

The Effect of Exchange Rate Fluctuations on Balance of Payments in Nigeria

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Abstract

The continued devaluation of the Nigerian naira by the Central Bank of Nigeria is damaging to businesses and the economy as a whole. This is reflected in Nigeria's balance of payments deficit over the years. Hence, this study focused on emphasizing the need for a stable, regulated exchange rate for the Central Bank of Nigeria. Against this background, this study examined the effects of exchange rate fluctuations on the balance of payments in Nigeria. The ex post facto research design has been adopted in this study. The influence of exchange rate volatility was tested on the BOP current account, the BOP capital account and the BOP financial account. Secondary data was obtained from the CBN website and the National Bureau of Statistics for 2010-2019. Descriptive statistics and Pearson's correlation using the Statistical Package for Social Sciences 23 were used to analyze the data. It was found that the recent relatively unstable exchange rate had resulted in a disrupted balance of payments in Nigeria. The implication of this finding was that an unstable exchange rate has weakened the value of the Nigerian naira, discouraging exports of local goods, making imports of foreign goods more expensive and hindering domestic and foreign investment, which ultimately has a negative impact on the balance of payments. It was concluded that exchange rate volatility can cause balance of payments deficit. It was therefore recommended that the CBN be vigorous in promoting exchange rate stability, as the overall performance of the economy revolves around exchange rate stability.

Keywords: Exchange Rate Stability, External Shocks, Foreign Exchange Regimes, Foreign Reserves, Structural Adjustment Programme, Price Volatility.

Introduction

The exchange rate issue is perhaps one of the most debated topics in Nigeria today. In view of the macroeconomic importance, especially in an economy like Nigeria that is heavily dependent on imports, this is not surprising. However, after the fluctuations in the naira in 1986, a policy was introduced with the Structural Adjustment Program (SAP). This made the exchange rate issue a hot topic in Nigeria. The goal of any economy is to be stable and have a balanced balance of payments. This has been achieved by the country through the use of the floating foreign exchange foreign exchange determination system. The country also began devaluing to encourage exports and stabilize the exchange rate (Akpanung & Babalola, 2013; Kanu & Nwadiubu, 2020).

In Nigeria, until the Structural Adjustment Program (SAP), it appeared that Nigerian exchange rate policy tended to encourage an overvaluation of the naira, as it was 0.90 cents for N1 in 1981. This in turn encouraged imports and discouraged non-oil exports and an

excessive reliance on the Nigerian economy on imported inputs versus exported outputs. An economy whose imports exceed exports will suffer an unfavorable balance of payments (deficit) and such an economic currency will be devalued against the currencies of other countries involved in international trade - the exchange rate of this economy to other currencies will be in relation to. low its value - for example, the Nigerian naira to US dollars was 1 USD to N197.00, pound sterling is 1 to N281.29 naira, etc., (Jaddon & Guang, 2019).

The impact of the global economic crisis on the Nigerian exchange rate was phenomenal as the naira versus the dollar exchange rate rose astronomically from around N120/1\$ to over N180/1\$ between 2008 and 2009. This is due to the sharp decline in Nigeria's foreign and national income as a result of the continued decline in the price of crude oil in the world crude oil market. The renewed emphasis on the production of alternatives to fossil fuels such as solar, wind and bioenergy in the advanced economies reduced the demand for crude oil and subsequently led to a sharp drop in prices from \$110 per barrel to below \$50 per barrel between mid-2014 and in early 2015 and further declined to \$33.62 a barrel in early 2016, further weakening and reducing Nigeria's foreign revenue and revenue to fund priority sectors that stimulate economic activity, increase per capita income, create jobs and improve living standards in the Nigerian Economy (Riti & Gubak, 2014). Foreign exchange and balance of payments are some of the key factors in a nation's life. They are factors that examine a country's comparison with other nations. The exchange rate was relatively stable from 1973 - 1979 as a result of the oil boom. However, Nigeria began to see huge balance of payments deficits and very low currency reserves in the 1980s. It was believed that a devaluation (devaluation) of naira would relieve the balance of payments. This devalued the naira and the irony of this policy instrument is that Nigeria's foreign trade structure did not meet the requirements for a successful balance of payments policy. The foreign structure of the country is characterized by the export of crude oil and agricultural products, the prices of which are predetermined on the world market with low imports and export price elasticity of demand (Odili, 2016).

The exchange rate is an important determinant of the balance of payments position (BOP) in any country. When used sensibly, it can serve as a nominal anchor for price stability. Changes in exchange rates had a direct impact on the demand and supply of goods, investment, employment, and the distribution of income and wealth. When Nigeria began to run huge balance of payments deficits and very low currency reserves in the 1980s, it was believed that devaluing the naira would ease the burden on the balance of payments. As a result, the naira was devalued. The irony of this policy instrument is that the structure of foreign trade did not meet the conditions for a successful balance of payments policy. The country's foreign exchange structure is characterized by the export of crude oil and agricultural products, the prices of which are predetermined on the world market, and low import and export price elasticity in demand (Ve'gh, 2011; Okechukwu, Mbadike, Geoffrey, & Ozurumba, 2019).

Previous studies have identified the impact of the exchange rate on the balance of payments, the impact of monetary policy on the balance of payments, and the

determinants of the balance of payments and the exchange rate in the Nigerian context; but to the best of the researchers' knowledge, no other past study has considered evaluating the exchange rate and balance of payments in Nigeria as an economy. The aim of this study was therefore to identify the variables that cause the volatility of the exchange rate in the balance of payments (BOP). The researchers wanted to find out whether exchange rate deregulation has had a significant effect on the external sector (balance of payments) of the Nigerian economy and how it is affecting the Nigerian economy. The variables to use in this study include the effects of exchange rate fluctuations on the BOP Benefit Account, BOP Capital Account, and BOP Financial Account. Therefore, this study focused on assessing the effect of exchange rate fluctuations on the balance of payments in Nigeria. The following research questions were proposed for this study:

1. What is the effect of Exchange Rate Fluctuations on the BOP Current Account in Nigeria?
2. To what extent does Exchange Rate fluctuation affect the BOP Capital Account in Nigeria?
3. What is the effect of Exchange Rate Fluctuations on the BOP Financial Account in Nigeria?

The following hypotheses were formulated to guide the study.

Ho₁: There is no significant effect of Exchange Rate Fluctuations on the BOP Current Account in Nigeria.

Ho₂: Exchange Rate Fluctuations has no significant effect on the BOP Capital Account in Nigeria.

Ho₃: There is no significant effect of Exchange Rate Fluctuations on the BOP Financial Account in Nigeria.

The general aim of the paper was to study the relationship between exchange rate fluctuations and balance of payments in Nigeria.

Literature Review

Exchange Rate and the Nigerian Economy

The exchange rate refers to the price of one currency (the local currency) in relation to another (the foreign currency). The exchange rate is the price of one currency in relation to another. This is the amount of foreign currency that can be bought for a unit of local currency or the cost in local currency to buy a unit of foreign currency (Sodestine, 2018). It is the exchange rate at which one currency is exchanged for the other and is used to characterize the international monetary system (Abdullahi, Abubakar, Fakunmoju, & Giwa, 2016). Anifowose (2014) describes foreign exchange as a monetary asset that is used daily to process international transactions and to finance deficits in a country's balance of payments. He stresses that it is an important part of a country's stock of foreign reserves. Other components include holding money gold and special drawing rights (SDRs). He regards foreign exchange management as a conscious attempt to control and use the available foreign exchange resources in the best possible way, while at the same time being

careful to build up external reserves in other countries in order to avoid external shocks due to dwindling foreign exchange income.

Traditionally, a country's exchange rate and balance of payments have usually been viewed as the sum of indices by which a nation's strength can be measured, particularly its economic strength (Ojo, 2017). Although Nigeria is aware of this fact, Nigeria has continued to devalue the naira over the years, even to the detriment of the economy. The devaluation of the exchange rate is carried out because it is assumed that it will relieve the balance of payments. As a result, the naira has been devalued several times and the irony of this policy instrument is that Nigeria's foreign trade structure did not meet the conditions for a successful balance of payments policy (Gabriel, 2018).

Echekoba (2017) observed that Nigeria's foreign structure is characterized by the export of crude oil and agricultural products, the prices of which are predetermined on the world market with low imports and export price elasticity of demand. The Nigerian economy has for a long time struggled continually to resolve the problems of external and internal imbalances. This has manifested itself in the imbalance in their balance of payments and at the same time created a trade deficit. Because of this, the diversification of the economy and the promotion of exports, import substitutions and the restrictions on trivial imports cannot be overstated.

The Concept of Balance of Payment

Akonji (2013) defines the balance of payments as the accounting of all monetary transactions between a country and the rest of the world. It is the exchange rate at which one currency is exchanged for the other and is used to characterize the international monetary system.

According to Arize, Osang and Slottje (2020), the balance of payments (BOP) is a systematic record of all economic transactions that are also visible as invisible in a time between a country and the rest of the world. It illustrates the link between a nation's total payments to the rest of the countries and their full accounts as those. The balance of payments is therefore a description of expenses in invoices and global transactions. The concept of spending stability is a contemporary and primarily satisfactory purpose concept for the repayment amount.

When the demand for a local currency decreases for a certain exchange amount; we could find a deficiency in its balance of payments. In the same way, if the demand for a nation's currency increased for a given rate of return, we would see a surplus in their balance of payments. The lack of a favorable balance of payments leads to a decrease in the external value of the national currency. An excessive balance of payments leads to an increase in the external value of the national currency (Damola, 2013).

Components of Balance of Payment

Nigeria's balance of payments consists mainly of three accounts; Current account, capital account and the official reserve account. They are explained below:

- a. **Current Account:** According to Imoisi (2016), the current account shows the net amount a nation earns when it is in surplus or spends when it is in deficit. It is the sum of the trade balance (net income from exports minus payments for imports), factor income (profit from foreign investments minus payments to foreign investors) and cash transfers.
- b. **Capital Account:** The capital account (also called financial account) is one of two main components of the balance of payments, the other being the current account. The financial account reflects the net change in ownership of national assets. A surplus on the financial account means that money is flowing into the country, but unlike a surplus on the current account, the incoming flows will be borrowing or sales of assets rather than payments for labor. A deficit in the financial account means money is flowing out of the country, and it suggests that the nation is increasing its holdings of overseas assets (Olasadebe, 2015).
- c. **Official Reserve Account:** The financial account of the balance of payments contains the official reserves. The Central Bank of Nigeria maintains foreign exchange reserves (or official reserves). The purpose of the official reserves is to have a stabilizing influence on the foreign exchange market. If a balance of payments deficit arises, the CBN reduces its currency reserves to balance the balance. In the event of a balance of payments surplus, the CBN acquires additional currency reserves to offset the balance (Abdullahi, Abubakar, Fakunmoju, & Giwa, 2016).

Theoretical Review

The Balance of Payment Theory Approach

The approach of the BOP theory was developed by Sydney Alexander in the 1970s and was based on the following assumptions;

1. That free market forces in the foreign market determine the price of foreign and domestic money.
2. The external values of a country's currency depend on the supply and demand of the currency.
3. Different articles or components of a country's BOP determine its demand and supply.
4. Total income in our economy is determined by $C + I + G + (x + M)$.

This theory was first proposed in 1940 by J. M. Keynes and supported by Marshall Lerner. Echekeba (2017) suggested that the exchange rate affects the balance of payments by using the ratio of non-gold reserves to imports to study the impact of devaluation on the balance of payments. Their results show that the devaluation improves the country's reserve position. A balance of payments can show a surplus or deficit, but in theory total payments (i.e. the total balance of payments) should be zero, which is rare. A currency price depreciation or appreciation (i.e. the change in the value of money) has a direct impact on the volume of a country's imports and exports and, consequently, on likely fluctuations.

These exchange rate fluctuations can contribute to balance of payments differences. For example, a likely devaluation will increase the value of exports in local currency, and the greater the export demand elasticity, the greater the increase. Conversely, this means that if imports become more expensive and their value in local currency falls, the greater the elasticity of import demand, the greater the decline (Olanipekun & Ogunsola, 2017).

Consequently, Limbore & Moore (2019) argued that devaluation improves the current account if the value of exports does not increase more than the value of imports. More precisely, the effects of currency devaluation on the current account can only be conclusively assessed by taking into account the price sensitivity of imports and exports. Emphasizing this approach, the Marshall-Lerner condition explains the condition under which a devaluation or devaluation of the exchange rate only leads to an improvement in the trade balance if the absolute sum of the long-term export and import demand elasticity is equal or is greater than one. A fall in the exchange rate will improve the current account balance of payments. The J-curve effect under the Marshall-Lerner condition makes it clear that a devaluation of the currency can worsen the current account balance in the short term before it improves its position. This is due to the low price elasticity of demand for imports and exports as a direct consequence of a change in the exchange rate.

For the purpose of this study, the anchor theory applies that this research study is based on the balance of payments theory. It was chosen because it is the most modern and satisfactory theory for determining the exchange rate.

Empirical Review

A more recent study by Anyanwu and Uduji (2022) looked specifically at the impact of exchange rate fluctuations on Nigeria's non-oil trade. The authors found that fluctuations in the exchange rate had a significant effect on the country's non-oil trade balance, particularly in the short run.

Also, a study by Adebisi and Ogunrinola (2021) found that Nigeria's balance of payments was also affected by factors other than exchange rate fluctuations, including changes in oil prices, domestic inflation, and government policies.

Salasevicius & Vaicius (2020) used the VECM to test the Marshall-Lerner condition in the exchange rate-trade balance relationship in the Baltic States. The study found that Lithuania met the Marshall Lerner condition but Estonia did not, while Latvia's result was ambiguous.

Oladipupo & Adeniyi (2019) examined the effects of the exchange rate on the Nigerian external sector (the balance of payments position) using the ordinary least squares method (OLS) for data from the period 1970 to 2008. The result showed that the exchange rate has a significant impact on the Balance of payments position.

According to a study by Ajao, Adeniyi, and Omisakin (2019), exchange rate fluctuations have a significant impact on Nigeria's balance of payments. The study found that an increase in exchange rate volatility led to a deterioration of the country's trade balance, which in turn affected its overall balance of payments.

Another study by Ojo and Ojo (2019) also found that exchange rate fluctuations had a negative impact on Nigeria's balance of payments. The authors argued that this was largely due to the country's heavy dependence on oil exports, which made it vulnerable to fluctuations in global oil prices.

Harry (2018) examined the empirical relationship between the real exchange rate and the aggregate trade balance in Nigeria. The study tested the Marshall Learner Conditions to see if they were met for Nigeria. The result showed no co-integration for the trade balance model. The results also showed that the write-off/devaluation improves the balance of payments and the Marshall Lerner (ML) condition applies to Nigeria.

Rasaq (2017) analyzed the impact of exchange rate volatility on macroeconomic variables using the correlation matrix, Ordinary Least Square (OLS) and Granger causality test. The results of the study showed that exchange rate volatility has a positive influence on the gross domestic product, foreign direct investment and openness to trade, but with a negative influence on the inflation rate in the country.

Overall, these literature reviews suggest that exchange rate fluctuations have a significant impact on Nigeria's balance of payments, particularly in the short run. However, other factors such as changes in oil prices and government policies also play a role.

Methodology

The study adopted an ex post facto research design. The study used secondary data from online sources such as the CBN and the National Bureau of Statistics. In this study, the quantitative method was used to examine the impact of exchange rate fluctuations on the balance of payments in Nigeria. When analyzing the data, methods of descriptive statistics and the Pearson correlation coefficient are used. The study analysis was estimated using the Social Science Statistics Package 23 (SPSS 23).

The data used in this study come from the publications of the statistical bulletins of the Central Bank of Nigeria (CBN) and the bulletins of the National Bureau of Statistics. In general, the data to be used for the study are referred to as secondary data for a 10-year period from 2013-2022. Data (numbers) from NBS, CBN Bulletin and BugdIT were used as indexes. As this was a secondary source of data, facts were collected and analyzed to capture the statistics on ERP and BOP. For the purposes of this study, data analysis was performed using Pearson's correlation coefficient analysis calculated with SPSS 23 software. In this study, the panel data analysis technique was used because the data is cross-sectional and time series.

Model Specification

The model for this study focused on the impact of the exchange rate on balance of payments in Nigeria. The model specification is as follows:

The functional relationship is given as:

$$\text{EXRF} = f(\text{BOPCA}, \text{BOPFA}, \text{BOPCaA}) \text{----- (1)}$$

The econometric relationship to be estimated is specified as:

$$EXRF = \beta_0 + \beta_1 BOPCA + \beta_2 BOPFA + \beta_3 BOPCaA + U_t \text{----- (2)}$$

Where: EXRF= exchange rate fluctuations

BOP= balance of payment

BOPCA= Balance of Payments Current Account

BOPFA= Balance of Payments Financial Account

BOPCaA= Balance of Payments Capital Account

Model Estimation

The key variables in the study are grouped into dependent variables, which are the balance of payments (BOP) represented by the current account (BOPCA), financial account (BOPFA) and financial account (BOPCaA), while exchange rate fluctuations (EXRF) are the independent variable. The data of the variables used for the study are estimated in the model specification in detail below:

$$\Delta \sum XRF = \beta_1 + \beta_2 t + \beta_3 \sum XRF_{t-1} + \sum_{t-1}^m \alpha_i \Delta EXRF_{t-1} + U_t \text{----- (3)}$$

$$\Delta \sum BOPCA = \beta_1 + \beta_2 t + \beta_3 \sum BOPCA_{t-1} + \sum_{t-1}^m \alpha_i \Delta BOPCA_{t-1} + U_t \text{----- (4)}$$

$$\Delta \sum BOPFA = \beta_1 + \beta_2 t + \beta_3 \sum BOPFA_{t-1} + \sum_{t-1}^m \alpha_i \Delta BOPFA_{t-1} + U_t \text{----- (5)}$$

$$\Delta \sum BOPCaA = \beta_1 + \beta_2 t + \beta_3 \sum BOPCaA_{t-1} + \sum_{t-1}^m \alpha_i \Delta BOPCaA_{t-1} + U_t \text{----- (6)}$$

Where:

Δ = First difference operator of the variables,

t = time or trend taking the value of 1, 2, till the end of sample, and;

U_t = white noise error term.

A priori Expectation

The priori expectation of the model was $\beta_1 > 0$ $\beta_2 > 0$ $\beta_3 > 0$

This implies that the coefficient of the current account of the balance of payments, the financial account of the balance of payments and the financial account of the balance of payments are expected to be positive. The variables in this study are explained through descriptive analysis and this appears in the form of mean, median, maximum, minimum and standard deviation.

Finding and Discussion

Table 1: Summary of the Nigerian Exchange rate, BOP current balance, financial balance and capital balance for the period 2013 to 2022

Year	Nigeria Exchange Rate	BOP Current Balance	BOP Financial Balance	BOP Capital Balance
2013	150.30	13,111,276,866	-2,033,043,198	0.00
2014	153.90	10,688,377,374	5403,567,437	0.00
2015	157.50	17,374,274,675	12,375,853,065	0.00
2016	157.30	19,048,981,238	-7,685,823,887	0.00
2017	158.60	906,535,877	-12,286,233,417	-
2018	192.40	-15,438,642,534	5,334,601,614	-
2019	253.50	2,722,336,503	-2,899,535,860	-
2020	305.80	10,399,243,209	3,997,830,415	-
2021	306.10	3,877,818,908	13,101,629,225	-
2022	306.90	-17,016,392,136	-18,087,461,017	-

Source: CBN Statistical Bulletins

Data Analysis

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NIG_EXCH_RATE	10	150.30	306.90	214.2300	70.48431
BOP_CURRENT_BAL	10	-17016392136	19048981238	4567380998.00	12479273276.468
BOP_FINANCIAL_BAL	10	-18087461017.00	13101629225.00	-277861562.3000	10259964044.23007
BOP_CAPITAL_BAL	4	.00	.00	.0000	.00000
Valid N (listwise)	4				

Source: Researcher's computation using SPSS 23 (2023)

Table 1 contains the descriptive statistics showing the minimum, maximum, mean, and standard deviation of all variables in the study. Table 1 shows that the minimum Nigerian exchange rate was N150.30 per \$1, the high was N306.90 per \$1, and the mean was N214.23. The standard deviation was 70.48, showing that Nigeria's exchange rate is widely dispersed. The 10-year study showed that the mean BOP benefit account was negative N17,016,392,136. Even with a maximum value of N19,048,981,238 and a standard deviation of N12,479,273,276.47, this means that the BOP current account is widely spread over the 10-year period.

Table 2 also shows that the minimum BOP financial account was negative N18,087,461,017, the maximum was N13,101,629,225, and the mean minus. The standard deviation was

N10,259,964,044.23 showing that the BOP financial account in Nigeria is widely diversified over the 10-year period.

Table 3: Correlations

		NIG_EXCH_ RATE	BOP_CURRE NT_BAL	BOP_FINANC IAL_BAL	BOP_CAPI TAL_BAL
NIG_EXCH_ _RATE	Pearson Correlation Sig. (2- tailed) N	1 10	-.433 .211 10	-.017 .962 10	. ^a .4
BOP_CUR RENT_BAL	Pearson Correlation Sig. (2- tailed) N	-.433 .211 10	1 .311 10	.357 .311 10	. ^a .4
BOP_FINA NCIAL_BA L	Pearson Correlation Sig. (2- tailed) N	-.017 .962 10	.357 .311 10	1 10	. ^a .4
BOP_CAPI TAL_BAL	Pearson Correlation Sig. (2- tailed) N	. ^a .10	. ^a .10	. ^a .10	. ^a .10

Source: Researcher's computation from CBN Statistical Bulletins using SPSS 23 (2023)

The above analysis was performed using the Pearson Product Moment Correlation Coefficient using SPSS 23. The correlation result in table 3 above shows that the exchange rate of Nigeria has a negative correlation of -0.433 with the BOP current account, significant at 0.211. From table 4.3 above, the correlation matrix also showed a negative correlation of -0.017 between the Nigerian exchange rate and the BOP financial account, significant at 0.962. After all, Nigeria's exchange rate has no correlation at all with the BOP capital account.

Findings

The results of this study were clear. It became clear that there is a negative relationship between exchange rate fluctuations and the balance of payments. The first result showed that if the exchange rate were to increase by one unit, all other things being equal, BOP capital account would decrease by .433. This is derived from the Pearson correlation coefficient of -0.433.

The second results also showed that if the exchange rate were to increase by one unit, all other things being equal, the BOP financial account would decrease by .017. This is derived from the Pearson correlation coefficient of -0.017.

The third finding showed that if the exchange rate were to increase by one unit, the BOP capital account would remain constant, all other things being equal.

Discussion of Findings

This study uses Pearson's descriptive statistics and correlation coefficient as analytical methods of SPSS 23. By and large, the study's result showed that fluctuations in the country's exchange rate are not good for its economic health. This is simply because the country's balance of payments will have a negative impact over a period of time. The first result of the study show that exchange rate fluctuations have a negative impact on the BOP benefit account in Nigeria. This is derived from the Pearson correlation coefficient of -0.433. The first null hypothesis is thus rejected. This was also found in the study by Imoisi (2016). The result contradicts the a priori expectation of a significantly positive relationship between the variables, as Rasaq (2017) and Oladipupo and Adeniyi (2019) found.

The second result of the study showed that an exchange rate fluctuation has a negative effect on the BOP financial account in Nigeria. This is derived from the Pearson correlation coefficient of -0.017. The second null hypothesis is thus rejected. This was also noted in the study by Imoisi (2016).

Finally, the third results of the study showed that an exchange rate fluctuation has no effect on the BOP Capital Account in Nigeria. This is derived from the Pearson's correlation coefficient of 0.00. Thus, the third null hypothesis is neither accepted nor rejected.

Conclusion

The exchange rate is the price of a local currency in relation to foreign currencies. The exchange rate serves as one of the most important macroeconomic variables that affect a country's trading positions and ultimately its balance of payments. The need for an effectively managed exchange rate system is emphasized because of the detrimental effects of an unstable exchange rate on economic performance.

This study therefore examined the impact of the exchange rate on the total balance of payments in Nigeria. It has been found that the recently relatively unstable exchange rate has resulted in a disrupted balance of payments in Nigeria. The implications of this finding is that an unstable exchange rate would weaken the value of the Nigerian naira, make it difficult to export local goods, make importing foreign goods difficult / expensive, and impede domestic and foreign investment, which ultimately add negatively to the balance of payments. It is concluded from this that exchange rate volatility can cause a balance of payments deficit.

Recommendation

Based on the results and conclusions, the following recommendations were made:

1. The current exchange rate regime of the monetary authority should be reviewed. This is because the exchange rate is getting worse every day. Exchange rate stability should be vigorously pursued, as the internal and external performance of the economy hovers around exchange rate stability.
2. The government should ensure effective and efficient management of the exchange rate to reduce exchange rate fluctuations and instability. The exchange rate adjustment policy should be accompanied by practical policy measures.
3. The government should initiate a policy that promotes trade openness in favor of Nigeria by diversifying the economy into other sectors such as agriculture, tourism and manufacturing among others.

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