Continued Depreciation of the Naira and Its Impact on the Country's Economy

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1. Introduction

The naira, Nigerian currency which was exchanging at N150 to $1 at the inception General Mohamadu Buhari administration in 2015, has been convalescing on downward depreciation in value with consequences on the economy (Anagun,2021). Even though the administration which succeeded an incumbent political party that was in power for unbroken sixteen years, was heralded into power with fanfare and high hope of tackling the many challenges besetting the country including mismanagement of the economy by the previous administration, that is yet to be seen. This is because the many policies, initiatives and actions taken by the administration and the Central Bank of Nigeria that is in charge of monetary matters seem not to have made much impact in saving the naira (Salako,2022). Though the naira got stabilized at N380 to $1, recent events in the world has seen the naira crashing to N610 to $1 and the free fall continues and for a country that depends hugely on importation, the implication of this depreciation of the currency is having its toll on inflation, living standard of the masses and even businesses in the country. The article will be examining these issues.

Figure 1: Picture of Naira (Vanguardngr.com March 30, 2022)

2. Historical Overview of Naira Devaluation

The naira at the time it was introduced in 1973 to replace the Nigerian Pound exchanged N 0.685 to $1 which implied that it was stronger than the USD (Komolafe,2022), However, this dynamic changed thirteen years after in 1986 when the government of Nigeria devalued the naira as part of the measures under the structural adjustment programme instigated by the Bretton wood institution of the World Bank and International Monetary Fund(IMF).when the naira which was exchanging at N0.894 (official rate) and N 1.70 (black market) jumped to N2.02 (official) and N 3.90 (unofficial). Ever since then, it has been a free fall of the country's currency against other currencies of the world but our bench mark in this article will be the United States dollars which remains the dominant global currency of business transaction (Komolafe,2022).

Of course the Structural Adjustment Programme (SAP) which was implemented as a conditionality by most developing economies became imperative because these economies including Nigeria were devastated by debt burden worsened by the global recession of the late 1970s and early 1980s. (Ogbimi,2022). The argument of IMF economists was that the exchange rate operating in Nigeria was artificial and that government should devalue to right exchange rate. The intendment was that with this, import from Nigeria will become cheap and export expensive and as such, the economy will export more and import less thereby bringing about a positive balance of trade that will enable the government to clear its debt (Eme & Johnson, 2010). As a consequence of that, the government introduced what it called Second Tier Foreign Exchange Market (SFEM) and the naira that was stronger than the dollar tumbled to over 1700% exchanging at N17 to $1 The impact on the economy was devastating

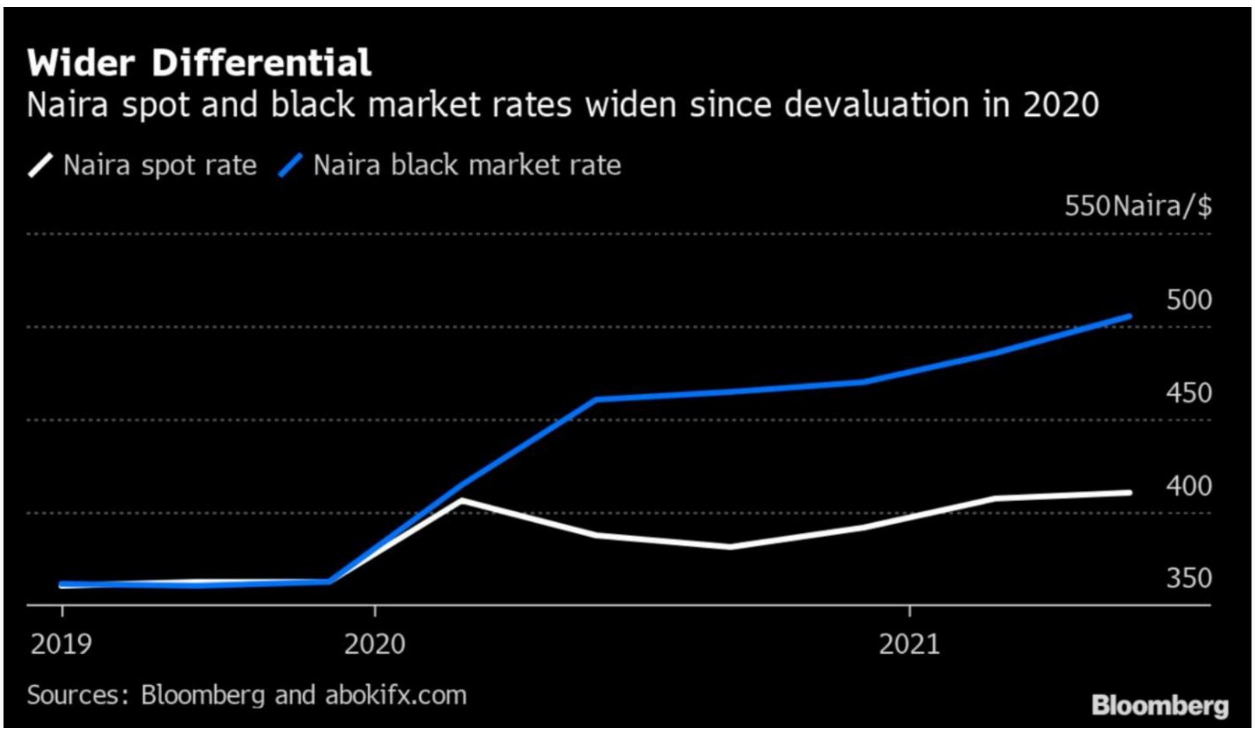

Figure 2: Naira Spot and Black Market Rate lationary Rate (Bloomberg and Abokifx.com,2022)

By 1995, the administration General Sani Abacha introduced Autonomous Foreign Exchange Market (AFEM) that require the Central Bank of Nigeria to sell forex directly to end-users. This system mainstreamed black-market (unofficial foreign exchange market) in Nigeria as the government fixed naira exchange rate to the dollar at N22 to $1 when the unofficial rate was N88 to $1 about four times the official rate thus encouraging ‘round tripping’ by bankers. That system which pervaded in Nigeria all through the duration of that administration, to so many them making a lot of monies that was not tied to any production (Fawenhimi, 2015). The transition to democracy and appointment of Joseph Sanusi (1999-2004) and Chukwuma Soludo (2004-2009) brought semblance of stability in the forex market in Nigeria following the inflow of forex into the country through high sales of crude oil that rose up to $124 per barrel bringing about cash inflow into the country up to $56 in the Foreign Reserve. Even though the exchange rate rose to a stable N150 to $1, there was enough cash for the CBN to keep the naiar stable for most of these periods.

3. Oil Price and Exchange Rate in Nigeria

Nigeria a a mono product economy, depends on earning from crude oil sales to manage the volatility in exchange rate (Akpan & Atan, 2012; Okaro,2017). Crude oil sales constitute over 75% of foreign exchange earning of the country as such the vagaries in the international oil market significantly affects the exchange rate of the naira in lieu with other major currencies of the world (SapientVendors,2021). Demand for foreign exchange as continuously been on the rise in the as a result of factor like dependence on imports, reversal of capital flow by investor and high speculative demand in recent years The reason is because the fundamentals of Nigerian economy are designed in such a way that a plunge in the oil prices heaps pressure on Nigeria to devaluate the naira as dwindling export revenue depletes foreign-exchange reserves, curbing the central bank's ability to support the currency (Brand 2020). It costs $30 to extract a barrel of crude oil in Nigeria. So when oil was trading at $110 Nigeria had a margin of $80. But when oil drops to $45, that $80 margin turns to $15 as the cost of getting the oil out of the ground still has to be incurred meaning that the country earns little or nothing. The disruption in the daily production level due to activities of militants in the oil bearing region of the country worsened the situation (WorldOil, 2016)

Consequently, there was drop in foreign reserve between 2015 and 2917 in Nigeria, as foreign reserve fell by 20 percent at below $30 billion, compelling the Central Bank of Nigeria to consider devaluation in 2017 (Emele &Alonso, 2020). As a way of managing the continued depreciation of the naira, the Central Bank Governor Godwin Emiefele banned the Interbank forex market and also banned 41 items from being eligible for forex. This implies that businesses that were legitimate when income flow was steady suddenly turns illegitimate as importers of those items would have to source forex from the unofficial sources (Fawenhimi,2015).

But crash in the price of crude oil and consequential drop in the income of the country cannot explain the current depreciation of the naira that have reached N610 to $1. The conflict between Russia and Ukraine has led to rise in the price of crude oil to all time high of $124 per barrel. But the dependence of Nigeria on refined petroleum products and the policy of government to subsidized premium motor spirit (pms) is virtually wiping out any gain the country is making from the windfall as the subsidy regime has increased to N5 trillion which a quarter of the country's 2022 national budget (PM News,2022).

4. **Implications on the Economy**

One area where the continued depreciation of the naira has impacted on the economy of Nigeria is decline in welfare and standard of living of the people. For all the time the naira has depreciated including the one that is happening currently, there is always surge in prices of goods and services. According to data by the Nigeria Bureau of Statistics, NBS, the average price of essential foods items such as eggs (medium size) rose by 28.15 per cent in the last quarter of 2021. The same story goes for all other food prices in the market Beside food items, even Liquefied Petroleum Gas (Cooking Gas) has also seen upward movement in prices to as much as 78.99 per cent in the same period (Komolafe, 2021). This general increase in prices of goods and services are also reflected in the annual inflation rate which rose to a four year high of 18.17 per cent in March 2021.

The severe impact of this development on businesses is reflected in the CBN Monthly economic report for August which showed that the banking industry recorded a 13.6 per cent, month-on-month, increase in bad loans to N2.76 trillion in August, triggered by rising loan defaults in the construction sector as a result increase in prices of building materials (Sapient Vendors,2021). The implication of this is that most of the projects going on around the country has been abandoned by the contractors due to rising cost of inputs to execute the projects. Where the current naira depreciation is biting hard is on importation of refined petroleum products. Though Nigeria produces crude oil, but the country lacks the capacity to refine for domestic use, therefore the cost of importing refined products. One product that is having huge impact on business in diesel and Jet-A1 (aviation fuel) both of which are liberalized. At the moment the pump price of diesel is going as much as N 700 per litre from N 200 where it was at the beginning of the year. Since most Nigerian businesses depend on generators due to the epileptic power supply from the public sector, this means that the cost of businesses have increased putting many under intense pressure of cutting down labour cost through retrenchment of staff or outright suspension of operation (Izuora et al, 2022). Even the premium motor spirit (petrol) which is the only product subsidized by the government is not available at the Filling Station due to the rising cost of diesel because the haulage vehicles that conveys these products from the sea ports to tank farms and depots uses diesel. The implication is scarcity and black-marketeering which leaves transporter no choice but increase transport fares (Izuora et al,2022).

5.. Conclusion

The depreciation of the naira which started following introduction of SAP in the 1980s has had a significant impact on the Nigerian economy more than any other factor. It is an incontrovertible fact that currency devaluation has an effect on the production, citizens, importation and exportation of goods, economy and the government itself. It will be of great advantage and comparative advantage if these possible solutions can be followed or implemented. Though the initial attempt at depreciation had a negative impact on the economy, the economy over the years adjusted but the emergence of the democracy era of government and the fundamental of the economy that is highly dependent on sale of crude oil and huge budget subsidy of premium motor spirit. It shows that the government has a major role to play both diversifying the economy and take the difficult decision of ending the regime of subsidizing importation of refined premium motor spirit which takes a large chunk of the foreign exchange earnings in the country. The idea of outright banning of certain items from accessing forex through Interbank foreign exchange market should be reviewed for a full liberalization. Difficult decision as it may seem, but that should be the right decision for Nigeria to create a more buoyant economy of the future.

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