Review of: "Exchange Rate Pass-Through and Inflation on Unemployment in Nigeria"

Nasreen Nawaz[1]

1 Michigan State University

Potential competing interests: No potential competing interests to declare.

This study investigates the dynamic relationship between exchange rate fluctuations, inflation, and unemployment in Nigeria from 1986 to 2022. The study used annual data obtained from the Central Bank of Nigeria data bank and the World Bank Development Indicator. The analysis employed Nonlinear ARDL models and Structural Vector Auto-Regression (SVAR) techniques with E-views version 10. Comprehensive diagnostic tests confirmed the adequacy of the chosen model. The estimations from both SVAR and ARDL reveal significant effects of exchange rate fluctuations on unemployment in Nigeria. Their results demonstrate that inflation exerts a substantial influence on unemployment in Nigeria, both in the short run and long run. Additionally, the SVAR framework highlights a significant impact of exchange rate movements on inflation in Nigeria. The findings collectively support the applicability of the Phillips Curve hypothesis in the Nigerian context. The findings have implications for the timing of current account adjustments and the choice of exchange rate policies. It proposes the development of a threshold model by the CBN that captures not only the direction but also the magnitude of changes in the real exchange rate. They conclude policymakers, including the Central Bank of Nigeria, should tailor monetary policies to address rising unemployment rates stemming from real exchange rate fluctuations. Furthermore, policymakers should expedite structural reforms aimed at economic diversification.

The study concludes that trade openness has a significant negative effect on unemployment in Nigeria, indicating that opening the Nigerian border to trade has adversely affected the unemployment rate. This is due to the decline in productivity and efficiency of industries, leading to increased unemployment. Also, exchange rate fluctuations have a positive impact on labor in both the short run and the long run. In addition, the depreciation of the Real Effective Exchange Rate (RER) increases the labor participation rate, particularly in the long run. The pass-through of RER to unemployment is symmetrical in the short run but asymmetrical in the long run, with depreciations having a substantial impact. Domestic currency appreciation causes a smaller increase in the unemployment rate compared to a depreciation of the same value.

I thoroughly enjoyed reading this article. It is well written and is a source of lot of information and guidance for policy makers in Nigeria. I suggest the author mentions inference methodology both for SVAR, and ARDL to show robustness of their results. Furthermore, some empirical evidence must be presented in favor of restrictions imposed in SVAR.