

## Effect of Exchange Rate on Goods and Services in Nigeria

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### ABSTRACT

The study examined the effect of exchange rate on goods and services in Nigeria with the objectives to analyze the effect of exchange rate fluctuations on prices of domestic goods and to investigate the extent to which exchange rate change has affected the prices of imported goods and services. The primary data were collected through the administration of questionnaire to the respondents. It was found out that the exchange rate has a significant effect on the prices of domestic goods and services as the coefficient of the independent variable is positive showing 0.628; it was established that the exchange rate has an effect on the prices of imported goods and services, as the coefficient of the independent variable is positive (0.428) and the sig value is less than 0.01. It was recommended that the government should fund all the micro, small, and medium scale enterprises in Nigeria through the Bank of Industry in order to have more exports than imports.

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## **INTRODUCTION**

The local currency to a large extent measures the health of an economy and provides critical guide for both foreign and local investors on where to plough their resources for optimal benefits Nigeria when in economic recession – the second in a row needs massive capital flows to return the economy on the path of growth amidst vulnerability in the oil market as well as urgent need to diversify its economic base, particularly in the face of the COVID-19 pandemic. But, a handful of adverse factors currently tend to slow progress – insecurity, lack of infrastructure, policy inconsistency, bureaucracy and liquidity challenges in foreign exchange and exchange rate among others (Adu, 2023).

The country's inability to attract foreign capital in recent times had partly been blamed on insecurity and unsatisfactory foreign exchange regime. In the past, many analysts and rating agencies believed the naira is overvalued and called on the Central Bank of Nigeria (CBN) to float the currency in order to find its true value. Many had also opposed the operation of multiple windows in foreign exchange management preferring a single window and that the market is left to the forces of demand and supply. Ideally, analysts are of divergent views that the naira needed to be weakened at the present instance for the country to woo investors and target growth while others are of the opinion that the currency should be strengthened at the moment (Adu, Oke-Potefa and Adeleke, 2023).

The total value of capital importation into the country fell drastically to \$1.29 billion in the second quarter of the year (Q2 2020), compared to \$5.85 billion in the preceding quarter, representing a contraction of 78 per cent compared to Q1 and 79 per cent compared to Q2 2019. Amidst the need to reflate the economy, analysts believed introducing some flexibility in the forex regime is critical (IMF,2011).

The overvalued naira had pushed for cheaper currency amidst high fertility rate in the country. It was further stated that Nigeria is currently faced with the dearth of savings which is a vital tool for investments. A depreciation (or devaluation) of domestic currencies may stimulate economic activity through the increase in the price of foreign goods (and sometimes services) in relation to domestic goods. By stimulating an increase in the foreign competitiveness of domestic industries, exchange rate devaluation diverts spending from foreign or international goods to domestic and home made goods. The success of currency depreciation in promoting trade balance largely depends on switching demand in the proper direction and amount, as well as on the capacity of the home economy to meet the additional demand by supplying more goods and providing more services (Abdullina, Aida,Corina, and Haita,2006).

The indirect impact of exchange rate and their fluctuations extends much more broadly and deeper in ways that affect several of the most important aspects of our economic lives – like how long it takes to get a job, where we can afford to live, and when we can retire. Exchange rates have a tremendous influence on the economy both in the near term and over prolonged periods of time. In this era of globalization, goods from other countries are as

commonplace, or sometimes even more commonplace, than those produced domestically. Exchange rates have a significant impact on the prices you pay for imported products. A weaker domestic currency means that the price you pay for foreign goods will generally rise significantly. As a corollary, a stronger domestic currency may reduce the prices of foreign goods to some extent (Akanji,2006).

Currency fluctuations affect all kinds of businesses and the goods and services they offer, but businesses that export or import supplies from other countries are most severely affected. A change in currency can have a direct impact on a business's products. For example, if a company headquartered in the U.S projects a profit margin of USD 6 million in a year, it could reduce to USD 5.5 million if the dollar weakens against the naira and this automatically affects the profits it makes on the sale or provision of goods or services. Similarly, they could see an increase in their profit if the dollar performs strongly against the Naira (Akinlo,Enisan and Odulosa, 2003).

Even if certain goods or services are not bought or sold in other countries, these fluctuations can have some unforeseen consequences. For instance, if a company uses trucks to move its products and a currency change fluctuates the cost of fuel, there will be a direct impact on shipping costs which could then translate to an increase in goods or service costs(Obaseki, 2001). On the other hand, a depreciating currency can also help domestic products sell more locally by reducing the country's imports. Some smaller businesses might lack the back-up finances to deal with exchange rate fluctuations. They usually establish a 'forward contract' to hedge their financial risk and ensure that their business will be protected from significant losses arising from foreign currency fluctuation that affect the prices of their products (Akpan,2008).

This study was informed by the observed economic shock in Nigeria that has seriously affected the prices of goods and services as well as the general business sector of the country due to the corona virus, thus, putting her acclaimed position as the giant of Africa on balance in the global competitiveness. The exchange rate is an important concept in finance and it connotes the prices at which currencies trade for each other. Its importance stems from the fact that it links the general price level within the economy with prices in the rest of the world while also affecting other prices within the system (Obadan, 2006). To Central Banks, exchange rate is a key variable as it could be used as a target, an instrument or simply an anchor, depending on the monetary policy framework being operated in the economy Thus, exchange rate is at the core of any serious economic stabilization program. The present economic situation of the country is volatile and this has serious economic implication on the prices of goods and services as the businesses selling the goods and rendering those services rely more heavily on short term funding and this makes the prices more prone to the volatile economic situation (Adu,2014).

## **LITERATURE REVIEW**

In line with resolving the research problem, the following hypotheses were formulated:

Hypotheses One (1)

Ho1: Exchange rate has no significant effect on the prices of domestic goods and services.

Ho2: Exchange rate has no significant effect on the prices of imported goods and services.

### **Concept of Exchange Rate**

The exchange rate is the price of one currency in terms of another currency, that is, the current market price for which one national currency can be exchanged for another. It is normally expressed as the number of units of a domestic currency that will purchase one unit of a foreign currency or the number of units of a foreign currency that will purchase one unit of a domestic currency (Balogun, 2007).

The exchange rate is a key macroeconomic variable in the context of general economic policy making, and of economic reform program, in particular. It is a very important price which governments take very active interest in. However, two concepts of exchange rate are commonly distinguished: nominal exchange rate and real exchange rate. The nominal exchange rate (NER) is a monetary concept which measures the relative price of two moneys or currencies, e.g., naira in relation to the U. S dollar. But the real exchange rate (RER), as the name implies, is a real concept that measures the relative price of two goods-tradable goods (exports and imports) in relation to non-tradable goods (goods and services produced and consumed locally) (Balogun, 2007).

### **Inflation rate and Financial Performance**

The central objective of macro-economic policies is to foster economic growth and to keep inflation on a low level. The word inflation rings bell in the market economics of the world. It is a problem that threatens all economics because of its undesirable effects. The problem of inflation surely is not a new phenomenon. It has been major problem of the country over the years. Inflation is a household word in many market oriented economics (Adu,2014).

### **Interest Rate and Financial Performance**

Interest rate affects all sectors of the economy through the cost of debt and the availability of money and credit and this could affect a firm's ability to access external sources of fund. Fiscal policies affect a firm's after tax net cash flow, its cost of capital, and potentially the demand for its products, and survival(Mordi,2006). Prior to interest rates liberalization, interest rates were determined through administrative controls and after liberalization by market forces. These factors that now determine interest rates include; inflationary expectations, the real rate of interest differentials, excess liquidity and domestic and foreign interest rate differentials, i.e. when there are no restrictions on capital movements (Adu, 2023).H1: Hypothesis one and so on here

## METHODOLOGY

Data were collected through the administration of copies of questionnaire to the respondents.

**Descriptive Analysis** This section contains information obtained from respondents through questionnaire.

## RESEARCH RESULT AND DISCUSSION

**Analysis for Hypothesis One**

Ho: Exchange rate has no significant effect on the prices of domestic goods and services.

H1: Exchange rate has a significant effect on the prices of domestic goods and services. **Regression Result Showing Effect of Exchange Rate on Prices of Domestic Goods and Services**

### Model Summary Model

R Square Adjusted R Square Std. Error of the Estimate 1 .650 a .420 .407  
.310 a. Predictors: (Constant), Exchange Rate

Coefficients of the Model a Model Unstandardized Coefficients  
Standardized Coefficients t Sig. B Std. Error Beta 1 (Constant) .328 .148 6.132  
.000 Exchange rate .628 .099 .640 4.253 .000 a. Dependent Variable: Prices of  
domestic goods and services

The above shows that Exchange rate has a significant effect on the prices of domestic goods and services as the coefficient of the independent variable is positive showing a 0.628. The null hypothesis is therefore rejected and the alternative hypothesis accepted. **Table 4.4: ANOVA Tables Model Sum of Squares Df Mean Square F Sig.** 1 Regression 22.264 1 34.264 21.569 .000b  
Residual 130.124 78 2.168 Total 170.387 79 a. Dependent Variable: Prices of domestic goods and services b. Predictors: (Constant), Exchange Rate

### Analysis for Hypothesis Two

Ho: Exchange rate has no significant effect on the prices of imported goods and services. H1: Exchange rate has a significant effect on the prices of imported goods and services.

**Regression Analysis Showing the Effect of Exchange Rate on the Prices of Imported Goods and Services**

Model Summary Model R R Square Adjusted R Square Std. Error of the Estimate 1 .140a .208 .205 .390 a. Predictors: (Constant), Exchange Rate

## CONCLUSIONS AND RECOMMENDATIONS

The exchange rate has a significant effect on the prices of domestic goods and services and the exchange rate has an effect on the prices of imported goods and services.

The exchange rate plays a germane role in the determinant of prices of “

It was recommended that the government should fund all the micro, small, and medium scale enterprises in Nigeria through the Bank of Industry in

order to have more exports than imports, dependency on imported goods and services should be stopped by all; the home made products should be patronized by all the nationals.

### **ADVANCED RESEARCH**

This research still has limitations, so further research is needed on the topic "Effect of Exchange Rate on Goods and Services in Nigeria" to perfect this research, as well as increase insight for readers.

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