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A REVIEW OF NIGERIA'S EXCHANGE RATE POLICIES SINCE DEREGULATION IN 1986

SECTION 1

1.0 INTRODUCTION

A country's foreign exchange policy is derived from the perceived overall economic objectives to be achieved and the expected direction of growth. Consequently, non-conflicting sectoral policies are conceived within the ambit of the overall policy framework such that each sectoral policy reinforces each other. Nigeria's economic policy prior to 1986 was characterized by the overwhelming influence of oil and public sector dominance of productive activities. While the stated objective of foreign exchange policy continued to be the achievement of a healthy balance of payments position and the attainment of a stable exchange rate, monetary policies for instance centered on the maintenance of price stability while fiscal policies emphasized a non-inflationary tax base that would yield adequate revenue to government and ensure fiscal discipline.

External sector polices during the period relied on foreign exchange allocation and administered exchange rates, while monetary policy depended on price controls, credit ceilings, selective credit controls, administered interest rates, prescription of cash reserve requirements and other special deposits for realization of policy objectives. Nigeria's fiscal operations were largely wide, unfocused and volatile, having systemic negative effects on other sectors of the economy. Against this background, sectoral objectives remained unrealized as the external sector reeled in continued deficit, the exchange rate was volatile and depreciated at will in the autonomous market (which exerted pressure on the official foreign exchange market), monetary policy targets were continually missed due to inflationary financing of government deficits.

With the deregulation of the economy in 1986, a market-based framework for the determination of exchange rate was adopted. It was envisaged that the realization of macroeconomic stability would lead to the elimination of distortions in the external sector and thus enhance growth, stimulate non-oil exports, increase foreign exchange inflows, moderate demand pressure in the foreign exchange market and generally, improve foreign exchange utilization. The attainment of a realistic exchange rate was

also expected to eliminate the parallel market premium, reduce capital flight as well as enhance the inflow of foreign investments.

In pursuance of these objectives, a Second-tier Foreign Exchange Market (SFEM) was adopted in September 1986 with the introduction of the Structural Adjustment Programme (SAP). Since 1986, the outcome of exchange rate policies remained largely unrealized. While the parallel market flourished, the exchange rate was far from realistic and largely unstable and the external sector remained under severe pressure. In consequence, other sectoral policies equally fared woefully as the targets of other macroeconomic aggregates including interest rate, inflation rate, unemployment, money supply etc, remain largely unrealized.

This paper seeks to address the reasons for the failure of foreign exchange policies in Nigeria in achieving targets since 1986, and to adumbrate a likely path for policy. To achieve this, the paper is structured into five sections. Following this introduction, Section II reviews the growing literature on the choice of an exchange rate regime in a developing oil exporting countries. Section III examines the conduct and appropriateness of Nigeria's foreign exchange policies in the 1990's, while Section IV appraises the foreign exchange policies with a view to determining their efficacy. Section V summaries and concludes the paper and proffers some policy suggestions.

SECTION II

2.0 CHOICE OF AN EXCHANGE RATE REGIME IN A SMALL OPEN ECONOMY

Every country has a wide array of exchange rate regimes to choose from depending on the desired direction of economic policy, desired degree of flexibility of the exchange rate regime and the nature of shocks faced by the economy. The goal of an exchange rate regime is the optimization of output stabilization (Corden: 2002). Where the shocks are predominantly external such as terms of trade shocks, necessitating changes in relative prices, then flexibility in the exchange rate is most desirable because of its capacity to facilitate adjustments in the real exchange rate. However, where the shocks are mainly domestically induced through growth in monetary aggregates, a flexible exchange rate would not be an ideal policy. A preferred option would be a fixed exchange rate regime as money supply becomes an endogenous variable under a fixed exchange

rate regime and triggers off an automatic adjustment mechanism that adjusts to the shocks in money demand with minimal impact on growth (Celasun: 2003).

Where there is a labour market efficiency, the nominal exchange rate will adequately address the real shocks to the economy. Where real wages are flexible and there is a low pass through of changes in the nominal exchange rate to domestic price levels, movement in the nominal exchange rate will translate into changes in real exchange rate. Where wages are rigid and there is high mobility of labour between sectors and across regions, the costs associated with exchange rate rigidity are quite high. Moreover, a well-diversified economy lowers the cost of exchange rate rigidity as the associated costs are more diversely distributed amongst the sectors of the economy, and a shock to any one sector is insignificant to tilt the balance of overall output of the economy.

The degree of openness of an economy also significantly influences the choice of an exchange rate regime. Thus, the less diversified an economic is, the more geographically concentrated the trade, and the stronger the case for a fixed exchange rate regime, (World Bank, 1997) and (Flood et.al, 1989). On the other hand, the more diversified an economy is, the greater the openness of the economy, the better for the country to adopt flexible exchange rate adjustment regime. Such regime reflects economic fundamentals and aims at achieving a stable exchange rate. Barro and Sala-i-Martins (1995) argued that the degree of openness of an economy influences the level and rate of economic growth. Thus, countries that are more open to international trade will tend to grow more rapidly because they have developed a greater ability to absorb technological advances and can take advantage of larger markets. To this extent, the exchange rate regime influences the volume of international trade, which could in turn have positive effect on growth. The literature suggests that the type of exchange rate regime influences international trade, but it does not clearly predict which regime is more likely to foster international trade. It has however been suggested that trade should be higher under fixed regimes since exchange rate volatility and uncertainty will be lower, which will tend to reduce the cost of trade and hence increases its volume, Frankel and Rose (2002).

Hausman and Gavin (1996) have suggested that the terms of trade shocks are more fundamental to output fluctuations in developing countries because of their reliance on export of primary products. However, the choice of an exchange rate regime does not provide an insurance cover against the vagaries of the terms of trade shocks.

Consequently, negative terms of trade shocks, given a flexible exchange rate regime, induce more than proportionate real depreciations and smaller losses in output growth, while the reaction elicited under a fixed exchange rate regime is less than optimal (Broda: 2001). Although net per capita GDP growth could be faster and GDP variability higher under floating exchange rate regimes compared with fixed regimes, Ghosh, Ostry, and Wolf (1996) found that both GDP growth and variability are faster and lower, respectively, under intermediate regimes. Levy-Yeyati and Sturzennegger (2002) using cross-country regressions, indicate that for most developing countries, greater exchange rate flexibility is strongly associated with higher growth and less output volatility.

Celasun (2003) has shown that for oil based economy; terms of trade and output volatility were often of significant consideration. For these economies, oil price increases often result in booms of domestic consumption, increased capital inflows and investment, and real exchange rate appreciations that are harmful for the development of the non-recourse sectors, as predicted by the Dutch Disease hypothesis. Conversely, a fall in oil prices has the opposite effect. Overall, oil price volatility makes revenues largely unpredictable and exchange rate volatility holds sway. However, these volatilities can be addressed through fiscal policies that smoothen domestic demand over time, thereby enabling the exchange rate play a supporting role of facilitating rapid real exchange rate adjustment.

Although the flexible exchange rate has a number of advantages including output stabilization that should ordinarily endear it over the fixed exchange rate regime, exchange rate pegs are rather common amongst small open economies because of the pass-through effects of exchange rate movements into domestic prices, issues bordering on credibility, and the associated risks of unhedged foreign currency liabilities given incessant exchange rate volatility. The thinness of the foreign exchange markets in developing countries makes the likelihood of excessive volatility eminent, while the shallowness of the financial markets creates a dearth of hedging instruments against exchange rate risks.

The choice of a ruling exchange rate regime therefore becomes a matter of conjecture of the monetary authorities of their perceived trade-off between the desire to dampen exchange rate volatility and the control of inflation using the exchange rate as a nominal anchor, and to moderate fluctuation in output through using the nominal exchange rate as a shock absorber. This tradeoff as perceived by the authorities should normally be

the basis for the selection of an exchange rate regime. Again, a country's economic structure and institutional characteristics are taken into account in the choice of exchange rate policy. In most developing economies, a major consideration in choosing an exchange rate regime would be the effect of various shocks on the domestic economy. This is because the adoption of a particular exchange rate regime and the related foreign exchange regulations has considerable influence on the development and structure of the foreign exchange market. Developing countries are more susceptible to adverse effects of exchange rate volatility on trade and inflation, unlike developed countries that have well-developed financial markets, which makes it much easier for them to adopt any of the regimes. Empirical studies have shown that small open economies are better off with fixed exchange rate regime as this helps to maximize the use of resources and minimize the cost of transactions and control inflation.

Ghosh et. al (1997) classified exchange rate arrangements into three: pegged, intermediate and floating regimes. The pegged regimes include single currency pegs, Special Drawing Right (SDR) pegs, published basket and secret basket pegs. The intermediate consists of unclassified floats or floats with predetermined ranges, while the floats group comprise floats without predetermined range and pure floats. They showed that countries with intermediate flexibility had better growth performance compared to those that were pegged and floated. In terms of inflation performance, countries with pegged exchange rates record low inflation, while those with floating rates experience high inflation. Not surprisingly, countries with floating rates had considerably higher monetary growth compare to those with fixed and intermediate regimes. Moreover, countries that pegged and adopted intermediate exchange rate arrangements exhibited noticeably better fiscal discipline compared to those that adopted floating rates. Countries with fixed exchange rate regimes appeared to have higher current account deficits compared to those adopting intermediate floating regimes. Similarly, these countries had higher ratios of reserves to base money than those with floating exchange regime. Countries with floating regimes clearly experience the highest budget deficit compared to those operating under fixed and intermediate regimes. However, the relatively poor fiscal performance of countries with flexible regimes was attributable to weak revenue collection and excessive spending.

Calvo and Reinhart (2000) and levy Yeyati and Sturzenegger (1996) noted that the failure to identify a relationship between the exchange rate regime and economic growth could be the result of measurement error in the classification of exchange rate

arrangements. Growth theories and the literature on exchange rate regimes suggest that the type of exchange rate regimes adopted by a country could have consequences for its medium term growth, directly through its effects on adjustment to shocks and indirectly through its impact on other macroeconomic determinants of growth such as investment, international trade and financial sector. However, both theory and the literature are silent on the recommended exchange rate regime that would initiate, promote and sustain economic growth.

Bailliu, Lafrance and Renault (2001) in their study of twenty five emerging market economies uncovered evidence suggesting that more flexible exchange rate arrangements are associated with higher economic growth but only for countries that are relatively open to international capital flows and to a lesser extent, that have well developed financial markets. Similarly, levy, Yeyati and Sturzennegger (2001) found that less flexible exchange rate regimes are associated with slower growth in developing countries. It has been argued that a more flexible arrangement may foster higher growth since it will enable an economy characterized by nominal rigidities to absorb and adapt to economic shocks more easily because exchange rate movement can act as a shock absorber.

Aizenman (1994) has argued that exchange rate regimes can influence economic growth through their effects on the rate of physical capital accumulation. This position finds supports in Edwards (1993) who argues that investment will tend to be higher under a fixed exchange rate regime as a result of a reduction in policy uncertainties, real interest rates and exchange rates variability. An exchange rate regime could therefore influence growth through its effect on the level of development of financial markets.

Flexible exchange rate arrangements are generally associated with increased nominal exchange rate volatility, which could have damaging effects on the real economy unless the financial sector can absorb the associated exchange rate shocks and provide agents with appropriate hedging instrument. It is sometimes argued that an economy must have reasonably a well-developed domestic financial system for it to benefit from a flexible exchange rate regime. Thus, Bordo and Flandrean (2001) find evidence for the post-Bretton Woods period that suggests that countries with more developed financial systems tend to have floating exchange rate regimes. Many emerging market economies have shallow capital markets and hence find it difficult to manage a flexible exchange rate regime. Aizenman and Hausmann (2000) argued that the combination of an

undeveloped financial sector and a fixed exchange rate regime could be problematic because it could precipitate a banking crisis.

Country experiences have shown that the inconsistency between economic and financial policies and the prevailing exchange rate regime were the key factors in most crisis cases examined. Other contributory factors include the weakness in the condition and supervision of the banking system and inappropriate fiscal policies as well as the lack of progress in crucial structural reforms. Mundell (1968) and McKinnon (1971) suggested that since exchange rate policy is an integral element of monetary policy, it should reflect the thrust of monetary policy in their objectives. Thus, the pursuit of an appropriate exchange rate policy blended with complimentary monetary and fiscal policies will help to ensure better economic performance.

SECTION III

3.0 NIGERIA'S EXHANGE RATE POLICIES SINCE DEREGULATION IN 1986

Since the departure from an administratively determined fixed to a market based flexible exchange rate regime, the modalities for operating the foreign exchange market in Nigeria have been continuously fine-tuned to reflect the exigencies of the time and policy objectives of the monetary authorities. This section discusses the framework used for exchange rate determination and management between 1986 and 2000, with a view to bringing to limelight the thinking that gingered the authorities into taking the decision at that time.

3.1 The Dual Exchange Rate System (September 1986 – April 1987)

The Second-tier Foreign Exchange Market (SFEM), was introduced in September, 1986 as part of the Structural Adjustment Programme (SAP) adopted to deregulate the economy, eliminate inefficiency in public sector productivity and ensure a steady growth path for the economy. Under the SFEM, the Central Bank intervened in the foreign exchange market on a weekly basis to sell foreign exchange to end-users. The first-tier exchange rate, which was fixed administratively, was also allowed for official transactions such as debt service payments, embassy expenses, subscriptions to international organizations, etc, while the second-tier rate was determined by auction.

The average rate pricing method was initially adopted to determine the exchange rate but it was later substituted with the marginal pricing system in order to achieve a stable and realistic exchange rate. The system led to spurious and multiple bidding by authorized dealers, thereby discrediting it as the objective of emergence of a realistic exchange rate for the naira became frustrated.

3.2 The Dutch-Auction System (April 1987 – July 1987)

To ensure professionalism in bidding, and to curb the propensity of high bids, the Dutch Auction System (DAS) was introduced in April 1987 under which the frequency of bidding was reduced from weekly to fortnightly. Under the system, the exchange rate was determined by auction where authorized dealers pay according to their bid rates. The ruling rate is the marginal rate, which clears the market. The CBN determines the amount of foreign exchange it can afford to sell at a price consumers are willing to pay at the auction. The DAS was hitherto abandoned because of teething problems associated with the deregulation of the foreign exchange market at its debut. Efforts made at fine-tuning the operational modalities failed to evolve a realistic exchange rate largely as a result of substantial growth in liquidity over the period.

3.3 The Unified Exchange Rate System (July 1987 – March 5th, 1992)

In July 1987, the dual exchange rate system was jettisoned as the first and second-tier foreign exchange segments were merged into an enlarged Foreign Exchange Market (FEM) with a unified rate. Thus, the inherent subsidy on first-tier transactions was removed. The merger increased demand pressure and contributed significantly to a massive depreciation in exchange rate. This was attributed to the expansionary fiscal policies pursued by the government.

3.4 The Autonomous Foreign Exchange Market (AFEM): 1988

An autonomous market for foreign exchange, where banks sold foreign exchange amongst themselves was introduced in 1988. This was initiated to encourage the inflow of non-oil foreign exchange earnings to banks; thereby relieving the pressure on the CBN for the official allocation of foreign exchange. The autonomous market rates depreciated sharply and encouraged rent-seeking activities, while the official rate became unrealistic thus building demand pressure on the CBN. From 1986 to date

when the foreign exchange market was deregulated, foreign exchange became a hard sought after commodity, as the parallel market flourished with widening arbitrage premium with the official rate.

3.5 Inter-Bank Foreign Exchange Market (IFEM): 1989

The unsustainable position of the demand for foreign exchange under the AFEM led to the introduction of the IFEM in January 1989. The IFEM was to be funded by the authorized dealers in foreign exchange, with the CBN being a participant and intervening only when necessary. Thus, the monetary authorities hoped to broaden the supply base and deepen the foreign exchange market with a view to achieving a realistic exchange rate for the naira. Contrary to expectations, the CBN remained the major supplier of foreign exchange, meeting all demand by the authorized dealers. Generally, the IFEM was characterized by unbridled demand pressure on available foreign exchange, misalignment of the naira exchange rate, evidenced by the existence of a wide arbitrage premium between the official and parallel segments of the market, the emergence of multiple exchange rates in the market, and the emergence of an army of foreign exchange speculators and arbitrageurs. The combination of these factors frustrated the envisaged emergence of a realistic exchange rate as the naira experienced high volatility, thereby necessitating a policy change.

3.6 The Dutch Auction System (DAS): 1990

To address the problem of submission of multiple bids and foreign exchange hoarding, the CBN modified the inter-bank procedures in December 1990 with the reintroduction of the DAS. As a complementary measure, Bureau de Change (BDC's) were established to cater for foreign exchange requirements of small users and at the same time, broaden the scope of legitimate foreign exchange transactions, improve fiscal efficiency and compete favorably with the parallel market with a view to absorbing the informal market. In spite of this effort, the exchange rate continued to depreciate.

3.7 Completely Deregulated Exchange Rate System (March 5, 1992-1994)

As a result of the persistent instability in the foreign exchange market, (e.g. the rise in the parallel market premium from 20.0 per cent in 1990 and 35.5 per cent in 1991 to 79.2 per cent in February 1992), the CBN adopted a completely deregulated system of foreign exchange trading on March 5, 1992. Under the system, the CBN supplied in

full, all requests for foreign exchange by authorized dealers. Its adoption was aimed at narrowing the parallel market premium and fostering the operational efficiency of the foreign exchange market. In pursuance of this objective, the CBN adjusted its rates upward from ₦10.5564 per $1 for ₦18.0 per dollar the next day and ensured that it satisfied all the demand for foreign exchange by authorized dealers. Initially, the parallel market premium narrowed to a level below 10.0 per cent, while effective demand by banks also fell short of the supply. As a result of renewed demand pressures and speculative activities, the parallel market premium started to widen again. Thus, the official exchange rate was fixed at ₦21.9960 per dollar for most of 1993, while allocation of foreign exchange was made on a pro-rata basis. There was a noticeable divergence in rates between the official and parallel market and Bureaux de Change (BDC) due to the continued pressure on the exchange rate. This development dictated the policy stance in 1994. In complement, the BDC's were insulated from selling foreign exchange, and all foreign receipts were centralized in the CBN.

3.8 Fixed Exchange Rate System: 1994

In response to the existence of the wide arbitrage premium between the official and parallel market, the government in 1994 undertook a fundamental reform of the market by introducing a fixed exchange rate regime. It was formally pegged at ₦21.9960 per dollar and the pro-rata system of allocating foreign exchange was sustained. The general thrust of exchange rate policy in 1994 was to instill sanity into the foreign exchange market, encourage activities in the productive sectors of the economy and strengthen the BOP position. However, the re-regulation of the economy in 1994 further reduced the value of the naira and widened the premium in the parallel market. At the end of 1994, the parallel market premium rose to over 350.0 per cent, which was highly disturbing. Thus, measures put in place to manage foreign exchange in 1994 failed to address the crucial issues of improving foreign exchange receipt through raising the level of non- oil exports and enhanced capital inflow.

Other complementary policy measures introduced included the setting up of a foreign exchange allocation committee comprising representatives of the CBN, the Federal Government and the organized private sector. The committee was charged with the responsibility of ensuring that foreign exchange was available to end users in the priority sectors of the economy, agriculture, manufacturing finished goods and services on agreed percentages.

3.9 Re-introduction of Dual Exchange Rate Regime (1994–January 1999)

The dismal performance of the economy in 1994 especially, the rising rate of inflation led to a reversal of the policy stance of the government in 1995. Consequently, the policy of dual exchange rate was reintroduced. In order to stem the negative developments in the foreign exchange market and achieve efficient allocation and utilization of the scarce foreign exchange resource, AFEM was introduced to complement the fixed exchange rate. Thus, the official exchange rate at ₦21.9960 per dollar was used for public use, including debt service payments and National Priority projects, while the exchange rate in AFEM was determined through market forces. The policy also allowed the CBN to intervene in the market with a view to stabilizing the rate, while the BDC were allowed to trade in autonomous fund having granted them concession to buy and sell travelers cheques against their previous status as authorized buyers only in 1994.

Other measures introduced to complement the existing policy aimed at ensuring the smooth functioning of the AFEM were the abrogation of the Exchange Control Act of 1962 and the Enterprises Promotion Decree of 1989. Exporters were allowed to sell their export proceeds at autonomous rates to any bank of their choice. Against this background, the supply of foreign exchange improved from both official and autonomous sources, while parallel market premium narrowed. Overall, the 1995 policy measures were retained in 1996, while in 1997, current account transactions were further liberalized resulting in the removal of limits on Basic and Personal Travel Allowances and remittances for educational instructions abroad. All these efforts failed to reduce the incidence of round tripping and eliminate distortions created by the subsidized rate at the official market. Thus, the fixed exchange rate for official transactions was abolished in January 1999, while AFEM remained the unitary exchange rate until October 25, 1999 when the IFEM was re-introduced.

3.10 Inter-bank Foreign Exchange Market (IFEM)(October 1999-July 2002)

The IFEM was a system conceived to broaden and deepen the supply of foreign exchange to the market by allowing the oil companies and authorized dealers to buy and sell. The trading was conducted daily, while the CBN either intervenes as a buyer or seller depending on how it perceived the market. It was however envisaged that the new exchange rate policy would help to reduce speculative bubbles and enhance transparency

in the foreign exchange market. Instead, it worsened the demand pressure at the IFEM and rendered the CBN as a sole supplier in the market. There were observed cases of round tripping of funds from the official to the parallel market.

3.11 Dutch Auction System (DAS) (July 22, 2002 till Date)

The DAS of foreign exchange management was first introduced in 1987, jettisoned and reintroduced in 1990-1991, as a system, which recognizes the scarcity of foreign exchange and discourages implicit or explicit subsidy on the commodity. The reasons for its reintroduction was to conserve external reserves, narrow the premium between the official and parallel market rates, and achieve a realistic exchange rate for the naira. At the inception of the DAS, the external reserves, which stood at US$10 billion at end-December 2001, had already depleted to US$8 billion. This level could finance 7.7 months of foreign exchange disbursements at this time. Since its re-introduction, the exchange rate has been relatively stable and the degree of misalignment in exchange rate has been narrowed. So far, DAS has helped to instill some degree of discipline into the market and restore stability in the exchange rate of the naira.

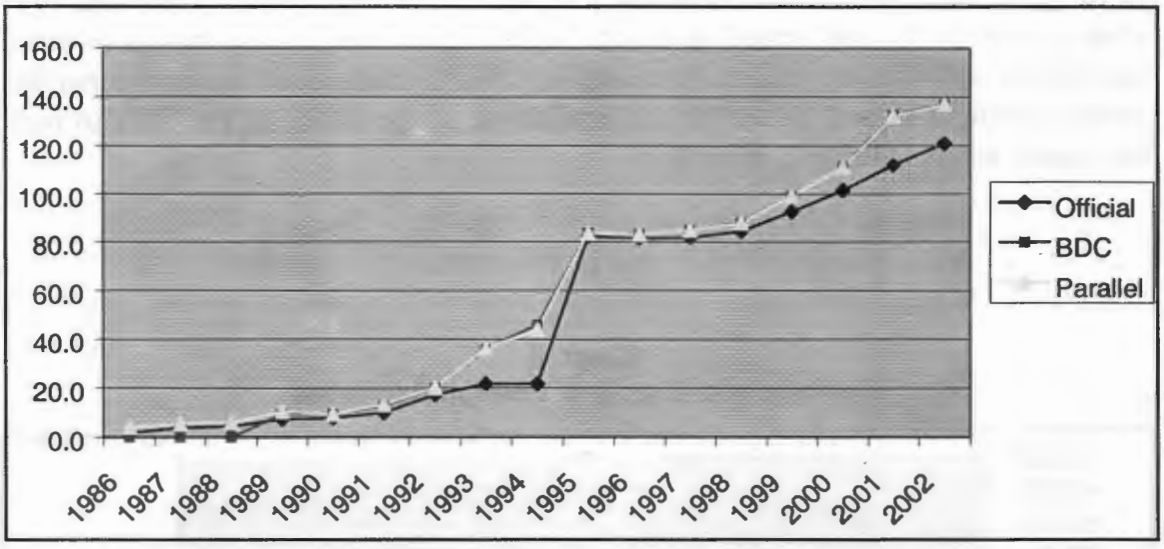
3.12 Development in the Foreign Exchange Market

Exchange Rate Movements

The change from administrative fiat towards the reliance on market forces for the determination of the exchange rate resulted in the depreciation of the naira against the major trading currencies. Available data indicated that average annual exchange rate which was ₦2.0=$1 in the official market in 1986 depreciated rapidly to between ₦4.0=$1 and ₦9.9=$1 in 1987 and 1991, respectively. Following the devaluation of the naira in 1992, the rate averaged ₦17.3=$1 for that year and further depreciated to ₦22.1=$1 in 1993. The re-regulation policy of 1994 appreciated the rate for the first time since 1986 to ₦21.9=$1. However, with the adoption of AFEM, the naira sharply resumed its downward movement culminating in ₦82.3= $1. There was relative stability, thereafter, as the naira exchanged at ₦81.5=$1, ₦82.0=$1, ₦84.4=$1 for 1996, 1997 and 1998, respectively. From ₦92.7=$1 in 1999, the naira further depreciated to ₦121.0=$1 in 2002. During the same period, the parallel market rate also depreciated to ₦10.6=$1 in 1989 and converged with the bureau de change rate at ₦9.6=$1 in 1990. Since then, the two rates not only moved in the same direction, but remained very close. The rates actually converged again at ₦85.0=$1 and ₦111.1=$1 in 1997

and 2000, respectively. Thereafter, the parallel market and bureaux de change rates depreciated by 18.3 and 13.1 per cent, respectively in 2001 and 2002 (Table 1, chart I).

Chart 1
Exchange Rate Movement

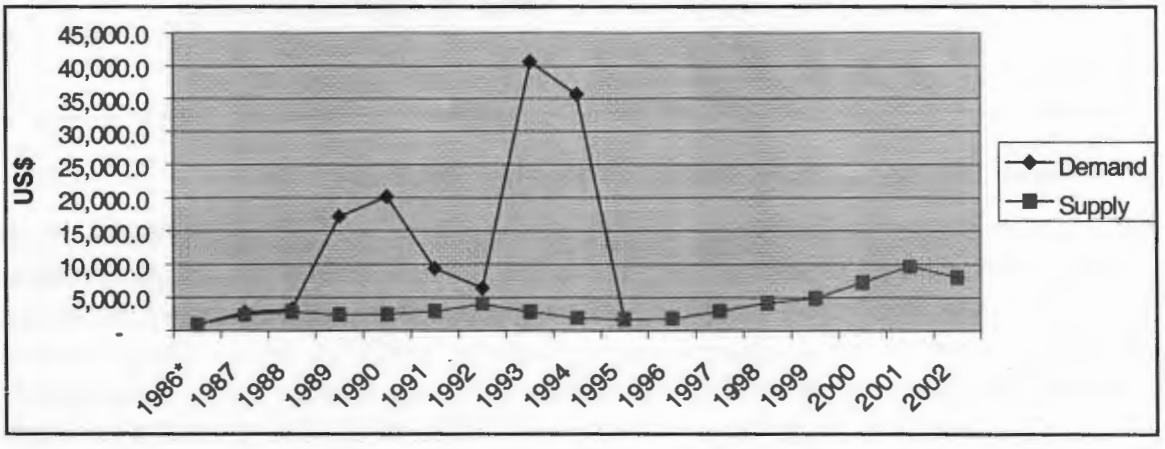


3.13 Trends in Demand and Supply of Foreign Exchange

Efforts at managing the demand for foreign exchange have yielded mixed results. From 1986 to 1998, demand remained fairly within the range of supply as average deviation was 8.0 percent. However, the year 1989 witnessed the phenomenon of excessive demand pressure in the foreign exchange market as US$17.3 billion was demanded compared with the supply of US$2.5 billion. This was despite policy initiatives to deepen the market through the introduction of Bureaux de Change and Inter-Bank Foreign Exchange transactions. The trend continued in 1990 when demand increased further to US$20.2 billion with supply almost stagnating at US$2.5 billion, indicating a shortfall of US$17.7 billion or 87.6 per cent. Thereafter, demand pressure eased significantly to US$9.5 and US$6.4 billion for 1991 and 1992, respectively, as against supply levels of US$6.5 and US$2.4 billion. In 1993, demand peaked at US$40.6 billion, reflecting the growth rate of M_2 at 49.8 per cent, which was the highest in the period under review, but moderated to US$35.7 billion in 1994. On the other hand, shortfalls in supply were 92.9 and 94.5 per cent in 1993 and 1994, respectively.

Consequent upon the abolition of the pegged exchange rate of ₦21.99=US$1, demand fell sharply to US$1.7 billion 1995 and almost stabilized a year later, growing marginally by 3.6 per cent. However, it resumed an upward trend in 1997, rising steadily to US$9.7 billion in 2001 before declining to US$8.0 billion in 2002 as a result of the re-introduction of DAS in July of that year. The excessive demand pressure in the foreign exchange market was attributed largely to the expansionary fiscal operations of the government as evidenced by the low demand levels between 1995 and 1997 when growth in M_2 was reined in within target. Other contributory factors included speculative activities by market operators in a bid to take advantage of the parallel market premium as well as the lack of confidence in the ability of the CBN to meet their needs always (Table 2, chart II).

Chart II
Demand and Supply of Foreign Exchange



SECTION IV

4.0 APPRAISAL OF EXCHANGE RATE POLICY MEASURES

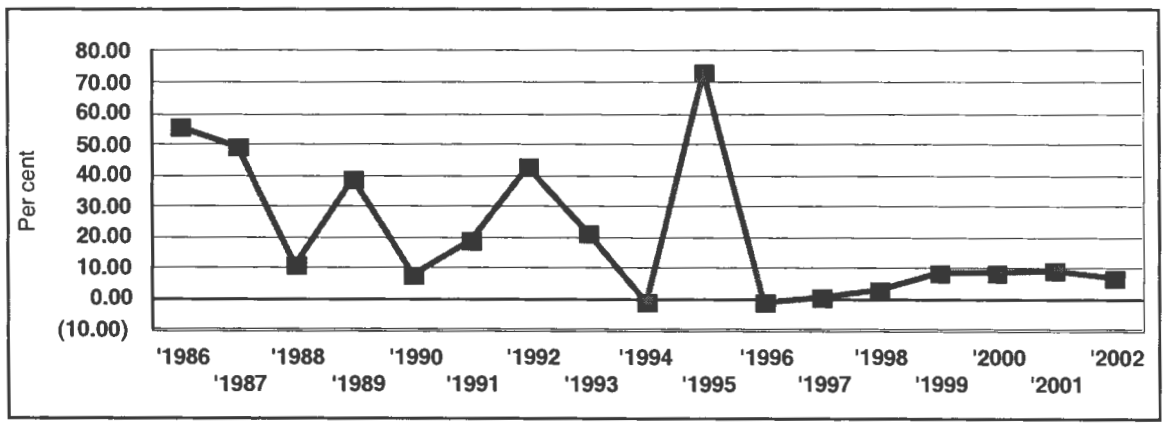
The goals of achieving a realistic and stable exchange rate of the naira has remained largely unattained since 1986, so also the desired reduction in excess demand for foreign exchange, elimination of distortions in the economy thereby enhancing growth, stimulation of non-oil exports, enhancing efficiency in the allocation process, and improving the balance of payments position. The attainment of the core objective of a realistic exchange rate was also expected to reduce capital flight as well as enhance the flow of foreign investments. This appraisal would be undertaken against the backdrop of these objectives.

4.1 Realistic and Stable Exchange Rate

The stability or otherwise of the exchange rate of a currency is usually referred to in the context of its periodic movements in relation to the trend in the equilibrium exchange rate. As economic fundamentals, which significantly influence exchange rate, are dynamic, some degree of variation in exchange rate from the equilibrium is tolerable and regarded as normal. However, there is no consensus on what should constitute 'normal'. The International Monetary Fund (IMF) operated a system of par values for its members at plus or minus 2.25 per cent between 1971 and 1973. Similarly, the European Community (before full monetary union) adopted a plus or minus 10.0 per cent.

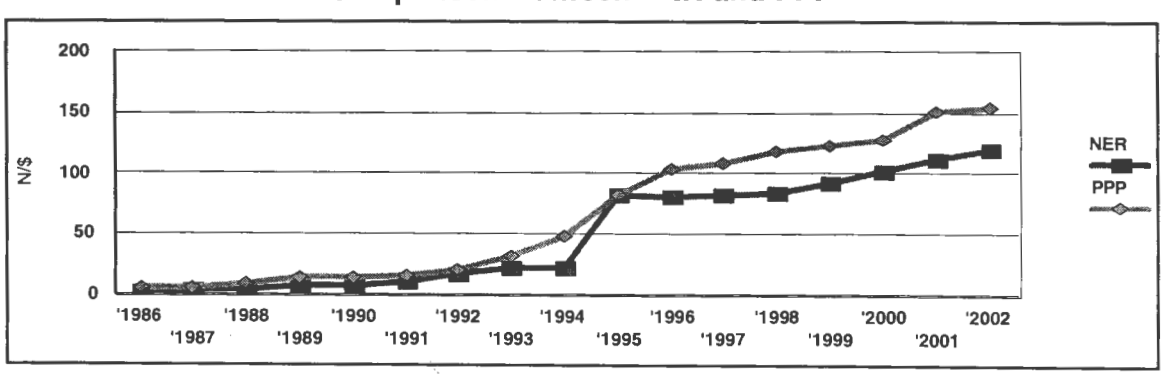
Table 4 shows the annual changes in the exchange rate of the naira. On the basis of the IMF band, the naira could only be described as stable in 1994 and between 1996 and 1998. But based on the Exchange Rate Mechanism (ERM) benchmark, 1990 and the years 1999 through 2002 would be included as periods where the naira achieved stability (see chart III).

Chart III
Variation in Official Exchange Rate



There are difficulties associated with practical determination of realistic exchange rate and are largely due to conceptual and measurement problems. Nevertheless, the Purchasing Power Parity (PPP) can be relied upon to provide a guide on the level of exchange rate that could be considered realistic. A comparison between the observed nominal exchange rate and computed rates based on the PPP approach indicated significant variations ranging from 3.9 per cent in 1986 to 3.7 per cent in 1992. Indeed, it was only in 1995 that the two rates converged at ₦82.3 to the dollar (table 4). Thus, it could be concluded that based on the computed PPP for the naira, the exchange rate had been unrealistic for most of the period under consideration (chart IV).

Chart IV
Comparison Between NER and PPP



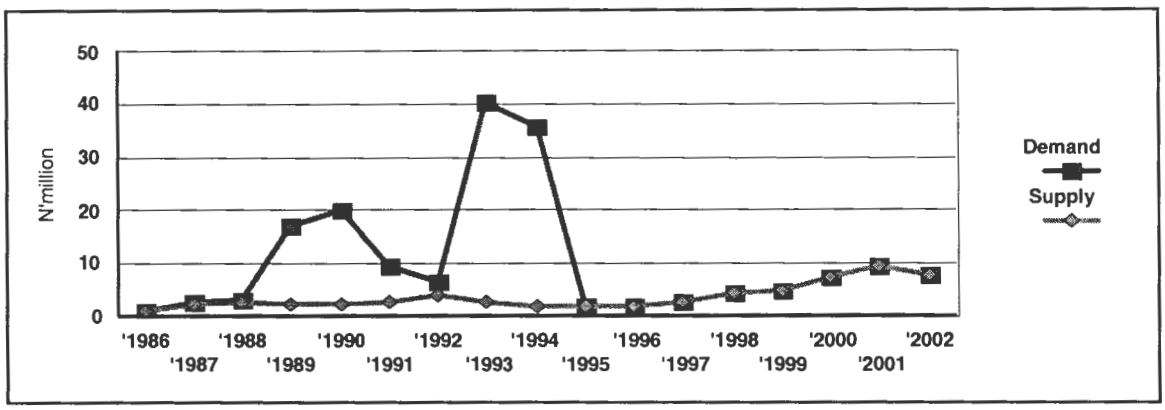
These developments in the foreign market do not indicate that realistic and stable exchange rate objective has been achieved. The volatility observed in the naira exchange rate can be attributed to the following factors; excess demand for foreign exchange, speculative activities and sharp practices by authorized dealers, expansionary monetary and fiscal policies as well as frequent policy changes.

4.2 Demand/Supply Gap

Analysis of demand and supply of foreign exchange to the foreign exchange market showed that demand exceeded supply in the period 1987-1994 with adverse implications for exchange rate stability. Table 2 shows that demand/supply gaps were most pronounced during 1989-1990 and 1993-1994 where differences between demand and supply stood at 87.6 and 94.5 per cent, respectively. The huge demand/supply gap reflected the production structure of the economy, which is mainly dependent on imported raw materials. Data on sectoral utilization of foreign exchange revealed that the share of raw materials in industrial sector imports over the last five years has remained consistently high at 62.3, 62.4, 66.2, 62.4 and 58.1 per cent for 1998, 1999, 2000, 2001 and 2002, respectively. Furthermore, the domestic industries were yet to re-orientate their production away from import substitution and produce for the export market. Consequently, they have remained consumers of foreign exchange and compromised the benefits derivable to the economy in terms of expanding the supply base, which would have eased the demand pressure. Meanwhile, there has been concomitant increase in the demand for foreign exchange for the importation of finished goods, which accounted for 27.8 per cent of total imports in the last five years. These developments combined with the poor performances of the non-oil sector have sustained demand pressure in the foreign exchange market.

There is no doubt, however, that some of these demands were merely speculative in nature due partly to confidence crises of market operators in their perception of the ability of CBN to meet their needs at all times. It is instructive to note that following a deliberate policy since 1995 to allocate foreign exchange directly to end-users, as well as the insistence on naira backing for all bids for foreign exchange, the demand pressure has been significantly reduced. However, this should be interpreted with caution because for reasons of documentation and other motives, some market players still patronize the parallel market (chart V).

Chart V
Demand/Supply Gap

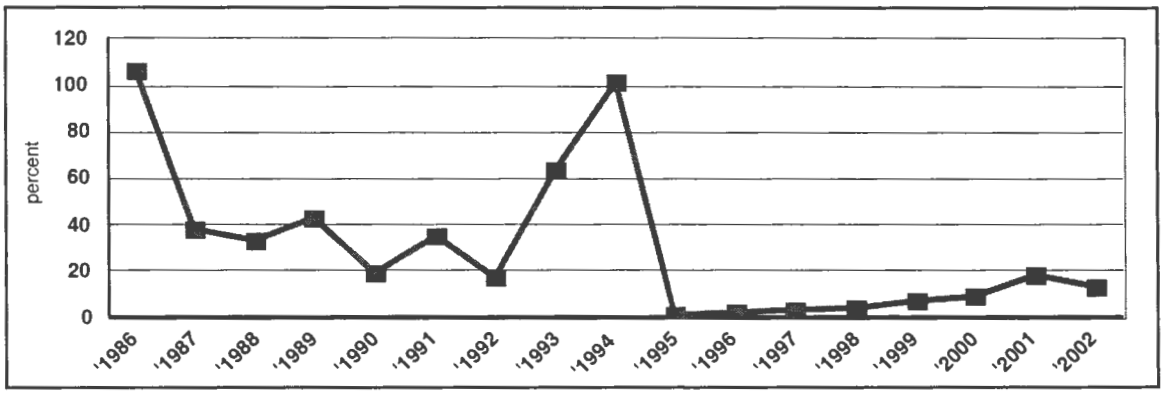


4.3 Parallel Market Premium

The parallel market premium which averaged 160.0 per cent at the onset of SAP in 1986, narrowed to an average of 33.5 per cent in 1987-1990 indicating that the misalignment of the exchange rate had been comparatively reduced. It, however, widened to 54.6 per cent in 1991-1994 and thereafter the gap closed sharply to 2.8 per cent in 1995-1997, the only period it was within the tolerable limit of 5.0 per cent. In 2000-02, it averaged 11.9 per cent (chart VI). The large parallel premium in the foreign exchange market can be traced to the inability of the official window to accommodate all transactions that require foreign exchange. Other factors include; documentation requirements and the tendency of authorized dealers to pursue cheap profits. The continued existence and size of the parallel market which a study by the CBN and Nigerian Institute for Social and Economic Research (NISER) in 2001 put at US$592.4 million per annum or 8.2 per cent of total transactions at the official market (CBN/ NISER, 2001) remains worrisome. The parallel market had been a source of distortions and the exchange rate sometimes drives the rate in the official market (as was the case on March 5, 1992 when the naira was devalued to wipe out parallel market premium). This fact was corroborated by the results of an empirical study by Nnanna (2002) that " the parallel market rate is the lead indicator of the exchange rate" in Nigeria. The persistent and large parallel market premium is indicative of the misalignment in the exchange rate of the naira and has been destabilizing as it serves as an incentive for authorized dealers to divert funds sourced from official sources to the parallel market in pursuit of higher profit. Furthermore, it undermines the effectiveness of exchange

rate in allocating scarce foreign exchange resources. This is because banks would rather channel resources to transactions in the foreign exchange market with short gestation periods and higher profit margin than the real sectors of the economy.

Chart VI
Parallel Market Premium



4.4 Balance of Payments (BOP) Position

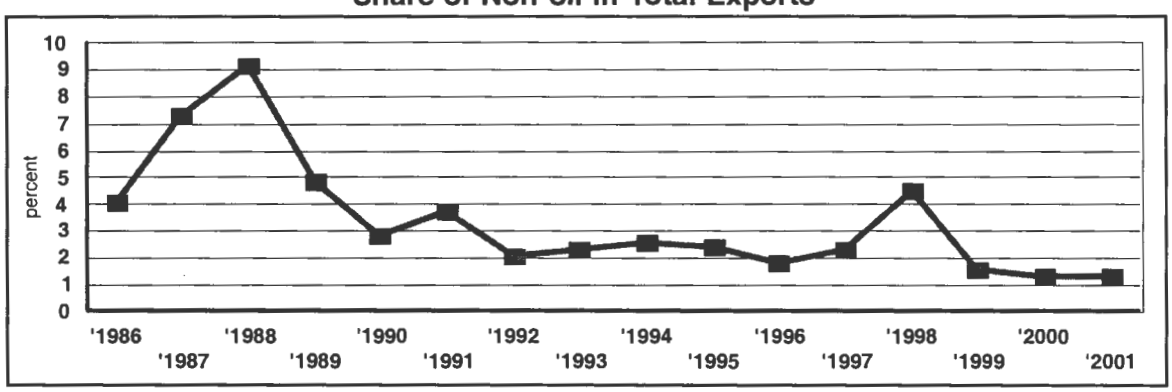
Available data indicated that, in general, the country's BOP position had been under sustained pressure. The overall balance of payments only recorded modest surpluses of US$684.3, US$601.4,US$15.0 and US$221.0 million in 1990, 1991, 1997 and 2001, respectively, (see table 3). These reflected increased buoyancy of the merchandise trade account as well as the deferment of some debt service payments falling due as debt refinancing and rescheduling agreements were successfully concluded. The rest of the period recorded deficits ranging from US$761.0 million to US$5,862.9 million resulting mainly from deterioration of the current account.

4.5 Increase in Non-oil Exports through Diversification of Export Base.

The current account balance as a percentage of GDP which recorded an average deficit of 4.3 per cent in the 1980-85, made an impressive turn around with a surplus of 3.4 per cent in 1986-1990. This was attributed to the sharp drop in the volume of imports and the higher relative contribution of non-oil exports to total export (Olisadebe, 1991). But following that initial jerk, it declined to a deficit of 1.1 and 1.5 per cent in 1991-95 and 1996-2001, respectively. This reflected the poor performance of the manufacturing sub-sector as capacity utilization declined from 42.0 per cent in 1991 to an average level of 34.2 per cent in 1992 – 2001.

The economy has continued to depend heavily on oil revenue, which accounted for an average of 71.0 per cent of total foreign exchange inflows between 1988 and 2002. Thus, diversification of the export base has remained a major target of exchange rate policy since 1986. In pursuit of this, a number of incentives have been put in place to encourage non-oil exports. However, the response has largely been unsatisfactory as reflected in the low share of non-oil in total exports. From 5.7 per cent in 1986-90, it fell to 2.6 and 2.1 per cent in 1991-95 and 1996-2001, respectively. In terms of composition, non-oil exports recorded some modest success as hitherto relatively unknown items such as Peugeot cars, asbestos, empty bottles and food items etc featured in our export list at the initial period following SAP. This was, however, not sustained due to the high import content of the manufactured goods coupled with the high cost of production in the domestic economy, which made them uncompetitive in the international market (see Chart VII).

Chart VII
Share of Non-oil in Total Exports



4.6 Impact on the Economy

The nature of the Nigerian economy with virtually non-existent capital goods industry, and a production base that is highly import dependent makes foreign exchange and in effect, exchange rate policy crucial to the country's developmental efforts (Obadan 2002). Consequently, as a deliberate policy, the lion share of foreign exchange allocation has been to the industrial and agricultural sectors, which constitute the real sectors of the economy. Between 1986 and 2001, foreign exchange allocation to these sectors averaged 51.9 per cent. Despite the huge allocation of foreign exchange to the industrial sector, its contribution in terms of foreign exchange earnings as well as capacity utilization has been quite low. From an average of 56.3 per cent in the five years preceeding 1986, capacity utilization fell steadily to 34.5 per cent in

1996-2001. Similarly, the contribution of the sector to GDP (6.0 per cent in 2001 for manufacturing) and employment has not been commensurate. The performance of the sector had been constrained by numerous problems, some of which include high cost of operations resulting from failing social and economic infrastructure, strong competition from imported goods, persistent depreciation of the naira exchange rate and generally weak consumer demand.. .

In the same vein, real GDP growth rate has been abysmal. Apart from the initial impact following the introduction of SAP, which witnessed a real output growth from -4.0 per cent in 1980-85 to 4.8 per cent in 1986-1990, the periods 1991-95 and 1996-2001 recorded modest growth rates of 2.8 and 3.3 per cent, respectively. The agricultural sector has not fared any better having been bogged down with declining productivity. The desired transformation from its current state to a market-oriented status needed to give fillip to the industrial sector in the supply of raw materials was yet to occur. Thus, the preferential allocation of foreign exchange to the productive sectors was yet to be justified in terms of performance.

These developments particularly the unidirectional depreciation of the exchange rate, have grave implications for the economy. As aptly captured by Obadan (2002), some of these have manifested in:

- decline in living standards as well as real value of output and assets;
- increase in production cost arising from increased cost of imported inputs such as machinery parts, equipment & raw materials and ultimately the level of inflation;
- difficulty in planning and projections at the micro level;
- uncertainties for long-term macroeconomic planning and growth; and
- tendency for the international competitiveness of non-oil exports to be undermined as a result of inflationary effect of depreciation.

From the foregoing analysis, exchange rate policy in Nigeria has not stood the test of time. The underlying demand and supply conditions cannot be relied upon to bring about an orderly movement in the exchange rate of the naira. Consequently, the exchange rate has been characterized by volatility for most of the period. Also, under the scenario of persistent supply constraint, the monetary authority relying more on demand management initiatives, had to intervene in the market more often than it otherwise should have. More worrisome was the nature of intervention which has been more of frequent changes in operational guidelines as it had all along remained the major supplier of foreign exchange to the market. It is hoped that as ongoing reforms of the economy

with respect to privatization and the huge investments in the gas sub-sector begin to bear fruits, the supply situation will improve with positive impact on the outcome of exchange rate policy.

4.7 The Way Forward

Exchange rate management in Nigeria has been quite challenging owing to the myriads of problems identified earlier. However, these problems are by no means insurmountable. Essentially, what is required is a realistic approach that is mindful of the strength and structural weaknesses that are inherent in the economy but still anchored on a deregulated framework. The rest of this section will highlight measures that would reposition the economy on the path of attaining stated policy objectives. These are articulated under supply, demand, exchange rate and other measures.

4.7.1 Supply Side Measures

4.7.1.1 Export of Food Crops

With the glut and falling commodity prices in the world market, it has become imperative that we explore the vast potentials in the area of food crops. Nigeria has the highest potential for the production of cassava in the world, which if properly harnessed, could translate into an estimated inflow of US$1.0 billion annually. The same applies to yams and a variety of other crops given the large population of Nigerians in foreign lands following the unprecedented emigration since the downturn in the economy. In the light of the above, the ban on export of food items and their derivatives should be lifted. Although the ban contravenes the provisions of the World Trade Organization (WTO) to which the country is a signatory. For any country to remain relevant and competitive in the present globalising environment, her international trade would have to be anchored on commodities in which it enjoys comparative advantage. In any case, these items still find their way out of the country illegally through neighbouring countries, thereby denying the government revenue in taxes and repatriation of foreign exchange proceeds due to the mode of exports. The argument of national food security should be discarded, as any shock to the supply chain will only be temporary. The resultant increment in prices will induce response by producers to restore supply in a maximum of twelve months given the production cycle of these crops.

4.7.1.2 Centralisation of Foreign Exchange Earnings

Foreign exchange earnings of all government parastatals should be centralized in the CBN as against the current practice where they are held separately and made available for intervention only after monetisation. This would broaden supply in the market and ease demand pressure.

4.7.2 Demand Management Measures

The CBN has initiated numerous measures to address the problem of excessive demand for foreign exchange. These measures have been and would continue to remain mere palliatives until the more fundamental issue of dependency on imported raw materials is addressed. Statistics show that about 31.64 per cent of total foreign exchange allocation to the industrial sector since 1988 was used for importation of industrial raw materials. Past attempts at developing local substitutes for imported raw materials have not made any meaningful impact due partly to the huge capital outlay required and the long-term nature of such a programme. As a way out, the government in partnership with the private sector should consider the establishment of a Venture Capital Fund for research and development of alternatives to imported raw materials as well as the setting up of domestic capital goods industry. Money from such a Fund would be made available to private investors to take advantage of the giant strides made by the Raw Materials Research and Development Council (RMRDC) in this regard. It is pertinent to mention that the role of government in this direction should be limited to creating the enabling environment. The private sector, particularly, the manufacturing concerns should be compelled by legislation to set aside some portion of their earnings before tax to build up the Fund which should be wholly managed by them.

Meanwhile, the current policy of rationalizing the structure of imports by the ban placed on toothpicks, water and biscuits is quite commendable. However, instead of imposition of outright ban, these items should be slammed with high tariffs, which will make local substitutes more competitive. The list should also be reviewed to include other non-essential imports such as fruit juice, fish, cement, rice, etc. The cases of fish, rice and cement are particularly disturbing in view of the huge foreign exchange demand for their importation since the last quarter of 2002.

The manufacturing sector of the economy has for too long relied on official foreign exchange to finance the off-shore component of its operations. Its contribution in

terms of foreign exchange earnings has remained disproportionate compared with the share of utilization. The priority status accorded the sector in foreign exchange allocation may inadvertently be sustaining this trend. A fall-out of this policy of 'spoon-feeding' has been the lack of drive and initiative by manufacturing firms to explore opportunities in the world market. While it would be appreciated that the need to promote growth in the economy underpinned the Bank's stance, it has become expedient to consider a phased withdrawal from funding the foreign exchange market in the long run. To sensitize the market and prepare it for a smooth and orderly transition towards independence, the CBN should occasionally 'closed shop' for a period ranging between two weeks and one month and observe how the market reacts. It is expected that there will be bubbles at the initial stages, but it is also expected that with careful management by way of support especially, a focused implementation of the foreign exchange related incentives to the manufacturing sector, the objective will endure. Besides, this would be an added impetus to the marked improvement in inflows through autonomous sources, which hopefully would rise to the challenge.

4.7.3 Foreign Exchange Market Reforms

With the benefit of hindsight, we have come to appreciate the cumbersomeness and the lack of professionalism inherent in the management of Retail DAS. We believe that the time has come to introduce Wholesale DAS. The intermediation process and the monetary policy transmission mechanism will function better if we allow banks to bid for themselves and then sell foreign exchange to their customers. In the circumstance, the CBN shall only contend with the demand of only 90 banks at most and about 48 on the average on daily basis. A Wholesale DAS would not only help to minimize multiple exchange rate system by encouraging convergence between the inter-bank rate and the DAS marginal rate but would raise the consciousness of the operators to achieving a stable exchange rate. Under a wholesale DAS, banks that hoard and speculate on foreign exchange face a grave danger of losing money, if the DAS is managed proactively. In the presence of excess domestic liquidity conditions, it is not possible to maintain the same level of reserves without allowing the exchange rate to adjust under market conditions. It is not realistic to control price and quantity at the same time. Allowing the exchange rate to find its market level will reduce the parallel market premium, check frivolous demand and act as instrument for mopping excess liquidity. For the Wholesale DAS to work effectively, there is need for the CBN to be fully autonomous. It is only in this way, that the CBN will be able to adopt a non-accommodating monetary policy that will help in stabilising exchange rate of the naira.

4.7.4 Other Measures

4.7.4.1 Policy Environment

Exchange rate policies require conducive policy environment to be effective. Based on past experiences, there is the compelling need for harmony between fiscal and monetary policies. CBN should remain in the fore-front of the campaign to stem the tendency of government at all levels to burst budgetary limits which filters into the foreign exchange market to exert pressure on the naira exchange rate. A powerful lobby should be set up to facilitate the passage of the Fiscal Responsibility Bill before the National Assembly, which seeks to limit government expenditure to its revenue. The passage of this bill would be additional authority to the Bank and put it in a better stand to ward off request for extra-budgetary financing beyond the statutory limit.

4.7.4.2 Incentives for Foreign Investments

Inflow of foreign exchange can also be boosted through effective promotion of foreign investment inflows particularly, foreign direct investment. To this end, appropriate incentives and policies must be guaranteed including efficient infrastructure, security to life and property and an enduring political structure.

SECTION V

5.0 SUMMARY AND CONCLUSION

The paper examined foreign exchange policy measures adopted since 1986. Prior to this period, the economy faced serious crisis and was characterized by an over-valued currency, low oil receipts, depleted external reserves and high import bills, emergence of trade arrears and rapid accumulation of debts. The various measures adopted were aimed at restructuring the economy and diversifying its revenue base, as well as achieving a realistic exchange rate for the naira.

An appraisal of these exchange rate policies indicated that their impacts have been mixed. The use of a flexible exchange rate had eliminated the over-valuation of the naira. The parallel market premium has also been narrowed from about 60.0 per cent in 1986 to about 11.0 per cent in 2002. There was significant improvement in capacity utilization and real output growth between 1986 and 1990. However, subsequent periods

recorded less than satisfactory growth rates. The current account balance as a percentage of GDP which recorded an average deficit of 4.3 per cent in the 1980-85, made an impressive turn around with a plus of 3.4 per cent in 1986-1990. Thereafter, it declined to a deficit of 1.1 and 1.5 per cent in 1991-95 and 1996-2001, respectively. In terms of composition, non-oil exports recorded some modest success as hitherto relatively unknown items such as Peugeot cars, asbestos, empty bottles and food items etc featured in our export list at least at the initial period following SAP.

Inspite of all these policy measures the problems of exchange rate volatility, excessive demand pressure in the foreign exchange market and the slow pace of export diversification still persist. These were attributed to the weak and import dependent production structure of the economy. Suggested policy actions were articulated towards increasing foreign exchange inflows, reducing demand, as well as reforming the foreign exchange market in order to evolve a more realistic exchange rate for the naira.

TABLE 1
EXCHANGE RATE MOVEMENT
(₦/$)

Year	Official	Bureaux De Change	Parallel	Parallel Market Premium (%)
1986	2.0	0	4.2	106.4
1987	4.0	0	5.6	38.1
1988	4.5	0	6.1	33.4
1989	7.4	9.5	10.6	42.7
1990	8.0	9.6	9.6	19.6
1991	9.9	12.8	13.4	35.2
1992	17.3	20.4	20.3	17.4
1993	22.1	36.1	36.2	64.3
1994	21.9	46.2	44.1	101.5
1995	82.3	83.7	83.5	1.5
1996	81.5	83.2	83.1	2.0
1997	82.0	85..0	85.0	3.6
1998	84.4	88.1	87.9	4.1
1999	92.7	99.3	99.2	7.0
2000	101.7	111.1	111.1	9.2
2001	111.9	132.6	132.4	18.3
2002	121.0	137.0	136.9	13.1
Year	Premium Average			
1986 - 1994	50.95			
1995 - 1998	2.80			
1999 - 2002	11.90			

Source: **Central Bank of Nigeria**

TABLE 2
FOREIGN EXCHANGE DEMAND AND SUPPLY

Year	Demand	Supply	Abs. Dev.	Dev.%
1986	896.1	916.00	19.90	-2.22
1987	2,86.20	2,353.00	433.20	15.55
1988	3,259.90	2,910.00	349.90	10.73
1989	17,259.90	2,398.00	14,861.90	86.11
1990	20,196.90	2,501.60	17,695.00	87.61
1991	9,452.30	2,927.00	6,525.30	69.03
1992	6,452.30	4,045.70	2,388.90	37.13
1993	40,641.30	2,892.70	37,748.60	92.88
1994	35,691.30	1,961.10	33,730.20	94.51
1995	1,723.90	1,711.70	12.20	0.71
1996	1,862.00	1,847.00	15.00	0.81
1997	2,939.50	2,939.50	-	-
1998	4,254.90	4,254.90	-	-
1999	4,880.30	4,880.30	-	-
2000	7,256.40	7,256.40	-	-
2001	9,658.60	9,658.60	-	-
2002	8,046.50	8,046.50	-	-

Note *September - December 1986

Source: Central Bank of Nigeria

TABLE 3
SELECTED MACROECONOMIC INDICATORS

Year	Real GDP Growth	Industrial Sector Growth (%)	Agric. Sector Geowth (%)	Capacity Utilisation (%)	Current Account %/GDP	Overall BOP Position ($M)	Non-oil/ Total (%)	Inflation Rate (%)	Growth Rate of M2 (%)
1986	3.2	3.5	7.7	38.8	-4.5	-3500.0	4.1	5.4	1.7
1987	0.5	18.0	8.0	40.4	-0.3	-4566.2	7.3	10.2	23.9
1988	9.9	14.5	-5.9	42.4	-0.8	-4621.1	9.2	52.2	33.3
1989	5.2	9.5	13.7	43.8	4.8	-3121.9	4.9	39.1	8.0
1990	5.2	2.2	7.2	40.3	17.7	684.3	2.8	7.4	40.4
1991	4.7	9.3	14.4	42.0	13.5	601.4	3.8	13.0	32.7
1992	3.0	2.6	7.7	38.1	-0.9	-5862.9	2.1	44.6	49.2
1993	2.7	-20.4	2.4	37.2	-2.8	-1893.1	2.3	57.2	49.8
1994	1.0	-0.8	-0.8	30.4	-5.7	-1947.5	2.6	57.0	39.1
1995	2.4	-5.5	3.4	29.3	-9.4	-2774.4	2.4	72.8	10.3
1996	3.4	1.8	3.7	32.5	8.5	-761.0	1.8	29.3	16.8
1997	3.2	1.4	4.6	30.4	1.2	15.0	2.3	8.5	16.9
1998	2.4	-4.8	3.1	32.4	4.1	-2873.0	4.5	10.0	23.3
1999	2.8	-3.6	3.3	35.9	-10.7	-3537.2	1.6	6.6	31.0
2000	3.8	7.6	3.1	36.1	-7.7	-3090.4	1.3	6.9	48.1
2001	3.9	4.6	3.7	39.6	-4.1	221.0	1.3	18.9	12.2
Year	Premium Average								
1980 - 1985	-4.0	-2.8	1.2	56.3	-4.3		3.2		
1986 - 1994	4.8	9.5	6.1	41.1	3.40		5.7		
1995 - 1998	2.8	-3.0	5.4	35.4	-1.10		2.6		
1999 - 2002	3.3	1.2	3.6	34.5	-1.50		2.1		

Source: **Central Bank of Nigeria**

TABLE 4
COMPARATIVE EXCHANGE RATES

Year	Nominal Exchange Rate (Official)	Computed PPP	Changes in Official Exchange Rate (%)	Diff. Between Comp. PPP and Nominal	Parallel Market Premium
1986	2.0	5.91	55.9	3.9	106.4
1987	4.0	6.28	49.7	2.3	38.1
1988	4.5	9.42	11.4	4.9	33.4
1989	7.4	13.51	38.6	6.1	42.7
1990	8.0	13.80	8.0	5.8	19.6
1991	9.9	14.91	18.9	5.0	35.2
1992	17.3	20.95	42.7	3.7	17.4
1993	22.1	32.00	21.6	9.9	64.3
1994	21.9	48.95	-0.8	27.1	101.5
1995	82.3	82.33	73.4	0	1.5
1996	81.5	103.42	-1.0	21.9	2.0
1997	82.0	109.69	0.6	27.7	3.6
1998	84.4	118.73	2.8	34.4	4.1
1999	92.7	123.24	8.9	30.6	7.0
2000	101.7	128.18	8.9	26.5	9.2
2001	111.9	151.0	9.2	39.1	18.3
2002	121.0	154.17	7.5	33.2	13.1
Year	Premium Average				
1986 – 1994	50.95				
1995 – 1998	2.8				
1999-20002	11.9				

Source: Central Bank of Nigeria

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