AN APPRAISAL OF THE DEMAND FOR FOREIGN EXCHANGE IN NIGERIA

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ABSTRACT

The paper evaluates the demand for foreign exchange in Nigeria for a twenty four year period (1986 – 2009). The argument is that rises in exchange rate is positively associated with the demand for foreign exchange in Nigeria. The study also looked at the extent to which demand for foreign exchange affects the level of foreign reserves. Historical data was obtained from the Central Bank and a test of multiple correlations was conducted to determine the magnitude and significance of association among the variables used for the study. In the model design; exchange rates, inflation rates and aggregate imports were used as the independent variables while foreign exchange demand was the dependent variable. The result of the regression analysis shows that coefficients of the variables carried both positive and negative signs. The study actually shows that imports drive the demand for foreign exchange and not the exchange rates as speculated. Some recommendations for policy were made based on the findings. Amongst these is the need to ensure the stability of foreign exchange by ensuring adequate supply in the short run and reducing the over dependence on imports in the long run to mitigate the pressure on demand for foreign exchange.