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Nigeria's Unique Species Hypothesis and the Fate of the Naira: Why Not, If Not?

Dr. Yekeen Abdul-Maliq Senior Lecturer, Department of Banking and Finance, University of Abuja, Nigeria Ismsaila Daddy Abubakar Senior Assistant Registrar, Department of Directorate of Academic Planning, Federal University Lokoja, Nigeria

Abstract:

This paper argues that the Udoji arrears of 1972 disconnected Nigeria's fiscal from monetary policies thereby unchained both from the theoretical fulcrum on which the powers of a central bank to control inflation and defend the value of the local currency are based. The 1972 NEPD exhumed the economy from the theoretical foundation on which the relationship among the real, financial and external sectors is founded. The paper examines the relationship among exchange rate, (as dependent variable); domestic savings, import, export, government expenditure, private consumption, FDI, and foreign debt, as independent variables with forty (40) year annual time-series data, (1986-2020), sourced from World Bank data base. The ARDL model and ECM results show that private consumption, (imported groceries and consumer durables), foreign debt and poor FDI flows accounted for more than 84% of the variation in foreign exchange demand and therefore the value of naira in the period thus belying the Nigerian Unique species hypothesis. The paper therefore concurs with previous studies that policies that stimulate employment, output growth and export expansion will be more effective in helping the naira out of the free-fall syndrome, in particular and the Nigerian economy, in general, from its present doldrums.

Keywords: Exchange-rate, dollarization, free-fall, kaleidoscopic, sterilization

1. Introduction

It is no longer news that Nigeria has not been able to achieve most of her macroeconomic objectives since 1972. Many studies have sought to identify the cause(s) of this imbroglio. One of the causes commonly cited, is policy efficiency or ineffectiveness. This has been largely due to inappropriateness, incongruity, inconsistency of polices or a combination thereof vis-a-vis macroeconomic objectives. What is scarcely investigated is the possible role of the populism and quasi-socialist misadventure of the 1970s: the Udoji award/arrears of 1972/74 and the Nigerian Enterprises Promotion Decree, (NEPD), of 1972/77 (otherwise known as indigenization Decree), as well asNigeria's flippant crafting and eventual misapplication of the structural adjustment programme.

This paper argues that the Udoji award/arrears, rendered the Nigerian economy awash with liquidity, while the indigenization decree; unhinged the economy from any economic theoretical anchor of recon. Structural adjustment programme (SAP) of 1986 was expected to undo what NEPD did which as early as 1977, had been agreed, were largely negative. SAP was however deliberately misconceived and latter tactically truncated. Nigerian leaders then invented the unique species hypothesis. That Nigeria is so unique that economic theories cannot work in the country. The objective of this paper is to provide analytical justification as well as empirical/econometric evidence to substantiate the above assertions.

2. Conceptual Issues

2.1. Exchange Rate

Exchange rate is the price of one currency in terms of another, (Oyejide, 1985) In other words, exchange rate is the unit or number of the local currency one gets or has to give up in return for a unit of a foreign currency. The above definition is termed nominal exchange rate, (Obadn, 2006), but is deceptively simple and most times, misleading.

In foreign exchange and exchange rate management literatures, the issues of real exchange rate, (RER) which takes into account inflation, is of greater relevance. Furthermore, there are more complex concepts: effective exchange rate (EER); real effective exchange rate, (REER), and more, (Odusola, 2006). Beyond these, there are still the issues of whether exchange rates are bilateral or multilateral. Again are the issues of spot or forward rates in the actual 'market place' and several other issues all of which may be relevant *pari-pasu*.

2.1.1. Fluctuation, Volatility and Depreciation

Exchange rates, like prices of other goods and services, change, (fluctuate); very regularly; some, on hourly and even on minute-by minute bases. Volatility, which is rather undesirable but inevitable occurs when exchange rate fluctuates with high spikes and deep troughs, erratically and sometimes with little or no explicable changes in microeconomic fundamentals. When fluctuations and or volatility occur, it is expected that prices, (rates), will revert to their previous levels. A little higher or lower, as the case may be, are not uncommon. However, when after every circle of spikes and troughs exchange rates consistently settle down to lower (weaker) positions against the domestic currency, the phenomenon is not a case of depreciation or volatility but a case of a 'free fall'. That is usually evidence that the nation's economy is operating out of appropriate economic theoretical orbit; and that the situation is completely outside the purview of monetary policy that central banks can manage.

2.1.2. Intervention and Sterilisation

A common practice in foreign exchange market, especially in the so-called free float regimes is for central banks to intervene in the day-to-day trading activities in foreign exchange market. The United States of America, Japan, China and other countries have done this regularly, (Galati and Melick, 2002; Gagnon, 2016), among others. But as Galati and Melick (2002) suggest, it is often proper to identity the context in which a particular intervention is to be undertaken ; suggestive of the fact that intervention is not supposed to be a recurring or permanent feature of exchange rate determination. Therefore, when intervention becomes a persistent practice, as the only way to limit the extent of depreciation, the domestic currency can be said to be on 'life support'.

2.1.3. Dollarization

Dollarization is the holding by residents of a significant share of their assets in a foreign currency, usually the US dollar, (Alvares-Plata and Garacia-Herror; (2008). Dollarization may also be defined as the substitution of a nation's domestic currency; substantially or completely, with dollar or any other currency, usually a hard currency. Dollarization can take three forms: currency union approach, currency peg with or without float and what can be regarded as a 'free-fate' with or without sterilization. Dollarization can also be notional (conceptual), *de jure, de-facto* or shadow. When a nation's production and export capacities are so low (almost non-existent) so that domestic prices are determined almost entirely by landing costs of imports, the country can be regarded as being under shadow dollarization. In such a case, the exchange rate depreciates continuously. Central banks' interventions in this instance is often ineffectual in defending the exchange rate.

2.2. Theatrical Review

Theatrical literature on exchange rate can be divided into four: (i), those that establish principles on which exchange rates are determined; (ii), those that explain exchange rate transmission channels: (iii), those that identity the determinants of currencies' exchange rates, and (iv), those that theorise the possible responses of other macroeconomic variables to changes in exchange rates, policies and or regimes, and vice versa.

In the first class of theories are the law of one price, (LOOP) and purchasing power parity, (PPP) principles. Although, exchange rate history is often divided into eras or regimes, according to the international 'rule of engagement' governing exchange rate determination among world currencies in each era; the underlining principles of LOOP and more commonly the PPP are often the cornerstones on exchange rate determination. There are basically three foreign exchange rate eras: (a) barter system which, subsisted before and up till 1821; (b) The Gold Standard, 1821 to 1914/32, and (c) the Breton Woods system, 1946/47 to date. (Dwivendi, 91990). It should be noted that the Breton Woods system itself can be considered as a two-phase phenomenon depending on one's perspective. These are the fixed exchange rate era; 1947-1971/72 and the flexible exchange rate era; 1973 to date. The Breton Woods system may also however, be considered as spanning four phases: the Breton Woods system proper, that is, the 'fixed' exchange rate regime, 1947/47 to 1971/72; the Smithsonian, (the fixed and floating or crawling peg era), 1973 to 1985 and the free-float era: which in itself consists of the Plaza Accord period, 1985 to 1987 and, Louvre Accord era, from 1987 to date.

As for transmission channels, there are the elasticity, monetary and portfolio balance approaches. These are sometimes also discussed as monetary, portfolio balance and signalling channels, (Olofin, Akinkugbe and Ajayi, 1986) Determinants of exchange rate are essentially domestic macroeconomic factors: output growth, wages, and money supplycum-inflation, import and export, external debt servicing obligations, net foreign capital flows and others. Factors in the global economy: capital flows, levels of global output growth, financial crisis/stability etc are also important in determining exchange rates. According to Olofin *et al* (1986), there are five classes of factors that determine exchange rates: supply side variables, external sector, government sector, financial sector variables as well as other unspecified ones. These others could include state of the global economy, financial stability or crises, country's degree of openness, wars etc.

Detailed reviews of these theories are not considered necessary in this study. Nevertheless, it should be observed that given these levels of conceptual and theoretical complexities, it is naivety at its utmost for one to think that monetary authorities or governments can determine the exchange rate of their currencies a capriciously.

2.3. Empirical Review

Some empirical studies on exchange rate management in Nigeria have found evidence to support CBN's management approaches. Others have however revealed some limitations and failures of the approaches. The fact,

however that the naira has faced a free-fall situation for a long time, (1986-date), suggests that the CBN has been fighting in vein, especially since the structural adjustment programme, (SAP).

An impressive assessment of SAP was made by Danju, (1990). The study painted the correct picture of the background to SAP. The study showed that the contributions of the mining and quarrying sectors to the Nigerian economy were 18% in 1982; down from 38% in 1962. Manufacturing output; [mainly low technology products]; was up to 36%, from 17% in 1962. This growth rate may not be as impressive as it seems to suggest in view of declining level of installed capacity as a result of divestment and disinvestment which became features of the Nigerian economy after the NEPD. In addition, the study showed that trading and business services sector decline from 38% to 28%, in the same period. So, if manufacturing output increased, export and or domestic merchandising should increase; but these were not evidenced by the statistics.

The author's conclusions, which were in tandem with the research findings, include the fact that local manufacturing sector was not doing well under SAP. It should be recalled that NEPD was promulgated in 1972 as Decree No. 28 of 1972; it was amended by Decree No. 35 of 1973; amended again by Decree No. 7 of 1974 and yet again comprehensively reviewed or revised by Decree 35 of 1977. No investor, let alone, a foreign investor, would be comfortable under such a kaleidoscopic macroeconomic management approach.

Furthermore, painful but true, economic reform programmes are not normally designed to help any particular person or sector but the economy as a whole, and in a holistic manner. SAP was expected to expose each sector and each economic agent to competition, in order for each to appreciate its capacity and inadequacies: to compel sub-marginal operators to 'upgrade', (restructure, as a microeconomic agent), if possible, or to exit its line of business. In short, to put in place clear and non-kaleidoscopic policies, rules and regulations that reduce uncertainties remove or curb monopolistic tendencies and other disincentives to free enterprise which previous policies especially, NEPD had entrenched.

However, continuing in the 'command and control' spirit, by 1990, (when the said study was conducted), most of the component programmes in SAP that were expected to have been implemented between 1986 and 1990 had not started let alone nearing completion. Furthermore, reduction in government expenditure and fiscal deficit that were the pivot of SAP were ignored, (Adyemi, 1996), among others. The results include the facts that: (a) FDI inflows, upon which revamping of the industrial sector was to be anchored, was marginal and non-impactful, (Aseidu, 2004; Onwumere, Ibe and Okpara, 2012) among others.

The work of Nwagbara, (2011), was an opinion survey of three hundred and fifty-seven (357) students, lecturers and other residents of Calabar metropolis on the effect of SAP. The study reported significant relationship between economic hardship, repressive attitudes of government, political uncertainty and interest groups' protests against SAP. It is obvious that these issues are of little, if any, theoretical import. The true message was that was 'no free lunch; not even in Free Town'; or more appropriately, to tell Nigerians that the time for free lunch was over. But the operators of SAP believed and acted to the contrary.

The studies by Aliyu, (2010) and Adeoye and Atanda, (2012), were on exchange rate volatility and the Nigerian economy. Both studies reported that exchange rate volatility had continuing negative effects on the Nigerian economy. Adeoye and Atanda concluded that there was sufficient evidence that monetary policies were ineffective in stabilizing the value of the naira. The 2012 study by Akpan and Atan examined the effect of exchange rate on economic growth from 1986 to 2010. The study which employed the General Method of Moment (GMM), revealed that there was no strong relationship between exchange rate and GDP growth but that there was evidence of more effect from monetary variables: money supply, and inflation, on the normal exchange rate.

Abdul-Maliq, (2012), investigated the impact of foreign exchange management on the Nigeria economy with GDP as dependent variable and export, import, BOP, inflation and exchange rate as independent variables for the period 1986-2008. The study reported that there was no significant impact or causality of exchange rate on GDP or BOP.

The analysis of the behaviours of foreign exchange users to the volatility of exchange rate, Egungwu, (2013), observed that there was long-run relationship and causality from foreign exchange distributions, [demand], to exchange rate volatility. The study was based on twenty four (24) year data: 1986-2010.

Magaji and Abdul-Maliq (2013), examined the trend and extent of dollarization in Nigeria since SAP; but more specifically from 1991-2010. The study discovered that contrary to the wishes of Nigerians, the economy was almost fully dollarized. The study however noted that it would be improper for Nigeria to accept currency union or any other form of *de jure* dollarization and therefore recommended adoption of economic growth stimulating and export expansion policies.

The work of Olayinbo and Ajuwon (2015), examined the phenomenon of dollarization, inflation and interest rate in Nigeria from 1986 to 2015. The study which used intertemporal model with SVAR as estimation technique reported that the naira has faced continued dollarization since 1994. They also found a unidirectional casually from dollarization to inflation: [a clear evidence of imported inflation]. The authors suggested that there should be polices to specifically tackle inflation and dollarization. In macroeconomic management theories, output growth and wages rigidity are among the few polices that could achieve these objectives. The CBN has no control over these and there is no evidence that the Nigerian government has addressed these or is prepared to do so in the meantime.

The study by Fapetu and Oloyede (2016) examined the relationship between foreign exchange management and economic growth in Nigeria from 1960 to 1912. Data were sourced from CBN data bases. Economic growth was adopted as the dependent variable while; exchange rate, export, import inflation and FDI were the independent variable. The study employed cointegration and the error collection model (ECM) was adopted as estimation technique. The study reported that exchange rate was not significant in explaining outputs in the period.

The study by Oloye, (2016), reviewed foreign exchange management policies in Nigeria from 1986 to 2016. The study was set against the background that several devices or methods, which the paper described as 'trial-and-error model', adopted to identify or decide the best method of determining naira's exchange rate all failed. This exact conclusion was reached ten years before, (Mordi, 2006). Meaning that nothing changed in the management approaches of the Nigerian exchange rate, and in fact, in the economy. Oloye's paper suggested among other things, blocking of porous borders, banning importation of consumer and luxury goods, fighting corruption, patriotism and sincerity of leaders and policy makers, rejection of dictation from western world among others. But, which of these have successive Nigerian governments not tried or purported to have tried since 1986? And how have they helped?

Abdul-Maliq (2017), examined the efficacies and differential impacts of the Franco-phone ECOWAS countries' currency peg model against those of the Anglo-phone countries' flexible exchange rate policies on output growth for a fifteen year period, 2001-2015. The pool panel regression results revealed that exchange rates in the francophone ECOWAS countries have been more stable and impacted more favourably on their economies than those of the Anglophone countries.

Yakubu, Sani, Obiezue and Aliyu, (2019), worked on the effect of exchange rate volatility on trade flows into Nigeria, 1977 -2016. Employing the ARDL model and GARCH estimation technique, the study reported that exchange rate volatility impacted trade flows negatively in the short-run but not in the long-run. The authors recommended CBN's continued intervention in the foreign exchange market. One worrisome issue in such a suggestion is that, it will imply CBN's perpetual intervention as has been for sometimes now for which there is no evidence of either domestic price stability or exchange rate resistance to a free fall.

In the case where interventions are to prevent the naira from plummeting, as it has been, does that not suggest a 'life support'? Worse still, what have been the economy-wide benefits of such interventions and for how long can or should such continue?

2.4. Policy Defaults and the Fate of the Naira

Nations' macroeconomic objectives are usually subsumed under two bogus umbrellas: achievement of internal and external balances. Internal balance implies price stability, low unemployment and low inflation rates. External balance, on the other hand, means a sustainably stable value of the nation's currency as well as favourable Balance of Payment (BOP) position. That Nigeria has never achieved any of these since 1972, is incontestable.

The Udoji award created multiple disequilibria among income, (wages), output and productivity, thereby distorting the economic and scientific link between employment, prices, income and productivity, on the one hand. On the other hand, it introduced money illusion with its attendant 'sickness', the Fisher's effect into Nigeria; both of which have made control of inflation and other monetary policy objectives difficult to achieve.

By the NEPD, the Nigerian military government expropriated foreign enterprises, assumed ownership and began to manage private sector organizations 'with immediate effect mentality'. That this approach had failed as early as 1975/77 is attested to by the fact that the Federal Military Government had to concession the management of the Nigerian Railway to foreigners in 1976/77, (punchng.com; The president, 1982, Ayoola, 2020) as well as the dismal performances of the national Electric Power Authority (NEPA), Power Holding Company, (PHC) as it is currently called, since inception in the early 1970s (Olukoja,19Ayoola), among others.

To finance*parastatals* and other government's white Elephant projects, (many of which FDI could have financed), the government resorted to wanton external borrowing, most at commercial rates, (Arikawe, 2001/3). The result was exactly what public finance theory says: debt over-hang as predicted by Paul Krugman, (Krugman, 1988). Nigeria was therefore subsequently classified as highly indebted poor country (HIPC), when her external debt became suffocating. These were the experiences of and the realities in Nigeria with the policy of indigenization that necessitated SAP. Economic reforms became inevitable. However, rather than reform sincerely and wholeheartedly, Nigeria once again crafted a political rather than an economic reform programme, SAP.

Not only that, the government went ahead to truncate SAP: (i) no sooner was SAP adopted that government resumed its financial recklessness. For instance, public expenditure between 1968 and 1996 rose rather than decline, (Adeyemi, 1996). (ii). External borrowing continued unabated; to fund expenditures like public urban housing, urban mass transit buses, palliatives to cushion the effect of SAP and what not. The debt burden became so heavy again that by 2000, Nigeria had to go 'cap-in-hand' to beg and even blackmail foreign creditors for debt forgiveness. A whopping sixty percent debt forgiveness (US\$ 18 billion), was granted Nigeria in 2005 (Musa, 2018, p. 1). (iii). Government mis[managed] enterprises that were supposed to be deregulated and or privatised between 1986 and 1990 remained under control and command management techniques, (Adeymi 1996).

Nigeria International Telecommunication Ltd, (NITE), was not partly privatized until 2000, (fifteen years after SAP). National Electricity Power Authority, (NEPA), is said to have been privatized but as at 2020, government still dictates tariffs and, (iii), Nigerian National Petroleum Corporation, (NNPC), continues to function but only as a clearing house and pricing authority for what it does not produce.

Because of low saving capacity and therefore, poor capital formation, Nigerians do not invest in the real sector. Because of unclear policy positions of government on its industrial policy foreigners are sceptical on direct investment. The monopolistic practices which SAP was to have redressed continues via the Okotie-Ebo and Dide-Olu Court business models. Therefore, what foreign direct or portfolio investments that came in since SAP, went into oil, financial and or other service industries, with little or no output growth, growth multiplier or backward /forward integration effects, (Aseidu, 2004; Onwumere, Ibe and Okpara, 2012) among others.

3. Data and Methodology

3.1. Data and Variables Description

Data for this study are sourced from World Bank data base. Forty (40) annual time series data; 1981 to 2020 (Year 2020 values were extrapolated by a 4 period moving average method). Autoregressive distributed lag (ARDL), model as presented below is specified for data analyses.

3.2. Model Specification

The ARDL model below is basic model specified for the study:

 $EXCH_t = \beta_0 + \beta_i EXCH_{t-j} + \alpha_0 x_t + \alpha_i x_{it-j} + \varepsilon_t$, with exchange rate as the dependent variable, $EXCH_{it-j}$ is the autoregressive term of the model with lag number of the dependent variables that ranges from j to p. x_{it-j} is a vector of independent variables that ranges from 1 to 6 (GDPPC, FDI, FORD, PRCONS, IMP, EXPO); while j is their individual lag length which ranges from j to p.

4. Data Presentation, Analyses and Discussion of Findings

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Variables	Mean	Maximum	Minimum	Std. Dev.		
EXPO	37.09487	144.9200	2.880000	36.98195		
FDI	2.610375	8.840000	0.190000	2.570092		
EXR	101.1111	360.2200	2.730000	100.4615		
FORD	34.33238	120.8400	4.080000	30.75123		
GDPPC	1331.349	3222.690	270.2200	884.2771		
GFCF	47.57200	147.0200	12.34000	29.88762		
GOVCAP	48.71588	147.0100	12.35000	30.47025		
IMP	27.63800	88.88000	2.130000	26.35589		
PRCONS	126.6909	414.7800	13.03000	133.3129		
RINTR	0.429875	18.18000	-65.86	14.43479		
Table 1. Descriptive Statistics						

Table 1: Descriptive Statistics

The table above presents summary description of the distribution of the macroeconomic variables relevant for the study. As can be observed, using the standard deviation as a measure of distributional spread, GDPPC had the highest level of fluctuation (SD=884.27), followed by PRCONS (SD=133.31), EXR (SD=100.46), and EXPO (SD=36.98), implying that these variables were most unstable over the period of the study.

4.1.1. Diagnostic Tests

Traditional time series tests such as stationarity and cointegartion were conducted to verify the time series properties of the data utilized for the study.

4.1.1.1.Unit Root

The stationarity properties of each of the variables are presented in Table 2. The table presents the Augmented Dickey-Fuller (ADF) unit root tests results. As shown in the table, almost all the series are integrated of order (1), except PRCONS that is integrated at level, judging at 1% level of significance.

ADF	With Constant and no Trend			
EXR	-3.615588	-5.132013	I(1)	
GDPPC	-3.615588	-3.829135	I(1)	
FDI	-3.615588	-7.410561	I(1)	
FORD	-3.615588	-5.846625	I(1)	
PRCONS	-3.661661	-4.541308	I(0)	
IMP	-3.615588	-6.490816	I(1)	
EXPO	-3.615588	-6.955131	I(1)	
Table 2. Unit Deat Test				

Table 2: Unit Root Test

4.1.2. ARDL Estimation

The parameters of ARDL (Autoregressive Distributive Lag) model were estimated to determine the dynamic relationship that exists between the variable sets. As a remainder, the ARDL option to conitegration test was considered necessary because of the failure of the variables to have a uniform first order cointergation, I(1).

Dependent Variable: EXR					
	Method: ARDL				
	Date: 10/30/20 Time: 03:12				
Sample (Adjusted): 1985 2020					
Included Observations: 36 after Adjustments					
Maximu	m dependent la	ags: 4 (Automati	c selection)		
Model Se	lection Method	: Akaike info Cri	iterion (AIC)		
Dynamic Regress	sors (4 lags, aut	tomatic): GDPPC	IMP PRCONS E	ХРО	
	FO	RD FDI			
	Fixed R	egressors: C			
N	umber of Mode	els Evaluated: 62	2500		
Se	lected Model: A	ARDL(4, 4, 4, 4, 4, 4	e, 4, 4)		
Variable	Coefficient	Std. Error	t-Statistic	Prob.*	
EXR(-1)	-0.352032	0.053184	-6.619193	0.0955	
EXR(-2)	1.507131	0.110176	13.67932	0.0465	
EXR(-3)	0.552568	0.064644	8.547862	0.0741	
EXR(-4)	-2.233680	0.230632	-9.685024	0.0655	
GDPPC	-0.314831	0.029391	-10.71185	0.0593	
GDPPC(-1)	0.336383	0.058991	5.702302	0.1105	
GDPPC(-2)	-0.232910	0.027154	-8.577268	0.0739	
GDPPC(-3)	0.135219	0.015531	8.706651	0.0728	
GDPPC(-4)	0.032309	0.012931	2.498510	0.2424	
IMP	-5.534666	0.473317	-11.69335	0.0543	
IMP(-1)	1.342864	0.578114	2.322837	0.2588	
IMP(-2)	6242275	0 547517	11 40106	0.0557	
IMP(-3)	1 489091	0 237427	6271795	0 1007	
IMP(-4)	-9 796338	1 152258	-8 501865	0.0745	
PRCONS	4 865845	0 519228	9 371304	0.0713	
PRCONS(-1)	-2 925812	0.590107	-4 958107	0.0077	
PRCONS(-2)	3.089524	0.214658	14 39277	0.0442	
PRCONS(-3)	-2 960291	0.184710	-16.02666	0.0397	
PRCONS(-4)	0.856280	0.090626	9 448521	0.0671	
FXPO	6.129105	0.090020	12 65906	0.0502	
FXPO(-1)	-3 506479	0.599435	-5 849642	0.0302	
FXPO(-2)	-3.035750	0.371135	-8 179637	0.1070	
FXP0(-3)	1 592599	0.371155	3 605968	0.0774	
FXPO(-4)	3 744151	0.111037	8 640796	0.1722	
FORD	0 777548	0.091668	8 482197	0.0747	
FORD(-1)	-1 020085	0.091000	-10 93173	0.0747	
FORD(-2)	-0.250785	0.090407	-2.873502	0.0301	
FORD(-2)	0.235703	0.070407	8.087748	0.0783	
FORD(-4)	1 182152	0.120000	14 14700	0.0703	
	2,912010	1 1/7292	2 2 2 2 4 2 0	0.1961	
	1 001665	1.147202	1 / 11627	0.1001	
	0.096402	2 515027	0.200506	0.3924	
FDI(-2)	-0.900493	2.001270	-0.200300	0.0239	
FDI(-5)	-20.09250	3.001370	-9.370409	0.0070	
FDI(-4)	-03.52/72	2.501057	-24./9946	0.0257	
L D. aguerad	-03.49091	33.95/UZ	-2.458/23	0.2459	
K-Squared	0.99998/	Mean dep	endent var	112.01/1	
Adjusted K-squared	0.999531	S.D. depe	ndent var	100.1127	
S.E. of regression	2.168468	Akaike inf	o criterion	2./46845	
Sum squared resid	4./02255	Schwarz	criterion	4.286377	
Log likelihood	-14.44321	Hannan-Q	uinn criter.	3.284183	
F-statistic	2194.097	Durbin-W	atson stat	2.838653	
Prob(F-statistic)	0.016908			1,,	
"Note: p-values and any subsequent tests do not account for model					
Se	lection.				

Table 3: ARDL Regression Results

The inbuilt Eviews command was used to arrive at an ARDL (4, 4, 4, 4, 4, 4, and 4) lag order selection, with each of the variables exhibiting the same periods of lag. The outcome of the results appears to suggest that a short run relationship exists between exchange rate on the one hand and PRCONS, FORD and FDI. Next, we proceed to analyze the

error correction model type to determine the length of adjustment to the long run equilibrium. The dynamic model indicates that 99% of the variation in Exchange rate is accounted for by the estimated model.

4.2. Post Estimation Test

The table below presents the short run relationship between Exchange Rate and the explanatory variables. The error correction coefficient got the right negative sign, -1.526013, suggesting that 153% of the deviation from equilibrium relationship between the dependent and independent variables in the previous year are restored in the current year. The results also suggest that short run changes in each of the independent variables affect Exchange Rate. Put differently, the results suggest that each of the variables exact short run impact on Exchange Rate of the naira.

ARDL Error Correction Regression				
Dependent Variable: D(EXR)				
Selected Model: ARDL(4, 4, 4, 4, 4, 4, 4)				
Case 2: Restricted Constant and No Trend				
	Date: $10/30/2$	0 Time: 03:21		
	Sample: 1	.981 2020		
	ECM Do	grossion		
Case	ECM Re 2. Restricted Co	gression Instant and No T	rend	
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(EXR(-1))	0.173982	0.011327	15.36028	0.0414
D(EXR(-2))	1.681112	0.014811	113.5034	0.0056
D(EXR(-3))	2.233680	0.021113	105.7952	0.0060
D(GDPPC)	-0.314831	0.005565	-56.57647	0.0113
D(GDPPC(-1))	0.065382	0.003745	17.45910	0.0364
D(GDPPC(-2))	-0.167528	0.002887	-58.03139	0.0110
D(GDPPC(-3))	-0.032309	0.001856	-17.40876	0.0365
D(IMP)	-5.534666	0.072905	-75.91609	0.0084
D(IMP(-1))	2.064972	0.054894	37.61734	0.0169
D(IMP(-2))	8.307247	0.094379	88.02020	0.0072
D(IMP(-3))	9.796338	0.093880	104.3496	0.0061
D(PRCONS)	4.865845	0.066656	72.99958	0.0087
D(PRCONS(-1))	-0.985513	0.028544	-34.52660	0.0184
D(PRCONS(-2))	2.104011	0.027303	77.06077	0.0083
D(PRCONS(-3))	-0.856280	0.019077	-44.88597	0.0142
D(EXPO)	6.129105	0.069634	88.01877	0.0072
D(EXPO(-1))	-2.301000	0.038282	-60.10661	0.0106
D(EXPO(-2))	-5.336750	0.070961	-75.20704	0.0085
D(EXPO(-3))	-3.744151	0.044736	-83.69435	0.0076
D(FORD)	0.777548	0.017595	44.19085	0.0144
D(FORD(-1))	-1.900015	0.023916	-79.44607	0.0080
D(FORD(-2))	-2.159800	0.022485	-96.05371	0.0066
D(FORD(-3))	-1.182152	0.015664	-75.46952	0.0084
D(FDI)	3.812910	0.205704	18.53591	0.0343
D(FDI(-1))	93.40671	0.913335	102.2699	0.0062
D(FDI(-2))	92.42022	0.833153	110.9283	0.0057
D(FDI(-3))	63.52772	0.566867	112.0681	0.0057
CointEq(-1)*	-1.526013	0.013536	-112.7408	0.0056
R-squared 0.999728 Mean dependent var 8.422917				
Adjusted R-squared 0.998812 S.D. dependent var 22.2410			22.24105	
S.E. of regression	S.E. of regression 0.766669 Akaike info criterion 2.357956			2.357956
Sum squared resid	4.702255	Schwarz	criterion	3.589582
Log likelihood	Log likelihood -14.44321 Hannan-Quinn criter. 2.787826			2.787826
Durbin-Watson stat 2.838653				
* p-value incompatible with t-Bounds distribution				

Table 4: ARDL Error Correction Model

The bounds test alternative to cointegration was conducted as presented below to determine whether there exists level cointegration among the variable sets (dependent and independent variables). The null hypothesis is that there is no level cointegration. The decision is to reject this null hypothesis and conclude that there is a level cointegration if F-statistic calculated is greater than theoretical F-statistic at I(1), and otherwise we conclude that there is no level cointegration if F-statistic calculated is less than theoretical F-statistic at I(0). The calculated value of F = 198.6012; Table

5 is greater than 3.99 at 1% level. We therefore cannot but reject the null hypothesis and conclude that there is a level cointegration among the variable sets.

F-Bounds Test		Null Hypothesis: No Levels Relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	198.6012	10%	1.99	2.94
К	6	5%	2.27	3.28
		2.5%	2.55	3.61
		1%	2.88	3.99

Table 5: ARDL Bounds Test

Dependent Variable: EXR					
Method: Least Squares					
Date: 12/22/20) Time: 23:53				
Sample: 19	981 2020				
Included Obse	ervations: 40				
Coefficient	Std. Error	t-Statistic	Prob.		
153.5886	38.10374	4.030802	0.0003		
-0.107554	0.026370	-4.078645	0.0003		
-4.242104	5.311253	-0.798701	0.4302		
-1.346242	0.450407	-2.988946	0.0053		
0.665078	0.173879	3.824947	0.0006		
3.142436	1.039234	3.023799	0.0048		
-0.622788	0.548832	-1.134752	0.2647		
0.842696	Mean depe	endent var	101.1111		
0.814096	S.D. depe	ndent var	100.4615		
43.31562	Akaike inf	o criterion	10.53253		
61916.01	Schwarz	criterion	10.82809		
-203.6506	Hannan-Qı	uinn criter.	10.63939		
29.46421	Durbin-W	atson stat	1.137630		
0.000000					
	Dependent V Method: Lea Date: 12/22/20 Sample: 19 Included Obse Coefficient 153.5886 -0.107554 -4.242104 -1.346242 0.665078 3.142436 -0.622788 0.842696 0.814096 43.31562 61916.01 -203.6506 29.46421 0.000000	Dependent Variable: EXR Method: Least Squares Date: 12/22/20 Time: 23:53 Sample: 1981 2020 Included Observations: 40 Coefficient Std. Error 153.5886 38.10374 -0.107554 0.026370 -4.242104 5.311253 -1.346242 0.450407 0.665078 0.173879 3.142436 1.039234 -0.622788 0.548832 0.842696 Mean depe 0.814096 S.D. depending 43.31562 Akaike inff 61916.01 Schwarz -203.6506 Hannan-Qu 29.46421 Durbin-W 0.000000	Dependent Variable: EXR Method: Least Squares Date: 12/22/20 Time: 23:53 Sample: 1981 2020 Included Observations: 40 Coefficient Std. Error t-Statistic 153.5886 38.10374 4.030802 -0.107554 0.026370 -4.078645 -4.242104 5.311253 -0.798701 -1.346242 0.450407 -2.988946 0.665078 0.173879 3.824947 3.142436 1.039234 3.023799 -0.622788 0.548832 -1.134752 0.842696 Mean dependent var 0.814096 S.D. dependent var 43.31562 Akaike info criterion 61916.01 Schwarz criterion -203.6506 Hannan-Quinn criter. 29.46421 Durbin-Watson stat 0.000000		

Table	6:	Level	Rearession	Results
1 0.010	··	10101	110,91 0001011	110001100

Since the results of the bound test confirms that there exists a longrun relationship between exchange rate and the independent variables, it therefore becomes necessary to examine the level relationship between the variables. As can be observed on the basis of 5% level of significance, while GDPPC (-0.107554) and Foreign exchange (FORD) (-4.242104) independently and significantly decrease exchange rate, Private Consumption (PRCONS) (0.665078) and Import (3.142436) increase exchange rate in Nigeria. The R-square value of 0.842696 (F=29.46421, P=0.0000) suggests that the level results significantly accounted for 84% variation in Exchange rate over the period under study.

4.3. Findings

Data analyses reveal that there is a short-run relationship between naira's exchange rate and the independent variables, particularly, private consumption, foreign debt and foreign direct investment. The results, as suggested by the R squared, Adjusted R squared, F test and other parameters, are that the independent variables account for as much as 99.95% of the variations in naira's exchange rate in the short run.

However, the long-run analysis shows that the main drivers of exchange rate over the period of the study have been private consumption and import. Furthermore, the error correction coefficient of -1.53, with the right (negative) sign, suggests that about 153% of the deviation from equilibrium between the independent and dependent variables in the previous year are restored in the current. Also with F value of 198.60, (table4.2) at 99 percent degree; the bond test result confirms that there is level cointegration among the variables. This finding appears to confirm that government and public spending on import, external debt servicing, low and unhygienic FDI inflows have been instrumental in determining naira's exchange rate and output in general.

5. Summary, Conclusion and Recommendations

This paper examined the free-fall phenomenon being experienced by the Nigerian currency, the naira, since 1986, against the background of the Nigeria's unique specie hypothesis. The study which is based on forty (40) period annual time series data employed the ARDL model and ECM estimation technique. Results show that, contrary to many Nigerians doubt as to the efficacy of economic theories in the economic management, the exchange rate of the naira has been determined principally by macroeconomic fundamentals. Data analyses show that excessive import, and private consumption among others accounted for as much as 84% of the variation in naira's exchange rate in the period under study.

The paper therefore concludes that the management or defence of the naira exchange value has gone beyond what the CBN can handle with traditional monetary policy tools. It is therefore suggested that policies that ensure

increased domestic savings, employment creation, output growth, inflow of hygienic and productive FDI, foreign debt reduction and more clarity in wages and industrial policies will be more effective in arresting the free-fall syndromethe naira faces, in particular, as well as addressing the Nigeria economic development quagmire in general.

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