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Historical thought process on the foreign exchange rates: The Nigerian experience

Gini Kiyentei Benneth [1*], **Agala Humphrey Obinna** [2]
[1-2] Department of Economics, Faculty of Social Sciences, University of Port Harcourt, Nigeria

* Corresponding Author: **Gini Kiyentei Benneth**

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Abstract
This study looked at the historical thought process on the foreign exchange rates and how it affected the Nigeria foreign rates policy. The study examined the Aristotle's theories of becoming rich through trade, the mercantilist ideology on trade and exchange, the Mint Parity theory, the Purchasing Power Parity theory and the Balance of Payment theory as well as the diverse policy frameworks of the Bretton Wood Institutions. Various conceptual issues on exchange rates policy and market were also examined and how they relate and affected the Nigerian foreign exchange rates policy. They study climax by using statistical evidence to analyzed the behaviour of the different exchange rates regimes and frameworks in Nigeria from the 1960 to 2022. We observed from historical evidence that, exchange rate theories and policies are driven by increasing once country global trade. The theories and policy frameworks are formulate towards improving exportations and protecting domestic industries. The situation is extreme in the mercantilist and Neo-mercantilist assumptions. It was notice from the analysis of concepts and researchers knowledge of Nigeria that exchange rate policies are not driven by increasing exports and protecting domestic industries. This because the Nigeria major export goods are primary, which prices are not competitive in the global scene owing to our involvement in Organizations of Petroleum Exporting Countries (OPEC) and the industries in the country are highly under-productive owing to ramshackle infrastructural conditions. Unlike the developed and emerging economies that set the pace for exchange rates policies, the situation in Nigeria seems different since the foreign exchange market depicts the picture of the under-ground markets. This is seen in the spread between official exchange rates and the parallel market rates. Hence, the study concluded that the foreign exchange rates managers in Nigeria should reconsidered their position in the Bretton Wood Institutions and adopt strict Protectionism or Neo-Mercantilist approach to correct the higher imbalance or instability in the Nigeria foreign exchange market as shown in Figure 6 of this study.

Keywords: Historical, foreign, exchange rates, Payment

Introduction

The historical of foreign exchange is age-mate with the history of foreign trade or transactions among countries. It was seen in the Aristotle's theories of unnatural chrematistics as the art of becoming rich from trade; and pronounced in ideologies of the mercantilist, The Mint parity theory, the purchasing Power Parity theory and the Balance of Payment theory. The mint parity theory which proceeds the first global war explained that, domestic currencies of the giant economy at that time were on a system of fixed exchange rates. The theory was abandon during and after the second global war and collapsed in 1925. The birth of the great depression at that time led many countries resorted to protectionism and competitive devaluation-with the results that global trade was reduce to almost half. But depression completely disappear during and after the second global war and the allied countries meet at Bretton Woods U.S.A to avoid the rigidity of gold standard (fixed exchange rate or protectionism) and the chao of depression in international trade and finance and to encourage free trade which led to the birth of the new system called the international Monetary Fund (IMF) or simply called the Bretton Woods foreign Exchange System.

The Bretton wood system through it classifications published in the international Monetary Fund (IMF) Bulletins asked it member states to self-declare their exchange rates arrangement as belonging to one of the four categories (fixed, limited flexibility, managed floating, and independently floating). Studies have suggests that these official classifications often fail to describe actual country practice, implying that the gap acclaimed officials rates and market rates can be vast. A few previous studies have attempted to either extend the four-way official classification into a more informative meaningful grouping (Gosh et. al., 1997), or have relied on purely statistical methods to regroup country practices (Masson, 2000; Glick, 2001; Levy-Yeyati & Sturzengger, 2002). The fund, recognizing the limitations of its former strategy, significantly revised periodically and upgrades the standard official approach toward classifying exchange rate arrangements (see Table 1 below). Notably, all previous approaches to exchange rate regime classification, whether or not they accept the country's declared regime, have been based almost solely on official exchange rate series.

Over the course of post-Global War II history, virtually every country has relied, at one time or another, on capital controls and/or multiple exchange rate systems. (Edwards 1989). By failing to look at market-determined exchange rates, one often gets a false picture of the underlying monetary policy and the ability of the economy to adjust imbalances. When there are parallel markets, a regime that is officially labeled a peg might easily turn out to be a float or a crawling band. As an illustration suppose, for example, that the parallel market rate undergoes sustained and significant depreciation but the official rate remains fixed. Then the underlying monetary policy is inflationary, but the effects on the official nominal exchange rate are effectively masked-at least in the short run-by an ever-increasing tariff. By far the most common outcome in these circumstances is that the official rate is ultimately devalued, thus validating what had already transpired in the free market.

Thus, when there are parallel markets, it is not sufficient to just discard the official exchange rate classification. This study relies on extensive statistics chronologies to identify when multiple rates are in place or when parallel markets are active than official exchange rates in Nigeria. Our data set contains monthly data on dual/parallel market and official exchange rates from 1960 through 2019, and we use these data to assess which of the true regime corresponds to the stated performance. Our study is limited to the exchange rates of the naira to the US Dollar.

Theoretical Review

Exchange Rate Theory

- **Mercantilism**

Mercantilism was the dominant theory in Europe between 1500 and 1800 which advocates regulation of international trade to generate wealth and capital. The theory explained how government policies on merchants work to reduce trade deficit and create a surplus. The theory advocates trade policies that protect domestic industries (Protectionism). The theory strengthens the private owners of the factors of production to encourage exportation. It imposes tariffs on imports and facilities exportation. The exchange rates in the mercantilism were the gold standard. Countries paid export with gold. The nations with the most gold were the riches and had trade surplus rather than a deficit. Countries stated to abandon Mercantilist theory during the late 1700s. The theory ended with Adam Smith 1776 publication of "The Wealth of Nations." His argument on laissez-faire and comparative advantage coincided with the rise of democracy in the United States and Europe.

- **The Rise of Neo-Mercantilism**

The devastation of the second global war scared some allied nations into desiring global cooperation. They created the Bretton Wood institutions, (the United Nations (UN), International Monetary Fund (IMF) and the World Trade Organization (WTO). The saw mercantilism as dangerous and globalization as its salvation. Other nations such as the Soviet Union and China didn't agree with the idea of globalization thus, they continue to promote a form of mercantilism (Neo-Mercantilism). At the time most businesses in China and Soviet Union were state-owned but where later sold to private owners. Neo-mercantilism theory helps the Chinese to control their balance of payments and foreign reserves. Their leaders also select which industries to promote. They engaged in currency wars to give their exports lower pricing power. For example, China bought U.S. Treasury's to fuel its trade with the United States. As a result, China became the largest foreign owner of U.S debt. China and Russia planned for rapid economic growth. Mercantilism laid the foundation for today's nationalism and protectionism. Nations felt they lost power as a result of globalism and the interdependence of free trade.

The Great Recession aggravated a tendency toward mercantilism in capitalist countries. For example, in 2014, India elected Hindu nationalist Narendra Modi. In 2016, the United States chose populist Donald Trump for the presidency. Trump's policies follow a form of neo-mercantilism. Trump advocates expansionary fiscal policies, such as tax cuts, to help businesses. He argues for bilateral trade agreements that are between two countries. If he could, he'd enforce unilateral agreements. They allow a stronger nation to force a weaker nation to adopt trade policies that favor it. Trump agrees that multilateral agreements benefits corporations at the expenses of individual countries. These are all signs of economic nationalism and mercantilism. In 2018, mercantilist policies in the United States and China launched a trade war. Both sides threatened to increase tariffs on each other's imports. Trump wants China to open its domestic market to U.S. companies. China requires them to transfer their technology to Chinese companies. China is doing this as part of its economic reform. It wants to shift from a total command economy that relied on exports. It realizes it needs a domestic-driven mixed economy. But it has no plans to abandon its adoption of mercantilism.

- **The Bretton Wood Exchange Rates Policies**

This Bretton Wood System posits that exchange rates between countries should be pegged in terms of gold or the U.S dollar at $35 per ounce of gold. The system allows member countries of the fund to half foreign reserved partly in gold and partly in the U.S dollar to incur temporary deficits or surplus while keeping their exchange rates stable. Since the establishments of the fund. The fund have made at least eight classifications as shown in Table 1

Table 1: IMF Classification of Exchange Arrangement 1950-2018

S/N	Period	Objectives
1	Volume 1950-1973 (no mention of par values)	▪ Par value or central rate exists - Par value of central rate applied ▪ Effective rate other than par value or central rate applicable to all or most transactions: fixed rate or fluctuating rate
2	Volume 1974 (no mention of par values)	▪ Exchange rate maintained within relatively narrow margins in terms of: US Dollar, Sterline, French Franc, group of currencies, and average of exchange rates of main trading partners. ▪ Exchange rate not maintained within relatively narrow margins.
3	Volumes 1975-1978	▪ Exchange rate maintained within relatively narrow margins in terms of: US Dollar, Sterling, French Franc. South African Rand or Spanish Peseta, group of currencies (under mutual intervention arrangements), and composite of currencies. ▪ Exchange rate not maintained within narrow margins
4	Volumes 1979-1982	▪ Exchange rate maintained within relatively narrow margins in terms of US Dollar, Sterling, French Franc, Australian Dollar, Portuguese Escudo, South African Rand or Spanish peseta, a group of currencies (under mutual intervention arrangements), a composite of currencies, and a set of indicators. ▪ Exchange rate not maintained within relatively narrow margins.
5	Volumes 1983-1996	▪ Exchange rate determined on the basis of: ▪ a peg to: the US Dollar, Sterling, the French Franc, other currencies, and composite of currencies ▪ limited flexibility with respect to: a single currency, cooperative arrangement ▪ More flexible arrangements: adjusted according to a set of indicators, other managed floating, and ▪ Independently floating.
6	Volumes 1997-1998	▪ Pegged to: single currencies, composite of currencies ▪ Flexibility limited ▪ Managed floating ▪ Independent floating
7	Volumes 1999-2001	▪ Exchange arrangement with no separate legal tender ▪ Currency board arrangement ▪ Conventional pegged arrangement ▪ Pegged exchange rate within horizontal bands ▪ Crawling peg ▪ Crawling band ▪ Managed floating with no pre-announced path for the exchange rate ▪ Independently floating
8	Volumes 2002-2018	▪ hard pegs, Currency board arrangement and Exchange arrangement with no separate legal tender ▪ Soft pegs Conventional pegged arrangement Pegged exchange rate within horizontal bands Stabilized arrangement and Crawling peg-Crawling-like arrangement. ▪ Floating regimes (market determined rates) Floating Free floating ▪ Residual other manages.

***Sources*:** International Monetary Fund, Annual Report on Exchange Restrictions, 1950-1978 and Annual Report on Exchange Arrangements and Exchange Restrictions, 1970-2018.

Conceptual Issues

Average Exchange Rate

Average exchange rates are the arithmetic average of the daily and monthly exchange rates during a given period. The average exchange rate is determined by dividing the sum of the exchange rate by the number of units that make up the period. For example 30 days in a month for the monthly average exchange rate or twelve months for annual average exchange rate.

Exchange Rate Premium

The exchange rate premium measures the spread between the recognized official market exchange rate and the Bureau de Change (BDC) rate. The exchange rate premium can also be measured by the differential between the official and inter-bank market exchange rates. The exchange premium helps to evaluate the stability in the foreign exchange market. The exchange rate premium is not expected to go beyond 5 percent for the foreign exchange market to be considered stable.

Misalignment of Exchange Rate

Exchange rate misalignment refers to the deviation of the exchange rate from its equilibrium or benchmark level. In simple term, an exchange rate is misaligned when it deviates from the underlying exchange rate that would have prevailed if the economy was simultaneously in internal and external balance (equilibrium). Internal balance means the economy is operating at full employment and at full capacity output, while external balance means a country has a sustainable current account position given its desired capital position. Misalignment can either make the exchange rate to be undervalued or overvalued. An exchange rate is "undervalued" if it is below the equilibrium value, and "overvalued" if it is above the equilibrium value. Misalignments generally influence economic behavior and external competitiveness of the country.

Foreign Exchange in Nigeria

In an economy, foreign exchange is managed by the Monetary Authority. In a country where the central bank has full autonomy, it is regarded as the monetary authority. However where an organ of the executive arm of government such as the treasury has the authority to allocate foreign exchange in the country, it can also be regarded as the monetary authority. In Nigeria, Central Bank of Nigeria (CBN) manages the foreign exchange. The CBN is empowered by the Foreign Exchange Regulation Act to regulate the foreign exchange regime. It does this directly or indirectly by watching the activities in the market and intervenes when necessary.

The Bank issues guidelines and circulars regularly for market

participants in line with the country's monetary policy stance, foreign exchange reserves position, balance of payments position and overall macro-economic fundamentals. The CBN issues licenses for authorized dealership in foreign currencies only to banks and BDCs. The amount of foreign exchange to be held by the authorized dealers is subject to the open position limits prescribed by the Bank, The authorized dealers maintain clearing accounts with the CBN in different foreign currencies to settle their mutual claims. If there are any excess foreign exchange holdings after these transactions, it is obligatory for them to sell it to the CBN. In case if shortfall of the limit, authorized dealers have to cover it either through purchase from the market or from the CBN.

Foreign Exchange Market Intervention

Foreign exchange (FOREX) market intervention, also known as currency intervention, occurs when the central bank or monetary authority sells or buys foreign currency to ease volatility and bring calmness to the FOREX market. This is done in order to ensure that the exchange rate is stable enough to support and boost economic activities. Thus**,** when the price of foreign exchange increases, the central bank intervenes by selling foreign exchange to the market to boost supply. This will bring down the price of the foreign exchange. Similarly, when the price of foreign currency decreases, it buys foreign exchange from the market. This will eliminate the over-supply of foreign exchange to the market and the price will increase to the desired level. However, before a central bank intervenes, there must have been detailed analysis of the factors affecting the market (the Error Correction Model is developed to ascertained the Error Correction Mechanism). Generally, central banks intervene in foreign exchange markets in order to achieve a variety of overall economic objectives: controlling inflation, maintaining competitiveness, or maintaining financial stability. The precise objectives of policy and how they are reflected in currency intervention depend on a number of factors, including the stage of a country's development, the degree of financial market development and integration, and the country's overall vulnerability to shocks. Intervention in the foreign exchange market is to ensure balance in the short-run and to prevent wide swings from taking place on a da-to-day basis. The number of times a central bank intervenes in a market at a particular period is determined by the severity of the situation.

Hard Exchange Rate Peg (Fixed Exchange Rate Regime)

This is an exchange rate regime that takes away the power of independent domestic monetary policy from the central banks of the participating countries since its interest rates and exchange rate policies are tied to the country of the anchor-currency. IMF (2008) observed that hard pegs usually go hand in hand with sound fiscal and structural policies and low inflation. In the hard peg regime, a country's exchange rate is maintained at a fixed level for all foreign exchange transactions. A country operating this system can have the value of its currency fixed against a single currency or another measure of value such as gold or Special Drawing Rights (SDR) or a basket of other currencies. this basket normally consist of the currencies of major trading or financial partners and the weights reflect the share of the countries in foreign trade such as total trade weight, export weight, import-weight or where the external debt is dominated. In some cases, countries completely give up their domestic currencies and adopt foreign currencies as legal tenders.

The main argument in favour of fixed exchange rate regime is that it ensures the credibility of monetary authorities. Thus, it is argued that if building monetary policy credibility becomes difficult domestically, then one can presumably import it by fixing the value of a currency to a hard-money country (Velasco, 2000). As a result, most counties practicing this system have their currencies anchored against low-inflation countries. The system can also minimize exchange rate risks, reduce interest rates, and ensure sound financial sector.

Soft Exchange Rate Peg

This is an exchange regime that is a hybrid between the fixed (hard peg) and floating exchange rate regimes. The soft peg allows the central bank limit flexibility over its domestic monetary policy. In this system, currencies are maintained at a stable value relative to an anchor currency or a basket of currencies. This is achieved by allowing the exchange rate to oscillate around a central rate (nominal anchor) within a narrow band of less than ±1 per cent or a wide band of up to ±30 per cent or adjusted up or down periodically in line with some quantitative economic indicators including inflation differentials across anchor countries.

The monetary authority maintained stability by ensuring that it carries out foreign exchange interventions to safeguard the fixed parity. Also, interest rates can be adjusted and foreign exchange regulated, among others, to sustain the fixed parity. However, the monetary authority is not committed to devoting monetary (and, on occasion, fiscal) policy solely to the goal of defending the parity. Thus, the soft pegs tend to price or quantity that serves as a target for monetary policy (IMF, 2008) not to be long lasting because they can be vulnerable to financial crises-which can lead to large devaluation or even abandonment of the peg (IMF, 2001 & 2008).

Conventional Fixed Peg

The exchange rate which is pegged at a fixed rate to a currency or basket of currencies of the major financial or trading partners is allowed to fluctuate in a narrow band of less than ±1 round the fixed rate. Although, the maximum and minimum value of the exchange rate can be allowed to vary between narrow bands of 2 per cent for a short period of at least three months. The fixed rate, though not irrevocable is maintained through direct foreign exchange and other indirect monetary policy interventions.

Horizontal Band

This is conceptually similar to a conventional fixed peg as the exchange rate is also pegged at a fixed rate to a single currency or baskets of currencies and allowed to fluctuate within a band around the fixed (central) rate. However, it is softer in approach as the band around the fixed rate is much wider than ±1 per cent. Example of this type of arrangement is the European Exchange Rate Mechanism (ERM), currently known as the ERM II. A currency in ERM II is allowed to float within a margin of at least ±1 and ±15 per cent of a central rate against the euro. The degree of monetary policy dependency depends on the band within this regime.

Crawling Peg

This is an exchange rate system that requires the exchange

rate to be adjusted periodically in small percentage at a pre-set fixed rate or in reaction to changes in selected quantitative economic indicators, particularly, inflation differentials. The inflation differentials can be differences in past inflation or differences in target and expected inflation rates. Adjustment to the exchange rate can be forward looking (set to create predeceased fixed rate and/or below projected inflation differentials) or backward looking (set to create inflation adjusted changes in the exchange rate). The crawling peg combines the flexibility needed to accommodate different trends in inflation rates between countries, while maintaining relative certainty about future exchange rates relevant to importers and exporters (Obadan, 2012).

Crawling Bands

A crawling band is an arrangement where the currency is pegged within a wide band of at least ±1 per cent around a central rate, but the band or central rate is adjusted periodically at a fixed set rate or to reflect changes in selected quantitative economic indicators. The bands are either symmetric (same upper and lower limits) around a crawling central rate or widen progressively in an asymmetric manner (different upper and lower limits) around a crawling central rate of widen progressively in an asymmetric manner (different upper and lower limits). Like the crawling peg, the commitment to maintain the exchange rate within a band, places a limit on monetary policy independence. Thus, the degree of policy independence is a function of the band within. Adjustments to crawling bands can also be backward looking.

Tightly Managed Floating

A tightly managed floating system in which interventions in the foreign exchange market takes the form of a very tight monitoring in order to keep the exchange rate generally stable but without any particular exchange rate path. The central Bank's intervention may be direct or indirect and may be influenced by indicators like the Balance of Payments position, external reserves, parallel market developments, etc. In other words, this regime allows the exchange rate to be market determined, but the Central bank monitors closely and intervenes in the market to manage the exchange rate in order to prevent high volatilities

Flexible Managed Float

This is an exchange rate regime where the international value of a currency, at any point in time is determined by the interaction of the market forces of demand and supply of foreign exchange. This system allows the market to manage the exchanges in the demand and supply of foreign exchange. It therefore, eliminates the difficulties associated with having to determine exchange rate as in the case of fixed exchange rate regime. Flexible exchange rate regimes thus, offer countries the advantage of maintaining an independent monetary policy

Also, unlike a fixed exchange rate system which results in changes in the level of foreign exchange reserves and the monetary base, a flexible exchange rate arrangement equilibrates the demand for, and supply of foreign exchange by changing the exchange rate rather than the level of reserve. Flexible exchange rate regime can be classified according to their degree of flexibility which in turn depends, to a large extent, on the degree of foreign exchange intervention.

Free Floating

A free floating exchange rate system (also known as clean floating) is one in which at any point in time, the exchange rate is determined by the interaction of the market forces of demand for, and supply of foreign exchange. In other words, under a free floating system, the exchange rate is purely market-determined and government does not intervene in the process of determining the exchange rate level or maintaining a given exchange rate. However, this is not the case in practice, as official foreign exchange interventions by monetary authorities do occur from time to time in an attempt to moderate the rate of change and prevent undue fluctuations in the exchange rate, that are not justified by economic fundamentals. In a few countries, though, (for example, New Zealand, Sweden, Iceland, the United States, and those in the euro area), the central banks almost never intervene to manage the exchange rates (Stone, et. al., 2008). Thus, monetary policy is in principle independents of exchange rate policy under a free floating system.

Managed Floating

Managed floating, which is sometimes called dirty floating is similar to free floating but with a lower degree of flexibility. Under a managed floating system, government influence exchange rate movements through active, direct or indirect intervention to stabilize the long-term trend of the exchange rate without specifying a predetermined exchange rate path or having a specified exchange rate target. Usually, governments fear that if the exchange rate appreciates or depreciates too much, it could threaten trade competiveness and so it intervenes either directly or indirectly. Reasons for intervention include, but not limited to correcting balance of payments problems, controlling domestic inflating levels, accumulation of international reserves, correcting parallel market distortions, etc. The managed float system of exchange rate management thus, reflects what obtains in reality and has, therefore, become very common in recent times.

Structure of the Nigerian Foreign Exchange Market

The Nigeria foreign exchange market has evolved over the year in the years in line with changing macroeconomic fundamentals and in a bid to ease foreign exchange demand pressures and stabilize the Naira exchange rate. This evolved has resulted in the following sub-markets in Nigeria;

- **Official Foreign Exchange Market**

This window is operated by the CBN for market interventions, the CBN uses it to sell (supply foreign exchange to authorize dealers). The CBN is the largest single supplier of foreign exchange market by virtue of the custodian of the external reserves of the country. At this window, spot transaction is carried out twice in a week by auction (every Monday and Wednesday) and value is received in T+2 days (that is, the transaction day plus two days). Authorized banks credit their account with the CBN with the Naira equivalent of the foreign currency they intend to buy 48 hours before the auction. Their bids are later submitted to the CBN dealing room by 11am on the bidding day. Such bids must include the name of customers, RC number, from 'M' number, address, purpose, amount (USD), rate naira/US$ (or other currencies of interest), mode of payment, Bank name and code, Any bid rate below the cut off for the action considered unsuccessful. Authorized banks

are permitted to source foreign exchange either in their own or customers' account under the WDAS, but only permitted in their customer's account under the RDAS.

- **Inter-Bank Foreign Exchange Market**

The Inter-bank Foreign Exchange Market (IFEM) was first introduced in Nigeria in January 1989 to ease demand pressures in the official foreign exchange market. it was abolished in 1995 and re-introduced in October 1999. The interbank foreign exchange market allows the banks to trade among themselves, while the CBN intervene intermittently to ensure a realistic Naira exchange rate. The interbank market comprises authorized banks and large institutions interacting and exchanging foreign currencies through the market process of demand and supply. The system is designed to be funded by the private sector (autonomous sources), with the CBN intervening at its discretion to keep the exchange rate at a desired level. Thus, part from the CBN, other participants in this market include the banks, private oil companies, the Nigerian National Petroleum Corporation (NNPC), and treasuries of big firms, among others. The interbank. The rate at which the CBN intervenes is the prevailing interbank rate.

- **Bureau-de-Changes (BDSCs) Market**

BDCs were introduced in Nigeria in 1989 in order to expand the foreign exchange market and improve small end-users access to foreign exchange for Business Travel Allowance (BTA), Personal travel allowance (PTA), mortgage monthly payments, school fees, medical bills, and credit card payments, among others, subject to a set limit. BDCs act as dealers in the spot market and buy/sell foreign currency with small margin (premium) as returns. They also buy and sell foreign bank notes and Travelers Cheque (TCs) from members of the public, banks and the CBN. BDCs rarely buy or sell coins because of the higher cost of storage and shipping compared with banknotes. One of the risks of BDCs is currency run, where there are more buyers of a currency than sellers or vice versa due to currency speculation. Currency speculation is the feeling or perception by traders that a particular currency is either overvalued or undervalued leading to a rush in demand or supply of such currencies. If the activities of the BDCs are not regulated they could be channels for money laundry to fund terrorist activities.

- **Analysis of Exchange Rates in Nigeria**

The history of exchange rates behavior in Nigeria is explained here by the available data provided by the chief manager (Central Bank of Nigeria) of exchange rates policy in Nigeria. The data obtained from the database of the Central Bank of Nigeria are divided into five groups and illustrated using six figures (graphs). The first figure shows the illustration of the interaction of the naira and the U.S dollar in the pre-SAP arrangement in Nigeria. The second figure shows the illustration of the interaction of the naira and the U.S dollar in the SAP and Post-SAP arrangement in Nigeria. The third figure shows the illustration of the official interaction of the naira and the U.S dollar holistically from 1960 to 2019. The fourth figure shows the illustrations of the official interaction of the naira and the U.S Dollar from first month of 2004 to the eight months of 2019. The fifth figure shows the illustration of the interaction of the Naira and the U.S Dollar in the parallel or due market from the first month of 2004 to the eight months of 2019.

The Figure 1 to 6 below shows the illustrations of the spread between official rates and parallel market rates (exchange rates premium). The figure is used to ascertain the stability of the Nigeria foreign exchange market. The figures are scaled downward indicating depreciation or increasing volumes of the naira required to purchase a unit of the U.S dollar.

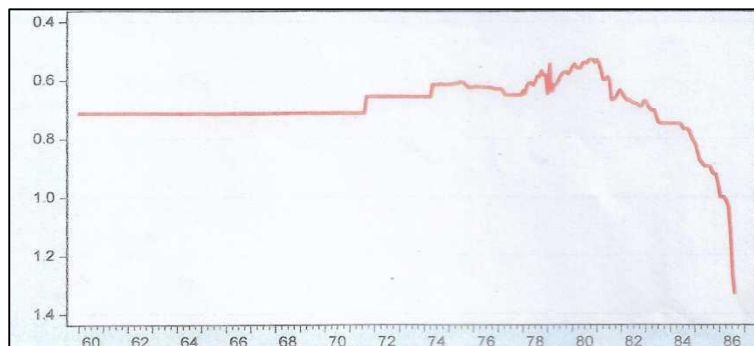

Fig 1: Graphical Illustration of Foreign Exchange Movement in Nigeria, 1960-1986M06

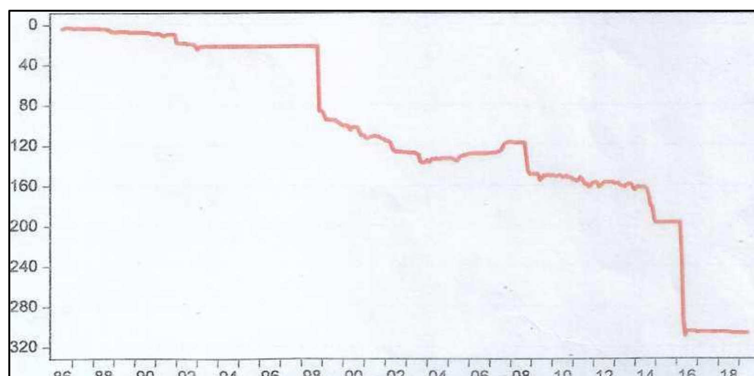

Fig 2: Graphical Illustration of Foreign Exchange Movement in Nigeria, 1986M07-2019M08

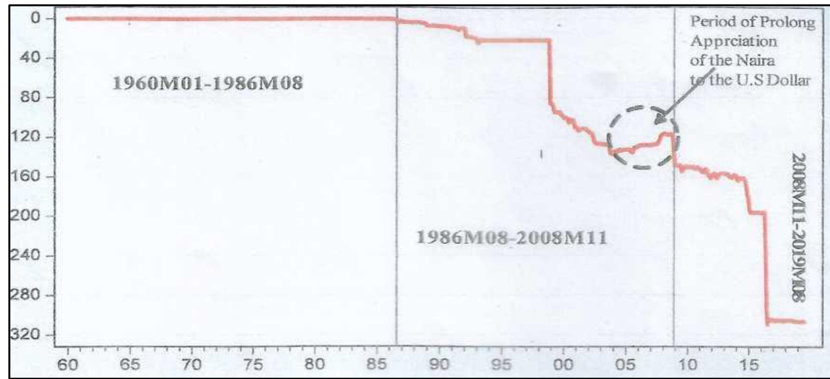

Fig 3: Graphical Illustration of Exchange Rates Movement in Nigeria, 1960-2019

Monthly Average of Official Foreign Exchange Rates of the Naira/US Dollar

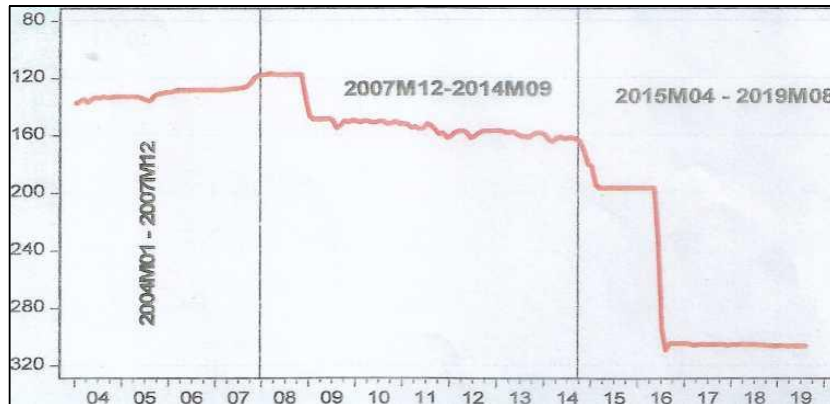

Fig 4: Demonstration of Foreign Exchange Rates Movement in Nigeria, 2G04-2G19

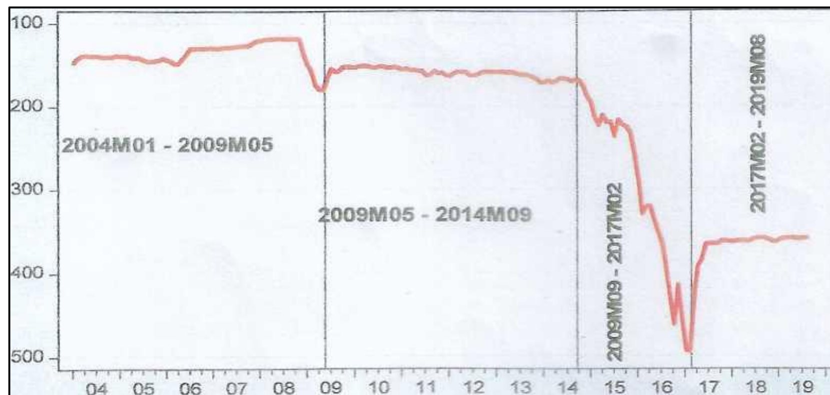

Fig 5: Demonstration of Foreign Exchange Rates Movement in Nigeria, 2004-2019

Monthly Average of Bureau-De-Change Rates of the Naira/US Dollar

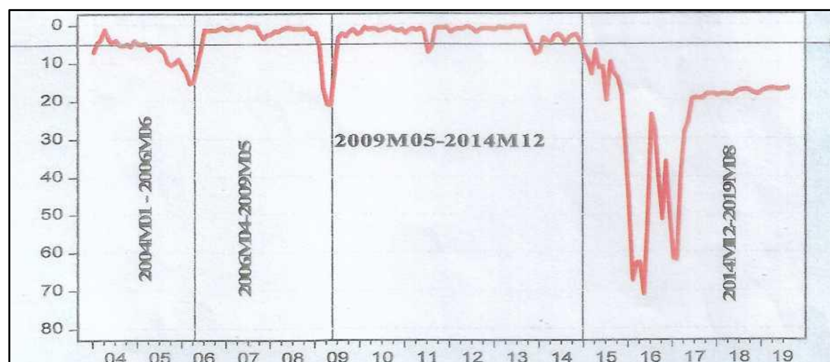

Fig 6: Demonstration of Foreign Exchange Rates Movement in Nigeria, 2004-2023.

Figure 3 shows the holistic nature of the foreign exchange rates of the naira to the U.S dollar.
The figure indicates that the naira experience prolonged depreciation to the U.S Dollar. The area ellipse on the figure displays the prolonged periods of the naira appreciation to the U.S in the Post-SAP arrangement, it shows that the naira marginally appreciated to the U.S dollar from January 2007 to November 2008. The situation lasted for 22 months accounting for the longest periods of naira appreciation. We observed in figure four and five that within January 2004 and May 2009 the naira depreciated marginally with the U.S dollar, the naira within May 2009 and September 2014. The naira suffered the worst hit against the U.S dollar within May 2009 and February 2017. In this period the naira moved from about 180 naira to 494.90 a dollar in June 2009 to February 2017 in parallel market, whereas the official rates within this period was 155.23 and 306.46 to a dollar respectively. The naira appreciated against the U.S dollar from March 2017 to August 2009 but was stable at around 366 and 306 to the U.S dollar to a dollar in June 2017 and August 2019 in the parallel and official market respectively. The naira also appreciated against the U.S Dollar from 365-600 in 2022. As at Monday 24 April, 2023, the Nigeria naira appreciated against the U.S Dollar From 459 to 527 NGN. The lowest exchange rate in 2023 is 447 NGN, while the highest exchange rate in 2023 is 465NG Average exchange rate in 2023 459NGN respectively.
Figure 6 is the percentage of premium to official exchange rates from January 2004 to August 2019. Obadan (2012) argued that the foreign exchange market is stable if premium is no 5% above the official rates. Using the Obadan clarification we can argue in favour of discarding the official exchange rate clarification in curtained period in Nigeria. From the figure it can be deduced that official classification is discard in within January 2004 and June 2006 and May 2009 to August 2019.

Conclusion

This study looked at the historical thought process on the foreign exchange rates and how it affected the Nigeria foreign exchange rates policy. The study examined the Aristotle's theories of becoming rich through trade, the mercantilist ideology on trade and exchange, the Mint Parity theory, the purchasing Power Parity theory and the Balance of Payment theory as well as the diverse policy frameworks of the Bretton Wood Institutions. Various conceptual issues on exchange rates policy and market were also examined and how they relate and affected the Nigerian foreign exchange rates policy. The study climax by using statistical evidence to analyzed the behavior of the different exchange rates regimes and frameworks in Nigeria from 1960 to 2023.
We observed from historical evidence that, exchange rate theories and policies at any given time are driven by increasing once country global trade (Export>Import or favorable Trade Balance).The theories and policy frameworks are formulated towards improving exportations and protecting domestic industries. The situation is extreme in the mercantilist and Neo-mercantilist assumptions. The drive for increasing exports and protecting domestic industries are equally the principles at guide the Bretton Wood institution though, not as direct as the mercantilist and Neo-mercantilist school of thoughts. We notice from the analysis of concepts and own knowledge of Nigeria that exchange rate policies are not driven by increasing exports and protecting domestic industries. This because the Nigeria major export goods are primary which prices are not competitive in the global scene owing to our involvement in Organizations of Petroleum Exporting Countries (OPEC) and the industries in the country are highly under-productive owing to ramshackle infrastructural conditions.
Unlike the developed and emerging economics that set the pace for exchange rates policies, the situation in Nigeria seems different since the foreign exchange market depicts the picture of the under-ground markets. The exchange rates policies in Nigeria are adjusted severally to complement the activities of the underground market given the porous nature of the country nine national borders. This is seen in the higher disparities (premium) between official exchange rates and the parallel market rates as shown in figure 6. There is a more dangerous rate called the Aboki rates which are entirely out of the control if the exchange rate management agency in the country, making it practically impossible for the country to practice policy frameworks in the Bretton Woods Institution. This study is of the opinion that the foreign exchange rates manages in Nigeria should reconsidered their position in the Bretton Wood Institution and adopt strict Protectionism or Neo-Mercantilist approach to correct the higher imbalance or instability in the Nigeria foreign exchange market as shown on figure six. Also deliberate effort should be made to tighten the porous borders and minimizing the corrupt practices in the Nigeria institutions. The paper equally suggested that agency such as Economic and Financial Crime Commission (EFCC), Independent Corrupt Practices Commission (ICPC) and related authorities should be allowed to monitor the special exchange rate granted to the Bureau-de-change commission as to avoid diversion, over pricing, corrupt and sharp practices in the FOREX market.

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