ANALYSIS OF EXCHANGE RATE REGIME CHANGE AND NON-OIL EXPORT IN NIGERIA: A MARKOV-REGIME SWITCHING APPROACH

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Abstract

This study investigates the Impact of Exchange Rate Regime Change on Non-oil Export in Nigeria from 1985Q1 – 2018Q4. The paper employs Markov Regime-Switching Approach to capture the exchange rate regime change. Results of the study reveal that exchange rate regimes have a positive and statistically significant impact on the non-oil export in Nigeria. The results also show that the degree of the impact in the two regimes are not the same, it is higher in regime 2. This is as a result of the fact that prior to the 1980s; Nigeria adopted the fixed exchange rate regime which does not allow for domestic currency devaluation hence, the relatively low non-oil export. However, in the 1980s, especially at the introduction of the structural adjustment programme of the 1986 which saw most economies of the world switch over to the floating exchange rates regime, the Naira is often time devalued and hence the higher increase in the non-oil exports. Therefore, the study recommends that there is need to achieve a stable exchange rate that when combined with the export-oriented policy will promote non-oil exports in Nigeria.

Keywords: Exchange Rate, Regime Change, Nonoil Exports, Economic Growth

JEL Classification: D51, F31, F43, O24

1. INTRODUCTION

Over the past decades, Nigeria has implemented various policy initiatives and measures in the management of its exchange rate, these policy initiatives is as a result of changing pattern of international trade, institutional changes in the economy and structural changes in productions (Central Bank of Nigeria, 2016, Ogbuabor, et al 2018 and Orji et al 2021). Basically, Nigeria witnessed several different types of exchange rate; this include fixed, flexible as well as some other form of exchange rate regime system. These regimes had been practiced at different occasions, depending on what the Central Bank want to achieve or base on the current economic situation and the overall development objectives of the federal government. Due to the nature of the economy, the changing pattern of the Foreign exchange have been largely influenced by the nation's varying pattern of shift in production, international trade and various institutional changes. The periods of the fixed exchange rate system made the exchange to be stable but the fixed exchange rate induced an over-valuation of the domestic currency which created distortions in the economy, subsequently led to the massive importation of finished commodities with adverse effects on the domestic industries, external reserves and the countries balance of payment. These problems led to the adoption of the floating exchange rate system through the Structural Adjustment Programme (SAP) in 1986 (CBN 2018).

The programme was to stabilize the economy, increases exports and investment, and promote economic growth. Several policies measures have been taken in removing administrative control and introducing greater autonomy and competition into production, the policies include exchange rate deregulations (CBN 2018). One of the most important components of the reform was exchange rate liberalization, this policy measure entails allowing the forces of demand and supply to determine the ruling exchange rate in the economy. Several other measures have been undertaken to make the exchange rate more market-based. As an example, there was a unification of official and market exchange rates in 1987. Also, government evolved a system whereby the exchange rate is determined daily in an interbank system under the control of the Central Bank of Nigeria. This exchange rate policy assumed might enhance access to foreign exchange for production, thereby increasing manufacturing output and employment while reducing inflation. Guided by the intervention of the Central Bank of Nigeria, the exchange rate is determined in the Autonomous Foreign Exchange Market, which reduces the pressure on the Central Bank (Eze and Okpala, 2014, Ogbuabor, et al 2019, Orji,et al 2020). The strong need to diversify the economy, increase foreign exchange earnings and reduce the excessive dependence of the domestic economy on the export of crude oil, also