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## CROSS EXAMINING EXCHANGE RATE AND TYPOLOGY OF REGIMES IN A RECESSED ECONOMY: AN EARLY WARNING SIGNAL

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**ABSTRACT:** This paper presents the link between exchange rate and the typology of political regimes in Africa with particular reference to Nigeria. It is noted that Nigeria is characterized by exchange rate instability and government at different political regimes deem it fit to seek as well as fine-tune policy opinions towards achieving goals of exchange rate stability. The regime type ranges from fixed to flexible exchange rate management strategies in the pre-SAP, during SAP and post SAP periods. The policy implications of addressing exchange rate instability with the use of imported programmes as popularized by world bank/International Monetary Fund (IMF) is that with the emergence of free trade, deregulation and liberalization of foreign exchange during political regimes, the pace of development has deteriorated abysmally in most African countries. This paper opines that a regime that stabilizes macroeconomic performance vis-à-vis exchange rate should be regarded as the best regime. Government is hereby urged to implement the economic recovery and growth plan effectively and efficiently. A deviation from this renders the entire reform programmes by different regimes a disaster and of course a mirage.

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### 1. INTRODUCTION

A careful perusal of exchange rate and typology of political regimes in a recessed Economy such as Nigeria reveal that different economies all over the globe experience at different times economic or business cycle that are characterized by Expansions (boom) as well as contraction (bust). Expansion is associated with an increase in the level of economic activity when measured by Gross Domestic Product (GDP). On the other hand contraction signifies slowing economic output. In same vein Exchange rate refers to the price of the domestic currency in terms of other currencies. It measures the relative worth of a domestic economy most especially in relation to the currencies of the industrialized economies, such as the United States dollar, British pound sterling, Japanese Yen, Canadian dollars and Italian Lira, etc. The worth of a nation's currency depends on the state of the economy, the competitiveness, and volume of exports, typology of political regimes, the level of domestic production and the amount of foreign reserves. A stable exchange rate is capable of promoting market stability and Economic growth. When misaligned, it is capable of triggering economic disequilibrium otherwise referred to as recession. Exchange rate therefore should be carefully and properly managed so as to eschew possible economic crisis. Thus, reflections on exchange rate and economic recession in Nigeria reveal that the management of exchange rate begins with the choice of exchange rate regime. This could be fixed or flexible (free floating or managed). The value of Nigeria's currency or that of any country is pegged to a chosen and or determined foreign currency (U.S Dollar) in the regime of fixed exchange rate. Depending on the prevailing economic circumstances or balance of payment Crisis encountered at a particular point in time, a country could either devalue (increase in value) or revalue (decrease) it. During a flexible exchange rate regime, the value of domestic currency in relation to a chosen foreign currency could be determined by the forces of demand and supply of the foreign exchange (foreign currency) in the domestic economy. This depends on prevailing market forces and is a clear demonstration of a free floating flexible exchange rate regime. Thus monetary authorities very often intervene in the foreign exchange market rather than permit exchange rate to be determined by the market forces. To intervene there could be either to moderate the volatility of exchange rate or to influence the direction and focus on the exchange rate (depreciation appreciation). Financial authorities, world bank International Monetary expert, Fund/Financial Institutions agree that one of the basic macroeconomic problems facing Nigeria has been a regime of unrealistic exchange rate of the domestic currencies. This is characterized by instability and or flexibility of the exchange rate. In recognition of these constraints, different political regimes have sought for and put in place some measures and or strategies of tackling this situation so as to achieve stability in exchange rate management in Nigeria. These measures range from Structural Adjustment Programme (SAP) to guided deregulation, followed by National Economic Empowerment and Development Strategy (NEEDS) and lastly Economic Recovery and growth plan (ERGP) Thus, the basic goals of exchange rate are to preserve the international value of the domestic Currency, ensure external balance without compromising the need for internal balance, maintain a favourable value of the domestic currency vis-à-vis. From the earliest of times the exchange rate was expected to achieve the objectives

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of price stability, sustainable economic development, reduction of unemployment and balance of payment viability most especially when applied in collaboration with other macroeconomic policies. Stable exchange rate system aids in achieving these macroeconomic goals. The exchange rate has to be right and stable since it is a significant price that affects other prices. When the exchange rate is not optimal, however, the achievement of these goals become an illusion. A case in point is, if the exchange rate is not in equilibrium, it allows rent-seekers and speculators to exploit the subsidy element involved. The worst situation is experienced when a parallel market develops as a result of restrictions in the official market and the inability of the market to meet the demand for foreign exchange. A cardinal goal of Structural Adjustment Programme (SAP) introduced in 1986 was to achieve macroeconomic stability by reducing the level of inflation, through the achievement of a stable and realistic exchange rate. On the strength of this, government decided to deregulate exchange rate and the foreign exchange allocation system and they depended greatly on market forces. To this, end, numerous allocation mechanisms, beginning from the second-tier Foreign Exchange Market (SFEM), the Inter-Bank Foreign Exchange Market (IFEM), the Dutch Auction System (DAS) to the pro-rata system and, lately, fixing of the official exchange rate and application of a free market exchange rate for purely commercial transactions, were harnessed so as to achieve the objectives of policy. Thus stability of exchange rate has continued to elude the Nigerian Economy. Exchange rate regimes are meant to aid the achievement of these objectives but where this is not the case, it becomes imperative to reverse the policy depending on the political regime type. The Federal government's economic recovery and growth plan is tailored towards macroeconomic stability. Achieving this requires a stable macroeconomic environment with low inflation, stable (market reflective) exchange rates as well as sustainable fiscal and external balances amongst other objectives. The objective of this paper is to examine exchange rate regimes and political regimes in time perspective. For ease of exposition, the paper has been divided into six sections. Following this introduction, section two focuses on a rethink of exchange rate regimes in Nigeria. Typology of political regimes and issues in exchange rate stability are analysed in section three while section four focuses monetary policy and exchange rate vis-a-vis exchange rate pattern and trends in time perspective - pre SAP, during SAP and post SAP experiences. Section five offers policy implications of tackling exchange rate instability through imported adjustment programmes with a look at 53 countries in Africa. The need to bridge the gap between official exchange rate and black market is presented in section six. The paper terminates with a brief advocacy early signals and concluding remarks.

## 2. RETHINKING EXCHANGE RATE REGIMES

This is associated with the application of two main mechanism - fixed and flexible regimes. The fixed exchange rate system commanded acceptability and has been operational since 1960 and continued till 1980. Reversal of policy became eminent and imperative in September, 1986 with the floatation of the naira. This was because of the inability of the system to achieve the major objectives of exchange rate policy. Flexible system was operational up to and including the month of January 1994 and continuing up to 1994. This year also witnessed the re-introduction of Fixed Exchange rate system. This was done with the pegging of the naira in relation to the U.S. Dollars. Deregulation of the Exchange rate mechanism was with the adoption of Autonomous Foreign Exchange Market (AFEM). The table below provides stylized facts and reveals official/exchange rate vis-a-vis Nigeria balance of payment between 1960 and 2016. The overall balance of payment of 1960 was 78.4 while 1965 recorded 26.4. 1970 had increased to 46.5 and by 1975 the overall balance of payment went up astronomically to 157.5 recording a five-digit figure in 1950. As at 1990 the overall balance was 5716.9 and continuing in such trend up to and including 1996. A reasonable increase was registered in 1997 (1077.7) 2001 (2088.8) and 2002 (247.6) respectively. Further exposition over the years reveal that official exchange rate of naira vis-a-vis United State Dollars was 0.7143 for 1960, 1965 and 1970. In 1975 it had reduced to 0.6188 and 0.3461 in 1980 as stated in the table below: 1990 witnessed the official exchange rate of 80.378, year 2000 (21.861), 2010 (150.66) and 2017 recorded 1134.13 at a flexible floating rate.

**TABLE 1: STYLISTED FACTS - NIGERIA'S BALANCE OF PAYMENTS AND EXCHANGE RATE (1960-2017)**

| YEAR | OVERALL BAL.<br>₦ MILLIONS | OFFICIAL<br>EXCHANGE ₦/US\$ | EXCHANGE RATE SYSTEM        |
|------|----------------------------|-----------------------------|-----------------------------|
| 1960 | -78.4                      | 0.7143                      | Fixed Rate                  |
| 1965 | 26.4                       | 0.7143                      | Fixed Rate                  |
| 1970 | 46.6                       | 0.7143                      | Fixed Rate                  |
| 1975 | 157.5                      | 0.6168                      | Managed float               |
| 1980 | 2402.2                     | 0.3461                      | Pegged to a currency basket |
| 1981 | -3020.8                    | 0.6052                      | Pegged to a currency basket |
| 1982 | -1398.3                    | 0.6731                      | Pegged to a currency basket |
| 1983 | -301.3                     | 0.7506                      | Pegged to a currency basket |
| 1984 | 354.0                      | 0.7672                      | Pegged to a currency basket |
| 1985 | 349.1                      | 0.8924                      | Pegged to a currency basket |
| 1986 | -5667.7                    | 1.7323                      | Floating                    |
| 1987 | -18264.8                   | 3.9691                      | Floating                    |
| 1988 | -20795.0                   | 4.5367                      | Floating                    |
| 1989 | -22993.5                   | 7.3657                      | Floating                    |
| 1990 | -5761.9                    | 8.0378                      | Floating                    |
| 1991 | 15,798.6                   | 9.9095                      | Floating                    |
| 1992 | -101419.4                  | 17.2984                     | Floating                    |

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|      |           |          |          |
|------|-----------|----------|----------|
| 1993 | -41736.8  | 22.0000  | Floating |
| 1994 | -42623.3  | 21.8861  | Floating |
| 1995 | -195216.3 | 21.8861  | Floating |
| 1996 | -53152.0  | 21.8861  | Floating |
| 1997 | 1077.7    | 21.886   | Floating |
| 1998 | -220667.6 | 21.8861. | Floating |
| 1999 | -240886.8 | 21.8861  | Floating |
| 2000 | -246884.6 | 21.8861  | Floating |
| 2001 | 2088.8    | 113.45   | Floating |
| 2002 | 2474.6    | 126.90   | Floating |
| 2003 | 468664.7  | 137.05   | Floating |
| 2004 | 2056.3    | 132.85   | Floating |
| 2005 | 4891.7    | 129.00   | Floating |

|      |        |         |                   |
|------|--------|---------|-------------------|
| 2006 | 4698.0 | 128.27  | Floating          |
| 2007 | 3478.4 | 117.97  | Floating          |
| 2008 | 3455.7 | 132.56  | Floating          |
| 2009 | 2064.9 | 149.58  | Floating          |
| 2010 | 1970.6 | 150.66  | Floating          |
| 2011 | 1644.5 | 158.27  | Floating          |
| 2012 | 157.33 | 2736.4  | Floating          |
| 2013 | 157.26 | 2996.6  | Floating          |
| 2014 | 169.68 | 201.1   | Floating          |
| 2015 | 161.42 | 1601.55 | Flexible/floating |

|      |        |         |                   |
|------|--------|---------|-------------------|
| 2016 | 162.79 | 1599.75 | Flexible/floating |
| 2017 | 163.81 | 1134.13 | Flexible/floating |

*Source: Central Bank of Nigeria Approval Report & Statement of Account (Various issues) CBN statistical bulletin (various issues)*

The picture of the exchange rate was 'Characterized by fluctuating tendencies with upward and downward trend devoid of stability over the years ranging from 1.7323 in 1986 to 3.9691 (1987), 4.5367 (1988) 7.3659 (1989), and 1993 recorded an increase of 22.000. The exchange rate was relatively stable at 21.8861 from 1994 up to 2002.

In sum, the exchange rate system had fixed rates from 1960 to 1965 and 1970. It was pegged to a currency basket for about five years - 1980 to 1985 and from 1986 up to and including 1998 the Exchange Rate System was floating and continuing up to 2015 when it become flexible.

**Typology of Political Regimes in Nigeria: Issues in Exchange Rate Stability (1960-201y)** The Nigerian polity has operated with interchanging typologies of political regimes and monetary policy regimes since 1960, reflecting the prevailing political regimes as well as monetary policy regimes. Between 1960 and 1965 the political regime type was civilian in nature (parliamentary) with Nnamdi Azikiwe and Tafawa Balewa as the Head(s) of state. The regime was a sort of market system with planning and control. As shown in table 2 below the period was marked with fixed exchange rate regime, monetary autonomy (fixed exchange rate) and with an official exchange rate of 0.7143. The official interest rate was also fixed at 4.0 while the inflationary rate was 2.4 per cent. 1966 to 1970 witnessed an exchange rate of 0.43 with fixed exchange rate as well as fixed interest rate of 4.0 and a subsequently fixed interest regime. The rate of inflation stood at 2 per cent during this military-market system era with demand management under A. Ironsi and Y. Gowon as the Head(s) of state. The fluctuation and or instability in official exchange rate ushered in with official Exchange rate of 0.6168 (1975), 0.34-31 (1980), 0.6052 (1981) and 0.7506 for 1983. The exchange rate here was pegged to a currency basket except the managed float of 1975. The interest rate was fixed for similar period-of 1975 to 1983 while the rate of inflation was unstable ranging from 339(1975), 9.9(1980), 20.9(1981), 7-7(1982) to 23.2 in 1983. 1975 was a military-market system with demand management, planning and control having Murtala Muhammed/Obasanjo as Head(s) of state, 1979-83 (S. Shagari/Alex Ekwueme) while 1983-85 had M. Buhari as the Head(s) of states. I. Babangida came into office in 1985 with Exchange rate system pegged to a currency basket at an official exchange rate of 0.8 24. Interest rate in 1985 was 10.00 and continued at same rate up to 1986 with interest rate floating from 1985 up to and including 1999. The Exchange rate too was unstable up to 1999 and continuing, characterized by floating exchange rate regimes and an astronomical increase in the rate of inflation which was subsequently found to be unstable, floating upward and downward. Babangida was in office up to 1995 with military market system, structural Adjustment programme (liberalization, less government in theory) until in August 1993 when E. Shonekan took over power.

Then came S. Abacha with military market system and guide deregulation, unstable exchange rate, regime and floating/flexible exchange rate systems up to and including 1998 when in June 1998 A. Abubakar came into office. Olusegun Obasanjo took over government in May 1999. This has been a Civilian Market Deregulation Political Regime type. The official Exchange rate was 21.8861 and continuing with floating and flexible exchange rate regime/system. This was characterized by high inflationary trend deemed unstable and a pegged/managed interest rate system which numerically stood at 14.30 as at 1999 and reduced to 12.26 in 2003 having rate of inflation at 4.0 in 2003. Year 2005, 2010, 2015 had 4.2, 14.8 and 9.5 as the inflating rates respectively with Olusegun Obasanjo as Head of State as at 2005 (floating/flexible rate exchange rate), Dr. Goodluck Ebele Jonathan as Head of in 2009 to 2015 (floating and flexible) and Mohammad Buhari as Head of State with flexible exchange rate to date.

In order to achieve the general goals of macroeconomic management visa-vis exchange rate policy, there is always consideration between fixed and flexible exchange rate. Fixed exchange rate can further be classified into different types. In specific terms, fixed exchange rate policy is categorized into:

- a. Fixed currency peg (single basket) and
- b. Fixed adjustable peg (Bretton wood system)

**TABLE 2: EXCHANGE RATE REGIMES AND TYPOLOGY OF POLITICAL REGIMES IN NIGERIA (1960-2017)**

| YEAR PERIOD | OFFICIAL EXCHANGE DATE | EXCHANGE RATE SYSTEM | OFFICIAL INTEREST RATE | INTEREST RATE SYSTEM | RATE OF INFLATION | POLITICAL REGIMES TYPE                                            | HEAD(S) OF STATE     |
|-------------|------------------------|----------------------|------------------------|----------------------|-------------------|-------------------------------------------------------------------|----------------------|
| 1960        | 0.743                  | Fixed Rate           | 4.0                    | Fixed                | 2.4               | Civilian (parliamentary) market system with planning and control. | N. Azikiwe/T. Balewa |
| 65          | 0.7143                 | Fixed Rate           | 4.00                   | Fixed                | 2.4               | Civilian f parliamentary)                                         | N. Azikiwe/T.        |

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|------|--------|-----------------------------|-------|-------------------------|------|------------------------------------------------------------------|------------------------------|
|      |        |                             |       |                         |      | market system with planning and control.                         | Balewa-                      |
| 1966 | 0.7113 | Fixed Rate                  | 4.00  | Fixed                   | 2.0  | Military market system demand management.                        | A.Ironsi/ Y. Gowon           |
| 1970 | 0.7113 | Fixed Rate                  | 4.00  | Fixed                   | 13.8 | Military market system demand management                         | A. Irons Y. Gowon            |
| 1975 | 0.6168 | Managed float               | 1.00  | Fixed                   | 33.9 | Military- market system: Demand management, planning and control | Mahammed/Obasanjo            |
| 1980 | 0.3461 | Pegged to a currency basket | 6.50  | Fixed                   | 9.9  | Civilian market system                                           | (79-83) S. Shagari/A. Ekweme |
| 1981 | 0.6052 | Pegged to a currency basket | 6.50  | Fixed                   | 20.9 | Civilian market system                                           | 83-85 M. Buhari              |
| 1982 | 0.6731 | Pegged to a currency basket | 8.00  | Fixed                   | 7.7  | Civilian market system/Austerity measures                        | 83-85 M. Buhari              |
| 1983 | 0.7506 | Pegged to a currency basket | 8.00  | Fixed                   | 23.2 | Military market system, controls and stabilization measures      | 83-05 M. Buhari              |
| 1984 | 0.7672 | Pegged to a currency basket | 10.00 | Pegged/managed floating | 39.6 | Military market system, controls and stabilization measures      | 83-85 M. Buhari              |
| 1985 | 0.8924 | Pegged to a currency basket | 10.00 | Pegged/managed floating | 5.5  | Military market system, controls and stabilization measures      | 83-85/ 1. Babangida          |

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|      |          |          |       |                         |      |                                                                       |                |
|------|----------|----------|-------|-------------------------|------|-----------------------------------------------------------------------|----------------|
| 1986 | 1.7323   | Floating | 10.00 | Pegged/managed floating | 5.4  | Military market system, structural Adjustment                         | IBB            |
| 1987 | 3.9691   | Floating | 15.80 | Pegged/managed floating | 10.2 | programme (liberalization, less government in theory)                 | IBB            |
| 1988 | 1.5367   | Floating | 14.30 | Pegged/managed floating | 38.3 |                                                                       | IBB            |
| 1989 | 7.3657   | Floating | 21.20 | pegged/managed floating | 40   |                                                                       | IBB            |
| 1990 | 8.9378   | Floating | 23.00 | Pegged/managed floating | 7.5  |                                                                       | IBB            |
| 1991 | 17.2981  | Floating | 20.10 | Pegged/managed floating | 13.0 |                                                                       | IBB            |
| 1992 | 17.298-1 | Floating | 20.10 | Pegged/managed floating | 44.5 |                                                                       | IBB            |
| 1993 | 22.0000  | Floating | 28.02 | Pegged/managed floating | 57.2 | August-Nov 1993 (interim/civilian /market system Nov. 1993- June 1998 | IBB/E Shonekan |
| 1994 | 21.8861  | Floating | 15.00 |                         | 57.0 | Military- market system - guided deregulation                         |                |
| 1996 | 21.8861  | Floating | 13.55 | Pegged/managed floating | 29.3 | Military- market system - guided deregulation                         | S. Abacha      |
| 1997 | 21.8861  | Floating | 7.43  | Pegged/ma               | 8.5  | Military-market                                                       | S. Abacha      |

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|      |        | Flexible              |      | managed            |      | continuing             |           |
|------|--------|-----------------------|------|--------------------|------|------------------------|-----------|
| 2011 | 158.27 | Floating/<br>Flexible | 6.30 | Pegged/<br>managed | 10.3 | 2011 and<br>continuing | Johnathan |
| 2012 | 157.33 | Floating/<br>Flexible | 6.72 | Pegged/<br>managed | 11.3 | 2012 and<br>continuing | Johnathan |
| 2013 | 157.26 | Floating/<br>Flexible | 7.92 | Pegged/<br>managed | 9.7  | 2013 and<br>continuing | Johnathan |
| 2014 | 169.68 | Floating/<br>Flexible | 9.99 | Pegged/<br>managed | 9.5  | 2014 and<br>continuing | Johnathan |
| 2015 | 161.42 | Floating/<br>Flexible |      | Pegged/<br>managed |      | 2015 and<br>continuing | Buhari    |
| 2016 | 162.79 | Flexible              |      | Pegged/<br>managed |      | 2016 and<br>continuing | Buhari    |
| 2017 | 163.81 | Flexible              |      | Pegged/<br>managed |      | 2017 and<br>continuing | Buhari    |

**Note:** Official exchange rate terminated in December 1998

**Source:** Ekpo (1996, p. 47)

- Updated by the author

- Central Bank of Nigeria (CBN) Macroeconomic indicators as at Dec. 2014.

The foreign exchange is liable to changes due precisely to prolonged or sustained disequilibrium in the balance of payments.

Flexible (floating) exchange rate could also be divided into two types namely: Flexible managed float - where there is compatible government intervention such as the guided deregulation from work of foreign exchange market flexible clean floating where there is no government intervention, market mechanism prevails significantly.

### 3. MONETARY POLICY AND EXCHANGE RATE

In the formulation of monetary policy, it is pertinent to emphasize that the centrality of exchange rate derives from the simple fact that for most countries the prevailing objective of monetary policy is price stability, full employment, economic growth and balance of payments. Mundell (1968) and Mckinnon (1971) view exchange rate policy as a facet of monetary policy. There has been articulations on the appropriate choice of monetary policy framework and exchange rate regime, thus

despite/these articulations vis-avis theoretical and empirical works, a general consensus on the "right" policy framework is yet to emerge. A number of regimes have been appraised in economic literature, starting from the extreme regions, that is, the fixed exchange rate (currency union and board up to free floating, intermediate regimes, that is, adjustable or crawling peg and target zones/crawling bands). Numerous theoretical arguments and experiences in relation to the relative stability of the exchange rate during these different regimes abound. Thus, the choice of regime and the typology of political regimes have severe impacts on the monetary policy of a country. The focus has been on whether a country would perform better or otherwise, under a flexible or fixed rate arrangement. World Economic outlook (1997) and flood (1989) suggest that small open economies perform better during a fixed exchange rate regimes. Thus in the same vein it is opined that the more geographically concentrated a country's trade and the less diversified its production structure and export than more advisable it is for a country to attach importance to a fixed exchange rate regime. In the fight against inflation/ policy makers and economic thinkers deem it convenience to adopt a fixed exchange rate. Achieving price stability could be as a result of adopting fixed exchange rate to control inflation. This undermines policy flexibility and affects internal and external balance. An acceptable regime is that which guarantees macroeconomic stability. In a globalized financial market' as demonstrated in the recent Argentine experience, adopting a fixed exchange rate regime becomes exceedingly difficult to defend. In sum/ a fixed exchange rate regime calls for pegging the exchange rate of the domestic currency to a reference currency. A floating exchange rate regime signifies that the forces of demand and supply will determine the exchange rate.

#### **4. EXCHANGE RATE PATTERN AND TREND IN NIGERIA**

The Exchange rate policy in Nigeria has been revolving in a circle beginning from a fixed exchange rate policy of 1960 - 1986, a flexible exchange rate system from 1986-1993 and to a momentary halt and then to deregulation in 1994. This was when the official exchange rate was pegged while the reversal of policy followed in 1995 with the "guided deregulation" of the foreign exchange market through exchange rate liberalization" and the institutionalization of exchange rate mechanism. The policy thrust of 1995 continued in 1996 and 1997. 1998 witnessed the dual exchange rate system being retained. Apart from those official transactions approved by the head of state/ all official transactions were handled in the Autonomous foreign exchange market (AFEM). In October 1999/ the AFEM was replaced with an inter-bank foreign exchange market (AFEM). This result of market imperfections and sustained instability in the exchange rate of the naira. The replacement of AFEM in October 1999 with an inter bank foreign exchange market (IFEM) in October 1999 was after an initial period of co-existence. In the inter-bank foreign exchange market, the market was conducted on daily basis in dispensation and oil companies were allowed to keep foreign exchange with banks of their choice contrary the previous arrangement and practice in which it was declared mandatory for them to keep such funds with the central bank only. In the year 2002, Thomas cook was allowed permission to transact foreign exchange business on travelers cheques in Nigeria.

This reduces the undesirable implications of the black (parallel market and deepens the foreign exchange market as the central bank continues to fine tune the interbank foreign exchange market so as to ensure its effectiveness and efficiency.

#### **5. PRE-SAP ERA: FIXED EXCHANGE RATE**

A number of measures have been put place so as to operate the fixed exchange rate system that was in place in the pre SAP era. In the determination of Exchange rate, economic goals have been considered as being the basic factors. But between 1962 to 1986, a period of exchange rate control, there was the application of adhoc administrative measures. About two years after independence and continuing up to-1973. Nigerian currency was pegged at the ratio of 11 with the British pound sterling. The pound sterling was latter devalued by 10 per cent. In 1981, the policy changed to that of gradual depreciation of the naira against United State dollars or British, pound sterling depending on which ever was found stronger. Besides, the Nigerian Central Bank (CBN) adopted the basket-of-currencies strategy from 1980 up to 1985 as stated in the table above. This demonstrated the movement as well as serving as a guide in the determination of the exchange rate movement. The relative strength of the currencies of the country's trading partners in relation to the volume of trade with countries determined Exchange rate during this regime. As the nation continued to loose reserves due largely to excessive importation and rapid outflow of foreign exchange, there was a policy reversal in 1981. This was aimed at attacking the deteriorating external sector position. The over valuation of the naira was recognized as a source of concern by the authorities. The depreciation of the naira was to stem the tide of outflow of foreign exchange by way of hostelling import demand. This policy could not reverse the deteriorating condition in the country. The situation was worse with all the attendant problems associates with continuous accumulation of the payment arrears and the erosion of the nations credit worthiness. The basket of currencies approach was adopted as a guide in determining the direction of exchange rate movement as earlier stated above.

### **FLEXIBLE EXCHANGE RATE REGIME DURING SAP (1986-93)**

In September, 1986 a major policy reversal became essential and the fixed exchange rate mechanism was discarded as a means of determining the naira exchange rate. This was replaced with a flexible exchange rate mechanism. The naira was permitted to find its level in accordance with the strength of demand and supply of foreign exchange. Put simply, the system was propelled by market forces of demand and supply. To achieve its aim the monetary authorities retained the discretion of directing and intervening in the foreign exchange market so as to influence the course of exchange rate movement.

In the search for a realistic exchange rate of the naira, a number of methods were applied. Specifically naira was floated in the second tier foreign exchange market (SFEM) on the 26th of September 1980. Since the first tier was in operation, a dual exchange rate mechanism was in operation during this period. This was a carryover from the fixed exchange rate system. The dual exchange rate was adopted so as to guide against the destabilizing impacts of a full scale adoption of the market mechanism. Excluded from SFEM were pre-SFEM transactions debt service payment, contribution to international organization and expenses of embassies. These were handled and settled at the First Tier rate. Second-Tier rate was determined by Auction at the SFEM. The pricing methods put in place to determine the naira rate were average of successful bids, marginal rate pricing and the Dutch Auction system (DAS) in April 1987. By July of same 1987, the first and second Tier markets were merged into a single foreign exchange market (FEM). In 1988 autonomous market was created. It was found destabilizing in view of its speculative characteristics. In January 1989 Autonomous market was merged with FEM. This year also witnessed the creation of inter-bank foreign exchange market (IFEM) and exchange rate under this regime was determined through any and or all of the following.

- i. Marginal rate pricing
- ii. Average rate pricing
- iii. Highest and lowest bid
- iv. Weighted average pricing and
- v. Average of successful bids development in the exchange rate of international currencies could be and was monitored by central bank of Nigeria. This acted as a protective guide of determining (estimating) the acceptable/desirable level of the Naira exchange rate.

By the September 1990 the IFEM was modified and DAS re-introduced. In order to stem the tide and or reduce the rapid depreciation of the naira. the model weighted average method was introduced in August 1991. In March 1992, there was the complete floating of the naira in view of continuous instability (Fluctuations) in the IFEM even after having introduced the model weighted average method. There was the widening of parallel market premium as a result of this instability. The central bank had to adjust the official exchange rate to move at par with parallel market exchange rate. The CBN continued to meet all demands until reserve was drastically depleted. This necessitated the suspension of sales of foreign exchange by CBN on December 15, 1992. On January 12, 1993 sales resumed, DAS was the basis of the next auction of February 18, 1993. The DAS Auction of February 24, 1993 represented a sharp depreciation evidencing successive reactions of depreciation. Pro-rata system of exchange rate allocation was adopted. This ensured meeting all demand for foreign exchange at least in part. From April 15, 1993, the rate stabilized at N1.8860 = \$1.00 on an average basis. This records successive appreciation of the exchange rate. There was persistent depreciation of the parallel market exchange rate which led to widening of the parallel market premium beyond 100 per cent in view of the persistent de-facto pegging of the official exchange rate in the last quarter of 1993.

### **POST SAP ERA-EXCHANGE RATE REGIME-GUIDED DEREGULATION (1994-1999)**

Guided deregulation was associated with the return of policy to flexible exchange rate. Thus unpleasing situations occurred as the re-regulation of exchange rates in 1994 made the Nigeria economy worse than the previous regimes. Naira depreciated sharply and the policy objectives could not be achieved. This sharp depreciation was in the parallel (black) market in that the parallel market premium widened. Stability in the exchange rate and foreign exchange market was an illusion. Balance of payment was under serious pressure. Furthermore, - there was a decline in non-oil receipts. The demand for foreign exchange took an upward trend as it became unsustainable in the face of standard of supply of foreign exchange. Other implications include but are unrestricted to the fact that domestic output performed exceedingly poor and inflationary trend exacerbated. All macroeconomic variables performed abysmally poor. This led to the ardent policy reversal in 1995 from regulation to a liberalized guided deregulation of the foreign exchange market. By this arrangement, bureaux De change were granted the license of buying and selling foreign exchange as was the case in the 1994 policy arrangement which restricted them to buying agents. A basic feature of this deregulation was the reintroduction of the autonomous market for Foreign

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Exchange (AFEM) in the disbursement" of foreign exchange to end-users. This was through selected banks. Here a rate of  $\text{₦}1.00 = \text{₹}22.0$  was reserved and subsidized for public sector transactions of non commercialized agencies. It embraced debt services payment and priority projects of National status. Appreciable and distinguishing feature of the new AFEM in relation to the abolished one of 1989 include: the expanded institutional scope of the new AFEM, Abolition of inter-bank dealings with official intervention funds in the market. The pre 1998 arrangement favoured autonomous market and was exclusively inter-bank market arrangement thus making official foreign exchange to be eligible for transaction. Under guided deregulation for the year 1995, building external reserves aimed at improving the credit worthiness of the Nigeria economic system and its competitiveness was a major objective of foreign exchange and exchange rate policy. Another goal was the strengthening of Naira geared at moving the currency towards gradual convertibility. The foreign exchange holdings of the Apex Financial Institution of Nigeria were deployed to build up reserves as well as finance priority public sector transactions such as debt service payments. The Central Bank's foreign exchange was also to ensure intervention in the foreign exchange market aimed at reasonable stability in exchange rates. The Autonomous foreign Exchange Market (AFEM) was saddled with some anticipated responsibilities which include but are not exclusively restricted to:

- Reduction of parallel market premium.
- Ensuring the gradual convergence of the various exchange rates in a
- Single and enlarged foreign exchange market.
- Inducing persistent increase in the non-oil export receipts.
- Reduction of demand pressures in the foreign exchange market.
- Stabilization of the naira exchange rates.

The Central Bank of Nigeria had the role of intervening in the market regularly as appropriate and could sell foreign exchange to ultimate users through selected authorized dealers. This was to tackle the constraints associated with AFEM and guide against exchange rate fluctuation. In order to stabilize exchange rates, the Central Bank could also buy foreign exchange from AFEM. 1995 equally witnessed the abrogation of Exchange control Act of 1962, the enterprises Promotion Decree of 1989 and the permission granted to exporters to sell export proceeds at autonomous rates to banks other than those in which they maintained domiciliary accounts. In 1996 exchange rate policy thrust was maintained, the central bank's intervention of discretionary basis in respect of the AFEM was regulated. This was by way of directing bank to embark on intervention strictly on monthly interval in 1996 but the intervention strategy stabilized on weekly interval as at October 1999. Dual exchange rate though modified in 1998 had been retained in 1997. Most foreign exchange transactions were carried out at the AFEM. Even though some macroeconomic aggregates showed prudent improvement in 1995 in relation to the 1994 performance, there was on astronomical (upward) trend of inflation. The exchange rate stabilized at the AFEM. The rate at this point was about  $\text{₦}1.00 = \text{₹}1.00$  and  $\text{₦}85 = \text{₹}1.00$ . Monetary stability was maintained as the fiscal operation of movement resulted in an enlarged surplus. The naira was overvalued going by the purchasing power parity (PPP) rate of a little above  $\text{₦}88 = \text{₹}1.00$ , thus some stability was maintained in the AFEM at the end of 1997. Thus the exchange rate of naira was realistic with effect from the introduction of the AFEM. But there has been an overvaluation of the naira based on current trend in IFEM and developments in domestic prices. There has also been a reversal of the initial undervaluation of the naira and stability recorded when IFEM came into force in October 1999 as reflected by the narrowing of the parallel market premium. The reversal is as a result of some factors one of which is the imperfection which the central Bank is tackling. Practically, the Apex financial institution has been the main seller with little foreign exchange to buy from the market.

## **Policy implications of tackling exchange rate instability through imported adjustment programmes in Africa.**

The adjustment programmes imported into Africa from World Bank/International Monetary Fund has its salutary implications on the African Economy of which Nigeria is included. This scenario is daily increasing the competence gap and reducing the propensity to perform by African countries. The "Vanguard economies" use their technological and economic superiority to Africa's competence to the total disadvantage of Africa. The continent continues to dance according to the tunes and dictate of the IMF and the World Bank which are controlled and manipulated from Triad axes. With the introduction and dictated of free trade, deregulation and privatization and liberalization of foreign exchange the degree of development in most African countries such as Nigeria among others has deteriorated since 1980's and continuing. The majors indices to show the extent of deterioration can be seen in the behaviour of the currencies of African countries, their per capita income and external public debts overtime.

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|    |                |                    |   |         |         |           |          |          |           |         |
|----|----------------|--------------------|---|---------|---------|-----------|----------|----------|-----------|---------|
|    |                |                    | 2 | 8.2     | 23.3    | 53.4      | 65.0     | 75.0     | 85.0      | 95.0    |
| 24 | Lesotio        | Malati             | 1 | 0.8     | 2.6     | 3.6       | 5.5      | 6.1      | 9.3       | 19.3    |
|    |                |                    | 2 | Nil     | 2.7     | 3.7       | 5.8      | 6.5      | 10.0      | 20.0    |
| 25 | Liberia        | Dollar             | 1 | 1.0     | 1.0     | 3.6       | 5.5      | 6.1      | 60.2      | 70.2    |
|    |                |                    | 2 | 1.0     | 1.5     | 3.7       | 5.8      | 6.5      | 66.6      | 76.8    |
| 26 | Madagascar     | Malagas<br>y Franc | 1 | 211.3   | 1,494.2 | 4,265.6   | 5,441.4  | 6,283.8  | 7,500.0   | 7510.0  |
|    |                |                    | 2 | 265.0   | 1,589.2 | 4,387.5   | 5,582.1  | 6,150.0  | 7,800.0   | 7810.0  |
| 27 | Malawi         | Kwacha             | 1 | 0.8     | 2.7     | 15.3 16.7 | 31.1     | 44.1     | 81.6      | 91.6    |
|    |                |                    | 2 | 1.6     | 3.3     |           | 35.5     | 52.0     | 92.0      | 102.0   |
| 28 | Mali           | CFA<br>Franc       | 1 | 211.3   | 272.3   | 499.1     | 590.0    | 615.7    | 660.5     | 670.5   |
|    |                |                    | 2 | 209.5   | 281.8   | 499.3     | 1605.8   | 625.7    | 805.0     | 815.0   |
| 29 | Mauritania     | Onguiya            | 1 | 45.9    | 80.6    | 129.8     | 139.0    | 209.2    | 267.0     | 277.0   |
|    |                |                    | 2 | 65.0    | 90.0    | 139.3     | 197.5    | 220.0    | 268.5     | 278.5   |
| 30 | Mauritius      | Rupee              | 1 | 7.7     | 11.9    | 17.1      | 21.0     | 25.0     | 29.5      | 39.5    |
|    |                |                    | 2 |         | 15.7    | 18.2      | 25.1     | 27.0     | 30.0      | 40.0    |
| 31 | Mozambiqu<br>e | Metical            | 1 | 32.1    | 929.1   | 8,889.8   | 11,874.6 | 12,775.1 | 23,31,346 | 2344.34 |
|    |                |                    | 2 | 80.0    | 1360.5  | 9,865.7   | 12750.0  | 13550.0  | .5        | 16.5    |
| 32 | Namiba         | RAND               | 1 | 0.8     | 2.6     | 3.6       | 5.5      | 1.1      | 8.1       | 18.1    |
|    |                |                    | 2 | 0.9     | 3.0     | 1.1       | 6.0      | 6.5      | 9.2       | 19.2    |
| 33 | Niger          | CFA<br>Franc       | 1 | 211.3   | 272.3   | 4199.1    | 590.0    | 615.7    | 660.5     | 670.5   |
|    |                |                    | 2 | 209.5   | 281.8   | 499.3     | 593.3    | 620.8    | 780.0     | 790.0   |
| 34 | Nigeria        | Malta              | 1 | 0.8 0.9 | 9.2     | 11.9      | 21.9     | 92.3     | 128.8     | 138.8   |

fluctuations and instability of African countries of which Nigeria is one. The official exchange rate and the black/ market (parallel market) in African countries are characterized by different political regimes in these countries aimed at achieving stable macroeconomic environment.

**Table 3: Official exchange rates and black market (parallel market) rates: Number of national currency units per US\$ in African Countries, (1980-2016)**

|    |                                        |                |   |         |        |          |          |          |          |          |
|----|----------------------------------------|----------------|---|---------|--------|----------|----------|----------|----------|----------|
|    | (Brazzaville)                          |                | 2 |         | 281.8  |          | 608.8    | 625.7    | 680.00   | 690.0    |
| 13 | Cote d'Ivoire<br>(Ivory Coast)         | CFA Franc      | 1 | 211.3   | 272.3  | 499.1    | 590.0    | 61.7     | 660.5    | 670.5    |
|    |                                        |                | 2 | 203.5   | 281.8  | 499.3    | 606.5    | 625.7    | 805.0    | 815.0    |
| 14 | Djibouti                               | Djibouti Franc | 1 | 177.7   | 177.7  | 198.5    | 177.7    | 177.7    | 175.0    | 185.0    |
|    |                                        |                | 2 | nil     | 191. B |          | 183.9    | 183.9    | 195.0    | 205.0    |
| 15 | Equatorial Guinea<br>(Fernando Island) | CFA Franc      | 1 | 110.6   | 272.3  | 499.1    | 590.0    | 615.7    | 660.5    | 670.5    |
|    |                                        |                | 2 | 209.5   | 281.8  | 586.4    | 593.3    | 625.7    | 805.0    | 815.0    |
| 16 | Eritrea                                | Birr           | 1 | -       | -      | 6.8      | 7.4      | 8.5      | 8.5      | 18.5     |
|    |                                        |                | 2 | -       | -      | 10.5     | 10.8     | 11.5     | 11.9     | 21.9     |
| 17 | Ethiopia                               | Birr           | 1 | 2.1 2.8 | 2.6    | 5.9      | 6.9      | 7.5      | 8.5      | 18.5     |
|    |                                        |                | 2 |         | 6.0    | 10.7     | 11.8     | 12.5     | 12.7     | 22.7     |
| 18 | Gabon                                  | CFA Franc      | 1 | 211.3   | 272.3  | 499.1    | 590.0    | 615.7    | 660.5    | 670.5    |
|    |                                        |                | 2 | 209.5   | 281.8  | 499.3    | 593.3    | 625.7    | 805.0    | 815.0    |
| 19 | Gambia                                 | Dated          | 1 | 1.7 1.7 | 7.9    | 9.5      | 10.6     | 11.1     | 23.0     | 33.0     |
|    |                                        |                | 2 |         | 8.3    | 10.4     | 11.0     | 12.5     | 30.6     | 40.6     |
| 20 | Ghana                                  | Cede           | 1 | 9.6     | 326.3  | 1,200.-1 | 2,311.1  | 2,617.3  | 6,231.4  | 8,241.4  |
|    |                                        |                | 2 | 15.9    | 360.8  | 1,224.3  | 2,500.0  | 2,700.0  | 9,100.0  | 9,110.0  |
| 21 | Guinea                                 | Franc          | 1 | 19.0    | 660.2  | 99 1 .1  | 1,236.8  | 1,313.6  | 1,971.0  | 1,981.0  |
|    |                                        |                | 2 | 41.7    | 693.3  | 1,017.9  | 1,350.0  | 1,610.0  | 1,850.0  | 1,860.5  |
| 22 | Guinea Bissau                          | CFA Franc      | 1 | 0.8     | 33.6   | 278.0    | 590.0    | 615.7    | 660.5    | 670.5    |
|    |                                        |                | 2 | nil     | Nil    | 19,167.0 | 26,890.0 | 27,850.0 | 28,500.0 | 28,510.0 |
| 23 | Kenya                                  | Shilling       | 1 | 7.4     | 22.9   | 51.4     | 60.4     | 70.4     | 79.9     | 89.9     |

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|----|----------|-----------|---|---------|-------|---------|---------|---------|---------|---------|
| 45 | Togo     | CFA franc | 1 | 211.3   | 272.3 | 199.1   | 590.3   | 615.7   | 660.5   | 670.5   |
|    |          |           | 2 | 209.5   | 291.8 | 199.3   | 593.3   | 620.8   | 780.0   | 790.0   |
| 46 | Uganda   | Shilling  | 1 | 1.075.7 | 319.6 | 932.5   | 1,149.7 | 1,362.1 | 1,843.0 | 1353.0  |
|    |          |           | 2 |         | 85.8  | 1,076.1 | 1,305.0 | 1,710.0 | 1,920.0 | 1930.0  |
| 47 | Zambia   | Kwacha    | 1 | 0.8     | 34.5  | 864.1   | 1,862.1 | 2,388.0 | 5,070.0 | 5080.0  |
|    |          |           | 2 | 1.3     | 121.3 | 935.6   | 1,960.5 | 3,100.5 | 5,500.1 | 55105.5 |
| 48 | Zimbabwe | Dollar    | 1 | 0.61.9  | 2.1   | 0.7     | 21.1    | 30.3    | 55.1    | 65.1    |
|    |          |           | 2 |         | 1.5   | 9.2     | 39.2    | 57.5    | 60.9    | 70.9    |
| 49 | Algeria  | Dinar     | 1 | 3.8     | 9.0   | 17.7    | 58.7    | 66.6    | 79.9    | 89.9    |
|    |          |           | 2 | 10.9    | 29.8  | 131.9   | 129.8   | 138.0   | 150.0   | 160.0   |
| 50 | Egypt    | Pound     | 1 | 0.70.8  | 2.2   | 341     | 3.4     | 3.4     | 4.8     | 14.8    |
|    |          |           | 2 |         | 2.6   | 3.4     | 3.4     | 3.7     | 5.9     | 15.9    |
| 51 | Libya    | Dinar     | 1 | 0.30.5  | 0.3   | 0.3     | 0.6     | 0.8     | 1.2     | 11.2    |
|    |          |           | 2 |         | 1.0   | 1.3     | 2.2     | 2.4     | 2.6     | 12.6    |
| 52 | Morocco  | Duham     | 1 | 3.91.1  | 8.2   | 8.5     | 9.6     | 9.8     | 10.6    | 20.6    |
|    |          |           | 2 |         | 9.3   | 8.6     | 11.1    | 11.2    | 11.5    | 21.5    |
| 53 | Tunisia  | Dinar     | 1 | 0.4     | 0.9   | 0.9     | 1.1     | 1.2     | 1.4     | 11.4    |
|    |          |           | 2 | 0.4     | 0.9   | 0.9     | 1.1     | 1.4     | 1.6     | 11.6    |

Note: 1. Official exchange rate

2. Black market (parallel) rate.

Sources:

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|----|--------------------------|------------|---|-----------|-------|----------|---------|---------|---------|--------|
|    |                          |            | 2 |           | 9.3   | 78.3     | 85.0    | 101.5   | 140.0   | 150.0  |
| 35 | Rwanda                   | Franc      | 1 | 92.8      | 82.6  | 262.2    | 312.3   | 333.9   | 455.0   | 495.0  |
|    |                          |            | 2 | 115.0     | 104.2 | 268.1    | 360.0   | 350.0   | 575.0   | 485.0  |
| 36 | Sao Tot Lie And Principe | Boha       | 1 | 3-1.8 nil | 143.3 | 1,120.3  | 6,883.2 | 7,119.0 | 7,250.0 | 7260.0 |
|    |                          |            | 2 |           | Nil   | 1,503.3  | 7,100.0 | 7,200.0 | 7,300.0 | 7310.0 |
| 37 | Senegal                  | CFA Franc  | 1 | 211.3     | 272.3 | 199.1    | 590.0   | 615.7   | 660.5   | 760.5  |
|    |                          |            | 2 | 209.5     | 281.8 | 199.3    | 593.3   | 615.7   | 805.0   | 815.0  |
| 38 | Seychelles               | Rupee      | 1 | 6.1 6.5   | 5.3   | 1.3      | 5.3     | 5.3     | 5.6     | 15.6   |
|    |                          |            | 2 |           | 5.9   | 5.5      | 5.4     | 5.5     | 6.6     | 16.6   |
| 39 | Sierra Leone             | ! L-one    | 1 | 1.0       | 151.1 | 755.2    | 1,563.6 | 1,801.2 | 1,700.0 | 1710.0 |
|    |                          |            | 2 | 1.4       | 170.6 | 711.3    | 1,605.0 | 1,950.0 | 2,120.0 | 2120.0 |
| 40 | Somalia                  | Shilling   | 1 | 6.3       | 1,896 | 1,9-19.2 | 2,605.0 | 2,200.0 | 2,620.0 | 2630.0 |
|    |                          |            | 2 | 9.9       | .1    | 6,519.2  | 5,919.3 | 6,155.0 | 7,250.0 | 7260.0 |
|    |                          |            |   |           | 1,982 | .1       |         |         |         |        |
| 41 | South Africa             | Rand       | 1 | 28.8      | 2.6   | 3.6      | 5.5     | 6.1     | 9.3     | 19.3   |
|    |                          |            | 2 | 0.9       | 2.7   | 3.7      | 6.0     | 7.4     | 9.8     | 19.8   |
| 42 | Sudan                    | Dinar      | 1 | 0.6 1.0   | 12-2  | 580.9    | 2,008.0 | 2,252.5 | 2,587.0 | 2597.0 |
|    |                          |            | 2 |           | 13.6  | 77.5     | 250.0   | 2,100.0 | 3,750   | 3760.0 |
| 43 | Swaziland                | Lilangen i | 1 | 0.8 0.9   | 2.6   | 3.6      | 5.5     | 6.1     | 9.6     | 19.6   |
|    |                          |            | 2 |           | 2.7   | 3.5      | 6.0     | 7.4     | 10.8    | 7.0.8  |
| 44 | Tanzania                 | Shilling   | 1 | 8.2       | 195.1 | 574.8    | 664.7   | 744.8   | 985.0   | 995.0  |
|    |                          |            | 2 |           | 292.4 | 587.3    | 730.0   | 950.8   | 1,100.0 | 1110.0 |

World Almanac and Book of Facts 2003. New York USA, 2003, pages 756- 855. In exchange rate determination economic goals have been considered fundamental in this process from the earliest times. Unified exchange system in a cross country survey revealed striking similarities and distinctive feature. . The patterns and trends have proved positively upward from 1986 to 1997 and above. AFEM is viewed a channel for the funding of end-users' request for foreign exchange at market determined rate. The above survey has distinctive implications on the Nigerian economy, thus the paper therefore advocates a

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more guided liberalizations of the foreign exchange market. A structural reform of the economy with policy shift from counter productive to market administered exchange rate potentialities also advocated others are guided export licensing liberalization and pegging of interest rate should be aimed at stimulating the productive sectors of the economy as well as enhance the non-oil export production, exchange earnings and balance of payments.

## **Sustainable exchange rate stability-the need to bridge the gap between official exchange rate and black market**

A bold examination of Table 3 reveal the details of official Exchange Rates and black Market (parallel market) rates and the number of national currency units per US \$ in 53 African countries for the year 1980 to 2002. The lacuna (gap) Created between the official exchange rate and the black market rate is glaring and has been so for some years. In Nigeria, the National currency is Naira and for the years 1980, 1990, 1995, 1998, 1999 and 2002, the official exchange rates were 0.8, 9.2, 21.9, 21.9, 92.3 and 128.8 respectively as compared to black market (parallel market) Rates of 0.8 (1980), 101.5 (1999) and 40.0 for 2002. The difference is remarkable most especially for 1995, (56.4), 1998 (63.1), 1999 (9.2) and 2002 (11.2). In Central African Republic the picture is similar to Nigeria in the sense that fluctuation also becomes paramount. The official exchange rate for 1980 was 21.3, 272.3 (1990), 499. (1995), 590.0 (1998), 6157 (1999) and 660.5 (2002). With the National currency of Central Africa Republic as CFA Franc, the Black Market (parallel market) Rates were 1980 (209.5) below the official exchange rate, 281.8 (1990), 499.3 (1995), 605.8 (1998), 625.0 (1999) and 805 (2002) respectively. In Cote D'Ivoire (Ivory Coast) the gap was not so pronounced as that of Nigeria. It reflected the situation in Central African republic with similar National currency. In the Benin Republic, Burkina Faso, Cameroon, Central, African Republic, Chad, Cote D'Ivoire (Ivory Coast), Comoros Republic, Congo Republic (Brazzaville), Equatorial Guinea (Fernando Island), Guinea, Mali, Niger, Senegal and Togo with similar National currency (CFA Franc), the gap between official exchange rate and the black market was minimal compared to Guinea Bissau with same National currency but with a wide gap between the official exchange rate and the black market. In this country the official exchange rate for 1980 was 0.8, 33.6 (1990), 278.0 (1995), 590.0 (1998), 615.7 (1999) and 660.5 (2002). The Black market rates were as follows 19167.0 (1995), 26890.0 (1998), 27,850.0 (1999), and 28,500.0 (2002). It is evident that there has been fluctuation between the official exchange rate and the black market in almost all African countries. The official currency exchange rate is in terms of US dollars for the 53 countries in Africa with eminent instability and or change. African countries are subjected to dollarization of their National currencies and has black market that determines the value of National currencies in African countries. In Europe, North America and Japan black market syndrome in dollar currencies are not tolerated. It is breaking therefore and thought provoking that the IMF and World Bank adopt the black market syndrome as the yardstick of determining the value of the currency in African countries.

## **ADVOCACY, EARLY SIGNALS AND CONCLUDING REMARKS**

The main focus of this paper is to examine the exchange rate and typology of political regimes in a recessed Economy with particular reference to Nigeria. Evidence provided by stylized facts and related facts reveal that the typology of political regimes impact significantly on the exchange rate management in Nigeria over the years. Exchange rate management has witnessed instability, different regimes of fixed exchange rate policy, flexible exchange rate system and deregulation in time perspective ranging from pre Structural Adjustment Programme (SAP) era, during SAP up to the post SAP regime. The policy implication of tackling instability through imported programmes is that with the introduction and dictated free trade, deregulation, liberalization. of foreign exchange during different political regimes, the extent of development in most African countries such as Nigeria has deteriorated since the 1980s and continuing. This is evident in the behaviour of currencies, per capita income and external public debt in African countries. The situation in different countries is unique in their merit and distinction. The Nigeria policy has at various times operated both the flexible and fixed (managed float) exchange rate regimes. This yielded mixed results. Emphasis has been shifted from tight managed float (that is with a band around the mid point) to a more flexible exchange rate regime. This became imperative when the Nigerian Economy was technically in a recession and had witnessed two successive quarters of negative output growth (GDP) This is a danger signal to more economic strangulation in the future. This paper maintains that the best regime is the one that stabilizes macroeconomic performance. This is in relation to reducing and or controlling instability in output, consumption, domestic price level and other key macroeconomic variables. Exchange rate management in any regime should not ignore the macroeconomic objectives of price stability, balance of payments viability, reduction of unemployment vis-a-vis economic, empowerment/wealth creation and sustained economic growth. The federal government is hereby urged to implement the Economic Recovery and growth plan effectively. A deviation from the above renders the activities of any regime programme illusory capable of increasing economic woes.

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