Foreign Exchange Market Pressure and Balance of Payment Equilibrium in Nigeria

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Abstract
Within the monetary and the balance of payment approaches which established that large exchange rate fluctuations may be detrimental to economic performance, this study examined the response of exchange market pressure (EMP) on balance of payment equilibrium in Nigeria. Adopting Autoregressive Distributive Lag (ADRL), this study found that EMP had a negative and significant impact on balance of payment in Nigeria. This implies that exchange rate depreciation increased pressure on external reserve and causes deficit in the balance of payment. To correct for this, government may need to adopt measures such as economic diversification anchored on comparative advantage, rebuild the productive sectors – manufacturing and industrial to achieve higher capacity untilisation and productivity and competitvive export, encourage local refining of petroleum products, promote fiscal and monetary discipline and harmony and create an enabling environment for productive capital inflows, especially foregn direct investment.

***Keywords**:* Foreign Exchange, Market Pressure, External Reserve, Balance of Payment, Nigeria

JEL Classifications: C22, E42, F31, F32

Introduction

The structural adjustment programmes embarked upon .by many African countries, including Nigeria, since the 1980s aimed at a number of objectives including the attainment of balance of payments equilibrium, satisfactory long-term growth performance, and· low inflation (Khan, 1990). The fact that no nation has all resources required to enhance growth, high rate of interdependency and the desire to achieve long-run equilibrium real exchange rate at any point in time should be that which is consistent with a country maintaining a balance of payment equilibrium. According to Oladipupo and Ogbenovo (2011), achieving BOP equilibrium is germane in international relations because it connects the macroeconomic unit of nations together thereby making sustainable growth to be

possible. The IMF observes that exchange rate instability has been a major problem in Nigeria and has resulted into excessive monetary and credit expansion which brings about changes in relative prices that affect imports, exports and capital flows.

Accordingly, Nigeria government which has embarked on different exchange rate policies since 1980s appeared to tend toward overvaluation of the Naira with the aim of encouraging export and discourages non-oil export products and over dependence of Nigeria economy on imported input over exported output (Abdullahi et al., 2016). Government in a bid to reduce the negative effect of Naira appreciation on trade balance and balance of payments which has continue to be in deficit devalues the Naira with other major currency of the world.

Regardless of the policy thrust of governments in Nigeria, the country has continued to witness unstable exchange rate with undesirable effect on balance of payments. In the face of scarce foreign exchange, the Central Bank of Nigeria closely use foreign currency reserves to keep a fixed rate value, maintain competitively priced exports, remain liquid in case of crisis, and provide confidence for investors. They also monitor the use of periodic releases of foreign exchange to ensure that appropriation and application by various sectors are in line with achieving BOP equilibrium and other strategic economic priorities (Agundu, *et al.*, 2013).

Nigeria continually experienced depleted foreign exchange reserve and chronic deficit in the balance of payments and faced many challenges in taking monetary actions to correct this situation due to over-dependency on imported products. Other outcome was reflected in the decline in external reserves, capital reversals, rising external debt and increased repatriation of investment income by foreign investors. The stock of external reserves fell by 2.2 per cent to US$42.85 billion at end-December 2013, representing 10.0 months of import financing. The relative stability of the exchange rate of the naira to the US dollar was sustained at the official segment of the foreign exchange market due to the tight monetary stance of the CBN and the re-introduction of the retail Dutch Auction System (rDAS) to curb unwholesome practices in the market (CBN bulletin 2014). The exchange rate for the period of 1986 to 1991 depreciated to N5.99 to US$1, though still single digit depreciation. It further depreciated to N17.30 and N22.05 to US$1 in 1992 and 1993 respectively. Owing to the persistent depreciation, the government re-introduced fixed exchange rate in 1994 and fixed naira at N21.89 to US$1. The dismal performance of the economy at the end of 1994 compelled the authority to

jettison fixing rate and bring back market-based approach under the Autonomous Foreign Exchange Market (AFEM) from January 1995 and the Inter-Bank Foreign Exchange Market (IFEM) in October 1999. The Dutch Auction System (DAS) was additionally introduced on July 2002 to serve as a triple purposes of reducing the parallel market premium, conserve the dwindling external reserves and achieve a realistic exchange rate for the naira. Despite the efforts, the average exchange rate for the period of 1995 to 1998 was N82.1 to US$1. The average exchange rate from 1999 to 2015 stood at N136.144 to US$1. The Nigerian naira continued in a declining trajectory since 2017, 2019 and 2020 to the level of N305.79, 307 and to 411.1 to US$1 on the official market (CBN, 2020).

Although the rate appreciated against US dollar in 1994, 2005 and 2008, however, the trend always and quickly changed with a reversed depreciation. The peak of the period of global financial crises in 2009 till the recent episode of oil price volatility or shocks at the international oil market has contributed to the recent rise in the depreciation rate of naira against dollar. In all, it can be observed critically those variations in the volatility of exchange rate occurred within the period under study in the various regimes adopted by the Nigerian government in the management of her foreign exchange rate.

Given central bank role in using foreign currency reserves to keep a fixed rate value, maintain competitively priced exports, remain liquid in case of crisis, and provide confidence for investors, Mogaji(2017),observed that Foreign reserves changes or exchange rate changes (one in isolation of the other) would not provide enough guide in revealing the features and accurate picture of BOP equilibrium level of any economy. In most case, monetary authority can delay or avoid depreciation in exchange rate (partially) if foreign reserves are depleted so as to inject foreign currency into the foreign market. On the other hand, foreign currency could be purchased from the market to fortify foreign reserves; and this restrains the appreciation in the rate of exchange as prompted by the underlying fundamentals. These show that there would be misleading view of correcting BOP disequilibrium of an economy if either of the two intervention tools (foreign reserves variations and exchange rate movements) to the exclusion of the other is emphasized.

The aim of this study is to examine the impact of exchange market pressure on the balance of payment equilibrium in Nigeria. This study is important in Nigeria being an import dependent country and has been experiencing disequilibrium as a

result of its involvement trade. Again, the oil price shock which started in early 1980s which is the same period Nigeria started recording huge balance of payment deficit and very low level of foreign reserves, has led to intense fluctuations in exchange rate and increased fluctuation in the exchange market creating a pressure in the exchange market, yet very little work on the effect of exchange market pressure on balance of payment equilibrium exist in Nigeria. The result of this study is expected to show if the reaction to EMP by monetary policy instruments are according to theoretical presumptions in testing the validity of the monetary model of exchange market pressure. Considering the fact that a fast depreciating local currency can create instability within macroeconomic variables, which can serve as a hindrance to the growth of any nation, it is pertinent to evaluate the connection that exists between EMP and BOP equilibrium.

In this regard, the rest of the paper is organized into five sections. Following the introduction, is the conceptual review of literature. Section 3 is the theoretical framework and methodology. 4 describes the. Section 4 presents and discusses the results and section 5 concludes with proposed policy implications.

Literature Review

Pressure in the foreign exchange market is related to exchange rate depreciation under a flexible exchange rate regime rather than a fixed regime. It is an index associated with movements in two key external sector variables - international reserve holdings and the nominal exchange rate, in some cases money supply. A country's exchange rate can be put under pressure when the demand for foreign currency exceeds its supply. Girton and Roper (1977) viewed Exchange market pressure (hereafter EMP) as the sum of the changes in exchange rate and international reserves, while Weymark (1995) referred to it as the change in exchange rate required to eliminate excess demand for the currency without intervention in the foreign exchange market. An extension of this definition can be found in Eichengreen *et al*. (1996) which stated that the EMP is a weighted average of the changes in exchange rate, interest rate and foreign reserves. This definition underscores the role of liquidity in the interaction between domestic money and foreign exchange markets.

In the economic literature, exchange market pressure is computed as an index of a set of key market indicators such as interest rate, exchange rate and international reserves. Exchange market pressure refers to the magnitude of money market disequilibrium arising from international excess demand or supply of the domestic

currency or more indigenously the sum of exchange depreciation (in percent) and reserve losses (in percent of the monetary base). The exchange market is said to be under pressure if there is significant fluctuations in the exchange rate. EMP measures the total excess demand for a currency in international markets as the exchange rate change that would have been required to remove this excess demand in the absence of exchange market intervention, given the expectations generated by the exchange rate policy actually implemented (Weymark 1995). EMP measures the extent of exchange rate development in terms of actual depreciations while controlling for policy actions brought about by changes in international reserves (Horvath, Rusnak & Feldkircher, 2014).

Research Methodology

The principal theoretical proposition of the modelling of EMP by Girton and Roper (1977) is that whenever the domestic money market equilibrium is disturbed, the resulting disequilibrium is restored through some combinations of international reserve outflows (or inflow) and depreciation (or appreciation) of currency. Therefore, to restore the money market disequilibrium, the excess domestic money demand will prompt a combination of reserve depletion (outflow) and depreciation of currency. In the instance of excess domestic money supply, the consequence will be some combinations of inflow of reserves and appreciation of currency. This is a strong reason for the appropriateness of the G-R model of EMP in the fixed, managed floating and floating exchange rate regimes. Under the fixed exchange rate regime, the change in exchange rate is zero and under a floating/flexible exchange rate regime, the change in reserve is zero. Either of reserve losses and currency appreciation (or a combination of both) absorbs exchange market pressure under the managed floating system.

The intuition of the G-R model is that, increase in domestic credit (and/or money multiplier): (i) stimulates proportionate loss of foreign reserve (with no change in exchange rate); or (ii) stimulates a proportionate depreciation of domestic currency (with no change in reserve) or (iii) a combination of the two, all at a given rates of growth of domestic income and foreign prices. On the other hand, when there is increase in domestic income and/or foreign price, the effect is proportional inflow of international reserves and proportional appreciation of domestic currency.

Based on the observation that foreign reserves changes or exchange rate changes (one in isolation of the other) would not provide enough guide in revealing the

features and accurate picture of BOP equilibrium level of any economy, this study follows the work of Odili (2014) Thus, the model for this study is given as:

$$BOP = f(EMP, TOP, DC, BOT) \quad (1)$$

The econometric form of this model can be stated as;

$$BOP_t = \alpha_0 + \alpha_1 EMP_t + \alpha_2 TOP_t + \alpha_3 DC_t + \alpha_4 BOT_t + \mu_t \quad (2)$$

Meanwhile, we introduced log in the equation to improve the linearity of the equation and also to solve the problem of multicollinearity and heteroskedasticity that may be present in the model. The logarithm function is therefore stated as;

$$Ln\ BOP_t = \alpha_0 + \alpha_1\ Ln\ EMP_t + \alpha_2\ Ln\ TOP_t + \alpha_3\ DC_t + \alpha_4\ Ln\ BOT_t + \mu_t \quad (3)$$

The presence of error term (μ_i) takes care of other variables that have influence on the dependent variable but not specified in the model.
Where:

BOP_t = Balance of Payment at time t
EMP_t = Exchange Market Pressure at time t
TOP_t = Trade Openness at time t
DC_t = Domestic Credit at time t
BOT_t = Balance of Trade at time t
α_0= the constant
α_1 - α_4 = the coefficients of the explanatory variables
μ_t = Error term

The type of data to be used is secondary data on balance of payment (BOP), trade openness (TOP), Domestic Credit (DC), Balance of Trade (BOT), as well as exchange market pressure (EMP) of the Nigerian economy from 1981 to 2020. Eichengreen et al. (1994, 1995) exchange market pressure (EMP) model, which shows volatility in exchange rates as a function of changes in nominal exchange rates, interest rates and international reserves was used to calculate EMP. The model is a weighted index that standardizes the influence of each variable on the EMP by dividing each variable by its standard deviation. This alleviates a bias effect of one variable overwhelming the other two. It assigns a weight to each variable to ensure the lowest standard deviation of the EMP variable.

Eichengreen et al. (1994) created this equation as a way to compare exchange rate pressures across countries engaging in devaluations, revaluations or undergoing an attack. The equation for EMP is as follows:

$$EMP_t = \alpha(\%\Delta e_t) + \beta(\%\Delta i_t) - \gamma(\%\Delta r_t) \quad (4)$$

In this equation, e_t represents the nominal exchange rate, i_t is the interest rate in the sample country, r_t represents the ratio of international reserves to domestic money (M1) of the sample country. The parameters α, β and γ are the weights that allocate the different variables to the EMP. Each weight is the inverse standard deviation of the variable it modifies. This equation is effective in showing exchange rate pressures as it includes the primary endogenous variables that affect crises, not just reserves, as is the case in Krugman's (1979) initial currency crisis model which focuses on capital flight.

Balance of Payment (BOP) is the record of all economic transactions between the residents of a country and the rest of the world in a particular period. It is expected to have a negative relationship with exchange market pressure, the higher the pressure in the foreign exchange market the higher the tendency of disequilibrium in the balance of payment statement.

Exchange Market Pressure (EMP), Trade Openness (TOP), Domestic Credit (DC) and Balance of trade (BOT) are the independent variables so as to ascertain the effect of exchange market pressure on balance of payment equilibrium in Nigeria. Exchange Market Pressure (EMP) is the disequilibrium in the foreign exchange market that arises due to non-zero excess demand for domestic currency. It is expected to have a negative effect on balance of payment equilibrium. Eichengreen et al index was adopted to calculate EMP. Trade Openness (TOP) is the removal or reduction of restrictions or barriers on the free exchange of goods between nations. It is calculated as the ratio of a country's total trade, the sum of exports plus imports to the country's gross domestic product. The higher the index the larger the influence of trade on domestic activities and the stronger that country's economy, it is expected to have a positive relationship with balance of payment.

Domestic Credit (DC) refers to lending or credit that the central bank of a country makes available to borrowers within the country. The borrowers may include the government of such country or the commercial banks within such country. İf it

becomes more available it will reduce the foreign borrowing, hence reduction in the demand for foreign currencies. This would in turn strengthen the naira against foreign currencies resulting in a lower exchange rate and appreciation of the domestic currency. Balance of Trade (BOT) is the difference between a country's total value of exports and total value of imports. It is used to calculate a country's aggregate expenditures, it equals the amount by which foreign spending on a home country's goods and services exceeds the home country's spending on foreign goods and services. It is expected to have a positive relationship with balance of payment.

Table 1: Sources and Measurement of Data

Variables	Definition	Measurement	Apriori Exp.
BOP	Balance of Payment	BOP overall balance as % of GDP	Negative
EMP	Exchange market Pressure.	Exchange rate of naira, MPR and Gross external reserves	Positive
BOT	Balance of Trade	Export (fob) and Import (cif)	Positive
DC	Domestic Credit	Total private sector credit	Positive
TOP	Trade openness	Export (fob), Import (cif) and Total GDP	Positive

All data are sourced from CBN 2020 Statistical bulletin
Source: Authors compilation

Presentation and Analysis of Results

Table 2: Descriptive Statistics and Normality Test for All Variables in Data Set

Statistical Tools	BOP (%)	EMP (%)	BOT (%)	DC	TOP
Mean	-1.15	0.50	16.86	6925671.	0.38
Median	-0.92	0.29	-4.09	6240381.	0.37
Maximum	18.03	3.76	420.13	12326020	1.08
Minimum	-16.43	-0.30	-327.43	3794225.	0.00
Std. Dev.	5.56	0.85	121.73	2185396.	0.20
Skewness	0.11	2.33	0.71	1.024867	1.21
Kurtosis	7.35	9.03	6.58	3.009850	7.27
Jarque-Bera	28.49	67.81	21.66	6.302261	36.11
Probability	0.00	0.00	0.00	0.04	0.00
Sum	-41.22	14.10	590.06	0.249 billion	13.78
Sum Sq. Dev.	1082.678	19.48	503785.1	167 trillion	1.35
Observations	40	40	40	40	40

Source: Authors' Computation

Testing for the existence of unit roots is a principal concern in the study of time series models and cointegration. The presence of a unit root implies that the time series under investigation is non-stationary; while the absence of a unit root shows that the stochastic process is stationary (Iyoha & Ekanem, 2002).

The time series behavior of each of the series using the Philip Perron unit root test is presented in Table 3. Phillip Perron test is a non-parametric test as it does not require selecting the level of serial correlation, it takes the same estimation as ADF test but corrects the statistics to conduct for autocorrelations and heteroskedasticity. The Philip Perron unit root test is adopted due to the negativity of some of the data of the variables under consideration. The result shows that BOP, BOT and EMP are stationary at levels, the null hypothesis is rejected while we fail to reject the null hypothesis of the series having unit root for LOG(DC) and TOP as their probability values at level are statistically insignificant thereby leading to a further test at first difference and the result shows that they are statistically significant at first difference. This means all the variables are integrated of order 0 and 1. Thus, the Autoregressive Distributed Lag (ARDL) is applied to examine the long run relationship among variables.

Table 3: Philip Perron Unit Root Result

	At Level			At First Difference			
Variable	PP statistics	5% critical value	Prob	PP statistics	5% critical value	Prob	Order
BOP	-5.253**	-2.948	0.000	-	-	-	I (0)
EMP	-6.542	-2.981	0.000	-	-	-	I (0)
BOT	-6.535**	-2.951	0.000	-	-	-	I (0)
LOG(DC)	-0.633	-2.948	0.850	-4.774**	-2.951	0.001	I (1)
TOP	-1.338	-1.951	0.164	-7.031**	-1.951	0.000	I (1)

*** Implies significant at 1%; Method is Philip-Perron*
Source: Authors' Computation

Cointegration test is to test whether there is long-run relationship between the dependent and independent variables in the model. Cointegration is concerned with the analysis of long run relations between integrated variables and reparameterizing the relationship between the considered variables into an Error Correction Model (ECM). Under the conventional Engle and Granger (1987) cointegration analysis is not applicable in cases of variables that are integrated of different orders (i.e, series-A is I(1) and series-B is I(0)) while in Johansen and Juselius(1990), and ARDL cointegration procedure it is applicable. The ARDL cointegration technique is used in determining the long run relationship between series with different order of integration (Pesaran & Shin 1999). The reparameterized result gives the short-run dynamics and long run relationship of the considered variables.

Table 4: ARDL Bound Co-Integration Test

Estimated Model: $BOP_t = f(\mathrm{EMP_t}, \mathrm{BOT_t}, \mathrm{LOG(DC_t)}, \mathrm{TOP_t}$

Optimal Lags: (3, 3, 3, 3, 3, 3)
F- Statistics: 8.42*

Level of significance	**Lower Bound**	**Upper**
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

Source: Author's Computation

Pesaran and Shin (1999) supplied bound for the critical value for the asymptotic distribution of the F-statistic. For various situation (e.g. different numbers of variables, (k+1)), they give lower and upper bound on the critical values. In each case, the lower bound is based on the assumption that all the variables are I(0), and the upper bound is based on the assumption that all the variables are I(1). If the computed F-statistic falls below the lower bound we would conclude that the variables are I(0), so no co integration is possible, by definition. If the F-statistics exceeds the upper bound, we conclude that we have co-integration. Finally if the test statistic falls between the bounds, the test is inconclusive.

Table 4 shows that the F-statistics 8.42 is greater than the 1%, 2.5%, 5% and 10% lower and upper bound test and we can therefore conclude that there is co-integration; hence the variables are co-integrated in the long run.

Table 5: ARDL Long and Short Run Result
Dependent Variable: BOP

Long Run Estimates				**Short Run Estimates**			
Variable	**Coeff.**	**t-stat**	**Prob**	**Variable**	**Coeff.**	**t-stat**	**Prob**
EMP_t	-2.049*	-15.919	0.0399	$\Delta (BOP)_{t-1}$	1.721*	27.489	0.0231
BOT_t	-0.075**	-99.517	0.0064	$\Delta (BOP)_{t-2}$	1.166*	19.733	0.0322
$LOG(DC_t)$	0.512	2.732	0.2234	$\Delta (EMP)_t$	-1.859*	-15.286	0.0416
TOP_t	19.604*	36.735	0.0173	$\Delta (EMP)_{t-1}$	0.087	0.836	0.5566
C	-15.817	-5.920	0.1065	$\Delta (EMP)_{t-2}$	2.092	10.532	0.0603
				$\Delta (BOT)_t$	0.001	2.021	0.2925
				$\Delta (BOT)_{t-1}$	0.086*	24.630	0.0258
Statistical Properties of Results				$\Delta (BOT)_{t-2}$	0.041*	12.892	0.0493
R^2	0.979319			$\Delta LOG(DC)_t$	-3.290	-7.128	0.0887
Adj R^2	0.971194			$\Delta LOG(DC)_{t-1}$	0.561*	3.630	0.0189
F-statistic	4457.318			$\Delta LOG(DC)_{t-2}$	-0.598*	-4.924	0.0426
Prob(F-statistic)	0.011794			$\Delta (TOP)_t$	12.588*	18.497	0.0344
Durbin-Watson Stat	2.718514			$\Delta (TOP)_{t-1}$	6.750*	13.202	0.0481
Akaike Info Criterion	-3.923989			$\Delta (TOP)_{t-2}$	-22.637*	-39.404	0.0162
Schwarz Criterion	-2.929206			$CointEq_{t-1}$	-0.663*	-27.366	0.0233

** Implies significant at 5% ** Implies significant at 1%*
Source: Author's Computation

The estimation result in table 5 revealed that the estimated ECT coefficient in the short run is -0.66 (ECTt-1 = -0.663227) and significant at 5% level, thus indicating that about 66 percent of the dis-equilibrium due to the previous year's shocks is adjusted back to the long-run equilibrium in the current year. This also indicates that, there is a significant long run relationship among the variables. The coefficients of EMP in the short run model at current period conforms to the expectation of negative relationship and it is significant at 5% while it negates the expectation at previous year and last two years showing a positive insignificant relationship between BOP and EMP. BOT conforms to expectation of positive relationship at all lag period but significant at previous year and last two years. LOG(DC) is expected to have a positive relationship with BOP, the short run result shows that a negative relationship exists at the current period, positive previous year and negative last two years, showing a significant relationship previous year and last two years. TOP shows a significant relationship at all time period with positive relationships conforming to the expectation at the current time and previous year but a negative relationship exists with BOP last two years. In summary the short run estimates show that all the variables are significant at one time or the other to the dependent variable.

In the long run, Exchange Market Pressure (EMP) has a negative value of -2.049 significant at 5%, showing that increase in foreign exchange market activities such as high fluctuations in the market, exchange rate depreciation and misalignment leads to increased pressure and thus a decline in the balance of payment account and thus causing a deficit in the statement. This conforms to the a-prior expectation of a positive relationship. The table also shows that BOT is negatively related to BOP such that a percentage increase in BOT will lead to a 7.5% significant decrease in balance of payment in the long run. LOG(DC) and TOP both have a positive relationship with BOP implying that an increase in trade openness in the country will lead to a significant increase in the balance of payment in the long run. While all the variables have significant relationship with BOP only DC has insignificant relationship with BOP in the long run as shown by their probability values.

The R^2 of 0.979319 for the model according to table 5 shows overall goodness of fit of the model and that 98% variation in the balance of payment can be explained with the changes in the independent variables while the Durbin Watson test figure of 2.718514 signifies the absence of serial correlation. The probability value of 0.011794 shows that the model employed in the analysis is of good fit.

Based on the Autoregressive Distributive Lag (ADRL), the study found out that exchange market pressure has a negative and significant effect on balance of payment in Nigeria. This implies that the more the pressure in the foreign exchange market the lower the balance of payment performance in Nigeria. This can be seen in the reaction of balance of payment from a surplus of 18.03 in first quarter 2008 to a deficit of 1.20 in second quarter in the overall balance of payment account as a percentage of GDP due to financial crisis and increased fluctuations in the foreign exchange market also in first quarter 2015 the balance of payment account recorded a greater deficit of 4.48% due to the pressure in the market created by a surge in the Nigeria exchange rate from 160 naira to a dollar as at the last quarter of 2014 to a record high of 411 naira to a dollar as at August 2020. The result also shows a negative but significant relationship with BOT, positive and significant relationship with TOP and positive but insignificant relationship with DC.

The coefficient of multiple determination (R^2) result shows that 98% of variation in BOP has been explained by the changes in the independent variables in the study. The F statistics carried out to show the overall significance of the model

shows that the model employed is significant as the F calculated value of 4457.318 is greater than the F tabulated value at 0.05.

The long run granger causality test which showed that a bidirectional relationship exists between EMP and BOP that is, EMP granger causes BOP and vice versa. In general, the implication of the results is that a significant relationship exists between BOP and other variables employed except DC in the long run. Due to limited past research on this study very little related work will be compared. This finding is in conformity and against some previous studies.

Conclusion and Policy Recommendations

The Exchange Market Pressure plays a significant role in determining the balance of payment of Nigeria. This can be due to unsustainable high demand for currency and the low level of foreign exchange supply. Thus, reserves have continued to decline leading to balance of payment problems, the more the pressure on the country's exchange rate, the lesser the value of the country's currency and this eventually increases the amount of naira exchanged for an international currency (dollars).

Government should develop other sectors such as the agricultural, service, technological and telecommunication sectors in order to improve the nation's competitive advantage in the world market through increased exports which invariably would increase the demand for the nation's currency and reduce the pressure on the naira. The creation of multiple income sources for the government is of great importance as the over reliance on the earnings from the oil sector has contributed to the current pressure on the country's currency. This can be achieved by rebiulding the productive sectors - manufacturing and industrial to achieve higher capacity untilisation and productivity and competitvive export. Strong government encouragement of local refining of petroleum products for both domestic and consumption and exports.

Strong and effective surveilance of the foreign exchange market by the monetary authority to check round-tripping of foreign exchange from the deposit money bank to the paralle market/ Promote fiscal and monetary discipline and harmony.
Create an enabling environment for productive capital inflows, especially foregn direct investment. During oil boom, save forex and build fiscal buffers. İncrease local sourcing of raw materials and revival of the capital goods industry. Use moral suasion to encourage Nigerians to patronize homemade goods and reduce

their high propensity for disruptive trade and commerce. Import only when it is absolutely necessary. They should also eschew unhealthy speculation in foreign exchange as well as rent-seeking behavior and adopt positive attitudes towards ensuring a stable exchange rate for the naira.

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