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ENTREPRENEURIAL JOURNAL OF MANAGEMENT SCIENCES (EJMS)

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Al-Hikmah University, Ilorin, Nigeria

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FROM EDITORIAL'S DESK

Dear Reader,

I am using this opportunity to welcome all of you to this maiden issue of EJMS. The intension of EJMS is create an atmosphere that stimulates creativeness, academic research and growth in the area of management sciences

The Development and Growth of mankind is the consequence of brilliant research undertaken by scientists in every field.

EJMS provides an outlet for research findings and reviews in areas of management found to be relevant for National and International development.

In addition, the Journal is aimed at providing an academic medium for the advance and dissemination of research results that support high learning, teaching and research and to become a virtual knowledge grid for researchers, scholars, postgraduate students, developers and innovators in the field of management sciences.

Lastly, I express my sincere gratitude to the Editorial Board, Editorial Advisers and all the staff who worked on this issue for their support in making this issue of EJMS possible.

Undoubtedly, we could not issue any Journal without the efforts of our reviewers. We salute and thank our reviewers for the professional job done.

This Journal focuses on entrepreneurship which, according to development economists, is necessary condition for Economic Development.

It is our hope that articles on entrepreneurship will be relevant and useful for the development and advancement of an entrepreneurial class in Nigeria.

Prof. (Mrs.) S.L. Adeyeni
Chief Editor, EJMS.

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THE IMPACT OF FOREIGN EXCHANGE MARKET DEREGULATION ON NIGERIAN ECONOMY

Aun, Isaac Iortimbir, Aremu, Moriam Adeyemi (Mrs) And Abdul, Falilat Ajoke (Mrs)¹

Abstract

Bankers have condemned the use of market forces and black market rates by CBN to determine the exchange rates of the Naira in the foreign exchange market. The foreign exchange market is faced with a lot of problems since the Central Bank intervention; this include whether or not the CBN were able to stabilize the naira against other currencies. This study examines the structure and operation of the foreign exchange market and the effect inflicted on Nigerians by deregulating the foreign exchange market. The study employs quarterly time series data, spanning between 1986 and 2009, secondary data were used to obtain information for the study. One hypothesis was postulated and tested using regression analysis, the regression analysis shows that actual contribution of naira to dollar was negative (- 0.146), this implies that the higher the naira to the dollar rate, the worst the level of inflation in the economy. The study concluded that; deregulation of the foreign exchange market is not really the solution to the problems of foreign exchange market in Nigeria, and that a clean float management should be put in place with a mandate to ensure and maintain a stable and realistic exchange rate for the naira.

Introduction

Deregulation of the foreign exchange market is an off-shoot of the structural adjustment programme (SAP). Foreign exchange market is not the only sector of Nigerian economy that was deregulated through the introduction of SAP but also the entire economy of Nigeria with the aim of revamping the economy from depression. Direct controls, pervasive government intervention in the financial system resulting in the stifling of competition and resource miss-allocation, necessitated the introduction of the structural adjustment

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programme (SAP) in 1986. SAP was a comprehensive economic restructuring programme which emphasized increased reliance on market forces. In line with this orientation, financial sector reforms which focused on structural changes, monetary policy, interest rate administration, encompass both financial sector. It is more important, at the start, to understand what is meant by foreign exchange, and the deregulation as well as the need for both in an economy as we examine the foreign exchange market deregulation.

Funk and Wagnall's standard dictionary defined foreign exchange as the transaction of monetary affairs, payment of debt etc. between resident of different countries. Within the scope of this write-up, deregulation can be defined as the removal of some set of policies with the aim to correct previous distortion brought about by the continuous government involvement in the management of an economy.

However, foreign exchange market is the medium of interaction between the buyer and the seller of forging currencies in a bid to negotiate a mutually acceptable price for the settlement of international transaction. Foreign exchange market deregulation means the removal of the government interference in the determination of the foreign exchange rate by the invincible hands of demand and supply. One of the government's aims for deregulating foreign market was to close the wide gap between the official exchange rate and the parallel market exchange rate and also to maintain a realistic exchange rate for the naira. Exchange rate is usually classified into two: Fixed exchange rate and flexible exchange rate.

Fixed exchange rate is situations whereby the government determine and fix a specific rate remain permanent while flexible exchange rate is one determined by the forces of demand and supply subject to changes in the market.

Following the economic protracted decline, SAP was introduced in 1986 in the continuous effort of the government to revamp the economy. The main component of SAP was initially known as second-tier foreign exchange market (SFEM) which was later transformed to foreign exchange market (FEM). Finally, it must be understood at this stage that Nigerian economy will always be affected by any policy measure undertaken by the government.

Bank has condemned the use of market forces and black market by CBN to determine the exchange rate of the naira in the foreign exchange market. The association contended that the sector was besieged with myriads of difficulty ranging from scarcity of foreign exchange to high interest rate which forced industrial capacity utilization to as low as 35 percent.

market experienced a boom during this period and the management of foreign exchange resources becomes necessary to ensure that shortages did not arise. However, it was not until 1982 that comprehensive exchange controls were applied as a result of the foreign exchange crisis that set in that year. Increasing demand of foreign exchange supply was shrinking the development of a flourishing parallel market for foreign exchange.

The exchange control system was unable to involve an appropriate mechanism for foreign exchange allocation in consonance with the goal of internal balance. This led to the introduction of the second-tier foreign exchange market (SFEM) in September 1986 under SFEM. The determination of the naira exchange rate and allocation of foreign exchange was based on market forces. To enlarge the scope of the foreign exchange market, Bureaux de changes were introduced in 1989 for dealing in private sourced foreign exchange (CBN 2008).

As a result of volatility in rates, further reforms were introduced in the foreign exchange market in 1994. These included the formal pegging of the naira exchange rate, the centralization of foreign exchange in the CBN, the restriction of Bureaux de change to buy foreign exchange as agents of the CBN, the reaffirmation of the illegality of the parallel market and discontinuation of open accounts and bills for collection as means of payment sectors.

The foreign exchange market was liberalized with the introduction of an Autonomous foreign Exchange market (AFEM) for the scale foreign exchange to end-users by the CBN through selected authorized dealers at market determined exchange rate. In addition, Bureaux de changes were once more accorded the status of authorized buyers and sellers of foreign exchange. The foreign exchange market was further liberalized in October 1999 with the introduction of an inter-bank Foreign Exchange market (IFEM) (CBN 2008).

Structural Adjustment Programme (Sap) Era

The failure of the austerity measures, coupled with the virtual collapse of the global oil market in the first quarter of 1986, the critical question that confronted Nigeria policy makers was the equitably adjustment of the over increasing demands of the economy to the current lower level of available resources. Given to socio political milieu in which major policies are in Nigeria, it was decided that three policy options be put before the electorate. The options were:

- a) To continue with the economic policy status quo i.e. retention of austerity measures.
- b) Accept an IMF structural Adjustment facility loan, including traditional conditionality's, or
- c) Reject IMF loan and its conditionality's but adopt a various part of the traditional IMF / World Bank SAP package, designed by Nigerians and monitored by Nigerians.

In what later become great national debates, numerous conflicting views from diverse interest groups and schools of thought were expressed. At the end of the debate, the IMF options were unequivocally rejected. Nevertheless, the debate proved the existence of widespread consensus that a fundamental restricting of the economy was indeed urgently required if the economy is to be turned around. Thus president Babanginda's administration was given the mandate to restructure the national economy in the best way it considered fit.

It is against this background that the SAP was finally adopted in June 1986. Generally, the SAP was aimed at:

- a) The achievement of fiscal and balance of payments viability over the short and medium terms.
- b) Laying the basis for sustainable non-inflationary growth and
- c) Improving the efficiency of the private and public sectors.

As an operational concept, the programme called for the implementation of the following

- i. The setting up of second Tier Foreign Exchange market (SFEM) as a mechanism for achieving realistic exchange rate for the naira and ensuring a more efficient allocation of scarce foreign exchange resources.
- ii. Adoption of appropriate fiscal and monetary policies.
- iii. Dismantling of price control, control trade and exchange regulation (liberalization policy).
- iv. Revision of the tariff structure.
- v. Elimination of subsidy
- vi. Commercialization and privatization of public enterprises and
- vii. Overhauling of the administrative structure.

Most of the above policy measures such as trade and exchange liberalization, the SFEM customs tariff and excise duty rationalization have since been implanted while actions are still on in respect of others such as commercialization and privatization of public enterprises and liberalization and policy (Wikipedia 2008).

Foreign Exchange Management Before 1986

Before 1986, importers and exporters of non-oil commodities were required to get appropriate license from the federal Ministry of commerce before they could participate in the foreign exchange market.

Generally, import procedures followed the international standard of opening of letters of credit (L/Cs) and subsequent confirmation by correspondent banks abroad. The use of form 'A' was introduced in 1979 when the comprehensive import supervision scheme (CISS) was put in place to guard against sharp import practices. The authorization of foreign exchange disbursement was a shared responsibility between the Federal Ministry of Finance and the CBN. The Federal Ministry of Finance had responsibility for public sector applications, while the bank allocated foreign exchange in respect of private sector applications. Increased emphasis was placed on export promotion as a means of reducing pressure on the external sector. The government introduced a number of incentives to boost non-oil exports, these include arrangement for setting up export free zones, concessions of exporters to retain 25% of their export proceeds, and the liberalization of export and import licensing.

The Interbank Market

The interbank market is the top-level foreign exchange market where banks exchange different currencies. The bank can either deal with one another directly, or through electronic brokering platforms. The electronic brokering services (EBS) and Reuters Dealing 3000 matching are the two competitors in the electronic brokering platforms business and countries have floating exchange rates. These currencies do not have fixed values, but, rather, values that fluctuate relative to other currencies.

The interbank, market is an important segment of the foreign exchange market. It is a wholesale market through which most currency transactions are channeled. It is mainly used for trading among bankers. The 3 main constituents of the interbank market are:

1. The spot market

2. The forward market
3. SWIFT (Society for World-wide interbank financial telecommunication).

The interbank market is unregulated and decentralized. There is no specific location or exchange where these currency options are regulated in the United States and trade on the Philadelphia Stock Exchange. Further, in the U.S. The Federal Reserve Bank publishes closing spot prices on a daily basis (Wikipedia, 2009).

The Bureau De Change

Bureau De change was introduced in January 1989 as the third segment of the FEM for retailing foreign exchange to small users in order to use the pressure on the official market. The reasons for its establishment are to:

- a. Accord legal recognition to small dealers in foreign exchange and thereby enlarge the size of the officially recognized forex market.
- b. Provide free access to foreign exchange by small buyer in a convenient and informal manner thereby filling gaps in service under the existing arrangements.
- c. Enhance sufficiency in the macro-economic managements through more adequate statistical coverage of foreign exchange flow.
- d. To improve fiscal efficiency.

In pursuant of these objectives, guidelines were issued by central bank of Nigeria for the operation of Bureau de change. Under this guide lines, licensed bureau de change are allowed to deal only in bank.

The bureau-de-change purchase equivalent amount of forex from the CBN up to a maximum limit of US\$200,000.00 twice a week

The Reforms in the Operations of the Bureaux De Change in Nigeria

The Financial sector surveillance Committee (FSSC) met on the 23rd and 14th February 2009, and among other things, reviewed the developments in the foreign exchange market especially the Bureau de change (BDCs) segments of the market. The FSSC noted with satisfaction that the salutary effects of the recent changes in the operating rules of the demand for foreign exchange at the RDAS window has significantly declined, and that the authorized dealers are

largely complying with the guidelines. The exchange rate at the RDAS window has stabilized at about N145.90 per US dollars for every two weeks. It is estimated that more than 80 percent of foreign exchange transactions take place in the RDAS window. The others are accounted for by authorized dealers and the BDCs.

The FSSC critically reviewed the operations of the BDCs and was greatly disappointed with the operations of the market. As you would recall, the CBN decided in 2006 to sell cash directly to the BDCs as part of the liberalization programme to ensure adequate supply to the sector and hence the convergence of the BDC and interbank rates. At the commencement of the sales to BDCs in Nigeria, and with the weekly sales of less than \$30 million, the BDC rates crashed and converged with the official rate. That was also the period of rising oil prices and huge inflow of foreign exchange into the inter-bank markets. Currently, there are about 1,147 operating BDCs (with a weekly sale of about \$200 million to them by the CBN) and yet the BDC rates continue to diverge away from the official rate.

The committee noted the failure of the BDCs to adhere to the stipulated guidelines for their operations. Specifically:

- I. Failure to comply with the maximum of 2 per cent spread between their buying and selling rates vis-à-vis the CBN rates;
- II. Failure to adhere to the maximum sale of US\$5,000 per transaction;
- III. Failure to issue receipts to their customers for all transactions;
- IV. Non-retention of required returns to the CBN by the majority of the BDCs;
- V. Non-adherence to self regulation as agreed between the Association of Bureaux de change of Nigeria (ABCON) and its members;

It has become obvious that majority of the operators sought and obtained BDC license exclusively to trade in foreign exchange obtained from the CBN instead of being a source of autonomous inflows into the economy. It has become obvious that the operations of a majority of the BDCs are inconsistent with the new foreign exchange management regime (RDAS) which requires forex to be used exclusively for eligible transactions and for timely returns to be the CBN. The BDCs have become a major source of linkage in the system, and may not be in full compliance with the Anti-money laundering law.

Consequently, the CBN has decided to reform the BDC segment of the foreign

exchange market to ensure full compliance with all the extant laws and regulations. In particular, CBN to fund illegal transactions, the CBN now requires banks to send daily returns on the domiciliary accounts and money transfers.

For efficiency and effectiveness of supervision, the BDC market is now segmented into two namely: class "A" BDC, and class "B" BDC.

- a. Class "A" BDCs are allowed to carry out the following transaction:
 - i. Sale or purchase of forex
 - ii. Prepaid cards
 - iii. Traveler's cheques
 - iv. Authority to import foreign exchange {subject to compliance with anti money laundering (AML) requirements}
 - v. Participation in the CBN foreign exchange cash auction) CBN can only sell cash foreign exchange to this category of BDCs). (Soludo 2009).

Requirements

- Minimum paid up capital of N500 million verifiable at all times.
- Mandatory deposit with the CBN of US\$200,000.00 non-interest bearing.
- Non-refundable application fee of N100,000.00
- Licensing fee of N1.0 million
- Annual renewal (subject to satisfactory reporting requirements and performance) fee of N250,000.00

The Effect of Foreign Exchange Market Deregulation on Nigeria Economy

Although most of the expected effects of foreign exchange market deregulation are medium to long term in nature, some of its immediate achievement is identifiable. Prior to the introduction of forex deregulation, high importation brought about by the over-valuation of naira which made importation expensive has also had the desired effect. Nigerians are curbing their madness for imported goods and that has consequently stimulated domestic production. The result has been the overall increase in capacity utilization in the manufacturing sector. The abolition of import licensing

system and the approved user's scheme has ensured that the available foreign exchange is now directed toward the industrial sector where it is most needed.

The establishment of the industrial development co-coordinator committee (IDCC) helps entrepreneur in the process of establishing industries. Also the improved access to foreign exchange by the productive sectors of the economy has continued to facilitate industrial production, with many companies now making profit unlike yester years when the threat of liquidation constantly stared them in the face.

Evident in the country is the awareness of wasteful and frivolous expenditure by individual company and government. A cost conscious culture is emerging with many households spending rationally. And the economic discipline brought by forex deregulation has made Nigerians embrace the maintenance culture at homes, industries and even in government establishment.

As far as the Babangida's administration is concerned, the achievement of forex deregulation programme is that the price of cash crops following the depreciation of the naira exchange rate brought about unprecedented prosperity to the rural areas. Sourcing raw materials locally from agricultural sector has provided more employment opportunities for rural dwellers, thereby reducing and, in some cases, actually reversing the trend in rural-urban migration. The programme has paved market for the farmer to sell their products.

In spite of the above mentioned benefits, FEM deregulation which has been the anchor of federal Government strategy of diversifying and encourages self reliance appears to have failed. However, the realistic exchange rate for which the FEM was completely deregulated is yet to be achieved, while the citizens continue to suffer the agony inflicted by this policy.

Contrast to the policy objective, the deregulation has fuelled the hyper inflationary trend in the economy and led to a harsher economy environment with virtually all industries producing below capacity. The manufacturing sector was besieged with myriads of problems ranging from high interest rate to large scale dumping of low standard goods, resulting in unhealthy competition with domestic product which forced industrial capacity utilization to as low as 35%, this resulted from low ability of some firm to source enough raw material for production as the prices of imported raw materials become prohibitive due to the large scale depreciation of the naira.

There is no doubt that turning round the economy will pose the biggest

challenge to the present administration as the realistic exchange rate is proving difficult to achieve while the citizens are waiting and hoping for a realistic rate which can eventually improve our ailing economy (Okunade, 2008). A lot of foreign exchange users then resorted to patronizing the parallel market in which the rate was usually higher than the FEM rate. In spite of the risk associated with transacting business in the black market, which includes buying fake currency, people still continue to patronize the market since the official market was not able to provide enough foreign exchange to the market. In order to ensure a stability of naira, CBN licensed more Bureau de change in 2006 and empowered them to sell foreign exchange to interested importers. Also, CBN was able to ease out the problem of scarcity of foreign exchange faced by genuine importers by designating CBN branches to sell directly to customers. With this, CBN was able to stabilize naira against other currencies.

Methodology

The study adopted the descriptive survey, using annual reports to collect the required data. Secondary data were used for the study; simple regression analysis is used to determine the effect of foreign exchange market deregulation on Nigeria economy. One research hypothesis was postulated and tested:

Ho: The value of naira to dollar does not contribute to the level of inflation in the economy

Data were analyzed using a simple regression model with formulae:

$$Y_i = \beta_0 + \beta_1 X_i + e_i \quad \text{- simple linear regression model}$$

$$Y = \beta_0 + \beta_1 X \quad \text{- simple linear regression equation}$$

Where:

Y = inflation

β_0 = intercept

β_1 = slope

x = exchange rate of one dollar to naira

$$\beta_0 = y - \beta_1 (x)$$

$$\beta_1 = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2}$$

DATA ANALYSIS AND DISCUSSION

Table 1: Growth, Inflation and Exchange Rates

Year	Growth Rate	%	Inflation	%	Exchange Rates		
					US\$/N	/N	/N
1986	2.5	10.42	5.4	22.5	2.02	2.55	0.0226
1987	-0.6	-2.5	10.2	42.5	4.01	6.59	0.0279
1988	7.4	30.83	38.3	159.58	4.53	8.0	0.0354
1989	7.7	32.1	40.9	170.417	7.39	12.06	0.0537
1990	13.0	54.12	7.5	31.25	8.03	16.24	0.0639
1991	-0.8	-3.33	13.0	54.17	9.90	17.49	0.0716
1992	2.3	9.58	44.5	185.42	17.29	27.86	0.1367
1993	1.3	5.412	57.2	238.3	22.05	33.25	0.1988
1994	0.2	0.833	57.0	237.5	21.88	33.42	0.2088
1995	2.2	9.167	72.8	303.33	21.88	34.52	0.2429
1996	4.4	18.333	29.3	122.08	21.88	34.12	0.1815
1997	2.8	11.67	8.5	35.42	21.88	35.76	0.1679
1998	2.9	12.08	10.0	41.67	21.88	36.21	0.9181
1999	0.4	1.667	6.6	27.5	92.34	156.43	0.9419
2000	5.4	22.5	6.9	28.75	100.80	149.53	0.9036
2001	8.4	35.0	18.9	78.75	111.70	160.82	1.0316
2002	21.3	88.75	12.9	53.75	126.25	198.43	1.2361
2003	10.2	42.5	14.0	58.33	134.03	228.54	1.2510
2004	10.5	43.75	15.0	62.5	132.37	246.73	1.0853
2005	6.5	27.08	17.9	74.58	130.60	222.76	1.0817
2006	6.0	25.0	8.2	34.17	128.27	244.97	1.0603
2007	6.4	26.67	5.5	22.92	120.97	245.19	1.5612
2008	6.4	26.67	11.6	48.33	118.92	190.47	1.6519
2009	5.3	22.08	11.9	49.58	147.60	239.12	1.6812

Source: www.ceb.org/exchangerates, accessed on 01-03-2010.

Frequency Analysis of Growth Rate of Nigerian Economy

The frequency analysis of the secondary data in table 4.1.1 shows that considering the growth at a decrease between 1998 and 1987, at an increase between 1988 and 1990, decrease negatively in 1997 with a percentage of -0.8. The economy maintains a range of low increase to 22.5%, 2001 when it increases to 35%. Nigeria economy has the highest growth rate in 2002 with a percentage increase of 88.75% compared to other years from 1986 to 2009. The economy later stated reducing drastically from 43.75% in 2004 to 27.08% in 2005, 25% in 2006, increased to 26.67% in 2007 and maintained the growth rate in 2008 which later drop to 22.08% in 2009.

Frequency Analysis in Inflation Rate in Nigeria Economy

The frequency analysis of the secondary data obtained in the table above shows the inflation rate that affects the Nigeria economy. The rate of inflation as at 1986 was 22.5% which later increased in 1987 to 42.5% and also to a higher increase of 159.58% in 1988, inflation rate later increased to 170.4% in 1989 and decreased drastically to 31, 25% in 1990. There was persistent increase in the level of inflation of 303.33% in 1995. This affects the growth rate of the Nigeria economy up to 9.167%. the decreased of inflation rate to 122.08% in 1997 to an increase of 18.33% in growth rate. Since 1997 to date, there have been fluctuations in the increase and decrease of inflation rate.

TABLE 2: Descriptive Statistics

	N	MINIMUM	MAXIMUM	MEAN	STANDARD DEVIATION
GROWTH RATE IN %	24	-60	21.30	5.5042	4.96417
INFLATION RATE IN %	24	5.40	72.80	21.8333	19.35819
US DOLLARS TO NAIRA	24	2.02	147.60	63.6967	56.25469
POUND STERLING TO NAIRA	24	2.55	246.73	107.5442	97.70773
JAPANESE YEN TO NAIRA	24	.0226	1.6519	.597471	.5537724

Source: Authors Computation 2012.

Table 4.1.2 above explains the information of the minimum growth rate which was - 60 in 1987 and the maximum which was 21.30 in 2002. The mean that was derived was 5.5042 and the standard deviation is 4.96417. The minimum for inflation rate was 5.40 and the maximum was 72.80 which were in 1985 and 1995 respectively. The mean is 21.8333 and the standard deviation is 19.35819.

In respect to the exchange rate, the minimum for dollar to naira was N2.02 in 1986 and the maximum was N145.60 in 2009. The mean derived for dollar to naira exchange rate is 63.6967 and the standard deviation is 56.25469. The minimum exchange rate for pound to naira stood at N2.55 in 1986 and 1.6519 in 2009. the mean is .597471 and the standard deviation is .5537725.

$Y_i = \beta_0 + \beta_1 X_i + e_i$ - simple linear regression model

$Y_i = \beta_0 + \beta_1 x_i$ - simple linear regression equation

Where Y = inflation rate,

β_0 = Intercept

β_1 = Slope

X = Exchange rate of one dollar to naira

$\beta_0 = Y - \beta_1(x)$

$\beta_1 = \frac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2}$

From the analysis carried out so far, $\beta_0 = 31.148$, $\beta_1 = -0.146$. Therefore, the regression goes thus:

$Y = 31.148 + (-0.146)(x_i)$

$= 31.148 - 0.146x_i$

Interpretation

The mean of Ys is expected to decrease by -0.146 i.e (14.6%) when the value of naira

to dollar is increased by one unit.

Table3:ANOVA

S.V	D.F	SS	MS	F	P-VALUE
R	1	1556.367	1556.367	4.848	0.038
E	22	7062.646	321.029		
T	23	8619.013			

Source: Authors Computation

Coefficient of determination:

$$\begin{aligned}
 R^2 &= \frac{\text{Sum of square regression}}{\text{Sum of square total}} & \frac{SSR}{SST} \\
 &= \frac{SST - SSE}{SST} &= \frac{1 - SSE}{SST} \\
 &= \frac{1556.3}{8613.013} \\
 &= 0.18157 \\
 &= 0.1816
 \end{aligned}$$

This implies that 18.6% total variability in inflation rate is explained by value of naira.

Test of Hypothesis

Hypothesis One

Ho: The value of naira to dollar does not contribute to the level of inflation in the economy.

Regression Analysis was used to test the above hypothesis. Table 3 gave the R square value of 0.181 (18.1%), this implies 18.1% variability in inflation rate is being explained by the US-dollar to naira rate.

Table 3 also gave the analysis of variance (ANOVA) for the test. The calculated F- value is 4.848 with 1, & 22 degrees of freedom, while the table value is 4.30 at 0.05 level of significance. Since the calculated value (4.848) is greater than table value, we reject Null hypothesis and accept the alternative hypothesis, which states that, the value of naira-to-dollar contributes to the level of inflation in the economy.

Summary of findings

This research work focused on "the impact of foreign exchange market deregulation on Nigeria Economy". Foreign exchange is important to any country's economy.

The study investigates the impact of the naira-to-dollar's contribution to the level of inflation in the Nigeria economy. The study carries out different techniques to verify this hypothesis. The result indicated that, indeed R-square value of 0.181 (18.1%); this implies that 18.1% variability in inflation rate is being explained by the US-dollar to Naira exchange rate.

The Analysis of Variance (ANOVA) gave the calculated F-Value as 4.848 with 1 & 22 degree of freedom, while the table value is 4.30 at 0.05 level of significance. The co-efficient model also shows that the actual contribution of naira to-dollar to the inflations was found to be negative (-0.146) which implies that the higher the naira to-dollar rate, the worst the level of inflation in the economy.

The second most important parameter for the foreign exchange market deregulation is to see if the naira to dollar rate increases at a geometric progression. The result shows that the calculated value is 8.24 with 2 degree of freedom while the table value is 5.99 at 0.05 level of significance. Since the calculated value was found to be greater than the table value, the Null hypothesis was rejected and it was concluded that the value of naira to dollar does not increase at a geometric progression.

The descriptive statistics shows the minimum growth rate which is -60 in 1987 and the maximum was 21.30 in 2002. The mean that was derived was 5.5042 and the standard deviation is 4.9647. The minimum for the inflation rate is 5.40 and the maximum is 72.80 which were in 1985 and 1995 respectively. This indicates that the exchange rate for dollar in 1985 was \$2.55 and within the period of ten years, there was a sharp increase and the rate was \$21.88 in the year 1995. It was also observed that in 1999 there was a very sharp increase in the exchange rate of currencies in Nigeria, i.e. the exchange rate of the dollar in 1998 was #36.21 to \$1 and it moved to #156.43 to \$1 in 1999. Since then, the exchange rate of other currencies to the naira has not been reasonable except for some few currencies e.g. Japanese Yen, CFA etc.

The frequency analysis of the inflation has been increasing and decreasing. There was persistent increase in the level of inflation rate from 1992 to 1995 and this shows that Nigeria had the highest inflation rate in 1995 which is 303.33%. This affects the growth rate of the Nigeria economy to be 9.167%.

Since 1997 to date, there have been fluctuations in the increase and decrease of inflation rate.

The frequency analysis of the growth rate shows that the Nigeria economy had the highest growth rate in 2002 with a percentage increase of 88.75% compared to other years from 1986 to 2009. It also maintained a Growth rate of 26.67 in 2007 and 2008 but later reduced to 22.08% in 2009.

Conclusions

Based on the research findings, deregulation of the foreign exchange market has not really been the solution to the problem of foreign exchange market in Nigeria. It is hard hit by Nigeria's economic problems, notably the devaluations of the currency which make the basic imported goods such as food more expensive, cutbacks in services and increase in fees for service.

Arguably, some inherent characteristics of the present system have contributed, in no small measures, to the sharp slide in the value of naira. The consequences of this continuous sharp decline of the value of naira on the economy are becoming alarming on daily basis.

Recommendations

The following policy recommendations are made:

1. Taking into cognizance the implication of fixed exchange rate system and the market determined exchange rate on the economy, a clean-float foreign exchange management should be put in place. It should be an efficient foreign exchange management that will ensure a stable and realistic exchange rate for the naira. A refloat' is a flexible exchange rate which has bands acting as lower and upper ceilings. There could be a centre state which is fixed but the system allows for change depending on prevailing market forces but not above or below the bounds.
2. Government should include in its policy objective the pursuance of weak exchange rate targeting. Fixing exchange rate at all costs should be discouraged. This is because a policy of fixing exchange rate without any regard for inflation can be misguided.
3. A policy of raising interest rates to control inflation without any regard to what is happening to the exchange rate should not be tolerated. Some flexibility of the exchange rate should be welcomed since it enables a country

to cope with macro-economic shocks arising from policy changes. It also helps in preventing "speculative bubbles" in the foreign exchange market, which might otherwise cause destabilizing movements in the exchange rate.

4. Government should eschew unhealthy speculation and adopt positive attitudes that are geared towards ensuring stable naira exchange rate.

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