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The Role Of The Central Bank Of Nigeria: Current Issues In Nigeria's Exchange Rate Policy

by

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Introduction

The naira exchange rate is perhaps one of the most widely discussed topics in Nigeria today. This is not surprising given its macroeconomic impact especially in a highly import dependent economy such as Nigeria. One worrisome development in the naira exchange rate in recent years, especially since the introduction of the Structural Adjustment Programme (SAP) in 1986, is that it has continued to depreciate as a result of which some people have called for the fixing of the exchange rate even at par with the United States dollar (US$). They claim that the naira has been "bastardised" and "traumatised" and that the strength of any economy is the strength of its currency as though that strength is acquired by administrative fiat. One institution which has been constantly accused, oftentimes mischieviously, for the poor state of the naira has been the Central Bank of Nigeria (CBN). People who do so are quick to point to the CBN Acts to the effect that the CBN is statutorily required to maintain the external value of the naira through its external reserve management policy and ensuring macroeconomic stability. Since the beginning of the year, the naira exchange rate has become relatively stable. However, the sustainability of that stability has become an important issue in Nigeria's current exchange rate policy. The purpose of this paper, therefore, is primarily to examine the ability of the CBN to pursue an effective and dynamic exchange rate policy. For this purpose, the paper is divided into four parts. Part one examines the conceptual and analytical issues in exchange rate management, while part two reviews the naira exchange rate policy from 1980 - 1995. Part three examines the ability of the CBN to pursue an effective and dynamic exchange rate policy, while part four contains some recommendations and concludes the paper.

PART ONE

CONCEPTUAL AND ANALYTICAL ISSUES IN EXCHANGE RATE MANAGEMENT

1.1 The exchange rate of a currency is the price of that currency in terms of another. It generally represents the number of units of domestic currency that exchange for a unit of foreign currency. In Nigeria, the naira exchange rate represents the units of domestic currency (Naira) that exchange for one unit of foreign (intervention) currency, the United States dollar (US$). In the United Kingdom, however, the pound sterling is quoted in terms of foreign

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currency, for example, that exchanges for one pound sterling. In Nigeria, an exchange rate of $1 = ₦80 is nothing other than ₦1 = $0.0125. Thus, one is the reciprocal of the other. The way the exchange rate of a currency is quoted is a matter of convention. Just as the price of any commodity is determined by the interplay of supply and demand, the exchange rate is prima-rily determined by the supply and demand for foreign currency. The higher the demand for foreign currency, the more will its price rise which is the same thing as a fall in the units of the domestic currency. The demand for foreign currency is represented by the import of goods and services. The supply of foreign currency is largely represented by receipts from the export of goods and services which reflects the demand by foreigners for Nigeria's goods and services. Supply could be augmented through loans and transfers from abroad. The supply of foreign currency is thus a function of that part of domestic output which is exported, the quality of that output as well as its price. The demand for foreign exchange depends on price as well as the level of income and liquidity, among others.

1.2 A devaluation implies that either more units of the domestic currency is exchanged for a unit of foreign currency or that a unit of domestic currency exchanges for less units of foreign currency. As used in this paper, the devaluation/depreciation of the naira exchange rate implies that more units of naira exchange for a unit of US$. While a devaluation or revaluation represents a discrete or quantum change in the exchange rate usually by official action, a depreciation/appreciation reflects gradual changes attributable to interplay of forces in a free market.

1.3 Exchange rate has both nominal and real aspects. The quoted exchange rate is the nominal exchange rate and is affected by nominal variables as well as by speculation. The real exchange rate (RER) is usually defined as the ratio of price of tradeables to the price of non-tradeables. It can also be constructed using other measures of price, say, labour cost, etc. The real exchange rate is affected by economic fundamentals which have both domestic and international aspects. International fundamentals include terms of trade, international transfers and real world interest rate. Domestic fundamentals include those that are endogenously determined by policies such as import tariffs, import quotas, export taxes, exchange and capital controls as well as those that are exogenously determined such as tech-nological progress. The real exchange rate measures the competitiveness of a country's ex-ports. Defined as the ratio of tradeables to non-tradeables, an increase in the ratio represents real appreciation and loss of competitiveness while a decrease represents a real depreciation and an improvement in competitiveness.

1.4 The exchange rate policy pursued at any particular point in time depends on the objectives intended to be pursued by the authorities. In a fixed exchange rate regime, the rate is fixed by the authorities in many instances at an over-valued level, to attain some perceived objectives such as stabilizing the inflation rate through cheap imports. The rate could also be fixed at an undervalued level as part of policy mix of export drive. However, the fact that the authorities do not normally respond quickly enough to economic fundamentals as would the market, the rate sooner than later becomes unrealistic. This usually happens when the expected tight stance of monetary and fiscal policies that should support the fixed exchange rate does not materialize. Invariably, the authorities end up exhausting all available reserves, inflation soars while the parallel market emerges and blossoms. Eventually, the rate is devalued to bring it in line with economic fundamentals. In a floating regime, the determination of the exchange rate is left to market forces. The slippages in monetary and fiscal policies are reflected in exchange rate changes. A managed exchange rate regime combines elements of fixed and floating regimes. Examples are crawling peg and sliding parities. In these cases, the exchange rate is changed to compensate, often belatedly, for changes in some fundamentals such as inflation, the terms of trade and some other perceived objectives.

1.5 Equilibrium exchange rate may be defined as that rate which ensures the simultaneous attainment of internal and external balance. Internal equilibrium connotes a non-inflationary full employment situation. External balance presupposes that the current account surplus of the balance of payments does not elicit retaliatory responses from trading partners or that the deficit is financed on a sustainable basis by net capital movements on terms and conditions that are compatible with the attainment of economic growth and development, macro-economic stability and enhancement of capacity to service the debt. A realistic exchange rate is that which tends towards the equilibrium exchange rate as defined above.

1.6 Stability of the exchange rate is achieved when the rate is devoid of rapid fluctuations, or when the rate fluctuates within a prescribed or targeted band. The attainment of stability is dependent on a number of factors such as the supply and demand for foreign exchange, the type of exchange rate system in force and the adequacy and appropriateness of complementary monetary and fiscal policies. It should be borne in mind that stability of exchange rate does not connote fixity. The exchange rate may be said to be stable if fluctuations in the rate are small, and divergence between the various rates is also small if more than one rate persists while the parallel market premium is within tolerable limits.

1.7 In the context of this paper, an over-valuation of the naira exchange rate is construed as the rate below the Purchasing Power Parity (PPP) rate while an under-valuation implies a rate above the PPP rate. The use of PPP is not meant to suggest that there are no other ways of defining the long-run equilibrium exchange rate for the naira. Indeed, equilibrium may be defined in terms of the expected movement of Real Effective Exchange Rate (REER) using its real determinants. Despite the numerous criticisms levelled against it, the PPP represents a simple, elegant and easily fashioned tool for the analysis of exchange rate. Some of the criticisms include the choice of a base year and the fact that price level may be dominated by non-tradeables. Besides, exchange rates may be influenced by such factors as balance of payments disequilibria, capital transactions, speculation and government policy. However, adherents of the theory posit that in the long term, movements of the above variables are reflected in the rate of inflation. It should be pointed out that the PPP is not meant to indicate the exact exchange rate. In practice, maintaining a band around the estimated rate would seem to be an appropriate policy objective. The exchange rate may also be construed as over-valued or under-valued in relation to the parallel rate if this faithfully tracks the economic fundamentals.

PART TWO

NAIRA EXCHANGE RATE POLICY

2.1 The principal objective of exchange rate policy during the early years of the 1980s was to check inflationary pressures. This was achieved by maintaining an overvalued exchange rate so as to encourage importation. Consequently, the naira exchange rate was unconsciously maintained well below the equilibrium level. The official rate averaged $1 = ₦0.7057 between 1980 and 1985 compared with the PPP rate of $1 = ₦3.4716. Attempts to adjust the rate in the context of a crawling peg during the subsequent period of foreign exchange scarcity was half-hearted and so could not push the exchange rate to its equilibrium. In 1986, a market-driven exchange rate policy was therefore put in place to reflect the dictates of a viable balance of payments policy. The objectives were, to liberalize the foreign exchange market so as to achieve realistic naira exchange rate that would allocate resources more efficiently and specifically encourage non-oil exports and capital inflow. The institutional arrangement for achieving those objectives came to be known as the Foreign Exchange Market (FEM).

2.2 The introduction of the liberalized exchange rate system resulted in a sharp depreciation of the naira exchange rate from an average of $1 = N0.7057 in 1980 - 1985 to $1 = ₦5.9251 between 1986 and 1991. Compared with the PPP rate of $1 = ₦10.1328, the official naira exchange rate remained overvalued. However, a bold attempt was made on March 5, 1992 to reduce the spread between the official and the parallel rates by sharply devaluing the official rate from $1 = ₦10.6 to $1 = ₦18.00, thus reducing the premium to about 8.9 per cent from 84.9 per cent the previous day.

2.3 However, since April 1993, the official rate has been largely pegged at $1 = ₦22 compared with PPP rate of $1 = N39.4458. Although the parallel rate was also below the equilibrium rate, it tended to track the PPP rate more closely than did the official rate, at least from 1980–1993 (see chart). In 1994, however, the parallel rate indicated an under-valuation with respect to the equilibrium rate. The position in 1994 therefore required an appreciation of the parallel rate and/or depreciation of the official rate to bring those rates in line with the equilibrium rate.

2.4 The degree of misalignment of the naira exchange rate as reflected in the spread between the official and the parallel rates which averaged 62.2 per cent between 1980–1982 rose sharply to 263.5 per cent between 1983 - 1985, reflecting the strict exchange control measures in place during that period. With the introduction of the liberalized foreign exchange market in 1986, the spread declined progressively reaching a low of 17.2 per cent in 1992 following the devaluation of the official rate. Since 1993, however, the spread has been increasing and stood at 173.9 per cent in 1994 as a result of the pegging of the official rate as well as the depreciation of the parallel rate. At the end of August 1995, the spread was 283.8 per cent. Since the beginning of 1995, the FEM has been characterised by some relative stability with the spread between the AFEM rate and the parallel rate narrowing to 5.0 per cent. This development has been largely due to the decline in the rate of monetary expansion reinforced by tight fiscal stance. This seemingly stable situation may only be sustained if the tight stance of monetary and fiscal policies is maintained. After the maiden intervention when the CBN sold \$402.9 million at ₦82 per US\$, subsequent interventions have been carried out at ₦80 to one US dollar. After three interventions, the CBN has sold \$1,054.4 million. The intervention of the CBN at the same rate in the last two sessions would, to my mind, seem to be predicated on the need to avoid sending wrong signals to the market. This is because to continually intervene at more depreciated rate may push the parallel rate further away as was the case in the past. So far, it would appear that this strategic move has worked. The extent to which the situation is sustained will depend critically on the extent to which the parallel rate stabilises and the level of fiscal deficit financed by borrowing from the banking system. If current expectations of upward review of government expenditure and spending from the Petroleum Trust Fund materialise, the current stability in theAFEM may be shortlived as the injection of liquidity will put pressure on prices and the free market exchange rate.

PART THREE

THE ROLE OF CENTRAL BANK OF NIGERIA IN EXCHANGE RATE MANAGEMENT

3.1 In recent years, especially since the introduction of SAP in 1986, the CBN has been blamed for allowing the naira to depreciate persistently. Those who hold the CBN culpable are quick to point to the statutory powers given to the CBN under the various CBN Acts, the most recent being the CBN Decree 1991. Despite the various amendments, the CBN Acts have remained unanimous in setting out the objectives of the Bank which for our purpose and in relation to exchange rate and foreign exchange management require the CBN to:

(i) maintain external reserves to safeguard the international value of the legal tender currency;

(ii) promote monetary stability and a sound financial system in Nigeria; and

(iii) act as banker and financial adviser to the Federal Government.

3.2 Devoid of any legal interpretation, the Act requires the CBN to husband enough external reserves and pursue appropriate monetary policy so as to be able to defend the naira exchange rate. This is a very daunting assignment. Given the various factors that determine a realistic exchange rate, it is my belief that those who entrusted such enormous responsibility on CBN were probably not aware of either the gravity of that task or the ability of the CBN to accomplish it. This is because maintaining the external value of the naira requires other factors which may not be entirely within the control of the CBN. As indicated earlier, the exchange rate, like any other price is determined by the forces of supply and demand.

3.3 On the demand side, one important factor is the amount of the liquidity in the economy. It should be noted that one important factor that determines the level of liquidity is spending by government, that is government fiscal deficit and its financing by the banking system.

Central Banks generally do not always succeed in forcing governments to cut down fiscal deficits and the Central Bank of Nigeria is no exception. However, one way Central Banks attempt to do this is through the interest rate policy, which requires that government debt instruments should attract and be redeemed, at a realistic rate. In Nigeria, not only is interest rate repressed (it has been refixed at a maximum of 21 per cent for some time), government has unconventionally dictated the rate it has to pay on its debt instruments. Put simply, this is a situation where the debtor also fixes how much it wants to borrow and the rate it is willing to pay. Given this ugly scenario, the CBN has had to engage in fire fighting exercises of trying to mop up as much excess liquidity as it can through the application of some unorthodox banking rules such as the issuance of stabilization securities to the banks. The destabilizing effect of this line of action is common knowledge that further elaboration is not necessary. Besides, it is generally acknowledged that the ability of the monetary authority to control liquidity in the economy may be constrained by the public preference to hold cash as well as by the increase in velocity of money. These further limit the ability of the CBN to control demand for money and the exchange rate.

3.4 On the supply side, the ability of the CBN to achieve success is severely constrained. The amount of external reserves that the CBN holds depends on the amount of foreign exchange that it is able to buy or is turned over to it in respect of receipts from oil and non-oil sources, as well as that which the authorities are able to borrow from external sources for balance of payments purposes. The amount of foreign exchange available to the CBN to intervene in the AFEM is not only dependent, in a broad sense, on the level of crude oil exports which are constrained by OPEC quota, but also on the level of debt service payments. Consequently, the amount of foreign exchange available to service the economy remains unacceptably low (see Table 2). Worse still, the level of non-oil exports which should augment receipts from oil has also remained very low. Thus, the private sector has not been able to generate a sufficiently high level of foreign exchange to service itself. Given the import dependent nature of non-oil export production, and the low level of manufacturing production for exports, the private sector has not been able to respond sufficiently to incentives put in place by the authorities including the incentive from the exchange rate.

3.5 Political interference is another factor which has severely constrained the ability of the CBN to pursue a dynamic and effective exchange rate policy. Mention has already been made of government disposition to dictate the terms and conditions at which it borrows from the CBN which has taken the wind off the CBN to curb fiscal recklessness. In the area of determining a realistic exchange rate of the naira it is known, though mutedly acknowledged, that government had insisted on certain actions which were not in accord with CBN preferences or insistence. Further elaboration is not necessary, but suffice it to note that at the early stages of Foreign Exchange Market, the Ministry of Finance had insisted on an overvalued rate relative to that at which the CBN wanted to do business. Furthermore, the recently promulgated Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree of 16th January, 1995 vests all powers related to the FEM on the Minister of Finance. The Minister could, even without consultation, give directives to the CBN on matters relating to the conduct of FEM. That is not all. The Decree even abrogates certain provisions of the CBN Decree of 1991 already mentioned, whenever such provisions come in conflict with it. What all this implies, in effect, is that the CBN cannot take independent action in areas such as the rate at which it intervenes in the market, the timing and the level of that intervention without clearance from the Minister of Finance. The new FEM Decree in my opinion puts to rest the nagging issue of who - the CBN or Federal Ministry of Finance – should appropriate the so-called AFEM intervention surplus funds.

3.6 In the light of the foregoing, it is clear that the CBN's ability to pursue a dynamic and independent exchange rate policy is severely constrained not only by its incapacity to increase the supply of and curtail demand for, foreign exchange but also by political interference.

PART FOUR

RECOMMENDATIONS FOR ENSURING THE SUCCESS OF CURRENT MEASURES

4.1 The current direction of exchange rate policy is desirable and when appropriately managed could result in the achievement of both internal and external balance. In other words, it would ensure a stable growth in prices and external sector stability. In order to achieve these laudable objectives, the following measures are recommended:

4.1.1 Restrictive Demand Management Policies

In order to support the exchange rate mechanism and pave way for a sustainable and realistic exchange rate in the context of foreign exchange shortage, tight demand management policies should be applied as a matter of routine. Such restrictive demand management policies such as restraint on the growth of money and prudent fiscal operations would necessarily reduce the demand for foreign exchange and the pressure on the AFEM. The monetary policy stance of the CBN has been tight since SAP was introduced in 1986. The instances where monetary policy has been expansionary, were dictated by the political imperative to support government's expansionary fiscal operations. Monetary accommodation of fiscal excesses have often resulted in price increases, leading to the misalignment of the naira exchange rate. Although other factors also contributed to the growth in inflation, monetary impulses appear to be the strongest proximate determinant. The need to prevent domestic prices from rising too far ahead of trading partners' inflation rates, makes it imperative for fiscal operations to be restrictive and in consonance with the tight monetary stance of the CBN. Overall, actual out-turns of monetary and fiscal policies must harmonize with targets, to ensure exchange rate stability and macroeconomic balance. To ensure sustained reduction in the demand for foreign exchange, the interest rate should be liberalised.

4.1.2 Supply Side Policies

The strengthening of supply side measures is pertinent in the overall drive to enhance domestic production, improve the competitiveness of the domestic economy and ultimately facilitate the sustained appreciation of the domestic currency. Measures to raise domestic productivity and foreign exchange supply include increased domestic capacity utilisation and increased investment outlay through improved savings. A real interest rate policy would enhance savings, investment, capital inflow and domestic output including exportables. There is, therefore, an urgent need to free interest rates. Export promotion incentives should be vigorously implemented so as to encourage more activities in the export sector. With enhanced foreign exchange inflow, the pressure on the AFEM would decline, the exchange rate would remain stable while an appreciation of the naira exchange rate may be expected.

4.1.3 Programming the Exchange Rate Towards the Equilibrium Levels

The exchange rate is a crucial and vital instrument of economic management. This is because its movement affects other macro-economic variables. The rate has to be right in the overall objective of achieving both internal and external balance. The right exchange rate is the rate which moves along the path of long run equilibrium. As such, the long run equilibrium exchange rate, usually measured by the PPP, or a reasonable band around it, should be targeted under a programme of economic restructuring. Although the current level of the exchange rate shows some degree of overvaluation, it would be counter productive to attempt to depreciate the AFEM exchange rate. Depreciation should only be allowed when economic fundamentals show deterioration. Anything to the contrary would produce an unsustainable exchange rate and even widen the misalignment of the exchange rate and prevent it from moving along the path of the long run equilibrium. In order to sustain the current stability in the AFEM and eliminate sharp practices in the entire foreign exchange system, the highly overvalued official exchange rate should be phased out immediately and unified with the AFEM rate. This can easily be done given the fact that the volume of transations carried out at the official rate is perceived to be relatively small. However, the unification should be quietly done so as not to send wrong signals to speculators.

4.1.4 Guarantee of Operational Autonomy For The CBN

In order to ensure effective and efficient management of the AFEM, in addition to protecting the external value of the naira and guaranteeing monetary stability, the Central Bank must be given adequate powers. In this regard, the CBN needs operational autonomy. The CBN should be able to pursue independent monetary and exchange rate policies within the overall framework of government macro-economic policy objectives. Independence or autonomy for the CBN does not amount to absolute freedom for the Bank to operate as it likes. What it means is that after government would have defined its broad policy objectives, the CBN should be free to adopt the policy measures it deems fit to achieve monetary and exchange rate stability. The recent Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree which gave discretionary powers over AFEM to the Minister of Finance, while limiting the role of the CBN to administrative functions defined by the Minister, would yield unintended results if the provisions of the Decree are applied as published. In fact, the provisions of the Decree that the other enactments including the CBN and BOFID Decrees should be read in conformity with the new Decree and that the new Decree subsists in cases of conflicts, have effectively amended the CBN and BOFID Decrees, thus making the Minister of Finance responsible, even if indirectly, for both fiscal and monetary policies. This is an unhealthy development which is capable of facilitating unguarded resort to deficit financing. The CBN needs operational autonomy if the objectives of the AFEM and monetary stability are important to government. The new Decree should be abrogated because it would impair the effective and efficient management of the AFEM.

4.2 Concluding Remarks

Although relative calm prevails in the AFEM at the moment and the exchange rate appears to have acquired some semblance of stability, pressure has not fully subsided in the market. The current achievement should therefore be supported and reinforced by appropriate fiscal and monetary policies, in addition to ensuring consistency between monetary and fiscal policies in the pursuit of the overall objective of macro-economic stability. The application of supply side measures would only achieve the desired results if the accompanying incentives are right. Under current circumstances and on the basis of balance of payments projections into 1998, the external sector would remain under constant pressure with widening financing gaps. The financing of the gaps would depend on the ability of the Nigerian authorities to institute a credible programme of economic restructuring. On the basis of the poor picture of the external sector, a sudden recovery of the naira is not contemplated. However, if such an appreciation is administratively forced, it may not be sustainable. Policy direction should focus on protecting current gains so that they are not reversed and in enhancing the competitiveness of the domestic economy in the areas of lower cost of production, improved and increased exports.

Exchange rate policy in Nigeria has moved a full cycle. If the fundamentals of exchange rate analysis are understood and relied upon for judgement, may be the authorities would have moved in the right direction of achieving a realistic naira exchange rate. The basic element of an efficient exchange rate system is the belief that the exchange rate reflects the relative productivity and output of an economy. When fully appreciated, whether a fixed or flexible exchange rate mechanism is in place, efforts should always be made to adjust the exchange rate to the appropriate level. It is pertinent to state at this stage, that the fact that the current exchange rate of the naira has remained relatively stable should not fool the authorities into complacency. Current projections of the naira exchange rate, using PPP approach indicate that using 1992 as the base year, the naira will weaken persistently in the next three years as long as the rate of inflation in Nigeria is higher than that of her trading partners (See table 1). Efforts should therefore be geared toward maintaining monetary and fiscal viability while measures are put in place to increase the level of production in the economy. Needless to stress that managing the exchange rate requires discipline and co-operation on the part of monetary and fiscal authorities.

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TABLE 1

COMPARATIVE EXCHANGE RATE ANALYSIS

YEAR	PURCHASING POWER PARITY RATE	OFFICIAL EXCHANGE RATE	PARALLEL MARKET RATE	NOMINAL EFFECTIVE EXCHANGE RATE	REAL EFFECTIVE EXCHANGE RATE	TERMS OF TRADE
1980	2.5515	0.5464	0.9009	963.8	348.5	174.8
1981	2.5120	0.6100	0.9259	996.8	390.6	197.9
1982	2.9564	0.6729	1.1364	1042.6	401.2	183.0
1983	3.0322	0.7241	1.8182	1083.0	473.7	177.3
1984	3.8045	0.7649	3.2500	1160.6	652.6	179.1
1985	5.9076	0.8938	3.7900	1063.8	584.8	162.1
1986	6.0343	2.0206	4.1700	593.6	319.3	80.6
1987	6.2532	4.0179	5.5500	178.7	102.3	97.1
1988	6.6808	4.5367	6.0500	146.8	121.1	69.4
1989	10.1377	7.3916	10.5450	97.9	107.6	82.6
1990	15.7418	8.0378	9.6100	100.0	100.0	100.0
1991	15.9491	9.9095	13.4000	82.5	84.3	84.6
1992	24.4772	17.2984	20.3000	53.3	69.9	82.0
1993	37.4991	22.0468	36.2000	41.4	76.2	80.1
1994	56.3610	21.8861	59.9540	55.0	184.3	77.9
1995	92.1090	21.8861	84.0000 1/	26.5 2/	170.1	50.1

1/ As at 11th September, 1995

2/ As at end-April, 1995

Source: Central Bank of Nigeria
Tinubu Square, Lagos.

TABLE 2

FOREIGN EXCHANGE ADEQUACY

YEAR	FOREIGN EXCHANGE INFLOW ($'M)	DEBT SERVICE ($'M)	AMOUNT AVAILABLE TO SERVICE ECONOMY	TOTAL LIQUIDITY (M2) (N'M)	OFFICIAL EXCHANGE RATE N/$	PARALLEL MARKET RATE N/$	IMPLICIT EXCHANGE RATE N/$	PARALLEL MARKET PREMIUM %
1980	25,979	186	25,793	14,397	0.5444	0.9009	0.5582	65.48494
1981	21,449	857	20,592	15,548	0.6369	0.9259	0.7551	45.37604
1982	14,951	1,152	13,799	16,894	0.6702	1.1364	1.2243	69.56132
1983	11,679	1,846	9,833	19,369	0.7485	1.8182	1.9698	142.9125
1984	12,121	3,455	8,666	21,601	0.8082	3.2500	2.4926	302.1282
1985	12,310	4,180	8,130	23,819	0.9996	3.7900	2.9298	279.1517
1986	7,204	2,127	5,077	24,216	3.1166	4.1700	4.7697	33.79965
1987	6,593	1,567	5,026	29,995	4.4104	5.5500	5.9680	25.83893
1988	6,474	1,953	4,521	38,450	5.3530	6.0500	8.5048	13.02074
1989	8,137	2,036	6,101	46,223	7.6500	10.5450	7.5763	37.84314
1990	10,435	3,824	6,611	64,903	9.0001	9.6100	9.8174	6.776591
1991	10,305	3,501	6,804	86,152	9.8662	13.4000	12.6620	35.81723
1992	8,476	2,833	5,643	128,518	19.6609	20.3000	22.7748	3.250614
1993	7,511	1,664	5,847	196,318	21.8861	36.2000	33.5759	65.40178
1994	6,067	1,694	4,373	267,759	21.8861	59.9540	61.2300	173.9364
1995 1/	5,158	1,007	4,151	269,377	21.8861	84.0000 2/	64.8946	283.8052

1/ As at July, 1995

2/ As at end-August, 1995

Source: Central Bank of Nigeria
Tinubu Square, Lagos.

TABLE 3

PPP EXCHANGE RATE

YEAR	1992	1993	1994	1995 [1/]	1996	1997	1998
DOMESTIC INFLATION RATE (%)	44.6	57.2	57.0	65.0	15.0	10.0	8.0
US INFLATION RATE (%)	–	3.1	3.0	2.7	3.4	3.4	3.4
BASE YEAR EXCHANGE RATE (N/$)	17.2984	–	–	–	–	–	–
PPP EXCHANGE RATE (N/$)	24.47724	37.7439	58.23883	94.11396	105.0312	111.9632	117.1135

1/ 1995 FIGURES ARE AS AT END-JUNE 1995.

Source: Central Bank of Nigeria
Tinubu Square, Lagos.

TABLE 4

GROWTH RATES OF MONETARY AND CREDIT AGGREGATES
(1986 – 1994)

	1986	1987	1988	1989	1990	1991	1992	1993	1994
<u>Credit to Domestic Economy (Net)</u>									
ACTUAL	12.7	27.4	22.2	-14.1	17.1	45.3	69.1	91.4	29.2
TARGET	8.7	4.4	8.1	9.5	13.5	10.6	13.2	17.5	9.4
DEVIATION	4	23	14.1	-23.6	3.6	34.7	62.8	73.9	19.8
<u>Credit to Private Sector</u>									
ACTUAL	26.7	46.7	16.9	3.9	18.4	23.7	34.6	51.6	32.2
TARGET	12.8	7.4	13.3	10.7	15.8	16.4	17.7	20	32.6
DEVIATION	13.9	39.3	3.6	-6.8	2.6	7.3	15.8	31.6	-0.4
<u>Credit to Government Sector</u>									
ACTUAL	2.5	10.3	28.4	-33.5	14.9	82.9	109.7	121.6	27.7
TARGET	5.9	1.5	2.5	8.3	10.9	0	7.7	14.5	0
DEVIATION	-3.4	8.8	25.9	-41.8	4	82.9	118.4	107.1	27.7
<u>Money Supply (M1)</u>									
ACTUAL	-4.1	15.7	43.6	21.5	44.9	32.6	52.8	54.4	47.8
TARGET	7.8	11.8	15	14.6	13	14.6	24.3	20	21.4
DEVIATION	-11.9	3.9	28.6	6.9	31.9	18	36.1	34.4	26.4

Source: Central Bank of Nigeria.

FIGURE 1

Naira Exchange Rate Per Dollar

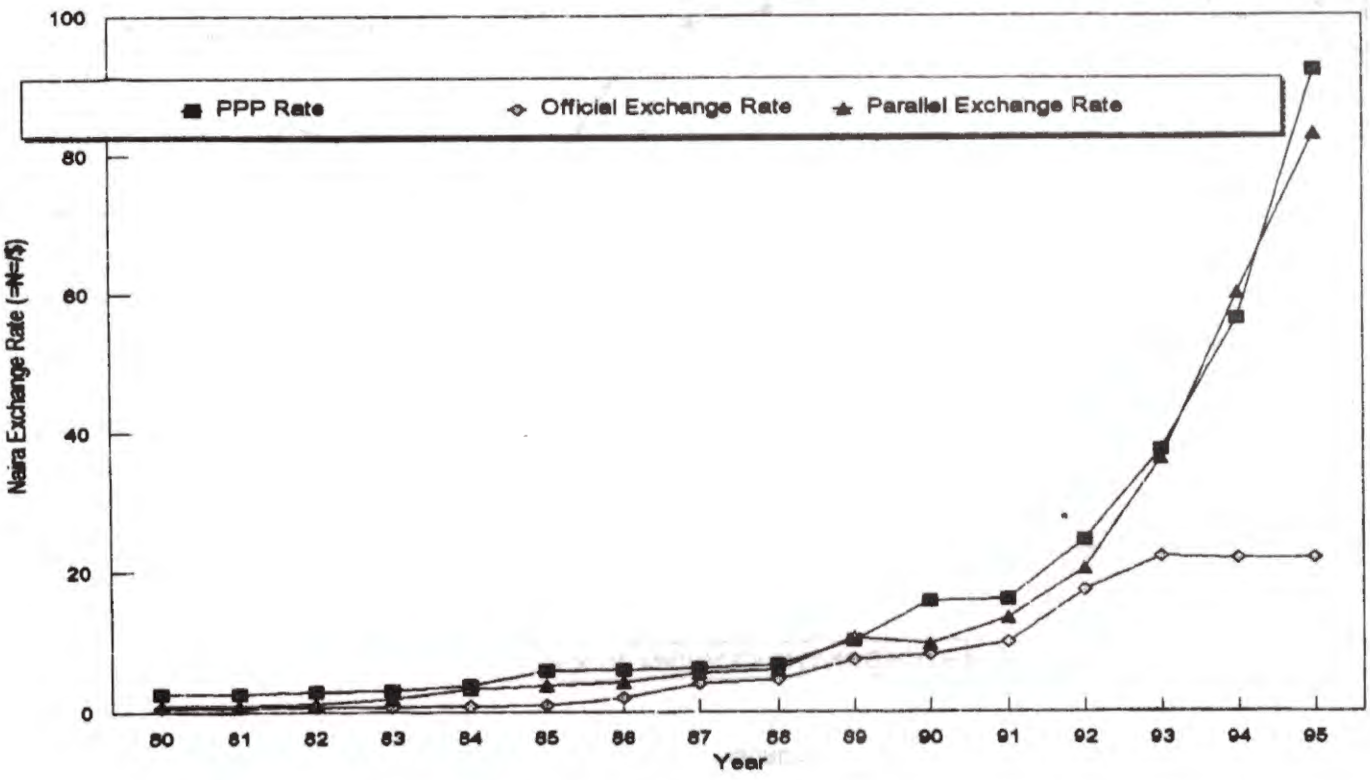

FIGURE 2

INDEX OF NAIRA EXCHANGE RATE