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RETHINKING ECONOMIC REFORMS AND FOREIGN EXCHANGE BEHAVIOUR IN AN EMERGING ECONOMY: EVIDENCE FROM NIGERIA

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ABSTRACT

This paper examines economic reforms and the Management of foreign exchange in an emerging economy aimed at achieving the millennium development goals. Reform Programmes are not new in Nigeria as it has become a subject of public disquiet generally. Economic reform programme is expected to move the country to achieving improved standard of living. It has been established that the reform agenda has linkage with balance of payments, price stability, full employment, economic growth, protection of the environment and equity/poverty alleviation. Unrealistic nature of the Naira has prompted series of reforms namely, Structural Adjustment Programme (SAP), guided deregulation and lastly, National Economic Empowerment and Development Strategy. To guide against past mistakes, this paper opines that current economic reform programmes should be properly focused by way of redesigning a realistic and stable rate of the currency vis-a-vis resource base, and resource mobilization programme capable of tackling poverty alleviation problems and not just economic growth. The nature of problems as well as the felt needs of the citizens in the country should determine the policy relevance in the reform agenda. A deviation from this renders the reform programme an illusion.

KEYWORDS: Macroeconomics, Exchange Rate, Typology, Reform, Management

INTRODUCTION

Although economic reform is not new, it has intensified in its merits and distinction in recent years and has become an important issue for discussion in various fora. It has also acquired attention in its ramifications being associated rightly or wrongly with some other issues and challenges currently engaging Nigeria's attention in the quest for achieving the millennium development goals. Thus an economic reform programme is expected to move the country to greater heights and invariably improve the standard of living of its people. By economic reform, the significant goal of which is to ensure the emergence and or restoration of sustainable economic growth, we are alluding to the implementation of comprehensive shifts in macro and micro-policies, both in response to different shocks and to rectify inappropriate past policies that have hindered economic performance. These shocks have implications on economic policy objectives such as balance of payments, price stability, full employment, economic growth, the protection of the environment and equity/poverty alleviation. The implications of economic reform are far reaching and have linkage with the foreign exchange management strategies of an economy.

The main trust of the reform agenda has been to obtain the appropriate macroeconomic incentives through policy and institutional reforms. key measures include rationalization of the size of the public service labour force (public sector reform), elimination of subsidies, reformation and where essential abrogation and or privatization/communalization of inefficient parastatal institutions as well as liberalization of trade, price, interest and exchange rates.

Exchange Rate is basically the rate at which one currency is exchanged for another. It

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is believed to be the price of one currency in terms of another currency. Thus it measures the relative worth of a domestic economy in terms of another, most especially in relation to leading partners' economies, which include currencies of industrialized countries comprising the United States Dollars, British Pound Sterling, German Deutsche Mark, Japanese Yen, French Franc, Italian Lira and the Canadian Dollar. Ogun (1998) reasons that since real exchange rate is the price of foreign goods in terms of domestic goods, exchange rate volatility therefore refers to the movement of real exchange rate (RER). Put another way, volatility refers to the instability of real exchange rate vis-a-vis the long term patterns and trends (Frankee and Godstein 1988). Variations or risk in international commodity trade normally spring from dual sources. These are instability in nominal exchange rate and variations in world prices. These jointly determine the domestic trade prices of a commodity over a period of time.

From the earliest of times, the exchange rate management (or stabilization) is expected to achieve the following objectives: price stability, sustainable economic development, reduction of unemployment and balance of payments viability most especially when applied in collaboration with other macroeconomic policies. Stable exchange rate aids in the achievement of these macroeconomic goals. The converse also holds. The exchange rate has to be right since it is a significant price that affects other prices. This explains in part, why policy makers place valuation on “realistic exchange rate”.

Exchange rate instability impacts on output and employment depreciation, it is often believed that it serves as a stimulant to economic activities. This is as a result of the initial increase in the price of foreign commodities vis-a-vis home goods. This equally leads to price increases in domestic output and domestic prices. Appreciation could result in a contractionary effect on the economy. Besides, volatility of exchange rates has implications for the overall success of governments stabilization policies. Appreciation is believed to be responsible for increase in unemployment. Government then should intervene in the foreign exchange markets so as to stabilize the currency and protect employment and output against the adverse implications created by exchange rate instability. Changes in the exchange rate greatly affect the profitability and performance of the manufacturing industries (Campa and Goldberg 1997).

The exchange rate between countries are influenced by the forces of demand and supply in the foreign exchange market. Factors responsible for changes and or fluctuations in the demand and supply of foreign exchange include but are not restricted to: Changes in Prices, Changes in Interest Rates, Changes in Export and Import, Capital movement and influence of banks. Others are changes in Bank rates, Stock exchange influence, structural influences and influence of speculation. Speculation causes short-run fluctuations in exchange rate. Political conditions, policies of exchange control and protection and type of economic system equally form other causes in the exchange rate.

The combination of demand and supply side channels show that real output depends on unanticipated movements in the exchange rate, government spending, money supply and energy price. Additionally, supply side channels establish that output changes in line with anticipated changes in the exchange rate and energy price. Aggregate demand increases as a result of unexpected increase in government, expenditure or money supply.

The impacts of real exchange rate instability on the price level and output are complicated as a result of demand and supply channels and could be summarized as under:

- unexpected appreciation of currency makes exports more expensive and import cheaper in the goods market;
- changes in the exchange rate, both anticipated and unanticipated lead to a determination of the cost of importing intermediate goods, producers are inclined to increase imports of intermediate goods as dollars appreciates;
- from the standpoint of money market, an unexpected temporary increase in the value of the currency vis-a-vis anticipated value in the future, prompts economic agents to hold less currency and decreases interest rate.

Furthermore it is pertinent to note that exchange rate has been a very significant policy tool in different economies. It has served as a nominal anchor in the stabilization of domestic economic systems and reducing inflation rate. Foreign exchange management has been a meaningful element in staring off external imbalances and imperfections. Most countries in Sub Saharan Africa of which Nigeria is one started with sharp nominal and real appreciation of their currency. Brada (1998) reasoned that what followed in the circumstance was real appreciation as domestic inflation was more than subsequent nominal depreciation in the economy. Halpern-and Wyplosz (1997) jointly posit that the sources of real and nominal exchange rate fluctuations in an economic system involves dismantling of old production structures and initiating structural reforms. This implies that such productivity growth and real wages changes can be expected to show an upward pressure on the real exchange rate. An examination of the genesis of foreign exchange market reveals that the Nigerian Foreign Exchange market is an embodiment of buyers and sellers of foreign exchange. There are buyers and sellers of foreign exchange. The key players include banks, public sector, the private sector and correspondent banks overseas.

The supply of foreign exchange is obtained from oil and non-oil exports. It is equally obtained from capital receipts including draw-down on loans, expenditure on foreign tourists in Nigeria, repatriation of capital by Nigerians resident overseas. Other invisible receipts by the private sector also constitute the supply of foreign exchange. From a different standpoint the following represent the demand for foreign exchange: external debt service obligations, personal home remittance (PHR) by foreign nationals resident in the country, financial commitments to international organizations and the country's embassies overseas, payment for imports and other invisible out payments by the private sector. The genesis of the

Nigerian foreign exchange market till date is impacted upon by a number of factors. These include but are not restricted to: changing pattern and trend of International Trade, institutional changes in the economy, structural shifts in production. Prior to the establishment of the Central Bank in Nigeria in 1958 and the enactment of exchange Control Acts of 1962, foreign exchange was earned by the private sector. It was being held in balances abroad by commercial banks which then served as agents for local exporters.

Agricultural Export was the main source of foreign exchange receipts. The British Pound Sterling and Nigerian pound were at par, which is tied together. There was easy convertibility but development of an active foreign exchange market was delayed. The need for the development of a local foreign exchange market became fashionable as a result of the establishment of Central Bank. The centralization of the foreign exchange authority in the bank also necessitated the development of local foreign exchange market. In the 1970s there was increased export of crude oil as a result of sharp and astronomical rise in its prices. This facilitated official foreign exchange receipts. To pay for international transactions, economic Agents patronized the Central Bank for foreign exchange allocation. There was a boom in the foreign exchange market at this period. This necessitated the efficient and effective management of foreign exchange resources in order to eschew shortcomings.

In 1982 comprehensive exchange controls were applied. This was occasioned by foreign exchange crisis that occurred that year. It led to the emergence of a Parallel. Market premium because of disequilibrium in the official foreign exchange market. Abuses such as over invoicing of import and under invoicing of export followed. Since the exchange control system could not control nor evolve acceptable means for allocation in consonance with the goal of internal balance. Second tier foreign Exchange Market (SFEM) was introduced in September 1986. Under SFEM Market forces determined the Naira exchange rate and allocation of Foreign Exchange Bureau de Change then emerged in 1989 aimed at enlarging the scope of the Foreign Exchange Market. Bureau de Change was specifically meant for dealing in privately sourced foreign exchange. In February 1993 the Central Bank introduced pro-rata system of foreign exchange allocation. This was to ensure availability of allocations by participating banks. The rate of foreign exchange in other segments was unstable but the official exchange rate of Naira was administratively stabilised.

Put simply, there was some element of foreign exchange fluctuations in some segments. There were some reforms in 1994. These include:

- formal pegging of the Naira exchange rate
- centralization of foreign exchange in the Central Bank of Nigeria,
- the restriction of bureaux de change to buy foreign exchange as agents of the CNB,
- Reaffirmation of the illegality of the parallel market, and
- The discontinuation of open account and bills for collection as means of payment for imports and exports for the Agricultural and manufacturing sectors.

In 1995 there was the Liberalization of foreign exchange with the emergence of Autonomous Foreign Exchange Market (AFEM) meant for the Sale of Foreign Exchange by CBN to end-users by way of dealing through selected authorized dealers at market determined exchange rate. Bureaux de change was granted the status of authorized dealer, that is, buyer and seller of foreign exchange. This was further liberalized in 1997 and in same 1997 some of the restrictions were lifted.

This paper which endeavours to contribute to the debate on the economic reforms aimed at achieving millennium development goals vis-a-vis the exchange rate management perspective in Nigeria is organized as follows: section two briefly examines the constraints of exchange rate management with stylized facts relating to pattern and trends of exchange rate and macroeconomic indices. In section three, reforms and typology of political regimes in the management of exchange rate is elucidated. In section four we peruse the exchange rate regimes and policy trends. Section five establishes the link between pre - SAP, post-SAP Era (guided deregulation) with a peep on reforms, and policy relevance in the design of exchange rate. Section six terminates the paper with a brief concluding remark.

CONSTRAINTS OF EXCHANGE RATE

Beginning from the 1980s, monetary authorities in Nigeria and experts of World Bank/IMF broadly agree that the major macroeconomic problem of Nigeria are associated with a regime of unrealistic exchange rates for the naira. An over-valued naira discourage exports by making it relatively more costly, and encourage imports by cheapening it. Put another way, the apparent over valued naira has been a source of concern that an over-valued naira tends to undermine efficient resource utilization, encourage capital flight and cheapen import thereby making Nigeria to be import dependent among other plagues. The importance of this realization has prompted the search for a realistic value for the naira, which has remained the essential aspect of a series of reform problems. The acronyms of those programmes have changed from SAP, guided deregulation and lastly National Economic Empowerment and Development Strategy (NEEDS). However, the essential ingredient remains the attainment of a realistic value for the naira that is believed to be over-valued. The implication of this, is high unemployment, inflation and declining productivity. It is difficult to predict the foreign exchange market. As a result of this foreign investment is affected as foreign exchange demand plan is unstable. Unstable regime breeds disinvestments.

The Second Tier Foreign Exchange Market (SFEM) was and is a mechanism of determining the true value of the naira through the market forces of demand and supply. The value of Nigerian currency is officially determined in line with exchange rate policy arrangements. The main aims of the exchange rate policy in Nigeria are to preserve the international value of the domestic currency, maintain a favourable external reserves position, and ensure external balance. This is without compromising the need for internal balance and the overall goal of macroeconomic stability. Thus the problem confronting exchange rate management in Nigeria. is the inability to determine in clear terms the level of the exchange rate of the naira that would ensure the attainment of internal and external balance simultaneously on a sustainable basis. To what extent has Nigeria been able to achieve exchange policy objectives? The exchange rate policy adopted at a particular point depends on the objectives intended to be achieved by the authorities. SFEM was and is a macroeconomic policy aimed at accelerating effective and efficient performance of the Nigerian economy. The extent to which this has been achieved gives room for contending articulations. Thus an equilibrium exchange rate devoid of fluctuations and or variations is achieved if a stated level of exchange rate facilitates an economy to achieve the objectives of internal and external balance devoid of imposition of trade and exchange controls and actions that may be at variance with international norms amounting to arbitrariness. This action goes on to precipitate retaliatory responses which undermine the goals and objectives of macroeconomic management.

STYLIZED FACTS: PATTERN AND TRENDS OF EXCHANGE RATE AND SELECTED MACROECONOMIC INDICES

Cursory observations of exchange rate regimes in Nigeria reveals that exchange rate as applicable in Nigeria has dual mechanism, that is, fixed and flexible regimes. 1960 - 1986 witnessed a period of fixed exchange rate system. The inability of the system to attain the major goals of exchange rate policy warranted a reversal of the trend of policy in 1986. This was with the floatation of the naira. The flexible system continued up to and including 1994, a remarkable year in which the fixed exchange rate was reintroduced. This was with pegging of the naira relative to the U. S. dollars. Thus as maintained by Grobar (1993), the exchange rate as at 1970 - 1975 was 0.7142 to 0.159, rate of inflation for same period was 13.8% and had increased to 33.9% in 1975, Real Nominal Effective exchange rate recorded 99.9% in 1970 and increased to 100.4% in 1975. The growth in real GDP had reduced from 29.8% in 1970 to -3% in 1975. The rate and flow of import and export were not left out as astronomical increases were recorded for export from ₦885.4 million to ₦4925.5 million in 1970 to 75 respectively.

For import, 1970 recorded 756.4 and had risen up to 3721.5 in 1975. As further revealed by table I below the rate of inflation had reduced up to 7.7% in 1982, increased to 23.2% and 39.6% in 1983 and 1984 respectively. A reduction was also noticed in 1985 (55.5%), 1987 (10.2%) and an increase in 1988 (38.3%), 1989 (40.9%), 1993 (54.2%) and 1997 (60.2%) and continuing. The picture of exchange rate and other variables equally revealed an interesting situation. Fluctuations were observed in the rate of exchange rate from 1976 to 2002. The rate of import, export and growth in Real GDP exposed fluctuations equally and a high degree of instability maintained. Generally, a study of the table shows cases of instability visa-vis volatility in the macroeconomic variables. Unemployment and balance of payment also reveal instability over the years as noted in the table below.

Table 1: Pattern and Trends of Exchange Rate and Selected Macroeconomic Indices in Nigeria 1970 - 2002

YEARS	EXCHR	INFLA	RNEER	GROWTH IN GDP	EXP	IMP	UNEM	BOP
1970	0.7142	13.8	99.9	29.8	885.4	756.4	12650	-29
71	0.6955	15.6	100.9	18.4	1293.4	1078.9	12685	110
72	0.6579	3.2	101.0	7.3	1434.2	990.1	13573	114
73	0.6579	5.4	94.3	-2.7	2278.4	1224.8	19497	121
74	0.6299	13.4	100.8	12.1	5794.8	1737.3	20918	5114
75	0.159	33.9	100.4	-3	4925.5	3721.5	23418	209
76	0.6265	21.2	107.8	10.9	6751.1	5148.5	21026	-380
77	0.6466	15.6	102.6	8.1	7630.7	7093.7	14834	-283
78	0.606	16.6	101.0	-7.3	6064.4	8211. 7	18796	-2108
79	0.5757	11.8	98.2	2.5	10836.8	7472.5	18219	3264
80	0.5464	9.9	106.3	5.3	14186.7	9095.6	256623	4373
81	0.61	20.9	110.4	-8.4	11023.3	12839.6	188434	4723
82	0.6729	7.7	109.9	-0.3	8206.4	10770.5	106496	-5614
83	0.7241	23.2	109.8	-5.4	7502.5	8903.7	112588	-1989
84	0.7649	39.6	113.2	-5.1	9088.0	7178.3	122495	-967
85	0.5938	5.5	100.0	9.4	11720.8	7062.6	100745	-1232
86	2.0206	5.4	51.9	3.1	8920.6	5983.6	91281	986
87	4.0179	10.2	14.7	-0.5	30360.6	17861.7	160184	-4495
88	4.5367	38.3	13.0	9.9	31192.8	21445.7	132455	-4954
89	7.3916	40.9	8.9	7.4	57971.2	30860.2	110366	-2985
90	8.0378	7.5	7.7	8.2	109886.1	45717.9	99934	-561
91	0.9095	13	6.3	4.7	121535.4	87020.2	123637	-1496
92	17.2984	44.5	3.7	3	207266.0	145911.4	97349	-5742
93	22.0511	54.2	3.0	2.3	218770.1	166100.4	183540	-1794
94	21.8861	57	2.9	1.2	206059.2	162788.8	100400	3011
95	84.575	72.8	0.7	2.2	950661.4	755127.7	14672	3515
96	79.6	29.2	0.8	3.4	1309543.4	562626.6	152693	-2774
97	74.625	8.5	0.8	3.8	1241662.7	848370.8	152293	3100

98	84.3679	10.0	0.8	3.9	751856.7	939018.2	184103	3130
99	92.5284	6.6	0.8	3.9	1189006.5	939028.6	149693	-3001
2000	109.55	6.9	0.9	3.6	2887400.3	986827.8	190328	3077
2001	112.4864	8.9	0.9	3.8	2899886.2	988846.6	170287	3069
2002	126.4	12.9	0.7	4.2	2929864.6	999888.8	180311	3049
2003	135.4067	14.0	0.8	4.5	2999983.4	1099887.6	180309	3076

Source: CBN (2004) Central Bank of Nigeria Statistical Bulletin,
CBN (2000) Central Bank of Nigeria Statistical Bulletin,
CBN (2004) Central Bank of Nigeria Annual Report
CBN (2005) Central Bank of Nigeria Annual Report
IMF (2004) International Monetary Fund, International Financial Statistics Year Book
IMF (2005) International Monetary Fund, International Financial Statistics Year Book
EXCHR = Exchange Rate, INFLA = Inflation, IMP = Import , EXP = Export, RNEER = Real Nominal Effective Exchange Rate, GDP = Growth in Gross Domestic Product, UNEM = Unemployment, BOP = Balance of payments.

REFORMS AND TYPOLOGY OF POLITICAL REGIMES IN EXCHANGE RATE MANAGEMENT

The Nigerian polity has operated with interchanging typologies of political regimes and policy reforms too since 1960, reflecting the prevailing political regimes as well as policy reforms in relation to exchange rate management. Between 1960 and 1965 the political regime type was civilian in nature (parliamentary) with Namdi Azikiwe and Tafawa Balewa as the Head(s) of state. The regime was a sort of market system with planning and control. As shown in table 2 below, the period was marked with fixed exchange rate regime, monetary autonomy (fixed exchange rate) and official exchange rate of 0.7143. The official interest rate was also fixed at 4.0 per cent while the inflationary rate was 2.4 per cent.

1966 to 1970 witnessed an exchange rate of 0.7143 per cent with fixed exchange rate as well as fixed interest rate of 4.0 per cent and a subsequently fixed interest regime. The rate of inflation stood at 2 per cent during this military-market system era with demand management under A Ironsi and Y. Gowon as the Head(s) of state. The fluctuation and or instability in official exchange rate ushered in with official Exchange rate of 0.6168 (1975), 0.3461 (1980), 0.6052 (1981) and 0.7506 for 1983. The exchange rate here was pegged to a currency basket except the managed float of 1975. The interest rate was fixed for similar period of 1975 to 1983 while the rate of inflation was unstable ranging from 33.9(1975), 9.9 (1980), 20.9(1981), 7.7(1982) to 23.2 in 1983. 1975 was a military-market system with demand management, planning and control having Mohamned/Obasanjo as Head(s) of state, 1979-83 (5. 5hagarijAlex Ekweme) while 1983-85 had M. Buhari as the Head(s) of states. Ibraham Babangida came into office in 1985 with Exchange rate system pegged to a currency basket at an official exchange rate of 0.8924. Interest rate in 1985 was 10.00 and continued at same rate up to 1986 with interest rate floating from 1985 up to and including 1999. The Exchange rate too was unstable up to 1999 and continuing, characterized by floating exchange rate regimes and an astronomical increase in the rate of inflation which was subsequently found to be unstable, floating upward and downward. Babangida was in office up to 1995 with military market system, structural Adjustment programme (liberalization, less government in theory) until in august 1993 when E. Shoneken took over power.

Then came S. Abacha with military market system and guided deregulation, unstable exchange rate, regime and floating/flexible exchange rate systems up to and including 1998 when in June 1998 A. Abubakar came into office. Olusegun Obasanjo took over government in May 1999. This has been a Civilian Market Deregulation Political Regime type. The official Exchange rate was 21.8861 per cent and continuing with floating and flexible exchange rate regime/system characterized by high inflationary trend deemed unstable and a pegged/managed interest rate system which numerically stood at 14.30 per cent as at 1999 and reduced to 12.26 per cent in 2003 having rate of inflation at 4.0 per cent in 2003.

In order to achieve the general goals of macroeconomic management visa-vis exchange rate policy, there is always consideration between fixed and flexible exchange rate. Fixed exchange rate can further be classified into different types. In specific terms, fixed exchange rate policy is categorized into: FIXED CURRENCY PEG (single basket) and FIXED ADJUSTABLE PEG (Bretton wood system).

TABLE 2: Monetary Policy Regimes and Typology of Political Regimes in Nigeria

YEAR PERIOD	OFFICIAL EXCHANGE RATE	EXCHANGE RATE SYSTEM	OFFICIAL INTEREST RATE	INTEREST RATE SYSTEM	RATE OF INFLATION	POLITICAL REGIMES TYPE	HEAD(S) OF STATE
1960	0.743	Fixed Rate	4.0	Fixed	2.4	Civilian (parliamentary) market system with planning and control	N. AzikiwejT. Balewa
1965	0.7143	Fixed Rate	4.00	Fixed	2.4	Civilian (parliamentary) market System wit planning and control	N. AzikiwejT. Balewa
1966	0.7143	Fixed Rate	4.00	Fixed	2.0	Military market system demand management	A. Ironsij Y. Gowan
1970	0.7143	Fixed Rate	4.00	Fixed	13.8	Military market system""- demand management	A. Ironsij Y. Gowan
1975	0.6168	Managed Float	4.00	Fixed	33.9	Military-market system: Demand management plannino and control	Mahammed/ Obasanjo
1980	0.3461	pagged to a currency	6.50	Fixed	9.9	Civilian market system	. (79-83) S. Shagarij A.
1981		pagged to a				Civilian market syste	I>- 83-85 M.
	0.6052	currency basket	6.50	Fixed	20.9		Buhari
1982	0.6731	Paged to a currency basket	8.00	Fixed	7.7	Civilian market system/Austerity measures	83-85 M. Buhari
1983	0.7506	pagged to a currency	8.00	Fixed	23.2	Military market system controls and stabilizatioJ	83-85 M. Buhari
1984	0.7672	Pagged to a currency basket	10.00	pegged/ managed floating	39.6	Military market system: controls and stabilization measures	83-85 M. Buhari
1985	0.8924	Pegged to a currency basket	10.00	Pegged/managed floating	5.5	Military market system, controls and stabilization measures	83-85/ 1. Babangida
1986	1. 7323	Floating	10.00	pegged/ managed floating	5.4	Military market system, structural Adjustment	IBB

1987	3.9691	Floating	15.80	pegged/ managed floating	10.2	programme (liberalization, less government in theory)	IBB
1988	4.5367	Floating	14.30	pegged/ managed floating	38.3		IBB
1989	7.3657	Floating	21.20	pegged/ managed floating	40.9		IBB
1990	8.9378	Floating	23.00	Pegged/ managed floating	7.5		IBB
1991	17.2984	Floating	20.10	Pegged/mana ged floating	13.0		IBB
1992	17.2984	Floati ng	20.50	pegged/ managed floatinq	44.5		IBB
1993	22.0000	Floating	28.02	Pegged/ ma naged floating	57.2	August-Nov 1993 (intermin/ civilian /market Nov. 1 qqi 11 InP	IBB/E. Shonekan
1994	21.8861	Floating	15.00	Pegged/mana ged floatinq	57.0	Military-market system - gUided deregulation	
1996	21.8861	Floating	13.55	Pegged/ managed floating	29.3	Military-market system - guided deregulation	S. Abacha
1997	21.8861	Floating	7.43	Pegged/mana ged floatinq	8.5	Military-market system - quided derequlation	S. Abacha
1998	21.8861	Floating.	10.09	Floating	10.0	Military-market system - quided dereq–ulation	S. Abacha
1999	21.8861	Floating flexible	14.30	Floating	6.6	June 1998 to May 1999 Military/guided dereg u lation	Abdusalami Abubakar
2000	21.8861	Floating flexible	10.44	Pegged/ managed	6.9	May 29 1999 to 2003 civilian-market	Olusegun Obasanio
2001	21.88	Floating flexible	10.9	Pegged /managed	18.9	May 29 1999 to 2003 civilian-market	Olusegun Obasanio
2002	21. 94	Floating / flexible	10.09	pegged/ managed	12.9	2003 deregulation	Olusegun Obasanio
2003	21. 94	Floating/ flexible	12.26	Pegged/ managed	14.0	2003 and continuing	Olusegun Obasanio

Source: Ekpo 1996 p. 47
Updated by author.

Note: Official exchange rate terminated in December 1998.

The foreign exchange is liable to changes due precisely to prolonged or sustained disequilibrium in the balance of payments.

Flexible (floating) exchange rate could also be divided into two types namely:

- Flexible managed float which is compatible with government intervention such as the guided deregulation from the work of foreign exchange market.
- Flexible clean floating where there is no

government intervention market mechanism prevails significantly.

This is associated with the application of two main mechanism. The fixed and flexible regimes. The fixed exchange rate system commanded acceptance and was operational since 1960 and continued in 1986. Reversal of policy became obvious in September, 1986 with the floatation of the naira. This was as a result of the inability of the system to achieve the major objectives of exchange rate policy. Flexible system was operational up to and including the month of January 1994. This year also witnessed the re-introduction of Fixed Exchange rate system. This was done with the pegging of the naira in relation to the u.s. dollars. Deregulation of the Exchange rate mechanism was in 1995. This was with the adoption of Autonomous Foreign Exchange Market (AFEM). The table below provides stylized facts and reveals official Exchange vis-a-vis Nigeria balance of payment between 1960 and 2003. The overall balance of payment for 1960 was - 78.4 while 1965 recorded 26.4. 1970 had increased to 46.6 and by 1975 the overall balance of payment went up astronomically to 157.5 recording a five digit figure in 1980. As at 1990 the overall balance was 5716.9 and continuing in such trend up to and including 1996. A reasonable increase was registered in 1997 (1077.7) 2001 (2088.8) and 2002 (2474.6) respectively.

PRE-STRUCTURAL ADJUSTMENT PROGRAMME (SAP) REGIME-EXCHANGE RATE CONTROL/FIXED EXCHANGE RATE REFORM (162-1985)

A number of measures were put in place so as to operate the fixed exchange rate system that was adopted in the exchange control era. In the determination of Exchange Rate, economic goals have been considered basic factors. But between 1962 to 1986, a period of exchange rate control, there was the application of ad hoc administrative measures. About two years after independence and continuing up to 1973 - Nigerian currency was pegged at the ratio of 1: 1 with the British pound sterling. The pound sterling was latter devalued by 10 per cent. In 1981 the policy changed to that of gradual depreciation of the naira against United State dollars or British pound sterling depending on which ever was found stronger. Besides, the Nigerian Central Bank (CBN) adopted the basket-of-currencies strategy from 1980 upto 1985. This demonstrated the movement and or a guide in the determination of the exchange rate movement.

As the nation continued to loose reserves due largely to excessive importation and rapid outflow of foreign exchange, there was a policy reversal in 1981. This was aimed at attacking the deteriorating external sector position. The over valuation of the naira was recognized as a source of concern by the authorities. The depreciation of the naira was to stem the tide of outflow of foreign exchange by way of hostelling import demand. This policy could not reverse the deteriorating condition in the country. The situation was worse with all the attendant problem associates with continuous accumulation of the payment arrears and the erosion of the nations credit worthiness. The basket of currencies approach was adopted as a guide in determining the direction of exchange rate movement as earlier stated above.

THE REGIME OF FLEXIBLE EXCHANGE RATE - SAP (1986-1993)

In September 1986 a major policy reversal became essential and the fixed exchange rate mechanism was discarded as a means of determining the naira exchange rate. This was replaced with a flexible exchange rate mechanism. The naira was permitted to find its level in accordance with the strength of demand and supply of foreign exchange. Put simply, the system was propelled by market forces of demand and supply. To achieve its aim, the monetary authorities retained the discretion of directing and intervening in the foreign exchange market so as to influence the course of exchange rate movement.

In the search for a realistic exchange rate of the naira, a number of methods have been applied. Specifically, naira was floated in the second tier foreign exchange market (SFEM) on the 26th of September 1986. Beginning from when the first tier was in operation,. a dual exchange rate mechanism was in operation during this period. This was a carryover from the fixed exchange rate system. The dual exchange rate was adopted so as to guard against the destabilizing impacts of a full scale adoption of the market mechanism. Excluded from SFEM, were pre-SFEM transactions, debt service payment, contribution to international organization and expenses of embassies. These were handled and settled at the First Tier rate. Second-Tier rate was determined by Auction at the SFEM. The pricing methods put in place to determine the naira rate were average of successful bids, marginal rate pricing and the Dutch Auction system (DAS) in April 1987.

By July of same 1987, the first and second Tier markets were merged into a single foreign exchange market (FEM). In 1988 autonomous market was created. It was found destabilizing in view of its speculative characteristics. In January 1989 Autonomous market was merged with FEM. This year also witnessed the creation of inter bank foreign exchange market (IFEM) Exchange rate under this regime was determined through any and or all of the marginal rate pricing, average rate pricing, highest and lowest bid, weighted average pricing.

Average of successful bids development in the exchange rate of international currencies could be and was monitored by central bank of Nigeria. This acted as a protective guide of determining (estimating) the acceptable/desirable level of the Naira exchange rate. By September 1990 the IFEM was modified and DAS reintroduced. In order to stem the tide and or reduce the rapid depreciation of the naira, the model weighted average method was introduced in August 1991. In March 5th 1992, there was the complete floating of the naira in view of continuous instability (fluctuations) in the IFEM even after having introduced the model weighted average method.

There was the widening parallel market premium as a result of this instability. The central bank had to adjust the official exchange rate to move at par with parallel market exchange rate. The CBN continued to meet all demands until reserve was drastically depleted. This necessitated the suspension of sales of foreign exchange by CBN on December 15, 1992. On January 12, 1993 sales resumed, DAS was the basis of the next auction on February 18, 1993. The DAS Auction of February 24, 1993 represented a sharp depreciation evidencing successive reactions of depreciation. Pro-rata system of exchange rate allocation was adopted. This ensured meeting all demand for foreign exchange at least in part. From April 15, 1993, the rate stabilized at N21.8860 = $1.00 on an average basis. This records successive appreciation of the exchange rate. There was persistent depreciation of the parallel market exchange rate which led to widening of the parallel market premium beyond 100 percent in view of the persistent de-facto pegging of the official exchange rate in the last quarter of 1993.

POST SAP REGIME-GUIDED DEREGULATION OF FOREIGN EXCHANGE RATE (1994 - 1999)

Guided deregulation was associated with the return of policy to Flexible Exchange Rate. Thus unpleasing situations occurred as the re-regulation of exchange rates in 1994 made the Nigeria economy worse than the previous regimes. Naira depreciated sharply and the policy objectives could not be achieved. This sharp depreciation was in the parallel (black) market in that the parallel market premium widened. Stability in the exchange rate and foreign exchange market was an illusion. Balance of payment was under serious pressure. Furthermore, there was a decline in non-oil receipts. The demand for foreign exchange took an upward trend as it became unsustainable in the face of low standard of supply of foreign exchange. Other implications include but are not restricted to the fact that domestic output performed exceedingly poor and inflationary trend exacerbated. All macroeconomic variables performed dismally poor. This led to the ardent policy reversal in 1995 from regulation to a liberalized guided deregulation of the foreign exchange market. By this arrangement, Bureaux De change were granted the license of buying and selling foreign exchange as was the case in the 1994 policy arrangement which restricted them to buying agents. A basic feature of this deregulation was the reintroduction of the autonomous market for Foreign Exchange (AFEM) in the disbursement of foreign exchange to end-users. This was through selected banks. Here a rate of $1.00 = N22.00 was reserved and subsidized for public sector transactions of non commercialized agencies. It embraced debt services payment and priority projects of National status.

Appreciable and distinguishing feature of the NEW AFEM in relation to the abolished one of 1989 include: the expanded institutional scope of the NEW AFEM and abolition of inter-bank dealings with official intervention funds in the market. The pre 1989 arrangement favoured autonomous market and was exclusively an inter-bank market arrangement thus making official foreign exchange to be eligible for transaction.

Under guided deregulation for the year 1995, building external reserves aimed at improving the credit worthiness of the Nigeria economic system and its competitiveness was a major objective of foreign exchange and exchange rate policy. Another goal was the strengthening of Naira geared at moving the currency towards gradual convertibility. The foreign exchange holdings of the apex financial

Institution of Nigeria were deployed to build up reserves as well as finance priority public sector transactions such as debt service payments. The central Bank's foreign exchange was also to ensure intervention in the foreign exchange market aimed at reasonable stability in exchange rates.

The Autonomous Foreign Exchange Market (AFEM) was saddled with some anticipated responsibilities such as reduction of parallel market premium, ensuring the gradual convergence of the various exchange rates in a single and enlarged foreign exchange market and inducing persistent increase in the non-oil export receipts. Other responsibilities were reduction of demand pressures in the foreign exchange market and stabilization of the naira exchange rates.

The Central Bank of Nigeria had the role of intervening in the market regularly as appropriate and could sell foreign exchange to ultimate users through selected authorized dealers. This was to tackle the constraints associated with AFEM and guide against exchange rate (fluctuation). In order to stabilize exchange rates, the Central Bank could also buy foreign exchange from AFEM. The year 1995 equally witnessed the abrogation of Exchange control Act of 1962, the enterprises Promotion Decree of 1989 and the permission granted to exporters to sell export proceeds at autonomous rates to banks other than those in which they maintained domiciliary accounts.

In 1996 exchange rate policy thrust was maintained, the central Bank's intervention on discretionary basis in respect of the AFEM was regulated. This was by way of directing banks to embark on intervention strictly on monthly interval in 1996 but the intervention strategy stabilized on weekly interval as at October 1999. Dual exchange rate though modified in 1998 had been retained in 1997. Most foreign exchange transactions were carried out at the AFEM. Even though some macroeconomic aggregates showed prudent improvement in 1995 in relation to the 1994 performance, there was on astronomical (upward) trend of inflation. The exchange rate stabilized at the AFEM. The rate at this point was about N80=$1.00 and N85=$1.00. Monetary stability was maintained as the fiscal operation of government resulted in an enlarged surplus. The naira was overvalued going by the purchasing power parity (PPP) rate of a little above N88=$1.00, thus some stability was maintained in the AFEM at the end of 1997. Thus the exchange rate of naira was and has been realistic with effect from the introduction of the AFEM. But there has been an overvaluation of the naira based on current trend in IFEM and developments in domestic prices. There has also been a reversal of the initial undervaluation of the naira and stability recorded when IFEM came into force in October 1999 as reflected by the narrowing of the paralled market premium. The reversal is as a result of some factors one of which is the imperfections which the Central Bank of Nigeria is tackling. Practically, the Apex financial institution has been the main seller with little foreign exchange to buy from the market.

REFORM AND POLICY RELEVANCE

The nature of constraints facing an economy determines the essential exchange rate policy for such an economy. Thus reallocation of resources through price effects that induces the competitiveness of export and the domestic economy therefore remain a basic premise of an efficient exchange rate policy. Another basic tenet of an efficient exchange rate policy include but is not exclusively restricted to enhancing productive activities in the economy while momentarily containing imports until when exports and capital inflows are essentially high to reduce the need for official intervention apart from halting market failure. Policy design could be influenced by clearly and precisely identifying exchange rate objectives. Thus exchange rate mechanism should be supportive of a regime of restrictive demand management in event of macroeconomic instability in the country. If deficit is irreversible, that is, flow deficit, then reserves depreciation (depletion) would be ineffective. When a stock balance of payments deficit deemed to be reversible is in existence coupled with sufficient and or availability of reserves, then such deficit could be financed when sharp practices can be controlled, equally a sharp exchange rate mechanism may be viable but this has to be buttressed by exchange and trade controls.

Consistent application of trade and exchange controls and foreign exchange allocations through a fixed exchange rate regime leads to resource misallocation and other sharp practices. Inevitably, it encourages the development of a parallel market for foreign exchange. Policy option adjudged best in this regard is the adoption of a flexible exchange rate system. This aids the efficient allocation of foreign exchange under a comprehensive structural adjustment framework.

Another crucial factor in the design of exchange rate policy is appropriate and satisfactory level of exchange rate. Continuous macroeconomic instability is capable of occurring in event of domestic currency being over or undervalued and disequilibrium existing. If the disequilibrium is not corrected the macroeconomic instability could continue persistently. Persistent deficit/surplus become a common feature of external Sector thereby leading to domestic macroeconomic aggregates for deficit countries. It becomes imperative to adopt satisfactory and appropriate exchange rate so as to ensure external sector equilibrium. Rational approaches like purchasing power parity (PPP) and or allied market related measures become the yardstick of determining such an exchange rate.

Other approaches involve the adoption of fixed and freely floating exchange rates so as to allow discretion to the authorities in rectifying identified market failures as well as provide satisfactory and convincing social safety nets. In the design of an exchange rate policy, other areas of concern could be the efficiency of a multiple exchange rate system in relation to unified exchange rate system. Multiple exchange rates are incompatible with a flexible exchange rate regime and structural adjustment. Structural adjustment vis-a-vis flexible exchange regime is market driven. It should be stated here that multiple exchange rate system could be consistent with a system that is controlled. It brings distortions/imperfections into the system; the implied subsidy encourages rent-seeking (corrupt) practices necessitating speculation. Therefore in exchanging allocative effectiveness and efficient tackling, the effects of speculation and exchange rate unification become eminent.

CONCLUSION

The paper has examined economic reforms as it relate to the management of exchange rate in an emerging economy of which Nigeria is one. There has been cases of instability and or volatility associated with exchange rate thereby necessitating reforms aimed at achieving price stability, sustainable economic development, reduction of unemployment and balance of payments viability most especially when applied in collaboration with other macroeconomic policies. There has been series of macroeconomic constraints associated with a regime of unrealistic exchange rate of the naira. This has prompted series of reforms such as economic stabilization act of 1982 (Austerity measure), Structural Adjustment Programme (SAP), guided deregulation and lastly National Economic Empowerment and Development strategy (NEEDS) aimed at achieving millennium development goals. The paper maintains that economic reforms should be associated with a rethink in order to eschew mistakes of the past and not just economic growth, current Economic reforms should be properly focused and redesigned to be realistic as well as aligned with the resource base and mobilization. A deviation from this renders the economic programme of the country on illusion thereby chanting the canticles of old songs in a new tune.

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