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The Political Economy of Exchange Rate Policy and Capital Control in Nigeria

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Abstract

This paper examines the primary cause of the exchange rate management failure in Nigeria by evaluating the motivating factor for these changes and reviewing the role of politics and interest group in the Nigerian exchange rate management. The findings show that politics, institutional incentives, and group interest mostly play a significant role in Nigeria's exchange rate regime determination, as evidenced in the habit of changing the exchange rate system by almost all the political regimes that have existed in the country. More so, the changes are attributed to factors such as different parties and regimes having different macroeconomic preferences, incumbents' efforts to increase their re-election prospects, and by interest groups that lobby for strong or weak currencies.

Keywords: Exchange Rate, Capital Control, Political Economy, Fixed Exchange Rate, Floating Exchange Rate.

1. Introduction

In the Vision 2020:20, the Nigerian economy desires to be among the 20 largest economies by the year 2020. Despite this vision and the re-basement of the Nigerian GDP, the economy has been moving backwards since 2015. It recorded a high level of economic recession in 2017, which took it from the 22nd position in the world country ranking by GDP in 2015 to 27th position as at the end of 2016 (IMF, 2017; World Bank, 2017). However, by the real GDP per capita and other socioeconomic indicators that capture the actual position of a country, Nigeria occupied the 46th, 142nd, and 176th position out of 181 countries in 2014, 2015, and 2016 respectively. There is also a high level of death rate, and a life expectancy of 52.5 (WDI, 2017). Information from the National Bureau of Statistics show that 11.4 million people in Nigeria were undernourished between 2014 and 2016, more than six million of under-five children are stunted, over 18.8% of the population is unemployed, and about 52.65% of the youths are unemployed. Also, the global competitiveness index shows that the Nigerian economy, as of 2016 ranked 127th out of 138 countries globally, which is worse when compared to its 124th out of 140 in 2015.

What all these statistics show is that the Nigerian economy, rather than moving closer to achieving its vision 2020:20 target is consistently moving further away from it, and raises a huge and important question of: "what is the cause of the drawback and how can it be resolved?" Most literature and policy analysts point to poor macroeconomic policies and management as the leading causes of the problem and, therefore, believe that the solution still lies in reasonable, realistic, and feasible macroeconomic policies.

Since Nigeria is an import-dependent nation, one crucial macroeconomic policy that should be given proper attention is that of the exchange rate. According to Obadan (2009), the choice of exchange rate regime by developing countries is of crucial importance to their self-protection from speculative attacks and currency crises as well as achievement of long-term growth. It is a fundamental economic policy, which largely determines a country's level of economic health, and its variation is an essential endogenous factor that affects macroeconomic variables like outputs, imports, export prices, interest rate, and inflation rate (Iyoboyi and Muftau, 2014).

Due to its importance, most countries of the world entrust the work of managing their exchange rate on the apex financial institution in the country. In Nigeria therefore, the responsibility of managing the exchange rate is entrusted on the Central Bank of Nigeria (CBN), and this has taken different dimensions over the years, especially since after the introduction of the Structural Adjustment Programme (SAP) in 1986. The introduction of the SAP led to the introduction of a market-based exchange rate system and several depreciations of the naira with the aim of achieving a realistic exchange rate, which was intended to facilitate an improved macroeconomic performance as well as diversify the productive base of the economy. Since then, exchange rate policies in Nigeria have oscillated between the fixed and the flexible exchange rate system, with series of debates on which of them is the best for the country, and their determining factors.

Information from the CBN shows that the primary objectives of exchange rate policy in Nigeria are to preserve the value of the domestic currency, maintain a favourable external reserves position, and ensure external balance without compromising the need for internal balance and the overall goal of macroeconomic stability. Statistics and other evidence, however, show that over the years, none of these goals has been achieved in the country, and raises the question of what is (are) the force(s) behind exchange rate policies adopted in the country.

Some scholars are of the opinion that exchange rate policies, especially in the developing countries, are the results of a political process with strong distributional and welfare implications (Bernhard and Leblang 1999; Frieden, Ghezzi, and Stein 2001). They are of the opinion that, “differences in exchange rate policy can be explained by factors such as different parties having different macroeconomic preferences, incumbents’ efforts to increase their re-election prospects, and interest groups lobbying for strong or weak currencies.” Being abreast of the influence of political system and other institutional incentives on economic decisions in the country, one aspect of this paper is to find out the relative influence of economic and political consideration on exchange rate policies in the country.

Another issue of importance in discussing exchange rate management is that of capital controls. They are residency-based measures that policymakers of a given country can use to regulate flows from capital markets in and out of the country's capital account. One school of thought argues that financial liberalisation and integration are a vital foundation for global prosperity and growth, with capital mobility and access to foreign capital being an essential source for investment and the diversification of risk, and as such, there should be no restrictions on capital flows. On the other hand, the second school of thought, in particular policy-makers of some Emerging Market Economies (EMEs), has been emphasising the risks stemming from unfettered capital flows for the macroeconomic and financial stability objectives of their countries (Fratzscher, 2012). In other words, while the former views liberal cross-border movement of capital as welfare enhancing, the latter see it as damaging: that free capital mobility heightens macroeconomic volatility and the vulnerability of developing countries to external shocks (Aremu, 2013).

The first school of thought is being championed by the Western liberal countries of North America and Western Europe, and their Institutions namely; the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO). On the other hand, those insisting on some form of capital controls or restrictions on capital flows are the emerging market economies, the developing countries, and the Least Developed Countries (LDCs), who believe that total financial liberalisation, will hurt their economies much more than whatever gains that may accrue from it. This argument may be linked to the famous theory in macroeconomics called the trilemma or the impossible trinity. By this theory, a country accepting free capital mobility has the opportunity cost of forfeiting their independent monetary policy or the control of the exchange rate of their currency.

In the light of the above, this paper examines the political economy of exchange rate policies and capital control in Nigeria. Specifically, it examines the management of the exchange rate market and capital control measures in Nigeria and explores how political considerations influence exchange rate policies and capital controls in the country.

2. Methodology and Conceptual Clarification

2.1. Methodology

The paper utilises the documentary method of data collection. Thus, it relied on written works: textbooks, journal articles, working papers, official documents, especially from the CBN and IMF, newspapers and internet materials that contain information on exchange rate policies and capital controls. Qualitative content analyses rooted in systematic, logical deductions were used to analyse the data, which entailed sifting through the large volumes of data to systematically, and logically retrieve meaningful information from them, and based on that, drew our inferences and conclusions.

2.2. Conceptual Clarification

a. Exchange Rate/Policy

Ngerebo-a and Ibe (2013), defined exchange rate as "the ratio between a unit of one currency and the amount of another currency for which that unit can be exchanged at a particular time." It is the price of one currency vis-à-vis another, the number of units of a currency required to buy another currency (Mordi, 2006), or in simple terms, the rate at which the domestic currency exchanges for foreign currencies. On the other hand, exchange rate policy refers to the manner in which a country manages the exchange of its currency concerning other foreign currencies in the foreign exchange market. There are three main types of exchange rate regimes: the fixed or pegged exchange rate system; the free-floating or flexible exchange rate system, and the hybrid or managed float exchange rate system. Countries determine the type of exchange rate that applies to their currency depending on their policy objectives.

- **Fixed Exchange Rate System:** A fixed exchange rate regime is one where the currency is tied or pegged directly to the value of another currency (Rewane, 2015), or to a basket of other currencies, or even to another measure of value, such as gold. In other words, it is the type in which exchange rates are maintained at fixed levels, where a country has its currency fixed against another currency. In this instance, a country adopting fixed exchange rate means that their apex financial institution is ready and willing at any time, to exchange the domestic currency with the foreign currency at the fixed rate. Hence, once there is a discrepancy between the market-determined rate and the fixed rate, there will be either a supply or demand of the domestic currency from the apex bank if the market rate is higher or lower than the fixed rate respectively until the rate equalises. For example, if the Nigerian Central Bank fixes the Naira-Dollar exchange rate at ₦305/$, but the market-determined rate is ₦360/$, what the CBN is saying is that they are willing to trade ₦305 for $1 and vice-versa. The above means that the Naira is undervalued in the parallel market and will attract the arbitrageurs who will use ₦305 to buy one Dollar from the CBN, and sells the one dollar for ₦360 in the parallel, making a gain of ₦55 for each of such transaction. By this transaction, they keep mopping up the Naira in circulation and supplying the US dollar, thereby making naira scarce and US dollar more available in the Forex market. This exercise will increase the value of naira and decrease the value of US dollar and will continue until the parallel rate equals the fixed rate.

- **Floating Exchange Rate Regimes:** A freely floating exchange rate system or flexible exchange rate system is one in which the interaction of the market forces of demand and supply for a currency determines the exchange rate at any time. In other words, the authorities do not interfere in the system, as the rate at which their currency exchanges with other currencies are determined solely by market forces, namely, net export of goods and services and net capital flight. In this case, the authorities trust the market to manage the exchange rate.
- **Managed Float Exchange Rate System:** The managed float is a system where the interaction of the market forces of demand and supply for a currency determines the exchange rate, but the apex financial institution intervenes when it tends to cross a set limit. In other words, it is having some of the attributes of the free-floating and the fixed system.

b. Capital Control

Capital control represents measures taken by a government, central bank or any other regulatory body to regulate the in and outflow of foreign capital in the domestic economy. Ostry *et al.* (2011) and Okojie (2013) define capital control as residency-based measures, which limit the rights of residents or non-residents to enter into capital transactions or to effect transfers and payments associated with these transactions. They are limits on the level or composition of foreign private capital that can enter or leave a nation (Gallagher, 2011). Capital controls can be economy-wide, sector-specific, or industry-specific. They are used to manage exchange rate volatility, avoid maturity mismatches, limit speculative activity in an economy, and provide the policy space for independent monetary policy (Gallagher, 2011).

Capital controls are put in place precisely to regulate financial flows from capital markets into and out of a country's capital account. Government policies enabled them to restrict domestic citizens from acquiring foreign assets or foreigners from acquiring domestic assets. Capital controls on foreign exchange are examples of sector-specific capital control. They are measures that regulate exchange rate policies of the government.

3. Foreign Exchange Rate and Capital Control Measures in Nigeria

As earlier stated, management of Nigeria's foreign exchange is the responsibility of the Central Bank of Nigeria. This role is explained in Section 16 of the CBN Act 2007, which states that "the Naira exchange rate would be determined, from time to time, by a suitable mechanism devised by the Bank for that purpose" (CBN Act, 2007). Since independence in 1960, the country's foreign exchange rate has witnessed many changes, oscillating between a fixed (parity) and flexible system, with capital control or intervention by the authorities playing a central role. By 1960 for instance, Nigeria's exchange rate policy evolved from a fixed parity when it was solely tied to the British pounds sterling. The United States (US) dollar was included in the parity exchange in 1967 when the pound sterling was devalued. Following the emergence of the US dollar as a stronger currency in 1972, the parity exchange with the British pounds sterling was suspended. This suspension was reversed in 1973 following the devaluation of the US dollar. However, the following year (1974), Nigeria's currency was again tied to both the British pounds sterling and the US dollar to minimise the effects of the devaluation of an individual currency (Obi *et al.*, 2016).

Towards the end of the 1970s, the Nigerian currency was tied to seven currencies, comprising principally Nigeria's major trading partners. In 1985, this policy was again jettisoned in favour of quoting the naira against the dollar. The prevailing exchange rate before 1985 favoured an over-valuation of the naira. As part of the implementation of the SAP introduced by the Babangida administration in 1986 however, a market-based exchange rate system was introduced to usher in a realistic naira exchange rate. The SAP package also brought about the introduction of the Second-Tier Foreign Exchange Market (SFEM) with the objectives of achieving a realistic naira exchange rate through the market forces of demand and supply, ensure efficient allocation of resources, stimulation of non-oil exports, and encouraging foreign exchange inflow and discourage outflow. It also aimed at the elimination of currency trafficking by wiping out parallel foreign exchange market and improving the balance of payments (Mordi, 2006).

Obi *et al.* (2016) noted that several modifications were introduced to achieve the objectives of SFEM. These modifications ranged from changing the Foreign Exchange Market (FEM) to Autonomous Foreign Exchange Market (AFEM) to Dutch Action System (DAS), and to the Wholesale Dutch Action System (Wholesale DAS). Bureau De Change market was introduced in 1989 to enlarge the scope of foreign exchange market, and in 1994, the fixed exchange rate system was reintroduced. The Interbank Foreign Exchange Market (IFEM) was introduced in 1999 to enlarge the foreign exchange market further, and in 2006, the wholesale DAS was also introduced to liberalise the market further and develop a realistic exchange rate of the naira. The Table 1 below chronicles the history of exchange rate determination in Nigeria since independence.

Table 1: History of Exchange Rate System in Nigeria

Year	Exchange rate system	Event/ Remark
1959-1967	Fixed parity with British Pound Sterling (GBP) only	
1968-1972	US Dollar (US$) included in the parity exchange	The 1967 devaluation of the British pound and emergence of a strong US Dollar
1972	British Pound parity suspended	
1973	Reverts to fixed parity with the British Pound	Devaluation of the US Dollar
1974	Fixed parity to US$/ GBP Basket reinstated	To minimise the effect of the devaluation of basket components
1978	Import Trade-Weighted basket of currency	Tied to 7 currencies: GBP, US$, German Mark (DM), French Franc (FFR), Japanese Yen (JPY), Dutch Guilder (NLG), Swiss Franc (CHF)
1985	Referenced to the US Dollar	To prevent arbitrage prevalent in the currency basket
1986	Adoption of a Second-Tier Foreign Exchange Market (SFEM) for Private Sector rates determined by Dutch Auction calculation methods	Deregulation of the Economy under the Structural Adjustment Program (SAP)
1987	Consolidation of the First and Second-Tier FX Markets	The merger of official Exchange Rates
1988	Establishment of the Interbank Foreign Exchange Market (IFEM)	The merger of Autonomous and Official Exchange Rates
1994	Fixed Exchange Rate	Regulate the economy
1995	Introduction of Autonomous Foreign Exchange Market (AFEM)	"Guided deregulation."
1999	Re-introduction of IFEM	The merger of the Dual Exchange Rate, after the abolition of the Official Exchange Rate on 1st January 1999
2002	Re-introduction of the Dutch Auction System (DAS)	DAS determined FX rate-setting implement for CBN retail sales through Authorized Dealers (i.e. banks)
2006	Introduction of the Wholesale Dutch Auction System (WDAS)	DAS determined FX rate-setting for wholesale CBN sales of currency reserves to Authorized Dealers (i.e. Banks & Bureau de Change (BDCs) with indirect controls via Bank Net Open Position Limits (NOPLs).
2009	RDAS re-established	WDAS suspended. Banking crisis precipitates trading counterparty issues in the Interbank FX market
2011	WDAS suspension lifted	Removal of CBN Interbank settlement guarantees
2013	Re-introduction of Retail Dutch Auctions (RDAS)	WDAS suspended. To check potential speculative arbitrage between official and parallel markets for Foreign Exchange

Source: Coronation Capital (2015, p.96)

Aremu (2013) has argued that without government intervention, accelerated capital flows may have adverse consequences for both the source and the recipient economies since massive surges of short-term and potentially reversible capital that flows to developing countries can have adverse effects. In the first place, these surges can pose complex policy dilemmas for macroeconomic management. They can initially push critical macroeconomic variables, such as exchange rate and assets prices like that of property and shares, away from what could be considered their long-term equilibrium. Secondly, and more critical, these flows can pose the risk of very sharp reversals with little or no notice. Such reversals – mainly if they lead to currency and financial crises – can result in severe losses of output, investment and employment, as well as increases in poverty.

The CBN on some occasions has, therefore, employed the capital control measures to intervene in the foreign exchange market, mainly to check inflation and the depreciation of the naira. In late 2014, following persistent and continuous drops in the price of crude oil globally, the value of the currencies of virtually all oil-dependent countries began to experience significant downward pressure. Naira was one of the worst hit of these currencies, and since then, the CBN has been employing some measures. These include direct intervention through the sale of foreign exchange, currency devaluation as well as the introduction of series of restrictions on the sale and use of foreign currencies to control currency depreciation (Banwo & Ighodalo PLC, 2015).

When the initial devaluation in 2014 failed to checkmate the depreciation in the value of the naira, the CBN in February 2015 intervened by closing both its retail and wholesale auction windows, efficiently ceasing its routine direct intervention in the Nigerian foreign exchange market. The CBN in a bid to end speculation fuelled by the widening gap between the CBN and interbank exchange rates. It also sought to limit the categories of eligible transactions for which foreign currencies could be procured directly from the CBN. These measures could not, however, stem the depreciation instead, the gap between the interbank and the parallel market exchange rates widened. The CBN, therefore, turned to domiciliary accounts and requested that commercial banks supply details of their corporate and individual domiciliary accounts. Banwo & Ighodalo PLC (2015, pp. 1-2) further notes:

> …by a circular dated February 20, 2015, the CBN sought to clarify that funds in Export Proceeds Domiciliary Accounts could only be used for either financing eligible and other related trade transactions supported by appropriate documentation or sold to authorised dealers for only eligible transactions. The primary impact of this was that exporters with funds in such accounts were barred from selling those funds to affiliates and or third parties. As a follow-up from the February circular, and in a bid to checkmate the "dollarization" of the Nigerian economy, the CBN in April 17, 2015, issued another circular … to deposit money banks, warning the public that it is "illegal" to "price" or "denominate" the cost of any product or service (visible or invisible) in any foreign currency in Nigeria. The Circular further stated that "no business offer or acceptance" should be consummated in Nigeria in any currency other than Naira. The circular specifically advised deposit money banks to desist from the collection of foreign currencies for payment of domestic transactions on behalf of their customers and the use of their customers' domiciliary accounts for making payments for visible and invisible transactions "originating and consummated" in Nigeria.

Despite these interventions, the value of the Nigerian naira continued to depreciate, and the interplay between reduced foreign exchange supply and rising foreign exchange demand continued to result in substantial reductions in the foreign exchange reserves. Thus, in June 2016, the CBN re-introduced the managed float exchange rate system titled ‘Flexible Exchange Rate Inter-bank Market’. This policy shift was meant to avoid further depletion of foreign reserves, the prioritisation of the critical needs for foreign exchange, and maintaining stability in the exchange rate. This policy was also meant to restore the automatic adjustment mechanism of the exchange rate, as well as enhance efficiency and facilitate a liquid and transparent Forex Market.

4. Nigeria’s Exchange Rate Policy and the ‘Unholy Trinity’

It is imperative also to highlight the interconnectedness between and among a fixed foreign exchange rate, free capital movement (that is, the absence of capital controls), and independent monetary policy, commonly referred to as the ‘Trilemma’ or the ‘Unholy Trinity’, implying that the three concepts are mutually incompatible. In other words, a country cannot pursue a policy of fixed foreign exchange, free capital movement, and have independent monetary policy all at the same time, as one must be used as the opportunity cost of adopting any two. It, therefore, implies that only two policy options are possible simultaneously in any nation at each point. Hence, a country can:

a. Implement the policy of a fixed foreign exchange rate and free capital movement, but forgoes having an independent monetary policy;
b. Implement an independent monetary policy and free capital flows, but must forego fixed exchange rate system; or
c. Implement a fixed exchange rate system and independent monetary policy, but must trade off free capital movement (implement capital controls).

Since independence, Nigeria has oscillated between and among these three options. Before 1985, the first option was the norm. Thus, the country was pursuing a fixed exchange rate policy. The naira was tied to the British pounds sterling and the US dollars, and there were no restrictions on the in and outflow of capital. However, the CBN monetary policy was tied to maintaining the fixed rate. During the Babangida era, the foreign exchange market was liberalised. Thus, the government pursued the second option: independent monetary policy and free capital flows. The introduction of SAP in 1986 helped to eliminate the measures that restricted the inflow and outflow of capital and explains why the exchange rate during this period was floating. From 0.89 naira to one dollar in 1985, the exchange rate depreciated to 17.30 naira to one dollar in 1993 when Babangida left office.

Under General Abacha, the government pursued the third policy option: a fixed foreign exchange rate and an independent monetary policy, thereby using capital controls to restrict the movement of capital in and out of Nigeria. During this era (1994-1998), naira was fixed permanently at 21.89

Naira to one dollar, even though at the parallel market, it ranged between 56.80 Naira to one dollar in 1994 and 84.70 Naira to one dollar by the time Abacha died in 1998. Subsequently, other administrations used either of the policy combination options. Obasanjo's administration used the guided/managed floating exchange rate system while allowing a measure of free capital movements. Yar'adua/Jonathan administrations operated a floating exchange rate policy, hence an independent monetary policy and free capital flows. Buhari's government could best be described as operating a guided/managed floating exchange rate system.

5. Political Economy of Exchange Rate Policy and Capital Control in Nigeria

Given the primacy of politics in determining and influencing economic and social outcomes in Nigeria, political factors have largely influenced Nigeria's economic policies, including exchange rate policies and capital control measures. The political economy of exchange rate policy and capital control in Nigeria stems from two underlying assumptions. First, the proponents of capital control have argued that it is a form of intervention by the CBN to strengthen the financial market. It is a consequence of market distortions and market failure. If markets work efficiently, there will be no need for the control of capital flows. Capital will be allocated optimally, and any control over capital flows implies a distortion. However, since many distortions characterise the financial market, speculations and assumptions, capital control measures have become a viable policy tool to stabilise the foreign exchange market. Flooding of capital from the West into the domestic economy will undoubtedly affect the exchange rates. With such surge in capital inflow, the value of the local currency could appreciate – making it harder for companies and farmers in the economy to export and thus causing job losses and a general lack of competitiveness. Furthermore, unfettered speculation of capital flows could also raise the price of the stock, bond, and real estate markets (Aremu, 2013).

Beyond economics, political considerations have also had enormous influence on the exchange rate policy and capital control measures in Nigeria as policymakers respond to political pressures. Accordingly, few policymakers, irrespective of how strong their convictions are, can undertake measures that will result in being thrown out of office. This fact is real about Nigeria. Policymakers churn out policies that reflect the choices of their political paymasters. Some of the exchange rate policies and capital control measures introduced by the apex bank in Nigeria since independence are the outcome of political preferences or expediency. Indeed, the different, and sometimes conflicting, exchange rate policies in the country are due to the economic cum political realities of the time and explain the high rate of instability and inconsistency in foreign exchange policies by different regimes in Nigeria. For instance, from independence to 1985, Nigeria adopted a regulated economic policy, ostensibly to promote the economic development of her growing economy. The significant economic policy thrusts of the regimes within this period include the maintenance of low-interest rates, fixed exchange rate, administratively controlled credit allocation, protection of domestic industries from foreign competition. (Okoye, Nwakoby and Okorie, 2016). In July 1986, the government of Ibrahim Babangida deregulated the economy, aimed at restructuring and redirecting the Nigerian economy, promoting competition and raising the productivity of the real sector. In his 1987 budget speech, President Babangida acknowledged that his administration adopted the IMF-supported Structural Adjustment Programme (SAP) which was meant to deregulate/liberalise the economy because pegging of interest rate, contrary to expectation, failed to achieve its desired goal of stimulating new investments, neither did it result in increased capacity utilisation. Thus, with SAP, the mechanism for interest rate management was liberalised, and the stage was set for a transition from fixed exchange rate regime to a market-driven exchange rate system. However, following a regime change in 1993, a policy reversal occurred. Thus, Abacha's government returned to the regulation of the economy, thereby bringing back a fixed exchange rate system.

Similarly, exchange rate policies are likely to be affected by varieties of political institutions, including election timing, since the real exchange rate affects broad aggregates like the purchasing power, the growth rates, the price level, and these broad aggregates are almost certainly relevant to elections. Indeed, governments tend to maintain appreciated currencies before elections, delaying a depreciation/devaluation until after the election (Klein and Marion, 1997). Given the political unpopularity of a devaluation-induced reduction in national purchasing power, governments may face strong incentives to avoid devaluing even when the result is a more severe crisis than would otherwise be expected in order not to jeopardise their electoral fortunes. For instance, specific exchange rate measures taken by the Buhari administration when it took over power in May 2015 would not have been politically expedient if it were to be taken when elections were near. For example, on June 23, 2015, the CBN released a directive, excluding certain transactions from being eligible to access foreign exchange in the Nigerian foreign exchange market. They provided a list of the 40 prohibited items, which included rice and cement. On June 30, a circular was issued to clarify that the items, which are prohibited, cannot be funded through interbank, exports proceeds and Bureau de Change. On July 1, 2015, furniture was added to the list to make it 41 items, with a reason to encourage local production.

Exchange rate policies and capital control measures in Nigeria have also been influenced by the nature and character of the political leadership. Regimes/administrations that are pro-West tend to key into the global trend towards greater economic liberalisation as prescribed by the IMF and the World Bank. These were initially responsible for short-term macroeconomic stabilisation programmes and for medium-term structural adjustment programmes (SAPs), which converged around what, was subsequently christened the 'Washington Consensus'. These regimes pursue floating, flexible, or market-based exchange rate system. For instance, in a radical departure from the previous administrations, General Babangida's government deregulated the economy, thereby liberalising the exchange rate regime, which led to the introduction of the Second-tier Foreign Exchange Market (SFEM). The depreciation of the domestic currency which was a result of the liberalised exchange rate regime increased the cost of imports sharply, thereby raising the cost of domestic production, and the high cost of production inputs rendered domestic production unaffordable (Ukwu, 1994). Also, the return to democratic rule in 1999 necessitated further economic reforms, to align with the global trend. Thus, governments since then have been experimenting different versions of the market-based foreign exchange system, from the Inter-Bank Foreign Exchange Market (IFEM), the Dutch Auction System (DAS), and recently, the Managed Float Exchange Rate System introduced by President Buhari in June 2016.

On the other hand, administrations that are not necessarily anti-West but do not subscribe to the global trend towards economic liberalisation tend to pursue fixed exchange rate system. After independence, for instance, the government opted for fixed exchange rate system to promote the economic development of the growing economy. They implemented the fixed exchange rate policy using different systems, which included fixed parity with the British pounds sterling, parity with the US dollars, and the import-weighted basket approach. In particular, the CBN operated an official foreign exchange market and allocated foreign exchange to end users based on import licensing procedures at predetermined rates (Sanya, 2013). The government of General Abacha also not only operated a fixed exchange rate in which the exchange rate was fixed at NGN22 to a dollar for particular government transactions and debt servicing but also introduced the Autonomous Foreign Exchange Market (AFEM) window that was meant to supply foreign currency to the private economic agents.

5. Summary and Conclusion

The Nigerian economy has the vision of being among the 20 largest economies of the World by the year 2020, but rather than progressing towards achieving this goal, statistics show that the economy is moving backwards especially from 2014. Most literature and policy analysts point to poor macroeconomic policies and management as the primary cause of the problem and therefore, believe that the solution still lies in sound, realistic, and feasible macroeconomic policies. Since the Nigeria economy is an import-dependent nation, empirical evidence shows that one crucial macroeconomic policy that should be given proper attention is that of the exchange rate. According to the evidence, the choice of exchange rate regime adopted by developing countries is of crucial importance to their self-protection from speculative attacks and currency crisis as well as achievement of long-term growth.

Seeing that the series of the changes in exchange rate regimes in the country from independence have failed to achieve even one of the goals of exchange rate management in the country, this paper examined the leading cause of the failure of exchange rate management in the country by evaluating the motivating factor for these changes. It reviewed the role of politics and interest group in the Nigerian exchange rate management. The findings show that politics, institutional incentives, and group interest mostly play a significant role in Nigeria's exchange rate regime determination.

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