FOREIGN EXCHANGE MANAGEMENT AND THE NIGERIAN ECONOMIC GROWTH (1960 – 2012)

Fapetu, Oladapo (Ph.D)
Department of Banking and Finance, Faculty of Management Sciences
Ekiti State University, Ado-Ekiti, Nigeria**.**

J. A. Oloyede (Ph.D)
Professor & Director, Centre for Entrepreneurial Studies
Ekiti State University, Ado-Ekiti, Nigeria

ABSTRACT: *The study examined foreign exchange management and the Nigeria economic growth from 1970 to 2012. The scope of the study is limited to Nigeria. The empirical model for the study was based on the conclusion of our theoretical framework. The data used for this study were majorly sourced from the Central Bank of Nigeria Bulletin (2011). The ordinary least square estimation techniques within the error correction model (ECM) framework are employed in the study. The choice of the ECM is to enable it account for the explanatory potent of the regressions in both the short run and long run as well as ascertaining the dynamics of attaining long run equilibrium, an issue which is the key to studies related to macroeconomics variables one of which is the exchange rate. The Johansen-Joselius Co- Integration test is employed in this study, to test for the presence of a long run relationship between the dependent variable (exchange rate) and the independent variables. The result of the co-integration as revealed show that trace statistics and maximum eigen values are greater than the critical values at 5% level of significance. It shows that there is a unique long run relationship among Y, EXCR, EXPT,IMP, INF and FDI. The result further shows that the explanatory variables explain and account for about 99% of variation in economics growth peroxide by GDP, which is an evidence of a good fit of the model. The f-statistics shows that the explanatory variables are jointly significant in explaining economic growth (dependent variable). The result above shows export and foreign direct investment are statistically significant in determining economic growth which considered at 5% and 10% respectively. However, exchange rate import and inflation are found to be statistically non – significant. It is against this back drop of the above findings, that it is recommended that effort be made to increase the consumption of made in Nigeria goods, which includes the usage of raw material that can be sourced locally by Nigerian industries in order to increase foreign exchange earnings. The implication of this is that local industries should be encouraged to look inward for their raw material. Having uncovered from the study that the nexus between economic growth and foreign exchange management being a short run relationship, it is necessary that the foreign exchange management policy initiatives be made to satisfy the shorts–run behavioral expectations of the variables used in uncovering this fact.*

KEYWORDS*: Foreign Exchange, Nigeria, Economic Growth*

INTRODUCTION

The issue of exchange rate and the achievement of a realistic exchange rate for the naira have continued to generate a great challenge to macroeconomic policy formulators, owing to its unarguable significance in bringing about economic growth. This therefore explains in part why it is necessary to for any growth-conscious country to manage its foreign exchange. Exchange rate, is the rate at which a currency purchases another (Jhingan, 2003), it is a reflection of the strength of a currency when measured against another country's currency. According to Oloyede (2002), it is the price of one currency in terms of another, which is an important decision making variable in every nation, thus making it a crucial issue for any country desirous of economic growth as pointed out by Ahmed and Zarma (1997).

Foreign exchange management is described as a technique that involves the generation and disbursement of foreign exchange resources so as to reduce destabilizing short-term capital flows. Consequently, in order to ensure that foreign change allocation and utilization are in consonance with economic priorities and the foreign exchange budget, the CBN monitors the use of scarce foreign exchange resources.

For most developing countries that need to import raw materials and spare parts for the purpose of economic development, foreign exchange reserves, for build-up is required to ensure that panic measures are not resorted to when foreign exchange receipts are dwindling. When there is disequilibrium in the foreign exchange market caused by inadequate supply of foreign exchange reserve, pressure may be exerted on foreign exchange reserves. If the reserves are not adequate, this may deteriorate into balance of payments problems. There is therefore, the need to manage a nation's foreign exchange resources so as to reduce the adverse effects of foreign exchange volatility (Obaseki, 1991).

In managing the nation's foreign exchange, the country has transited from one regime to another. Between 1960 and 1986, the fixed exchange rate system was operated. The inability of the system to achieve the major objectives of exchange rate policy led to the reversal of the policy in September 1986 with the floatation of the Naira. The flexible exchange rate system was introduced between 1986-1993, a temporary halt to deregulation in 1994 when the official exchange rate was pegged and the reversal of policy in 1995 with the "guided deregulation" of the Foreign exchange Market, through exchange rate liberalization and the institution of a dual exchange rate mechanism.

The policy thrust of 1995 was retained in 1996 while the dual exchange rate system crisis was retained in 1997 and 1998. However, all official transactions, except those approved by the Head of State were undertaken in the Autonomous Foreign Exchange Market (AFEM). Thus, transactions at the pegged official exchange rate were relatively slimmer. Owing to market imperfections and to sustained instability in the exchange rate of the Naira, the AFEM was replaced with an Inter-bank Foreign Exchange Market (IFEM) in October 1999 after an initial period of co-existence.

In the IFEM, a two way quote system is expected to prevail while the market as conducted daily in dispensation, oil companies were allowed to keep their foreign Exchange in banks of

their choice against the CBN. The CBN has continued to fine tune the IFEM to make it more effective and efficient. Early in 2002, Thomas look was granted permission to transact foreign exchange business on travellers cheques in Nigeria. This is intended to deepen the foreign exchange market and reduce the undesirable impact of the parallel market.

The need for foreign exchange arises only within the framework of countries engaged in international trade, in contrast to a closed economy, whose scope does not transcend its intra-country trade transactions. This therefore makes this economic issue pertinent in a bid to ensuring a guaranteed growth for the country, owing to the fact that majority of the country's raw materials for manufacturing purpose are imported coupled with the fact that Nigeria is one of the major exporters of crude oil and its produce.

The objective of this paper therefore is to explore the trend of foreign exchange management practices in the country overtime and to also empirically justify how and the channel through which the foreign exchange management practices over time have impacted economic growth if at all it did.

LITERATURE REVIEW

Conceptual framework
Conceptually, an exchange rate implies the price of one currency in terms of another; in the Nigerian context, it is the units of naira needed to purchase one unit of another country's currency e.g the United States dollar (Campbell, 2010). The management of any country's foreign exchange market is carried out within the ambit of a foreign exchange policy, which according to Obaseki (2001) is the sum total of the institutional framework and measures put in place to gravitate the exchange rate towards desired levels in order to stimulate the productive sectors, curtail inflation, ensure internal balance, improve the level of exports and attract direct foreign investment and other capital inflows. Exchange rate policy also determines the mechanism for channelling foreign exchange to end-users and therefore, reflects the institutional framework, system of exchange rate determination and allocation of foreign exchange as well as the policy options for managing the exchange rate.

Foreign Exchange Rate Management in Nigeria
Exchange rate management policy in Nigeria has passed through four major stages, which are; fixed parity solely with the British pound sterling and the US dollar (1959-1985), adoption of the second-tier foreign exchange market (SFEM) 1986-1994, introduction of the autonomous foreign exchange market (AFEM) 1995-1999, introduction of the inter-bank foreign exchange market (IFEM) 2000-2010. The first Ease of the Nigerian exchange rate policy began in 1959 with the establishment of the Central Bank of Nigeria (CBN). The CBN was specifically set up to manage the country's currency with the objective of attaining a sound and stable national currency. The pegged exchange rate system was the first exchange rate regime adopted in Nigeria. The Nigerian pound was fixed by the 195 a Central bank Ordinance at par with the pound sterling (Obaseki, 1991) and the CBN was responsible for buying and selling foreign currency in Nigeria. In 1962, the Exchange Control Act was enacted by the CBN; it vested the Minister of Finance with the authority to grant approvals

for foreign exchange transactions, while the CBN handled private sector transactions through authorized dealers, i.e., commercial banks.

There was a major change (the first) in 1962 that unpegged the Nigerian pound from the pound sterling. The change, through the 1962 Act, defined the Nigerian pound in terms of gold, which meant that Nigeria could at any time decide on whatever adjustments needed to be made in the official rate between her currency and other currencies including the pound sterling. This, of course, was supposed to send strong signals to the international community that Nigeria, as an independent nation, was free to make decisions on her own. The wisdom of the action was later justified when in 1967 the pound sterling was devalued without any effects on the Nigerian pound.

The second major change occurred in 1973 when the Nigerian currency was 'decimalized and changed from the pound to the naira. This time, seemingly forgetting fee wisdom of autonomy, it was fixed to the US dollar. When the dollar was devalued m 1973, the value of the naira depreciated. The depreciation persisted due to the persistence in the depreciation of the dollar. Consequently, at the end of 1973, the Nigeria government decided to discontinue any direct relationship between the naira either the pound sterling or the US dollar. This led in 1974/75 to the policy of progressive appreciation of the naira. This policy -was greatly enhanced by the oil boom. The naira was pegged to a basket of the currencies of seven of Nigeria's major trading partners - United Kingdom, United States, Germany, France, Japan, Switzerland and The Netherlands, Exchange rate stability was the main objective of the reform. It was believed the naira would thereafter be stable since a loss in value due to the devaluation of one currency in the basket would be compensated by the appreciation of another currency in the basket. The arrangement was therefore a mechanism for dampening the effects of external exchange rate changes on domestic prices and the balance of payments. It is important to know that from about 1973 to late 1977, Nigeria accumulated sizable foreign reserves arising from the oil boom, which made it possible for the fixed exchange rate policy to be managed through reserve movements. Official reserve depletion helped to meet private excess demand; however, there was a reluctance to devalue when the reserve alter became too low to support the fixed exchange rate. To curb the situation, foreign exchange from the central bank was strictly rationed and controlled through an import licensing system- The problem was that when the level of reserves increased, the naira appreciated, but it was 'never allowed to depreciate when the reserve level fell. This gave an impression that a continuous drain on the official reserves could sustain the fixed exchange rate regime. Subsequently, strict exchange control measures were adopted. These included: the reduction of consultancy and technical fees remit table to foreign consulting companies from 60% to 50%; reduction of business trips from 15 to 14 days maximum per trip; reduction of basic travel allowances to pilgrims and other travellers and so on.

These were supplemented by the establishment of the Exchange Control (anti-sabotage) decree of 1977, which set up tribunals to try foreign exchange offenders, and the Comprehensive Import Supervision Scheme (CISS) in 1979 to ensure a pre-3ment check of prices, volume and quality of imported goods worth over $33,000. the scheme was also expected to check other foreign exchange malpractices, such as over and under-invoicing of imports, importation of obsolete at and machinery at the prices of new ones, importation of

out-dated and rotten food items and expired drugs, falsification of documents, foreign exchange claims for ids not imported or services not rendered, and overpricing of federal government projects with a view to keeping the gains abroad in foreign exchange.

From 1980 to 1981, the degree of exchange control was reduced, largely due to improvement in the balance of payments brought about by positive developments in the international oil market. This policy reversal was also due to the difficulty associated with tight exchange control regulations. The relatively more liberal system of exchange controls in the early 1980s was mainly aimed at curbing rampant abuse and malpractices in foreign exchange transactions, such as Over-invoicing of import bills, smuggling of currencies and goods across the borders, and false documentation import bills.The period between 1982 and 1986 marked the last phase of the policy of exchange controls in Nigeria between 1959 and 1993. The stringent exchange control measures as in earlier periods were preceded by severe balance of payments pressures. Foreign exchange receipts on both oil and non-oil exports were consistently less than s disbursements for imports. For example, between 1981 and 1984, the total exports receipts were less than the total imports. This led to a slide in external reserves and subsequently to the accumulation of external debts due to the inevitable reliance on short-term external loans in financing trade deficits.

Table 1: Scheme of Events in Exchange Rate Management in Nigeria

s/n	Year	Event	Remark
1	1959 – 1967	Fixed Parity Solely with the British Pound Sterling	Suspended in 1972
2	1968 – 1972	Included the US dollar in the parity exchange	Aftermath of the 1967 devaluation of the pound and the emergence of a strong dollar.
3	1973	Revert to fixed parity with the British Pounds	Devaluation of the US dollar
4	1974	Parity to both pounds and dollars	To minimize the effect of devaluation of the individual currency
5	1978	Trade (import) – Weighted basket of currency approach.	Tied to seven currencies; British Pounds, US Dollars, German Mark, French Franc, Japanese Yen, Dutch Guilder, Swiss Franc.
6	1985	Reference on the dollar	To prevent arbitrage prevalent in the basket of currencies
7	1986	Adoption of the second tier foreign exchange market	Deregulation of the economy
8	1987	Merger of the first and second tier markets	Merger of rates
9	1988	Introduction of the interbank foreign exchange market	Merger between the autonomous and the FEM rates
10	1994	Fixed Exchange rate	Regulate the economy
11	1995	Introduction of the Autonomous Foreign Exchange Market (AFEM)	Guided Deregulation.
12	1999	Re-introduction of the inter-bank foreign exchange market (IFEM).	Merger of dual exchange rate, following the abolition of the official exchange rate from January 1st.
13	2002	Re-introduction of the Dutch Auction System (DAS).	Retail DAS was implemented at first instance with CBN selling to end-users through the authorized users (banks)
14	2006 - 2010	Introduction of Wholesale DAS	Further liberalized the market

Source: Central Bank of Nigeria Bullion (2006)

Empirical Framework

The desire to understand the systematic relationship between exchange rate and growth had resulted in acute volume of empirical studies which had taken different dimensions of policy relevance in the literature. Some studies focus on the impact of exchange rate on growth in which case (Bailliu, Lafrance and Perrault, 2002); observed that exchange rate regimes whether they are pegged, intermediate, or flexible, exert a positive influence on economic growth; but (Kyereme, 2004) found a significant long-run relationship between real output growth and the exchange rate regardless of the kind of regime is made of. Rano-Aliyu (2009), in a study carried out in Nigeria, found that the appreciation of exchange rate exert positive impact on real economic growth in Nigeria. Although, the appreciation of the exchange rate will result in loss of competitiveness, but since the economy fundamentally does not have the potential to appropriate gains through competitiveness it is therefore more rewarding when tile currency appreciate than when it depreciate. Because appreciation will dampen inflation, boost domestic investment and savings and enhance the standard of living.

Furthermore, Odusola and Akinlo (2001), found a mixed result on the impacts of the exchange rate depreciation on the output in Nigeria. In the medium and long term exchange rate depreciation exerted an expansionary impact on output but in the short run exchange rate depreciation does not expand output. This result partially corroborates what Rano-Aliyu found using Vector Error Correction Model (VECM) technique while Odusola and Akinio used VAR and VECM. So, the difference in their results can be attributed to the difference in their methodologies.

Harris (2002) using the Generalised Least Square technique found that real exchange rate, when well managed affect productivity growth in both the short and long run, the result is consistent with the competitiveness hypothesis, which suggests that exchange rate depreciates boost productivity growth in the short run.Aghin et al (2006) in his study also found that the effect of exchange rate volatility, which is the consequence of how well the economy is managed on real activity is relatively small and insignificant. This is in consonance with the findings of Dubas and Lee (2005), who both found a robust relationship between exchange rate stability and growth. Furthermore, the result suggest that membership of the (South) Eastern and Central European countries in the European Monetary Union would have a positive impact on these countries' growth rates.In the case of Nigeria, Unugbro (2007) observed that exchange rate appreciation stimulates foreign direct investment while Salami (2006) found that exchange rate is the most important variable that affects private foreign investment in Nigeria of all the other macroeconomic variables.

Theoretical framework

The theoretical framework of this study is based on the framework of the simple A-K growth model (Rebelo, 1990). In the model, growth is endogenous, that is either growth process is determined by the actions of the economic agents described in the model. This feature of the model gives it a edge over the Solow's growth model.

The model's production function can be given as:

$$Y_t = A_t K_t^{\alpha} L_t^{1-\alpha} \quad \text{... (1)}$$

Y_t = Output Level

A_t = Constant representing efficiency parameter

L_t = Labour

K_t = Capital

α and 1-α are elasticity of outputs in respect to inputs.

Basically, exchange rate takes the form of affecting the quantity and quality of K capital in the model, which is measured and captured by the constant factor A_t

METHODOLOGY

Empirical Model

The empirical model of this study shall be based on the conclusion of our theoretical framework, in an effort to establish a link between exchange rate management and growth. Special reference is made to the work done by Sarkar and Amor (2009), which is modified for the purpose of the study;

$$LnY_t = f(EXCR_t, EXPT_t, INF_t, IMP_t, FDI_t)$$

This is further stated in econometric form below:

$$LnY_t = \beta_0 + \beta_1 LnEXCR + \beta_2 LnEXPT + \beta_3 LnINF + \beta_4 LnIMP + \beta_5 LnFDI + \mu$$

With:

Y = Economic Growth

EXCR = Exchange rate

EXPT = Volume of Export

INF = Inflation

IMP = Volume of Import

FDI = Foreign Direct Investment

Method of Analysis and Sources of Data.

The data used for this study were majorly sourced from the Central Bank of Nigeria Bulletin (2011). The Ordinary Least Square estimation technique within the Error Correction Model (ECM) framework is employed in this study. The choice of the ECM is to enable it account for the explanatory potent of the regressors in both the short run and long run as well as ascertaining the dynamics of attaining long run equilibrium, an issue, which is the key to studies related to macroeconomic variables one of which is the exchange rate. In order to do justice to the above, Unit Root Test; Augmented Dickey Fuller (ADF) was conducted on the series in order to detect the presence of unit root, the presence of which could make the regression result spurious (Granger and Newbold, 1974). The unit root test also helps ascertain the order of integration of the series, which is necessary to explore the long run relationship amongst the variables via the co-integration test. A necessary condition for co-integration is that they are integrated of the same order, which would have been ascertained via unit root test result. The Johansen Co-integration test is employed in this study, to test for the presence of a long run relationship between the dependent variable (exchange rate) and the independent variables. In this test type, the number of co-integrating relations is tested on the basis of trace statistics and maximum Eigen statistics. Once the long run relationship has been established, we estimate an Error Correction Model (ECM) that captures both the long and short run dynamics.

EMPIRICAL RESULT

Unit Root Tests
The result of the stationarity test using Augmented Dickey Fuller (ADF) is presented below:
Table 2: Unit Root Test using ADF

Variable	ADF (level)	ADF (First Diff)	Order of integration
Excr	- 0.9261	- 4.2343***	1
Expt	- 0.4084	- 1.9618***	1
GDP	- 1.9218	- 4.3369***	1
INF	- 3.4054	- 6.4492***	1
IMP	1.7403	- 4.4304***	1
FDI	-2.9302	- 3.8184***	1

Source: Computed from E-views 7.1
** and *** denotes significance at 5% and 10% level of significance.

The table above shows that all the variables are I(1) series

Co-integration Test
Having discovered that the series are I(1), it therefore informs the need to difference them (series) before OLS can be used. The implication of this however is that the model then becomes a short run model, since the lagged component of the series would have been included. However, long run economic relationship amongst the variables can still be uncovered via the co-integration test (Dimitrios and Stephen, 2007). This co-integration test is based on the argument that "given that time series have unit roots, a long run relationship could possibly exist between such series. It therefore implies that the residual of such regression should be stationary at levels using the ADF, since there is a unique stochastic trend amongst the variables. The results are presented below:

Table 3(a): Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.889435	247.6655	95.75366	0.0000
At most 1 *	0.678812	139.7601	69.81889	0.0000
At most 2 *	0.650865	84.10945	47.85613	0.0000
At most 3 *	0.391284	32.54694	29.79707	0.0235
At most 4	0.103759	8.223186	15.49471	0.4418
At most 5	0.056609	2.855457	3.841466	0.0911

Trace test indicates 4 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Table 3(b): Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.889435	107.9054	40.07757	0.0000
At most 1 *	0.678812	55.65069	33.87687	0.0000
At most 2 *	0.650865	51.56251	27.58434	0.0000
At most 3 *	0.391284	24.32376	21.13162	0.0171
At most 4	0.103759	5.367729	14.26460	0.6949
At most 5	0.056609	2.855457	3.841466	0.0911

Max-eigenvalue test indicates 4 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

The cointegration results as revealed above show that the trace statistics and the maximum eigen values are greater than the critical values at 5% level of significance; while we also have four cointegrating factors in the two cases (trace statistics and the maximum eigen value).the implication of the above is that there is long run relationship between foreign exchange rate management and economic growth, as the null hypothesis of no co-integration cannot be accepted at 5% level of significance, showing that there is a unique long run relationship among Y, EXCR, EXPT, IMP, INF and FDI.

Error Correction Model
Considering our earlier stated equation, the error correction model is specified below:

$$\Delta LnY_t = \beta_0 + \beta_1 \sum_{t=1}^{n} \Delta LnEXCR_{t-1} + \beta_2 \sum_{t=1}^{n} \Delta LnEXPT_{t-1} + \beta_2 \sum_{t=1}^{n} \Delta LnINF_{t-1}$$

$$+ \beta_2 \sum_{t=1}^{n} \Delta LnIMP_{t-1} + \beta_2 \sum_{t=1}^{n} \Delta LnFDI_{t-1} + \delta ECM(-1) + \mu_t$$

Where:
μ_t = Error term
$ECM(-1)$ = Error Correction term,
δ = a term, capturing the long run impact
The short run effects are captured through the individual coefficients of the differenced terms Δ while the coefficient of the ECM variable contains information about whether the past values of variables affect the current values.
The result of the analysis is presented below:

Table 4: Result of the Error Correction Model

Dependent Variable: Y (Economic Growth)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DY(-1)	0.913823	0.411043	2.223179	0.0481
DEXCR	22536.14	13113.11	1.718596	0.1137
DEXCR(-1)	6832.478	14923.83	0.457823	0.6560
DEXCR(-2)	-48019.36	17011.91	-2.822690	0.0166
DEXCR(-3)	65050.12	28299.15	2.298660	0.0421
DEXCR(-4)	96984.65	33949.48	2.856734	0.0156
DEXCR(-5)	26003.95	16331.85	1.592223	0.1396
DEXPT	-1.038003	0.372856	-2.783925	0.0178
DEXPT(-1)	1.766629	0.835276	2.115023	0.0581
DEXPT(-2)	1.459935	0.626914	2.328763	0.0400
DEXPT(-3)	-0.195259	0.438199	-0.445594	0.6645
DEXPT(-4)	1.924322	1.176942	1.635018	0.1303
DEXPT(-5)	2.990279	1.211066	2.469129	0.0312
DFDI	3.596352	1.972385	1.823351	0.0955
DFDI(-1)	11.30622	4.158799	2.718627	0.0200
DFDI(-2)	9.030431	3.723371	2.425337	0.0337
DFDI(-3)	31.21806	11.78233	2.649566	0.0226
DFDI(-4)	23.57855	8.724770	2.702484	0.0206
DIMP	-0.096111	0.127039	-0.756546	0.4652
DIMP(-1)	-6.676241	2.571583	-2.596160	0.0249
DIMP(-2)	-9.083411	3.102351	-2.927912	0.0137
DIMP(-3)	-4.147150	1.691892	-2.451191	0.0322
DIMP(-4)	-2.243421	1.418330	-1.581735	0.1420
DIMP(-5)	-4.259913	1.851415	-2.300895	0.0420
DINF	820.0749	588.2956	1.393984	0.1908
DINF(-1)	-528.3220	663.3931	-0.796394	0.4427
DINF(-2)	-831.0557	723.2848	-1.149002	0.2749
DINF(-3)	-1406.635	787.1503	-1.786997	0.1015
DINF(-4)	115.8740	940.1421	0.123252	0.9041
DINF(-5)	831.7304	963.0537	0.863639	0.4062
DINF(-6)	1336.782	776.0423	1.722564	0.1129
ECM(-1)	-0.680137	0.260114	-2.614772	0.0241
C	-31234.30	17675.24	-1.767122	0.1049

R-squared	0.998464	Mean dependent var		81696.18
Adjusted R-squared	0.993997	S.D. dependent var		423791.2
S.E. of regression	32836.00	Akaike info criterion		23.75014
Sum squared resid	1.19E+10	Schwarz criterion		25.08829
Log likelihood	-489.5032	Hannan-Quinn criter.		24.24639
F-statistic	223.4881	Durbin-Watson stat		2.246723
Prob(F-statistic)	0.000000			

The result shows that the explanatory variables explain and account for about 99% of variation in Economic Growth proxied by GDP, which is an evidence of a good fit of the model. The F-statistics shows that the explanatory variables are jointly significant in explaining Economic growth (dependent variable).

The coefficient of the ECM is significant at 1 percent level of significance and has the correct negative sign. This indicates a feedback of approximately 68% of the previous year's disequilibrium from the long run Economic growth elasticity and it is significant, which suggests that any short run disequilibrium in the system will be adjusted in the long run. The coefficient is reasonably high and suggests that adjustment to equilibrium is reasonably fast. Only about 68 percent of the adjustment to long run equilibrium is completed within the first period (year).

The result above shows that export and Foreign Direct Investment are statistically significant in determining economic growth, when considered at 5% and 10% respectively. However, exchange rate, import and inflation are found to be statistically non-significant.

DISCUSSION OF FINDINGS AND CONCLUSION

From the above result presented, it is obvious that exchange rate itself does not significantly determine economic growth, but it shows a positive relationship. However, the variables, which an effective foreign exchange rate management policy is deemed to affect; export, foreign direct investment is found to affect economic growth. This therefore points to the fact that foreign exchange management really does significantly affect economic growth through its control variables (Export and foreign direct investment). Evident from the result also is the fact that foreign direct investment (FDI) positively affects economic growth, which is an expected relationship, based on economic theory. Managing the economy's foreign exchange rate does affect quite a number of economic variables, which in turn affects growth in the economy.

Relating these findings to the submission of Unugbro (2007), Akpan (2008) and Abounoori and Zoebeiri (2010), it is obvious that foreign exchange management does affect economic growth owing to the fact that the key control variables; export and foreign direct investment are found to statistically affect the Nigerian economic growth. Also worthy of note in this study is the fact that the response of GDP to policy initiatives on foreign exchange management does not take long before it takes noticeable effect as the adjustment of the variables to yield same long run result is relatively fast, with the 68% recorded as the Error Correction Coefficient. This result is in consonance with the findings of Harris (2002).

In line with the scope and focus of the study, inflation, import, foreign direct investment and export are seen as proxies for foreign exchange management, with the expectation that their alteration is bound to either cause a shrink or stimulate economic growth. This fact therefore was confirmed from this study, as it is revealed that all control variables has the potential to stimulate the Nigerian economic growth in the right direction if well managed especially through the foreign exchange management policy.

Against the backdrop of the above findings, it is recommended that effort be made to increase the consumption of made in Nigeria goods, which includes the usage of raw material that can be sourced locally by Nigerian industries in order to increase foreign exchange earnings. The implication of this is that local industries should be encouraged to look inward for their raw materials. Having uncovered from the study that the nexus between economic growth and foreign exchange management, being a short run relationship, it is necessary that the foreign exchange management policy initiatives be made to satisfy the short-run behavioural expectations of the variables used in uncovering this fact.

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