

## EXCHANGE RATE POLICY IN NIGERIA SINCE THE STRUCTURAL ADJUSTMENT PROGRAM (SAP)

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<https://doi.org/10.37602/IJREHC.2025.6532>

### ABSTRACT

In finance/economics, an exchange rate is the value of one currency in terms of another if it were to be converted i.e. the rate at which one currency will be exchanged for another currency. This rate crucial in any economy, especially where imports exceed exports. Nigeria's import trade exceeds her export trade. As a result, the demand for foreign currency is always high, and due to insufficient supply, the exchange rate persistently depreciates. In the pre-colonial and pre-structural adjustment program (SAP) eras, there was no concern about the exchange rate; because, the Naira was stronger than the US dollar, and there was a fixed exchange rate system in operation. Since the introduction of SAP, different exchange rate systems like the second-tier foreign exchange, autonomous foreign exchange, retail Dutch auction system, and Nigerian autonomous foreign exchange have been used; but none yielded a desirable result and the Naira continues to depreciate. Although a depreciated local currency boosts export trade by making goods and services cheaper in the international market and increasing foreign exchange inflow, it also makes imports expensive and reduces available foreign exchange.

The paper is divided into 6 sections. The first section is the introduction, section 2 is on exchange rate policy, which reviews the types of exchange rate systems that Nigeria has undergone while section 3 discusses exchange rate objectives. This is followed by section 4, the exchange rate management under SAP. Section 5 is a review of the impact of exchange rate policy. Section 6 is the summary, conclusion, and recommendations.

**Keywords:** SAP, exchange rate policy, exchange rate development, Exchange rate system, foreign exchange market, exchange rate depreciation

### 1.0 INTRODUCTION

Exchange rate is a price that links the domestic price with international prices. It is the price of the domestic currency in terms of other currencies. The worth of a nation's currency depends on a number of factors including the state of the economy, the competitiveness and volume of export, the level of domestic production and the quantum of foreign reserves. It (exchange rate) influences four key relative prices in an economy i. e. the price of tradeable goods and non-tradeable goods, the price of exports relative to the price of exports of competitors, prices of imports relative to price of domestic import substitutes, the price of export or import substitutes relative to the cost of producing these goods.

The most common objective of the exchange rate policy is to equilibrate the balance of payment. The exchange rate can affect the allocation of resources in the economy and the

volume of international trade. It could be aimed at promoting diversification and the controlling of imported inflation. Nigeria is a country in West Africa with a population of 237.6 million. She is regarded as the “giant of Africa”. Structural adjustment program (SAP) refers to a set of comprehensive economic reform measures designed to correct imbalances in the economy, which arise from unfavorable external factors as well as inappropriate domestic policies (Omoruyi, 1990). A country will embark on structural adjustment program (SAP) when her economy experiences imbalances or is in disequilibrium. At this point, the economy will suffer from persistent account deficits, external indebtedness, over-valued currency and distortions in prices which may lead to loss of international competitiveness.

Other economic factors the economy may experience are: inflation, recession, and slow growth. The SAP may be undertaken with or without International Monetary Fund (IMF) and the world bank or both in order to gain access to foreign funds. The SAP is to help improve balance of payment, stabilize exchange rate, increase growth, and reduce unemployment.

The SAP was introduced in Nigeria in 1986. It was a series of economic reforms implemented in response to an economic crisis caused by the collapsing oil revenues and rising foreign debt. The SAP was introduced mainly to address these issues by reforming Nigeria's foreign exchange system, trade policies, business and agricultural regulations.

Before structural adjustment program (SAP) in June 1986, the exchange rate was administratively determined. In 1986, flexible exchange rate mechanism was adopted as part of SAP; thereafter, exchange rate determination has been largely influenced by the forces of demand and supply with occasional intervention by the authorities. Seven years after the introduction of SAP, the exchange rate policy story is largely one of unfulfilled expectations.

## 2.0 EXCHANGE RATE POLICY

Before 1960, Nigeria was colonized by the British; therefore, its economy was tied to the British economy. The foreign exchange system was stable, and the balance of payment was at an advantage. Between 1916 and 1959, Nigeria operated a peg exchange rate system; and its currency was pegged to the pound sterling (Alagidede & Ibrahim, 2016). Nigeria's foreign exchange management system lacked a clear framework for there was no central bank (CBN). The proceeds of export trades were therefore, held in banks abroad. These foreign banks act as the agents of the local exporters (Hashim & Meagher, 1999). Establishing the CBN in 1958 created the need for a structured system. On July 1 1959, CBN issued Nigeria's 1st banknotes.

Exchange rate policies in developing countries are often sensitive and controversial, mainly because of the kind of structural transformation required; such as reducing imports or expanding non-oil exports, which invariably imply a depreciation of the nominal exchange rate and much domestic adjustments. Due to their short-run impact on prices and demand, the structural transformations are perceived as damaging to the economy (Akpan & Atan, 2012). Although Nigeria adopted a fixed exchange rate, it pegged its exchange rate to the pound sterling until 1967 (Ogiogio, 1996). To improve the balance of payment position, enhance foreign reserves, increase foreign exchange receipts, and reduce disbursement (Ochei et al., 2016), the Exchange Control Act was introduced in 1962. This Act helped ensure the stability of the foreign exchange market, enabled the monetary authorities to use foreign exchange to settle trade, mandated the citizens to submit all foreign exchange receipts to the monetary

authorities. Nigeria has gone through 2 main exchange rate regimes - the fixed and flexible regimes.

The fixed exchange rate system was operated between 1960 and 1986. In the 1980s, e. g. 1981-1985, the exchange rate of Naira against the US dollar was very stable. At this point in time, the Naira was superior to the US dollar. For instance, 1 US dollar was exchanged for N0.64, N0.67, N0.75, N0.80 and N0.99 in 1981, 1982, 1983, 1984 and 1985 respectively. Because the system failed to achieve the major objectives of the policy, the floating exchange rate system was introduced in 1986. This rate continued until January 1994 when the fixed exchange rate was re-introduced pegging the naira to the dollar.

From 1962-1973, the Nigerian currency was pegged to the pound sterling on a 1:1 ratio but it was later devalued by 10% (CBN, 2021). The naira was allowed to move independently of the pound. It was appreciated progressively to source import cheaply and to implement developmental projects. This encouraged reliance on imports which led to depletion of external reserves. In 1978, the Central Bank of Nigeria (CBN) applied the basket of currencies approach whereby the exchange rate was determined by the relative strength of the trading partner currencies. This policy was jettisoned in 1985 in favor of quoting the naira against the dollar. In 1986, flexible exchange rate was adopted. The exchange rate was determined by market forces but the monetary authorities still intervene when necessary. Such intervention depends on the rate of inflation, balance of payment, and employment situation.

However, with the Structural Adjustment Program (SAP) of 1986, the Naira started depreciating against the US dollar. The year 1986 saw the introduction of SAP, N3.32 was exchanged for 1 US dollar. From that time till today, the Naira never rebound; rather, it kept deteriorating yearly from N3.32 in 1986 to N305 as at 30th January, 2017 based on the official exchange rate. Similarly, the parallel market rate hovered between N480 to N520 and N1500 in 2025. The depreciation in the exchange rate after SAP has slowed the pace of economic growth. The challenge of the combined effect of decrease in oil prices and exchange rate instabilities on macroeconomic and economic growth for oil producing nations like Nigeria is really enormous (Onuorah & Osuji, 2014).

Exchange rate is the rate at which a country's currency is exchanged for other currencies. Sometimes, demand for exchange rate exceeds its supply; in this case, domestic currency will depreciate and the country's reserve is decreased. People may eventually have to go to the black market to buy the foreign currency. This situation erodes confidence of foreign investors because, it shows that the Central Bank cannot effectively manage its own currency vis-a-vis other currencies. The black market has (almost) become the go-to market because one will find foreign currency there than in the official market. On the other hand, when a country's reserve is large and increasing, foreign investors have relatively more confidence in that country and in the ability of its Central Bank to meet foreign currency obligations as at when due. The CBN does not want to run an exchange rate regime where there is a wide gap between rates in the official and black market; hence, the new CBN policy re-introduced a willing buyer willing seller model in the official market. Thus, rates will be determined by forces of demand and supply.

With failures associated with the exchange rate systems, the CBN re-introduced the Dutch Auction System (DAS) in July 2002 with the objectives of realigning the exchange rate of the

naira, conserving external reserves, enhancing market transparency and curbing capital flight from the country (Imoisi, Uzomba, & Olatunji, 2010). With regard to all these reforms in Nigeria's exchange rate system, it is still clear and obvious that the objectives linked with these reforms were not fully achieved. Thus, the monetary authorities are always at alert in an attempt to improving and managing exchange rate policy for growth and sustained development of the economy,

## 2.1 Determination of exchange rate

In determining exchange rate, various methods were applied with some adjustments; some of these methods are:

### (a) Fixed exchange rate system

This system was in operation between 1960-1986 when the floating exchange rate was introduced. In January 1994, the fixed exchange rate system was re-introduced to respond to the challenges and distortions caused by the floating exchange rate system. The Federal government outlined new broad policies to stabilize or bring up the value of the naira. The naira exchange rate was pegged at N21.99 to a U.S. dollar. This is to bring sanity into the foreign exchange market and encourage increased activities in the productive sectors of the economy.

A foreign exchange allocation committee comprising of representatives from the CBN, the Federal Government, and the organized private sectors was formed in early 1994 to supervise the allocation of foreign exchange to designated sectors. Allocations were made to beneficiaries through authorized dealers who bid on behalf of their customers after proper documentation and depositing the naira equivalent of such bid with the CBN.

## 2.2 The dual exchange rate system

The dual exchange rate system was adopted at the commencement of the second-tier foreign exchange rate market (SFEM) (Umaru, Nuhu, & Yusuf, 2024). It consists of the first-tier rate (the highest-level rate at which multinational banks trade with each other) and a free market rate. The SFEM rate was determined by auction at the market and the first-tier is administratively determined and gradually depreciated. At the first two sessions of the SFEM (an auction-based system), the average of successful bids of authorized dealers was used to determine the exchange rate, but debt service payments, transitional transactions, contributions to international organizations, embassy expenses etc. were settled at the first-tier rates; other transactions are settled at a rate determined by market forces.

Because of the downward trend of the nominal exchange rate, the average pricing method was abandoned at the third auction and the marginal rate was adopted. Under this method, the last successful bid determines the ruling rate. This method did not succeed in entrenching professional discipline in the system. To introduce professionalism therefore, the Dutch Auction system was adopted in April, 1987.

In 1995, the dual exchange rate was re-introduced because of the adverse effects of fixed exchange rate and the bureau de change on non-oil exports. Owing to the existence of some

negative developments and the parallel market in the foreign exchange market, the autonomous foreign exchange market (AFEM) was introduced. At AFEM, privately sourced foreign exchange could be traded. The exchange rate in the AFEM was determined through market forces while the fixed exchange rate remained for public use. The policy allows for the Central Bank of Nigeria's intervention in the market to stabilize the rate and ensure equilibrium.

### 2.3 The Unified Exchange Rate System

In July 1987, the first and second tier markets were merged to form an enlarged foreign exchange market; all transactions were subjected to market forces. The merger increased demand pressures and contributed to the persistent depreciation of the Naira between July and November 1987. In 1989 the AFEM was merged with the FEM to form Inter-bank Foreign Exchange market (IFEM). The exchange rate under this market was determined through one or more of the following methods: marginal rate pricing, average rate pricing, highest and lowest bids, weighted average pricing, average of successful bids, and consideration of developments in the exchange rates of major international currencies.

In December 1990, the Central Bank of Nigeria modified the inter-bank procedures by re-introducing the Dutch Auction System. In August, 1991, CBN introduced the model weighted average method of exchange rate. Under this system, the rates tending towards the mode determine the exchange rate. This method was designed to reduce the wide fluctuations in the Naira exchange rate.

In mid-2023, the unification of exchange rates is a landmark policy reform. This policy aimed to consolidate Nigeria's previously fragmented exchange rate system into a single, market-driven rate, with the goal of enhancing economic efficiency and stability (Ozili, 2024). It involves unifying exchange regulations and trading arrangements so that the new exchange rate system will be supported by an efficient, uniform regulatory and operational framework of exchange markets. The exchange rate seemed relatively stable even after the fuel subsidy removal announcement on May 29, 2023 (Ayodeji, 2024). However, the introduction of a unified exchange rate caused increased volatility, which removed the previous stability.

This policy caused a devaluation of the Naira, which led to high cost of imports, low capital inflow, reduced foreign investments, and domestic inflation. Investors typically seek stability, and the increased exchange rate fluctuation created uncertainty that led to reduced foreign direct investment. It is difficult to determine the exact impact of exchange rate unification because Nigeria unified exchange rate at a time when the country was experiencing high inflation, large balance of payment deficit, large budget deficit, high government borrowing, high energy prices due to fuel subsidy removal, low government revenue, and low foreign exchange (FX) supply (Ozili, 2024). According to Ozili (2024), adverse effects expected in the short-term, will disappear in the medium to long run.

The success of exchange rate unification depends largely on effective implementation, good economic policies, and the proactive measures used to address potential challenges or risks associated with the unification. The Central Bank of Nigeria should carefully monitor emerging developments in the economy as the exchange rate unification process takes place and identify areas where interventions are needed. Nigeria needs to reduce its reliance on imports and promote domestic production and export-oriented industries to generate significant foreign

exchange revenue that could be used to provide a sustainable level of economic growth and development. Nigeria is not the only country to unify exchange rate. Countries like Cuba, Australia, Canada, Chile, Japan, Mexico, Norway, Poland, and Sweden have also unified exchange rate.

## 2.4 Completely Deregulated Exchange Rate System

As a result of the persistent instability in the foreign exchange market, the CBN adopted a completely deregulated system of foreign exchange trading on March 5, 1992. Under this arrangement, the CBN bought and sold foreign exchange actively in the market and supply in full, all requests for foreign exchange made by authorized dealers.

## 3.0 EXCHANGE RATE POLICY OBJECTIVES

Exchange rate policy is choosing or determining the particular rate at which exchange rate transaction will take place. Certain features affect the type of exchange rate system to be used; especially in a developing country like Nigeria, These features are:- the strength of the country's trading partners, the country's balance of payment and reserve levels, the inflation rate in the country, the substitutability of domestically produced goods for imports, the importance of capital flow, how developed is the financial market, the elasticity of domestic and foreign demand for imports and exports. The options of exchange rate system open to a country are: pegging to a single currency, pegging to a basket of currencies, floating independently at a managed rate, floating freely without official management.

The most common objective of the exchange rate policy is to equilibrate the balance of payment. It could also be used to promote diversification and controlling imported inflation. If a currency is overvalued, it will encourage import, discourage non-oil export, and help sustain the manufacturing sector's overdependence on imported inputs. If the real effective exchange rate appreciates, this will severely erode international competitiveness.

The objective of minimum imported inflation tends to conflict with that of diversification. Diversification of export base required depreciating exchange rate in order to encourage non-oil export while the exchange rate needed to appreciate to make imported goods cheaper therefore, minimum imported inflation. The exchange rate of the second-tier foreign exchange rate market (SFEM) introduced in September 1986 was predicated to achieve a realistic exchange rate to eliminate economic distortions and stimulate non-oil exports. The realistic exchange rate would accelerate the rate of economic growth through the attraction of foreign capital and investment and reduce excessive demand for exchange rate.

Another objective of the exchange rate policy is to eliminate illegal currency trafficking, smuggling activities, and exchange rate malpractices. Exchange rate policy was expected to result in more efficient resource allocation through reduction of fraudulent and wasteful transactions. The exchange rate policy objectives have been less than satisfactory because of unfulfilled expectations concerning the role of the market mechanism in exchange rate determination and the absence of appropriate complementary policies.

The exchange rate policy before SAP appeared to encourage overvaluation of the naira which encourages inputs, discourages non-oil export and helps sustain the manufacturing sector's

overdependence on imported input. As much as exchange rate policy aimed at promoting diversification and controlling imported inflation, there is a conflict. Diversification of export base requires depreciating exchange rate but exchange rate needs to appreciate to make imported goods cheap hence, imported inflation is reduced. Also, exchange rate policy is not geared towards attaining medium or long-term equilibrium in the balance of payment. The objective of the exchange rate policy under SFEM reflected the need for medium and long-term equilibrium. To do this, a realistic exchange rate needs to be attained through the market forces of demand for and supply. This sort of exchange rate will reduce excessive demand for exchange rate.

External sector polices during the period relied on foreign exchange allocation and administered exchange rates, while monetary policy depended on price controls, credit ceilings, selective credit controls, administered interest rates, prescription of cash reserve requirements and other special deposits for realization of policy objectives. Nigeria's fiscal operations were largely wide, unfocused, and volatile, having systemic negative effects on other sectors of the economy. Against this background, sectoral objectives remained unrealized as the external sector reeled in continued deficit; the exchange rate was volatile and depreciated at will in the autonomous market (which exerted pressure on the official foreign exchange market), monetary policy targets were continually missed due to inflationary financing of government deficits. With the deregulation of the economy in 1986, a market-based framework for the determination of exchange rate was adopted (CBN, 2021). It was envisaged that the realization of macroeconomic stability would lead to the elimination of distortions in the external sector and thus enhance growth, stimulate non-oil exports, increase foreign exchange inflows, eliminate the parallel market premium, reduce capital flight, enhance the inflow of foreign investments, moderate demand pressure in the foreign exchange market, and improve foreign exchange utilization (CBN, 2003).

### 3.1 Bureau De Change

A bureau de change, also known as a currency exchange, is a business where one can exchange one currency for another. The business owners typically profit by buying foreign currency at one rate and selling it at a slightly higher rate. In addition, they may charge a commission or fee on the transaction. It's important to note that the term "bureau de change" is not commonly used in North America, where "currency exchange" or "money exchange" are the preferred terms. It is different from the foreign exchange (forex) market, where financial institutions and traders conduct currency trades. When using bureau de change, be mindful that exchange rates can fluctuate significantly, and the assigned rate will be determined at the discretion of the business based on various factors.

Apart from the IFEM introduced in 1989, bureau de change was established in August 1989 to handle small-scale foreign exchange transactions based on unofficial foreign exchange practices. Its objectives are: a). to accord recognition to small dealers in foreign exchange, b). to enhance efficiency in foreign exchange flows c). to provide free access to small buyers of foreign exchange. There are various safeguards present in the bureau de change; such as documentation and other records are kept to protect customers, which are lacking in parallel market. This makes bureau de change less risky than the parallel market. Unfortunately, the bureau de change hardly took off when it became riddled with frauds and other malpractices.

Something was apparently wrong with the foreign exchange management policy. Official statistics show that the industrial sector has received the lion's share of foreign exchange allocation under FEM - 68.6%, in 1989, 63.8% in 1990, 64.2% in 1991, 62.3 in 1992 etc. This allocation presumably financed the importation of raw materials, machinery, spare parts, but still capacity utilization was very low and contributions of the industrial sector to the gross domestic product (GDP) and employment were not impressive. This indicates that something is wrong somewhere. It is either because contrary to the foreign exchange statistics, the manufacturing firms did not actually receive the proportion of foreign exchange recorded for them and or the foreign exchange is sold to them at parallel market rates.

Foreign exchange is required by industrial end-users in order to accelerate economic growth and development; therefore, the Central Bank of Nigeria (CBN) has to correct the situation to ensure that foreign exchange gets to industries at the official rate. The role of the commercial and merchant banks should be reduced to intermediaries i. e. the CBN should allocate Foreign exchange to the end-users through the banks; and the banks should submit the list of customers with the details of their requirements to CBN for allocation.

### 3.2 Realistic Exchange Rate

The real exchange rate (RER) between two currencies is the product of the nominal exchange rate (the price of one currency in terms of another e. g. the dollar cost of euro) and the ratio of prices between the two countries (IMF, 2025). It seeks to measure the value of a country's goods against those of another country, a group of countries, or the rest of the world. The equation is:  $RER = eP1/P$ , where,  $e$  is the nominal domestic currency/foreign currency exchange rate i.e. (N/\$ rate),  $P1$  is the average price of a good in the foreign currency area, and  $P$  is the average price of the good domestically.

At the inception of SAP, it was clearly stated that the government objective was to evolve a realistic and sustainable market determined exchange rate so as to reduce the demand for foreign exchange to available supply and to reduce the pressure on the balance of payments. Although what the target realistic exchange rate should be was never made known, market approach has to be used in achieving this rate through the strategy of depreciation. In a floating exchange rate system, the rate was determined by the interaction of the market forces of demand and supply which should be the short-term equilibrium rate. In practice, it is often difficult to measure the true equilibrium rate because there may exist multiple markets for foreign exchange or the market might be imperfect.

A search for a realistic exchange rate through the market approach has proven elusive. The exchange rate in Nigeria is neither the equilibrium nor the realistic rate because it does not reflect purchasing power parity. The 1993 official rate was N22:\$1 while the bureau de change rate was N40:\$1. A casual comparison of purchasing power parity in the USA and Nigeria would suggest much lower rate e. g. a standard room in a hotel in Nigeria might cost N5K a similar room in the USA might cost \$200 suggesting an exchange rate of N25:\$1.

Osagie, Okogi, and Ojemeruaye (2023), have used the purchasing power-parity approach to evident the extent of under-valuation of the naira. Despite the simplicity of this approach, it has its own problems. The realistic exchange rate could be regarded as that which reflects the purchasing power parity of the naira in relative to other currencies. It must be stressed that

while a realistic exchange rate is a desirable objective; it must not be pursued at the expense of full employment growth and development and price stability.

### 3.3 Exchange Rate Management Under SAP

Structural Adjustment Programs (SAPs), implemented in many developing countries starting in the 1980s, often include significant reforms to exchange rate management as a core component (Weider, 2024). Exchange rate management plays a central role in SAP, aiming to stabilize economies, promote competitiveness, and foster growth. However, the implementation of devaluation and liberalization has proven to be complex, often resulting in unintended consequences and sparking controversy regarding their overall effectiveness and social impact.

The primary goal of these reforms is to address macroeconomic imbalances, particularly balance of payments issues, and promote economic stability and growth. Structural adjustment program involves some measures such as: devaluation of the local currency to reduce the cost of imports and encourage exports. This is expected to improve the trade balance and increase international reserves. Structural adjustment program often advocates for more market-determined exchange rates, moving away from fixed or controlled regimes. This aims to increase efficiency and responsiveness to market forces. It encourages reducing tariffs and non-tariff barriers to trade, facilitating integration into the global economy. This can have indirect effects on exchange rates as trade patterns shift.

According to Omoruyi (1990), the main objectives of SAP were to restructure and diversify the productive base of the economy; achieve fiscal and balance of payments viability, and lay the basis for a sustainable, low-inflation economic growth. To achieve these SAP objectives, the country embarked on a realistic exchange rate policy, trade and payments liberalization, restructuring of tariffs, removal of subsidies on goods and services provided by public corporation, devaluation of the domestic currency to make imports more expensive than domestic goods so people can switch to domestic consumption from foreign goods.

Devaluation and trade liberalization are expected to boost exports and curb imports, leading to a healthier balance of payments. A devalued currency makes exports more competitive in international markets, potentially stimulating economic growth. A more stable and market-driven exchange rate, coupled with other reforms like trade liberalization, can attract foreign direct investment.

Despite SAP goals, exchange rate management under SAP faced some significant criticism and challenges. Currency devaluation can make imported goods, including food items, more expensive worsening poverty (Majaski, 2025). Critics argue that SAP-mandated reforms, e.g. exchange rate policies, can have detrimental social consequences, such as high unemployment, reduced social spending, and increased income inequality. Majaski (2024) indicated that, in some cases, devaluation may not lead to the anticipated export expansion if global markets are already saturated with similar products or if there are other structural constraints, as observed in Ghana's experience with cocoa exports. The imposition of reforms by external organizations such as the IMF and World Bank has been perceived as a threat to national sovereignty and has triggered protests and social unrest in some countries. Exchange rate policy is linked to other

economic policies and performances, which makes it challenging to achieve consensus and effective management of the various policies.

The exchange rate policy under SAP have been pursued within the framework of the second-tier Foreign Exchange market (SFEM) which was established in September 1986. The SFEM began as a dual exchange rate system which used the official first-tier rate and a free market rate. The former was administratively determined and gradually depreciated. It applied to few official international transactions e. g. debt servicing, and contributions to international organizations. The free-market rate applied to the rest transactions; the rate was determined by market forces of demand and supply.

The essence of the dual exchange rate system was to avoid a deliberate devaluation of the naira while at the same time, the monetary authorities continued a downward adjustment of the first-tier rate until the two rates converge to produce a realistic exchange rate. The convergence was achieved in July 1987 at a rate of N374: \$1. With this development, the first. tier market was abolished and a unified foreign exchange market (FEM) with a single rate was formed (SAP, n.d.).

Under FEM, an autonomous market was allowed to form. The autonomous market was expected to be competitive with the parallel market and thus be attractive to exporters to repatriate their proceeds. The merger of the first-tier rate and the SFEM rate was more technical than real; the gap between the auction rate and those of the autonomous market rates began to grow. At one point, there was more than 50% differential between the 2 rates; and this became a source of concern for the monetary authorities (SAP, n.d.).

The operations of the autonomous market later became destabilized due to high arbitrage premium and accusations of authorized dealers diverting official funds to the autonomous market and making substantial gain effortlessly. Bank officials were accused of corruption and allocating foreign exchange to favored customers. In 1989, the autonomous market was merged with the official market to form interbank foreign exchange market (IFEM). Various but specific methods were used singly or combined to determine rates. There was the daily bidding system which ended in December 1990. Then came the Dutch Auction system (DAS) introduced to enhance professionalism in the foreign exchange market. With DAS, an authorized dealer pays for foreign currency at the exchange rate that s/he bids.

The exchange rate management system appeared to be predicated on various methods that are yet to achieve the desired goal. There have been frequent changes in the operational guidelines. The market has experimented with various techniques and operational procedures among which are the average and marginal exchange rate determination, fixing methods, the weekly, fortnightly, end daily bidding systems. All these have been tried with a view to achieving the realistic exchange rate objective which has turned out to be elusive.

### 3.4 Foreign Exchange Market Reforms

Foreign exchange (FX) market reforms involve moving from a tightly controlled exchange rate system to a more liberalized, market-based one. Reforms typically include adopting a more liberalized, market-based one. Reforms typically include adopting more flexible exchange rate, removing restrictions on currency transactions, and expanding the types of financial

instruments available for hedging risk. Reforms are often implemented in emerging economies to address issues like currency shortages and stabilize debt; these changes come with some benefits and challenges.

Foreign exchange market reforms involve adjustments to policies, regulations, and market structures to improve stability, efficiency, and transparency within a country's foreign exchange operations (IMF, 2025). These reforms can be driven by a variety of factors, including the desire to manage currency fluctuations, encourage economic growth, or address financial vulnerabilities. Nigeria has undergone significant foreign exchange (FX) market reforms aimed at achieving macroeconomic stability and attracting foreign investment. The key objective of these reforms has been to create a more efficient and transparent FX market, ultimately leading to a more stable and market-driven exchange rate for the Naira.

The unabated and unidirectional depreciation of the naira against other currencies gave the monetary authorities a major concern to reform the FEM in 1992. The rate of depreciation in the parallel market and bureau de change rates were faster than the official FEM rate; leading to a wide gap between the rates in the 2 markets. In 1992 February, the gap was reported to be N8.00 per \$1. The malpractices e. g. under the counter deals against authorized dealers undermine the credibility of the FEM operators diverting foreign exchange from the official to the parallel market to make substantial profits. In order to curb these malpractices and eliminate the exchange rate differential (to boost government revenue), the authorities move the official rate from N10.226: \$1 to N17.657: \$1 in March 1992.

The Exchange Control Act of 1962 and the Enterprises Promotion Decree of 1989 were abolished, and IFEM was reintroduced in October 1999 to address exchange rate issues and CBN intervened occasionally. The solution expected from the reintroduced IFEM did not solve the FEM problem of depreciating Naira due to excess demand over supply and seemingly perennial unfavorable actions of the speculators and the arbitrageurs. By July 2002, the RDAS was reintroduced to rescue Naira. It The wholesale Dutch Auction System (WDAS) continued from 2006 to July 10, 2009.

In February 2015, RDAS was suspended after its reintroduction in 2006 (CBN, 2021). In defending the Naira, an OTC Non-Deliverable Forward was introduced in September 2017 to hedge against foreign exchange risk. Central Bank of Nigeria supported Retail Secondary Market Intervention Sales (RSMIS) with wholesale allocation but was suspended in the first quarter of 2020.

Other measures include freedom of banks to procure foreign exchange from any source, and abolition of restriction on capital transfers. The Central Bank of Nigeria introduced the system of prorating allocation of foreign exchange to authorized dealers in March 1993. These dealers must back their demand with the appropriate naira deposit. Allocation to banks made by multiplying individual bank demand with the proportion of total demand that total supply can cover. This approach yielded relative stability of the exchange rate at about N22:\$1. In the bureau de change and parallel markets, the exchange rate was N40:\$1. The Central bank of Nigeria's approach therefore, extended to the end-users through authorized dealers. This approach would marginalize the banks to some extent and ensure availability of foreign exchange for real sector development at reasonable rates. One implication of this approach is

that war has to be waged on the parallel market to bring sanity to the foreign exchange market and the bureau de change needs to be thoroughly supervised.

In October 2023, the restrictions on foreign currency access for 43 categories of goods were lifted; to promote market-determined exchange rates. The CBN removed exchange rate ceilings on interbank transactions and international money transfer operations in February 2024 to further support market determination of rates. The method of calculating the overnight exchange rate was made public to allow for transparency. However, combating inflation and promoting long-term economic stability is still a challenge.

### 3.5 The Impact of Exchange Rate Policy

The exchange rate system in Nigeria has undergone significant changes from 1960s to date. The fixed exchange rate system was in usage in the 1960s. However, between 1970s and 1980s when SAP was initiated, diverse types of floating exchange rate systems were adopted. The fixed exchange rate regime induced an overvaluation of the naira and was supported by exchange control regulations that created significant distortions in the economy; hence, the rise to massive importation of finished goods with adverse consequences for domestic production, balance of payments position, and the nation's external reserves level (Onyekachi, 2012).

Exchange rate is an important relative price, which connects domestic and world markets for goods and assets, but it also signals the competitiveness of a country's exchange power vis-à-vis the rest of the world in a pure market (Ismaila, 2016). Exchange rate policy is one of the crucial indices that shape economic growth, especially for developing countries thus, its management is of priority to governments. Exchange rate also signals a country's competitiveness with other countries. Due to its impact on business and the economy at large, investors and businessmen would prefer a stable exchange rate to a volatile one. Persistent fluctuations of exchange rate, often results in continuous depreciation of the domestic currency (Danladi & Uba, 2016).

Nigeria's economic growth is significantly impacted by its exchange rate policy, especially the volatility of the Naira (Anyawu, Ananwude, & Okoye, 2017). Any change in the value of the US dollar threatens Nigeria's economy as she depends on one product, crude oil, for over 95% of her revenue. Fluctuations in the exchange rate, influenced by factors such as global oil prices and domestic economic conditions, affect import costs, export competitiveness, and overall economic stability (Shuaibu, 2017). While a stable or appreciating exchange rate can boost an economy, a depreciating one can lead to inflation, increased debt servicing costs, and reduced investment.

The exchange rate policy implemented under SFEM/FEM/IFEM since 1986 have had profound impact both negative and positive on the economy (Onyekachi, 2012). Under the managed floating exchange rate system, a prompt settlement of import bills has been facilitated. There was a tremendous boost of both Federal and State government revenue. The government obtained additional revenue from the operations of the FEM. Federal revenue increased from N14.6M in 1985 to N138,617M in 1992, non-oil revenue increased from \$363M in 1985 to \$613M in 1988 (CBN, 2021), retained revenue rose from N9,640.3M to N63,564.8M over the same period. Federal government expenditure increased from NI 2,680M in 1985 to

N107,723.3M in 1992. The overall deficit also increased because of the depreciation-induced increased cost of running the government.

The naira prices of goods have moved upwards e. g. agricultural products used largely by the domestic firms. The volume of products exported have responded positively to exchange rate policy. Balance of payment has been affected through exports, imports, and capital inflows and outflows. Exchange rate policy does not have much impact on oil earnings; for the price of crude oil was fixed by the organization of petroleum exporting countries (OPEC). The price of primary export goods was not all that affected because the price was set by international commodity market. There was a noticeable shift in the structure of imports from consumer goods to raw materials and capital goods. Because the exports of least developed countries (LDC) have an internationally set price and therefore independent of exchange rate, local currency depreciation is not an effective tool for achieving improved foreign exchange earnings

The activities of the parallel market have not been drastically reduced. Foreign currency domiciliary account scheme and the deregulated rate for autonomous funds have fallen short of expectations in attracting capital (Ikechukwu, et al., 2023). There were negative balances on the capital account of the balance of payment. Since the introduction of market determined exchange rate in 1986; the exchange rate has continuously depreciated and was unstable in both the official and parallel markets. There was a wide gap in the FEM rate and those of the parallel market. As at the end of 1993, the FEM rate was N22/\$ while the bureau de change and the parallel market rates were over N40/\$. Before SFEM, the exchange rate was NI .55/U; in September 1986, the rate was N4.6174/U, indicating a depreciation of 66%. According to (Ikechukwu, et al., 2023), a 1% rise in the exchange rate in the long run leads to a 0.006% rise in economic growth rates, and a 1% rise in trade openness and foreign direct investment net inflows, in the long run increases economic growth by 0.12 and 2.27% respectively. Given the positive impact of exchange rates on real gross domestic product [goods and services produced in an economy adjusted for inflation] (RGDP), maintaining a stable exchange rate environment is crucial, and policymakers should aim to implement measures that promote stability while also considering policies that enhance competitiveness. This may involve monitoring and managing currency fluctuations to ensure they remain favorable for both domestic industries and export activities.

Nigerian economy responded positively to SAP; in the first few years, GDP showed increase - real output increase per year was 3%, it was 0.8% before SAP. Agricultural production showed an annual growth rate of 2.6% compared to an average growth rate of 0.4% before SAP; average capacity utilization in manufacturing was 44.5% as opposed to 37.1% in 1985. SAP helped the country to reschedule and refinance external debt, external reserve rose from \$611.4M in December 1988 to 51,759.1M by November, 1989.

**Naira To Dollar Exchange Rate History (1972-2022) by Alphagan(m):**

Find Below Naira to Dollar Exchange Rate History

1972 \$1 = N0.658

1973 \$1 = N0.658

1974 \$1 = N0.63

1975 \$1 = N0.616

1976 \$1 = N0.62  
1977 \$1 = N0.647  
1978 \$1 = N0.606  
1979 \$1 = N0.596  
1980 \$1 = N0.550 (0.900 Black Market Rate)  
1981 \$1 = N0.61  
1982 \$1 = N0.673  
1983 \$1 = N0.724  
1984 \$1 = N0.765  
1985 \$1 = N0.894 (N1.70 Black Market Rate)  
1986 \$1 = N2.02 (N3.90 Black Market Rate)  
1987 \$1 = N4.02 (N5.90 Black Market Rate)  
1988 \$1 = N4.54 (N6.70 Black Market Rate)  
1989 \$1 = N7.39 (N10.70 Black Market Rate)  
1990 \$1 = N7.39 (N10.70 Black Market Rate)  
1991 \$1 = N8.04 (N9.30 Black Market Rate)  
1992 \$1 = N9.91  
1993 \$1 = N17.30 (N21.90 Black Market Rate)  
1994 \$1 = N22.33 (N56.80 Black Market Rate)  
1995 \$1 = N21.89 (N71.70 Black Market Rate)  
1996 \$1 = N21.89 (N84.58 Black Market Rate)  
1997 \$1 = N21.89 (N84.58 Black Market Rate)  
1998 \$1 = N21.89 (N84.70 Black Market Rate)  
1999 \$1 = N21.89 (N88-N90 Black Market Rate)  
2000 \$1 = N85.98 (N105.00 Black Market Rate)  
2001 \$1 = N99-N106 (N104-N122 Black Market Rate)  
2002 \$1 = N109-N113 (N122-N140 Black Market Rate)  
2003 \$1 = N114-N127 (N135-N137 Black Market Rate)  
2004 \$1 = N127-N130 (N137-N144 Black Market Rate)  
2005 \$1 = N132-N136  
2006 \$1 = N128.50-N131.80  
2007 \$1 = N120-N125  
2008 \$1 = N115.50-N120  
2009 \$1 = N145-N171  
2010 \$1 = N148.21-N154.8  
2011 \$1 = N151.05-N165.1  
2012 \$1 = N155.09-N161.5  
2013 \$1 = N153.21-N162.9  
2014 \$1 = N170-N199  
2015 \$1 = N199-N300  
2016 \$1 = N300-N320 (N310-N370 Black Market Rate)

2017 \$1 = N360  
 2022 = N419 (Official), Unofficial = N610.  
 Source: Nairaland.com

2023 Jan \$1 = N427.35  
 “ June \$1 = N458.76.  
 “ Dec \$1 = N777.9  
 Source: Moneyratetoday.com

**NAIRA EXCHANGE RATE MOVEMENT (1985-1992)**

Month/Year	NN	\$/N	%Depreciation
December 1986	3.33	0.300	- 53.5
December 1987	4.14	0.242	- 19,3
December   988	5.35	0.187	-22.7
December 1989	7.56	0.132	- 29.4
December 1990	8.71	0.115	- 12.9
December 1991	9.86	0.101	- 12.2
December 1992	19.76	0.051	-49.5
December 1993	21.99	0.045	-11.8

Source: Central Bank Annual Report (1986-1992)

**Source:** Central Bank Annual Report (1986-1992)

The instability and continued depreciation of naira in the FEM have resulted in a decline in the standard of living of the populace, increased cost of production, and cost-push inflation. Business with less than 40% capacity utilization have had accumulated inventories while small and medium scale enterprises have been strangled because of the low dollar/Naira exchange rate. A number of factors have been suggested as causing the exchange rate instability; some of them are excess demand for foreign exchange, inadequate funding of the foreign exchange

market, poor performance of the autonomous source of foreign exchange, instability of the crude oil market, speculative activities of the authorized dealers, expansionary monetary and fiscal policies which fuel demand pressures in the market. Also, a role beyond the capability of the market forces has been assigned to them.

Inflation rate rose in 1987 from 5.4% to 38.5 % in 1988 and 50.5% in 1989 - the depreciation of the naira has been fundamental to the problem of inflation. It also led to soaring prices of imported inputs and raw materials, which resulted in increased consumer goods prices. There has been an increase in tariffs of public utilities e. g. NEPA AND NITEL and high cost of funds in the financial market.

#### **4.0 SUMMARY AND CONCLUSION**

The exchange rate management since 1986 seems to have been predicated on various methods that are yet to achieve the desired goal. This manifested into the institutional framework from SFEM to FEM to IFEM and frequent changes in operational guidelines and procedures. Despite this, the objective of a realistic exchange rate has turned out to be elusive. For sometimes now, the Central Bank of Nigeria has implemented a policy of pro-rata allocation of foreign exchange to authorized dealers. If this policy is extended to the end users through the banks, then most of the outstanding issues would be resolved.

Given the problem of structural imbalances in the economy, reflecting for heavy concentration on crude petroleum export and excessive reliance of the production structure on imported inputs, the exchange rate policy objective of the structural Adjustment program (SAP) was in the right direction. But accomplishments have been less than satisfactory. The structural imbalances are still as intense today as they were a few years back. It was, probably not realized that market-determined exchange rate would not be helpful in the attainment of structural transformation objectives. The deterioration in the exchange rate has escalated Nigeria's debt burden, depleted foreign reserves, repressed local production, strangled various government attempts for industrial sector growth and created exorbitant cost of living.

#### **5.0 RECOMMENDATION**

The foreign exchange market has to be guided to ensure proper and equitable allocation of foreign exchange resources. The intervention of the monetary authorities in the FEM since March 1993 to ensure relative stability for the official exchange rate should be continued. Further intervention should be directed towards sanitizing the bureau de change and the parallel market.

Before allocating foreign exchange to beneficiary companies, the banks should submit lists of customers along with details of their requirements to the Central Bank of Nigeria to ensure that foreign exchange allocated does not leak into the bureau de change or the parallel market. The effect of the unification of the parallel and official exchange rates on cost of production and working capital requirements were acknowledged; there is need to tackle inflation problem from its roots - the depreciation of the naira, Allowing the market to determine the exchange rate means giving up the exchange rate as an instrument to guide the course of economic development. The central Bank of Nigeria should back up the policy of prorata allocation of

foreign exchange to the authorized dealers and end-users through the banks and declare the parallel foreign exchange market illegal.

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