AN ANALYSIS OF THE PROBLEMS OF FOREIGN EXCHANGE MANAGEMENT AND ITS IMPACT ON THE BANKING INDUSTRY

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A PROJECT RESEARCH WORK PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION [MBA] IN ACCOUNTANCY

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ENUGU CAMPUS

DECEMBER, 2008

CERTIFICATION

The work embodied in this project report is original and has not been submitted in part or in full for any other Diploma or Degree of this or any other university.

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AGU BEATRICE O

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This is to certify that ***AGU BEATRICE O.***, a postgraduate student in the Department of Accountancy and with the Registration Number **PG/MBA/07/46649** has satisfactorily completed the requirements for project research in partial fulfillment of the requirements for the awards of Masters of Business Administration (MBA) in Accountancy.

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DR. C. ODOH	***DR. R.G. OKAFOR***
SUPERVISOR	***HEAD OF DEPARTMENT***
Date:………………………	**Date:…………………..**

DEDICATION

THIS WORK IS DEDICATED TO GOD ALMIGHTY FOR HIS LOVE, PROTECTION AND KINDNESS TO ME THROUGHOUT THIS PROGRAMME AND THE WRITING OF THIS RESEARCH.

ACKNOWLEDGEMENT

This work piece would not have been completed without the ardent assistance of several people who contributed both financially and morally towards its completion.

First I am thankful to the Almighty God for his grace and guidance throughout this period especially protecting me from all harm.

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ABSTRACT

This study is aimed at analyzing the problems of foreign exchange management with a view to evaluating the belief of the public that the Central Bank of Nigeria was to blame for the foreign exchange problems and to examine if indeed there were other factors responsible for the frequent instability in the external value of the domestic currency - the Naira. Thus the focus on the Apex bank - The Central Bank of Nigeria.

Management of nationøs foreign exchange resources is important to reduce the adverse effect of foreign exchange volatility. This is because of the strong allegation that the instability in the foreign exchange is from the poor management at the apex bank.

Foreign exchange control act was looked into in the second chapter of the work. Foreign exchange is a process of converting a particular countriesô currency into that of another country and this is done in a foreign exchange market whose structure was looked at in the same chapter.

The study however was analytical. Secondary data were collected and used for analysis and for testing, inferences made and conclusions arrived at based on observations made from the calculations on the collated data. The conclusive part of the work reveals that the instability experienced is attributed to the ineffective implementation of the regulatory policies of the CBN and the ñunwholesome practicesò by the operators. However, in order to arrest the dwindling fortunes of the naira and ensure the stability of the exchange rate, the operators of the economy have to look at the programs, policies which the scope of this work is not meant to cover. A further study on this is therefore recommended.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The Governor of the Central Bank of Nigeria, Professor Charles Chukwuma Soludo was quoted in the year 2006 as saying ñthat the Central Bank of Nigeria is planning to ensure full liberalization of the nationsô foreign exchange market pointing out that ñfor over 20 years we have moved gradually towards deregulation of the foreign exchange marketò (Soludo 2006).

It is important to note that foreign currency known as foreign exchange has been variously defined by different schools of thought, but these definitions tilt towards the same meaning. The encyclopedia of social sciences for instance defines foreign exchange as ña mechanism by which payments and receipts between two points or areas operating under different systems are effected without the passing of actual money or articles that have intrinsic valueò.

Because countries engage in international trade, the need for management of foreign exchange became imperative. This need is underscored by the economic theories of comparative advantage, comparative cost as well as differences in international resource endowment and imbalance. Unless there is a policy framework and effective management of the foreign exchange market, a country runs the risk of balance of trade or balance of payment problem.

According to Whiting (1981) ñThere must exist financial transaction between two countries whether they are in respect of the sale and purchase of goods and services or relative to capital transactions, which do not involve physical movement of currency from one country to another. These transactions are carried out through the banking systems of the two countries involved and this is made possible because the banks keep account in foreign currency with other bank throughout the worldò.

Foreign Exchange management strategy attempts to achieve macro-economic objectives. Exchange rate is one of the principal policy tools a country would properly use to align its economic and financial activities with those of the rest of the world to achieve satisfactory growth in income and employment. When there is disequilibrium in the foreign Exchange market which is caused by inadequate supply of foreign Exchange Reserve, pressure may be exerted on the foreign exchange reserves where the reserves are inadequate, balance of payment problems may arise.

There is therefore, the need to manage nationó foreign exchange resources so as to reduce the adverse effects of foreign exchange volatility. The management of foreign exchange market would guarantee adequate supply in relation to the demand for foreign exchange resources. Since resources are limited and scarce, the need for policy formulation geared towards adequate management of resources becomes inevitable. Developing countries like Nigeria depend mostly on imported goods. This led to the establishment of the foreign exchange market by the law for the buying and selling of foreign currencies (Decree No. 36 of 1986).

The foreign exchange market provides adequate information for policy decisions while exchange control is directed towards both the balance of payments and development needs. Usually, Nigeria has chosen to determine her exchange rate through basket of currencies. Naira was also pegged to the U.S dollar and British pound in a bid to ensure that the rates have some bearing with the factor that affect the balance of payment and domestic economy.

The liberalization advocated by the CBN therefore means allowing the value of our currency to be determined by the forces of demand and supply in the FOREX market with a view to achieving a viable exchange rate, achieving balance of payment equilibrium and overall economic stability in the country.

This research study will look at the impact the problems of foreign exchange management has on the banking industry.

1.2. STATEMENT OF THE PROBLEM

There is no gain saying that when there is appropriate foreign exchange management, it can impact significantly on the banking industry as it can go a long way to help correct financial and structural imbalances in the economy. There is currently a strategy in place that allows the market forces to determine the international value of the currency in Nigeria and this has resulted in its massive depreciation.

The problem that this work is aimed at is analyzing the problems of foreign exchange management with a view to finding out its impact in the banking industry. Because it is often said that the government of the Central Bank and the Nigerian government over the years have not adopted mechanisms that are effective for the mobilization of the foreign exchange resources and ration same for the settlement of her international transactions in accordance with her supposed priorities. With the earnings of the oil boom era of the mid 1970ꞌs, which led to the over estimation of availability of foreign exchange and affected the general price level, it has been observed that the value of the Naira keeps on depreciating despite the efforts by the government in enacting policies that are geared towards realizing a good value for the Naira.

1.3. OBJECTIVE OF THE STUDY

The objective of this study is to analyze and examine the problems and impact of the foreign exchange management on the banking industry. It aims at the following objectives:

i) Examination of the way the central bank of Nigeria allocates foreign currency.

ii) Examination of the way the policy of the Government Exchange control Act is being used.

iii) It also aims at examining if enough foreign currency is allocated to users of funds.

iv) Finding out the roles of the participants in the foreign exchange market.

1.4. SIGNIFICANCE OF THE STUDY

The significance of this research work includes but not restricted to the fact that in a developing country like Nigeria, the economy is import oriented and therefore, the need to ensure that the foreign exchange participation in the market is guided towards the rules that are set down for an effective performance. The source of Nigerian foreign exchange depends largely on crude oil earning, which has to be properly used.

Secondly, the study will also add to the available literature and research material on foreign exchange management in Nigeria and thus enable people who may want to look further on this issue or related issues have a point of reference.

The study also will give necessary suggestions towards the achievement of the countryǿs main foreign exchange objectives. Oil is seen as the main source of revenue for the country. It is therefore important to look into the management of the foreign exchange of the country and see how it can be improved upon to enhance the growth of the economy.

1.5. RESEARCH HYPOTHESES

Hypothetically, the researcher will like to keep the following questions in view as a guiding principle in the course of this research.

Ho: (Null Hypothesis): The inadequacy of foreign exchange and improper management has not affected the economy.

Hi: (Alternative Hypothesis): The inadequacy of foreign exchange and improper management has affected the economy.

Ho: (Null Hypothesis): The fall in the value of the Naira through market forces has not affected the foreign exchange policies over the years.

Hi: (Alternative Hypothesis): The fall in the value of the Naira through market forces has affected the foreign exchange policies over the years.

Ho: (Null Hypothesis): The continued fall of the Naira through the strategy of allowing market forces determine the value of currency has not helped to achieve balance of payment equilibrium.

Hi: (Alternative Hypothesis): The continued fall of the Naira through the strategy of allowing market forces determine the value of currency has helped to achieve balance of payment equilibrium.

1.6. SCOPE AND LIMITATION OF THE STUDY

For this study to be meaningful, it is imperative to leave out some aspects which might not be too important for consideration given the fact that Foreign Exchange Management is very wide.

This study shall look into the problems of Foreign Exchange Management in the past, the present day activities of the Foreign Exchange Market and the economy owing to the fact that yesterday cannot be complete without today, just like today cannot be complete without yesterday and tomorrow.

The research procedure will involve the use of secondary data. This will enhance the quantity, reliability and the validity of the findings.

On the part of limitations to the study, constraints were encountered from different quarters in the course of this research, which ranges from unavailability of current information and a systematic approach of refusing me access to the relevant information/data for this research. And this did not in any way help in the work. Some information cannot easily be accessed from the internet especially when they concerns serious matters like the economy of a country. The researcher therefore used data transaction in foreign exchange market for the years 1993 to 1998.

1.7. ORGANIZATION OF STUDY

The study is divided into five chapters:

Chapter one is the introductory part of the study and it consists of background of the study; statement of problems, objective of the study, significance of the study, research hypothesis, scope and limitation of the study, and definition of terms.

Chapter two captioned ñLiterature Reviewò is where the works and write ups by various people on the subject are looked into. Several textbooks, professional journals, write-ups and other publications are reviewed to get a more detailed theoretical framework as it relates to the subject matter.

Chapter three is the Research Methodology. It presents research design, sample size/population of the study, sampling techniques, nature and sources of data, techniques for data analysis, description of variables, analysis of the methodology employed.

Chapter four is the presentation, interpretation and analysis of data collected in chapter three.

Chapter five which is the last chapter is where the summary of findings is done. Recommendations and conclusion form part of this chapter also.

1.8. DEFINITION OF TERMS

Forex:

This is the acronym of Foreign Exchange defined by the International Monetary Fund (IMF) as monetary authoritiesô claims on foreigners in the form of bank deposits, treasury bill, short-term and long-term government securities and other claims arising from inter-Central bank and Inter- governmental arrangement without regards to whether the claim is denominated in the currency of the debtor or creditor.

Foreign Currency

Any currency, and includes notes, which are or have at any time been a legal tender in any territory outside Nigeria. Also included are postal orders, bills of exchange, promissory notes, drafts, letters of credit and travelerôs cheque payable or expressed otherwise than in Nigerian currency.

Bureau De Change

A French name which means ñOffice for the exchange of currenciesò in Nigeria, Local currencies are changed for foreign ones and vice versa here.

Central Bank of Nigeria (CBN)

This is the apex financial institution in Nigeria. It is an institution set up by the Federal Government of Nigeria to print and mint money. It also sees to the control of the flow of currency in Nigeria. It is the banker to the Federal Government.

Exchange Rate

This is the price/rate at which a domestic currency exchanges with other foreign currencies.

Foreign Exchange Market.

This is a market established by law for the buying and selling of foreign Exchange at market determined rates.

International Trade

The exchange of goods and services between countries involving business enterprises and individuals domiciled in the different countries of the world.

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CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0. INTRODUCTION

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 transactions and the balance of payment. While foreign Exchange transactions reflect cash flows arising from international operations, the balance of payment looks at the actual movement of goods, services and changes in financial assets and liabilities. When adjustments are made to cash flow statements arising from international transactions 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 payment difficulties.

In the light of the above, we shall examine the issue of foreign exchange control and management.

2.1 EXCHANGE CONTROL

Chikeleze, (2000:153) is of the view that exchange control is a ñmechanism by which a country seeks to conserve, mobilize, centralize and rationalize its foreign exchange resources for the settlement of international indebtedness, while ensuring at the same time, a favourable development of domestic economic activities without diminishing the international value of its currencyò. Exchange control usually comes as a result of a countryøs economic or monetary crises associated with the treat or outbreak of war, political disturbances etc, internal or monetary instability especially in the form of severe inflation, as part of a natural program for economic development with the objective of rationing scarce foreign exchange; the presence of a persistent and intractable deficit balance of payment. Exchange control measure from this is seen as the management of the differences between the uses of a countryøs currency with that of another currency. It is a whole system of controls and regulations set up and maintained by the monetary authorities to protect the value of the countryøs currency.

2.2 FOREIGN EXCHANGE CONTROL ACT- HISTORICAL BACKGROUND

With the attainment of independence in 1960, the need to maintain the per value of the nations currency arose, also came with it is the rapid transformation of the economy. The above led to high level of importation of capital goods, this in turn resulted in the decline of foreign exchange reserves. Earnings from the Agricultural sector which was the major source of foreign exchange fell also, owing to general decline in world prices of major agricultural commodities between the years 1960 and 1961. There came the fear that balance of payment crises would result if the situation continued even though there was no obvious immediate threat on the balance of payments position in the country. This led to the enactment of the Exchange Control Act in 1962 with the following provisions under it.

i) It redefined all currencies other than the Nigeria currency as foreign and all residents of other countries other than Nigeria as non-residents.

ii) It conferred on the ministry of finance the power to regulate all foreign exchange transactions and to delegate some of the powers to the Central Bank for the day-to-day administration of the law.

iii) Payments in Nigerian Currency or any foreign currency or securities to or for the credit of non-resident were made subject to prior approval from either the federal ministry of finance or Central bank of Nigeria.

iv) All persons intending to effect transactions are required in the first instance to pass through authorized dealers.

The Exchange Control Act of 1962 enactment was a precautionary measure designed to provide the legal framework for an orderly and effective imposition of controls when the balance of payment situation necessitated such control measures.

To achieve the objectives for the enactment of the Exchange Control Act, certain obligations are imposed on all residents in Nigeria in respect of transaction in foreign currencies and securities either owned or acquired and in respect of any kind of payments which they may wish to make aboard.

The following are the imposed obligations.

i) Prohibition of all payments outside Nigeria by residents of Nigeria except with prior exchange control approval.

ii) Proceeds of goods exported from Nigeria are to be repatriated within three months.

iii) Setting off transaction by means other than those prescribed by law i.e compensation deals was prohibited.

iv) Accounts of all persons resident outside Nigeria are styled as non-resident accounts and they are to be operated as prescribed by law.

The obligations/controls however are not static, they are therefore subject for revision as needed. It is vital to note that Foreign Exchange Control system as a measure of protecting balance of payments was not consciously employed in Nigeria until the enactment of the foreign exchange control Act in 1962; before the attainment of independence in 1960, Nigeria had no separate identity from that of Britain, for she was then a colony under the control of the British Empire. Foreign exchange control regulations that were formulated in the Bank of England were circulated to all exchange control authorities in the ‗sterling area' which Nigeria is among.

2.3. FOREIGN EXCHANGE - AN OVERVIEW

These are currencies of other countries, which are usually acceptable internationally for the purpose of settlement of debt or other financial transactions, transfer payments, and for the maintenance of international liquidity among the different countries of the world. The rate at which a country put to use its foreign exchange goes a long way to indicate certain directions in its economy. This is why countries fashion out ways and means of curtailing or regulating its usage in the form of foreign exchange management strategies.

According to Greenwald et al (1980), foreign Exchange is "The means of payment or instrument of short term credits from various countries with different monetary units, regarded from the point of view of their purchasing or sales against the national money or that of their holding as reserve".

Foreign exchange is also used to denote the process or system through which one currency is converted into another country's currency. Foreign Exchange refers to currency and money claims such as bank balance and bank drafts, expressed in the equivalent value in foreign money. Thus, a pound sterling note is money in Great Britain, but is foreign exchange in the

United States and Nigeria. A deposit of say $2,000 in an American bank to the account of a French company constitutes that amount of foreign exchange in France. Foreign Exchange can also mean international transfer of money and credit instrument from one country to another.

CBN brief (1988) States that ñforeign exchange is the means of payment for international transactionsò. A foreign exchange market is the medium of interaction between the sellers and buyers of foreign exchange in a bid to negotiating a mutually acceptable price for the settlement of international transactions.

2.4. EVOLUTION OF THE FOREIGN EXCHANGE MARKET

The evolution of the foreign exchange market in Nigeria up to its present state is influenced by a number of factors, which include the changing pattern of international trade, institutional changes in the economy and structural shifts in production. Before the establishment of the Central Bank of Nigeria (CBN) in 1958 and the enactment of the Exchange Control Act 1962, foreign exchange was earned by the private sector and held in balances abroad by commercial banks which acted as agents for local exporters.

During this period, agricultural exports contributed the bulk of foreign exchange receipts. The fact that Nigerian Pound was tied to the British Pound sterling at par with easy convertibility delayed the development of an active foreign exchange market. However, with the establishment of the CBN and the subsequent centralization of foreign exchange authority in the bank, the need to develop a local foreign exchange market became paramount.

It is good to know that the foreign exchange market consists of the sellers of foreign exchange (supply) and buyers of foreign exchange (demand). The major participants in the foreign exchange market are authorized dealers (banks), the public sector, and the private sector and correspondent banks abroad. The supply of foreign exchange is derived from oil and non-oil exports, capital receipts including draw-down on loans, expenditures of foreign tourists in Nigeria, repatriation of capital by Nigerians resident abroad as well as other invisible receipts by the private sector. On the other hand, the demand for foreign exchange includes payments for imports, external debt service obligations, Personal Home Remittance (PHR) by foreign nationals, resident in the country, financial commitments to international organization and the countryęs embassies abroad as well as other invisible out payment by the private sector.

The increased export of crude oil in the early 1970s following the sharp rise in its prices enhanced official exchange receipts. This caused most economic agents to patronize the CBN for foreign exchange allocation to pay for international transactions. The foreign exchange market experienced a boom during this period and the management of foreign exchange resources became paramount to ensure that shortages did not arise. However, it was not until 1982 that comprehensive exchange controls were applied as a result of the foreign exchange crisis that set in that year.

An increase was recorded of the activities of speculators and numerous middlemen during this period. The increasing demand for foreign exchange at a time when the supply was shrinking encouraged the development of a flourishing parallel market for foreign exchange. The parallel market premium that emerged over time as a result of the disequilibrium in the official foreign exchange market led to various abuses including under invoicing of exports and over-invoicing imports. These resulted in capital flight and diversion of official foreign exchange to the parallel market. This practice is known as round tripping.

The exchange control system was unable to evolve an appropriate mechanism for foreign exchange allocation in consonance with the goal of the internal balance. This led to the introduction of the Second-tier Foreign Exchange Market (SFEM) in September 1986. Under SFEM, the determination of the Naira Exchange rate and allocation of foreign exchange were bused on market forces. To enlarge the scope of the foreign exchange market bureau-de change were introduced in 1989 for dealing privately sourced foreign exchange.

In February 1993, the Central Bank of Nigeria introduced a pro-rata system of foreign Exchange allocation to ensure that all participating banks got some allocation of foreign exchange. Although the official exchange rate for the Naira was stabilized administratively, the rates in the other segments of the market remained unstable. Further reforms were introduced in the foreign exchange market in 1994. These include the formal pegging of the Naira exchange rate, the centralization of the foreign exchange in the CBN, the reaffirmation of the illegality of the parallel market and the discontinuation of open accounts and bills for collection as means of payments for imports, except on specific approvals for the manufacturing and Agricultural sectors.

In 1995, the foreign exchange market was liberalized, this came with it the introduction of an Autonomous Foreign Exchange Market (AFEM) for the sale of foreign exchange to end-users by the CBN through selected authorized dealers at market determined exchange rate. In addition, bureau de change were once more accorded the status of authorized buyers and sellers of foreign exchange. This policy stance which was retained in 1976 was further liberalized in 1997 and 1998, with the lifting of a number of restrictions on external payments, especially the lifting of the suspension on open accounts and bills for collection and the removal of the limit on personal and business travel allowance. Also, with effect from 1997, foreign nationals were allowed to remit 100 percent against the previous 75 percent of their salaries net of tax as Personal Home Remittance (PHR).

The Money Market Association of Nigeria (MMAN) developed a two-way quote Foreign Exchange Market (FOREX). This formally kicked off on the 1st of March 1999 with about 20 banks in participation. The two-way quote FOREX system is an invention aimed at the dealers where they quote rates for buying and selling of FOREX to strike a cross deal in the free funds FOREX Market. The Central Bank of Nigeriaøsô participation was necessary then and it indicated its willingness to participate in the then new FOREX market which it (CBN) hopes to run concurrently with the Autonomous Foreign Exchange Market (AFEM) at present.

As at December 1999, the Nairaøs exchange against other major currencies became stable; averaging N97.65 per dollar in the inter-bank foreign exchange market (IFEM), demand for foreign exchange was recorded to have had a steady climb.

By August 2002, 21 of the 90 banks in the country had watched for the sidelines activities in the nationøs foreign exchange market. Those spectators apparently, were former bonafide actors in the systems that were suddenly shoved aside by the Central Bank of Nigeria for alleged contravention of foreign exchange market rules. The recorded affected banks were those accused of having indulged in foreign exchange malpractices ranging from round tripping, trading in free funds and bidding for spurious clients among others as reported by the CBN.

The other categories of offenders were banks that failed to make accurate disclosures about sources and application of foreign currencies between the year 2000 and early 2002.

There had been a record of high level of inconsistency and total lack of idea on the appropriate policy mix needed to achieve efficiency in the system by the Central Bank of Nigeria for a record of up to 16 years in the management of the foreign exchange allocation in Nigeria.

That explained why once discredited policies are often reinvented, and applied again by the banks, regardless of the pains and experiences of the past. A good instance is on the banks decision then to head back to demand management initiative after about one year of the inter-bank foreign exchange market, where banks bided daily for foreign exchange stands as an eloquent testimony of the current state of affairs in the apex bank. If rules and regulations guiding conduct of foreign exchange business are adequate in Nigeria, it would be difficult for the operators to flout them. But where such laws are structured and implemented to witch-hunt operators or to score cheap political points, the end result would be confusion.

The problems and confusion experienced in the operation of the Inter bank Foreign Exchange Market (IFEM) led to the re-introduction of the Dutch Auction System. The then deputy Governor of the Central Bank of Nigeria Mr. Ernest Obi in explaining the rational behind the reintroduction of the Dutch Auction System (DAS) in Lagos at a forum in Abuja Stated that ñDAS was introduced to achieve an exchange rate that would not distort the overall economyò. He noted that the CBN would not fold its arms to watch the Naira depreciate.

2.5 THE DUTCH AUCTION SYSTEM

The Dutch Auction System was re-introduced to replace the Inter bank Foreign Exchange Market (IFEM) system which operated as recorded to only see the value of the Naira plummeting steadily against major world currencies in the few months reviewed. By the measure, the Dutch Auction System, first introduced by the CBN in 1987 but was discarded, was making its third entry into the nationôs foreign exchange management mechanism, having been practiced between 1990 and 1991, all with disappointing results. In the new system of DAS as reintroduced, the CBN would determine the amount of foreign exchange it wanted to place in the market, unlike under the IFEM regime where authorized dealers demands determined how much Foreign Exchange is sold on each day.

The essence of the introduction of the Dutch Auction System originally was to enhance professionalism in the market and to prevent outrageously high bid rates which invariably led to the continued deprecation of the Naira. The system did not achieve this goal then. The Naira showed heavier depreciation in 1991 instead compared to the relative stability of the exchange rate in 1990 and as a result, it was abandoned. The Dutch Auction System was embraced by the Central bank of Nigeria again because of the countryôs dwindling revenue profile and that the Dutch Auction System would enable the Apex bank regain control of the Foreign Exchange Market.

2.6. STRUCTURE OF THE NIGERIAN FOREIGN EXCHANGE MARKET

The Foreign Exchange Market is the market in which different currencies are bought and sold. Here, Dollars are traded for Marks, Marks for Frances, Frances for Yens, Yens for Dollars, Naira for Pound sterling or Dollars etc.

The national currency of all the countries is in stock for trade here in the market. As such, the Foreign Exchange Market is the target market to be found around the world since it functions on every country.

The structure of the Nigerian Foreign Exchange Market reflects the principle participants such as the Nigerian Commercial Banks, Foreign exchange dealers, brokers otherwise called bureau de change and Central Bank of Nigeria. In Nigeria, the central bank authorized banks and other financial institutions to transact foreign exchange business and they are otherwise called authorised dealers or money changers who are issued with licenses to transact foreign exchange business of issuing and enchasing travelersô cheque and other foreign currency.

According to Mckinnon (1993:31) Bank dealing in Foreign Exchange is the market maker in the market. This means that they quote buying and selling rates to currency say (s). Dollars in relation to another currency say (Re) and are prepared to buy and sell it at those rates. The brokers in the foreign exchange market acts as a middlemen between two banks. They inform the banks about the rate at which buyers and sellers are prepared to buy and sell a specified currency. The brokers strike the deal and collect his commission. But brokers do not buy or sell currencies themselves. Thus, the foreign exchange rate are set in these inter bank and bank brokers dealings.

Firms need exchange rate for making payments of imported and interest on foreign loan conversion of exports receipts, hedging of receivables and payable.

The Central bank intervenes in the foreign exchange market from time to time to influence the exchange rate when the country is not on a fully flexible exchange rate. In Nigeria if Dollar rises above certain level, the Central bank will intervene to smooth out fluctuation in the exchange rate.

However, it is good to know that the structure of the Nigerian Foreign Exchange Market is to transfer funds through one currency of a country to another and to provide short term credit to finance trade between countries through various credit instruments, and to facilitate avoidance of foreign exchange risk or hedging or speculation.

The structure of the foreign exchange market in Nigeria consists of segments viz:

i) The official foreign exchange market.

ii) The autonomous (made up of the inter-bank and bureau de change) and

iii) The parallel markets.

These segments of the market were known to have revolved overtime and emerged due to developments in the economy that warranted their debut.

The official foreign exchange market which is the largest and predominant segment of the market has remained one and had been in place throughout the period of trade and exchange control when the 1962 Exchange Control Act held. The official foreign Exchange Market has also metamorphosed over the years. Since the institution of a regime of exchange and trade liberalization in 1986, the market has witnessed tremendous changes. From the second-tier Foreign Exchange Market (SFEM) in September 1986 to the unified official market in 1987 when the exchange rate for public sector transaction was aligned with the commercial exchange rate, up to 1995 when the Autonomous Foreign Exchange Market (AFEM) for the direct allocation for foreign exchange to end users by the CBN was established. The official market has evolved from a single to a dual exchange rate system. The market operates two exchange rate systems - Fixed transactions through exchange rate for Priority Public Sector and other non-priority sector transactions through autonomous foreign Exchange market segments.

The inter-bank market for free funds or privately sourced foreign exchange was centralized in the CBN through the 1962 Exchange Control Act. The Market became vibrant at the inception of the Second-tier Foreign Exchange Market and the permission granted to the banks by the CBN to effect foreign exchange dealings amongst themselves. The sharp practices that emanated from the system in the form of round tripping of funds led to persistent instability in the exchange rate. This resulted to the merger of the official foreign exchange market and the inter-bank market in 1989 into an enlarged Inter-bank Foreign Exchange Market (IFEM). Thus, the inter-bank market was outlawed. The bureau de changes were established with the abolition of the inter-bank market in 1989 to give access to smaller users of foreign exchange and enlarge the officially recognized foreign exchange market. At the bureau de change, exchange rates are market determined with the introduction of the AFEM in 1995, the banks are once more allowed to engage in inter-bank dealings with only privately sourced foreign exchange.

The parallel market for foreign exchange on the other hand had been in existence from the Exchange control era. The disparity in exchange rate was even greater in some period before Nigeriaɑ̂s economic reforms. The then renewed interest rate in the market was founded on the quest for windfall gain associated with the instability at that time and upward pressures that the market generated occasionally.

The parallel market is a residual market as it accommodates spill over demands from other sources. It had been established that scarcity in the official sector and bureaucratic procedures necessitated the growth and development of parallel market.

Although transactions through it are limited and small, its speculative tendencies if well monitored and built into the general framework for foreign and exchange rate management would have resulted in a more effective and efficient system. In developing economies, speculations, arbitrage, hedging and portfolios switching are important elements in gauging the health and development of the foreign exchange market and by extension the financial system, but the cases is different.

2.7 FOREIGN EXCHANGE MANAGEMENT

The management of foreign exchange is an attempt consciously made to harness foreign exchange resources, deploy them to service the economy and to meet other international commitments while saving some to raise the level of international reserves, which could be used to finance temporary difficulties and to safeguard the international value of the domestic currency. For the fact that foreign exchange is a means for settling international transactions, a close link exists between it and the balance of payments which records the transactions between the residents of one economy and the rest of the world. While foreign exchange transactions reflect cash flows that arises from international operations, the balance of payment looks at the actual movement of goods, Services and changes in financial assets and liabilities. When adjustments arising from international transactions in foreign exchange are made, they are brought to the balance of payments standard. The state of foreign exchange reserves has an implication for the ability to finance temporary payment difficulties hence the examination of the issues of foreign exchange reserves has an implication for the ability to finance temporary payment difficulties hence the examination of the issue of foreign exchange management would basically be on the theoretical formulations of the approaches to the balance of payment.

2.7.1 FOREIGN EXCHANGE MANAGEMENT IN THE CBN

The external reserves of a country are the financial assets that are available to the government used to meet temporary imbalances in the external payments: to intervene in its Foreign Exchange Market in defence of its exchange rate, to settle obligations that arises from international trade, financing contracts, diplomatic relations etc. An adequate level of reserve is therefore essential to a countryÕs economic and socio-political stability.

NigeriaÕs external reserves management basically has two main Objectives. They are:-

(a) Financing the governmentøs current expenditure.

(b) Funding of the capital Account.

The current account includes foreign debt service, diplomatic and military expenditure, etc. in Nigeria, the reserves are also used to fund the foreign Exchange Market (FEM), to finance private sector expenditure in respect of goods and services. On the other hand, the capital account consists of investments to hedge governmentøs foreign liabilities with the aim of providing an income and capital streams from which future interest and capital repayments of loans can be made.

The reasons why the Central Bank of Nigeria hold external reserves includes the following:-

(i) To provide liquidity that is easily spent or exchanged in the

settlement of transactions with the rest of the world.

(ii) To fund the foreign exchange market with a view to having a stable exchange rate provided other economic fundamentals especially those that relates to fiscal policies are sound. The exchange rate policy can be used as a tool for the management of a countryøs external reserves. For instance, a devalued Naira exchange rate discourages demands for foreign exchange (and enhances external reserve).

The reserve so saved would be available to:-

a) Meet external payments,

b) Intervene in the foreign Exchange Market,

c) Settle external trade and diplomatic obligations.

An over valued exchange rate on the other hand encourages excessive demand and has the following consequences:-

a) Capital flight.

b) Increase in Importation of goods and services Dependence on imports.

c) Speculators (including prospective manufactures) resort to trading in foreign exchange as against use for productive purposes.

iii) To enhance our international credit-worthiness.

iv) To use the available shock as a buffer against external shocks.

In the above, the important factors guiding the CBNôs reserves management strategy are the amount of reserves available and the form in which to hold them. However, since 1985, several factors including increasing government commitments a high debt service burden and the funding of the Foreign Exchange Market have made it practicably difficult to achieve this objective.

Nevertheless, the Central bank of Nigeria has a reserve management strategy developed. This involved the following:-

➢ Investment of reserves in secure, short-dated liquid assets in order to ensure prompt availability of funds when required.

➢ Rescheduling of the external debt in order to reduce the debt service burden and thereby enhancing the reserves.

➢ Selection of only a few correspondent banks to operate our documentary credits on an unconfirmed basis in order to enable us pays only when shipments are made.

➢ Limiting the foreign exchange expenditure of the public sector through budgetary controls.

The reserve management strategy of the CBN is anchored on liquidity management and capital preservation as the level of foreign exchange receipts is grossly inadequate to accommodate the countryꞌs payment obligations.

Foreign Exchange receipts by the bank comes from proceeds from the Nigerian-National Petroleum Corporationꞌs (NNPC) direct crude oil sales, Petroleum Profit tax (PPT), Royalties, Gas flaring charges etc. On the other hand, and non-oil export proceeds such as the sale of foreign exchanges by parastatals and organizations such as the Commission of European Communities (CEC) and the World Bank on the other hand.

2.7.2 FOREIGN EXCHANGE MANAGEMENT IN THE SECOND TIER FOREIGN EXCHANGE MARKET ERA

The Second -Tier Foreign Exchange Market (SFEM) is a second foreign exchange window deliberately opened to Nigerians to exchange their foreign currencies for the Naira at the rate of exchange which may be equal or higher than the official exchange rate. It was established in September 1986. It is a market where the exchange between the Naira and the other foreign currencies is determined by the forces of demand and supply. The market is intended to ensure a more efficient utilization of the countryꞌs scarce foreign resources.

In this SFEM period, the modalities of the management of the foreign exchange market changed substantially. This is in line with the principles of the Structural Adjustment Programme (SAP), which emphasized the market oriented approach to price determination, although the features, remained essentially unchanged, the supply of foreign exchange continued to come mainly from oil receipts.

The mechanism of foreign exchange rate determination and allocation of foreign exchange under the deregulated system was based on the forces of demand and supply.

Within the basic frame work of market determination of the Naira exchange rate, various methods were applied and some adjustments carried out to fine tune the system.

A transitory dual exchange system (first and second tier was adopted in September 1986. The first- tier was managed, while the second-tier was subjected to market forces. The first-tier rate was applied to debt service payment, other public sector disbursements and pre-SFEM transaction, while other transactions were undertaken at the second- tier rate. On 2nd July, 1987, the first and second-tier markets were merged into an enlarged Foreign Exchange Market (FEM). Various pricing methods, such as merging weighted average and Dutch system were adopted.

The constant fine-tuning of the market ended up in the complete floating of the Naira on March 5, 1992 when the system of the predetermined quotas was discontinued. Under the new system, import procedures remained largely the same. Sales were suspended at the Foreign Exchange market by the CBN on December 15, 1992 while a pro-rata system of foreign exchange market resulted in a policy reversal in 1994 when the Naira exchange rate was formally pegged and foreign exchange to end-users on pro-rata basis. In addition, transactions on open accounts and bills for collection were discontinued.

Under the pro-rata system, the manufacturing sector got 50%, finished goods 30%, agriculture 10%, and invisible 10%. The CBN allocated 90% directly to the productive sectors, while the balance of 10% for invisible was allocated by the banks. The one hundred and twenty one (121) banks that were there in the system were thus grouped into six categories for he purposes of invisible allocation, made up of 3,6,9,19,32 and 52 banks with respective percentage shares of 20,18,15,15 and 17 percent respectively. For illustration, category 1 was made up of Union Bank, First Bank and Untied Bank for Africa (UBA) with an allocation of 20%.

In 1995, the policy was reversed which guided deregulation and necessitated the institution of the Autonomous Foreign Exchange Market (AFEM) and the liberalization of foreign exchanged dealings through the active participation of the bureau de change in the AFEM. The bureau de change would purchase and sell privately sourced foreign exchange at the autonomous exchange rate. The major goal of the policy as at that time was to deliberately build up and strengthen the Naira and pave way for the sustained stability and ultimate convertibility under AFEM at market- determined rates.

The banks then were allowed to deal among themselves in autonomously sourced foreign exchange, while dealing in intervention funds from CBN in the autonomous markets was prohibited. To ensure adherence to this rule, the CBN intervention funds were maintained in 1996. Although the thrust of policy was retained in 1997, substantial liberalization of foreign exchange practices occurred.

2.8 RATIONALE BEHIND THE INTRODUCTION OF SECOND-TIER FOREIGN EXCHANGE MARKET (SFEM)

The second-tier Foreign Exchange Market was introduced with the expectation that it will help the country attain a realistic exchange rate for the Naira, which should be useful for the eradication of black-marketing of the Naira and also for reducing Nigeriaǿs high propensity to imports.

The SFEM was supposed to be one of the instruments to be used for the achievement of the goals of the structural Adjustments Programme (SAP) which are the following:-

- To restructure and diversify the productive base of the economy in order to reduce dependence solely on the oil sector.
- To achieve a fiscal and balance of payment viability over the medium and long-term.
- To lay the basis for sustainable non-inflationary growth over the medium and long-term basis.

According to the Central Bank Guidelines on SFEM, only authorized dealers comprising of people appointed by the government and most commercial and merchant banks were allowed to deal in the market. Price fixing session was always had once a week; i.e on every Thursday at the Central bank of Nigeria.

The objectives for the introduction of the SFEM it is important to state included the following:-

- To achieve optimal allocation of resources
- To attract inflow of capital, especially funds held abroad by Nigerians.
- To achieve the convertibility of the naira.
- To eliminate the illegal traffic in currency and goods across the countryǿs boarders.

The question is, were all these achieved? There had been series of modifications undergone by the foreign exchange market that were aimed at perfecting its operation since inception. The end result showed that the market determined exchange induced change in the allocation of foreign exchange resources and the pattern of production and consumption. It also helped in diversification of the export base on the economy, in addition to fostering backward integration and self-reliance. But a major problem confronted the monetary authorities. This had remained the case of continuously depressed value of the Naira in the FOREX Market. The inadequate funding of the market was a major cause of this depressed value for the Naira. To save this ugly situation, the government arranged and received various balance of payment support loans aimed specifically at increasing the funding of the market.

2.9 EXAMINING THE FOREIGN EXCHANGE MANAGEMENT PROBLEMS IN NIGEIRA AND THE STRATEGIES FOR CORRECTION BY THE GOVERNMENT

The specific objectives of exchange rate policy include:-

- The achievement of balance of payments viability,
- Reduction of dependence on imports,
- Diversification of the export base,
- Reduction or elimination of incidence of capital flight,
- Achievement of a realistic exchange rate of Naira.

Arguing further, (Chikeleze, 2000) stated that ña necessary condition for the achievement of the above stated objectives is that exchange rate should ensure that economic fundamentals such as changes in relative prices, International terms of trade and other factors that impinge directly on the agents and products should not distort the planning process significantly.

In this case therefore, exchange rate sends a powerful signal necessary for the adjustments of the macro-economic variables and for it to be effective, the technique used in its determination must reflect the prevailing economic situation. Nigeria has so far experienced the two distinct regime of exchange rate management which shows something is wrong.

The first was the regime of fixed exchange rate of the Naira in which the exchange rate of the Naira was fixed or pegged to a single currency. It is further stated that under this arrangement, the value of the Naira was dependent on the fortunes of the foreign currency or currencies to which it was pegged. The second arrangement is the floating exchange rate regime where the value of the naira is largely determined through market forces of demand and supply. It is important to mention that the value of the Naira under this arrangement was essentially reflective of domestic fundamentals.

It could be seen that before the introduction of a floating exchange regime in 1986, exchange rate was determined exclusively by the Central Bank of Nigeria. At this period, exchange rates were solely managed and administered by CBN; the determination was done daily based on/in relation to the performance of the US Dollars and Pound in the World foreign exchange market.

Shamsudeen (1993) stated that when Nigerian pounds was introduced in 1959, ñits value was equated to the British Poundsò. The faxed parity between the Nigerian pounds and British pound sterling lasted between 1959 and 1967 when the British pound sterling was devalued. The devaluation was expected to mean a corresponding devaluation for the Nigeria pound but Nigeria refused to devalue her currency along side them but rather moved her faxed parity between her currency and the British pound sterling to that of the Untied States Dollars.

Even when Nigeriaôs currency was changed in 1973, it continued to maintain faxed parity with the Untied States Dollars until 1978 when the Naira was tied to both the Untied States Dollars and the British pound sterling under a formula that took into account their relative strengths.

In 1978 an import-weighted basket of exchange rate policy was adopted. This involved the devaluation of the Naira from the relative import trade weights of seven baskets of currencies, which considered to British Pound sterling, US Dollars, Dutch mark, Japanese yen, Dutch Gulder, Swiss France and French France. Chikeleze (Ibid) stated that the policy of pegging to a basket of major international currencies is usually directed at minimizing the effect of fluctuation of the exchange rate of these currencies on the local one. Did that bring a solution to the exchange rate problem?

In 1984, the countryøs exchange rate was determined through the value of the pounds sterling and the US Dollars, which served as two intervention currencies. While the determination changed in 1985, when the US Dollars was used as a role currency of intervention. From 1984 - 1986 according to Olukole (1991), the exchange rate policy was precisely that of crawling pegö.

The year 1986 saw to the introduction of the Structural Adjustment Programme (SAP) by the Babangida led administration; this brought with it a major reformation in the exchange rate determination in the country. SAP was designed to achieve balance of payment viability by altering and restructuring the production and consumption patterns of the economy, eliminating price distortions, reducing the heavy dependence on consumer goodsô imports and crude oil exports, enhancing the non-oil export base, rationalizing the role of the private sector and achieving sustainable growths. To achieve the objectives, the main strategies of the programme were the adoption of a market determined exchange rate for the Naira, the deregulation of external trade and payments arrangements, reduction in price and administrative controls and more reliance on market forces as a major determinant of economic activities. The new approach therefore contracted sharply with the previous system where the Naira exchange rate was administratively fixed and remained relatively rigid.

Actions taken to maintain external value of the Naira in the past it was observed resulted in over-valuation of the exchange rate and economic distortions and therefore SAP was introduced to reverse the adverse trends. Sanusi (2001: 34) argued that since the introduction of SAP ñrapid devaluation of the domestic currency took place, while the adoption of foreign exchange allocation through market mechanism appears to have eliminated rent seeking behavior associated with the import licensingò

The second-tier foreign exchange market regime operated with two market arrangements. The Auction and inter-bank market. The auction type being an arrangement where bidding sessions are held periodically in the Central Bank with the Authorized dealings rate; and the inter-bank market involving dealings between the authorized dealers and the member of the public on the other hand. Note should be taken that since 1986, various changes have been recorded in the foreign exchange market. They include the change from a weekly bidding session to a forth night bid session as well as the use of marginal rate to clear the bids in October 1986 to be precise. On the second day of July 1987 however, the two rates in the first-tier and second-tier markets were merged. The merger resulted in the statutory termination of the First-Tier market- giving rise to a Unified foreign exchange market which evolved under a floating exchange rate regime.

Under the autonomous foreign exchange which evolved in 1988, foreign exchange acquired by banks could be sold at a rate determined by them but subject to maximum spread of one percent point. In 1989, a modified Foreign Exchange Market (FEM) was introduced and there was a merger of the auction rate and the autonomous rate. Other measures introduced this year included the introduction of Bureau de change as the third segment of the Foreign Exchange Market for rating Foreign Exchange to reduce the pressure on the official market.

In 1991, the modified Auction system was introduced which only allowed banks to bid on behalf of their customers and on their own behalf. Furthermore, according to Chikeleze (ibid), ñThe trust of foreign exchange management in 1995 shifted from partial regulation to guide determined and exchange rate regime, the Autonomous Foreign Exchange Market (AFEM) was introduced with the CBN intervening in the marketò.

Note should be taken that between the years 1995 and 1996, the strategy of dual exchange rate continued with the establishment of official exchange rate and AFEM rates. The dual exchange rate system however has been dripped and the countryôs exchange determined by the forces of demand and supply through AFEM.

In a continued effort to stabilize the exchange rate as well as ensure a single exchange rate for the Naira, the Inter-bank Foreign Exchange Market (IFEM) is further deregulated in 2002. To this effort, Bureau de changes were allowed to source their foreign exchange requirements from IFEM. This is done with a view to facilitate the desired Macro-economic objectives.

Foreign Exchange management Strategies it is good to understand deals with the determination by the government of the long-run direction and performance of the countryôs main foreign exchange objectives. It is done by ensuring that careful formulation, proper implementation and continuous evaluation of the strategy takes place. Did it achieve that?

Governments the world over fashion out strategies that suit the understanding of their economy. For example, the Governor of the Central Bank of Nigeria in the year 2006 stated that they are adopting a liberalization policy and as such have introduced what he called WDAS.

According to him, the WSAS is an inter-bank foreign market and it is organized around authorized dealers and some times assisted by brokers, with some dealers behaving as market makers to maintain liquid and continuous market (Soludo: 2006). He went further to state that ñAn Inter-bank Foreign Exchange Market represents a form of market that is fostered by ensuring that participants are free to establish buying and selling exchange rates for transactions with their customers and among themselves by providing for efficient dissemination of information on bids and offers.

Again on the foreign exchange management strategies as adopted in Nigeria there is a suspension on FOREX sales to banks and Bureau de changes, this has caused some scarcity in the foreign exchange in the market. Writing on the issues of Naira and other currencies Babajide Komolafe (2009) in a newspaper report titled ***Naira in free fall***, said that ñMarket operators explained that there is a fall in the value of the Naira. The fall he said was prompted by the depreciation of the Naira in the official market by N3.4, and the increasing scarcity of foreign exchange in the marketò as at that data, the Naira watch showed that the official exchange rate of the Naira was N139.02 per $1 (i.e one dollar), at the inter-bank transactions N144.25 per dollar, at the open market, N147 per Dollar. There is an anticipated continuous fall if care is not taken. The question then is, what is the government doing about this trend?

2.10 FOREIGN EXCHANGE THEORIES AND MODELS APPLICABLE TO NIGERIAN FOREIGN EXCHANGE MANAGEMENT

- **Gold Standard Theory:** This is also known as the Mint parity theory. It explains the determination of the foreign exchange rate between the currency units of the gold standard countries. Here, the currency in use was made of gold or was convertible into gold at a fixed rate. The value of the currency unit was defined in terms of certain weight of gold i.e. so many gold to Dollars, pounds, etc e.g. an individual who holds domestic currency knows in advance how much gold he can obtain in exchange for it and how much foreign currency this gold will buy when exported to another country. The Central bank of the country involved was always ready to buy and sell gold at the specified price. The rate at which this gold is convertible into money is called the unit price of gold.
- **Exchange Rate Theory:** Also called he Purchasing Power Parity theory was developed to determine the exchange rate between countries on paper currency which are to be determined by the equality of their purchasing power. Here, the rate of exchange between two countries is determined by their relative price level.

In this theory, there is a direct relationship between the purchasing powers of the currency units and the exchange rate, but in practice, it is not always the case. Foreign exchange rates are frequently influenced by factors other than the purchasing powers of the currencies in the countries involved. For instance, exchange rate can be influenced by tariff if a country imposes tariff on her imports while other countries do not levy retaliatory tariff, the exchange value of the currency of the tariff-levying country will rise although there is no change in the domestic prices in the country.

The major criticism on this theory however is that it ignores the demand for and the supply of foreign exchange arising from sources other than international trade on visible goods, that is, it considers only the imports and exports as factors of demand and supply of foreign exchange. It over-looks the fact that the demand for and supply of foreign exchange also arises on account of the imports and exports of invisible services like insurance, shipping, banking and so on from flows of short-term funds and other unilateral transfers involving reparation payments, payment of loans and interest by one nation to another.

- **Balance of Payment Theory:** This theory holds that exchange rate is determined by autonomous factors which are unrelated to domestic prices and the money supply. The exchange rate of the currency of a country depends upon its balance of payment. When there is a favourable balance of payment, the exchange rate is raised and is determined always by the demand for and supply for foreign exchange. One of the strong points of this theory is that is explains the disequilibrium in the balance of payment of a country which can be corrected by making appropriate adjustment in the foreign exchange rate by either devaluing of revaluing the currency unit of the concerned country.

With regards to the subject of this research this balance of payment theory is very relevant. The research questions and hypotheses are connected to the foreign exchange management by the Central bank of Nigeria, and it is anchored on the foreign trade and exchange policy measures of the regulatory body the CBN as contained in the Monetary, Credit, foreign Trade and Exchange policy Guidelines for the fiscal year.

The Monetary policy is an official instrument at the disposal of the CBN to regulate the availability, cost and use of money and credit with the objective of achieving the optimum level of output and employment, price stability, external balance of payment equilibrium or any other goals of government economic policy.

The primary objective of monetary policy as stated in the CBN guideline (1999) is to ensure stable prices by maintaining inflation rate at a single digit. The monetary policy conduct will rely on market- based mechanism, involving the discretionary management of CBNὂs balance Sheet to keep the operating variables within programme targets. The Open Market Operations (OMO) is a traditional and qualitative instrument at the disposal the Central bank used to control the volume of aggregate bank credit in the economy. It is a primary policy tool supported by reserve requirements and discount window operations for enhanced effectiveness.

The Central bank of Nigeriaὂs foreign and exchange policy objectives is to maintain external balance and exchange rate stability as well as enhance effective utilization of foreign exchange by the application of policy measures which include documentation procedures for importation into the country, the retention of the Inter-bank foreign exchange market which is expected to operate freely, Pre-shipment inspection of goods imported into the country, import Duty procedures, Export trade and promotion, invisible Trade transaction procedures and other measures deemed necessary to achieve the desired objective.

2.10.1 THE MODELS INCLUDE

- **The Elasticity Approach:** This approach according to Obaseki (1993) ñAnalyses the effect of devaluation on the trade balance. The proponents of the approach advanced that with adequate downward adjustment of Exchange Rate, countries with Balance of payment difficulties would be able to export more, import less and save some foreign exchange. However, this was based on rigid assumptions of mass unemployment, perfectly elastic supplies, an initial balance growth and the assumption that the elasticities of home and foreign demand for imports should exceed unityò.

Devaluation per se may not be adequate for developing countries where relative prices are not the sole determinant of international trade. This approach however, prescribed complementary fiscal/monetary polices which could be adopted in place of devaluation to achieve the same result. Here, there is an attempt directly made to manipulate the major items of the balance of trade rather than relative prices to stimulate exports and curtail imports. Before the inception of SAP, a passive Exchange Rate mechanism was maintained. Although exchange rates were not static, they were not active. The policy of gradual appreciation from 1982 was not informed by underlying market situations. The prevalence of the 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.

- **The Income Absorption Approach:** The realization that elasticities include both price and income influences shifted emphasis to the development of a framework that relates income to expenditure by introducing income into the partial analysis of the elasticity approach. The popular identity for the absorption approach relates to 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 balances for foreign exchange by drawing down their international reserves, the foreign exchange situation will continue to be precarious. This approach, according to Obaseki (ibid) acknowledges that under extreme circumstances, direct control measures could be applied to reduce foreign exchange disbursements. The principal measures it recommends are the financing of temporary deficits where reserves are large, trade and exchange controls as well as domestic credit restrictions and devaluation where deficits credit are persistent and foreign exchange outflow is excessive. This approach was partially relied upon by the authorities to manage Nigeriaĝs foreign Exchange resources before SAP. However large scale devaluation of the Naira was not embarked upon until SAP came into place. Although the approach prescribes the use of exchange controls in extreme circumstances, it was nevertheless a deliberate policy framework since 1962. The prescriptions of expenditure changing policies were applied. However, since the commencement of the SAP, the income- absorption approach has been a major determinant of measures designed to turn around the external sector of the economy.

- **The Monetary Approach:** This approach emphasized the role of money in shaping other aggregates that influences foreign exchange movement and international reserves. It did not categorize expenditure like the preceding approach. It holds that the inflow and outflow of foreign exchange associated with surpluses and deficits in the balance of payments are not immediately sterilized, hence they influence an aggregate money supply. Furthermore, the approach assumes that when the exchange rate is fixed, the monetary authorities can control the foreign or international reserve components of the monetary base through appropriate credit policies. The monetary approach prescribes the adoption of appropriate domestic monetary fiscal policies in conjunction with exchange rate variation to achieve equilibrium. It however frowns at exchange volatility.

Although, monetary/fiscal policies were applied as instruments to manage foreign exchange resources before SAP, they were not the major policy thrust of government. However, with SAP, the notion of exchange rate endogenicity was embraced with the floating of the Naira in the foreign exchange market. In addition, monetary and fiscal polices became the major aids of ensuring stability in the foreign exchange market.

What is obvious from the above is that a mix of policies drawn from the various approaches has been applied to manage foreign Exchange in Nigeria. The elasticity approach emphasized expenditure switching policies while the income absorption approach prescribed both expenditure switching and expenditure changing policies. On the other hand, the monetary approach favour reliance on expenditure changing polices.

2.11 EXCHANGE RATE CONCEPT

Exchange rate is defined as the number of units of a given currency that can be purchased for one unit of another currency. It could further be looked at ñas the rate of exchange between two countries which indicates the value of a currency in terms of anotherò (Agene: 1991). Ogundipe (1989) in his own view says that ñexchange rate is the rate at which two currencies exchange for each otherò. In other words, exchange rate is the price, in the domestic currency, per unit of a foreign currency or simply put, the number of units a particular currency exchanges with another currency. The exchange rate as the connecting link between nationôs currencies permitting international trade and investment.

The rate of exchange may either be set by government through intervention or determined by market forces. The formulation and implementation of exchange rate strategies by many countries world over is to influence major economic aggregate primarily, ensure viability of the balance of payment position of the country among others. Therefore, equilibrium exchange rate may be determined by the forces of demand and supply in the absence of government intervention. Just as posited by Chikeleze (ibid) that ñexchange rate adjustment is undertaken to achieve certain macro-economic objectives. Some of the objectives according to him include the achievement of balance of payment viability, maintenance of internal balance and promotion of efficiency in resource allocation.

2.11.1 EXCHANGE RATE STRATEGY

The ability of an exchange rate to have a strategy which is realistic and would be able to remove the existing distortion and disequilibra in the external sector of the economy as well as ease persistent balance of payment problem is the main thrust of an exchange strategy.

Many countries have used various exchange rate measures to correct balance of payment disequilibra and also to correct financial and structural imbalances in facilitating growth in the economy. It is often observed that a government in a bid to manage the exchange rate has either allowed the value of her local currency to be determined by the forces of demand and supply or fix the exchange rate by themselves. The system of determination of exchange rate is called flexible or floating exchange rate system while the fixing system is called the fixed exchange rate regime.

2.11.2 CAUSES OF CHANGE IN EXCHANGE RATE IN SOME DEVELOPED AND DEVELOPING COUNTRIES

The exchange rate between countries changes from time to time due largely to changes in demand or supply in the foreign exchange market. Some factors are responsible for these changes and they include:-

- **Changes in Price/Price Fluctuations:** Changes in prices relatively affects or causes changes in the exchange rate. Foreign exchange of a commodity and its price fluctuates in accordance with supply and demands; exchange rates are published on daily basis in the principal newspapers of the world. By international agreement, there are fixed exchange rates. When there is a floating exchange rate and non intervention from government, the rate of exchange or the price of the currency of one country in terms of another country will depend on overall supply and demand and also the relative purchasing power of the two currencies that is, on the competitive position of the two countries. At times speculations in foreign exchange by dealersô brokers or others become a major influence on exchange rates.

- **Changes in Exports and Imports:** The demand and supply of foreign exchange is also influenced by changes in exports and imports. If exports of the country are more than imports, the demand for its currency increases so, that the rate of exchange moves in its favour. Conversely. If imports are more than exports, the demand for the foreign currency increases and the rate of exchange will move against the country.

- **Capital Movement /Flight:** Short-term or long-term capital movements also influence the exchange rate. Capital flows tend to appreciate the value of the currency of a capital exporting country. The exchange rate will move in favour of the capital currency of the capital importing country which will rise and its demand curve will shift upward to the right, and the exchange will be determined at a high level giving the supply curve of foreign exchange rate.

- **Government Control:** When the foreign exchange needs of a country exceed total receipts from abroad and the country is unable to receive foreign credits, the exchange value of the currency of the country tends to decline. In such a condition, the government intervenes by allowing freedom of transaction in foreign exchange and permitting its currency to depreciate or it can allow free transfers of currency by the establishment of exchange control. The aim of such control is to limit the demand for and to increase the supply of foreign exchange.

- **Political Conditions:** The political condition of a country has a significant influence on the exchange rate of the country. If there is political stability and the government is strong and efficient. Foreigners will have the tendency to invest their fund into the country, with the inflow of capital, the demand of domestic currency will rise and the exchange rate will move in favour of the country. If there is weak, unsecured, inefficient political condition and safety of life and property is not guaranteed, there will be capital flight i.e, outflow of capital form the country and the exchange rate will move against the country.

- **Structural Influences:** Structural changes are another important factor which influences the exchange rate of a country. Those changes which bring about changes in the consumer demands for commodities such as technological changes i.e. innovations change in taste and fashion etc are the structural changes which can affect the cost of foreign demand for domestic products which invariably affects the rate of exchange of the currency of the country involved.

2.12 METHOD OF PAYMENT UNDER NIGERIAN FOREIGN EXCHANGE MANAGEMENT

Foreign payments are made in the currency of the country to which the payment is to be made, but countries prefer payments made in US Dollars and are usually through the following types of credit instrument by the banks dealing in foreign exchange which are:

- Telegraphic Transfer
- Mail Transfer
- Bankerôs Cheque
- Travels Cheque
- International Cheque.

Small sums of foreign currency can also be sent by international money orders. The banks sell the required amount of foreign exchange to be remitted through these credit instruments above, but it is at the exchange rate prevalent at that time and also charges their commission.

2.13 THE IMPACT OF THE FOREIGN EXCHANGE MANAGEMENT ON THE NIGERIAN BANKS AND THE ECONOMY

It is a known fact that the foreign exchange management in Nigeria has an effect on the banking industry and consequently on the economy.

The following are the impact of foreign exchange management on the economy and the banking sector.

- There is an increased demand for cash from the bank by the populace following the depreciation of the naira through the foreign exchange market. This is because the exchange rate is being determined by them.

Also, the devaluation by AFEM has made it difficult for industries to source additional funds to meet their foreign exchange needs. This has led to some contraction in industrial operations, industrialists are not comfortable by the fact that port charges (import Duties etc) and even the value Added Tax (VAT) were calculated at the autonomous exchange rates. This invariably affects the consumers, the producers and the economy at large.

- Though the autonomous foreign exchange dispensation has been seen to stabilize the Naira exchange rate, the policy which it introduced has not only fuelled inflation but also has reduced the incentive to foreign investors.

- The foreign exchange management has helped the monetary authorities to establish a fair picture of the demand situation in the country and this has helped to reduce speculation, undue pressure on the naira and aided by both the government and manufacturers.

- The import restrictions on some commodities serve as health preservation measures on the populace. All imports on tobacco, second hand materials, cars, refrigerators have helped to protect the life of prospective cancer patients. Also that on auto mobiles of certain age has helped to save the country from being a dumping ground for scrapped vehicles. Also, all imports of frozen poultry, cassava and cassava products originating from the Economic Community of West African Sub-region must be duly registered in compliance with the provision of ECOWAS Trade liberalization Scheme.

- There is an opinion on majority of the populace that the deregulation of the foreign exchange market through the CBN's intervention would in the long run narrow the gap between the official and the parallel market rates and consequently reduce the rate of inflation. But much is dependent on the ability of the CBN to source sufficient foreign exchange resources for sale at the Autonomous Foreign Exchange Market.

- The Commercial Banks who transact on international money transfer will always be faced with the difficulty of the exchange rate at which their customers would want them to exchange their currencies.

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CHAPTER THREE

RESEARCH METHODOLOGY

This chapter focuses on the methodology of the research, i.e. it deals with how the project will be carried out. It will be treated under the following headings:

- Research Design
- Sample size/population of the study
- Sampling technique
- Nature and sources of Data
- Technique for Data Analysis
- Validity and reliability of the instrument.

3.1 RESEARCH DESIGN

According to Okolo (2000: 38) ñDesign of the study refers to the plan, Structure and strategy which the researcher intends to use in order to obtain reliable answers to research questions posed and the hypothesis formulated for the study.

The study made use of the historical, descriptive, comparative and observational research designs. This is because of the type of information needed for the investigation. This is in line with the idea of Onwumere (2005:42) that historical research ñinvolves studying of facts and variables relating to past events with a view to arriving at some relevant judgmentsò he said ñ it also includes the collation of past dataò. According to him also a descriptive research ñaims mainly at collecting information to reveal the characteristics or features of an existing phenomenonò Onwumere (ibid).

3.2 SAMPLE SIZE/POPULATION OF THE STUDY

An overall population used for this study will be the number of years that was reviewed and the amount of foreign exchange allocated to banks in the different years from 1993 to 2001. Therefore, a total of 9 years activities will be reviewed in the study.

This is in line with the description of what a population is which according to Okolo (2000:40) ñis the defined description of the group, objects, events from which those who participated in the investigation were drawnò.

3.4 SAMPLING TECHNIQUE

A sample according to Ogbazi and Okpala (1994:43) ñis a proportion of a population selected for observation and analysis with a view to making reference about the population.

The sample technique used here is the simple sampling technique which enabled the researcher to select a period of years foreign exchange was allocated, to banks and the effect it had on the reserve of the country.

3.5 NATURE AND SOURCES OF DATA

There are two types of data namely: Primary and Secondary types, this implies that there are two sources of data: Primary and Secondary sources of data.

- **Primary Data:** These are that information and data collected for the purpose of the study which has not been documented but is an insight to the research. Those used for this research were got from questionnaires, personal observation and opinion.

- **Secondary Data:** Are also the second hand information obtained from printed or published materials, previous write-ups, journals, newspapers etc. Data use for this work are mainly from secondary sources, they include:
- NDIC Journals, bulletin and Reports
- Text Books
- Central Bank of Nigeria Journals
- Central Bank of Nigeria bulletin
- Central Bank of Nigeria annual reports

3.6 TECHNIQUE FOR DATA ANALYSIS

The technique used for analysis will be both content and statistical. The content form will expose the available information or purely descriptive, historical, comparative, observational and through questionnaires.

The statistical form subdivided the topic into two:

(1) Foreign exchange rate is used as a dependent variable.

(2) Foreign exchange sold to other banks is used as the independent variable.

The simple correlation regression analysis was used to measure the relationship existing between these two variables. Tables were used for cross-classification of the variables using frequencies and percentages. Hypothesis was tested to arrive at a result.

3.7 VALIDITY AND RELIABILITY OF THE INSTRUMENT

The instrument used in the research work was validated to be able to ascertain that the work was done thoroughly and correctly so as to be reliable and acceptable.

In the course of this study, a test and re-test method was used to establish the reliability of the instrument used.

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

In this chapter, the data collected for the purpose of testing the hypotheses formulated which were written in chapter one of this work for this study will be presented and subsequently analyzed.

The initial part of this chapter will show the presentation of data and the later part will show the analysis of the data so collected using the techniques for data analysis written about in the previous chapter.

4.1 DATA PRESENTATION

Hereunder is the presentation of the transaction in the foreign exchange market and the autonomous exchange rates prevailing for the period under review 1993 to 1998. it is presented in the tabular form and the fluctuation of the External reserves and the accretion to reserve for yrs 1996-2001.

TABLE 4.1

Transaction in the Foreign Exchange Market and the Autonomous Exchange rate.

YEAR	**EXCHANGE RATE (N) (N US $ 1.00)**	**ACTUAL AMOUNT RELEASED TO BANKS (US $ MILLION)**	**ACTUAL AMOUNT RELEASED TO BANKS (N)**
1993	22.0511	2.892.7	132.17
1994	21.8861	1,961.1	89.60
1995	81.0228	1,846.1	22.78
1996	80.0000	1,846.1	23.08
1997	83.0000	2,939.3	35.41
1998	86.0000	4,112.1	47.82

TABLE 4.2

Fluctuation of the External Reserves and the Accretion to Reserve.

YEAR	EXCHANGE RESERVES IN	US $ ACCRETION TO RESERVE IN US $
1996	4.1 Billion	-
1997	7.5 Billion	3.5 Billion
1998	7.1 Billion	0.5 Billion
1999	5.4 Billion	1.6 Billion
2000	9.9 Billion	4.5 Billion
2001	10.45 Billion	0.5 Billion

Source: CBN

4.2 DATA ANALYSIS

The value of the Naira had been drastically devalued which led to a drop in external reserve. The period of adequate reserve level would be attributed to the period of improved receipts from oil sector. The external reserve built up very well between 1996 and 1997, this corresponds with years of strong government policy on export diversification and the official exchange rate being fixed at an average of N22 per Dollar.

At the introduction of the Autonomous Foreign Exchange Market (AFEM) in 1995, the Federal Government Stated that ñThe AFEM shall operate freelyò. However, for the avoidance of doubt, no individual or organization shall deal in foreign exchange except as provided in the relevant laws and regulations.

On the external reserve as presented in table 4.2 Nigeriaӧs external reserve has been fluctuating over the years. In 1997, the level rose from 4.1 billion US Dollar in 1996 to 7.5 billion US Dollar, thereafter, it dropped to 7.1 billion US Dollar and 5.4 billion US Dollar in 1998 and 1999 respectively. It moved upwards to 9.9 billion US Dollar and 10.4 billion US Dollar respectively in 2000 and 2001. The accretion to the external reserve account is very crucial in reserve management. In 1997, accretion to reserve was 3.5 billion US Dollar. This savings was however not sustained in the subsequent years, resulting in a net draw down of 0.5 billion US Dollar and 1.6 billion US Dollar respectively in 1998 and 1999. With the improvement in crude oil price in 2000, the external sector outcome resulted in an accretion of 4.5 billion US dollars, but this gain dropped to the billion US Dollars in 2001. This trend reveals the expenditure profile of government, in which years of huge savings or gains in the net position of foreign exchange transactions are followed by periods of increased expenditure.

4.3 CORRELATION/REGRESSION ANALYSIS

Calculation on foreign Exchange rate with Foreign Exchange sold to other banks.

PERIOD (YRS)	N	yi	xi
1993	1	22.0511	132.17
1994	2	21.8861	89.60
1995	3	81.0228	22.78
1996	3	80.0000	23.08
1997	5	83.0000	35.41
1998	6	86.0000	47.82

n = number of observation (6)

x = foreign Exchange sold to other banks

Y = foreign rate

× xi = 350.86

× yi = 373.96

n = 6

$x = \frac{xi}{n}$ = 350.86/6 = 58.476 å 58.48

$y = \frac{yi}{n}$ 373.96 / 6 = 62.326 = 62.33

TABLE 4.4

xii(xi –x)	yii (yi –y)	xii^2	yii^2	xii yii
73.87	-41.074	5456.78	1687.07	3034.14
31.30	-41.074	979.69	1687.07	1285.62
-36.58	22.04	1338.10	485.76	806.22
-35.22	17.04	1240.45	290.36	600.15
-22.89	20.04	532.95	401.60	458.72
-10.48	23.04	109.83	530.84	241.46
0	**0**	**9648.8**	**5082.7**	**6426.31**

TABLE 4.5

yi	**Xi**	**xi^2**	**yi^2**	**xi yi**
22.0511	132.17	17468.91	486	2914.49
21.8861	89.60	8028.16	479	1960.99
81.0228	22.78	518.928	6564	1845.69
80.0000	23.08	532.69	6400	1846.40
83.0000	35.41	1253.87	6889	2939.03
86.0000	47.82	2286.75	7396	4122.52
373.96	**350.86**	**30,089.31**	**28,214**	**15,619.12**

4.3.1 Analytical computation of r using

(a) Deviations from the mean

r = The rate

$$r = \frac{xiiyii}{\sqrt{(xii^2)\,(yii^2)}}$$

xiiyii = 6426.31

xii^2 = 9648.8

yii^2 = 5082.7

since r = xiiyii

$$r = \frac{6426.31}{\sqrt{}}$$

(9648.8) (5082.7)

$$r = \frac{6426.31}{\sqrt{49041955.76}}$$

$$r = \frac{6426.31}{7003}$$

$$r = 0.91765 = 0.9177$$

$$r^2 = 0.842173$$

$$= 84\%$$

(b) Using Actual Observation

$$r = \frac{n \quad xiyi \text{ ï } (xi)\,(yi)}{n \quad xi^2 \text{ ï } (xi)^2 \text{ x } (n)\ yi^2 \text{ ï } (yi)^2}$$

$$r = \frac{(6) \quad (15619.12) \text{ ï } (350.86)\,(373.96)}{(6) \quad (30{,}089.31) \text{ ï } (350.86)^2 \text{ x } (6)\,(28{,}214) \text{ ï } (373.96)^2}$$

$$r = \frac{93714.72 \text{ ï } 131207.6065}{180535.86 \text{ ï } 123102.74 \text{ x } 169284 \text{ ï } 139846.08}$$

$$r = \frac{-37492.8856}{57433.12 \text{ x } 29437.92}$$

$$r = \frac{-37492.8856}{1690711592}$$

$$r = 0.000022175$$

$$r = 0.00002218$$

$$r = 4.919524^{-10}$$

(c) Using ordinary least square method.

The ordinary least square method (O<S) is a technique for fitting the best straight line to the sample of xy observation.

$$yi = nbo + bi\ xi$$

$$xiyi = nbo\ Xi + Xi^2$$

Where:

n is the number of observations.

Bo and bi are estimators of the true parameters.

:. $Y = bo + bix$

$$bo = \frac{Xi^2\ yi\ \text{ï}\ (xi)\ (xiyi)}{n\ xi^2\ \text{ï}\ (xi)^2}$$

Using the value as worked out initially,

$$bo = \frac{(30{,}089.31) \times (373.96) - (350.86)\ (15619.12)}{(6)\quad (30{,}089.31)\ \text{ï}\ (350.86)^2}$$

$$bo = \frac{11252198.37\ \text{ï}\ 5480124.443}{180535.86\ \text{ï}\ 123102.74}$$

$$bo = \frac{5772073.927}{57433.11}$$

$$bo = 100.5$$

Solving for bi

$$bi = \frac{n\quad xiyi\ \text{ï}\ (xi)\ (yi)}{n\quad xi^2\ \text{ï}\ (xi)^2}$$

$$bi = \frac{(6)\quad (15619.12)\ \text{ï}\ (350.86)\ (373.96)}{(6)\quad (30{,}089.31)\ \text{ï}\ (350.86)^2}$$

bi = 93714.72 ï 131207.6056
/ 180535.86 ï 123102.74

bi = - 37492.8856
/ 57433.12

bi = 0.65280986

bi = 0.65

Using the deviations of the variables from their means.

bi = xiiyii
/ xii^2

bi = 6426.31
/ 9648.8

bi = 0.666

bo = y = bo-bix

= 100.5 ï (0.65) (58.3)

= 100.5 ï 37.895

= 62.605

y Therefore = 62.605 + 0.65

Since we stated earlier that Y = bo + bix

4.4 HYPOTHESIS TESTING

There will be need to restate the hypothesis stated earlier in the first chapter of this study. Note should be taken that the hypothesis came in two different forms, the Null hypothesis represented by Ho and the Alternative hypothesis represented by Hi.

Hypothesis I

The hypothesis is to test to see if inadequacy of foreign exchange has affected the economy. Stated as:

Ho (Null hypothesis) the inadequacy of foreign exchange has not affected the economy.

Hi (Alternative hypothesis) the inadequacy of foreign exchange has affected the economy.

Variance

$$Sx = \frac{(xi\ ï\ \ x)^2}{n\ -1}$$

Testing using the table on the actual amount released to banks.

Table 4.6 Actual Amount Released to Banks.

PERIOD (YRS)	AMOUNT RELEASED TO	(XI X)	$(xi - x^2)$

	BANKS (xi)		
1993	132.17	73.87	5456.78
1994	89.60	31.30	979.69
1995	22.78	-36.58	1338.10
1996	23.08	-35.22	1240.45
1997	35.41	-22.89	523.95
1998	47.82	-10.48	109.83
Total ×	**350.86**	**0**	**9648.8**

$$X = \frac{xi}{n}$$

$$= \frac{350.86}{6}$$

$$= 58.48$$

That is V which is the value of the population mean. Therefore V = 58.48

To get the sample of estimate of the population = Sx

$$Sx = \frac{9648.8}{5}$$

$$= 1929.76$$

Using student ï critical test

$$t = \frac{xi \text{ ï } v}{SX}$$

$$= \frac{350.86 \text{ ï } 58.48}{1929.76}$$

$$= \frac{292.38}{1929.76}$$

$$= 0.1515$$

NOTE: 5% level of significance is chosen for this testing. Therefore for 5 degrees of freedom, the critical value of t will be

$$t_1 = -2.015, t_2 = + 2.015$$

Accept or Reject Decision

1. Accept the null hypothesis if it lies within the confidence interval
2. Reject the null hypothesis if it does not lie within the confidence
   interval

Observation: The value of t from the critical point table is 2.015 and the computed t is o.1515m which does not lie within the confidence interval. The alternative hypothesis which states that the inadequacy of foreign exchange has affected the economy therefore is accepted.

Hypothesis II: This hypothesis is to see if the fall in the value of the naira through market forces has affected the policy of the country over the years.

Ho (hypothesis) the fall in the value of the Naira has not affected the foreign exchange policies over the years.

Hi (Alternative hypothesis) the fall in the value of the Naira has affected to foreign exchange policies over the years

Testing using the table on foreign exchange rates

TABLE 4.7 FOREIGN EXCHANGE RATE.

YEAR	EXCHANGE RATE (N) (N US $ 1.00)	xi- x	$(xix)^2$
1993	22.0511	-141.074	1687.07
1994	21.8861	-41.074	1687.07
1995	81.0228	22.04	485.76

1996	80.0000	17.04	290.36
1997	83.0000	20.04	401.60
1998	86.0000	23.04	530.84
Total Σ	**373.96**	**O**	**5082.7**

$$X = \frac{xi}{n}$$

$$x = \frac{373.96}{6}$$

$x \quad = \quad 62.33 \qquad$ i.e $V = 62.33$

$$Sx = \frac{5082.7}{5}$$

$$= 1016.54$$

Using t ï critical test

$$t = \frac{373.96 \text{ ï } 62.33}{1016.54}$$

$$= \frac{311.63}{1016.54}$$

= 0.3066

Using 5% level of significance to test

Accept or Reject Decision

Accept the null hypothesis if it lies within the confidence interval.

Reject the null hypothesis if it does not lie within the confidence intervals.

The computed t is 0.3066. it is less than the table value, we therefore reject the null hypothesis and accept the alternative hypothesis which states that the fall in the value of the naira has affected the foreign exchange policies.

Synopsis of decisions from the tested hypothesis shows that the foreign exchange of a country when inadequate affects the economy adversely. Consequently, when the value of the countries currency is low compared to that of the other countries that they interact with in business. The policy of foreign exchange and even management is affected.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

The researcher here presents a summary of his findings, the conclusion of the study, proffers a recommendation to the best of his knowledge from the research work.

Having looked at the problems of foreign exchange management in the country and itôs effect on the banking sector and the economy at large, the researcher feels that there is much to be done.

This study which was set out to analyze the problem as stated above has specific interest on the banking sector.

It is very important to note that the exchange rate of the naira to other currencies became unstable since the oil boom era. It continued changing more as all attention was diverted to oil with neglect to the agricultural sector. When the government made a decision to stabilize the exchange rate by the adoption of the policy of guided deregulation of the foreign exchange market in 1995, with a bid to build up the external reserves so that confidence in the naira can be enhanced and create way for its ultimate convertibility, the CBN worked hard to influence the Autonomous Foreign Exchange Market (AFEM). This was to ensure reasonable stability in the foreign exchange market. This led to improved financial and economic discipline in the system.

In a bid to further stabilize the naira, the Central Bank of Nigeria re-introduced the Dutch Auction System (DAS). With this, there came a modified bidding system at the forex market, where banks are able to pass on the bid rates of its customers instead of a single bid rate. The re-introduction of DAS helped to put a stop to malpractices.

It can be deduced therefore that the major problem of foreign exchange management in Nigeria ranged from poor policy implementation, corruption, constant changes in government and lack of awareness on the citizenry on the importance of non dependence on oil proceeds alone.

5.2 CONCLUSION

The researcher wish to conclude by saying that effort should be geared towards achieving a favourable and standard exchange rate through the implementation of proper management.

This topic is an issue that affects every citizen of the country; this implies that the CBN should not take the back seat. It can be noted that the banks have tried to manage the foreign exchange reserves to ensure that external obligations are met as they fall due. There is a need to refine the management strategies and adopt a modern management technique.

The CBN on its monitoring of the activities of the banking industry should be more vigilant to be able to control activities that will not help the foreign exchange as a system. There is need for a clear-cut focus in policy formulation and implementation. The continued over dependence on the foreign exchange inflow from crude oil sales needs to be reconsidered. The economy can not make any head way if there are continued cases of failed policies.

5.3 RECOMMENDATION

The following recommendations are made in an attempt to buttress the importance of proper management of the foreign exchange market to reduce imminent problems of exchange rate.

The government through proper management of the natural resources that abound in the country and good international relationship should ensure a realistic exchange rate for the domestic currency. Manipulation which takes a downward trend will not reflect the true nature of the naira value in the economy, an upward trend on the other hand can have a reflection of the underground work done, therefore, actual values which are meaningful should be used.

The need for a unified and stable exchange rate is desirable as this will pave way for the attainment of other desirable policy objectives. The dual exchange rates as seen today create problems of transparency on government spending and budgeting accountability. There is also a need to recognize the impact of inflation on the exchange rate; the government should look into the need for further dampening of inflationary pressures on the economy expenditures by government should be rationalized.

On the part of the Apex bank the CBN, they should be more vigilant to the operations at the Foreign Exchange Market. The activities of the parallel markets monitored to ensure a stable exchange rate and correct the distortions and ensure stability.

The overall management of the reserves and foreign exchange of the country should be done with effort made to manage the derivatives. Imports and Exports. Frivolous imports should be discouraged; non-export products production should be encouraged to further increase the quality of foreign exchange through autonomous sources. The naira value should be more stabilized.

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APPENDIX A

Department of Accountancy

Faculty of Business Administration

University of Nigeria

Enugu Campus

December, 2008

Dear Sir/Madam

I am a postgraduate student of the above University, I am writing a research work on the topic "***An Analysis of the Problems of Foreign Exchange Management and its Impact on the Banking Industry”***

Please tick good [ã] in the box on the appropriate answer for the questions below. This research is purely an academic exercise, the results will be treated secretly.

Thanks.

Agu Beatrice O.

PG/MBA/07/46649

APPENDIX B [QUESTIONNAIRES]

Kindly indicate your choice where applicable

A. Personal Data

1. Name:é é

2. Marital Status

(a) Single [ ]

(b) Married [ ]

(c) Divorced [ ]

(d) Widow/widower [ ]

3. Educational Qualification

(a) OND/HND [ ]

(b) B.Sc/B.A [ ] (c)

M.Sc/MBA/M.A [ ]

(d) Others (please specify) é é é é é é é é é é é é é é é

4. Years of Experience é é é é é é é é é é é é é é é é é é é

5. Present Position é ..

B. Main Questions

1. What is your assessment of the CBNøs foreign exchange policies?

(a) Effective [ ]

(b) Ineffective [ ]

(c) None of the above [ ]

2. Can the current CBN foreign exchange policies positively impact on the exchange rate?

(a) Yes [ ]

(b) No [ ]

3. Do you agree that the devaluation of the Naira is due to lack of implementation of foreign exchange policies by the Apex bank?

(a) Yes [ ]

(b) No [ ]

4. Do you subscribe to the view that the current CBN foreign exchange policies require modification?

(a) Yes [ ]

(b) No [ ]

5. How would you describe the relationship between the CBN and the bank?

(a) Healthy [ ]

(b) Not healthy [ ]

(c) Fairly Healthy [ ]

(d) I do not know [ ]

6. Should the parallel market be outlawed?

(a) Yes [ ]

(b) No [ ]

(c) I do not know [ ]

7. Do you attest to the fact that "sharp Practices" by banks negatively impacts on the exchange rate?

(a) Yes [ ]

(b) No [ ]

(c) I do not know [ ]

8. Has the CBN fared well in the management of the country's foreign exchange resources?

(a) Yes [ ]

(b) No [ ]

(c) I do not know [ ]

9. Do you think that the weak economic base of the country is responsible for the deterioration of the exchange rate?

(a) Yes [ ]

(b) No [ ]

(c) I do not know [ ]

10. Apart from a boost in the export section in your opinion state other areas of the economy where we can tap in to improve our foreign exchange earnings.

é é

é .

é é

é ..é é ..

11. Do you agree with the notion that the Central Bank of Nigeria foreign exchange management policies positively affects the exchange rate of the Naira?

(a) I agree [ ]

(b) I disagree [ ]

(c) Indifferent [ ]

12. Do you agree with the submission that a positive relationship exists between the productive sector and the naira exchange rate?

(a) I agree [ ]

(b) I disagree [ ]

(c) Indifferent [ ]