the pursuit of policies designed to keep consumer prices low even in an era of rising world inflation. As a result of this policy, the naira became over valued in real terms and the policy of industrialization through import-substitution was translated to one of high proportion of imported input needed for such unit of output (Onwioduokit and Nwachukwu, 1998). The slump in the world oil market in 1991, coupled with the emergence of large deficit on current account made it unwise to continue the policy that led to the appreciation of the naira. Consequently, the monetary authorities began a policy that led to the depreciation of the naira while it systematized the policy of exchange control through the use of comprehensive import licensing scheme as well as outright prohibition of some goods.

Exchange Rate Movement and Macroeconomic Performance

Analysis of Nigeria's exchange rate movement from 1970-2010 showed that there exists a causal relationship between the exchange rate movements and macroeconomic aggregates such as inflation, fiscal deficits and economic growth. Consequently, the persistent depreciation of the exchange rate trended with major economic variables such as inflation, GDP growth, and fiscal deficit/GDP ratio (Ismail, 2011). During periods of high inflation rate, volatility in the exchange rate was high, which was reversed in a period of relative stability. For instance, while the inflation rate moved from 7.5 percent in 1990 to 57.2 per cent and 72.8 per cent in 1993 and 1995 respectively, the exchange rate moved from N8.04 to \$1 in 1990 to N22.05 and N81.65 to a dollar in the same period. When the inflation rate dropped from 72.8 percent in 1995 to 29.3 per cent and 8.5 per cent, in 1996 and 1997 respectively, and rose thereafter to 10.0 per cent in 1998 and averaged 12.5 per cent in 1999-2009, the exchange rate trended in the same direction.

Edwards and Levy Yeyati (2003) found evidence that countries with more flexible exchange rate grow faster. Faster economic growth is significantly associated with real exchange rate depreciation (Hausmann, Pritchett, and Rodrik 2005). Rodrik (2009) argued that real undervaluation promotes economic growth, increases the profitability of the tradable sector, and leads to an expansion of the share of tradable in domestic value added. He claims that the tradable sector in developing countries can be too small because it suffers more

than the non-tradable sector from institutional weaknesses and market failures. A real exchange rate undervaluation works as a second-best policy to compensate for the negative effects of these distortions by enhancing the sector's profitability. Higher profitability promotes investment in the tradable sector, which then expands, and promotes economic growth.

According to Kennedy (2012) quoting Solnik (2000) the following pattern of crises exists for most currencies: First, the country runs a growing current account deficit. Thus, the currency is regarded as overvalued. In instances where foreigners were investing in a booming economy and lending to local firms at attractive interest rates this capital account surplus is covered up by the current account deficit. However, once prospects for economic growth weaken and uncertainty builds, these foreign investors begin to exit the market. As investors exit, the current account deficit is revealed, and governments are forced to raise interest rates to attract capital. These high interest rates slow the economy and hurt economic prospects furthering the need for capital control measures.

Aliyu (2011) asserted that appreciation of exchange rate results in increased imports and reduced export while depreciation would expand export and discourage import. Also, depreciation of exchange rate tends to cause a shift from foreign goods to domestic goods. Hence, it leads to diversion of income from importing countries to countries exporting through a shift in terms of trade, and this tends to have impact on the exporting and importing countries' economic growth. In the same vein, Hossain (2002) agreed that exchange rate helps to connect the price systems of two different countries by making it possible for international trade and also effects on the volume of imports and exports, as well as country's balance of payments position.

Rogoffs and Reinhartl (2004) also opined that developing countries are relatively better off in the choice of flexible exchange rate regimes. Asher (2012) examined the impact of exchange rate fluctuation on the Nigeria economic growth for period of 1980 – 2010. The result showed that real exchange rate has a positive effect on the economic growth. In a similar study, Akpan (2008) investigated foreign exchange market and economic growth in an emerging petroleum based economy from 1970-2003 in Nigeria. He found that positive relationship exists between exchange rate and economic growth.

Obansa, Okoroafor, Aluko and Millicent (2013) also examined the relationship between exchange rate and economic growth in Nigeria between 1970 –2010. The result indicated that exchange rate has a strong impact on economic growth. They concluded that exchange rate liberalization was good to Nigerian economy as it promote economic growth. Azeez, Kolapo and Ajayi (2012) also investigated the effect of exchange rate volatility on macroeconomic performance in Nigeria from 1986 – 2010. They discovered that exchange rate is positive related to Gross Domestic Product.

Adebiyi and Dauda (2009) using error correction model argued on the contrary that trade liberalization promoted growth in the Nigerian industrial sector and stabilized the exchange rate market between 1970 and 2006. To them, there was a positive and significant relationship between index of industrial production and real export. A one per cent rise in real export increases the index of industrial production by 12.2 per cent. By implication, it means that the policy of deregulation impacted positively on export through exchange rate depreciation.

However, past studies also showed that exchange rate has no significant effect on economic growth performance. For example, Bosworth, Collins, and Yuchin (1995) provided evidence that in a large sample of industrial and developing countries, real exchange rate volatility hampers economic growth and reduces productivity growth. Ubok-udom (1999) examined the issues surrounding the implementation of SAP in Nigeria, and drew up a conclusion that the peculiar features of Nigerian economy reduced the efficacy of currency depreciation in producing desirable effects.

From the study of the relationship between exchange rate variation and growth of the domestic output in Nigeria (1971-1995); he expressed growth of domestic output as a linear function of variations in the average nominal exchange rate. He further used dummy variables to capture the periods of currency depreciation. The empirical result showed that all coefficients of the major explanatory variables have negative signs. David, Umeh and Ameh (2010) also examined the effect of exchange rate fluctuations on Nigerian manufacturing industry. They employed multiple regression econometric tools which revealed a negative relationship between exchange rate volatility and manufacturing sector performance.

Azeez et al. (2009) found a similar result, but they also showed that the negative effect of real exchange rate volatility on economic growth shrinks in countries with higher levels of financial development. Barkoulas et al (2002) examined the impact of exchange rate fluctuation on the volume and variability of trade flows. They concluded that, exchange rate volatility discourages expansion of the volume of trade thereby reducing its benefits.

Onwioduokit and Nwachukwu (2003) carried out their research in 12 countries over a period of 12 years and found strong inverse relationship between exchange rate stability and growth. They concluded that the results of such estimations strongly depend on the time period and the sample. Ogun (2006) studied on the

impacts of real exchange rate on growth of non-oil export in Nigeria highlighted the effects of real exchange rate misalignment and volatility on the growth of non-oil exports. He employed the standard trade theory model of determinants of export growth and two different measures of real exchange misalignment, one of which entails deviation of the purchasing power parity (PPP), and the other which is model based estimation of equilibrium real exchange rate (ERER). He observed that irrespective of the alternative measures of misalignment employed, both real exchange misalignment and volatility adversely affected growth of Nigerian non-oil exports.

Arize, Osang, and Slottje (2000) found a significant negative relationship between increases in exchange rate volatility and exports in developing countries. Servén (2003) showed that real exchange rate volatility negatively affects investment in a large panel of developing countries. This negative impact is significantly larger in countries with highly open economies and less developed financial systems. He also found evidence of threshold effects, whereby uncertainty only matters when it is relatively high. Azeez et al (2012) investigated the effect of exchange rate movements on real output growth in Nigeria for the period 1986 – 2010. The result revealed that there is no evidence of a strong direct relationship between changes in exchange rate and output growth. Rather, Nigeria economic growth has been directly affected by monetary variables.

Trends in Central Bank Monetary policy

The central bank influences interest rates by expanding or contracting the monetary base, which consists of currency in circulation and banks' reserves on deposit at the central bank. The primary way that the central bank can affect the monetary base is by open market operations or sales and purchases of second hand government debt, or by changing the reserve requirements. If the central bank wishes to lower interest rates (pursuing expansionary monetary policy), it purchases government debt, thereby increasing the amount of cash in circulation or crediting banks' reserve accounts. Alternatively, it can lower the interest rate it charges on discounts or overdrafts (loans to commercial banks). If the interest rate on such transactions is sufficiently low, commercial banks can borrow from the central bank to meet reserve requirements and use the additional liquidity to expand their balance sheets, increasing the credit available to the economy. A third alternative is to lower reserve requirements, which frees up funds for banks to increase loans or buy other profitable assets.

A central bank can only operate a truly independent monetary policy when the exchange rate is floating. If the exchange rate is pegged or managed in any way, the central bank will have to purchase or sell foreign exchange. These transactions in foreign exchange will have an effect on the monetary base analogous to open market purchases and sales of government debt; if the central bank buys foreign exchange, the monetary base expands, and vice versa. But even in the case of a pure floating exchange rate, central banks and monetary authorities can at best "lean against the wind" in a world where capital is mobile.

Accordingly, the management of the exchange rate will influence domestic monetary conditions. To maintain its monetary policy target, the central bank will have to sterilize or offset its foreign exchange operations. For example, if a central bank buys foreign exchange (to counteract appreciation of the exchange rate), base money will increase. Therefore, to sterilize that increase, the central bank must also sell government debt to contract the monetary base by an equal amount. It follows that turbulent activity in foreign exchange markets can cause a central bank to lose control of domestic monetary policy when it is also managing the exchange rate.

In the 1980s, many economists began to believe that making a nation's central bank independent of the rest of executive government is the best way to ensure an optimal monetary policy, and those central banks which did not have independence began to gain it. This is to avoid overt manipulation of the tools of monetary policies to effect political goals, such as re-electing the current government. Independence typically means that the members of the committee which conducts monetary policy have long, fixed terms. Obviously, this is a somewhat limited independence.

Developing countries may have problems establishing an effective operating monetary policy. The primary difficulty is that few developing countries have deep markets in government debt. The matter is further complicated by the difficulties in forecasting money demand and fiscal pressure to levy the inflation tax by expanding the monetary base rapidly. In general, the central banks in many developing countries have poor records in managing monetary policy. This is often because the monetary authority in a developing country is not independent of government, so good monetary policy takes a backseat to the political desires of the government or is used to pursue other non-monetary goals. For this and other reasons, developing countries that want to establish credible monetary policy may institute a currency board or adopt dollarization. Such forms of monetary institutions thus essentially tie the hands of the government from interference and, it is hoped, that such policies will import the monetary policy of the anchor nation.

Recent attempts at liberalizing and reforming financial markets (particularly the recapitalization of banks and other financial institutions in Nigeria and elsewhere) are gradually providing the latitude required to implement monetary policy frameworks by the relevant central banks.

Trend in Inflation Rate in Nigeria

In 1986, inflation rate was 5.4 percent (NBS, 2015). This rate was the least of inflation rate that ever occurred in Nigeria within the period under review. Since then inflation rate increased sharply from 10.2 percent in 1987 to 40.9 percent in 1989. This behaviour was the result of the adverse effect of the depreciation of naira currency against other international currencies following the emergence of structural adjustment programme (SAP) in 1986. The inflationary trend indicates that inflation rate dropped significantly to 7.5 per cent in 1990 but rose sharply to 57.2 percent in 1993 and sustained this momentum to its highest peak of 72.8 percent in 1995.

Again, it was the depreciated naira currency in relation to the dollar and the increase cost of production reflected in high prices of food stuff as well as changing prices of imported goods that triggered up the inflation rate to a highest peak of 72.8 percent in 1995. From 1996, inflation rate dropped significantly to 29.3 percent from 72.8 percent in 1995 and this downward trend was sustained continuously, although with some level of oscillation but not below the minimum rate of 5.4 percent in 2007. Between 2008 and 2011, inflation rate increased slowly but steadily from 11.6 percent in 2008 to 13.7 percent in 2010 but decreased to 10.9 percent in 2011. It has since moved to 15.5 percent in 2016.

Analysis of Nigeria's exchange rate movement from 1970-2010 showed that there exists a causal relationship between the exchange rate movements and macroeconomic aggregates such as inflation, fiscal deficits and economic growth. Consequently, the persistent depreciation of the exchange rate trended with major economic variables such as inflation, GDP growth, and fiscal deficit/GDP ratio.

In this context, the exchange rate movement in the 1990's trended with inflation rate. During periods of high inflation rate, volatility in the exchange rate was high, which was reversed in a period of relative stability. For instance, while the inflation rate moved from 7.5 percent in 1990 to 57.2 per cent and 72.8 per cent in 1993 and 1995 respectively, the exchange rate moved from N8.04 to \$1 in 1990 to N22.05 and N81.65 to a dollar in the same period. When the inflation rate dropped from 72.8 percent in 1995 to 29.3 per cent and 8.5 per cent, in 1996 and 1997 respectively, and rose thereafter to 10.0 per cent in 1998 and averaged 12.5 per cent in 1999, the exchange rate trended in the same direction (CBN, 199).

The issue of price instability becomes a re-occurrence decimal in the macroeconomic challenges confronting the Nigeria government. The concept often referred to as inflation, and it has been a major issue in the policy decision in most of the developing countries. Jhingan, 2005, refers to inflation as a persistent and appreciable rise in the general level of prices. Generally, inflation has created a serious problem in view of the fact that it affects an economy, where her currency is characterized by a persistent fall in the value of the country's currency and rise in her exchange rate in the rest of the world.

The persistent fall in the value of Nigeria's domestic currency (i.e. Naira) corresponds with the period of inflationary growth in Nigeria and this unfortunate phenomenon led to a continual falling in the standard of living of an average Nigeria. The period of the oil boom of 1970s automatically allowed for fiscal dominance by the government and coupled with series of macroeconomic imbalances during the period, witnessed an upward trend in government revenue in term of foreign exchange from the sale of crude-oil (CBN, 1982).

The above measures increased the currency in circulation and as a result, the annual growth rate of money supply further escalated from 56.6% in January to 91.3% in April 1975 (CBN, 1982). The measures further compounded the inflationary trend in the country, but this cost push inflation further hampered production activities and expanded inflationary problem, as the increased money supply and aggregate demand was not matched by an increased in output. This structural rigidity that prevents domestic production, led to the trade liberalization of imports by the government and hence, the country witnessed massive importation of manufactured goods in view of the fall in domestic production.

Much as inflation, especially, money supply induced price increases has affected the index in Nigeria, it has equally been affected by the continuous depreciation of the Naira in the process of exchange to goods which and has played a major role financial landscape of the country (Ismail, 2009). The sudden floating and liberalisation of the foreign exchange market on the costs of goods and services is documented in works of Babatope-Obasa (2004). That Nigerian is an importing nation where the imported goods rivalled the locally produced goods is well known and acknowledged in Fullerton and Ikihide (1998).

As expressed in Calvo and Reinhart (2000), one of the problems of floating exchange rates in developing economy is the inability to tackle the problem of speculation headlong given the level of informal financial sector that powers the economic sector.

With the understanding that high consumer prices in Nigeria could be as result of the imported inflation and the possibility that the high exchange rates, is contributing to the prices of goods purchased and consumed in the domestic economy. However, floatation of the domestic currency has positively affected the export of commodities especially the agricultural produce (Adubi and Okunmadewa 1999).

The sum of the above is that the price of the currency vis a vis the domestic prices have tended to move in tandem. Price increase in the foreign exchange market spirals to the domestic prices though the goods are neither imported nor have imported inputs in their manufacture or assembly process.

Also, the inflationary trend of Nigeria, as shown in the analysis above, simply suggests the macroeconomic instability of inflation rate, with an attendant consequence of low level of investment, sluggish economic growth rate and high poverty rate. Besides, the macroeconomic instability of inflation rate has widened the gap between the high income class and low income earners in Nigeria. Certainly, the trend analysis supports various sources and theories of inflation as the reason for the behaviour in Nigeria.

Trends in Unemployment Rates in Nigeria

Recent statistics by the World Bank has put the unemployment rate in Nigeria at 22 percent, while the youth unemployment rate is 38 percent. The report shows that the bracket age of 15-35 years olds account for close to 60 percent of the Nigeria's population and 30 percent of the work force. The report also indicates that approximately 4 million people entered into the labour market every year (Zubair, 2013). According to the Nigerian Bureau of Statistics (NBS, 2016), the country's unemployment rate has increased from 8.2 percent in second quarter to 9.9 percent in third quarter and 10.4 percent for the fourth quarter of year 2015 and Nigeria's employment crisis worsened in the first quarter of 2016, with unemployment rate rising to 12.1 percent. The bureau also said in its latest Unemployment Watch report that between December 2015 and March 2016, the population of unemployed Nigerians increased by 518,000 to over 1.45million. Unemployment according to ILO, is among the biggest threats to social stability in many countries (including Nigeria), putting the global rate at 12.6% (ILO, 2012).

II. CONCLUSION AND RECOMMENDATION

It was confirmed from the literature that import dependent country like Nigeria usually adopt pegged exchange rate system in other to control inflation by subsidizing naira (over valuing) and allow importers to bring in goods at cheaper rate. Fixed exchange rate also removes uncertainty and fear associated with floating exchange rate there by reducing the transaction cost and encourages importation.

Fixed exchange rate policy will therefore encourage operation of black market since naira is being overvalued by the fixed exchange rate system, there will be every tendency that some suppliers of dollars and other foreign currencies may not want to sell at this over priced official rate and as a result of increase in demand for dollars to meet up with import needs of import dependent nations like Nigeria , black market where buyers and sellers will be exchanging at near real value rate of naira to dollar will not only exist but also flourish. Also since it encourages importation, it will lead to the death of local industries and increase unemployment rate and inflation rate.

The recently introduced monetary policy (managed-floating) may also not be able to attract the much needed investment into the real sector, because; Forex market cannot be described by characteristics of a perfect competitive market where no individual buyer or seller out of many buyers- many sellers can determine price (because Forex market have CBN, few financial institutions and few foreign investors as sellers and various individuals and businesses as buyers,), so, if the business environment is not suitably investors may not be attracted to the real sector but to the existing companies (inform of portfolio investment by buying stocks when the Naira rate to dollar is lower (by paying few dollar to get more naira) and this will temporarily make stock market to rise and as a result of this, naira may appreciate in value temporarily by exchanging few naira for dollar until some equilibrium is reached).Therefore, foreign portfolio investors in Forex market will be exploiting the situation by selling their stocks at this equilibrium price (by paying few naira for more dollar) which is higher than the price they bought it and repatriate their money and this will lead to another collapse of stock market and devaluation of naira again.

From the above, it has been clearly shown that the recently introduced managed-floating exchange rate monetary policy of Central bank of Nigeria may not attract the needed impetus (capital and investment) for inflation and unemployment rate reduction unless it is blended with appropriate fiscal policy such as; localization of petroleum products refining, enhancement of access to credit facilities and promotion of Agricultural policies so as to drive self-reliance, promoting export and reduce imports.

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