A Critical Appraisal of Exchange Rate Policies and the Value of Domestic Currency in Nigeria, 1970 – 2002

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Abstract

This paper critically appraised exchange rate policies and its influence on the value of the domestic currency (i.e. Naira) in Nigeria for the period 1970 through 2002 within the framework of tabular approach. Exchange rate theories and the exchange rate policies prior to SAP, during SAP and after SAP were reviewed. The relationship between exchange rate theories and exchange rate policies as it affects the value of the domestic currency was equally reviewed. It was discovered in this study that the exchange rate policies adopted within this period has either caused the value of the domestic currency to appreciate or depreciate due to a number of factors or practices in the foreign exchange market which is determined by the forces of demand and supply. For instance, in the pre-SAP era (1970-1986), the value of the currency appreciated in 1970 through to 1975 due to the operation of an independent exchange rate system when the Pound Sterling ceased to serve as a direct external anchor for the Nigerian currency. While there was a depreciation in the value of the Naira in 1976 and 1977 as a result of the introduction of US dollar as one of the reference currencies. Between 1986 and 2002, the floating exchange rate policy was introduced and the value of the Naira steadily depreciated between 1986 and 2001 due to some factors among which are over valuation of the Naira; excess demand of foreign exchange over supply, excess liquidity in the economy, capital flight from the economy; round-tripping etc. But in 2002, the Naira appreciated due to the introduction of Dutch auction system which emphasizes on market-oriented approach to price determination of which the economic implication resulted to stability in the exchange rate, a boost on non oil export and growth in the economy due to improved credit worthiness. This paper concludes that SAP had failed the nation in many ways and that to achieve stable value of the naira, the current exchange rate policy, the Dutch Auction System should be maintained with the enforcement of two-quote system in the IFEM. Firstly, the CBN should monitor the use of foreign exchange resources to ensure that foreign exchange disbursement and utilization are in consonance with the predetermined economic preferences and also with the purview of the yearly foreign exchange budget.

1. Introduction

Exchange rate is a relative price that measures the worth of one country's domestic currency in terms of another country's currency. It relates the purchasing power of a domestic currency, in terms of the volume of goods and services it can purchase vis-à-vis a foreign trading partner's currency, over a specific period of time. Thus, the exchange rate reduces the relative strengths of relating economies to measurable aggregates through a number of conceptual frameworks (Obaseki 2001). In other words, exchange rate policy is the sum total of the institutional framework and measures put in place to gravitate relative prices towards desired level in order to stimulate the productive sectors, reduce inflation, ensure internal balance, improve the level of exports, attract direct foreign investment and other capital inflows. Exchange rate policy is also seen in a more simplified form as the framework, rules and other measures for determining and influencing the level of the exchange rate at a particular time. It is a useful tool in macro-economic management since it reflects the performance of both the domestic and external sector of the economy.

Prior to the inception of SAP, Nigeria's exchange rate policy was largely a passive one dating back to 1959 with the introduction of the Nigerian pound in that year. The value of the Nigerian currency was fixed at par with the British pound sterling, which in turn had a declared value of $2:80US dollar to the pound. Nigeria's accession to membership of the IMF on attaining independence in 1960 saw the declaration of a party of the Nigerian pound as being equal to 2.48828 grams of fine gold in 1962 while the fixity of the value of the Nigerian pound in relation to the US dollar was maintained.

The declaration of the British pound sterling in 1967 however brought about an appreciation of the Nigerian pound which then exchange for 1.17 British pounds sterling and appreciation that was brought about Nigeria's refusal to declare her currency alongside the pound sterling. The largely passive nature of the exchange rate policy within this period of fixed exchange regime was underscored by the failure of policy markers to tinker with exchange rate in response to the emerging balance of payment crisis within this period especially between 1967 and 1970. The policy response however largely took the form of exchange control as well as protectionist measures such as import restriction to the emerging crisis.

However, the policy has moved in a circle, starting from a fixed rate system from 1960 to 1985, a flexible exchange rate system from 1986- 1993, a temporary halt to deregulation in 1994 when the official exchange rate was pegged and the reversal of policy in 1995 with the " guided deregulation" of the foreign exchange market, through exchange rate mechanism. The policy thrust of 1995 was retained in 1996. The dual exchange rate system was retained in 1997 and 1998. However, all official transactions, except those approved by the Head of State were undertaken in the Autonomous foreign Exchange market (AFEM) Thus, transaction at the pegged official exchange rate were slimmer. Owing to market imperfection and to sustained instability in the rate of naira, the AFEM was replaced with an inter- Bank Foreign Exchange market (IFEM) in October 1999

after an initial period of co- existence. In the IFEM a two quote system was expected to prevail while the market was conducted daily in dispensation, oil companies were allowed to keep their Foreign Exchange in banks of their choice, against the previous practice where they were mandated to keep such funds with the Central Bank of Nigeria (CBN).

The CBN has continuous to fine-tune the IFEM to make it more effective and efficient. Early in 2002, Thomas Cook was granted permission to transact foreign exchange business on travelers' cheques in Nigeria. This was intended to deepen the foreign exchange market and reduce the undesirable impact of the parallel market. Therefore, the major objective of this paper is to determine the influence of exchange rate policies on the value of the domestic currency (i.e. Naira) and also make policy recommendations that would enhance appreciation of the Naira value and sustained stability. This paper is divided into five sections: section one is the introduction, section two reviews the literature and section three outlines the exchange rate theories and exchange rate policies nexus. Section four presents the methodology, Section five evaluates exchange rate policies in Nigeria and Section Six highlights the summary and then concludes the study.

2. Review of Literature

2.1 Exchange Rate Theories

Exchange rate theories are necessary in the design of exchange rate policies in that they throw more light on the issues of important in the exchange rate policy formulations. These theories or models are based on a body of economic theories on the relationship between the exchange rate of a domestic currency via-a vis that of trading partners and the factors responsible for variation in their equilibrium values. The models of exchange rate determination considered in this study are briefly discussed below

2.1.1 The Traditional Flow Model:

This body relies on equilibrium in the foreign exchange market as the determining factor of the appropriate exchange rate. The intersection between the demand for and supply of foreign exchange or the market clearing equilibrium rate is regarded as the pure or market exchange rate. The point of intersection is derived from the so called "Marshallian Scissors" which are the demand and supply schedules.

The traditional flow does not relegate the importance of money but it concentrates on forces behind the demand and supply schedules of foreign exchange. It posited that relative price, interest rates and real income influences the exchange rate or the strength of nation's currency

2.1.2 The Portfolio Balance Model

This body relies heavily on the assets or portfolio market. It holds that the portfolio equilibrium position of wealth holders in each country simultaneously determines the exchange and interest rates. The shift in the allocation of wealth between the domestic money base, domestic public bonds and net foreign bonds denominated

in foreign currency influences the equilibrium exchange rate movements, domestic interest rates and fiscal operations of government to the extent that they reduce movements in net foreign assets holding. Accurate forecast based on this model are therefore difficult because domestic and foreign assets are not perfect substitutes as their rates of returns differ significantly. Furthermore, while some countries are net foreign debtors, others are net foreign creditors. The most disturbing omission of this model is the treatment of wealth holders in isolation of the environment in which they operate. The environment influences the decision of wealth holders. The wealth that is being distributed between the various assets would have been earned as a result of certain investment decisions and prevailing economic conditions. The model would therefore, be inadequate for explaining the entire variation in exchange rate of a country.

2.1.3. **The Monetary Approach**

The monetary approach to exchange rate determination is the most elegant and perhaps the most complete of all the models of exchange rate. The monetary approach is complete because it did not only emphasis the primary role of money but recognizes the role of the real sectors as a contributory factor in exchange rate determination. The monetary model is based on three major instances. In the first instance, it asserts that the equilibrium exchange rate depends on the money stock equilibrium conditions in each country's money market. The monetary equilibrium condition states that the price level adjust instantaneously to equate the value of nominal money stock to the desired or real demand for money. The demand for money itself is a function of real income and nominal interest rates. The movement in the monetary equilibrium is comparatively analyzed with that of a trading partner. An increase in the money stock would induce the depreciation of the domestic exchange rate via-a vis trading partner's currency while a decrease will lead to the appreciation, all things being equal. The rate of growth of domestic income is also adduced as a factor influencing the exchange rate. An increase in the growth rate of domestic income in comparison with those of trading partners would cause the exchange rate to appreciate. This is because the resulting excess demand for money would lead to a fall in the domestic price level. The third instance on which the monetary model stands is the covered interest parity which holds that interest rates are equalized on a global basis. If interest rate in the domestic economy rise, the demand for money would fall, price would rise and the exchange rate would depreciate. Thus, the exchange rate of a domestic currency is influenced by relative shifts in money stocks, real income and interest rate or inflation rates. The reduced form equation of monetary model can be expressed as follows:

$$LEXR = \alpha_0 + \alpha_1 (Lm-Lm^*) + \alpha_2(LY-LY^*) + \alpha_3 (Li+Li^*) + U_1$$

Where EXR is the exchange rate

M is money stock

Y is domestic output

I is inflation rate or its proxy such as interest rate

L is log while U_1 is the error term with zero variance, and assumed to be uncorrelated with the explanatory variables.

The condition for the monetary model re restrictive and may not necessarily hold in their entire ramification in developing economies. In most cases, the simplest version of the monetary model is in fact one of the relevant equations of the model, the purchasing power parity (PPP), is applied in the calculation of the equilibrium exchange rate. The PPP represents the long- run equilibrium exchange rate.
This can be represented thus:

$$eo\ Pd / P_f \quad - \quad - \quad - \quad 1$$

an index of the real exchange rate

$$\frac{Et}{PPP} \quad - \quad - \quad - \quad 2$$

Where: E_t is the spot exchange rate

Substituting equation 2 into 1 yields,

$$\frac{E_t.P_t}{E_O.P_d} \quad - \quad - \quad - \quad 3$$

Where: E_o is the base period exchange rate.

Equation (2) above measures the extent of deviation of the actual exchange rate from the base period PPP, while equation (3) is the index of the RER and it measure the extent of overvaluation or under valuation of NER. Where $E_t > 1$, the domestic currency is under valued where $E_T<1$.
In a nutshell, the quantity theory of money and the national income identity provide the foundation of the basic tools for analyzing the appropriateness and impact of exchange rate on the value of the domestic currency.

2.2 Exchange Rate Policies

The main objectives of exchange rate policy in Nigeria are to preserve the value of the domestic currency, maintain a favourable external reserves position and ensure external balance without compromising the need for internal balance and the overall goal of macroeconomic stability.

Exchange rate policy has moved in a circle, starting from 1960 when Nigeria had her independence to date. Therefore the exchange rate policies is going to be examined from pre-SAP era which starts from (1960-1986), Policies under SAP era (1986-1993) and the post SAP era (1994 to date).

(i) Pre-SAP Era (1960-1986)

Pre-Sap era is also known as the exchange control era. Here various measures were adopted to operate the fixed exchange rate system that was in place in the exchange control era. Between 1960 and 1972, the Nigerian currency was pegged to British pound sterling. One Nigeria pound exchanged for one British pound sterling between 1960 and 1967. Although the parity between the Nigerian and British currencies was maintained, the Nigerian authorities operated an independent exchange rate system from 1967, when the pound sterling ceased to serve as a direct external anchor for the Nigerian currency. While the pound was devalued, the Nigerian currency was implicitly revalued since it maintained its former parities. From this period, the monetary authorities introduced the US

dollar as one of the reference currencies for the purpose of determining the exchange rate of the Nigerian pound.

As the nation continued to lose reserves due to excessive importation and rapid outflow of foreign exchange, a policy reversal occurred in 1981 to arrest the deteriorating external sector position. The overvaluation of the naira was recognized by the authorities and the naira was gradually depreciated to stem the outflow of foreign exchange through the curtailment of import demand. This policy was sustained up to 1986, the situation became worse with the continuous accumulation of payments of arrears and the erosion of the nation's credit-worthiness that the CBN had to apply the basket of currencies approach from 1978 as a guide in determining the direction of exchange rate movement.

(ii) Policy Under SAP Era (1986-1993)

The policy took effect from September 1986 when the fixed exchange rate mechanism for determining the naira exchange rate was discarded and replaced with a floating exchange rate mechanism. The system was propelled by market forces as the naira was allowed to find its level according to the strength of demand and supply of foreign exchange. However, the monetary authorities retained the discretion to intervene in the foreign exchange market to influence the course of exchange rate movement in order to achieve the aim of the policy.

(iii) Policy Under Post SAP Era (1994-2002)

In this period, there was a return of floating exchange rates under guided deregulation of the foreign exchange market. The re-regulation of the exchange rates in 1994 left the economy worse off than in the previous year. The policy objectives could not b e realized as the naira depreciated sharply in the parallel market, widening the parallel market premium, while stability in the exchange rate and the foreign market proved elusive, the balance of payments remained under intense pressure, non oil receipts decline, demand for foreign exchange assumed an upward pressure and became unsustainable in the face of relatively low level of supply of foreign exchange, inflationary spiral exacerbated and domestic output performed poorly. All macroeconomic variables performed dismally. This informed the policy reversal in 1995 from regulation to a liberalized framework of "guided deregulation" of the foreign exchange market. The major element of the deregulation was the re-introduction of the Autonomous Market for Foreign Exchange (AFEM) for disbursing foreign exchange to end-users through selected banks.

3. Exchange Rate Theories and Exchange Rate Policies Nexus : The Nigerian Experience

In the Pre-SAP Era (1960-1986), the relationship was positively related in that, while the traditional flow theory relies on equilibrium in the foreign exchange market, the policy strived to maintain uniformity by operating the fixed exchange rate system.

During SAP Era (1986-1993), the relationship was inversely related since the theories still strived to maintain equilibrium in the foreign exchange market, the policy was flexible in that, it was allowed to find its level according to the forces of demand and supply. This invariably means that a shift in the allocation of wealth between the domestic money base, domestic public bonds and net foreign bonds denominated in the foreign currency will influence the theory which insists on equilibrium exchange rate.

In Post SAP Era (1994-2002), the relationship in this period was also negatively related, reasons being that, while the theories still maintain equilibrium exchange rates, the policy rather brought about depreciation in its exchange rate thus making the economy worse off in that period even with the re-regulation of exchange rates, the policy could not achieve its objective.

4. Methodology

The data for the study covers a period of thirty three years ranging from 1970 through 2002 and were sourced from the publications of the Central Bank of Nigeria statistical bulletin, various issues and publications of the Federal Office of Statistics, various issues.

In the analysis of the data collected, the tabular presentation of facts was used to show clearly the corresponding impact of exchange rate policies on the domestic currency for the period under study.

5. Evaluation of Exchange Rate Policies in Nigeria

In this section the study analyzed the various exchange rate policies in Nigeria, their objectives, achievements of objectives, reasons for achieving/not achieving the objectives, value of the Nominal Exchange Rate, percentage change of the exchange rate, depreciation and appreciation of the value of the Naira and economic implications of the policy concern.

Generally, the main objective of the exchange rate policy in Nigeria is to have a realistic exchange rate which would remove the existing distortions and disequilibrium in the external sector of the economy as well as ease our persistent-balance of payments problem (Olukole, 1992). He went further to stressed that what had contributed to our problems in the external sector of the economy was the over valuation of the Naira with its corresponding effect of making Nigeria to be more import dependent, and less self-reliance in the non-export driven economy. In the past, different exchange rate policies have been used depending on the economic situation in the country from time to time and some times in response to changing exchange rate policies in the world. Table 1 below revealed the economic implications of various exchange rate policies in Nigeria and on the value of the Naira.

Table 1: Analysis of Exchange Rate Policies, the Value of the Domestic Currency and the Resultant Economic Implications in the Nigerian Economy for the period – 1970 to 2002

Year	Exchange Rate Policy	Specific Objectives	Achievement of objectives	Reasons for Achieving/Not achieving the Objectives	Value of Nominal Exchange Rate	% Change	Depreciation / Appreciation	Economic Implications of the Depreciation/ Appreciation of the Naira
1970	Fixed Exchange rate system	To maintain parity between the Nigerian currency and the British pound and American dollar.	Yes	The Nigerian Authorities operated an independent Exchange rate system when the pound sterling ceased to served as a direct external anchor for the Nigerian currency.	0.714	-	-	Accelerate the rate of economic growth via increase in export of crude oil and buying and selling of foreign exchange and stimulation of non-oil export.
1971	Fixed Exchange Rate system	To maintain parity between the Nigerian currency and the British pound and American dollar.	Yes	The Nigerian Authorities operated an independent Exchange Rate system when the sterling ceased to served as a direct external anchor for the Nigerian currency.	0.694	-2.9	Appreciation	Accelerate the rate of economic growth via increase in export of crude oil and buying and selling of foreign exchange and stimulation of non-oil export.
1972	Fixed Exchange Rate system	To maintain parity between the Nigerian currency and the British pound and American dollar.	Yes	The Nigerian Authorities operated an independent exchange rate system when the pound sterling ceased to served as a direct external anchor for the Nigerian currency	0.658	-5.8	Appreciation	Accelerate the rate of economic growth via increase in export of crude oil and buying and selling of foreign exchange and stimulation of non-oil export.
1973	Fixed Exchange rate system	To maintain parity between the Nigerian currency and the British pound and American dollar.	No	Excessive importation and rapid outflow of foreign exchange and the existence of parallel market for foreign exchange.	0.658	0.0	Depreciation	Increased payment arrears High cost of living as result of increased in the general price level and decline in Reserves.
1974	Fixed Exchange rate system	To maintain parity between the Nigerian currency and the British pound and American dollar.	Yes	Nigerian currency maintained its former parity.	0.629	-4.6	Appreciation	Improvement in the balance of payment position and large degree of convertibility of the Naira and increase in the export of crude oil.

1975	Fixed Exchange rate system	To maintain parity between the Nigerian currency and the British pound and American dollar.	Yes	Nigerian currency maintained its former parity.	0.616	-2.1	Appreciation	Improvement in the balance of payment position and large degree of convertibility of the Naira and increase in the export of crude oil.
1976	Fixed Exchange rate system	To maintain parity between the Nigerian currency and the British pound and American dollar.	No	Excessive importation of capital goods and outflow of foreign exchange.	0.627	1.8	Depreciation	Decline in real value of output and assets and increase in inflation rate, high cost of living and decline in reserves.
1977	Fixed Exchange rate system	To maintain parity between the Nigerian currency and the British pound and American dollar.	No	Excessive importation of capital goods and outflow of foreign exchange.	0.647	3.1	Depreciation	Decline in real value of output and assets and standard of living, high rate of inflation and decline in reserves.
1978	Pegged to currency basket.	To determine the direction of exchange rate movement and to arrest the deteriorating external sector position.	Yes	Liberalization of export and import licensing.	0.607	-6.6	Appreciation	External sector stability and minimizing the constraints imposed by the BOP dis-equilibrium.
1979	Pegged to currency basket.	To determine the direction of exchange rate movement and to arrest the deteriorating external sector position.	Yes	Introduction of comprehensive import supervision scheme to guard against sharp import practices such as over-invoicing and importation of undeclared items.	0.603	-0.7	Appreciation	External sector stability and minimizing the constraints imposed by the BOP dis-equilibrium.
1980	Pegged to currency basket.	To determine the direction of exchange rate movement and to arrest the deteriorating external sector position.	Yes	Introduction of comprehensive import supervision scheme to guard against sharp import practices such as over-invoicing and importation of undeclared items.	0.547	-10.2	Appreciation	External sector stability and minimizing the constraints imposed by the BOP dis-equilibrium.

1981	Pegged to currency basket.	To determine the direction of exchange rate movement and to arrest the deteriorating external sector position.	No	Foreign exchange crisis as a result of the numerous activities of speculators, middlemen and also excess demand of foreign exchange over supply.	0.605	9.6	Depreciation	Persistent drain on external reserves and reduction in import demand.
1982	Pegged to currency basket.	To determine the direction of exchange rate movement and to arrest the deteriorating external sector position.	No	The abuses of under-invoicing of exports and over-invoicing of imports; capital flight and round-tripping.	0.673	10.1	Depreciation	Persistent drain on external reserves and reduction in import demand.
1983	Pegged to currency basket.	To determine the direction of exchange rate movement and to arrest the deteriorating external sector position.	No	The abuses of under-invoicing of exports and over-invoicing of imports; capital flight and round-tripping.	0.723	6.9	Depreciation	Persistent drain on external reserves and reduction in import demand.
1984	Pegged to currency basket.	To determine the direction of exchange rate movement and to arrest the deteriorating external sector position.	No	The abuses generated as a result of decentralization of foreign exchange allocation which allowed licensed banks to approve application and allocate foreign exchange to customers.	0.764	5.4	Depreciation	Persistent drain on external reserves and reduction in import demand.
1985	Pegged to currency basket.	To arrest the deteriorating external sector position.	No	Inability to achieve internal balance in the short term and guarantee external equilibrium in the Long-Run as a result of overvaluation of the Naira.	0.892	14.3	Depreciation	Increased dependence on imports, depletion of external reserves, reduction on capital inflow, encouragement on parallel, market activities, reduction in competitiveness in export activities, inability to pay on current basis, accumulation of payments arrears and increased external debt problems.

1986	Floating exchange rate	Emphasis on export, promotion and to boost non-oil exports through setting up of export free-trade zones, liberalization of export and import licensing procedures etc.	No	Inability to achieve internal balance in the short term and guarantee external equilibrium in the Long-Run as a result of overvaluation of the Naira.	1.271	29.8	Depreciation	Increased dependence on imports, depletion of external reserves, reduction on capital inflow, encouragement on parallel, market activities, reduction in competitiveness in export activities, inability to pay on current basis, accumulation of payments arrears and increased external debt problems.
1987	Floating exchange rate	Emphasis on export, promotion and to boost non-oil exports through setting up of export free- trade zones, liberalization of export and import licensing procedures etc.	No	Excess demand for foreign exchange over supply and excess liquidity in the economy	3.970	68	Depreciation	Increased importation of capital goods; high level of inflation rate; and uncompetitive production sector at the international level.
1988	Floating exchange rate	To stabilized the external sector and minimize the BOP disequilibrium .	No	Excess liquidity in the economy and excess of demand for foreign exchange over supply.	4.529	12.3	Depreciation	Increased importation of capital goods; high level of inflation rate; and uncompetitive production sector at the international level.
1989	Floating exchange rate	To stabilized the external sector and minimize the BOP disequilibrium .	No	Excess liquidity in the economy and excess of demand for foreign exchange over supply.	7.364	38.5	Depreciation	Increased importation of capital goods; high level of inflation rate; and uncompetitive production sector at the international level.
1990	Floating rate	To stabilize the external sector and minimize the BOP disequilibrium.	No	Excess liquidity in the economy and excess of demand for foreign exchange over supply.	8.038	8.4	Depreciation	Increased importation of capital goods; high level of inflation rate; and uncompetitive production sector at the international level.

1991	Floating rate	To stem average rapid depreciation of Naira	No	Persistent instability in the IFEM which was reflected in the widening parallel market premium and continuous satisfying of all demands made until reserve became drastically depleted.	9.756	17.6	Depreciation	Increased importation of capital goods; high level of inflation rate; and uncompetitive production sector at the international level.
1992	Floating rate	To stem average rapid depreciation of Naira	No	Persistent instability in the IFEM which was reflected in the widening parallel market premium and continuous satisfying of all demands made until reserve became drastically depleted.	19.685	50.4	Depreciation	Increased importation of capital goods; high level of inflation rate; and uncompetitive production sector at the international level.
1993	Floating rate	CBN undertook to meet all demand for foreign exchange	No	Excess liquidity in the economy and excess demand for foreign exchange over supply.	22.026	10.6	Depreciation	Increased importation of capital goods; high level of inflation rate; and uncompetitive production sector at the international level.
1994	Floating rate	To redress the market distortions occasioned by the introduction of a fixed exchange rate regime.	No	Centralization of foreign exchange allocation to end-users on pro-rata basis.	22.422	1.8	Depreciation	Increased importation of capital goods, high level of inflation rate, uncompetitive production sector, low level of external reserve in the economy, declines in non-oil receipts etc.
1995	Floating rate	To redress the market distortions occasioned by the introduction of a fixed exchange rate regime.	No	Liberalizing of foreign exchange market through guided deregulation of FEM with the introduction of AFEM.	80.00	72	Depreciation	Increased importation of capital goods, high level of inflation rate, uncompetitive production sector, low level of external reserve in the economy, declines in non-oil receipts etc.
1996	Floating rate	To build up external reserves; strengthen the Naira and pave way for its sustained stability and ultimate convertibility.	No	Liberalizing of foreign exchange market through guided deregulation of FEM with the introduction of AFEM.	100.00	20	Depreciation	Increased importation of capital goods, high level of inflation rate, uncompetitive production sector, low level of external reserve in the economy, declines in non-oil receipts etc.

1997	Floating rate	To build up external reserves; strengthen the Naira and pave way for its sustained stability and ultimate convertibility.	No	Liberalizing of foreign exchange market through guided deregulation of FEM with the introduction of AFEM.	102.50	2.4	Depreciation	Increased importation of capital goods, high level of inflation rate, uncompetitive production sector, low level of external reserve in the economy, declines in non-oil receipts etc.
1998	Floating rate	To build up external reserves; strengthen the Naira and pave way for its sustained stability and ultimate convertibility.	No	Liberalizing of foreign exchange market through guided deregulation of FEM with the introduction of AFEM.	105.00	24	Depreciation	Increased importation of capital goods, high level of inflation rate, uncompetitive production sector, low level of external reserve in the economy, declines in non-oil receipts etc.

1999	Floating rate	To build up external reserves; strengthen the Naira and pave way for its sustained stability and ultimate convertibility.	No	Persistent expansionary fiscal policy and excess liquidity in the system.	110.00	4.5	Depreciation	Increased importation of capital goods, high level of inflation rate, uncompetitive production sector, low level of external reserve in the economy, declines in non-oil receipts etc.
2000	Floating rate	To curtail fiscal expansion; to encourage exports, earn more foreign exchange to enhance stability in exchange rate.	No	Excessive demand for foreign exchange over supply; unguided trade liberalization policy; speculative tendencies in the FEM' round-trapping in the FEM and capital flight.	120.00	8.3	Depreciation	Increased importation of capital goods; high inflation rate; uncompetitive productive sector; a run-down on external reserves in the economy.
2001	Floating rate	To curtail fiscal expansion; to encourage exports, earn more foreign exchange to enhance stability in exchange rate.	No	Excessive demand for foreign exchange over supply; unguided trade liberalization policy; speculative tendencies in the FEM' round-trapping in the FEM and capital flight.	134.41	10.7	Depreciation	Increased importation of capital goods; high inflation rate; uncompetitive productive sector; a run-down on external reserves in the economy.
2002	Floating rate	Realigning the exchange rate of the Naira; conserving external reserves; market transparency; and curbing capital flight.	Yes	Introduction of the Dutch Auction system.	119.22	-12.7	Appreciation	Good measure of stability of exchange rate as well as reduction in the arbitrage premium between the official and parallel market rates and also a boost on non-oil exports growth in the economy.

Sources: Compiled by the Authors using:

(1) CBN's Economic and Financial Review (Various Issues)

(2) CBN's Statistical Bulletin (Various Issues)

(3) CBN's Economic Report (Various Issues)

The fact presented in the table above revealed that as a result of the fixed exchange rate policy in 1970 through to 1980 and the objective being to maintain parity between the Nigerian and the British currency was achieved for the reason that the Nigerian government operated an independent exchange rate system when the pound sterling ceased to serve as a direct external anchor for the Nigerian currency. This resulted in the appreciation of the value of the naira between 1970 and 1975.

When the US dollar was introduced as one of the reference currencies in 1976, there was depreciation in the value of the naira in 1976 and 1977 due to excessive importation of capital goods and outflow of foreign exchange. This prompted a policy reversal from a fixed exchange regime to the application of pegging the naira to a basket of currency between 1978 and 1985 aimed of determining the direction of exchange rate movement, and to arrest the deteriorating external sector position. The objective were achieved in 1978 through to 1980 as a result of liberalization of export and import licensing in 1978 and the introduction of comprehensive import suspension scheme to guide against sharp import practices such as over-invoicing and importation of uncleared items in 1979 and 1980, which resulted in external sector stability and the minimization of the constraints imposed by the balance of payments disequilibrium. But between 1981 and 1985 when the pegging to currency basket lasted, the objective of reducing the external sector imbalances was not achieved due to foreign exchange crisis brought about by the numerous activities of speculators and middlemen and excess of demand for foreign exchange over supply in 1981 and the abuses of under-invoicing of exports and over-invoicing of imports; capital flight and round tripping in 1982 and 1983 to the abuses generated as a result of decentralization of foreign exchange allocation which allowed licensed banks to approve application and allocate foreign exchange to customers in 1984 and the inability to achieve internal balance in the short term and guarantee external equilibrium in the long run due largely to overvaluation of the naira in 1985. The attendant economic implication was the persistent drain on external reserve in 1981 through to 1984 and increased dependence on imports, reduction on capital inflow; inability to pay on current basis; accumulation of payment arrears, a run-down on the external reserves etc. in 1985.

Between 1986 and 2002, the floating exchange rate policy was introduced and the value of the naira persistently depreciated between 1986 and 2001 due to some reasons as presented in table 1, and appreciated in 2002 as a result of the introduction of Dutch Auction System which led to the achievement of the exchange rate policy objectives of realigning the exchange rate of the naira; conserving external reserves; market transparency and curbing capital flight from the country, the end result was a good measure of stability in the exchange rate and a boost on non-oil exports growths in the economy in recent times (CBN, 2003).

Table 2 Summary of the Number of Years the value of the Naira appreciated or depreciated in Pre-SAP, During-SAP and Post-SAP era for the Period 1970-2002

S/N	Periods	Appreciation	Depreciation
1	Pre-SAP Era (1970 – 1985)	7	8
2	During-SAP Era (1986-1993)	-	8
3	Post-SAP Era (1994-2002)	1	8
	TOTAL	8	24

Source: Derived from Table 1

From Table .2 above, it is revealed that the value of the domestic currency appreciated for seven (7) years and Depreciated for eight (8) years in the pre-SAP era. This development was due to the reasons presented in Table 1 such as the maintenance of parity of the naira value with the pound sterling and the dollar; increase in export of crude oil and stipulation of non-oil exports among others in the early 70s, and thereafter, the depreciation set in due to excessive importation of capital goods, outflow of foreign exchange, decline in external reserves etc. During SAP the naira consistently depreciated. This suggest the worst period in Nigerian economic history. This period exhibited a lot of economic crises ranging from the introduction of SAP to devaluation of the Niara; depletion in the external reserves, high inflation rates, reduction in capital inflow, un-competitive production sector at the international level, inability to pay on current basis, accumulation of payment arrears, increased in external debt stock, etc. According to Uwatt (2004), this period recorded the highest level of insensitivity, bribery, corruption and mis-management in the nation's economic history. The reasons for the consistent depreciation of the Naira are presented in table 1.

In the post-SAP era, the Naira appreciated for one year and depreciated for eight (8) years. It is pertinent to highlight here that this periods recorded high level of capital flight from the country in the form of loots deposited in foreign banks by late General Sani Abacha; multinational corporation (outflow) repatriation of about 80% of their profit outside the country; unfavourable economic policies of President Olusegun Obasanjo, such as expansionary fiscal policy and excess liquidity in the economy; unguided trade liberalization policy, etc. But in 2002, the value of the naira appreciated due largely to the introduction of the Dutch Auction System.

Furthermore, table 2 revealed that the introduction of SAP does not solve the problems of Nigeria, rather it worsen the situation. It should be recalled that the main aim of SAP was to restructure and diversity the productive base of the economy; achieve balance of payment stability; lay the basis for sustained economic growth; limit the degree of unproductive elements in the public sector; improve the sectors efficiency and intensify the growths of the private sector; and establish a realistic and sustainable exchange rate for the Naira. These objectives were to be achieved through the main instruments of SAP, such as trade and payments liberalization, tariff reforms, devaluation of the naira and privatization

and commercialization of public enterprises. SAP had failed in the areas of achieving a realistic and sustainable exchange rate among others for Nigeria.

Many observers saw SAP as a comprehensive economic package that will get Nigeria out of her economic predicaments. Unfortunately, all the macro-economic problems which were evident in the Nigerian economy prior to SAP, still persist in recent times. As Gbosi (2004) rightly put it. Structural Adjustment Program was seen by many economist as the "Moses" that will lead Nigeria to the "Promised Land" as far as a realistic exchange rate for the Naira was concerned. Making references to table 1 and 2 above shows that the various exchange rate policies adopted under SAP has not led Nigeria to the "promised land". As can be seen from the tables, there has been persistent depreciation of the naira throughout the SAP period (1986-1993).

Finally, in the early years of Post-SAP era (1994-2002), the Naira has been depreciating persistently instead of appreciating. At the end of 2002 the Naira appreciated, about 119.22 was exchanged for One US dollar representing –12.7 percentage change as against the depreciation of the Naira by N134.41 to One US dollar representing 10.7 percentage change in 2001. This depreciation adversely affected the performance of Nigerian's external sector. This development suggests that the various macro-economic policy measures adopted in the post-SAP era by the CBN have not succeeded in establishing a realistic and sustainable exchange rate for the naira.

6. Summary and Concluding Remarks

From the above analysis, it was observed that in the Pre-SAP era, the policy operated was a fixed exchange rate system but the objective as seen in the table above was achieved and subsequent appreciation of the Naira between 1970 and 1975 due to operation of an independent exchange rate system when the pound sterling ceased to serve as a direct external anchor for the Nigerian currency,. When the US dollar was introduced as one of the reference currencies in 1976 there was a depreciation of the naira in 1976 and 1977 due to excessive importation of capital goods and outflow of foreign exchange. In 1978 to 1985 the naira appreciated due to thea basket of currencies aimed at arresting the deteriorating external sector position which was achieved between 1978 and 1980. Between 1981 and 1985, the value of the naira depreciated due to foreign exchange crisis of these years. The persistent depreciation of the naira continues to 2001 due to the reasons outlined in the table. But in 2002, the value of the naira appreciated and the objective of the policy achieved due to the introduction of the Dutch Auction System by the CBN.

The paper concludes that SAP had failed the nation in many ways and that to achieve a stable value of the naira, the current exchange rate policy of Inter-bank Foreign Exchange Market (IFEM) should be sustained with the enforcement of a two-way quote system, money supply should be moderated to reduce destabilizing and speculative demand for foreign exchange and stem the rapid growth in the domestic prices. This would be achieved through supportive fiscal operations, in

order to prevent naira over-valuation and thus ensure that the domestic currency does not lose international competitiveness. The current expenditure profile of government is inflation prone and perpetuates the phenomenon of excess liquidity in the economy, thus inhibiting the ability for the CBN to maintain money stability. When the oil windfalls revenue were earned by Nigeria, the CBN highly advised that the excess funds should be shared by the three tiers of government to sterilized or prevent inflationary spiral. But this wise counsel was ignored and the ripple effects are being felt at the moment. As a matter of priority, government should establish a crude oil stabilization fund. The purpose would be to keep excess funds from oil exports which could be used when oil revenues are low. Furthermore, appropriate supply side measure to increase the level of domestic productivity and exports should be adopted.

The long run objective of exchange rate policy should be to achieve an equilibrium exchange rate that would guarantee both internal and external balance without undue dependence on equilibrating short term capital flows, acquisition of long-term external loans and abrupt monetary policy interventions. And finally, the Central Bank of Nigeria should monitor the use of foreign exchange resources to ensure that foreign exchange disbursement and utilization are in consonance with a predetermined economic preferences and also should be within the orbit of the yearly foreign exchange budget so as to maintain the stability of the domestic currency (i.e. the naira). Also the CBN should mop-up excess liquidity in the economy to stem inflation rate to enhance the naira stability, and also channel the excess oil revenue to the productive sector of the economy instead of committing it to settlement of external debt which will further destabilize the exchange rate of the Naira.

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