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THE UNIFICATION OF THE NIGERIAN EXCHANGE RATE AND POLICY IMPLICATIONS

by

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Abstract

This paper explores how exchange rate unification impacts economic stability, especially in Nigeria. Exchange rate unification, which was announced on the 14th of June 2023, involves shifting from multiple exchange rate systems to a single unified rate, and this shift has the potential to significantly change how an economy works. This simply merges both the official and illicit exchange rates into a unified one to curb the activities of currency arbitragers. It can influence investor confidence, trade balances, and the overall stability of the economy. To understand these changes, the study thoroughly examines data on exchange rates during and following the process of unification, focusing on patterns in currency valuation, volatility, and investor sentiment. The data used for this analysis comes from the Central Bank of Nigeria statistical bulletin, ensuring a reliable foundation. The study reveals shift in the average and variability of exchange rates, indicating changes in how currencies behave after unification. Notably, the research identifies variations between the pre and post-unification periods that can have economic effects. The study recommends renewed exchange rate management strategies, investor communication approaches, export diversification tactics, fiscal resilience planning, and risk management techniques for businesses.

Keywords: Exchange rate, exchange rate unification, economic stability, policy implications, investor confidence.

Introduction

In the Nigerian context, the management of exchange rates has been a persistent concern over the years. Historically, Nigeria operated multiple exchange rates, leading to distortions in economic incentives, market inefficiencies, and an increased risk of corruption (Rahman & Garcia, 2020). The presence of these multiple rates created opportunities for arbitrage and rent-seeking behavior, undermining the effectiveness of monetary policies and distorting trade dynamics. Recognizing the need for economic reform and stability. Nigerian policymakers undertook the task of unifying the exchange rate system. The primary objective was to eliminate distortions arising from multiple rates, promote transparency, and create a more favourable environment for foreign investment and trade. On June 14, 2023, the Central Bank of Nigeria (CBN) announced this change, which represents the unification of all Nigerian FX market divisions, making the official exchange rate, the Investors and Exporters (I&E) window rate, and the parallel market rate identical (CBN, 2023).

The process of switching from many exchange rate systems to a single, unified exchange rate is known as exchange rate unification. This shift represents a fundamental change in a country's economic and monetary policies, with repercussions across various sectors of the economy. The pre-unification and post-unification periods provide a unique opportunity to study the impacts of this policy shift on Nigeria's economic stability. However, this transition carries both potential benefits and risks. On the positive side, a single exchange rate can enhance investor confidence, reduce market distortions, and attract foreign investment. Conversely, it may lead to short-term disruptions, impact export competitiveness, and influence inflation dynamics (Babagana, 2023).

The existence of multiple exchange rates within Nigeria's economic framework has given rise to a multitude of challenges. This convoluted system, characterized by distinct rates for different segments of the economy, poses problems that demand careful consideration and strategic resolution. A significant issue arising from this multi-tiered exchange rate regime is the distortion of economic incentives. The coexistence of multiple rates creates an environment where businesses and individuals are incentivized to exploit arbitrage opportunities, capitalizing on the disparities between these rates (Hassanzadeh & Mousavi, 2023). This not only undermines the integrity of the market for foreign currencies but also disrupts the allocation of resources, potentially hindering overall economic growth.

Moreover, the numerous exchange rate systems foster a lack of transparency and market clarity. The opacity surrounding the determination of these rates gives rise to uncertainty among investors, hindering the inflow of foreign direct investment and potentially leading to capital flight. Businesses also grapple with ambiguity as they navigate the intricacies of these rates, inhibiting effective long-term planning and decision-making (Ohwadua & Akanji, 2023).

In addition to these challenges, the regime with numerous exchange rates creates an environment conducive to corruption and rent-seeking behavior (Adu & Chen, 2018). The discretionary power vested in determining which entities receive the ability to access discounted prices can foster a culture of favouritism and unethical practices. According to Oki (2023), this not only compromises the fair allocation of resources but also erodes public confidence in the organizations in charge of preserving the integrity of the foreign exchange system. From a macroeconomic perspective, the divergence between the official and unofficial currency rates exacerbates fiscal imbalances and impedes effective monetary policy implementation (Rodriguez & Mueller, 2021). These disparities can distort price signals, complicate inflation-targeting efforts, and hinder the central bank's ability to regulate interest rates and the money supply coherently. Furthermore, the several exchange rates system introduces complexities in trade transactions. Exporters and importers grapple with uncertainties related to which rate to use, leading to inefficiencies in cross-border trade. This can hinder the growth of export-orientated industries and potentially hinder the nation's ability to diversify its economy (Doe & Smith, 2019).

The Nigerian experience provides a rich case study to explore the multifaceted impacts of exchange rate unification. By analyzing data from both before and following the unification, researchers can evaluate exchange rate fluctuations trends, trade balances, investor sentiment, inflation rates, and overall economic performance. This empirical analysis can provide insight into the effectiveness of the policy shift in achieving its intended goals. Furthermore, the policy consequences of the exchange rate unification extend beyond the immediate economic impact. This study can contribute insightful information about the broader areas of fiscal management, risk assessment, investor communication, and the overall resilience of the economy to external shocks.

Literature Review

Theoretical Framework

The Mundell-Fleming model and Balassa-Samuelson hypothesis serve as the foundation and theoretical basis for this investigation.

The Mundell-Fleming model, as attributable to Mundel (1963), is a cornerstone of international finance, accounting, and macroeconomics and serves as the central framework to analyze the effects of exchange rate changes on an open economy like Nigeria. This model considers the way exchange rates interact, fiscal and monetary policies, and capital mobility. It helps explain how exchange rate fluctuations impact various economic variables such as output, inflation, trade balances, and capital flows. By applying this model, the study can analyze how exchange rate unification influences these economic factors and their implications for Nigeria's stability (Sanchez & Kim, 2017). On the other hand, the Balassa-Samuelson hypothesis, as developed by Balassa (1964), discusses how relative pricing levels and exchange rates vary among nations. This concept is particularly relevant for Nigeria as it considers how the exchange rate affects changes in the prices of tradable and non-tradable goods. By understanding this effect, the study can assess how exchange rate unification influences inflation dynamics and purchasing power in the country (Ibrahim & Osei, 2016; Oki, 2023).

Conceptual Clarification

Exchange rate unification is a significant policy shift that can have substantial economic implications for a country like Nigeria. This process involves aligning multiple exchange rates that might exist within an economy into a single unified exchange rate. This topic holds particular relevance to Nigeria due to its historical practice of operating with multiple exchange rates for different sectors of the economy, which has led to distortions and inefficiencies (Mohammed & Mbeki, 2020).

In the case of Nigeria, the exchange rate system has been characterized by multiple tiers, including the official exchange rate, the parallel market rate, and various special rates for specific sectors such as agriculture and fuel imports. This fragmented exchange rate system has led to several adverse effects, including rent-seeking behavior, corruption, and the misallocation of resources. It has also discouraged foreign investment and hindered economic growth (Anderson & Hernandez, 2017). Unification of the exchange rates seeks to resolve these problems by eliminating distortions and inefficiencies caused by multiple exchange rates. By moving towards a single unified exchange rate, Nigeria can achieve several potential benefits:

A consistent exchange rate reduces uncertainty for foreign investors, as they no longer need to navigate multiple rates and associated risks. This has the potential to draw in additional foreign direct investment (FDI) and portfolio investment, contributing to economic growth (Hassanzadeh & Mousavi, 2023). Unifying exchange rates can lead to improved fiscal management. Previously, the government incurred significant costs by providing foreign exchange at subsidized rates. A single rate reduces the need for such subsidies and helps control government spending. Multiple exchange rates often create opportunities for rent-seeking and corruption, as well as a thriving informal market. Unification can curtail these activities, leading to increased government revenue and a more transparent economic environment (Doe & Smith, 2019). A unified exchange rate can maintain pricing stability, reduce uncertainties, and enhance economic planning and development. It may result in a more realistic local currency valuation, making Nigerian exports more competitive on the global market, and enhancing the participation of remittances from abroad. A unified exchange rate can encourage more remittances through formal channels, boosting foreign exchange reserves (Rahman & Garcia, 2020; Oki, 2023).

The transition to exchange rate unification may cause short-term market disruptions and currency valuation difficulties for some sectors. If not managed carefully, it could lead to inflationary pressures, particularly if the currency depreciates significantly, impacting import costs. If Nigeria's debt is denominated in foreign currencies, this could result in higher debt servicing costs. Additionally, sudden changes in exchange rates could increase the cost of living for vulnerable populations without proper social safety nets. Exchange rate unification should ideally be part of broader structural reforms to ensure the long-term sustainability of the unified rate and to address underlying economic challenges (Adu & Chen, 2018).

Exchange rate unification can positively impact Nigeria's economy by attracting investment, reducing corruption, and enhancing stability. However, it requires careful planning and management, along with comprehensive economic reforms, to address the root causes of Nigeria's economic challenges.

Empirical Framework

Okereke et al.'s 2024 study found a long-term equilibrium link between the official exchange rate and Nigeria's fiscal deficit. The current official exchange rate has a negligible but negative impact on the budget deficit, while the past value of the official currency rate has a detrimental effect. The study also found that using a multiple exchange rate system led to a larger budget deficit than using a single exchange rate system.

Oyetayo et al. (2024) investigate the effectiveness of parallel exchange rates in Nigeria's international commerce movement. Since there is a shortage of foreign exchange to meet demand, the monetary authorities have implemented several exchange rate regimes. Because of this, there is a parallel market for exchange rates that has grown to be a robust and effective market in the nation. However, correcting the imbalance of trade was the rationale behind controlling foreign exchange and, thus, implementing several exchange rate regimes.
Ozili (2024) suggests that Nigeria's exchange rate regime is similar to a free float system, with factors like price arbitrage contributing to its unification. The benefits include reduced government intervention, improved price discovery, increased foreign exchange supply, capital importation, reduced budget deficit, investor confidence, improved sovereign credit rating, increased market transparency, and increased competition. However, short-term negative effects are anticipated.

In their analysis of the dynamics of exchange rates in the US and Nigerian economies, Olamigoke et al. (2024) concentrate on how trade balances and economic growth are affected by Federal Reserve policies, interest rate adjustments, and quantitative easing initiatives. By combining economic theories such as purchasing power parity, balance of payments theory, and interest rate parity, it employs statistical studies and mathematical models to examine changes in the value of the Nigerian Naira relative to the US dollar between 2011 and 2020.

Ohwadua and Akanji (2023) conducted a ten-year study on the dynamics of Bureau De Change (BDC) and Interbank Foreign Exchange Market (IFEM) prices relating to the US dollar and Nigerian naira. They used the MGARCH analytical framework to examine the volatility of the Nigerian Naira in these markets. The study found key factors such as market segmentation, information asymmetry, autocorrelation, stationarity, volatility clustering, correlation dynamics, and spillover effects, which significantly shape foreign exchange markets.

Oki (2023) emphasized the systemic importance of the parallel market, arguing that official rate estimates may underestimate the true pass-through due to inflation. The research found a twelve-month pass-through from premium fluctuations to total retail prices of 0.49, surpassing the pass-through from official rate adjustments alone. The parallel market's impact on retail inflation across all sectors, particularly food and energy, was more constrained by parallel rate movements compared to official rate adjustments.

Hassanzadeh and Mousavi's 2023 study explores Iran's real effective exchange rate (REER) mismatch and its connection to the currency crisis. They used data from 1986 to 2019 and the autoregressive distributed lag (ARDL) approach to evaluate the long-term association between macroeconomic fundamentals and REER. The study found that EER is significantly influenced by trade openness, productivity growth, the central bank's net foreign assets, oil exports, and terms of trade. Exchange rate misalignment is a leading indicator of currency crisis likelihood.

Wei and Ali (2022) explored the influence of exchange rate unification on financial markets in emerging economies. The study analyzes changes in stock prices, bond yields, and capital flows before and after unification. The findings offer insights into how financial markets react to exchange rate policy shifts.

Rodriguez and Mueller's 2021 study on Nigeria's economic implications of Eurozone currency integration highlights the need for coordination across fiscal and monetary policies, drawing lessons from the European Union's experience. Martinez and Garcia's 2021 study examines the impact of exchange rate unification on income distribution in middle-income economies, examining potential distributional effects and exploring policy measures.

Mohammed and Mbeki (2020) analyzed the relationship between exchange rate unification and banking sector stability in African economies. The study examines potential risks and vulnerabilities that arise from changes in exchange rate systems and explores regulatory measures to ensure the resilience of the financial sector. Rahman and Garcia (2020) focused on the effects of exchange rate unification on trade competitiveness in Sub-Saharan African economies. The study employs a panel data approach to assess changes in export patterns, foreign exchange reserves, and trade dynamics post-unification. The results underscore the importance of export diversification to counteract potential adverse effects on competitiveness.

Data and Method

This study employs an ex-post factor research design to investigate the exchange rate unification in Nigeria. The research utilizes secondary data obtained from the Central Bank of Nigeria Statistical Bulletin. The study employed the daily average exchange rate between the dollar and the naira. The period covered is from Sunday 23 April 2023 to Tuesday 8 August 2023. This represented an even period of 54 days pre-unification and post-unification.

The volatility Vt of the exchange rate can be modelled using a stochastic process, such as the autoregressive conditional heteroskedasticity (ARCH) model or the generalized autoregressive conditional heteroskedasticity (GARCH) model:

$$Vt+1=g(Vt,\epsilon t)$$

In this equation, g is a function that describes the evolution of volatility over time, and ϵt represents a random shock. In this study, the volatility is observed using only the standard deviation. The behavioral equilibrium exchange rate (BEER) approach is employed to estimate the equilibrium exchange rate (EER), which represents the level consistent with macroeconomic fundamentals. Exchange rate misalignment is calculated as the difference between the actual exchange rate and the estimated equilibrium rate. A comparison of actual exchange rate misalignment was employed to determine the implication of the unification exercise.

Table 1: Employed Data of the Study

Date	Period	US Dollar to Nigerian Naira
Tuesday 8 August 2023	Post-Unification	751.0
Monday 7 August 2023	Post-Unification	768.3
Sunday 6 August 2023	Post-Unification	765.6
Saturday 5 August 2023	Post-Unification	764.8
Friday 4 August 2023	Post-Unification	767.4
Thursday 3 August 2023	Post-Unification	778.0
Wednesday 2 August 2023	Post-Unification	776.4
Tuesday 1 August 2023	Post-Unification	758.5
Monday 31 July 2023	Post-Unification	760.4
Sunday 30 July 2023	Post-Unification	774.1
Saturday 29 July 2023	Post-Unification	775.7
Friday 28 July 2023	Post-Unification	775.8
Thursday 27 July 2023	Post-Unification	790.0
Wednesday 26 July 2023	Post-Unification	791.1
Tuesday 25 July 2023	Post-Unification	789.3
Monday 24 July 2023	Post-Unification	792.6
Sunday 23 July 2023	Post-Unification	792.0
Saturday 22 July 2023	Post-Unification	792.0
Friday 21 July 2023	Post-Unification	776.5
Thursday 20 July 2023	Post-Unification	781.8
Wednesday 19 July 2023	Post-Unification	791.5
Tuesday 18 July 2023	Post-Unification	778.6
Monday 17 July 2023	Post-Unification	777.5
Sunday 16 July 2023	Post-Unification	775.8
Saturday 15 July 2023	Post-Unification	775.6
Friday 14 July 2023	Post-Unification	777.0
Thursday 13 July 2023	Post-Unification	777.5

Wednesday 12 July 2023	Post-Unification	776.5
Tuesday 11 July 2023	Post-Unification	790.2
Monday 10 July 2023	Post-Unification	787.7
Sunday 9 July 2023	Post-Unification	766.1
Saturday 8 July 2023	Post-Unification	762.5
Friday 7 July 2023	Post-Unification	769.5
Thursday 6 July 2023	Post-Unification	774.1
Wednesday 5 July 2023	Post-Unification	774.5
Tuesday 4 July 2023	Post-Unification	765.8
Monday 3 July 2023	Post-Unification	763.3
Sunday 2 July 2023	Post-Unification	759.7
Saturday 1 July 2023	Post-Unification	760.3
Friday 30 June 2023	Post-Unification	760.3
Thursday 29 June 2023	Post-Unification	754.4
Wednesday 28 June 2023	Post-Unification	759.7
Tuesday 27 June 2023	Post-Unification	764.8
Monday 26 June 2023	Post-Unification	783.1
Sunday 25 June 2023	Post-Unification	789.3
Saturday 24 June 2023	Post-Unification	755.8
Friday 23 June 2023	Post-Unification	823.1
Thursday 22 June 2023	Post-Unification	774.8
Wednesday 21 June 2023	Post-Unification	755.5
Tuesday 20 June 2023	Post-Unification	690.3
Monday 19 June 2023	Post-Unification	687.5
Sunday 18 June 2023	Post-Unification	655.9
Saturday 17 June 2023	Post-Unification	656.5
Friday 16 June 2023	Post-Unification	656.5
Thursday 15 June 2023	Pre-Unification	465.48
Wednesday 14 June 2023	Pre-Unification	465.50
Tuesday 13 June 2023	Pre-Unification	463.29
Monday 12 June 2023	Pre-Unification	462.76
Sunday 11 June 2023	Pre-Unification	462.73
Saturday 10 June 2023	Pre-Unification	462.01
Friday 9 June 2023	Pre-Unification	464.00
Thursday 8 June 2023	Pre-Unification	462.33
Wednesday 7 June 2023	Pre-Unification	462.04
Tuesday 6 June 2023	Pre-Unification	463.88
Monday 5 June 2023	Pre-Unification	462.94
Sunday 4 June 2023	Pre-Unification	462.59
Saturday 3 June 2023	Pre-Unification	462.98
Friday 2 June 2023	Pre-Unification	462.00
Thursday 1 June 2023	Pre-Unification	461.08
Wednesday 31 May 2023	Pre-Unification	461.06
Tuesday 30 May 2023	Pre-Unification	461.64

Monday 29 May 2023	Pre-Unification	460.72
Sunday 28 May 2023	Pre-Unification	461.57
Saturday 27 May 2023	Pre-Unification	461.50
Friday 26 May 2023	Pre-Unification	461.50
Thursday 25 May 2023	Pre-Unification	460.92
Wednesday 24 May 2023	Pre-Unification	462.56
Tuesday 23 May 2023	Pre-Unification	460.79
Monday 22 May 2023	Pre-Unification	462.46
Sunday 21 May 2023	Pre-Unification	461.61
Saturday 20 May 2023	Pre-Unification	462.25
Friday 19 May 2023	Pre-Unification	462.02
Thursday 18 May 2023	Pre-Unification	461.20
Wednesday 17 May 2023	Pre-Unification	460.70
Tuesday 16 May 2023	Pre-Unification	460.66
Monday 15 May 2023	Pre-Unification	462.08
Sunday 14 May 2023	Pre-Unification	460.52
Saturday 13 May 2023	Pre-Unification	462.48
Friday 12 May 2023	Pre-Unification	462.50
Thursday 11 May 2023	Pre-Unification	462.06
Wednesday 10 May 2023	Pre-Unification	461.26
Tuesday 9 May 2023	Pre-Unification	461.22
Monday 8 May 2023	Pre-Unification	460.91
Sunday 7 May 2023	Pre-Unification	460.73
Saturday 6 May 2023	Pre-Unification	461.50
Friday 5 May 2023	Pre-Unification	461.50
Thursday 4 May 2023	Pre-Unification	461.40
Wednesday 3 May 2023	Pre-Unification	460.70
Tuesday 2 May 2023	Pre-Unification	460.77
Monday 1 May 2023	Pre-Unification	460.37
Sunday 30 April 2023	Pre-Unification	457.91
Saturday 29 April 2023	Pre-Unification	461.48
Friday 28 April 2023	Pre-Unification	461.50
Thursday 27 April 2023	Pre-Unification	460.81
Wednesday 26 April 2023	Pre-Unification	461.40
Tuesday 25 April 2023	Pre-Unification	460.37
Monday 24 April 2023	Pre-Unification	459.09
Sunday 23 April 2023	Pre-Unification	460.37

Source: CBN Statistical Bulletin (Online).

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Data Analysis and Discussion of Findings

The study's results and discussions are presented as follows;

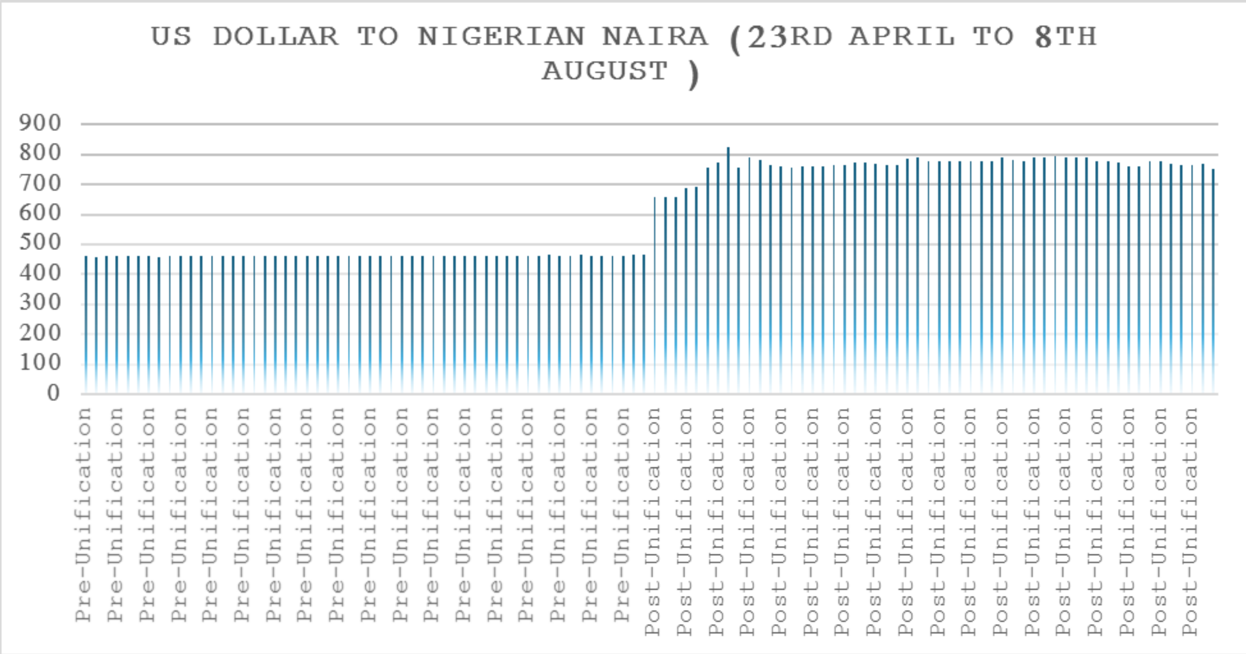

Figure 1: Exchange Rate Trend seen in two even periods before the unification and after the unification.

Pre-Unification Period (Before Exchange Rate Unification):

The exchange rates during this period were relatively stable, with fluctuations ranging within a narrow band around the mid-460s NGN/USD. These rates were notably lower compared to the post-unification rates, reflecting the previous fragmented exchange rate system's distortions. The relatively stable exchange rates suggest a controlled environment with limited volatility, which might have been achieved through various interventions.

Exchange Rate Unification Transition:

The transition from the "Pre-Unification" to the "post-unification" period represents a fundamental shift in Nigeria's exchange rate policy. The data doesn't provide explicit information about the unification process itself, but we can infer that the move to a single unified exchange rate likely contributed to the increased value of the Nigerian Naira against the US Dollar in the "Post-Unification" period.

Post-Unification Period (After Exchange Rate Unification):

The exchange rates in the "post-unification" period demonstrate greater fluctuation, with values oscillating within a broader range. Notably, the exchange rates have increased significantly compared to the "Pre-Unification" period, surpassing the 750 NGN/USD mark and occasionally reaching the mid-790s NGN/USD range. The increase in exchange rates can be attributed to several factors, including potential market adjustments, demand and supply dynamics, investor sentiment, and the actual valuation of the unified exchange rate.

Table 2: Comparative Table of Exchange Rate Pre and Post-Unification in Nigeria over even periods.

	Pre-Unification	Post-Unification
Mean	461.49	772.34
Std. Dev.	1.71	11.91

Author computation

From Table 2, it can be seen that, in the "Pre-Unification" period, the mean exchange rate was approximately 461.49 NGN/USD, with a standard deviation of 1.71. This period was characterized by relatively stable exchange rates, with minimal fluctuations. On the other hand, during the "post-unification" period, the mean exchange rate increased significantly to around 772.34 NGN/USD, and the standard deviation expanded to 11.91. This period exhibited greater exchange rate volatility, with a broader range of values compared to the more stable "Pre-Unification" period. The comparison highlights the substantial shift in both the mean and variability of exchange rates following the exchange rate unification. The increased mean exchange rate in the "post-unification" period reflects the potential impact of the unified exchange rate policy, while the higher standard deviation underscores the increased volatility and potential market uncertainties during this transition. In the context of Nigeria's economic implications, several observations can be made:

Investor Confidence and Expectations: The increase in exchange rates post-unification might indicate that investors expect a more realistic valuation of the Nigerian Naira. However, the increased volatility could also reflect uncertainty about the new unified rate's sustainability.

Economic Restructuring: The transition to a unified exchange rate likely involved structural changes in the economy to address underlying issues. The exchange rate adjustment might be part of a broader reform agenda aimed at improving economic efficiency and attracting investment.

Inflation and Consumer Prices: The appreciation of the Nigerian Naira in the "Post-Unification" period could have positive implications for imported inflation, potentially leading to lower costs for imported goods and services. This might help maintain pricing stability and improve purchasing power for consumers.

External Trade Balance: A more competitive exchange rate can enhance Nigeria's export competitiveness and potentially improve the country's trade balance by boosting exports and reducing imports.

Foreign Investment: The shift towards a unified exchange rate could attract foreign investors by providing a clearer and more transparent foreign exchange environment. However, the volatility observed post-unification might necessitate measures to manage investor risk.

Government Revenue: Depending on the composition of Nigeria's external debt and foreign obligations, the increased exchange rates might impact the government's debt servicing costs. This could affect fiscal management and resource allocation.

Overall, the trend in exchange rates before and after unification reflects Nigeria's shift towards an open and more unified exchange rate system. While the increased exchange rates post-unification could signify positive changes in investor confidence and economic restructuring, the increased volatility calls for careful management and policy adjustments to ensure macroeconomic stability and sustainable growth.

Conclusion and Recommendations

The Nigerian currency, the Naira, has experienced a noticeable increase in its value against the US Dollar since the exchange rate unification. The mean exchange rate has risen significantly, reflecting a new assessment of the naira in the unified exchange rate system. Alongside the increased value, the exchange rate has also become more variable. The standard deviation, a measure of variability, has expanded, indicating a wider range of fluctuations in exchange rates. This increased variability suggests that the naira's value against the US dollar is subject to more frequent and significant changes. In conclusion, the increase and variability of the Nigerian currency since exchange rate unification have multifaceted implications for economic stability and accounting practices. While improved price stability and investor confidence are potential benefits, businesses must carefully manage their exposure to exchange rate fluctuations to maintain financial health and competitiveness. A complete method of risk management and strategic planning is essential in navigating the complexities brought about by these currency changes.

Recommendations

Based on the findings of the study, the paper recommends that;

i. Policymakers and the Apex institution must continuously monitor and manage the exchange rate to ensure stability and prevent excessive volatility. They should implement mechanisms to address sudden fluctuations and minimize potential shocks to the economy.
ii. Government should develop strategies that encourage foreign direct investment and enhance investors’ confidence through clear and consistent policies. They should encourage diversification of exports to mitigate the potential negative effects of an appreciating Naira on export competitiveness and promote the development of non-oil sectors to reduce dependence on oil-related revenues.
iii. Companies that trade internationally should implement effective hedging strategies to mitigate the changes in exchange rates' effects on their financial performance. There must be regular review and adjustment of risk management strategies based on evolving market conditions.
iv. The government should use the exchange rate unification as an opportunity to implement broader structural reforms to address underlying economic challenges and promote sustainable growth**.**

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