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Stabilizing the Naira for Economic Viability and Reconstruction at Post Covid-19 Pandemic Era

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Abstract

The present state of the economy after COVID-19 with eight months lockdown brought about no production in the country; whereby people were feeding on their savings and capital, which amounted to low investments in the country. This paper aims to critically analyze way forward in stabilizing the naira for economic viability and reconstruction at post covid-19 pandemic era; by examining the exchange rate of the Nigerian Naira against the exchange rates of the US dollar. The researchers found out that sharp drop in the nation foreign exchange was as a result of slowdown in economic activities. The exchange rate from naira to dollar in September, 2021 dropped from N382.75 in April, 2020 to N409 a dollar. The associated effect of this has undoubtedly stiffened the economic wellbeing of the people as the prices of goods and services have highly increased without a commensurate increase in the volume of goods and services: thus, resulting to hyper-inflation. Adding that, the effect of COVID-19 poses an outstanding threat such that the federal of Nigeria's finance were hit by both low oil prices in the international market partly occasioned by low economic activities. To remedy the situation, CBN took certain steps to include partnership with commercial banks to go after Nigerians who falsely buy dollars under the pretense of travelling abroad, licensing of new BDCs was suspended among others. The study concludes that education and healthcare sector contribute so much to this depletion; continued excess demand, heightened pressure on the foreign exchange market and exchange rates; CBN maintains floating exchange rate with the intention to control the exchange rate. Recommendation: Government should intensify efforts to restructure the base of the economy through deepening the production of goods/services in Nigeria; Government should fund imports from proceeds derived from exports rather than always relying on proceeds from crude oil, foreign investment in shares, and direct investments in agriculture among others. The implication of the study is that Government should promote research institution to march these unforeseen deadly diseases less this may cause further havoc to the economy in general.

Keywords: ***Dollar, economic viability, naira stabilizing, post covid-19, pandemic era, reconstruction***

Introduction

The present state of the economy after COVID-19 with eight months lockdown brought about no production in the country; People were feeding on their savings and capital, which amounted to low investments in the country. Consequently, Nigeria's exchange rate depleted. Also during the COVID-19, people lost their jobs, others were paid half salary. Some students too, could not come back to finish their education due to lack of funds to fully pay their school fees, and other costs of study, such as, cost of living, transportation and study materials. The height of insecurity in the country prevents much people from going to farm for fear of being kidnapped. It deters even foreigners from investing in the country.

The major factors hunting the Nigerian economy include inflation, unemployment, government policy, monetary policies, inadequate infrastructure and power supply, inadequate health facilities and corruption, and over reliance on oil. According to Amaefula and Kalu (2021), the sharp drop in Nigeria's GDP growth is largely due to the slowdown in economic activities after the country resorted to a lockdown in April 2020 to curb the spread of the virus. However, even though the lockdown has been eased off, the global stock market erased about US6 trillion dollars in wealth one week from 24th to 28th February, 2020. The associated effect of this has undoubtedly stiffened the economic wellbeing of the people as the prices of goods and services have highly increased without a commensurate increase in the volume of goods and services: thus, resulting to hyper-inflation. Adding that, the effect of COVID-19 poses an outstanding threat such that the federal government of Nigeria's finance were hit by both low oil prices in the international market partly occasioned by low economic activities (manufacturing and productive activities of huge industrial economies) due to lockdown in major economies of the world and low internal revenue generation due to stiffened economic activities within the country.

According to Anagun and Onu, (2020) cited in Amaefula and Kalu (2021), the authors found that the pandemic affected all facet of the Nigerian Economy, including drastic fall in the price of oil, decrease and lay – off of jobs in different sectors, decrease in investment, savings and increase in consumption, decrease in export and import rate, among other negative effects. Although, the Russia/Ukraine war led to rise in oil prices which ought to favour Nigeria; however, Nigeria's major oil buyers are UK which incidentally now found oil in Canada causing Nigerian's oil to be dumped at the cargo. COVID-19 has taken hold of the global economy. The evolution of the pandemic and its economic consequences is highly uncertain which makes it difficult for policy makers to formulate an appropriate macroeconomic policy response (Abu, 2021). Maintaining that, the potential effects of COVID-19 on investment in Nigeria have been enormous. Some studies revealed a linear relationship between Foreign Private Investment (FPI) and economic development. Others reject it, and argue that the impact is conditional. Also, attention has been drawn to empirically study the impact of the pandemic on foreign investments inflow to the economy.

The recent state of the Nigerian economy after COVID-19 pandemic with its resultant very low production of goods and services due to low investment caused Nigerian foreign exchange depletion. Mitchell, (2022) opine that the Nigerian naira (NGN) is the official currency of the Federal Republic of Nigeria. Also, that the Central Bank of Nigeria manages and distributes the Nigerian naira and attempts to maintain price stability with it. Maintaining that the naira has been continually devalued since its inception in 1973, and inflation remains above 10% as of 2019.

The author stress that, as of December 2020, 1 U.S. dollar is equal to around 380 NGN1. However, by September, 2021, the USD/NGN exchange rate hovers near 409. That means it takes 409 NGN to buy one USD.

In support of the above argument Amaefula and Kalu, (2021) noted that the sharp drop in Nigeria's Gross Domestic Product (GDP) growth is as a result of the slowdown in economic activities due to the lockdown in April 2020 to curb the spread of the virus. According to CBN, (2021) over the last 10 years, Forex (FX) demand specifically for education and healthcare has cost the country almost US$40 billion. Therefore, this paper aims to critically analyze way forward in stabilizing the naira for economic viability and reconstruction at post covid-19 pandemic era

Review of Existing Literature

The persistent reduction in the foreign exchange rate of naira since the emergence of COVID 19 pandemic in the year 2020 and up till this post-COVID 19 era has called for concern over the increased inflation from galloping to hyper-inflation, leading to reduced hope for improvement in the output level. This concern derives from the experience of countries such as Mexico and Argentina where real depreciation of their domestic currencies have consistently been associated with decline in output and increases in inflation activity (Akinlo & Odusola, 2003).This is so among the East Asian countries, more recently; the collapse in the currency values has taken place alongside a sharp slowing-down of economic activity. The exchange value of the naira represents an important measure of economic welfare for every Nigerian. It is a symbol of economic strength for the nation. Consequently no attempt at revamping the ailing economy can succeed if it fails to address the fundamental issue of naira strength and naira foreign exchange rate stability (Okafor, 1996).

At covid-19, there was an average of N583/$1 down by 0.87 percent from the previous session's rate of N578/$1 (BDC, 2021). According to information collected from Bureau De Change (BDC) in Nigeria, before the ban of BDC in July 27, 2021, the exchange rate was N500/$1 while, the Naira appears to be sliding near N590, showing more ground lost after the BDC ban. At the Monetary Policy Meeting on July 27, 2021, the Central Bank of Nigeria took an aggressive stance to stop supplying foreign exchange to operators of BDC in order to stop what CBN Governor Godwin Emefiele described as "illegal activities" perpetrated by BDCs when foreign exchange is supplied to them. These illegal activities include illegal forex trading, engaging in unwholesome and other illegal practices as well as being agents that facilitate money laundering, graft, create fake scarcity in order to make abnormal profits, which pose a risk to the Nigerian financial system and corruption in the nation.

Emefiele maintained that rent-seeking BDC operators are only interested in large margins, dollarization of the Nigerian economy, subversion of the cashless policy, common ownership of several BDC by the same owners to obtain multiple FX, and regrettably, international organization and embassy patronage of illegal FX dealers were all bad for the CBN's price stability goals.

Other measures taken by CBN to achieve stability at the 1nport and Export window

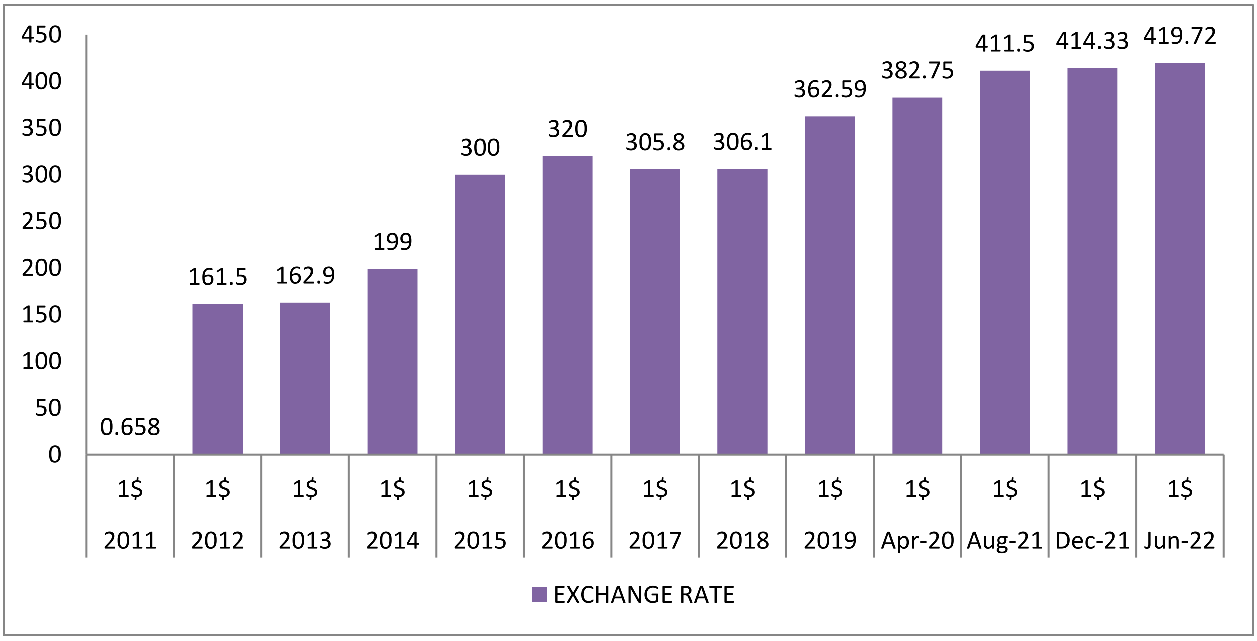
According to News Association of Nigeria (NAN), Emefiele listed other measures taken by the CBN that had yielded results to include partnership with commercial banks to go after

Nigerians who falsely bought dollars under the pretense of travelling abroad and ended up round-tripping. In addition, licensing of new BDCs was suspended. Again, the CBN introduced the ‘Naira for Dollar Scheme’ which is to encourage diaspora remittances. This is to aid remittance inflows which had been supported by the ‘Naira for Dollar’ scheme, and there had been a surge in the inflows. The CBN governor noted that, these policies are yielding positive results in terms of meeting genuine demand for foreign exchange and exchange rate stability.

Devaluation is the reduction in the value of the money of one country when it is exchanged for the money of another country (Anagun, 2020). Maintaining that devaluation of currency is an attractive option for nation in recession like Nigeria. However, Anagun, observe the effects and the possible solution of naira devaluation; and adopts the use of secondary data of the Nigeria exchange rate spanning from 1972 to 2020. The recommendation was that the Nigeria government should diversify the economy and that devaluation of currency should be the last resort to the economic imbalance. In his paper a simulation is carried out to study the exchange rate of the Nigerian Naira against the exchange rates of the US dollar, British pound and the Euro currency. Monte Carlo simulation is made for three factors exchange rate model using Euler–Maruyama forward difference approximation. The model was calibrated using polynomial regression analysis. The Naira is found to be appreciated more in value when compared to the dollar, the pound and euro. The result obtained shows that the interest does not have much influence on the value of the exchange rates.

	CURRENCY (1$ to N)	EXCHANGE RATE (NAIRA)
2011	1$	0.658
2012	1$	161.5
2013	1$	162.9
2014	1$	199
2015	1$	300
2016	1$	320
2017	1$	305.8
2018	1$	306.1
2019	1$	362.59
Apr-20	1$	382.75
Aug-21	1$	411.5
Dec-21	1$	414.33
Jun-22	1$	419.72

<u>History Of Naira To Dollar Exchange Rate</u>



Source: Authors Computation

Oyelami and Edooghogho (2013), examined the good and bad of Nigerian naira and how the nation's local currency has positively and negatively impacted on the Nigeria's economy. It was established from their analysis that some factors ranging from inadequate flow of foreign capital movement into Nigeria, persistent devaluation of the Nigerian naira, external debt burden, administrative bottlenecks in banks dealing on foreign exchange rates and high level of economic and financial crimes are responsible for the unhealthy scenario. Based on these, strategic systemic measures were recommended to facilitate and sustain the stabilization of the naira exchange rate against the major foreign currencies. A country's exchange rate is one of the most closely monitored indicators, as fluctuations in exchange rates can have far reaching economic consequences (Ribeiro, 2016). The recent financial turmoil all over the world demonstrates the urgency of perfect information of the exchange rates (Shim, 2000).

Oyinlola (2018), stated that in 2002 and 2013 the exchange rate policy was managed between a Retail Dutch Auction System and Wholesale Dutch Auction System; subsequently, the interbank foreign exchange market (with CBN interventions) operated from November 2013 till June 2016 when it was further enhanced to improve the exchange rate flexibility. Nonetheless, the Central Bank of Nigeria continued to intervene in the market to stabilize the exchange rate.

According to Popoola (2022), Massive oil theft, among other challenges, is affecting government finances and threatening naira stability. This was disclosed in a report by a member of the Monetary Policy Committee, Prof. Mike Obadan, who dealt with the topic 'Is deregulation the solution to the forex / exchange rate problem?'Obadan, a professor of economics and also chairman of Goldmark Education Academy, Benin City, maintain that, "For a long time, the oil sector has contributed over 90 per cent of the nation's foreign exchange earnings and external reserves accretion. Stressing that,it has also been a significant contributor to government's naira revenue through crude oil and gas export receipts. "Nevertheless, for some time now, this has not been so due to two factors: huge volume of crude oil theft which has prevented the country from meeting even the Organization of Petroleum Exporting Countries (OPEC)-approved production quota, and inability of the Nigerian National Petroleum Corporation (NNPC), for many months, to make any remittance from direct oil export sales into the federation account and external reserves account.

Obadan state that, there are alarming developments which have adversely impacted government's finances, external reserves growth and exchange rate stability." Continuing that the main challenge to effective forex management remained the pronounced low productivity of the economy and as a result, the economy was not able to generate enough foreign exchange to meet the high demand for it to import goods and services. This is because, continued excess demand, and had heightened pressure on the foreign exchange market and exchange rate;leading to strong necessity to boost the productive and earning capacity of the economy. Suggesting that, the solution to the foreign exchange market challenges was not clean floating of the national currency but in the short- and medium/long-term to increase foreign exchange reserves and hence strengthen and stabilize the naira exchange rate.

Secondly, that "In the medium/long-term, it is important to address issues relating to low productivity and limited diversification of the economy in terms of exports, high import-dependent production structure, high propensity to import and excessive demand for imported goods and services, and the comatose capital goods industry, among others. Adding that, "The short-term solution, assuming that the political will is there, relates to the oil sector, oil exports and taking advantage of the current regime of high crude oil prices in the global oil market." Thus, the exchange rate was not stable in the current situation of high crude oil prices due to the fact that the country's oil production is limited and much lower than the OPEC's relatively low quota of 1.72 mbpd because of scandalous crude oil theft and heavy importation of refined petroleum products. However, he stressed that "Crude oil production reduced from 2.07 mbpd in quarter 1, 2020 to an average of 1.31 mbpd in 2021 due mostly to oil theft and difficulties in some oil terminals". Indicating that, crude oil thefts in 2021 reached 200,000 barrels per day – a quarter of onshore production – and currently about 500,000. Regretting that stolen oil volumes have cost the country over $ 3.3bn and investors in the upstream oil sector are discontent over their losses from oil thefts.

According to Olisah, (2022) CBN cannot freely float the exchange rate despite pressure from the World Bank and International Monetary Fund (IMF) because floating the exchange rate will lead to some uncontrollable spiral effect on Nigeria's exchange rate. However, CBN stood their ground that putting off its multiple exchange rate systems and maintained a single exchange rate system was adopted to address the peculiar challenges the country faces. Although, at various points support was received from them at different times in resolving some economic challenges, particularly bothering on finance. Stressing that "Nigeria's situation is very peculiar and that necessities continued engagement of IMF and World Bank to understand the nations' local problems; despite the fact that they want our freely floating the exchange rate. Maintaining that, the CBN was managing demand by curbing excessive imports such as petroleum products and commodities in order to reduce about 40% of foreign exchange needed to fund imports in Nigeria including petroleum. CBN strategy is towards non demand for foreign exchange to import petroleum products. Consequently, CBN has succeeded in no demand for foreign exchange for the importation of rice, maize, and some amount for wheat; adding that, some demand will drop and when demand drops supply will eventually be able to match the demand for whatever demand that was made and then the economy could attend a stable exchange rate.

Emefiele pointed out that the CBN is working towards ensuring that even as they run the managed float, there should be some interventions put in place to really control the exchange rate noting that as long as the demand for forex exceeds the supply, the challenge would persist; with the efforts being made to restructure the base of the economy through some of the policies that are put in place to deepen the production of goods in Nigeria. Maintaining that, the exchange rate has devalued from about N165/$1 to N420/$1 on the official market between 2014 and 2021.

Emefiele received commendation from IMF and World Bank over the positive momentum in Nigeria's non-oil sector due to the efforts made to drive non-oil exports; instead of our always relying on earnings from crude oil as well as foreign portfolio investments and foreign direct investments. Based on the above commendation, the CBN Governor wishes to continue to improve non-oil exports, particularly through export proceeds especially now that other people outside Nigeria are observing these efforts and this means more effort will be made to ensure that we really deepen this and fund imports with proceeds from exports and with less reliance on the central bank.

Nigeria has been faced with serious foreign exchange crisis since the global economic crisis in 2015 which has led to the devaluation of the naira amongst other restrictive policies by the CBN. Worse still is the emergence of covid-19 pandemic in early quarter of 2020 which has been made worst by the country's dependence on mono foreign earnings, continuous borrowings, declining foreign investment inflows, rising capital flight, overreliance on ways and means advances, expanded money supply, to general uncertainty, which all intensifies the pressure on the naira. Therefore, the local currency has faced intense pressure since the Central Bank of Nigeria (CBN) adopted the investors' and exporters' (I and E) Window as the default official exchange rate. The World Bank and the IMF as well as various experts have been critical of the maintenance of multiple exchange rates which they say promotes corruption and distorts the economy. However, the CBN has held on to a controlled forex policy curbing demand for forex and managing supply. The demand side exchange rate policy has created multiple exchange rate regimes and widened the disparity between the black market and official rates of exchange. The President of the World Bank Group, Mr. David Malpass, had in the recent past opined that, there was need for Nigeria to do away with its multiple exchange rate system, which according to him was often, "complicated and is not as effective as it would be if there was a single exchange rate."

Again, Obadan opined that in the medium/long-term, issues relating to low productivity and limited diversification of the economy in terms of exports, high import-dependent production structure, high propensity to import and excessive demand for imported goods and services, and the comatose capital goods industry, among others should be addressed. While the short-term solution, assuming that the political will is there, relates to the oil sector, oil exports and taking advantage of the current regime of high crude oil prices in the global oil market. Reporting that, the exchange rate was not stable in the current situation of high crude oil prices was as a result of the country's oil production which is limited and much lower than the Organization of Petroleum Economic Community (OPEC's) relatively low quota of 1.72 mbpd due to scandalous crude oil theft.

Secondly, there was heavy importation of refined petroleum products. More so, Crude oil production reduced from 2.07 mbpd in first quarter, 2020 to an average of 1.31 mbpd in 2021 as a result of mostly oil theft and difficulties in some oil terminals. Reports indicate that crude oil thefts in 2021 reached 200,000 barrels per day – a quarter of onshore production – and currently about 500,000. Stolen oil volumes have cost the country over $ 3.3bn and investors in the upstream oil sector are bemoaning their losses from oil thefts."

Olisah, (2022) according to Guardian by News Agency of Nigeria NAN reported that CBN Governor explains the Naira is stable at Investors and Exporters window brought about discontinuation of forex allocation to Bureau De Change operators in Currencies along with the convergence between the CBN and NAFEX rates. Banks are now able to meet the demands of their customers seeking forex for SMEs, school fees, medical and PTAs, Explaining that the Bank set up an Investors and Exporters Window (I&E) to allow for the purchase and sale of foreign currency at market rates.

The naira maintained relative stability in 2021, according to the CBN, at N411.50/US$ in August but declined to N414.33/US$ in December. The currency rate was N416.98/US$ in February 2022. For a long time, the CBN has used a controlled float exchange rate regime. Emefiele listed other measures taken by the CBN that had yielded results. To include partnerships with commercial banks to go after Nigerians who falsely bought dollars under the pretense of travelling abroad and ended up round tripping. Emphasize that, Banks are now able to meet the demands of their customers seeking forex for SMEs, school fees, medical and PTAs, Adding that, the Bank established an Investors and Exporters Window (I&E) to allow for purchase and sale of FX at prevailing market rate.

According to CBN, in 2021, the naira maintained relative stability at N411.50/ US$ in August 2021 but depreciated to N414.33/US$ in December. 2021.As at Feb, 2022, the exchange rate stood at N416.98/US$. The CBN for some time now has operated a managed float exchange rate system. Under the system, in line with its exchange rate stability mandate, it has strived to intervene in the market by supplying foreign exchange.

Empirical Review

Oyinlola, (2018)modeled the volatility persistence and asymmetry of naira-dollar exchange rate in interbank and Bureau de Change (BDC) using monthly data between January 2004 and November 2017. The study employed Generalized Autoregressive Conditional Heteroscedasticity [GARCH (1,1)], Threshold GARCH [TGARCH (1,1)] and Exponential GARCH [EGARCH (1,1)].The results of Bai-Perron (2003) structural break identified two significant breaks in each market. Interestingly, the breaks, particularly for the interbank exchange rate(December, 2014 and January, 2015), seem to have coincided with the period of depreciation in the country's exchange rate which could be linked to the precipitous movement in the international crude oil prices. The findings showed that persistence is generally explosive in the BDC market as compared to interbank market where the persistence was high but not explosive especially under asymmetric models. Based on our model selection criteria, the symmetric GARCH model appears to be better than the symmetric ones in dealing with exchange rate volatility in the interbank market while asymmetric GARCH, especially TGARCH, seems to be better in the case of BDC market. By implication, it is important that the monetary authority considers the developments and reactions of the markets to news most especially the BDC, when designing appropriate exchange rate policies for the country.

Nyoni, (2018) investigated Modeling and Forecasting Naira / USD Exchange Rate in Nigeria: a Box -Jenkins Auto-regressive Moving Average (ARIMA) approach; stating that in the financial and in managerial decision making process, forecasting is a crucial element. Maintaining that most research have been made on forecasting of financial and economic variables through the help of researchers in the last decades using series of fundamental and technical approaches yielding different results. A country's exchange rate is one of the most closely monitored indicators, as fluctuations in exchange rates can have far reaching economic consequences. The recent financial turmoil all over the world demonstrates the urgency of perfect information of the exchange rates. Stressing that, understanding the forecasting of exchange rate behavior is important to monetary policy. In that, one of the important variables that have considerable influence on other socio – economic variables in Nigeria is the Nigerian naira /dollar exchange rate. Owing to the critical role played by exchange rate dynamics in international trade and overall economic performance of all countries in general, the need for a good forecasting tool cannot be ruled out.

Therefore, the model and forecast the Naira / USD exchange rates over the period 1960 – 2017. The diagnostic tests such as the Augmented Dickey Fuller (ADF) test indicate that EXC time series data is I (1). Based on the minimum AIC value, presents the ARIMA (1, 1, 1) model as the optimal model. The ADF test further indicates that the residuals of the ARIMA (1, 1, 1) model are stationary and thus bear the characteristics of a white noise process. It is also important to note that forecast evaluation statistics, namely ME, RMSE,MAE, MPE, MAPE and Thiel’s U absolutely show that the forecast accuracy is quite good. Forecast actually indicates that the Naira will continue to depreciate. The main policy implication from the study is that the Central Bank of Nigeria (CBN), should devalue the Naira in order not only restore exchange rate stability but also encourage local manufacturing and promote foreign capital in-flows. The major causes of the Nigeria’s economic problems. On the way forward,

Samuel, Udoh, Nneka, Prince and Idogen, (2018) fundamentally investigated naira redenomination, the rationale, citizen’s perspective and benefits to the economy. Maintaining that policy was deferred in 2007; Stressing that the justification of the study eleven years after the deferral is accredited to the contemporary financial and economic predicament and the declining naira value to the US Dollars. Suggesting that, it is vital to gauge citizen’s perception of the policy via quantitative technique. The author’s variable adopted embrace only one, redenomination with indicators. Data were extracted from 124 respondents, who understand the impact and effect of redenomination. Findings reveal that the victory and miscarriage of the policy is squarely the ability and inability to ensure squat and firm inflation rate, economic growth, price stability and effective citizen education. Therefore, the policy benefits citizen perspective embraces; economic credibility, payment and pricing system proficiency, and convenience, whereas, the fears takes on counterfeits, and insufficient supply of notes and coins.

Ikpor, noted that strong law against corrupt practices is imminent and vibrant market economies that will result in the emergence of classes of industrial workers, diversification, unity and national economic summit to discuss some gray issues in the country. Moreover, Federal Government of Nigeria should come up with definite economic policy direction, “engage in more efficient restriction and controlling of foreign exchange outflow, undertake revival of the country’s productive capacity and broaden government revenue base”. Adding that, the Federal government should as a matter of urgency concentrate on economic programs that will continue to arrest the decline in the economy, restore investor’s confidence and avoid unguided utterances. To chart a future course for economic stability and prosperity, government should engage the services of renowned technocrats in any economic team and continue to demonstrate exemplary leadership in principles and practice in issue of national interest.

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Implication of the Study

The implication of the study is that Government should promote research institutions to march these unforeseen deadly diseases if not this may cause further havoc to the economy in general. Also, Government should fund imports from proceeds derived from exports rather than always relying on proceeds from crude oil, foreign investment in shares, and direct investments in agriculture. Finally, the resent policy implementation of the Central Bank of Nigeria will make for well-built cash reserve since our export will now pay off the imports without out CBN sourcing out exchange rate to balance excessive imports.

Conclusion

Nigerian economy after COVID-19 pandemic with its resultant very low production of goods and services due to low investment caused Nigerian foreign exchange depletion. Education and healthcare sector contribute so much to this depletion. The pronounced low productivity of the economy led to it's not being able to generate enough foreign exchange to meet the high demand for importation of goods and services; continued excess demand, heightened pressure on the foreign exchange market and exchange rates. Stolen oil volumes cost the country over $ 3.3bn and investors in the upstream oil sector are bemoaning their losses from oil thefts." CBN maintains floating exchange rate with the intention to control the exchange rate

Recommendation:

1, Government should intensify efforts to restructure the base of the economy through deepening the production of goods/services in Nigeria.

2. Government should fund imports from proceeds derived from exports rather than always relying on proceeds from crude oil, foreign investment in shares, and direct investments in agriculture.

3. There should be less reliance on Central bank to fund imports.

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