

## CHAPTER EIGHTEEN

# EXCHANGE RATE UNIFICATION POLICY IN NIGERIA: IMPLICATIONS FOR INTERNATIONAL VALUE OF THE NAIRA AND DOMESTIC PRICE LEVEL

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### Abstract

This study examined the effect of exchange rate unification policy adopted by Nigeria in June 2023 as it affects the value of the Naira and domestic prices in Nigeria making comparisons between two periods, 15 months before the policy and 15 months after the policy. In all the study covers the period 2022 to August 2024 based on data availability. The study combined bar charts and graphs to draw home the effects and it was found that, as soon as the manage float exchange rate was abolished and a unified exchange rate regime was instituted, the naira depreciated very fast and it was accompanied by sharp increases in prices of all goods and services but the situation was worse with food prices. The study therefore sued for a temporary suspension of the unified exchange rate regime, government to encourage farmers to produce more and to engage in selective imports prohibition and exports promotion strategies to reduce the pressure on the dollar and improve the strength of the naira.

**Keywords:** Domestic prices, Exchange Rate, Naira's International Value, Unification Policy

## 1. Introduction

The world is increasingly becoming especially as advances in information and communication technology are getting more profound in the 21<sup>st</sup> century. There is hardly any country that exists in autarky as world economies are becoming more and more integrated through exchange of goods and services and settlements for same via an exchange rate system for their currencies. where advances in information and communication technology has become very profound. This has made it nearly impossible for independent countries to exist as islands to the exclusion of the rest. According to Obadan (2006), when it comes to determining overall economic policy and implementing economic reform initiatives, the exchange rate is a crucial macroeconomic determinant. To Mordi (2006), exchange rate is the key price variable in any economy with the dual mandate of maintaining global competitiveness and anchoring domestic prices.

Exchange rate can best be described as “the price of one currency expressed in terms of another” and there two popular ways through which exchange rates can be converted; the direct or indirect methods. The former, expresses the exchange rate as the price of the home currency in terms of one unit of foreign currency (for example, N1,621.89 = \$1), while the latter expresses the exchange rate as the price of foreign currency in terms of one unit of home currency (for instance, N1=\$0.00062). Adoption of these conventions is particularly important when emphases are to be made on the performance of a currency, in terms of whether it is appreciating or depreciating in value in relation to the prevailing exchange rate regime, and in analyzing an economy’s monetary policy (CBN, 2021). Exchange rate can be measured either in nominal or real terms. Nominal exchange rate (NER) calculates the relative value of two currencies, such as how many naira units can be exchanged for one dollar. However, the real exchange rate (RER) is a real term that compares the relative prices of two types of goods; non-tradable goods (locally produced and consumed items) and tradable goods (imports and exports).

However, this book chapter is focused on the import of nominal exchange rate on domestic prices in Nigeria because traders and buyers in Nigerian markets react more closely to nominal exchange rate values and hence price changes. Empirically, Asue and Ikyator (2023), Okechukwu et al (2023) and Mordi (2014) have found strong empirical evidence to believe that exchange rate affects domestic prices in Nigeria via imports price pass through channel. CBN (2021) explained that, exchange rate has a very crucial role to play in the general economic management and it affects so many other economic variables. Some of the key macroeconomic variables that are affected directly by exchange rate are inflation (domestic price levels), oil prices, foreign reserve management, government expenditure, domestic interests, assets prices and international trade.

Exchange rate management policy in Nigeria, however, has never been easy prompting the Central Bank of Nigeria (CBN) to adopt different exchange rate management strategies in order to either achieve improved exports of goods and services or maintain relative price stability in the country. There are two extreme exchange rate regimes at use in Nigeria; the fixed and the floating exchange rate systems. However, Nigeria also practiced the manage float exchange rate regime and by mid-2023, the nation adopted the willing buyer and willing seller exchange rate regime (in what the monetary authorities termed exchange rate unification).

Exchange rate is intractably related with quite a number of other macroeconomic variables but this study pays close attention to its relationship with domestic prices (inflation). Domestic prices are a measure of cost of living and by extension a measure of welfare of the people. Government policies are geared towards enhancing the welfare of the people and where they tend to achieve a contrary effect, it calls for concerns and hence this study. Following the foreign exchange rate unification policy of the CBN in Nigeria in June 2023, the country's currency (the Naira) tend to have depreciated very fast and the prices of goods and services within the same period tend to have also risen very fast. This calls for concern because exchange rate unification entails that unlike in the past where Nigeria operated

several types of exchange rates simultaneously; there would be no official and parallel market rates. The government will no longer provide subsidies on the exchange rates. But under the manage float system, there were several exchange rates such as the investors and exporters foreign exchange (I&E FX) rate and the parallel or black market exchange rate.

Basically the 2023 exchange rate unification policy, was meant to unify all exchange rates into a single market-driven exchange rate to enhance transparency and appropriate price discovery in the foreign exchange market. Some other benefits identified for the adoption of a unified exchange rate regime were; to minimize the level of government intervention in the market, to make room for price discovery market, increase the supply of foreign exchange, attract high in capital importation, reduce government's budget deficits, increase investor confidence, improve sovereign credit rating, increased transparency, improve business environment, increase competition and to unlock of some investment opportunities and jobs creation (Ozili, 2024).

However, for over one and half years since the government adopted the exchange rate unification currency, the naira appear to be depreciating very fast and it is the 10<sup>th</sup> weakest currency in Africa (Alausa-Issa, 2024). The market determined exchange rate seem not to be insight and prices of goods and services are skyrocketing thereby dampening the hopes for improved welfare of households. There are other policies that may have equally contributed to the astronomical rise in prices of goods such as the removal of subsidy on premium motor spirit and increase in electricity tariffs and custom duties. However, as an import dependent economy, traders are more likely to link their cost of business to exchange rate movements and hence the need to single out the effect of exchange rate unification policy on domestic prices in Nigeria.

It can be observed that, since the unification of the exchange rate policy in June 2023, the value of the naira to a United State Dollar for example depreciated fast from N458 in May 2023 to N1249.82 in May 2024 and by October 2024 it has depreciated further to N1551.52. This implies that the naira has depreciated by over 300%

less than one and half years. Consequently, the unofficial estimated inflation rate rose from 10.76 percent in May 2023 and skyrocketed to 94.45 per cent in December, 2023 and by October, 2024 inflation rate based on year on year percentage stood at 105.16 per cent (World Bank, 2024). This depicts a very serious case of welfare lost by citizens especially those on fixed incomes such as salaried workers, pensioners and landlords. This has also caused a lot of pains and hardships that culminated into the nationwide protest against “bad governance” from 1<sup>st</sup> to 10<sup>th</sup> August, 2024. It is against this background that; this book chapter examines the implications of the 2023 exchange rate unification policy on the general domestic price level in Nigeria. The rest of this study is segmented into; section 2 which focuses on the review of related literature to the subject matter, section 3 describes the methodology adopted by the paper and section 4 summarizes relevant data in form of charts and graphs to enable easy informed inferences. Finally, section draws conclusion about the subject matter and makes appropriate recommendations for policy options.

## 2. Literature Review

This subsection makes some clarifications regarding some of the most widely used concepts and terms associated with exchange rate.

### *Conceptual Clarifications*

Certain concepts need clear understanding for a better comprehension of this book chapter. The following concepts are concisely summarized based on the explanations provided by CBN, (2021).

**(a). *Exchange Rate:*** Refers to the units of a currency expressed in terms of another. For example, N1,551.52 is equal to one United States Dollar. This means that for a Nigerian to purchase one-dollar worth of goods he or she has to make available N1,551.52.

**(b). *Fixed Exchange Rate System:*** The administrative fiat or edict of monetary authorities such as central banks, or government agencies, sets the exchange rate under the fixed exchange rate regime. The major methods used to distribute foreign exchange are allocation or rationing, which are typically connected to exchange restrictions.

Maintaining substantial external reserves is necessary for this system to continue functioning. Adjustable pegs, crawling pegs, and target zones/crawling bands are examples of variations of the fixed regime.

**(c). Floating Exchange Rate System:** A system where the dynamics of supply and demand for foreign exchange determine the exchange rate is known as a floating or flexible exchange rate system. Monetary authorities in this situation base the exchange rate on the foreign exchange market.

**(d). Exchange Rate Appreciation and Depreciation:** The term "appreciation" or "depreciation" describes how a currency's value changes over time. When expressed in terms of a foreign currency under a floating or flexible exchange rate system, appreciation (depreciation) is defined under the direct convention as the decrease (increase) in the value of the local currency.

**(e). Devaluation and Revaluation:** In a fixed exchange rate system, a decrease (increase) in the value of the home currency relative to other foreign currencies is known as revaluation (devaluation) according to the direct convention.

**(f). Effective Exchange Rate:** The exchange rate that is determined by adding the weights of a basket of different currencies is known as the effective exchange rate. Based on the trading partners and rivals of the home nation, the currency basket is chosen.

**(g). Foreign Exchange Financial Instruments:** Any kind of financial channel used for borrowing in the financial markets, primarily for hedging, is referred to as a foreign exchange financial instrument. Exchange-traded funds, forwards, futures, options, spot, and swaps are a few examples.

**(h). Purchasing Power Parity:** Using this economic theory, one can estimate how much has to be adjusted in the exchange rate between

nations in order for the exchange to be equal to the purchasing power of each currency. In order to determine an implicit foreign exchange rate, it first determines the relative amounts of money required in two different nations to buy the same number of goods and services. The purchasing power of a certain amount of money is constant across nations when using the PPP rate. International income comparison is made possible by the PPP. In essence, the PPP converts national price levels in two nations stated in a single currency.

### ***Overview of Exchange Rate Management Framework and Regimes in Nigeria***

CBN (2021) at the end of the Bretton Woods' Gold Standard of exchange rate in 1971, different economies have introduced a variety of exchange rate mechanisms. Essentially, all exchange rate management frameworks are affected by the exchange rate policy. Argy (1989) explained that, at the expiration of the International Monetary Fund (IMF) System, several exchange rate policy options have been adopted by different economies. These include.; (a) an adjustable a peg system that can be independently adjusted to either a single currency or a basket of currencies; (b) A crawling peg in which adjustments of the exchange rate are more frequent; (c) An independent peg, for an indefinite period, to a major currency or a basket of currencies; (d) A collective exchange arrangement aimed at stabilizing the bilateral exchange rates of participating countries; (e) A dual exchange rate system in which a regulated exchange rate applies to commercial, while an unregulated exchange rate applies to capital transactions; and (f) A floating exchange rate, with different degrees of management, ranging from pure float to loose exchange rate targets (target zones) to a variety of rules for exchange rate managements (such as leaning against the wind).

Three primary goals of an ideal exchange rate policy were identified by Reddy (1997): (i) to lower volatility while ensuring a controlled and orderly market correction of overvalued or undervalued exchange rates; (ii) to assist in maintaining a sufficient level of foreign exchange reserves; and (iii) to remove market barriers

in order to foster the growth of a robust foreign exchange market. From 1975 to 1998, the International Monetary Fund (IMF) categorized the exchange rate regimes of its member nations based on their public statements and the extent of their exchange rate flexibility. Pegs, limited flexibility (often within a band or cooperative arrangement), and more flexibility (controlled or floats) were the three major groupings identified. These were divided into fifteen more groups. The announced currency rate policies of member countries frequently diverged from actual practice. A new classification system was created by the IMF in 1999. It was based on data on actual exchange rate regimes as well as explicit and informal policy goals and available information on monetary and exchange rate policies. Eight types of exchange rate regimes were later identified as a result: currency boards, separate legal tender, conventional fixed (pegged against a single currency, a basket of currencies, or a commodity like gold), pegged exchange rates within horizontal bands, crawling pegs, crawling bands, managed floating (where the exchange rate follows no preset path), and independent floating.

### ***Managed-float exchange rate regime***

Ozili (2024) averred that between 2014 and mid-2023, the CBN operated a managed-float exchange rate regime. The central bank can maintain the exchange rate at a level set by the central bank or within a range of another currency by implementing a managed float exchange rate system, which is, in essence, an exchange rate regime in which the exchange rate is neither fully floating nor fixed. In order to achieve low inflation, sustainable economic growth, and increased non-oil revenue, the CBN implemented the managed float regime in 2014. That decision was made since it allowed the CBN to control the exchange rate. Several currency rates existed during this time. Through significant development financing operations, the CBN also took part in quasi-fiscal activities. Non-oil exporters were given a more favorable exchange rate by the CBN, whilst those who exported oil were required to get foreign currency at a premium rate. The managed float system came under heavy fire for driving up fuel



subsidies, which totaled more than N7 trillion (US\$15.2 billion) in 2022, and for requiring oil importers to obtain foreign cash at a higher rate.

### ***Willing-Buyer and Willing-Seller Exchange Rate Regime***

The CBN terminated the controlled float exchange rate system in June 2023. Along with removing the prohibition on 43 products from entering the foreign exchange market, the CBN also announced the unification of official and black market exchange rates. This means that going forward, the exchange rate will be set using the flawed Willing Buyer-Willing Seller principle, which is a form of floating exchange rate regime. These measures were implemented to protect the foreign exchange market from speculation, maintain stability, and boost public confidence. The unification of the currency rate was expected to guarantee that the dollar is valued equally across all recognized segments of the foreign exchange market. In order to achieve a high unified exchange rate, the low official exchange rate will converge towards the high parallel exchange rate. It's anticipated that a high unified exchange rate will draw in foreign capital, boost inflows of foreign currency, lower demand in the secondary market, and cause the exchange rate to appreciate.

### ***Import of Exchange rate on the Nigerian Economy***

Every discussion around exchange rate excites policy makers and researchers because of its serious implications on the behaviour of other economic variables and the performance of the economy generally. CBN (2021) averred that exchange rate has direct or indirect impacts on inflation, oil prices, foreign reserve management, government expenditure, interest rates and assets prices.

- (i) Exchange rate and inflation: The cost of imported goods and raw resources rises when the exchange rate depreciates, making exports more expensive and imports more expensive. The general level of prices rises as a result of this, particularly in an economy like Nigeria that depends heavily on imports. In turn, inflation is pressured by depreciation or devaluation. Empirically, it has been

verified that exchange rate depreciation or devaluation pass through imports to raise domestic prices in Nigeria (Asue & Ikyaator, 2023).

- (ii) Exchange rate and oil prices: In oil-producing nations like Nigeria, rising oil prices are predicted to boost foreign exchange profits. Along with the aforementioned effects, this causes the foreign exchange market's supply of foreign exchange to rise, the demand for foreign exchange to moderate, the accumulation of foreign reserves, and most likely, the appreciation of the home currency. But if oil prices drop, foreign exchange revenues also drop, which in turn causes the foreign exchange supply to plummet. The currency of the country would weaken as a result of the ensuing surplus demand on the foreign exchange market, which would put pressure on the exchange rate.
- (iii) Exchange rate and reserve management: The three goals of reserve management are safety (protection of capital), liquidity, and return. Thus, in order to maintain currency rate stability, numerous central banks utilize their foreign reserves to participate in the foreign exchange markets. Sound exchange rate management in this instance revolves around effective reserve management.
- (iv). Exchange rate and government expenditure: If the government is the primary source of foreign exchange earnings, then a decrease in the value of the local currency would result in a rise in domestic currency revenue, which would then fuel an increase in government spending. On the other hand, government revenue decreases and government spending decreases when a native currency gains or loses value. Okpe and Madugba (2017) empirically confirmed that exchange rate has a profound positive effect on government expenditure in Nigeria.
- (v). Exchange rate and domestic interest rates: An increase in domestic interest rates may draw money from overseas investors, which would cause the value of the home currency to rise. Additionally, when interest rates drop, foreign investors in the local money market would pull out of the market, placing demand

pressure on foreign exchange and causing the value of the home currency to weaken.

- (vi). Exchange rate and asset prices: Property values can be either non-financial, like home values, or financial, like stock values. A country's stock markets may experience investor sentiment pressure and the possibility of divestment if its currency weakens relative to other nations. Exchange rates would appreciate in a similar way to strong productivity improvements and a stock market boom.

### ***Empirical literature***

Ozili (2024) explored the 2023 unification of exchange rate in Nigeria where the country “the willing buyer willing seller principle” which is close the free float exchange rate. Nigeria's currency rate unification was the result of a number of causes, including exchange rate pricing arbitrage and the resulting market distortion. The expected advantages of unifying the exchange rate include reduced government intervention in the foreign exchange market, enhanced price discovery, increased foreign exchange supply, increased capital importation, decreased budget deficit, heightened investor confidence, enhanced sovereign credit rating, increased transparency in the foreign exchange market, enhanced business environment, and increased competition. In the short to medium term, negative consequences are anticipated, but they will eventually fade.

Okechukwu et al (2023) estimated the effect of exchange rate on domestic prices in Nigeria using monthly data from 2015 to 2022. Using ARDL approach the study found that exchange rate depreciation had a very positive significant effect on price level in Nigeria. Similarly, Gray (2021) examined the difference between the official exchange rates and the parallel market exchange rates in Algeria, Argentina, Burundi, Ethiopia, Lebanon, Nigeria, Sudan, South Sudan, and Venezuela. The study found that, in the face of a good spread between the official and parallel market exchange rates, the price levels in the economy would reflect the parallel market exchange rates and not the official exchange rate. The study concluded that once individuals use parallel market rates, domestic prices will increase.

The impact of ongoing currency rate variations on Nigeria's economic performance was studied by Iheanachor and Ozegbe (2020). The study used annual time series data from 1986 to 2019 to examine the short- and long-term effects of exchange rate variations on economic development using the autoregressive distribution lag (ARDL) technique. According to the empirical findings, Nigeria's economic growth was significantly hampered over the long term by the currency rate, net direct foreign direct investments, and inflation rate. The overall conclusion of this study was that large volatility in currency rates are bad for Nigeria's economic development.

Emeka, Neka, and Nonso (2020) looked studied how changes in currency rates affected Nigeria's export trade between 2000 and 2019. The research employed secondary data obtained from the Central Bank of Nigeria's statistical bulletin on a range of topics from 2000, when the flexible exchange rate monetary authority framework was implemented, to 2019. The data were analyzed using regression analysis of the Ordinary Least Square (OLS) and correlation. The findings demonstrate the significant effects of the three variables—the exchange rate, balance of payments, and inflation rate—on Nigeria's GDP and external trade. The exchange rate has a negative impact on GDP because it increases the country's external trade.

Ufoeze, et al (2018) estimated the effect of exchange rate fluctuations on the economy of Nigeria. The study spanned from 1970 to 2012 using annual data and ordinary least squares and compared the effects of the exchange rate during the fixed exchange regime and the floating exchange rate regimes and it was found that exchange rate had a more serious influence on domestic prices in the floating exchange rate regime.

Mordi (2014) assessed the link between exchange rate and domestic price level in Nigeria using monthly data from 2000 to 2015. The study adopted a VAR techniques and it was found that a shock in exchange rate elicited a very strong positive change from domestic prices in Nigeria. VAR model and exchange rate pass-through coefficients indicate that pass-through to price level in Nigeria is partial or incomplete.

### 3. Methodology

This book chapter adopts an *ex post facto* research design relying both on qualitative and quantitative data to analyse the relationship between average exchange rate and average domestic prices on monthly basis. The analysis is carried out for a year before the exchange rate unification policy and the 15 months during the time of exchange rate unification for easy comparison. In doing this, the study uses charts and graphs to demonstrate the relationship between the two variables under study.

The variables used in the chapter are monthly average inflation rates for all items and monthly average inflation rates for food items. These are used to provide insights on price level changes in Nigeria. Food inflation is equally important in this chapter because cost of food is a measure pillar of food security because food affordability is a good measure of food accessibility. Once prices of food items rise as a result of any government policy, it may be inferred that the policy has affected the welfare of the people adversely.

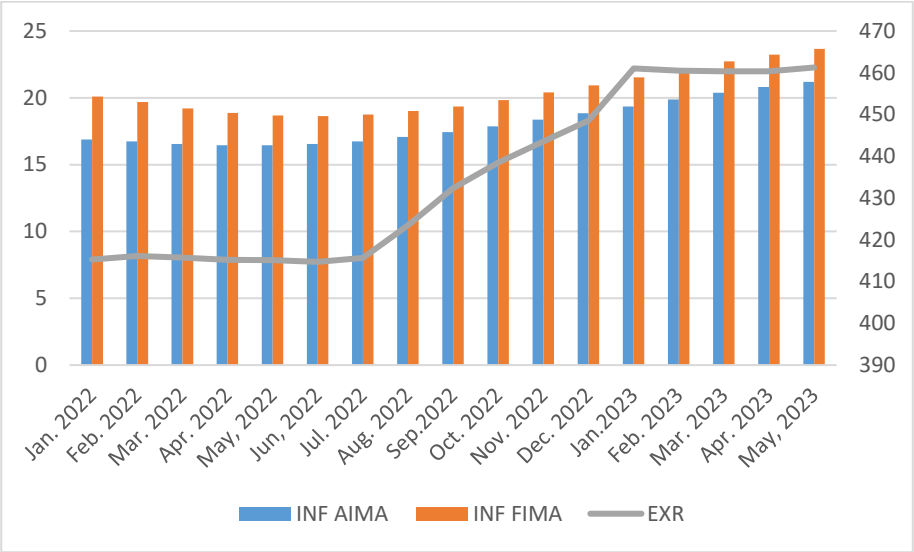
Data on exchange rate is based on the units of naira needed in exchange for one United States' Dollar. Between January 2022 and May, 2023; the average monthly exchange rates were obtained from the central bank of Nigeria. However, for the period June 2023 to August 2024, there was a daily data available for a variety of currencies in the world, the study therefore picks the exchange rate value for the last day of the month.

### 4. Data Presentation and Analyses

This subsection gives a snapshot view into the changes brought about by the exchange rate unification policy.

#### *Exchange Rate and Inflation a Year before Exchange rate unification Policy*

Figure 1 is a graphical and pictorial of a bar charts showing the level of inflation on All items on monthly average (INF AIMA) and inflation on food items on monthly average (INF FIMA). The monthly average exchange rate graph trends upwards on the bar charts.

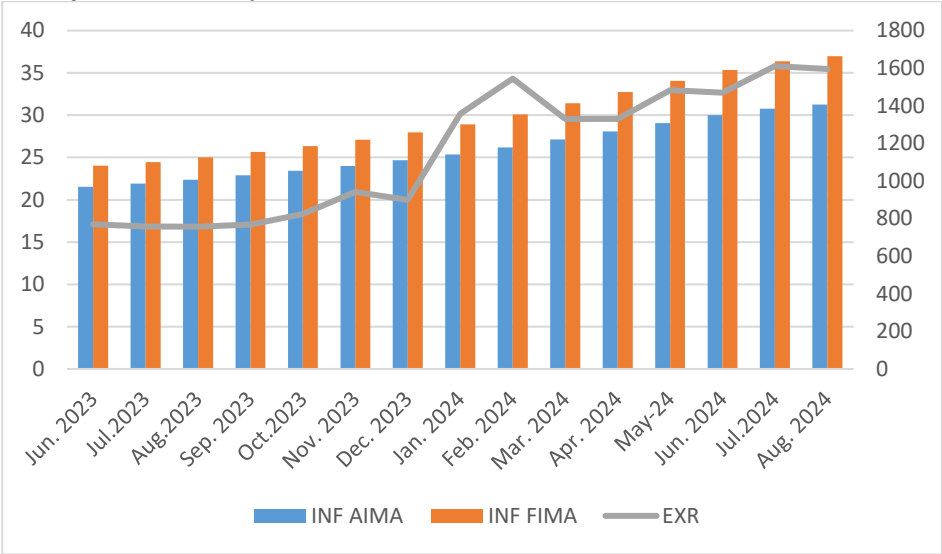


**Figure 1: A Graph Showing Trends in Inflation and Exchange Rates before June 2023**

**Source:** Extracts from Microsoft Excel based on Data Available from CBN (2024).

It can be observed from Figure one that from January 2022 to May 2023, food inflation on monthly basis kept and upward trend and was higher than inflation on all items in the economy. However, during the same period, the exchange rate of the country remained relatively stable from January to July, 2022 and rose fast to climax in January, 2023. This may be due to the naira redesign policy introduced by the CBN in 2022 that later led to cash crunch in early 2023 thereby making people to scramble more for the dollar. The exchange rate then remained relatively stable but high above N450 per a United States Dollar (USD).

*Exchange Rate and Inflation During the Exchange Rate Unification Policy*



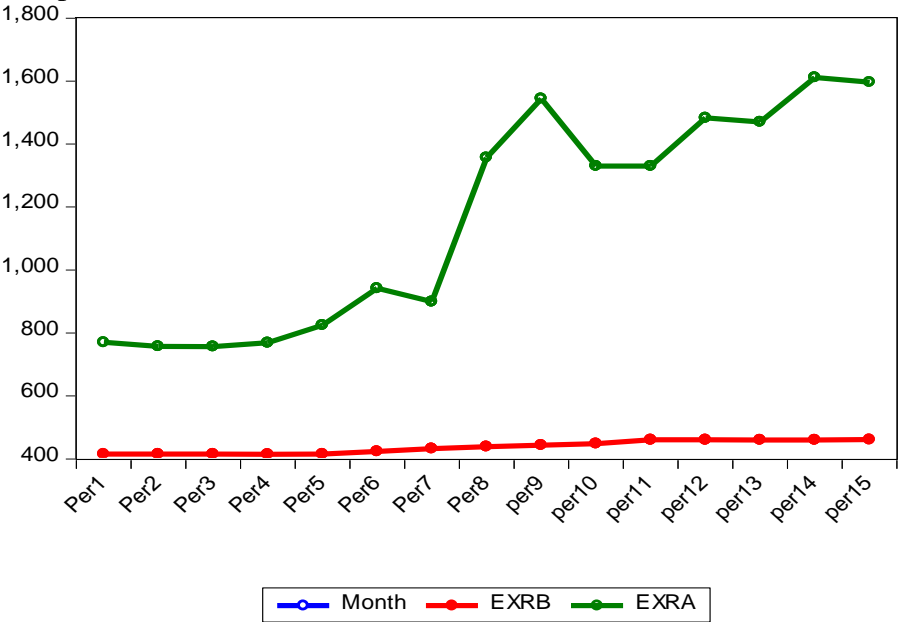
**Figure 2: A Graph Showing Trends in Inflation and Exchange Rates from June 2023**

**Source:** Extracts from Microsoft Excel based on Data Available from CBN (2024).

It can be observed from the graph that food inflation rose to 24 per cent immediately the exchange rate unification policy took effect and there was also a rise in general prices of all items, but throughout the period under consideration, food inflation rose faster and stayed continuously above the general inflation for all items. In fact, by August 2024, food inflation has crossed 35 per cent while inflation for all items rose to 26 per cent. But as at May 2023, food inflation was 23 per cent while inflation rate for all other items was 21 per cent. On the other hand, following the exchange rate unification policy, the depreciated steadily from June to December 2023, but at the beginning of 2024, the currency depreciated very fast exchange for one USD at over N1600 in August 2024. This shows a very wide increase in the level of inflation following exchange rate unification policy as the Naira continues to depreciate.

*Comparing Exchange Rates for Pre and Post Exchange Rate Unification Policy*

In order to see the extent of variations in exchange rates during the multiple and unified exchange rates regimes, there is need to compare and contrast using pictorials or graphs to see which of the regimes made the naira more vulnerable. The comparison is made on monthly basis and 15 months from March 2022 to May 2023 have been used for Exchange Rate before the unification policy (EXRB) and another 15 Months from June 2023 to August, 2024 is used for Exchange Rate after the unification policy (EXRA). Therefore, the comparison is matched on the first to last month of each period against the first to the last month of the other and coded as periods. Thus there is period 1 to period 15 (Per1 to Per15).



**Figure 3: A Graph Comparing periods of multiple and unified Exchange Rates**

**Source:** Extracts from Microsoft Excel based on Data Available from CBN (2024).

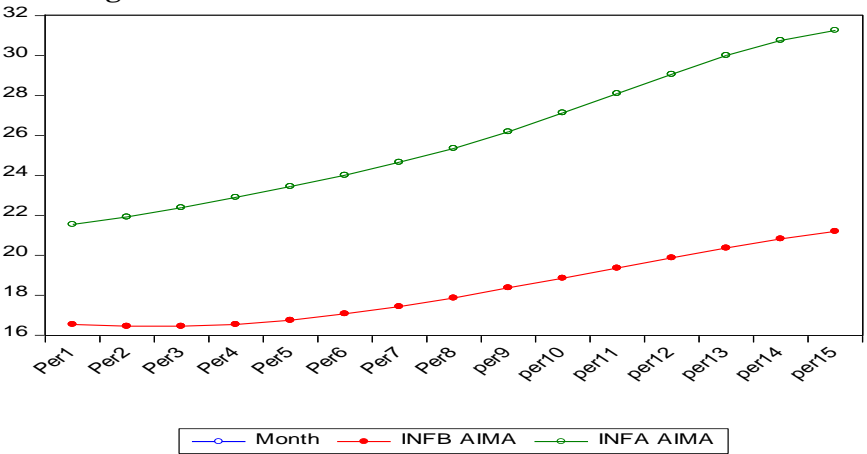


It is evident from Figure 3 that, officially, exchange rates never went beyond N500 per one USD during the pre-exchange rate unification policy and from period 1 to period 15 there appear to be a gentle steady increase in exchange rate (meaning a slow depreciation of the naira) from a little over N400 in period 1 to about N500 in period 15. However, upon unification of the exchange rate policy, the naira depreciated very fast. It commenced exchanging for one USD at about N800 and fluctuated upward to surpass N1600 at period 9 before experiencing a momentary slow down between period 10 to period 12. It then rose back again to over N1,600 in periods 14 and 15. This implies that during within the period of 15 months, the exchange rate of the naira vis-à-vis the dollar and indeed other foreign currencies have depreciated very fast.

### ***Comparing Inflation Rates for Pre and Post Exchange Rate Unification Policy***

It is wise to compare and contrast the degree of variability between two inflation rates for before and after implementation of the exchange rate unification policy. Note that, the rates on monthly basis and 15 months from March 2022 to May 2023 have been used for Inflation on all items before Exchange Rate Unification Policy (INFB AIMA) and another 15 Months from June 2023 to August, 2024 is used for Inflation on all items after Exchange Rate Unification Policy (INFA AIMA). Thus, the comparison is matched on the earliest month to the latest month on either sides and coded in periods to read period 1 to period 15 (Per1 to Per15).

**Figure 4: A Graph Comparing Inflation Rates for Pre and Post Exchange Rates Unification**



**Source:** Extracts from Microsoft Excel based on Data Available from CBN (2024).

Figure 4 shows that inflation rates grew steadily but slowly on monthly basis when there were multiple exchange rates in Nigeria than when exchange rates were unified. Prior to the unification policy, exchange inflation for all items rose steadily from period 1 to period 15; commencing from 17 percent to reach 21 percent respectively. However, as soon as the exchange rates were unified, inflation rates for all items on monthly average basis rose to about 22 percent in period 1 and increased faster to reach over 31 per cent in period 15.

## 5. Conclusion and Policy Recommendations

### *Conclusion*

On the basis of the empirical literature and empirical data obtained and analyzed, this study concludes that, the exchange rate unification policy within the period under review has made room for a very rapid depreciation of the naira and has brought about astronomical rise in prices of goods and services generally and food in particular. The policy has not started yielding its intended benefits having been in existence for about a year and a half but has rather entrenched welfare lost among households in Nigeria via hyper-inflation.

### ***Policy Recommendations***

Based on the findings and conclusions drawn by this study, the following recommendations are necessary for policy options;

- (i). The welfare lost due to increase in prices of goods and services especially food items can be reversed by the CBN via temporary suspension of the unification policy and resorting back to the manage float system in order to curb the rate of inflation in the economy and improve the welfare of households.
- (ii). The federal, states and local governments can boost the productivity of farmers by providing them subsidies so that they can farm more and produce adequate food to tame the tide of food inflation in Nigeria.
- (iii). Domestic prices are affected by exchange rate depreciation via imports and to control this, government at all levels must initiate import curtailing policies and promote export enhancing policies so that there will be less pressure on the naira and the exchange rate of the Naira will appreciate.

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