FOREIGN EXCHANGE ALLOCATION IN NIGERIA: A CASE STUDY OF CBN

BY

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CERTIFICATION

This project entitled "Foreign Exchange Allocation in Nigeria: A case study of Central Bank of Nigeria" by Mshelia Ladi Buba Dibbari meets the regulations governing the award of the Degree of Master of Business Administration (M.B.A.) of Ahmadu Bello University Zaria, and is approved for its contribution to knowledge and literary presentation.

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DECLARATION

I declare that this project has been written by me, and that it is a record of my own research work.

To the best of my knowledge, it has not been presented before for the award of degree.

All materials used were duly acknowledged.

SIGNATURE

27th May 1999
DATE

DEDICATION

This work is dedicated to my father Mr. Buba M. Mshelia and to the memory of my late friend Hajiya Zainab Mukhtar whose memory will remain forever. Zainab! Till we meet. Adieu.

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ABSTRACT

The problem of foreign exchange allocation raises a fundamental question in any economy of the world, more especially in an economy that is largely mono-cultural. The natural consequence of mismanagement of foreign exchange reserves is the worsening of the balance of payment problems. This is the scenario in which most developing countries of the globe including Nigeria find themselves today.

It is with the above in mind that this study attempted to study the role and effect of foreign exchange management in Nigeria using the Central Bank of Nigeria as a case study. Categorically, the study emphasized the maximization of foreign receipts, adequate utilization of scare foreign exchange and improvement of the balance of payment position.

In carrying out the above objectives, certain hypotheses were formulated. These served as general guides to the researcher as they sought to explain the facts of the assumed relationship.

Existing literature was reviewed, which included various opinions of scholars and researchers alike in the field of study. The study also examined the role of the central authorities in managing the country's foreign exchange resources in the pre-SAP era and during the period of Structural Adjustment Programme (SAP).

The sources of data collection for the study were both primary and secondary. The techniques employed to generate the primary data included

questionnaires and interviews administered on selected officials of the Central Bank Nigeria. On the other hand, secondary data were gotten from related textbooks, journals, educational and research publications etc.

The findings of this wor-icrevealed that in the era of Structural Adjustment Programme the free market forces and private initiatives were the instruments used for foreign exchange management. Their use, however, was not to avoid conflicts in the area of policy implementation.

For an effective foreign exchange management, the export base of the economy has to be diversified since the market forces were not in themselves sufficient to guarantee optimally. Measures that would help to strengthen the foreign exchange resources were highlighted as recommendation in the last chapter of the study.

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CHAPTER ONE

1.1 INTRODUCTION

FOREIGN EXCHANGE IS A MEANS OF EFFECTING PAYMENTS of international transactions. It can be acquired by countries through the export of goods and services, direct investment inflow drawn down on external loans, aids and grants. And it can be expended to settle international obligations. When foreign exchange expenditure is lower than foreign exchange receipts, the surplus is added to the reserves. These reserves which are also savings from foreign exchange transaction are held by the authority to finance shortfalls in foreign exchange receipts and to safeguard the international value of the domestic currency.

In every day life, foreign exchange means foreign currency or any other financial instruments acceptable as a means of exchange or payment. Thus, according to Central Bank of Nigeria (CBN) 1982 "foreign currency means any currency other than the Nigerian Currency and includes any note or coins which are or have at anytime been legal tenders in any territory outside Nigerian Currency". The definition even goes on further to include the right to receive

foreign currency in respect of any credit or balance at bank. In view of this fact, foreign exchange management involves the acquisition and development of foreign exchange resources, in order to reduce destabilizing short term capital flows. The Central Bank of Nigeria monitors the use of scarce foreign exchanges resources to ensure that foreign exchange allocation and utilization are in line with economic priorities and within the foreign exchange budget. In order to achieve these objectives, the Central Bank of Nigeria uses foreign exchange budget as a guide in allocating foreign exchange to Banks through foreign exchange market (FEM) on the basis of a market determined exchange rate.

When there is disequilibrium in the foreign exchange market caused by inadequate supply of foreign exchange reserves, pressure may be exerted on foreign exchange reserves. If the reserves are not adequate this may deteriorate into balance of payment problems. There is therefore, need to manage a nations foreign exchange resources so as to reduce the adverse effects of foreign exchange volatility. The management of foreign exchange resources is further informed by the need to set an appropriate clearing price in the foreign exchange market that would guarantee adequacy of supply in relation to the demand for foreign exchange. However, the art of foreign exchange management is a

conscious attempt to harness foreign exchange resources, deploy them to service the economy and meet other international commitments while saving same to raise the level of the country's international reserves so as to prevent the economy from experiencing shocks due to foreign exchange volatility.

1.2 STATEMENT OF THE PROBLEM

The inability of the exchange centre measures adopted before the commencement of the Structural Adjustment Programme (SAP) to turn around the external sector of the economy especially since 1982 when Nigeria started to experience serious exchange problems. The reasons adduced were that exchange controls were not applied consistently, they needed an intermediary and a lot of policing, and were often subjected to large scale corruption which derailed the system. Thus another reason was that the administered exchange rate mechanism adopted during this period led to the over valuation of the Naira exchange rate.

However, the problem of foreign exchange inadequacy, dependence on the oil sector for foreign exchange earnings, continuous depreciation of the Naira exchange rate and the attendant inflationary expectation are yet to be resolved and all these have far reaching implications for resource allocation, balance of

payment positions, terms of trade, inflation rate, etc. There is also the issue of declining foreign resources, where foreign exchange disbursement have exceeded the budgeted level, thereby causing the foreign exchange receipts to decline and resulting in a downward trend in our external reserves.

In order to have a crises free and more relaxed foreign exchange allocation mechanism, all these factors need to be reversed by appropriate policies and must be identified and this research work is geared toward examining the various problems facing foreign exchange allocations.

1.3 OBJECTIVES OF THE STUDY.

This study focuses on the role and impact of foreign exchange allocation in Nigeria, a case study of Central Bank of Nigeria. However, the fundamental solutions to the problem of foreign exchange allocation constraint is to develop a substantial domestic capital goods sector. It is obvious however, that until this task is accomplished foreign exchange will remain a vital resources to provide both complimentary and supplementary inputs in the development process. In the absence of domestic capital goods sector, an economy might depend on importation of capital good for capital accumulations. In such a situation

availability and management of resources for capital import becomes a crucial input to the development process.

However, the researcher's broad objectives of foreign exchange allocation is to emphasize the following.

i. Maximization of foreign exchange receipts .

ii. Optimal utilization of scarce foreign exchange resources.

iii. Improvement of the balance of payment position and maintenance of a level of reserves consistent with external stability and,

iv. Enhancement of confidence in Nigerian external payment system by Central Bank of Nigeria.

However, an objective of foreign exchange allocation mechanism hinged on providing a mechanism for achieving a realistic exchange rate of the Naira. Since the Naira exchange was grossly over valued such a mechanism will be expected to result in a depreciated Naira exchange rate which will in turn lead to the attainment of several desirable objectives.

In view of this, the objective of the study becomes pertinent in that foreign exchange earnings from international trade transaction and external aid are vital for economic transformation for less developed countries such as Nigeria. For

all less developed countries, all other things being equal foreign exchange resources so earned can induce increase factor supplies and promote the development of technical scales and knowledge, all of which should enhance domestic capital formation and capital growth.

1.4 SIGNIFICANCE OF THE STUDY

This research work is very important because of the following reasons.

i. The research will be able to bring to the knowledge, the truth about foreign exchange allocation and the mechanism of how it is being practised and its influence in the economic development of Nigeria.

ii. It will guide the researcher to advise the federal government of Nigeria and the Central Bank as her agent in the allocation process. Also, as a source of utilization to advice management for immediate resolution and positive changes.

iii. In times of pervasive recession and great shrinkage in the disposable income as a result of inflation, advise in the direction of effective allocation of foreign exchange will be a great relief and hope in a confusing situation, which is in practise.

iv. It will give Central Bank of Nigeria the knowledge and understanding of how to allocate foreign exchange and also knowing the reason why there is problem in allocating foreign exchange.

v. This study is very relevant and timely to financial sector and other organization directly or indirectly affected by foreign exchange allocation in the country. In view of the state of the economy, foreign exchange frequent stock out, closure of financial houses, distressed banks, retrenchment effect traceable mainly to monetary and fiscal policy.

There can be no question, but that foreign exchange allocation are by substantial margin, the most important of the kit of monetary policy weapon with a view to drastically reduce the risk of inflation, achieving a sustainable balance of payment position and stabilizing the Naira exchange rate.

1.5 SCOPE AND LIMITATION OF THE STUDY

This research is going to examine how the Central Bank of Nigeria manage and operate the country's foreign exchange resources, the movements in and around the activities of the foreign exchange market and see how the private sectors are being affected.

For a developing country like Nigeria, it is generally believed that a positive inflow of foreign exchange is necessary not only to fill the existing resource gap but also break the vicious cycle of poverty and under development. Therefore, there is a compelling need to effectively manage our foreign exchange allocation to ensure their availability, stability, and optimal use within the economy.

Unfortunately, allocation of the country's foreign exchange resource remains one of the most intractable problems of our economy today. The problem of availability of foreign exchange has been compounded by the drastic reduction in inflows over the past one decade. Closely related to the issue of availability is the preponderant reliance on official sources for the supply of foreign exchange market. At the moment, official funds from Central Bank of Nigeria (CBN) account for about 90 percent of the total funding of the market. This leaves much to be desired in view of the unpredictability of proceeds from crude oil sales. There is, therefore, the need for greater diversification of sources of funding to the market to reduce reliance on the Central Bank of Nigeria (CBN) sources and raise the level of autonomous supply.

There has to be a realistic demand for foreign exchange rate and it should particularly be for the importation of finished goods and services. On the supply side, there should also be a realistic exchange rate which should eliminate the prevailing distortions in the economy and stimulate non-oil exports in particularly as well as attract inflow of foreign capital and funds held abroad by Nigerians.

This study, therefore, intends to examine the effective rationalization of demand and supply of foreign exchange which would ultimately produce a sanitary effect on the country's balance of payment position and also its allocation being done properly.

1.6 HYPOTHESIS

According to Sellitz et al (1962), hypothesis is "a preposition, condition or principle which is assumed perhaps without belief in order to draw it's logical consequences and by this method, test its accord with facts which are known or may be determined." The statement of hypothesis seeks to explain the facts of the assumed relationships and this will involve one or more alternatives. The hypothesis is then subjected to test in the real world to determine if the facts collected agree with it.

Formulation of hypothesis is a dynamic and changing process rather than static, a formulated hypothesis may be revised, altered or modified several times during the study or may be completely replaced. It is therefore possible that the original hypothesis may not be the final one in the research report.

The hypotheses of the study therefore, are:

Ho - Effective allocation of foreign exchange resources to ensure availability, stability and optimal utilization within the economy.

H1 - The ineffective allocation of foreign exchange resources will lead to foreign exchange inadequacy and continuous depreciation of the Naira exchange rate.

Ho - The inconsistency in the foreign exchange control measures will have serious effect on the foreign exchange management allocation mechanism.

H1 - Consistency in the foreign exchange control measures will facilitate the foreign exchange management allocation mechanism.

1.7 OPERATIONAL DEFINITIONS

Foreign Exchange:

Foreign exchange may be defined as the monetary asset used for the settlement of current international transactions and financing imbalances in a

country's external payments position vis-a-vis other countries. The major sources of foreign exchange to a country include foreign exchange receipts from the export of goods and services; inflow of foreign capital such as loans and investments as well as grants and gifts which represent unilateral transfers. Foreign exchange is a component of a country's official external reserves which may be defined as the total stock of external assets which are available to monetary authorities of a country for the settlement of international economic transactions.

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FOREIGN EXCHANGE ALLOCATION

Foreign exchange allocations is the art of ensuring that the country's available foreign exchange resources are equitably allocated to meet the needs of the economy - the issue of adequacy and that foreign exchange resources are optimally deployed. The level of dependence of a country on international trade will to a large extent determine its degree of involvement in foreign exchange allocation.

Agene C. E., sees foreign exchange allocation as the manipulation of some crucial variables so as to ensure that the country's stock of foreign exchange resources meet the needs of the country as well as being put to the best national

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interest. According to her, foreign exchange allocation aims at the twin of adequacy and optimality. The variables referred to include imports, exports and foreign investments etc.

EXCHANGE RATE

The price of a currency in terms of another currency. Exchange rates are regularly quoted between all major currencies but frequently one important currency e.g Dollar is used as a standard in which to express and compare all rates. The exchange rate of all fully convertible currencies is determined like any price by supply and demand conditions in the market in which it is traded i.e the foreign exchange market. More fundamentally such supply and demand conditions are determined by whether the country's basic balance of payments position is in surplus or deficit.

1.8 PLAN OF THE STUDY

This study is divided into five chapters with many sub-sections. The first chapter includes introduction to the study of foreign exchange allocation and definition of foreign exchange management.

The chapter two of this study focuses on the literature review which looks into previous works by scholars and researchers in the field. It also looks at the theoretical framework/background of foreign exchange allocation. That is, it shows how the central authorities manage and operate Nigeria's foreign exchange resources before, during and after the Structural Adjustment Programme (SAP) with particular reference to the Nigerian setting.

Chapter three discusses the methods of data collection used to collect relevant information on the study. Be it primary or secondary sources and the problems encountered during the data collection.

Chapter four focuses on the analysis and interpretation of data collected and how it explains the importance and significance of foreign exchange allocation.

Chapter five consists of the summary, recommendations and conclusion. It draws conclusion on the findings of the study and makes objective suggestions as to how to properly harness the country's foreign exchange resources.

FOOTNOTES

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CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION:

FOREIGN EXCHANGE ALLOCATION IS AN ART OF MAKING sure that the country's available foreign exchange resources meet the needs of the economy. Just like every controversial issue, foreign exchange management has over the years amassed both vocal critics and fervent advocates. While the broad policy objective of foreign exchange management is generally accepted by both its critics and advocates, the content of foreign exchange management policy package still remains controversial.

In their review of the effectiveness of foreign exchange management policy contents Ingo Walter and Laj Aveskong maintain that foreign exchange management indicates the process of settling obligations dominated in foreign currency and describes the financial instruments through which such settlement are made consisting of demand deposits with foreign commercial or Central Banks and comparable claims in foreign currency.

P.A. Akafu and E.U. Olisedebe argue that foreign exchange management is essentially a device aimed at finding a price of foreign exchange that would

help optimise resource use, eliminate the bias against export activities and obviate the bureaucratic problems associated with the exchange control process that preceded it. Studies was further carried out and it was realised that foreign exchange management has facilitated access to foreign exchange and contributed to greater economy in the use of this scarce resources.

The study however contented that the volatility of the rates from the bidding session to the other, has been much less than they were in the early days and the dispersion of bids around the average are considerably narrower. For them, the monetary authorities have moral suasion to be useful in bringing about some stability in the rates and discouraging the tendency of dealers to ignore the economic fundamentals of the country in making bids. They both see the new approach as having great potentials, however, they failed to realise that the ultimate success is as yet beset by various uncertainties as may be expected from any experiment. Thus, in the long term, the stability of the Naira exchange rate, however, lies in increasing the level of exports, especially non oil exports and switching demand to locally produced inputs and finished goods.

Agene C.E. sees foreign exchange allocations and management as the manipulation of some crucial variables so as to ensure that the country's available

stock of foreign exchange resources meet the needs of the country as well as being put to the best national interest. According to him foreign exchange allocation and management aims at the twin goals of adquacy and optimality. The variables referred to above include imports, exports and foreign investments. etc.

He further appraised the adequacy of resources from two main angles. The first is in relation to some important foreign sector macro-economic aggregates. These include (1) inputs, (ii) domestic money supply. and (iii) the net external balance. The second measure of adequacy of reserves is a quantitative index. This is the reserve/import ratio. Based essentially on the transactional motive for holding money, it defines the adequacy of reserves as those able to finance at least four months imports. This criterion has been used by Nigeria since optimality on one hand has to do with the nation's priorities.

He however failed to realise that sometimes the market forces fail in rationing resources utilizations whereas, in other cases, the monetary authorities intervene and direct their utilization.

Adekanye, in his own view believes that as long as the supply of money through deficit financing continues to increase unchecked, a realistic exchange

rate cannot be attained. To him the position will of course change in the event of a windfall resulting in a substantial inflow of foreign exchange into the economy, as the depreciating Naira was a function of the rate of supply of foreign exchange.

The depreciation of the naira is simply because demand outstrips supply. Kindleberger and Mac Dougall both claim that even at a time of generally fixed exchange rates under the IMF charter when theoretical rates could not be changed except under extreme condition, underlying determinant of an exchange rate is and has been the supply and demand for that currency.

To date, it would seem that the general consensus amongst policy makers and researchers in both the developing and developed nations is that foreign exchange management facilitates trade among different countries and that a creditor will normally insist on being paid in a trading currency which is freely convertible to his national currency. Thus, foreign exchange is the rock on which international trade and relations are built. These are vital to the economy because countries are not equally endowed with natural resources, and this is the underlying principles in international exchange transaction.

2.2 THEORETICAL FRAME WORK/BACKGROUND ON FOREIGN EXCHANGE ALLOCATION:

For a developing nation like Nigeria, the importance of foreign exchange cannot be over emphasised. Its availability goes a long way in satisfying the development aspiration of the society. Apart from this, it facilitates transactions, opens up the economy and enhances the well - being of its citizen. It is not surprising therefore, that the fortunes of nations are tied to their ability to effectively harness and manage foreign exchange as scarce economic resources.

Foreign exchange resources are derived and expended in the course of effecting economic transactions between the residents of one country and the rest of the world. In this sense, there is a close link between foreign exchange transaction and the balance of payments. While foreign exchange transaction reflect cashflows arising from international operations, the balance of payments looks at the actual movement of goods, services and changes in financial assets and liabilities. When adjustments are made to cashflow statements arising from international transaction in foreign exchange, they are brought to the balance of payments standard. The state of foreign exchange reserves has implication for the ability to finance temporary payments difficulties. In the light of the above,

we shall examine the issue of foreign exchange management largely on the theoretical formulations of the approaches to the balance of payments.

a) THE ELASTICITY APPROACH

This approach analyses the effect of devaluation on the trade balance. The proponents of the approach advances that with adequate downward adjustment of exchange rates, countries with balance of payment difficulties would be able to export more, import less and save some foreign exchange. However, this a based on rigid assumptions of mass unemployment, perfectly elastic supplies, an initial balanced growth and the assumption that the elasticity of home and foreign demand for imports should exceed unity.

Devaluation per se may not be adequate for developing counties where relative prices are not the sole determinants of international trade. However, the elasticity approach prescribed complementary fiscal/monetary policies which could be adopted in place of devaluation to achieve the same result. In this case, there is a direct attempt to manipulate the major items of the balance of trade rather than relative prices to stimulate exports and curtail imports. Prior to the inception of SAP, a passive exchange rate mechanism was maintained. Although

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exchange rates were not static, they were not active. The policy of gradual appreciation from 1982 was not informed by the underlying market situations. The prevalence of exchange controls during this period relegated to the background, the application of the prescription of policies under the elasticity approach. Exchange control rather than relative price adjustment was the main focus of policy.

b. INCOME - ABSORPTION APPROACH

The realisation that elasticity include both price and income influences shifted emphasis to the development of a framework that relates income to expenditure by introducing income into partial analysis of the elasticity approach. The popular identity of the absorption approach relates the trade balance to total output and total absorption. For devaluation to improve the trade balance, output must be greater than absorption. This is because devaluation is supposed to reduce the external value of domestic money supply and the value of domestic spending. However, if the demand for foreign exchange is accelerating and the monetary authorities continue to exchange domestic cash balance for foreign exchange by drawing down on their international reserves, the foreign exchange situations will continue to be precarious.

This approach acknowledges that under extreme circumstances, direct control measures could be applied to reduce foreign exchange disbursements.

The principal measures recommends the financing of temporary deficits where reserves are large, trade and exchange controls as well as domestic credit restrictions and devaluation where deficits are persistent and foreign exchange outflow is excessive. The income - absorption approach was partially relied upon by the authorities to manage Nigeria's foreign exchange resources before SAP.

However, large scale devaluation of the Naira was not embraced upon until SAP came into place. Although the approach prescribes the used of exchange controls in extreme circumstances, it was nevertheless, a deliberate policy framework since 1962. The prescription of expenditure changing policies were applied. However, since the commencement of the SAP, the income - absorption approach has been a major determinant of measure designed to turn around the external sector of the economy.

c) THE MONETARY APPROACH

The monetary approach emphasised the role of money in shaping other aggregates that influence foreign exchange movement and international reserves. This approach did not categorize expenditure like the preceding approach. It

sees income and aggregate expenditure as either the accumulation of reserve assets. It therefore considers the overall reserves movement as the policy variable. This is unlike the other two approaches that concentrated on trade balance. The monetary approach disagrees with the assumption that monetary effect of surpluses or deficits in the balance of payments are sterilised by the monetary authorities. It holds that the inflow and outflow of foreign exchange associated with surpluses and deficits in the balance of payments are not immediately sterilised, hence they influence aggregate money supply. Furthermore, the monetary approach assumes that when the exchange rate is fixed, the monetary authorities can control the foreign or international reserves component of the monetary base through appropriate credit policies. On the other hand, under a floating exchange rate regime, money supply is exogenous and as such can be controlled. The implication is that when exchange rates are fixed, international reserves have to be adequate to protect such rates. Conversely, when rates are allowed to float, the need for reserves is diminished. The monetary approach prescribes the adoption of appropriate domestic monetary/fiscal policies in conjunction with exchange rate variation to achieve equilibrium. However, it frowns at exchange rate volatility.

Although, monetary/fiscal policies were applied as an instrument to management of foreign exchange resources before SAP, they were not the major policy thrust of government. However, with SAP, the notion of exchange rate endogeneity was embarked with the floating of the naira in the foreign exchange market. In addition, monetary and fiscal policies became the major aids of ensuring stability in the foreign exchange market.

What is clear from the above is that a mix of policies drawn from the various approaches have been applied to manage foreign exchange in Nigeria. The elasticity approach emphasised expenditure switching policies while the income - absorption approach prescribed both expenditure switching and expenditure changing policies. On the other hand, the monetary approach favours reliance on expenditure changing policies.

2.3 FOREIGN EXCHANGE ALLOCATION/MANAGEMENT IN THE PERIOD BEFORE SAP (1970 - JUNE 1986)

The objectives of foreign exchange management during this period was to harness foreign exchange resources, prevent disequilibrating foreign exchange movement, preserved the nation as foreign exchange reserves and the

international value of the domestic currency. During the period, exchange control was the main instrument adopted to manage foreign exchange resources. The control measure applied derived mainly from the income-absorption approach. As the exchange rate was administratively determined, it was not an active instrument for foreign exchange management. The administration of the exchange rate failed to isolate the economy from the vagaries of international trade, international price movements and above all it made it impossible for independent monetary policy initiatives to be effective. The basic framework for foreign exchange management was the Exchange Control Act of 1962 which was reinforced by the Economic Stabilization (temporary provisions) Act, to increase foreign exchange resources, reduce the disbursement of foreign exchange and preserve the nation's international reserves. Other policies that were adopted were either in pursuance of the objectives of the 1962 Act or meant to reinforce the provisions of the Act. The specific policies that were applied during this period are as follows, trade and exchange controls export promotion, external reserves diversification, external debt and exchange rate administration. The main ingredients of the policies which are discussed below derived mainly from the expenditure reduction aspect of the income - absorption approach.

i) TRADE AND EXCHANGE CONTROLS

Trade and exchange controls were meant to manage judiciously available foreign exchange, promote the production and consumption of home-made goods and ensure that foreign reserves are adequate to guarantee balance of payments stability. However, trade and exchange control are cumbersome because of the massive policing and complex administrative framework required for the successful operation. Furthermore, control systems are effective in society where corruption is resisted, where people are dedicated and leakage are either non-existent or are minimal. The application of trade and exchange controls in Nigeria during the review period were based on the need to tighten them during periods of crisis and loosen them during periods of relative ease. The approach appeared to be in conformity with the federal minister of finance is assertion at the enactment of the 1992 Act. When he indicated that the act was conceived as a "fire-extinguisher" meant to be reactivated at periods of crisis. Thus, between 1970 and 1975, controls were liberalised but tightened progressively between 1976 and 1979. However, a policy of massive trade and exchange liberalisation was adopted in 1980 as a result of the relatively comfortable foreign exchange position in the proceeding year. The disastrous consequence of this policy led to

the dramatic decline in foreign exchange reserves starting from the second half of 1981. This led to the enactment of the Economic Stabilization (Temporary provision) Act in April 1982. Control measures were progressively intensified up to June 1986, a desperate effort to stem the massive outflow of foreign exchange and creates an atmosphere conducive for the application of stablisation policies. Trade and exchange controls which required that foreign exchange receipts be centralised in the Central Bank and deliberately attempted to limit the expenditure of the same, come under the realm of the income - absorption approach.

ii) EXPORT PROMOTION

Exports has constituted the major source of foreign exchange inflow, the authorities have tried over the years to promote them. The high dependence of the economy on the external sector has been able to make the authorities to attain a substainable path of economic growth. Thus the Export Promotion Council Decree 1976 was promulgated to give legal backing to ad-hoc incentives already in place. The decree created the Export Promotion Council and charged it with the promotion of Nigeria's non-oil exports and the diversification of the export

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base. To further boost the export of Nigeria's scheduled export commodities, the marketing boards were dissolved and replaced with commodities boards of 1977. In the budget of 1986 there was a proposals to establish export free zones and import duty concessions on export manufacturing. There were also incentives that accompany the budget proposals. They include among others the retention of 25 per cent of export proceeds by exporters, liberalization on an import and export licensing procedures and the provisions for the establishment of and export credit guarantee and insurance scheme. However most of the key incentives to promote non-oil exports during the review period were not implemented. Export promotion which was meant to raise the level of export production fits adequately into the income absorption approach.

iii) **EXTERNAL RESERVE DIVERSIFICATION**

Reserves diversification is essentially meant to optimally apportion a nations reserves assets among various reserve currencies so as to ensure maximum returns and minimum losses in case of fluctuation, while at the same time ensuring that liquidity problems are minimised in daily foreign exchange transaction. Nigeria foreign exchange reserves which were held in four currencies hitherto, were diversified into nine in 1976 as a result of increased oil

receipts. Part of the reserves which were held in sterling were redistributed to other currencies in that year and sterling ceased to be the major component of Nigeria's foreign exchange.

iv EXTERNAL DEBT MANAGEMENT

Although there was need to fund adequately the reconstruction effort of the federal government after the civil war, the compelling need to stem the rate of foreign exchange outflow led to the pegging of outstanding external debts at N1 billion. However, decree No. 30 of 1978 raised the ceiling to N5.0 billion. Before 1982, external debt management did not constitute a major problem for overall management of foreign exchange resources. With the emergence of trade arrears in the year, due to the mobility of finance payments on current basis external debt became the focus of policy. As a result of the continuous build up of payment arrears and the persistent dwindling of external reserves, two debt refinancing agreements were concluded in 1983. Under the refinancing agreements about $2,112.1 million worth of arrears were covered. The third refinancing agreement which commenced in November 1948 involved the issuance of promissory notes.

v. EXCHANGE RATE MANAGEMENT

The exchange rate of the Naira was administratively management and backed up by control measures. The Nigerian pound was begged to the British pound sterling before and immediately after the creation of Central Bank of Nigeria. Due to the generalised floating of the major currencies in 1972, the Nigeria currency was devalued in February, 1973 by 10% in sympathy with the dollar devaluation of that year. This was meant to prevent an adverse balance of trade in Nigeria's external transaction and safeguard the external value of the Naira since the level of reserves were relatively comfortable. The dollar and pound is being used as reference currencies and a policy of progressive appreciation of the Naira against the weaker of the two currencies were adopted. The need for a change in policy was particularly influenced by the 1982 re-appearance of trade arrears which proved difficult to tackle. Hence in 1981, a gradual depreciation policy was embarked upon. The policy was meant to increase foreign exchange and reduce the pressure on the balance of payments. During the periods of administrative management of the Naira and particularly between 1978 and 1985, the Central Bank of Nigeria used a basket of currencies of Nigeria's major trading partners as one of several indicators to determine the

value of the naira. Others were the state of the balance of payment level of reserves, foreign exchange supply and demand relationship, inflation and domestic output.

2.4 FOREIGN EXCHANGE MANAGEMENT/ALLOCATION UNDER SAP (JULY 1986-1990)

The pitfalls of exchange control led to its abandonment. Consequently, a market based system commenced in July 1986 with the Structural Adjustment Programme (SAP). The SAP objectives include, the achievement of balance of payment and fiscal viability, the rationalization of public enterprises through privatisation and commercialisation, the reduction in the level of unemployment and the attainment of sustained economic growth. To achieve a balance of payments and fiscal viability a market determined exchange rate mechanism was put in place. Fiscal and monetary policies were tightened to be consistent with the achievement of balance of payments equilibrium. The major reason for SAP was to create a free market for determination of the Naira exchange rate through auction system. Apart from the shift to market determined exchange rate and exchange control deregulation other policy measures adopted under the previous system were continued with modifications where necessary to accord with the

policy framework of deregulation. The policies applied during this period were based largely on the income absorption, and monetary approaches. This is because, the policies emphasised increased in domestic output and foreign exchange receipts, curtailment of foreign exchange expenditure, domestic monetary stability and reliance on relative prices in the allocation of scarce foreign exchange resources. In specific terms, the measures adopted can be examined under the following.

a) EXCHANGE RATE MANAGEMENT

The framework for foreign exchange management under the new dispensation, the foreign exchange market (FEM), was conceived as a mechanism for the determination of appropriate exchange rate for the naira in order to reduce the pressure on foreign exchange resources and stabilised the balance of payments. In effect, the exchange rate mechanism was expected as a result in a more rational allocation and utilisation of foreign exchange resources and reduce foreign exchange volatility, thus making foreign exchange management less difficult. The major source of foreign exchange to the market is the Central Bank of Nigeria which incidentally earn most of the nation's foreign exchange from

crude petroleum exports. The main users of foreign exchange are the manufacturers who ironically contribute little to the pool of foreign exchange resources. The asymmetry has resulted in continuous pressure on the official foreign exchange resource. Since the inception of the market determined system in September 1986, the naira has undergone substantial devaluation. However, the authorities have constantly adjusted the modalities of operating the system to make it more efficient in order to realise the objectives for which it was set up.

Thus, in January 1989 the autonomous market was abolished and inter-bank foreign exchange market (IFEM) emerged. A set of criteria was used to determine the exchange rate. Due to the persistent decline in the value of the naira, the Bureaux de change was established in 1989 to enlarge the scope of the officially recognised exchange market and make foreign exchange available to small users in a less formal manner. In addition, the Dutch Auction System (DAS) first operated in 1987 but abandoned in 1989 was re-introduced in december 1990. It was meant to check the sharp practices that led to the persistent pressure on the Naira.

b) **EXTERNAL DEBT MANAGEMENT**

In the area of external debt management, the policy restricting external debt acquisition to only key projects was retained. A debt conversion programme commenced in 1988 to further reduce the nation's external debt burden. Also, various debt rescheduling agreements have been concluded between Nigeria and Paris and London clubs of creditors at restructuring the maturity pattern of debts falling due. The rescheduling negotiations are continuing.

c) **EXPORT PROMOTION**

Apart from the generous incentives proposal in the federal budget and export, (incentives and miscellaneous provisions) Decree of that year, export licensing was abolished. In addition, the commodity boards were scrapped so as to make exports of non-oil commodities more competitive, the foreign currency domiciliary account scheme became operational and exporters were not allowed to retain 100 per cent of their exports proceeds in their domiciliary accounts. To further boost non-oil exports, the Central Bank of Nigeria set up a rediscounting and refinancing facility (RRF) in 1987.

d) **EXTERNAL RESERVES DIVERSIFICATION**

Nigeria external reserves were further diversified in 1987. However, the concentration of most of the reserves in dollars, indicated a shift in policy from a mere diversification to liquidity. Since most of the nation's external transaction were effected in dollar, the holding of most of the reserves in the currency might have been justified.

e) **DEMAND MANAGEMENT POLICIES**

To guide the foreign exchange market towards an appropriate exchange rate tight monetary and fiscal policies were embarked upon by the authorities. Thus in 1989, the federal government directed its ministries and parastatals to transfer their deposit from commercial and merchant banks to the Central Bank. Financial institutions were banned from granting loans on the basis of foreign guarantees. Loans already granted on that basis were called, the prescribed ceiling for credit expansion was reduced while cash reserve requirements, liquidity ratios and Central Bank's minimum rediscount rate were raised. In addition, the issuance of stabilisation securities commenced in 1990 to mop up excess liquidity from the system, thus the effective demand for foreign exchange.

2.5 MEASURES OF ACHIEVEMENT OF THE EXCHANGE CONTROL SCHEMES AND FLEXIBLE EXCHANGE RATE SYSTEM:

(a) BALANCE OF PAYMENTS

Balance of payment is the differences between the amount paid to foreign countries for imports and services, and the amount received from them for export and imports in a given period. It includes import and exports which are visible items but also such invisible items as shipping, insurance, tourist traffic, interest on investment. Balance of payments may sometimes be favourable or unfavourable. It could also be surplus or deficit. A country may have a deficit balance of payments when she is living beyond its means-that is when its imports are mainly of consumption goods and not investment goods. A country can experience an adverse balance of second variety for a short period of time or once in a way. Should such an adverse balance becomes chronic, appearing year after year, the government will have to take drastic measures to arrest it, lest it loses all its foreign exchange and gold reserves and is unable to raise any more loans outside.

A second reason for a chronic disequilibrium may be due to persistent demand for foreign machinery, equipment and materials. The third reason for surplus or deficit may arise out of international borrowing and investment. For instance, country A may be borrowing heavily from say country B to carry out its development programmes. A's import will increase in the form of capital goods and consumption goods and thus it will experience a deficit in the balance of payments for a time being. However, in the course of time, when the projects materialized they begin to yield fruits in the form of more iron and steel, more electricity e.t.c. and it will enable country A to repay her foreign loans.

Thus surplus or deficit balance of payments is due to international borrowing and lending.

There are four methods by which a country can try to correct an adverse balance of payment viz:

i) Deflation

ii) Exchange depreciation or devaluation

iii) Exchange control and

iv) Restriction of import and promotion exports.

b) VALUATION OF CURRENCY (NAIRA)

By valuation we mean the process by which the market price of a currency is determined. In particular, we are concerned with the valuation of currencies, through the principal discussed apply to other country's currencies as well. A key factor in the valuation of nay currency is an implied positive relationship among market price of other currencies.

The theory surrounding the valuation of a currency has undergone profound changes during the last two decades. It is a subject of considerable controversy, and no one method for valuation is universally accepted. In other words, a country's concern is not with whether a particular currency goes up or down but with what happen to the overall value of her portfolio.

In general, the valuation of any currency involves a capitalisation of its expected income stream by a discount rate appropriate for the risk involved. In all cases, determination of currency of the expected futures calculating the present value of the expected furture stream of other currencies. The key of valuation is determining the appropriate rate that properly takes account of risk.

. Stabilisation in the value of a currency refers to a fixed rate at which the value of a currency exchanges with that of a basket of currencies. In essence the value of currency is stable when compared to a portfolio of currencies in the international market over a considerable length of time when or currency is over valued it means that the rate of exchange of that currency is estimated ahead of other basket of currencies. The aspect of over - valuing a currency depicts that the value of that currency is over weighted. When a currency is under valued, we mean that the value of that currency is put too low compared with the basket of currencies. This usually occurs when a country devalues her currency.

c) **DIVERSIFICATION OF THE FOREIGN EXCHANGE RATE**

This implies a spreading out of a country's sources of foreign exchange earnings. It involves the aspect of varying the range of sourcing foreign exchange earnings for the country in order to reduce risk or expand operations and improve the level of foreign reserves to settle external debt.

Essentially, reserves diversification is meant to optimally apportion a nations reserves assets among various reserve currencies so as to ensure maximum returns and minimum losses in case of fluctuation, while at the same time ensuring that liquidity problems are minimised in a daily foreign exchange transaction. A country's foreign exchange reserves could be diversified into different currencies. A country can hold part of the reserves in sterling and part redistributed to other currencies.

d) **CORRUPTION**

Like in the developed society, corruption, fraud and forgery have become one of the most intractable problems of modern day foreign exchange management. Some of the fraud and forgeries are the handiwork of outsiders, most are perpetrated by the staff of the banks concerned. Still some significant percentages of frauds and forgeries were done in collaboration with outsiders by the staff. Bank frauds take different forms as the perpetrators become more sophisticated in their methods. The commonest types of fraud and forgery perpetrated as per the returns rendered by banks includes the following:

i. Diversion of un-utilised foreign exchange;

ii. Fraudulent withdrawal from customer's account;

iii. Granting unauthorised credit in exchange for unclear effects, cheques kiting;

iv. Alteration of cheques;

v. Withdrawal and suppression of cleared cheques;

vi. Transfer of customer's lodgement to staff account;

vii. Fraudulent suppression of applications/operation of loans account;

viii. Blotting of account number on cheque and forging of signature.

It is disturbing that fraud and forgery have become an endemic feature of the institution concerned. The Central Bank of Nigeria (CBN) and the Nigeria deposit insurance company (NDIC) are doing everything possible to curb all forms of malpractices in banks.

2.6 THE ROLE OF CBN IN FOREIGN EXCHANGE ALLOCATION

The Central Bank has played a tremendous aspect in allocating foreign exchange. This has made it necessary for the Central Bank of Nigeria to have guidelines in operating. This resulted in the introduction of (AFEM) "Autonomous Foreign Exchange Market" in which authorized dealers are given free hand to source foreign exchange for their customers. The Central Bank will intervene monthly in the AFEM, that is sell forex to selected authorise buyers. It started as a quarterly affair in 1995, thereafter became a monthly intervention and currently it is on a weekly basis - May 1996.

The selected banks will not charge any spread on the CBN'S selling rate in respect of intervention funds, but are allowed the normal transaction charges and commission as prescribed by the bankers tariffs.

Banks will be allocated forex fully or partially (depending on supply) and their accounts with CBN debited with the Naira values of the amount allotted before forex is released to their correspondent banks abroad.

The Central Bank of Nigeria intervention funds would not be transferable. Also, the funds would not be available for inter bank transactions in the AFEM.

FOOTNOTES

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION:

THIS SECTION DEALS WITH THE PROCEDURES USED IN THIS research study and the details of how the study was carried out. The study focuses on the foreign exchange allocation in Nigeria and Central Bank of Nigerian is the case study. The use of primary and secondary data as well as tables will be applied in analysing the trend and pattern of how the country's foreign exchange earnings are harnessed.

3.2 METHODS OF DATA COLLECTION:

An electic approach was applied in the data collection exercise. This is particularly so because the researcher diversified his data collection to include primary and secondary data. The primary data includes questionnaires and interviews, while the secondary data as derived from literatures in textbooks, journals, educational and research publications as well was other documents in the Library.

3.2.1 **QUESTIONNAIRES**

This techniques involves sending out questionnaires to collect information. The respondent fills in or answer the questions asked therein and sends back the questionnaire to the researcher. Questionnaires offer easy and inexpensive ways of obtaining information. It can be sent to several or a large number of people widely scattered at low cost so that the sample size may be increased considerably when the need arises. Further, the risk of bias and mistakes on the part of the interviewer is absent. It is generally a quicker means of collecting data and avoiding the respondent interviewer interaction which may lead to induce influence. It allows time for thoughts and reflections and consultations with others and avoid any embarrassment in answering questions of personal nature and such answers are more reliable.

The questionnaire of this research was designed to investigate whether or not the twin goal of foreign exchange allocation optimality and adequacy has been achieved or not; also to determine the performance of exchange allocation in Nigeria.

3.2.2 INTERVIEWS

This can be defined as soliciting information by the process of conversation between the interviewer and the respondent. Personal interviews are usually the best and are probably the most popular in surveys.

The researcher envisaged that the sensitive nature of the topic under consideration particularly as it relates to the foreign exchange management in Nigeria, may not permit respondents to express the full truth in the questionnaire. In the light of this short comings, the questionnaires were arguments with the conduct of extensive interviews. While questionnaires may be subjected to misinterpretation depending on the perception of the respondent, this could be minimised if oral discussions are held between the researcher and the respondent.

Beyond this generally accepted features a wide range of views on the subject matter would be discussed that could be helpful in exposing certain truths that may both be covered by the questionnaire. Oral interviews are extremely powerful method of research when appropriately used.

3.2.3 SECONDARY SOURCE:

The research exercise was started with the collection of secondary data from various relevant books in the library, publications, in journals, national newspapers relating to the foreign exchange allocation and unpublished materials relating to the topic were carefully examined.

3.3 METHODS USED IN ANALYSING DATA COLLECTED.

The use of Laudau's approach was applied in explaining foreign exchange allocation and management in Nigeria from two broad perspectives namely: The investment savings gap and the export - import gap. The approach makes use of the techniques of multiple

regression analysis in analysing the data for the study. The starting point of this test approach is the standard Keynesian position that while the saving - investment gap and export-import gap are identical Ex-post, they may differ Ex-ante. Multiple regression analysis of actual savings and import can indicate which of the two constitutes the binding constraint.

The structure of data consists of gross domestic savings, gross national product and net inflow of foreign capital. These three variables are used to

measure the savings and investment. The export - import gap was analysed through the use of four variables namely: imports, total consumptions, gross domestic capital and net inflow of foreign capital. The multiple regression analysis was used in analysing the following two equations.

A) savings - investment gap: $S = a_1 + b_1 \times Y + d_1 F$ .....-eqn1

b) export - import gap: $M = a_2 + b_2 c + c_2 I + d2F$ ..... - eqn2

where

S_1 = gross domestic savings

Y_1 = gross national product

F_1 = net inflow of foreign capital (including use of reserves).

a_1 = the constant intercept on the savings investment gap.

b_1 = the rate of change in gross national product.

d_1 = the rate of change in net inflow of foreign capital with respect to savings.

M = imports

C = total consumption

I = gross domestic capital formation including changes in inventories.

3.4 RESEARCH PROBLEMS AND LIMITATION.

The study was faced with several limitations which hindered the easy and duly completion of the study. Some of these limitations and the basic one include the ready availability of essential information. This is as a result of the fact that any information sought by the researcher, she was always referred to the Head office and this impeded the ready availability of resources.

There was also the problem of logistics created by the incessant fuel scarcity which restricted the researcher from reaching the source of information. This really slowed down the completion of the work. The population of the study added another limitation to the work in the sense that the respondent of the questionnaire had to be those who deal directly or indirectly with the operations and management of foreign exchange due to the sensitive nature of the topic and this restricted the researcher to have a larger sample size of respondent.

Finally, financial constraint also constituted another limitation to the researcher in the sense that there was limited availability of fund at the researcher's disposal to facilitate the easy flow of work on the research.

CHAPTER FOUR

DATA ANALYSIS

4.1 INTRODUCTION:

IN CHAPTER II, THERE WAS THE PRESENTATION OF VARIOUS approaches to foreign exchange allocation. This is coupled with exchange management and achievement yielding capacity, particularly the exchange control and the flexible exchange rates system. The central focus of this chapter is to measure the effectiveness of this achievement in the economy. The approach adopted in carrying out this is firstly, identifying the direction and significance of the recorded achievements.

From the chapter, we arrived at the development mix of policies drawn from various approaches and how they have been applied to manage foreign exchange position in Nigeria. In this study, the elasticity approach emphasised expenditure switching policies while the income absorption approach prescribed both expenditure switching and expenditure changing policies. The monetary approach favours reliance on expenditure changing policies.

Using the income - absorption approach, the analysis measure the effectiveness of the correction of balance of payments. However, using Laudau type model which is given below:

The starting point of this test approach is the standard keynesian position that while the saving - investment gap and the export - import gap are identical Ex-post, they may differ Ex-Ante.

When foreign exchange is a binding constraint, the process of adjustment occurs through reduction in savings below the potentials levels. In the case, foreign capital substitutes for domestic savings, that is the two are negatively correlated; There are two alternative functional relationships which can be tested empirically. Either imports are positively correlated with savings which is independent of foreign capital receipts (the savings constraints case), or saving is negatively correlated with imports which is independent of foreign capital (the import constraint case).

Regression analysis actual savings and import can indicate which of the two constitutes the binding constraint. Application of this methodology of current price data of Nigeria in the period between 1976-1992, the period which clearly indicates that foreign exchange was the binding constraint. There was a significantly negative correlation between savings and foreign capital receipts and the co-efficient of imports with respect to these receipt did not differ significantly from zero.

4.2 PROBLEMS OF EXCHANGE MANAGEMENT

Allocation of foreign exchange involves the determination of the exchange rate and the allocation of the foreign exchange rate available among competing needs. Three options seem available to a country with respect to the determination of the exchange rate. It can either be:-

A freely fluctuating exchange rate; A stable rate; or

A controlled exchange rate

The last option is the one adopted in Nigeria and scholars have identified the loopholes in:

a) BALANCE OF PAYMENT

History has shown that in Nigeria, balance of payments shows that before the dominance of the economy of petroleum, the balance of payment behaviour was more or less stable. But since 1970. When oil began to dominate exports, it has become erratic both in direction and composition. For example between 1967 and 1969, the country recorded balance of payments deficits of _209.5m whereas between 1973 and 1974, a balance of payment surplus of _.3 billion was realised. However, by 1976, the surplus has been turned into a deficits of

_339.9million, rising to _527 million and _1,293.6 million in 1977 and 1978 respectively.

Again, the period 1976-1980 were surplus years when overall balance of payments recorded amounted to _1,868.9 million and _2,402.6 million respectively. By the end of 1981, a deficit of _3,020.8 million reappeared (the highest deficit in the nation's history). Consequently, the deficit on the country's balance of payments reduced to _244. 8 million by the end of 1983.

The substantial deterioration in the country's balance of payments position witnessed between 1981 and 1983 was caused by the following factors.

1) **WORSENING TERMS OF TRADE**: In an attempt to rationalise crude oil production ceiling from over 2.3 million barrels per day in 1979 to 1.3 barrels per day in 1981. It is on record that production level dropped to an all time low of about 0.7 million barrels in February, 1983 when the nation's overseas customers reduced their crude oil lifting from Nigeria. Simultaneously, the world - wide economic recession then in top gear forced the posted price of crude oil to drop by as much as 25 per cent from 40 dollars in 1982 to less than 30 dollars per barrels in 1983. These two factors combined to rob Nigeria of her high revenues hitherto derivable from crude oil.

The value of crude oil to the balance of payment is dependent on the dollar price (as oil priced in dollars) and the dollar - Naira exchange rate. Also the progressive devaluation of the Naira against the US dollar (about 10 per cent in 1983) results in cuts in the oil prices in dollar terms.

i) **EXCHANGE IMPORTS:** Nigeria preferences for foreign goods and services has persistently caused foreign exchange disbursements to exceed budgeted levels in recent times due to massive import. For example, exports (FOB) dropped from a peak of _14.2 billion in 1980 to _11.0 billion in 1981. Exports have been on the decline ever since recording _7.6 billion in 1983. However, in 1984, the figure rose to _10.02 billion.

iii) **OVER - VALUATION OF THE NAIRA:** A team of experts from the IMF visited Nigeria in 1982 and observed that the Naira was over valued against the U.S. dollar and UK sterling which are the country's principal reserve transaction currencies. An over - valued naira has over the years ensured that imports were made cheap relative to exports. Although such a situation enable Nigerian to import the much needed machinery and technological know-how cheaply for purposes of industrialisation, the major frame draw-back of an over-

valued naira is that it made home-made goods more expensive than imported ones, thus making made in Nigeria goods uncompetitive in world markets.

Recent experience shows that policy measure aimed at solving Nigeria's balance of payment problems have in the main been "stop go" in nature. These measures have been criticised and government has been urged to evolved long-term solutions to this matter in view of future prospects of diminishing volume oil exports. It would appear that what is needed urgently is the introduction of an element of consistency in the application of Nigeria's foreign exchange policy.

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b) **VALUE OF THE NAIRA**:

The external worth of the Naira was devalued on September 26, 1986 by 45.6 per cent in terms of gold and foreign currencies linked to gold. According to this measure, the Naira price of a U.S. dollar had risen from _5.00 to _10.00 and of the English pound sterling from _6.00 _12.00. The fundamental cause for the devaluation of the naira in September 1986 was the serious scarcity of foreign exchange and a serious imbalance in payment position. Under the pressure of the world bank and the American government, Nigeria devalued the naira.

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c) **DIVERSIFICATION OF THE FOREIGN EXCHANGE BASE.**

In the past, we observed that it is only through the export of mineral products basically crude oil that accounted for the highest percent in source of foreign exchange earnings in the country. Later, the monetary authorities observed that there was a concentration of about 97.1 per cent source of foreign exchange mainly from crude oil. Hence attempts were made by diversifying the foreign exchange base on the country. Thus, we now have official (public) and private sourcing of foreign exchange for the country. The inclusion of the private sourcing led to the use of investment policy as a way of sourcing of foreign exchange.

The objectives in diversification is to have a careful portfolio selection of assests of different currencies, securities, e.t.c. in order to meet the needs of liquidity, profitability and safety. The first step aimed at diversifying the country's foreign exchange reserves started in October 1961, the Central Bank added another asset to its portfolio by converting ten per cent of the nation's holding of sterling into gold. Hitherto, reserves were exclusively held in sterling assets. Also, the amendment of its enabling act in 1962 enabled the CBN to

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include the nations portfolio any or all of the following categories of asset: gold coin or bullion, bank balances, bills of exchange, government or government guaranteed securities of not more than 10 years maturity, treasury bills, securities of international finance institution of which Nigeria is a member, provided their maturity for 5 years or less, reserve (gold) tranche in the international monetary fund (IMF) and since 1970 holding of special drawing rights (SDR).

The components of Nigeria official holdings of external reserves according to Anitowose (1983) which were held in the UK sterling (75.2) per cent, U.S. dollar (9.2 per cent) and special drawing rights (15.4 per cent) in 1970 were further diversified into thirteen different assets by 1982, as follows; The special drawings rights (SDRs) of the international monetary fund (1.6 per cent), US dollar (38.9 per cent, UK sterling (18.5 per cent), French Franc (13 per cent), Swiss Franc (12.6 per cent), Dutche Merk (6.2 per cent) and other negligible balances were held in Japanese Yen, Italian Lira, Indian Rupee and the Norwegian Kroner.

The major policy goals pursued during the mid 80's were to diversify external reserves, in view of dwindling exchange receipts, in order to reduce the costs of conversion from one currency to another while ensuring the adequacy of

the reserves. Also, the Central Bank of Nigeria's policy on holding external reserves shifted in favour of the relative strengths or currencies rather than the pattern of trade with Nigeria's trading partners. Thus, external assets denominated in US Dollar moved from 21.0 per cent in 1976 to 76.0 per cent ten years later, before falling to 50.0 percent in 1990. The dollar assets rose to 85. 8 percent in 1991. The Sterling assets decreased from 15.0 per cent in 1976 to 5.0 per cent in 1986, but rose to 43.0 per cent in 1990 as a result of the increase strength of the pound sterling. In 1991, the pound sterling assets declined to 9.4 per cent of total external reserves. By December 1992, all external assets were in dollar denomination because of the appreciating value of the dollar and its dominating influence on the nations foreign exchange receipts and disbursement.

d) SAVINGS OF FOREIGN EXCHANGE: Pre-shipment inspection.

Savings of foreign exchange as a result of pre-shipment inspection. It is estimated that about N1.2 billion was saved between 1979 and 1981. This was achieved as a result of the use of the value of forms "M" passed for pre-shipment inspection during the year. This amounted to &5,900.7 million comprising &4,721 million for goods valid for foreign exchange and & 1,179 6 million for imports not valid for foreign exchange

A further analysis showed that the value of goods inspected for which clean report of findings (CRF'S) were issued aggregate $ 3,806.5 million in 1988. Out of this amount, the share of imports of raw materials machinery and spare parts was 2,569.6 million or 67.5 per cent while those of imports of finished goods and agricultural inputs amounted to $1,085.3 million (78.5 per cent) and $151.6 million (40 per cent) respectively.

e) THE DEVELOPMENT AND GROWTH OF THE PARALLEL MARKET FOR FOREIGN EXCHANGE:

The introduction of parallel markets into the system was meant to increase the scope of the foreign exchange market, and accord access to small users of foreign exchange thereby reducing speculative tendencies. However, the parallel market continued to move independently most of time. As efforts were made to improve the value of Naira of the naira in the official market, the parallel market premium increased sharply. Foreign exchange mal-practices became rampant as some authorised dealer charged premium on official foreign exchange which they sold to their customers.

In order to reduce the divergence between rates in the various market and eliminate the need for foreign exchange abuses, a more deregulated market based system was introduced on march 5, 1992. The CBN floated the naira, discontinued the system of pre-determined quotas for banks and allowed allocations to be based on rates which emerged in the market.

Under the new system, the Central Bank of Nigeria is a more active participant, in buying and selling of foreign exchange as occasion demands. As result of difficulty of continuing to supply foreign exchange to meet increasing demand backed by Naira cover n the face of low external reserve and declining foreign exchange receipt, the system was discontinued on December 15, 1992. Investigation by the Central Bank of Nigeria (CBN) revealed that most of the demand pressures were due to payment of open account for collection. Payments on these categories were accordingly suspended by the Central Bank of Nigeria effective from february 24, 1993. The bank also introduced a pro-rata system of foreign exchange allocation to ensure that all participating banks get some allocations of foreign exchange.

F) SUB-OPTIMAL USES OF FOREIGN EXCHANGE

During the pre sap era, it was noticed that there were - sub -optimal uses of foreign exchange. When SAP was now introduced there was a greater cushions for government expenditure as it now obtains more naira from the foreign exchange market. Thus, the liberalisation and deregulation of the foreign exchange market (FEM) continued during the year with additional measures introduced to enhance the operational efficiency of the market. The new measures included the requirement that all oil bunkers should surrender 75.0 per cent of such earnings to the Bank.

Other policy amendments included the requirements that all non-oil export were to be transacted on the basis of confirmed and irrevocable letters of credit with a maturity of 60 days from the date of shipment in order to minimise the problem of low repatriation of non-oil export proceeds.

4.3 PRESENTATION AND INTERPRETATION OF DATA

TWO GAP ANALYSIS

(A) SAVING-INVESTMENT GAP

$S = f(Y, F)$

$S = a_1 + b_1 y + d_1 f$ ..... equation (1)

Where S = Gross Domestic Savings (GDS)

Y = Gross National Product (GNP)

F = Net Inflow of Foreign Capital (including use of reserves NETIFC

a_I = the constant intercept on the savings-investment gap

b_I = the rate of change in Gross National product with respect to savings

d_I = the rate of change in Net inflow of Foreign Capital with respect to savings.

Dependent Variable: (I) GDS;

Independent Variable: (I) GNP; (ii) NETIFC

Multiple R = 0.89967

R Square = 0.80941

Adjusted R^2 = 0.79036

TABLE 4.1 VARIABLE IN THE EQUATION

VARIABLES	B	SE.B	Beta	T	Sig.T
NETIFC	0.8804	0.61083	0.01413	0.144	0.8868
GNP	0.3741	0.04070	0.90082	9.192	0.0000
CONSTANTS	-1340.49226	8113.68986		-1.652	0.1142

S = -13403.49 + 0.88F+0.37Y ..... equation 1

SE = (8113.69) (0.61) (O.04).

F - test statistics = 42.46969

Significance of F = 0.0000

Degrees of Freedom - V_1 = K-l = 3 - l = 2; V_1 = 2

V_2 = N-K =23 - 3 = 20; V_2 = 20

Tabulated Value of F:- F (0.05, 2,20) = 3.49

Calculated value of F:- F = 42.5.

INTERPRETATION:- The regression is significant at five per cent level of significance as F > F (0.05;2,20)

(ii) **EXPORT-IMPORT GAP**

M = F (C,I,F)

M = a_2 + b_2 +C_2 I d_2 F ..... equation 2

C = Total consumption

I = Gross Domestic Capital formation (including changes in Inventories);

F = Net Inflow of Foreign Capital including use of reserves);

a_2 = The constant intercept on the Export-Import gap;

b_2 = Marginal propensity to total consumption

c_2 = The rate of change in Gross Domestic Capital Formation;

d_2 = The rate of change in Net Inflow of Foreign Capital.

Dependent Variable: (i) IMP;

Independent Variable: (i) NIFC;(ii) Tcom; (iii) GDC

Multiple R = 0.89945

R Square = 0.80902

Adjusted R Square = 0.77886

TABLE 4.2 VARIABLE IN THE EQUATION

VARIABLES	B	SE.B	Beta	T	Sig.T
NIFC	0.17533	0.19127	0.09908	0.917	0.3708
Tcom	0.14745	0.04566	0.78268	3.229	0.0044
GDCF	0.14385	0.27362	0.12770	0.526	0.6051
CONSTANTS	-845.87600	2419.68262		-0.350	0.7299

M = -847.88 + 0.18F+0.15C + 0.14 I..... equation 2

SE = (2419.68) (0.19) (O.27).

F - test statistics = 26.82877

Significance of F = 0.0000

Degrees of Freedom - V_1 = K-1 = 4 - 1 = 3; V_1 = 3

V_2 = N-K =23 - 4 = 19; V_2 = 19

Tabulated Value of F:- F (0.05, 3,19) = 3.13

Calculated value of F:- F = 26.8.

INTERPRETATION:- The regression is significant at five per cent level of significance as F> F (0.05; 3, 19).

4.4 SUMMARY OF FINDINGS

In table 4.1 which focuses on the savings - investment gap, we observed that the Fisher calculated value is greater than the Fisher tabulated value. That is, F> F (0,05; 2, 20); 42.5> 3.49. Hence, this shows that regression of Gross National product (y) and Net inflow of foreign capital (including use for reserves) (I) on Gross domestic Savings (S) was highly significant at 0.05 level of significance. In essence, we accept the alternative hypothesis that there was a correlation in the balance of payment between the period 1976-1992 or that the recorded achievement of both the Exchange Control Schemes and Flexible Exchange Rate System with respect to income - absorption approach was highly significant.

Moreover, in table 4.2 which focuses on the Export-Imported gap, it has an F-calculated value of 26.8 which is greater than the F-tabulated value of 3.13. That is 26.8> 3.13; F> F (0.05, 3, 19); hence, this shows that regression of Total Consumption (C); Gross Domestic Formation (I) (including changes in

inventories) and Net inflow of foreign capital (F) (including use of reserves) on imports (M) were highly significant at 0.05 level of significance. In essence, we observed that there was a significant correlation in the balance of payment between the period 1976-1992. (See Appendix A).

FOOTNOTES

1. OGUNDARE S.O. "Nigeria's Balance of Payment Management (1955-1970).
2. OLOFIN, AKINLUGBA AND AJAYI: "Some Theoretical and Empirical Issues in connection with the Devaluation of Naira", The Nigerian Journal of Economics and Social Studies. 1986.
3. SUED HYLEBERRY: "Modelling Seasonality", Oxford University Press,1992.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.1 SUMMARY

THIS STUDY HAS ATTEMPTED TO EXAMINE THE METHODOLOGY of foreign exchange management allocation in Nigeria. The main feature of foreign exchange management under SAP has been the movement away from the use of controls as an instrument into the use of free market principles and private initiative in a deregulated environment. This feature is vividly illustrated in the current trade and exchange regime. However, it was observed that reliance on free market force and private initiative has not been adopted to avoid serious policy conflicts.

An important factor in effective foreign exchange management is an adequate supply of foreign exchange which can only be derived from a diversified export base and stability of the foreign exchange inflow in favour of productive sectors that are expected to guarantee future foreign exchange supply. On the basis of these factors, foreign exchange management even under the free market environment was faced with major difficulties mentioned earlier. These include the persistently narrow export base which has largely depended on the crude oil

sub-sector; the instability in export receipts due largely to low commodity price and the large portion of foreign earnings devoted to debt service payments.

The increased debt burden has been transmitted into a balance of payments problem. Partially stemmed by a negatively lower volume of importation of capital goods and raw materials which may be linked indirectly to slow growth and domestic output particularly in the agricultural and industrial sectors. These are the sectors that is expected to strengthen the export promotion drive.

To this extent, one could sum up by asserting that a country like Nigeria with a potentially strong economic base should not be over-dependent on external trade. The economy is capable of being developed into a strong one where the eventual convertibility of the Naira could ensure optimum allocation of resource and short-run crisis management of foreign exchange resources would be unnecessary.

The hard knot of this ultimate goal of development is that more foreign exchange is needed for supporting the economic base. The effective implementation of Nigeria's perspective and Rolling Plans is the fastest way to get away from this dilemma.

5.2 CONCLUSION

The art of foreign exchange management allocation which is the main focus of this study is a conscious attempt to harness foreign resources, deploy them to service the economy and to meet other international commitments while saving some to raise the level of international reserves. Such reserves could be used to finance temporary payments difficulties and to safeguard the international value of the domestic currency.

Since foreign exchange which are the means for selling international transaction is earned and disbursed in the course of undertaking international transactions between the residents of one economy and the rest of the world. As a result, the standard theories of the balance of payment, the elasticity, the income - absorption and the monetary approaches were used as the theoretical basis for examining foreign exchange management in Nigeria during the review period. The elasticity approach emphasised expenditure switching and expenditure changing policies. The monetary approach advocates domestic monetary stability. It also favours the application of expenditure changing policies and concludes that although exchange rate variation is necessary for

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economic adjustment, its endogeneity is assured when monetary policies is right.

In the pre-SAP era, the 1962 Exchange Control Act was the basic framework for exchange management in Nigeria. The Act made provisions for measures designed to increase foreign exchange resources, reduce the disbursement of foreign exchange and preserve the nation's foreign exchange reserves. The policies applied during this period derived mainly from the income - absorption approach. During this period, exchange controls were not tightened consistently. The were tightened during periods of crisis and loosened during periods of relative ease. The exchange rate was administered during this period and as such it was not an active policy instrument. The administration of the exchange rate backed by an arsenal of control that were often circumvented led the over-valuation of the exchange rate and a massive outflow of foreign exchange.

With the SAP period, market determined system replaced the rigid controls reminiscent of the pre-SAP era. The main achievements of the market determined system are:

a. The elimination of payment of arrears since transactions are done on current payment basis

b. The widening of the non-oil export base, increase local sourcing of raw materials;

c. Improvement in the balance of payment and capacity utilisation:

We can conclude that the system has not succeeded in improving significantly non oil receipts and the economy is yet to be diversified away from over dependence in crude oil exports. Moreso, there is a wide disparity between foreign exchange allocation in the industrial sector and its contribution to the pool of foreign exchange available to the economy.

To ameliorate the situation, current measures to stimulate non-oil exports should be intensified, export ban should not be a deliberate policy stance but generous incentives should be given to encourage local processing of these commodities, the level of domestic output should be raised to provide more tradable products in order to raise the level of foreign exchange receipts and cut down on imports. On the demand side, the issuance of stabilisation securities should be carried out within the framework of open market operations so as to reduce the ability of the banks to seek financial accommodation.

To this end, a tight monetary policy should continue to be pursued and fiscal policy should be in consonance so as not to create countervailing effects. To achieve a realistic exchange rate, reduced speculative influences on foreign exchange and elimination of the tendency toward persistent exchange rate depreciation, bidding for foreign exchange should be within the band of five per cent with the central rate determined through rational approaches.

5.3 RECOMMENDATION

These recommendations focus on measures to reduce pressure on foreign exchange resources and management. The measures are articulated around supply and demand side measures:

1. SUPPLY-SIDE MEASURES

a) To measure to supply of foreign to the economy, current measures to stimulate non-oil export should be vigorously pursued. In particular, the diversification of non-oil receipts.

b) Exporters should be allowed to exchange their foreign exchange earning at any source of their choice. Export ban as a measure to stimulate local processing of agricultural commodities should not be

a deliberate policy stance. The processing of traditional commodity exports can better be encouraged through generous incentives.

c) Government agencies dealing with the promotion of Nigeria's export should be more aggressive in sourcing favourable market for our exports.

d) In addition, the packaging and quality of Nigeria's export should be enhanced to make them internationally competitive.

e) In order to generate additional exports and ensure an overall conservation of foreign exchange resources, the level of domestic output should be raised. The increased production of both tradable and non-tradable commodities would reduce pressure on foreign exchange resource.

f) The agricultural and industrial sectors of the economy need special attention in this regard. This is because the development of these sectors is a necessary condition for promoting economic growth. With increased agricultural production primary commodity exports would increase and surpluses from this sector could be traced as raw materials for the industrial sector which would then cut down on its

demand for imports. The implied reduced cost of production from local sourcing of raw materials may place the industrial sector in a competitive position the arena of international trade.

II. DEMAND - SIDE MEASURE

a) The demand management policies in place, especially the one dealing with the issuance of stabilisation securities need to be re-examined. The allocation of stabilisation of securities to banks based on the extent of their excess liquidity may not result in a permanent reduction in the demand for foreign exchange unless the exercise is carried out routinely and under a comprehensive framework that does not give room for liquidity adjustment. Experience has shown that when excess liquidity is withdrawn from the banking system, the exchange rate appreciates during the period and after a short time the exchange rate starts to depreciate again. This is so because banks that are hard pressed for cash are able to get relief from those that are not experiencing liquidity problems through inter-bank dealings.

In the light of the above, the issuance of stabilization securities should be done more routinely to reduce the ability of the banks to adjust their liquidity positions. As a lasting measure, the issuance of stabilization securities should be considered within the wider framework of open market operations. Overall monetary policy stance should continue to be tight. However, if credit ceilings are imposed, interest rates should be freed but liquidity ratio and cash reserve requirements could be raised. On the other hand, if credit ceilings are not imposed, interest rates could be regulated and accompanied with restrictive and cash reserve requirements. As a complementary measure, expansionary fiscal policy should be discouraged. This is because expansionary fiscal policy would lead to increased demand for foreign exchange through its multiplier effect on money supply which increases effective demand for foreign exchange.

b. To reduce permanently the problem of foreign exchange scarcity, local sourcing of raw materials should be encouraged and the domestic capital goods industry should be developed so as to reduce

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the need for imports. This is informed by the data for foreign exchange allocation which indicated that disbursement to the industrial sector took more than 60 per cent of total foreign exchange put up for sale by the Central Bank since September 1986.

c. The need to reduce foreign exchange allocation to the industrial sector in the long term is further reinforced by the fact that the industrial sector continues to demand most of the foreign exchange put up for sale by the Central Bank while its contribution to the pool of foreign exchange available to the economy is negligible.

FOOTNOTES

1. JACOB, A. FRENKEL:"Exchange Rates and International Micro-economics", National Burreau of Economic Research" PP; 153-187.

2. STERN, R. M.: "Theory and Economic Policy", Macmillan Press Ltd; London Basingstokes,1973 PP. 80-100.

3. OLALOKUN, E.A.: "Structure of the Nigerian Economy", Macmillan Low cost Edition (1978), PP 55-58.

4. Central Bank of Nigeria, Annual Report (Various Issues).

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11. OLALOKUN, E.A.: Structure of the Nigerian Economy", Macmillan Low cost Edition (1987) Pp. 55-58

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13. SELLITZ, ET AL: "Research Methods in Social Relations" (Bolt, Renchant and Winston, New York 1976).

14. STERN, R. M.: "Theory and Economic Policy", Macmillan Press Ltd; London Basingstokes, 1973 Pp. 80-100, 214

15. SUEND HYLEBERRY: "Modelling Seasonality" Oxford University Press, 1992.

QUESTIONNAIRE

1. What are the objectives of Foreign Exchange allocation in Nigeria.

   a) .....

   b) .....

   c) .....

   d) .....

2. What is the relevance of Foreign Exchange allocation to the economy.

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3. How efficient has the Foreign Exchange allocation been in the last five years.

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4. Has the twin goal of optimality and adequacy been achieved Yes/No.

5. How has foreign exchange allocation affected the country's balance of payments

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   .....

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6. What are the problems affecting foreign exchange allocation?

a) .....

b) .....

c) .....

d) .....

7. How has the fiscal and monetary policies affected foreign exchange in the last few years.?

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8. How can the problem of independence on the oil sector for foreign exchange and promotion of non - oil export be achieved?

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9. How has the dual exchange rate affected the foreign exchange earning?

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10. What impact has the operators of black market had on foreign exchange allocation in Nigeria.?

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APPENDIX A

SELECTED EXTERNAL SECTOR VARIABLES

	YEAR (i)	GROSS DOMESTIC SAVINGS (Nm) (S) (ii)	GROSS DOMESTIC SAVINGS (Nm) (Y) (iii)	NET INFLOW DOMESTIC CAPITAL (Nm) (F) (iv)	IMPORTS (Nm) (M)(v)	TOTAL CONSUMPTION (Nm) (C) (vi)	GROSS DOMESTIC CAPITALS (Nm) (I) (vii)	DEBT BALANCE OF PAYMENTS (Nm) (DBOP)(viii)	NET INFLOW (Nm) (NIF)(ix)
1	1970	2,278.1	14,761.3	829.9	756.4	10,121.0	2,631.6	+58.6	+71.6
2	1971	3,310.0	16,345.2	1,315.6	1,078.9	12,312.5	2,847.8	+127.8	+179.7
3.	1972	3,861.2	18,678.3	1,877.5	990.1	13,143.6	3,012.2	-39.6	-59.0
4	1973	4,481.7	19,621.4	2,755.9	1,224.8	14,741.3	3,345.6	+174.4	+643.4
5	1974	4,671.3	20,817.3	3,473.0	1,737.3	15,230.4	4,671.9	+3,102.2	+4,969.2
6	1975	4,796.9	21,558.8	8,959.5	3,721.5	15,925.4	5,019.8	+157.5	-42.2
7	1976	7,371.4	27,297.2	11,014.3	5,148.5	18,882.2	8,107.3	-339.9	-511.7
8	1977	8,017.5	32,747.3	12,807.5	7,093.8	22,888.1	9,420.6	-527.2	-803.7
9	1978	4,896.0	36,083.6	14,749.1	8,211.7	29,339.0	9,386.3	-1,293.6	-2,210.7
10	1979	10,257.8	43,150.8	14,280.4	9,472.5	30,809.4	9,094.5	+1,868.9	+3,070.6
11	1980	11,189.1	50,848.6	21,586.2	9,095.6	36,746.1	10,841.2	+2,402.2	+4,393.1
12	1981	5,604.3	50,749.1	26,443.8	12,719.8	41,182.1	12,215.0	-3,020.8	-4,994.6
13	1982	4,167.1	51,950,0	17,028.5	12,565.5	43,100.2	10,992.0	-1,398.3	-2,077.3
14	1983	3,607.5	57,142.1	12,095.6	9,723.0	48,946.1	8,135.0	-301.3	-416.4

APPENDIX A (CONTD.)

SELECTED EXTERNAL SECTOR VAIABLES

	YEAR (i)	GROSS DOMESTIC SAVINGS (Nm) (S) (ii)	GROSS NATIONAL PRODUCT (Nm) (Y) (iii)	NET INFLOW OF FOREIGN CAPITAL (Nm) (F) (iv)	IMPORT (Nm) (M) (v)	TOTAL CONSUMPTION (Nm) (C) (vi)	GROSS DOMESTIC CAPITALS (Nm) (I) (vii)	DEBT BALANCE OF PAYMENTS (Nm) (DBOP)(viii)	NET INFLO\ (NIF) (ix)
15	1984	2,678.7	63,608.1	11,656.9	7,178.3	54,881.1	5,417.0	+354.8	+464.5
16	1985	3,944.4	72,355.4	11,731.7	7,062.6	61,408.0	5,573.0	+349.1	+578.9
17	1986	1,494.7	73,061.9	6,481.9	5,983.6	63,691.8	7,323.0	+769.4	+722.2
18	1987	3,573.7	108,885.1	5,312.8	17,861.7	85,723.8	10,661.1	159.4	197.5
19	1988	361.1	145,470.0	5,561.9	21,445.7	122,326.8	12,383.7	-2,294.1	-332.7
20	1989	48,589.9	224,796.9	5,837.0	30,860.2	148,903.7	18,414.1	+8,727.8	+1,147.7
21	1990	67,695.2	269,770.0	7,437.6	45;717.9	167,030.0	30,626.8	+18,498.2	+2,124.5
22	1991	110,264.1	288,560.0	8,341.5	22,372.1	140,920.0	35,810.0	+19,141.3	+2,241.6
23	1992	160,462.2	340,360.0	8,671.3	28,714.9	236,520.0	38,711.0	+18,261.4	+2,161.3

Source:- Federal Ministry of Finance and Central Bank of Nigeria.
Date on outstanding debt from 1970 through 1981 relate to Federal debronly.

1. End of period
2. Adjustment fo valuation changes.

APPENDIX B

SUMMARY OF TRANSACTIONS UNDER FEM: JANUARY - DECEMBER

	ALLOCATION FOR IMPORT		FORMS 'M' PASSED FOR INSECTION FOR goods valid FOR FOREIGN EXCHANGE		FORMS 'M' PASSED FOR INSPECTION FOR GOODS NOT VALID FOR FOREIGN EXCHANGE WERE ISSUED		GOODS INSPECTED FOR WHICH CLEAN REPORTS OF FINDING WERE ISSUED	
	(USSM) (1)	% (2)	(USSM) (3)	% (4)	(USSM) (5)	% (6)	(USSM) (7)	% (8)
1. Industrial Sector	2,144.7	63.1	3,782.5	47.5	1,816.2	68.7	3,530.2	48.4
i) Raw mateials	1,321.9	38.1	2,062.9	25.9	367.4	13.9	1,922.6	25.4
ii) Machaneary Spare Parts & CKD	822.8	24.2	1,719.5	21.6	1,448.8	54.8	1,607.6	22.0
2.Agricultural Sector	3.0	0.1	276.7	3.5	5.5	0.2	272.9	3.8
3.Finished Goods	1,250.0	36.8	3,863.0	48.5	819.1	31.0	3,448.8	47.3
i) Food	395.4	11.6	1,445.1	18.2	53.7	2.0	1,276.9	17.5
ii) Motor Vehicles	143.2	4.2	391.9	4.9	139.8	5.3	337.1	4.6
iii) General merchandise	711.4	20.9	2,025.8	25.4	625.6	23.7	1,834.8	25.2
a) Drugs and Phamaceuticals	102.3	3.0	158.3	2.0	16.0	0.6	131.7	1.8
b) Books and Educational Materials	48.0	1.4	63.9	0.8	168.6	6.4	18.4	0.3
c) others	561.1	16.5	1,802.7	22.6	441.0	16.7	1,884.6	23.1
4. Aircraft, Shipping Vessels	1.4	0.0	38.3	0.5	2.0	0.1	38.6	0.5
Total (1 + 2 +3 + 4)	3,399.1	100.0	7,460.5	100.0	22642.8	100.0	7,290.5	100.0

Source: Central Bank of Nigeria (Annual Report 1993)

APPENDIX C

EXPORT - IMPORT GAP

	YEAR	IMPORTS	TOTAL CONSUMPTION	GROSS DOMESTIC CAPITAL	NET INFLOW OF FOREIGN CAPITAL
		(M) (₦M)	(C) (₦M)	(I) (₦M)	(F). (₦M)
1	1970	756.4	10,121.0	2,631.6	829.9
2	1971	1,078.9	12,312.5	2,847.8	1,315.6
3	1972	990.1	13,143.6	3,012.2	1,877.5
4	1973	1,224.8	14,741.3	3,345.6	2,755.9
5	1974	1,737.3	15,230.4	4,671.9	3,473.0
6	1975	3,721.5	15,925.4	5,019.8	8,959.5
7	1976	5,148.5	18,882.2	9,420.6	14,749.1
8	1977	7,093.8	22,888.1	9,420.6	12,807.5
9	1978	8,211.7	29,339.0	9,094.5	14,749.1
10	1979	7,472.5	30,809.4	9,094.5	14,280.4
11	1980	9,095.6	36,746.1	10.841.2	21,586.2
12	1981	12,719.8	41,182.1	12,215.0	26,443.8
13	1982	12,565.5	43,100.2	10,992.0	17,028.5
14	1983	9,723.0	48,946.1	8,135.0	12,095.6
15	1984	7;178.3	54,881.1	5,417.0	11,656.9
16	1985	7,062.6	61,408.0	5,573.0	11,731.7
17	1986	5,983.6	63,691.8	7,323.0	6,481.9
18	1987	17,861.7	85,723.8	10,661.1	5,312.8
19	1988	21,445.7	122,326.8	12,383.7	5,561.9
20	1989	30,860.2	148,903.7	18,414.1	5,837.0
21	1990	45,717.9	167,030.0	30,626.8	7,437.6
22	1991	22,372.1	140,920.0	35,810.0	8,341.5
23	1992	28,714.9	236,520.0	38,711.0	8,671.3

TABLE 4.3 - BALANCE OF PAYMENTS SUMMARY 1984 - 1993

CATEGORY	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Exports (FOB)	+9,088.0	+11,720.8	+8,920.5	+30,360.6	+31,192.8	+57,971.2	+109,886.1	+121,553.7	+205,613.1	+261,341.1
Imports (FOB)	-6,788.0	-6,655.7	-5,476.6	-16,392.5	+9,757.8	-28,241.3	-39,771.2	-76,855.8	-124,612.7	-131,671
Merchandise	+2,299.8	+5,065.1	+3,443.9	+13,968.1	+11,435.0	+29,729.9	+70,114.9	+44,679.9	+81,000.4	+90,141.
Current Accout	+88.8	-2,215.4	-2,999.1	-295.1	-1,437.7	+13,968.4	+44,731.2	+12,655.4	+39,422.8	+45,617.
Overall Balance	+354.8	+349.1	-796.4	+159.2	-2,294.1	+8,727.8	+18,498.2	+5,959.6	-65,271.8	-8,671.

Source: Central Bank of Nigeria, Annual Reports and Statistical Bullentin, June 1993