EXCHANGE RATE MOVEMENTS AND THE AGRICULTURAL SECTOR IN NIGERIA: AN EMPIRICAL INVESTIGATION

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Abstract

This study examined the impact of exchange rate movements on the agricultural sector in Nigeria. Time series data and Ordinary Least Square (OLS) estimation technique were employed in this study to address the specified objective. The variables employed in this study were exchange rate, Agric GDP, Government Capital Expenditure, foreign direct investment, credit to private sector, and Lending interest rate. The result showed that exchange rate movements play a significant role in the agric sector performance in Nigeria. Specifically, the findings showed that exchange rate, government capital expenditure, foreign direct investment and lending interest rate were positively related to agric GDP while credit to private sector was negatively related. Co-integration approach was also applied to determine the long-run relationship between the variables. The results revealed that the variables have a statistically significant impact on the agricultural sector in the long run. The study recommended that the apex bank should keep a close watch on exchange rate developments in order to enhance exchange rate stability which will contribute to the development of the agric sector.

Keywords: Exchange Rate; Movements; Agric Sector; Empirical, Analysis

JEL classification codes: F31, O13, F14, Q11.

1. INTRODUCTION

Agriculture has proved to be an indispensable tool for the achievement of economic growth. The importance of agriculture was summed up by Nobel laureate, Simon Kuznets who noted that agriculture facilitated development in an economy not only through its contribution of raw materials and inputs for manufacturing but also through the use of agricultural products as exports for enhanced foreign exchange earnings and revenue generation (Todaro&smith, 2011 and Ochalibe, Okoye&Enete, 2019). As a result of the increasing demand for food and other essential agric products, agriculture is regarded as the largest and most significant industry in the world.

Agricultural productivity is important not only for a country's balance of trade, but the security and health of its population as well (Orji, Ogbuabor, and Umesiobi 2014). Growth in the agricultural sector has also played a crucial role in the reduction of poverty and evidence of this can be seen in countries like China and India. However, the Nigerian economy has not yet been able to benefit from the potentials of agriculture. Economists posit that some of the reasons for this include neglect of the sector by the Nigerian government, inadequate allocation of funds to the sector as well as lack of an enabling environment. However, recent arguments in the literature suggest that exchange rate movements may be a contributing factor (Adekunle&Ndukwe, 2018 and Emmanuel, 2019).

Excessive volatility in exchange rate creates uncertainty and risks for economic agents with destabilizing effects on the macro economy. Hence, failure to properly manage the exchange rate induces distortions in consumption and production patterns. Exchange rate movements have been empirically observed to cause instability in other core macroeconomic variables such as inflation, unemployment rate, consumer and producer prices, volume of goods and services produced, balance of payment, volume of trade as well as a nation's growth rate. Thus, as stated by Mordi (2006), maintaining relative stability in exchange rate is imperative for both internal and external balance as well as growth in an economy.

Prior to the oil boom of the 1970's, Nigeria operated a fixed exchange rate system. The naira was pegged to the British pound sterling up until 1967 when the pound was devalued and thereafter to the dollar (Obadan, 2006). This system helped to maintain a stable exchange rate and also helped the country to preserve the value of her external reserves. During this period, the agriculture sector was a major contributor to Nigeria's total GDP. Agriculture was the mainstay of the economy and it provided food and employment for the populace as well as raw materials for the nascent industrial sector. The sector was also responsible for generating the bulk of government revenue and foreign exchange earnings and its average share to GDP was about 55.8%.

However, between 1971 and 1980 increased oil exploration activities as well as the oil boom led to an overvaluation of the nation's currency because of sharp increases in oil prices, as well as massive foreign exchange inflow. During this