

The Impact of Exchange Rate Reforms on Trade Performance in Nigeria

Ben U. Omojimate* and Godwin Akpokodje**

**Department of Economics, Delta State University, Abraka, Nigeria*

***Economics Development Department, NISER, Ibadan, Nigeria*

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ABSTRACT Exchange rate reform (combined with trade policy reforms) under Nigeria's economic reform programme was anticipated to diversify the export base of the economy from oil to non-oil exports through competitiveness in the relative price of non-oil exports in addition to reducing imports, especially of consumer goods. This study investigates the effect of exchange rate reforms on Nigeria's trade performance during the period 1986-2007. It finds a small positive effect of exchange rate reforms on non-oil exports through the depreciation of the value of the country's currency. It was also found that the structure of imports which is pro consumer goods remained unchanged even after the adoption of exchange rate reforms. Exchange rate reforms were found not to constrain imports as anticipated. Rather, they stimulate imports, albeit insignificantly. A major policy lesson is that exchange rate reforms are not sufficient to diversify the economy and change the structure of imports. Major incentives in the form of conducive environment for domestic production, especially effective infrastructure that could lead to significant improvement in competitiveness are required.