

A SURVEY OF FOREIGN EXCHANGE RATE DETERMINANTS IN NIGERIA

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Abstract

This study investigates the factors that are assumed to be determinants of foreign exchange rate movement in Nigeria using a 52 years annualized data from 1960-2011. The factors investigated are economic growth as proxied by Gross Domestic Product (GDP), Balance of Payment (BOP), external reserves, Composite Consumer Price Index (Inflation rate), deposit rate and lending rate were adopted as the independent variables while foreign exchange movement is the dependent variable. For this purpose, a model was specified. The model was regressed using the least square method. The data set for the study was extracted mainly from the CBN Annual Reports and Accounts, and Statistical Bulletins. The results of the regression show that there is no statistically significant relationship between the dependent and the independent variables.

Keywords: foreign exchange rate movement, Gross Domestic Product (GDP), Balance of Payment (BOP), external reserves, Composite Consumer Price Index (Inflation rate), deposit rate and lending rate

1. Introduction

Exchange rate is a key variable in the context of general economic policy making as its appreciation or depreciation affects the performance of other macroeconomic variables in any economy. In the light of its importance, every country pays so much attention to the appropriateness of her foreign exchange policy. The determination of appropriate and sustainable exchange rate in Nigeria has not been an easy task. Prior to introduction of SAP in 1986, Nigerian currency was said to be overvalued and that was why it was opened to market forces in 1986 to determine its actual value. Till date after the devaluation that followed the Naira has not found its appropriate value. That is, Nigeria's exchange rate policies have not been appropriate or able to achieve desired objectives. It would be recalled that after experimenting with flexible exchange rate policies since 1986 through Second-tier foreign exchange market (SFEM), Dutch Auction System(DAS), Modified Dutch Auction System(MDAS), Weighted Dutch Auction System(WDAS),etc punctuated by fixed exchange rate(1994-1998), the monetary authorities found it necessary to revert to fixed rate policy in 2008. It soon jettisoned that and opted for currency redenomination that was rejected. The return to DAS, albeit some modifications, and the continuous price inelasticity of demand for foreign exchange seems to confirm the fact that the Nigerian monetary authorities have not got the foreign exchange policies right.

The above scenario gives rise to some questions such as: what are the factors that propel the exchange rate in Nigerian economy? Does Gross Domestic Product (GDP), Balance of Payment (BOP), external reserves, Composite Consumer Price Index (Inflation rate), deposit rate and lending rate drive the exchange rate? Therefore, the main objective of this study is to find out how some macroeconomic variables impact on exchange rate in Nigeria using US dollar as a benchmark currency. In order to achieve the research objectives it was assumed that there is no significant positive relationship between exchange rate and any of Gross Domestic Product (GDP), Balance of Payment (BOP), external reserves, Composite Consumer Price Index (Inflation rate), deposit rate and lending rate. With respect to period, this work focuses on a 52-year period 1960-2011. The choice of the length of time was informed by the fact that Nigeria had her independence in 1960 and started with fixed exchange rate, introduced SAP in 1986 which signalled a departure from a fully regulated economy to a market driven one. With respect to breadth, which refers to the number of variables, the objectives of foreign exchange management are to achieve internal and external balances. Internal balance encompasses sustainable GDP growth consistent with low inflation rate while external balance is achieved when there is a stable and sustainable low foreign exchange rate, increasing consistent flows to external reserves, absence of disquieting and persistent BOP deficit, a high level of foreign exchange reserve consistent with a nation's internal trading needs and potentials, low inflation and interest rates. These variables form the focus of the research. The findings from this research will benefit the policy makers in confirming the appropriateness of these factors in formulating foreign exchange policy for the economy.

2. Literature Review

One can extract the specific variables or factors that determine or influence foreign exchange rate in the past from previous studies carried out by researchers. According to Allsopp and Zurbruegg(2003) and Abdullah (2008) purchasing power parity(PPP) is the oldest popular and important theory of exchange rate determination though its root is from no particular theoretical platform. The idea of PPP is based on the law of one price, which denotes that the prices of every good across countries will be equalised when expressed in terms of a common currency. Obaseki(1997,1998) and Ugbebor and Olubusoye(2002) presented two variants of PPP as absolute form and relative form but most investigation of exchange rate determination across countries whether the absolute or restrictive versions have yielded mix results. As it is, Allsopp and Zurbruegg(2003) say it still serves at least three useful purposes or policy implications viz: it serves (i)as an indicator of impending currency crises or prelude to currency crises, (ii)for the purpose of monetary union or currency pegs and (iii)as a

measure of income inequality. At the empirical level, specific causal variables were investigated using various inputs and models. For instance Dipo and Kolawole(1999) used capital flow model, test foreign direct investment, credit rating, debt servicing ratio, foreign/domestic interest rate differential and real income proxied by real GDP. Komolafe(1996) examined such variables as export(non-oil), ratio of the relative price of export, credit to the non-oil sector of the economy. Agu(2002) focused on the role of exchange rate on BOP position in Nigeria. Others also investigated the role of exchange rate on several other macroeconomic variables and vice versa. These include Nwafor(2006) who investigated the determination of foreign exchange from monetary perspective. Omotor(2008) investigated exchange rate reforms and its inflationary consequences. Odusola and Akinlo(2001) investigated the relationship of output, inflation and exchange rate in developing country, using Nigeria as case study. Gali and Monacelli(2004) investigated monetary policy and exchange rate volatility in small open economies, focussing on Africa, Latin America and Asia. Drine and Rault(2003) suggest that terms of trade, tariff, foreign assets, capital flow, public spending, among others influence exchange rates. Aron et al(1997) focusing on South Africa, Kearns and Munners(2006) on Australia(using event study method), Leitemo et al(2002) on Norway, Zaidi(2006) on Pakistan, Vegrune(2007) on the Franc zone countries, among others who have investigated the determinants of foreign exchange rate report that such variables as BOP, governance, interest rate, interest rate parity, technology, openness and other factors influence exchange rate and sometimes vice versa.

While all of the research works return differing opinions, results and findings about the effects of these variables on exchange rate, there is a consensus that all these factors contribute to the determination of exchange rate though with differing degrees and in different situations. In Nigeria, Mustapha and Fabumi(1990:251-253), Adetifa(2003), Esasobor(2004), Agene(1991) and Levi(1990) who are field operators in foreign exchange identified specific factors that influence exchange rate in the short and long run as (i)interest rate differentials (ii)speculation (iii)central bank intervention (iv)hot money (v)hedging (vi)demand and supply (vii)exchange controls and regulation and (viii)political and general economic climates. As no one policy is best for all nations or for one country at all times, to be on a sustainable path of exchange rate policy, a country needs to identify the macroeconomic variables and policy that fits its economic developmental goals.

What has become clear from the above review is that exchange rate as important as it is in economic development cannot be determined in isolation of other macroeconomic variables. It therefore becomes necessary to review the relationship of some of these macroeconomic variables and the foreign exchange rate.

3. Methodology

The research used ordinary least square regression technique to estimate the parameters and examine the joint effects of these independent variables. In this study, foreign exchange rate is the dependent variable while Gross Domestic Product (GDP), Balance of Payment (BOP), external reserves, Composite Consumer Price Index (Inflation rate), deposit rate and lending rate are the independent variables. Since the rate of change in casual variable(s) is exogenously induced, their impact on the response variables can better be isolated by the rate of change they elicit rather than their absolute values. Moreover, several researches such as Aron et al (1997), Bianco (2006), Gali and Monacelli (2004) used the growth rate or percentage change approach to analyse the impact of policy variable like foreign exchange rate, interest rate, etc on macroeconomic response variables. The growth rates were determined by dividing the year on year in the absolute values of each item by the beginning year value multiply by 100, in line with Aron et al (1997) and Bianco (2008). Walsh and Sodhestorom cited in Leitemo and Torvik (2005) opine that targeting change in output (GDP) rather than nominal values is superior especially when considering the inertia in monetary policy of which foreign exchange management is an integral part.

Inflation targeting is one major objective of foreign exchange management hence studies focusing on the impact of it on domestic price stability (inflation) abound as in the works of Nashashibi and Bazzoni (1994), Patel and Srivestava (1997), Valesco (2000), Rajan (2004) and Zaidi (2006) who used annualized inflation rates. The regression coefficient can be more easily recognized as response effects if the effect elicited by a policy action can be compared with the percentage change in the causal variable that caused the change.

To determine the extent to which GDP, BOP, External Reserves, Inflation and interest rates impact on exchange rate, a multiple regression analysis was conducted. The model is,

$$FXGR = \beta_0 + \beta_1 GDPGR + \beta_2 BOPGR + \beta_3 ERGR + \beta_4 IGR + \beta_5 DRGR + \beta_6 LRGR + e$$

FXGR = foreign exchange rate growth rate, β_0 = a constant, while $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6 + e$ are the respective coefficients or slope of the independent variables, GDPGR = Gross Domestic Product growth rate, BOPGR= Balance of Payment growth rate, ERGR = External Reserves growth rate, IGR = Inflation rate growth rate, DRGR = Deposit rate growth rate, LRGR = Lending rate growth rate, and e is the error term of the regression.

4. Results and Discussions

4.1 Data Presentation

Table 4.1: Absolute Values of the Variables

s/n	Year	Exchange rate	GDP	BOP	External Reserves	Inflation	3month	Maximum
		N:USD	N'm	N'm	USD'm	%	Deposit	Lending
							Rate%	Rate %
1	1960	0.7143	2233.0	9.2	217.32	6.9	4.0	8.0
2	1961	0.7143	2361.2	4.8	212.05	6.9	3.0	8.0
3	1962	0.7143	2597.6	-3.0	214.51	6.9	3.0	8.0
4	1963	0.7143	2755.8	-1.0	180.12	6.9	3.5	8.0
5	1964	0.7143	2894.4	-20.6	216.48	6.9	3.5	8.0
6	1965	0.7143	3110.0	-4.2	230.77	6.9	3.5	8.0
7	1966	0.7143	3374.8	-4.6	199.07	6.9	3.5	8.0
8	1967	0.7143	2752.6	46.0	100.46	6.9	3.0	8.0
9	1968	0.7143	2656.2	31.0	95.51	6.9	3.0	8.0
10	1969	0.7143	3549.3	47.8	123.12	6.9	3.0	8.0
11	1970	0.7143	5281.1	46.6	156.58	13.8	3.0	8.0
12	1971	0.6955	6650.9	117.4	281.38	16.0	3.0	10.0
13	1972	0.6579	7187.5	53.5	243.58	3.2	3.0	10.0
14	1973	0.6579	8630.5	197.5	377.98	5.4	3.0	10.0
15	1974	0.6299	18823.1	3102.2	3,452.30	13.4	3.0	10.0
16	1975	0.6159	21475.2	157.5	3,583.70	33.9	3.0	9.0
17	1976	0.6265	26655.8	-339.0	3,286.30	21.2	3.0	10.0
18	1977	0.6466	31520.3	-527.2	2,814.50	15.4	3.5	6.0
19	1978	0.6060	34540.1	-1293.6	1,298.90	16.6	4.75	11.0
20	1979	0.5957	41974.7	1868.9	3,059.80	11.8	4.75	11.0
21	1980	0.5464	49632.3	2402.2	5,462.00	9.9	5.75	9.5
22	1981	0.6100	47619.7	-3020.8	2,441.60	20.9	5.50	10.0
23	1982	0.6729	49069.3	-1398.3	1,043.30	7.7	7.25	11.75
24	1983	0.7241	53107.4	-301.3	224.40	23.2	7.25	11.50
25	1984	0.7649	59622.5	354.9	710.10	39.6	9.75	13.0
26	1985	0.8938	67908.6	-349.1	1,657.90	5.5	9.25	11.75
27	1986	2.0206	69147.0	-4099.1	2,836.60	5.4	9.25	12.0
28	1987	4.0179	105222.8	-17964.8	7,504.59	10.2	14.90	19.20
29	1988	4.5367	139085.3	-20795.0	5,229.10	38.3	13.40	17.60
30	1989	7.3916	216797.5	-22993.5	3,047.62	40.9	18.90	24.60
31	1990	8.0378	267550.0	-75764.2	4,541.45	7.50	19.60	27.70
32	1991	9.9095	312139.7	-104201.1	4,149.30	13.0	15.71	20.80
33	1992	17.2984	532613.8	-201531.4	1,554.61	44.5	20.80	31.20
34	1993	22.0511	683869.8	-179646.3	1,429.59	57.2	23.60	18.32
35	1994	21.8861	899863.2	-42623.3	9,009.11	57.0	15.0	21.0
36	1995	21.8861	1933211.6	-195216.3	1,611.11	72.8	13.62	20.79
37	1996	21.8861	2702719.1	-53152.0	3,403.91	29.3	12.94	20.86
38	1997	21.8861	2801972.6	1076.2	7,222.22	8.5	7.04	23.32
39	1998	21.8861	2708430.9	-220671.3	7,107.50	10.0	10.20	21.34
40	1999	92.6834	3194015.0	-326634.3	5,424.60	6.6	12.68	27.19
41	2000	102.1052	4582127.3	314139.2	9,386.10	6.9	10.60	21.55
42	2001	111.9433	4725086.0	24729.9	10,267.10	18.9	10.20	21.34
43	2002	120.9702	6912381.3	-563483.9	7,681.10	12.9	16.31	30.19
44	2003	129.3565	8487031.6	-162298.2	7,467.78	14.0	14.31	22.88
45	2004	133.5004	11411066.9	1124157.2	16,955.02	15.0	13.69	20.82
46	2005	132.1470	14572239.1	-147537.1	28,279.06	17.9	10.53	19.49

47	2006	128.6516	18564594.7	-2406340.0	42,298.11	8.2	9.75	18.70
48	2007	125.8331	20657317.7	-1,811,849.38	51,333.15	5.4	10.29	18.36
49	2008	118.5669	24296329.3	-2,458,305.37	53,000.36	11.6	11.95	18.70
50	2009	148.9017	24794238.7	-3,920,547.14	42,382.49	12.5	13.30	22.90
51	2010	150.2980	33984754.1	-2,298,564.44	32,339.25	13.7	6.52	22.51
52	2011	153.8600	37543654.7	-505,385.29	32,339.25	10.8	5.71	22.39

Source: CBN statistical Bulletins 2002- 2010(various issues) and CBN Annual Reports and Accounts 2011 Table 57

The Autonomous Foreign Exchange(AFEM) commenced in 1995 and the initial buying and selling rates were N81.1800/US\$1.00 and N182.0000/US\$1.00 respectively. The Dutch Auction System(DAS) was re-introduced on July 22, 2002 while the Wholesale Dutch Auction System(WDAS) commenced on February 20, 2006. GDP@current basic prices(N'millions) were stated in the table above. The BOP figures were arrived at by adding figures from Current Account, Capital Account, Net Errors and Omissions, and Exceptional Financing. The minus(-) sign in BOP indicates addition/increase in reserves while plus(+) sign indicates subtraction/decrease in reserves.

Although the foreign exchange management for the period did not result in Naira appreciation or exchange rate stability, the substitution effect of local goods for imported goods due to high exchange rate improved the BOP. On a year on year 12 months Moving Average the inflation rate in Nigeria reached its maximum in the period 1994 to 1997 when the exchange rate was fixed at N21.8861 to a US dollar. This observation buttressed the empirical and theoretical opinions that fixed exchange rate expands foreign goods consumption, which gives impetus to imported inflation. However, the flows to external reserves may not be exchange rate-induced but Ajayi (2006) and Ayanwale (2007) acknowledged that Nigeria has received the highest FDI inflows in Sub-Saharan Africa in the last 20 years.

Under the floating exchange rate period, inflation targeting was successful but the objective of a single digit inflation rate was not achieved, though except in years 1986, 1990, 1998-2000, and 2006-2007. This confirms that inflation targeting under the fixed exchange rate regime is almost as difficult as under the floating exchange rate regime, as noted by Valesco (2000), Vegrune (2007), Edward (1989), Bird (1998) among others. The changing positive and negative growths that seem to nil out each other almost as quickly as they occur in external reserves, as well as the highs and lows of it make it difficult to discern a pattern that can be associated with foreign exchange growth. It appears that such other factors like political and social stability, speculation and hot money phenomenon were at play as also identified by Ajayi (2006) and Ayanwale (2007). The effects of experimental political transition, which engendered expectations of democracy and slight improvement in Foreign exchange rate, may be responsible for the fair growth in external reserves. The decrease in external reserves in 1992/1993 may be due to the political impasse resulting from the annulment of the June 12, 1993 elections. It is true Nigeria return to civil democracy in 1999 but electoral disputes and controversies that trailed the polity can be the cause of the decline in external reserves flow in 1999.

Table 4.2: Growth Rates of the Variables(%)

s/n	Year	FXGR	GDPGR	BOPGR	ERGR	IGR	DRGR	LRGR
1	1960							
2	1961	0.00	5.74	-47.83	-2.42	0.00	-25.00	0.00
3	1962	0.00	10.01	-162.50	1.16	0.00	0.00	0.00
4	1963	0.00	6.09	-66.67	-16.03	0.00	16.67	0.00
5	1964	0.00	5.03	1960.00	20.19	0.00	0.00	0.00
6	1965	0.00	7.45	-79.61	6.60	0.00	0.00	0.00
7	1966	0.00	8.51	9.52	-13.74	0.00	0.00	0.00
8	1967	0.00	-18.44	-1100.00	-49.54	0.00	-14.29	0.00
9	1968	0.00	-3.50	-32.61	-4.93	0.00	0.00	0.00
10	1969	0.00	33.62	54.19	28.91	0.00	0.00	0.00
11	1970	0.00	48.79	-2.51	27.18	100.00	0.00	0.00
12	1971	-2.63	25.94	151.93	79.70	15.94	0.00	25.00
13	1972	-5.41	8.07	-54.43	-13.43	-80.00	0.00	0.00
14	1973	0.00	20.08	269.16	55.18	68.75	0.00	0.00
15	1974	-4.26	118.10	1470.73	813.36	148.15	0.00	0.00
16	1975	-2.22	14.09	-94.92	3.81	152.99	0.00	-10.00
17	1976	1.72	24.12	-315.24	-8.30	-37.46	0.00	11.11
18	1977	3.21	18.25	55.52	-14.36	-27.36	16.67	-40.00
19	1978	-6.28	9.58	145.37	-53.85	7.79	35.71	83.33

20	1979	-1.70	21.52	-244.47	135.57	-28.92	0.00	0.00
21	1980	-8.28	18.24	28.54	78.51	-16.10	21.05	-13.64
22	1981	11.64	-4.06	-225.75	-55.30	111.11	-4.35	5.26
23	1982	10.31	3.04	-53.71	-57.27	-63.16	31.82	17.50
24	1983	7.61	8.23	-78.45	-78.49	201.30	0.00	-2.13
25	1984	5.63	12.27	-217.79	216.44	70.69	34.48	13.04
26	1985	16.85	13.90	-198.37	133.47	-86.11	-5.13	-9.62
27	1986	126.07	1.82	1074.19	71.10	-1.82	0.00	2.13
28	1987	98.85	52.17	338.26	164.56	88.89	61.08	60.00
29	1988	12.91	32.18	15.75	-30.32	275.49	-10.07	-8.33
30	1989	62.93	55.87	10.57	-41.72	6.79	41.04	39.77
31	1990	8.74	23.41	229.50	49.02	-81.66	3.70	12.60
32	1991	23.29	16.67	37.53	-8.63	73.33	-19.85	-24.91
33	1992	74.56	70.63	93.41	-62.53	242.31	32.40	50.00
34	1993	27.47	28.40	-10.86	-8.04	28.54	13.46	-41.28
35	1994	-0.75	31.58	-76.27	530.19	-0.35	-36.44	14.63
36	1995	0.00	114.83	358.00	-82.12	27.72	-9.20	-1.00
37	1996	0.00	39.80	-72.77	111.28	-59.75	-4.99	0.34
38	1997	0.00	3.67	-102.02	112.17	-70.99	-45.60	11.79
39	1998	0.00	-3.34	-20604.67	-1.59	17.65	44.89	-8.49
40	1999	323.48	17.93	48.02	-23.68	-34.00	24.31	27.41
41	2000	10.17	43.46	-196.17	73.03	4.55	-16.40	-20.74
42	2001	9.64	3.12	-92.13	9.39	173.91	-3.77	-0.97
43	2002	8.06	46.29	-2378.55	-25.19	-31.75	59.90	41.47
44	2003	6.93	22.78	-71.20	-2.78	8.53	-12.26	-24.21
45	2004	3.20	34.45	-792.65	127.04	7.14	-4.33	-9.00
46	2005	-1.01	27.70	-113.12	66.79	19.33	-23.08	-6.39
47	2006	-2.65	27.40	1531.01	49.57	-54.19	-7.41	-4.05
48	2007	-2.19	11.27	-24.71	21.36	-34.15	5.54	-1.82
49	2008	-5.77	15.42	35.68	3.25	114.81	16.13	1.85
50	2009	25.58	20.03	59.48	-20.03	7.76	11.30	22.46
51	2010	0.94	37.07	-41.37	-23.70	9.60	-50.98	-1.70
52	2011	2.37	10.47	-78.01	0.00	-21.17	-12.42	-0.53

Source: Derived from Table 4.1 above

Between 2000 and 2011, foreign exchange rate policy was consistent and the effect was a steady and continuous improvement in the Naira exchange rate to a US dollar. Following the near stability situation of the Naira exchange rate to a US dollar, a relatively stable and more consistent growth rate was observed in GDP. The BOP was worsening throughout the period and this may be attributable to the inelasticity in foreign goods consumption, which expended export revenue on imports.

Regression results

The result obtained upon running the regression is presented below

$$FXGR = 14.754 + 0.022GDPGR + 0.002BOPGR - 0.022ERGR - 0.011IGR + 0.505DRGR + 0.392LRGR$$

$$SE = (9.989), (0.331), (0.003), (0.055), (0.092), (0.397), (0.388)$$

$$t = 1.477 \quad 0.068 \quad 0.790 \quad -0.404 \quad -0.118 \quad 1.272 \quad 1.012$$

$$R = 0.355 \quad R^2 = 0.126 \quad Adjusted R^2 = 0.007 \quad F = 1.061 \quad DW = 1.675$$

In the result above 14.754 gives the estimate of the parameter β_0 . This figure represents the autonomous foreign exchange rate, that is, the value of the foreign exchange rate when all the independent variables are zero. The β_0 accounts for the portion of the foreign exchange rate that is not affected by changes in the independent variables. The coefficients $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ which give the slope are 0.022, 0.002, -0.022, -0.011, 0.505, 0.392 respectively. This means that if GDP, BOP, External Reserves, Inflation rate, deposit rate and lending rate go up by one unit (a percentage point), ceteris paribus, Naira exchange rate to a US\$ will increase by 0.022, 0.002, -0.022, -0.011, 0.505, 0.392 percentage points as a result of the effects of the growth rate in GDP, BOP, External Reserves, Inflation, deposit rate and lending rate respectively. The R^2 is the

coefficient of determination which measures the percentage of variation in the dependent variable that can be explained by the regression model. The adjusted R^2 is also a coefficient of determination but it is a better value as it accounts for the degree of freedom and as such, will be adopted for the purpose of interpretation. The R^2 value of 0.126, shows that there is a 12.6% degree of relationship between Naira exchange rate to a US\$ and the independent variables. Even though relationship of 12.6% is positive, it is not significant enough. The adjusted R^2 even shows it better with the positive but very low percentage of 0.7%. This means that a variation or change in the independent variables would lead to a positive change in the dependent variable to the tune of 0.7%. It could be implied as well not to have a relationship since it is very low and so close to zero. The Durbin-Watson statistic of 1.675, which is a test for serial or autocorrelation shows that there is no spurious correlation as the value exceeds that of R^2 .

The observed F-statistic of 1.061 which is less than the tabular F-statistic at 5% level of significance shows that there is no significant relationship between the Naira exchange rate to a US\$ and the changes in the Nigerian GDP, BOP, External Reserves, Inflation, deposit rate and lending rate respectively. Even with t-statistic all the independent variable coefficients are not statistically significant hence any relationship whatsoever between the dependent and independent variables may be by chance.

5. Conclusions and Recommendations

A sample of 52 years (1960-2011) macroeconomic data was taken to ascertain the relationship between Naira exchange rate to one unit of United States of America Dollar and the changes in Nigerian Gross Domestic Product at current basic prices, Balance of Payment, External reserves, Inflation rate, Deposit rate, and Lending rate. For this purpose, a model was specified. The model was regressed using the least square method. The data set for the study extracted mainly from the CBN Annual Reports and Accounts, and Statistical Bulletins for the years 1960-2011 are represented in Table 1. The Naira exchange rate to one unit of United States of America Dollar was used as the dependent variable while the changes in Nigerian Gross Domestic Product at current basic prices, Balance of Payment, External reserves, Inflation rate, Deposit rate, and Lending rate were used as independent variables. The results of the regression show that there is no statistically significant relationship between the dependent and the independent variables.

The question now is that if Nigerian exchange rate to one US\$ cannot be determined based on these macroeconomic variables then what drives the Exchange rate movement in Nigeria? The answer is not far-fetched. It is possible that foreign currency speculators are responsible for benchmarking the Naira against the US\$. Based on this suspicion the Nigerian Government should try and set in motion a platform for gauging the power of her domestic currency against the US\$. One of these options is to increase the deposit interest rate to encourage the citizens to keep their money in Nigeria through investments instead of spending such amount abroad. With this, enough savings can be mobilized for onward lending to the deficit productive units through the intermediary roles of Nigerian bank. This will in turn produce enough exportable products, which can generate some foreign currency that will beef up the supply side of foreign exchange market. Nigerian Politicians make matters worse in foreign exchange management because they store their money in foreign currency especially in US\$ even when they do not need such foreign currency. Majority of them take their looted funds abroad to avoid being detected by the long arm of the law. It may look absurd but my recommendation on politicians' attitude is that they should be monitored on how they spend their incomes including allowances. Exporters should be encouraged to declare promptly and properly their export proceeds in order to improve the supply side of foreign exchange market. With the influence of the market forces, as supply exceeds demand, the exchange rate would stabilise to a reasonable level. Finally, foreign exchange movement should be linked to these tested macroeconomic variables for ease of its determination and management.

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