Implications of a Flexible Exchange Rate Regime:

- A flexible forex market is one that allows the exchange rate to float freely and to find its equilibrium without any form of intervention from government.
- Consequently, due to the current mismatch in the demand and supply of foreign exchange, we anticipate that there would be an increase in the official exchange rate with the introduction of the flexible regime.
- However, if, in the long run, we are still not able to maintain sufficient export earnings such as would allow a healthy balance of payments surplus, the negative effects of the consequent general price increase might cause more strains on the already tight economy.
- Finally, in spite of the negative implication of this model due to the import-dependent nature of the Nigerian Economy, there are still some positives.
- One quick win might be a renewed confidence in the market such that foreign investments begin to trickle in once again. Second, government may also be able to reduce rent-seeking and price arbitrage by some major players in the official foreign exchange market.

Why Nigeria changed course?

At the height of the oil price boom, Nigeria's economy grew rapidly and overtook South Africa's as the continent's biggest economy. Inward investment in Nigeria grew and the country looked at investment opportunities elsewhere. Companies such as Oando listed on the Johannesburg Stock Exchange in South Africa. The Nigerian government also raised capital in international markets.But when oil prices plummeted the country's economic weaknesses were exposed. As the Nigerian dollar receipts dropped due to lower oil prices, the naira also weakened, prompting government to fix the currency in February 2015.However, dollar receipts from the sale of oil continued to fall, making it difficult for importers. It also led to a scarcity of dollars. That in turn led to the development of a parallel dollar market that worsened the shortage in the formal sector. When there is scarcity of dollars, the dollar exchange rate market is illiquid making it difficult to pay dollar commitments.The illiquidity and the difficulty to service foreign debt prompted the state to respond by floating the currency's exchange rate. The aim was to discourage imports emanating from the parallel market and devaluing the naira.It is not surprising that the naira responded by depreciating against the dollar to find its true value.But Nigeria's decision is no panacea for country's ailing economy. This is true too of South Africa. Nigeria has to diversify its export basket away from oil. And South Africa has a host of structural problems it needs to address, such as high levels of unemployment, poverty and inequality.

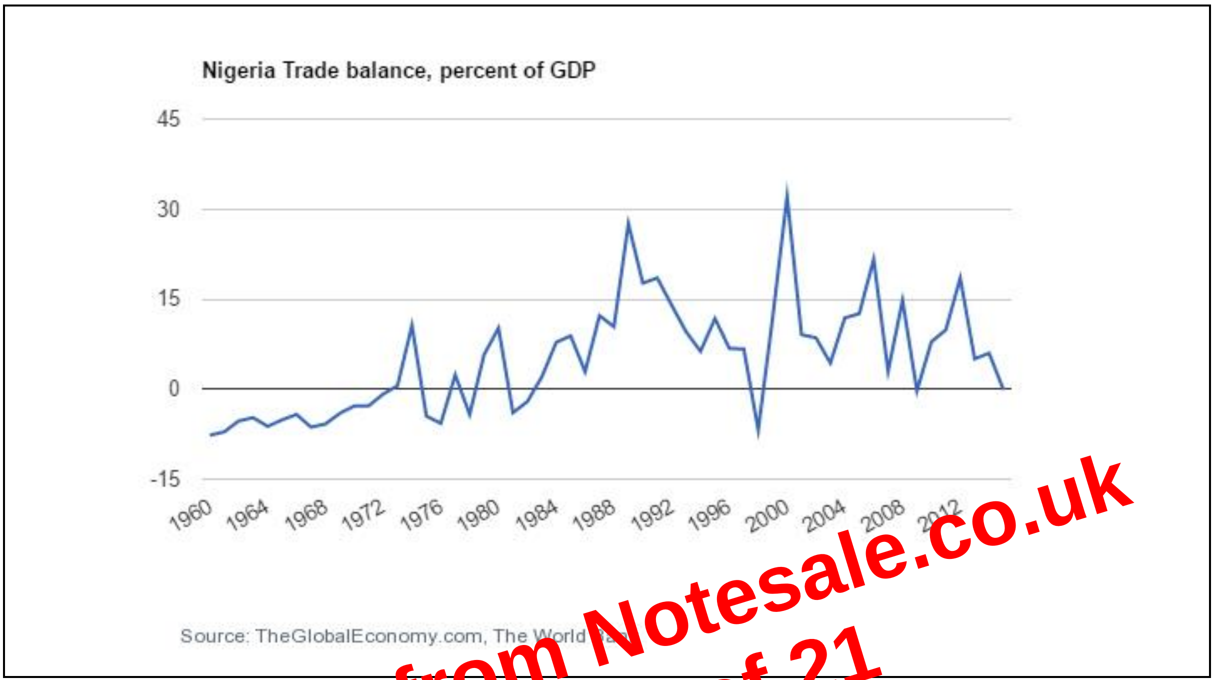
Naira Plunges after Nigeria Ends Dollar Peg:

The naira had been pegged at 199 to the dollar but traded as low as 265 to the dollar Monday morning. The central bank suspended trading at midday because of an overwhelming number of dollar orders but little dollar supply, currency traders said. When activity resumed, the naira fell to about 280 to the dollar.

Global investors have cited Nigeria's propped-up currency, and the government's capital controls aimed at maintaining the peg as chief concerns about investing in the country.

Nigeria	Latest	Reference	Previous	Range	
Balance Of Trade	-27238.3	Sep 2016	-32445.4	-592200.72:2177553.08	NGN Millions

The World Bank provides data for Nigeria from 1960 to 2015. The average value for Nigeria during that period was 4.98 percent with a minimum of -7.68 percent in 1960 and a maximum of 32.08 percent in 2000.



The trade balance for Nigeria and other countries is calculated as the difference between the exports and imports of goods and services, as percent of GDP. A positive number means trade surplus and a negative number means trade deficit.

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