ABSTRACT

This research critical examine the impact of Naira devaluation on economic growth in Nigeria. That without exchange rate, the exchange of goods and services among trading partners will be focused with a lot of problems which may virtually narrow it down to trade by barter. Thus exchange rate is also used to determine the level of output growth of the country. Nigeria is one such economy where demand for locally produced goods is at such a pitiful level. This makes it difficult for the exportation of such goods to the economies they were assumed to have from. As a result of the excess of import-over export Nigeria increase the cost of product and also result to inflation (cost push). By making the domestic currency relatively cheaper, local production and exportation of commodities is thereby encouraged. This will help solve unemployment problem and create a favorable balance of trade. This study made use of the ordinary least square (OLS) regression techniques in analyzing the impact of Naira devaluation on economic growth in Nigeria: 1980-2009.the battery test and also t-statistic table was carried out and our findings is that real exchange rate has significant impact on the economy which means that Naira devaluation have positive impact on the economy. It was therefore recommended that the policy devalues apt attention and should pursue.

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The early 1980s drove home a truth which had been emerging in the 1970s that the world economy was becoming increasingly unstable. The combined effects of the second oil shock, an associated recession in OECD countries, a prolonged slump in real commodity prices, the outbreak of debt crisis with all its consequences for developing economies access to world saving and the erosion by non-tariff barriers of previous trade liberalization put the balance of payment of many developing countries under great strain making imperative decisive policy responses (Killick 1995). On the economic scene of Nigeria, ‘the oil boom(1973-74) affected not only the investment, production and consumption patterns of the country but also its socio-cultural valves, political aspirations, style of economic management and policies and programmes implemented (Olaniyan 1996). Massive investments were made into infrastructures with significant capital outlay for imported components. Industries were outward-looking such that the global

The global economic crisis created an awareness in the OECD Government and the International Financial Institution (IFIs, consisting of the IMF and the World Bank) that ‘many past policy interventions were aggravating rather than easing economic problems in developing countries and needed to be reformed’. The World Bank response was the opening of a structural adjustment window while the IMF introduced (or revived in the case of the Extended Fund Facilities: the EFF) the structural statement fund (SAP) and Enhance Structural Adjustment Fund (ESAF) (Killick, 1995).(Yesufu, 1996:1989). The compound effect of the above was fiscal crisis, foreign exchange shortage, balance of payment and external debt crisis, high unemployment rate and negative economic growth (Olaniyan, 1996).crisis meant for them acute shortage of essential raw materials, capacity under-utilization and factory closures. The competitiveness of the agricultural sector was eroded by the overvalued exchange rate and investment was skewed in favor of ‘short-term highly profitable ventures such as construction, commerce and services sector at the expense of such productive sectors as agricultural and manufacturing which have long-term gestation periods creating structural imbalance within the economy. There was a growing desire for imported consumer’s goods and conspicuous consumption was the order of the day among the affluent. Capital assets were neglected and maintained culture virtually died out. And all this against the background of financial misappropriation in the public sector and concerted misuse of import licenses and overloading of invoices between many Nigerian businessmen and their overseas counter parts; the gross abuses and import and export tariff at many custom points; fraudulent money transfer overseas aided and abetted by many banking officials'

extended facility loan in 1983. In line with its new policy however, the IMF introduced some conditions that must be met for the loan to be given- the much popularized 'IMF conditionatlities'. These were sixty per cent devaluation in the national currency, rationalization in the size of the public services, trade liberalization and removal of petroleum subsidy. The Babangida government in a bid to capture the confidence of Nigerians and thus-secure for itself legitimacy, decided to throw the matter to the generally public. By public debate involving the learned and the unlearned who knew not so much as what the IMF is and what the conditionalties really meant by various expressions of public opinion encompassing both the professional and the street trader, Nigerians were to make their view known whether they wanted the IMF loan with its attached condtionalities or not. Of course, the Nigerian public rejected the loan. Barely one year after, however, in July 1986, the government adopted an externally packaged structural adjustment program.

The first response of the Nigeria Government to the deterioration economic conditions in the country was to introduce some stabilization, austerity and counter-trade measures between 1982 and 1984. The Economic stabilization Act (1982) imposed more stringent exchange control measures and import restrictions supported by appropriate monetary and fiscal policies. In order to secure foreign assistance to solve its balance of payments problems, the government approached the IMF for a three-year

effectively alter and restructure the consumption and productive pattern of the Nigerian economy, as well as to eliminate price distortions and heavy dependence on the export of crude oil and import of consumer and producers goods'. (Anyanwa, 1993 p. 243). The programme was initially proposed as 'an economic package deigned to rapidly and effectively transform the national economy' over a period of less than two years (Yesfusu, 1996 p. 91)

The Nigeria Structural Adjustment program was designed to fit the standard IMF-World Bank structural adjustment package and meant to

Three factors were proposed as being the rationale for the adoption of SAP

An excessive dependent by nation on imports, especially consumers' goods including food.

Almost total neglect of domestic production in all the five sectors of the economy: agriculture, industry, construction, commerce and transportation.

Almost total dependence on earnings from oil exports alone boosting government revenues as well as for accumulated foreign exchange reserve.

The BOP problem was identified to be a consequence of the over-devaluation of the Naira. Under the SAP therefore, the exchange rate is to reflect the scarcity value of the national currency. The devaluation of the Naira would enhance the level of non-oil exports; discourage import thus reducing the nominal value of import while increasing the value of exports.The major negative fall-outs of the above were persistent balance of payment deficit (external imbalance) and huge fiscal deficits (internal imbalance). Also inflation is proving to be a persistent problem in Nigeria with significant, impacts on individuals, firms and governments, concern over resource limitations and dramatic prices increase for energy, food and other basic items are changing lifestyles, with resultant impacts on the market for many goods and services. These same factors are causing economic activities to by undergo rapid transformations, a situation compound by increasing importation of foreign goods and services into the economy. In such a setting, sound economic policies and analysis have taken on greater importance in economic field.

NAIRA DEVALUATION AND IT'S EFFECT ON NIGERIAN ECONOMY

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