THE EVOLUTION AND OPERATION OF THE SECOND-TIER FOREIGN EXCHANGE MARKET (SFEM) IN NIGERIA : AN APPRAISAL

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1. Background to SFEM in Nigeria

The high external indebtedness of Nigeria which in 1985 amounted to more than $17.3 billion[1] has exerted severe pressure on the nations debt service burden. The debt service ratio was approaching the 5)% mark by 1985 which was considerably above the safe ratio of 10% recommended by the I. M. F.

The high external indebtedness resulted from the adverse balance of payments disequilibria since 1976. The nations foreign exchange reserves were drawn down to accommodate the high import propensity of Nigerians which fuelled the deficits in the balance of payments. The nations foreign exchange reserves continued to plumet as a result of the over valuation of the naira which gave rise to the high demand for foreign goods and services in the first place.

In order to reduce the high propensity to import, Nigeria introduced more comprehensive exchange control measures under the Economic Stabilization (Emergency Provisions) Act of 1982. The objective was to reduce the country's foreign exchange expenditure to a level that would be compatible with her reduced foreign exchange earning capacity.

The effect of the world oil glut was also adverse to the fortunes of member states of the Organisation of Petroleum Exporting Countries (OPEC) of which Nigeria is one. This necessitated cuts in oil output in order to firm up oil prices. Since not much could be done in order to rapidly expand oil receipts in the short run, attention was focussed on curtailing the out-flow of foreign exchange. To this end, a combination of monetary and fiscal policy measures were initiated by the Federal Government.

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Some of the measures applicable to the Act of 1982 were strengthened in 1983. In 1984, a more stringent exchange control measure was promulgated by the Federal Government with a view to revamping the battered economy through husbanding the nations foreign exchange resources.

Some of the measures embodied in these various acts of government included reduction in Basic Travelling Allowance (BTA) from naira 800 per individual traveller to naira 100, the prohibition of certain goods from importation, the placing of goods on specific import license, and the imposition of compulsory advance deposit for imports.

The compulsory advance deposit for imports was part of exchange control regulations to curtail imports. The deposits ranging from 25% to 250%[2] of intended import were aimed at reducing liquidity in the system as well as reducing the high propensity to import by Nigerians. The amounts were meant to be deposited in the Central Bank of Nigeria by the collecting banks at zero interest rates. These measures turned out to be inadequate in solving Nigeria's balance of payments problems although marginal surpluses of naira 362 million and naira 561 million were realized in 1984 and 1985 respectively.[3]

Nigeria until recently was negotiating a loan of naira 2.8 billion from the International Monetary Fund (IMF) to help defray some of the outstanding short term obligations of the nation with trade creditors and restore trading relations which had been harmstrung by the nation's reduced payments capacity. The I. M. F. did lay down its usual conditionalities for granting such accommodation. The Nigerian Government accepted most of the conditionalities at the onset except three viz : devaluation, trade liberalization and removal of petroleum subsidy. On the basis of these conditionalities which were adjudged severe and against the economic interest of the nation the I. M. F. package was rejected.

The nation went ahead to implement most of the I.M.F. conditionalities without taking the loan in an effort to restructure the economy. The naira continued to depreciate against the weighted basket of seven key currencies used by the Central Bank to estimate the value of the naira. Petroleum subsidy was reduced by about 80%, above the phased withdrawal earlier agreed with the I. M. F. The problems of the nation persisted viz : excess demand of foreign goods and services, inability to service due debts, and cessation of credit lines by trade creditors. Goods could no longer flow as before, It was necessary to reschedule Nigeria's outstanding debt obligations in order to reduce her debt service burden to manageable proportions. The Government was ready for a burden of not more than 30% of export earnings, but to discharge Nigeria's outstanding obligations would require much more than 50% of current export earnings. Also both the London Club and Paris Club of Bank Creditors and Export Credit Agencies respectively would require a stabilization programme with I. M. F. in order to agree to debt rescheduling. This is because the approval and concordance of I. M. F. is always necessary in such negotiations. The Second Tier Foreign Exchange Market was conceived as an alternative strategy to meet with all outstanding I.M.F. conditionalities and thus qualify for debt rescheduling under I. M. F.'s enhanced surveillance scheme.

The S. F. E. M. apart from qualifying Nigeria for debt rescheduling also has the following objectives :[4]

(i) To achieve the convertibility of the naira.

(ii) To eliminate the illegal traffic in currency and goods across the country's borders.

(iii) To emeliorate the economic problems based on adverse balance of payments and the distortions introduced by the import licensing machinery which enriched some undeserving businessmen at the expense of the nation's interest.

(iv) To provide the mechanism for dealings in foreign exchange at market determined rates and ultimately achieve simple equilibrium rate for the naira.

(v) To achieve optimal allocation of resources.

(vi) To attract in-flow of capital, especially funds held abroad by Nigerians.

(vii) To enable Nigeria compete effectively with other financial centres for funds to finance industrial growth and development.

In the foregoing it would be shown that SFEM if properly implemented would meet with the above objectives.

2. The Meaning of the SFEM

Since the naira cannot float effectively as a result of its non-convertibility and non-trading status, an alternative is to create a second tier exchange window where the true value of the naira can emerge by the demand and supply of foreign currency in the market. For instance, if naira 5 billion constitutes effective demand for foreign currency and $ 2 billion is the supply of specific foreign currency, then the exchange value for naira and dollars would be 2.5 to 1. Since naira is assumed overvalued before the regime of the SFEM, the true value of the naira would emerge in the market by the demand and supply of foreign exchange which is the same thing as the supply and the demand for the naira.

The supply of foreign exchange comes through the export of goods and services, through loans and investments, through inward unilateral transfers and the export of gold. Demand for foreign exchange comes through imports of goods and services, through loans and investments made abroad, outward unilateral transfers and the import of monetary gold. In the Nigerian context, the bulk of the foreign exchange supply comes from the export of oil which traditionally has been responsible for over 90% of Nigeria's foreign receipts. The import of goods and services is the largest absorber of foreign exchange.

Foreign exchange is bought and sold in organised markets which are foreign exchange departments of commercial and merchant banks, the authorised dealers in foreign currencies. They sell foreign exchange in any currency desired by a customer and purchase any foreign exchange offered to them. Purchases and sales are at specified prices which are determined in the weekly auction conducted by the Central Bank for the participating dealers.

For this purpose the participating dealers meet every thursday morning to bid for specific allotments of foreign exchange. The amount that each dealer bids for is limited by operating Central Bank guidelines. The market clearing price or the marginal rate at which the weekly supply of foreign exchange is completely exhausted is given as the market determined price for foreign exchange to be used for the subsequent trading week.

If the supply of foreign exchange is how, the naira exchange rate will be high, that is more naira will exchange for a unit of foreign currency. If the supply is high relative to demand, then the amount of depreciation of the naira in terms of foreign currency will be less. Thus if the market is not well funded with adequate supply of foreign exchange, the exchange rate would escalate to the disadvantage of Nigeria with implications of soaring high prices of foreign produced goods as a result of their very high naira import costs. To mitigate a potential inflationary pressure adequate funding for the market must have to be found.

Foreign exchange estimates for 1986 showed that crude oil exports would provide $ 8 billion, while non-oil exports would provide additional $ 1 billion. These estimates were based on a daily production of 1.1 million barrels of oil per day (mbd), sold at a price of $ 20 per barrel. Oil prices have since dropped sharply and the country is producing 1.4 mbd and exporting 1.2 mbd. Using an envisaged price of $ 10 per barrel total oil earnings for 1986 would come to $ 4.380 billion. This added to expected non-oil earnings of about $ 800 million would give a total foreign exchange earnings of $ 5.18 billion for 1986[5].

Based on these estimates about $100 million would be available foreign exchange on a week by week basis for 1986 and probably for 1987 as well. After deducting 30% debt servicing requirements, an average of $70 million would be available from official sources for auctioning on a weekly basis. Other sources which might boost this figure marginally are the domicilliary accounts and the world bank loan.

All transactions except repayment of external debts and subscriptions to international organisations will be dealt with in the SFEM. Apart from normal imports there are arrears of payments whose repayment will exert a great pressure on the market. These arrears could have been discharged with an I. M. F. loan, since they are short-term obligations, they are not subject to rescheduling arrangements. It is unlikely that after setting aside about 30% of each years earnings the SFEM would have sufficient supply with which to work effectively[6]. Supply from the world bank and the domicilliary account could be a potent source to stabilise the market and reduce potential inflationary pressure.

The SFEM if left uncontrolled would realise the true value of the naira. The applicable controls through Central Bank Guidelines should be directed in achieving economic efficiency in realising the true value of the naira. Among the potential benefits is that the Government would get much enhanced revenue from oil exports. The revenue to Government depending on the amount of devaluation of the naira, would be a multiple of earlier figures. Exporters would have a boom because of the favourable exchange rate for their foreign earnings and this would be added incentive to increased production for exports and increased foreign exchange proceeds. The economy would be restructured to produce more goods and services other than oil, since the price incentives for this would work in the right direction. The high profit take home by middlemen who purchased goods at official rates and sold at prices dictated by black market conditions would be effectively check-mated. Black market transactions, smuggling, trafficking in currencies and other untoward practices like over-invoicing of imports and under-invoicing of exports through which Nigeria lost about naira 15 billion in four years (1979-1983) would be effectively controlled to the economic benefit of the nation.

3. Case for Naira Depreciation

Prior to the SFEM the Nigerian naira was overvalued and this contributed a great deal to the deficits in her balance of payments and the building up of the high external debts. An overvalued currency makes imports cheaper and exports more expensive thereby increasing the propensity to import. Import control measures are inadequate since they do not control the desire to trade, but only make it more difficult thereby creating excess demand or shortages which in turn drives consumers to the black markets.[7] Naira depreciation would reduce the demand for foreign produced goods by increasing the cost of such goods and also increase exports by reducing the price of domestic export goods. According to Alfred Marshall and Abba P, Lerner (the Marshall-Lerner Condition),[8] devaluation (or exchange depreciation) would improve trade balance if the sum of price elasticities of a country's exports and imports exceed unity.

The "elasticities pessimism" which ensued as a result of the practical difficulties in attaining the required magnitude of elasticities to achieve the desired result is irrelevant to the Nigerian situation. In Nigeria, the demand elasticities for imports are high and the supply response is strong. For most developing countries it was shown that the demand elasticities and supply response were weak validating the earlier pessimism.[9]

Naira depreciation would thus achieve the desired effect by the following gains in foreign currency :

(a) By making import competing goods become relatively cheaper compared with imports, the marginal propensity to import goods goes down. Nigeria would therefore save an amount in foreign currency equal to the increase in turnover in the home market. The imbalance in the external account would be corrected partly from savings accruing from this source.

(b) Nigeria would cheapen her export goods and become more competitive with naira depreciation. Foreign exchange is gained at the expense of other competing countries. This can also help in correcting external imbalance.

The Central Bank of Nigeria was entrusted with the responsibility of managing the nations external reserves. One aspect of it involves the determination of the naira exchange rate. This is based mostly on the currencies of Nigeria's major trading partners, the Central Bank's import weighted basket of currencies. The currencies comprise the U. S. dollar, the pound sterling, the deutschmark, the Japanese yen, the French franc, the Swiss fanc, and the Dutch guilder.

Before 1978, the Central Bank of Nigeria held its reserve assets only in the Bank of England and the Federal Reserve Bank of New York in the U. S. As a result the naira exchange rate was tied to movements in the U. S. dollar and the British pound sterling in the international money market. Since 1978, a basket of currencies approach similar to the I. M. F. system of valuation of the Special Drawing Rights (SDRs) has been in use in the determination of the exchange value of the naira. Like the SDRs this involves the Central Bank monitoring of the movement of the exchange values of the currencies of all Nigeria's major trading partners daily, the seven currencies earlier mentioned. Based on these, the Central Bank of Nigeria estimates the naira exchange rate on a day to day basis.

Since naira is not a convertible or trading currency, its value with respect to other currencies cannot be determined by its supply and demand in the international money market.[10] This is because there is no direct demand for naira as such to pay for goods imported from Nigeria although there are corresponding supplies of foreign currency. The correct value of the naira can only be determined if there is organised trading in naira currency vis-a-vis other currencies. This innovation in the recent creation of the 2nd tier foreign exchange market (SFEM) in Nigeria assures continuous determination of the exchange value of the naira on a week by week basis through the demand and supply of foreign currency and the supply and demand for the naira. Prior to this innovation, the method of estimation by the Central Bank of Nigeria tended to over-value the naira currency. For instance, the black market rate for the naira in terms of other foreign currencies is considerably higher than official rates.

This overvaluation tended to put premium on imports which were cheaper and to discount exports which were relatively expensive.

With naira depreciation, exports from Nigeria would be cheaper and imports more expense. A positive shift in exports of goods and services would earn more foreign exchange to correct the imbalance in the balance of payments and pay off outstanding debts. Also a reduction in imports by the high cost of imported items would create additional savings in foreign exchange.

4. Operation of the SFEM

SFEM has essentially three components :

(i) CBN organised tender sessions,

(ii) Inter bank dealings and

(iii) Over the counter dealings between banks and their customers.

Once a week on thursday morning, a price fixing session is conducted by the Central Bank with the participation of authorized dealers who are mostly commercial and merchant banks. These dealers bid for foreign exchange held by them in excess of their working balances and foreign exchange supplied by the Central Bank. The exchange rate fixed by this bidding process is used in the subsequent week to value imports and exports and for payment of the relevant duties and taxes.

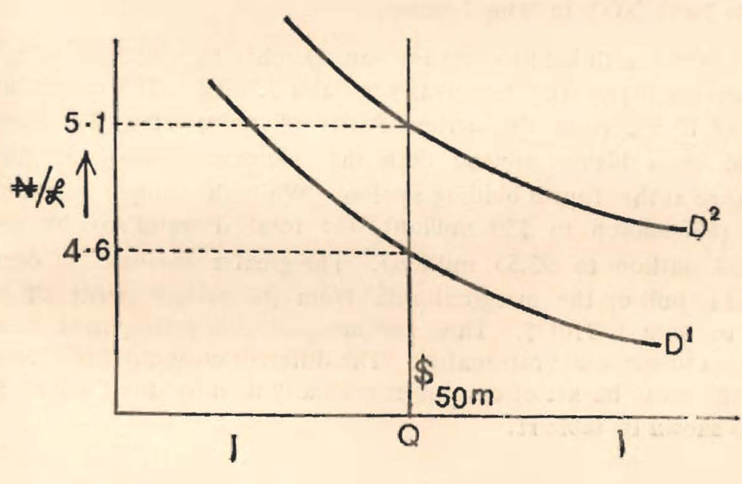
All appointed dealers display in a conspicuous place in their offices quotations of their buying and selling rate for various foreign currencies. These rates are communicated to the Central Bank on a daily basis. They apply to all transactions up to $5,000 or the equivalent foreign currency. Rates for amount above $5,000 would be subject to negotiation between the banks and their customers with the proviso that the striking rate should be within the one percent band of variation on the Central rate for the week.

Any prospective buyer or seller would approach his bank. If a buyer, he has to furnish documentary evidence of the underlying service or commercial transaction. All dealers would satisfy themselves that the requisite documents are furnished. Also files for each transaction with the relevant documents are required of banks to be produced for verification by Central Bank field inspectors.

In the interbank market, commercial banks, merchant banks and other foreign exchange dealers are free to buy and sell foreign exchange amongst themselves. These transactions are at mutually agreed rates and could be in spot or forward contracts. Penalties for non-delivery at specified dates including loss of dealership licenses are all articulated in the operating Central Bank Guidelines.

Foreign exchange earnings of the non-oil private sector may be held or sold to any commercial bank, merchant bank or appointed foreign exchange dealer. Thus mandatory surrender requirement for private sector foreign exchange earnings was abolished, but a 9.5% exchange levy on all foreign exchange transactions is still payable to the Central Bank. Specified dates for delivery with penalties for non-compliance were also articulated in the Guidelines.

The price which buyers would want to pay for one U. S. dollar for instance would depend on both the relative weight of demand for the dollar and the quantity of dollar available for sale. On September 26, 1986 the first price fixing session was held. While the supply of foreign exchange was fixed at $50 million, the total demand was $71,77 million and the successful bid rate was naira 4.6 to $1. In the second price fixing session on October 2, 1986, the supply of foreign exchange was fixed at $50 million and the demand rose to $77.11 million with the successful bid rate shooting up to naira 5.1 to $1. This is in agreement with the law of supply and demand.[11] The increased demand in the 2nd price fixing session with a given supply, pushed up the naira price of the dollar.



quantity of foreign currency

Fig. 1. Change in demand and exchange rate.

As shown in Fig. 1. above, the increased demand for dollars in the 2nd week pushed up the naira price of the dollar. The supply is fixed in both periods at $50 million.

In the third week of trading the foreign exchange supplied increased to $75 million and the total demand was $75.5 million. The effective exchange rate came down to naira 3.4999 to one dollar. The increased supply and reduced demand worked to reduce the naira price of the dollar. The reduced demand pushed down the curve in Fig. 1 and the increased supply shifted right-wards the vertical supply curve for an intersection at a lower naira price.

The first column in table 1 is the code number of the bank/dealer. The second column is the dealers bid rate, i.e. the number of naira he is willing to exchange for one dollar. The third column is the bid amount, which is the amount of dollars the bank is bidding to buy for its weekly transactions. The fourth column is the cumulative total of foreign currency demand by the banks. As shown the grand cumulative total demand for the week was $75.525 million dollars which was just marginally higher than the supply. Thus the exchange rate of naira 3.5/$ for the week was described as the most realistic so far since the demand and the supply for foreign currency were about equal. Thus the long run value of the naira would tend to gravitate to this level. The naira 3.5/$ exchange rate was arrived at when the weekly foreign exchange supply of $75 million was exhausted by the marginal bidder bank XOY in table I below.

At the fourth bidding session on October 16, 1986 the naira rate of exchange depreciated marginally to naira 3.910/$. This represented a drop of 10.5% from the earlier Parity of naira 3.4999/$. This was caused by a higher demand than the increased supply of foreign exchange at the fourth bidding session. While the supply increased by 6.7% ($75 million to $80 million), the total demand rose by 23.9% ($75.53 million to 93.55 million). The greater increase in demand served to pull up the marginal rate from its earlier parity of naira 3.5/$ to naira 3. 9101/$. Thus the marginal rate pricing used seem to conform to economic rationality. The different cross rates of exchange with the seven basket of currencies normally used by the Central Bank are as shown in table II.

Table 1

3RD BIDDINGS AT 9/10/86

Code No.	Bid Rate	Bid Amount	Cumulative Total
BOC	5.3499	0.75 million	0.75 million
105	5.1000	2.25 ,,	3.00 ,,
COB	5.002	1.00 ,,	4.00 ,,
MAA	4.9575	3.75 ,,	7.75 ,,
ABT	4.9545	0.50 ,,	8.50 ,,
BCO	4.9525	2.25 ,,	10.50 ,,
DBS	4.9525	2.25 ,,	12.75 ,,
FAE	4.8750	2.25 ,,	15.00 ,,
JLX	4.8499	2.25 ,,	17.25 ,,
FOD	4.8050	1.85 ,,	19.10 ,,
EAA	4.8015	2.25 ,,	21.35 ,,
JOO	4.8000	1.50 ,,	22.85 ,,
DBB	4.7749	2.25 ,,	25.10 ,,
DBD	4.7611	2.25 ,,	27.35 ,,
EXT	4.6025	2.25 ,,	29.60 ,,
DFA	4.5109	2.25 ,,	31.85 ,,
PON	4.5100	2.25 ,,	34.10 ,,
BOD	4.5000	2.25 ,,	36.35 ,,
MKO	4.4999	2.25 ,,	38.60 ,,
MME	4.4590	2.25 ,,	40.85 ,,
IAA	4.4584	2.25 ,,	43.10 ,,
LAA	4.4111	2.25 ,,	45.35 ,,
SAA	4.3500	0.35 ,,	45.70 ,,
XYY	4.3125	2.25 ,,	47.95 ,,
RDA	4.2645	2.25 ,,	50.20 ,,
CNN	4.2518	0.55 ,,	50.75 ,,
AKA	4.2278	2.25 ,,	53.00 ,,
TXL	4.2125	2.25 ,,	55.25 ,,
DCD	4.2015	1.70 ,,	56.95 ,,
JOE	4.1315	2.25 ,,	59.20 ,,
ALO	4.1050	2.25 ,,	61.425 ,,
JOS	4.0221	2.25 ,,	63.675 ,,
MAR	3.9995	3.75 ,,	67.425 ,,
JAY	3.9800	2.025 ,,	49.45 ,,
JAS	2.8672	3.75 ,,	73.20 ,,
XOY	3.4999	2.2 ,,	75.40 ,,
COK	3.2501	0.1 ,,	75.50 ,,
NMA	2.7052	0.025 ,,	75.525 ,,

Source : Central Bank of Nigeria.

Table II

CROSS RATES OF EXCHANGE

Currencies	Week 1	Week 2	Week 3	Week 4
U. S. Dollar	4.6174	5.0339	3.4999	3.9101
Pound sterling	6.6269	7.3462	4.9751	5.6305
Deutsche Mark	2.2578	2.5180	1.7517	1.9807
Swiss Franc	2.7840	3.1056	2.1492	2.4915
French Franc	0.6900	0.7688	0.5353	0.6043
Dutch Guilder	1.9972	2.2278	1.5503	1.5134
Japanese yen	0.0299	0.0330	0.0227	0.0253

Source : Central Bank of Nigeria.

The subsequent reductions in demand after the 2nd bidding session was due to revised guidelines brought out by the Central Bank. Earlier banks were allowed to bid for up to 10% of total funds available. In the revised guidelines it was stated that "awards of successful bids to any one dealer would not be more than five percent of total foreign exchange available at the weekly tender in respect of the Central Bank, First Bank, Union Bank, and the United Bank of Africa while awards of successful bids in respect of all other banks would not be more than 3 percent"[12]. Thus the reduction of the proportion of bid amounts served to reduce cumulative demands and to make foreign exchange available to more banks. For instance in the second bid session only 13 banks were successful, but in the third bid session with the revised guidelines in operation, 36 banks made successful bids.

Also the fall in the naira price of the dollar at the 3rd bid session was due to the pricing method adopted with the revised guidelines. The first two price sessions used what was called average of successful bid prices. That is all successful bids were averaged to get the price for the week. This is no price at all and makes no economic sense. The revised guidelines started that "contracts would be awarded to the highest bids and lowest sales orders working down the list until the weeks allocation and dealers sales are exhausted. In the event that volume of bids at the marginal rate (the lowest successful bid rate) is more than could be accommodated within that week's allocation, all the bids at the marginal rate would be awarded on pro rata basis".[13]

Thus the pricing system changed from average successful bid prices to marginal rate prices. The marginal rate is the price that exhausts the supply for the week. This is the market clearing price. Dealers are willing to pay higher, but what they actually pay, which is the price for the week is the marginal rate that clears the market. Thus dealers benefit from consumer's surplus which is the difference between what they actually pay and what they are willing to pay. To use the Dutch auction method whereby dealers buy at bids quoted would be disintegrative. It would not allow the emergence of a single price representing the value of the naira. One of the objectives of SFEM is to allow the emergence of the true value of the naira.

5. Recommendations and Conclusions

The SFEM has effected considerable depreciation of the naira currency. The pre SFEM naira/dollar parity was Naira 1.21/$[14] but after the first week of trading this rose to Naira 4.5/$ a depreciation of over 280 percent. In the second week of trading the amount of depreciation effected on pre SFEM parity rose to about 322 percent. This confirms the fact of the over valuation of the naira prior to SFEM.

The considerable depreciation of the naira would achieve the objective of SFEM. It would lead to increased domestic production, increased exports and reduced imports. It would checkmate the high incidence of adverse balance of payments and burgeoning external indebtedness. Thus if properly handled the econom, could be restructured and diversified to withstand the vicissitudes from the external sector resulting from ineffective demand for Nigeria's mono product, oil. The untoward practices that led to a drain of Nigeria's foreign exchange like over-invoicing of imports, under-invoicing of exports, smuggling and naira trafficking would be abated and with these would come the demise or near so of the black market which earlier was funded by these perverse practices.

For a proper functioning of the system the market should be well funded to moderate the resulting naira price of foreign currency. Low funding will exacerbate the potential inflationary consequences of SFEM. A very high naira price of foreign currency will result in a very high naira price of foreign produced goods which would worsen the inflationary spiral in the economy. The funding should come through Nigeria's traditional export earnings, the domicilinary account, earnings to Government from oil exports and also loans from multilateral sources eg. I.M.F. and IBRD. No source should be rejected because of earlier committments to Nigerians for instance the committment not to contract I. M. F. loan. Such committments make no sense since all I. M. F. conditionalitie have been over-fulfilled.

Prices are no doubt going to rise due to the increased naira/foreign currency rate and the increased money supply consequent on the monetisation of the foreign exchange proceeds. This tendency would be moderated by the increased productivity which SFEM would unleash so that the final impact effect of prices would not be the exact magnitude as dictated by the increased exchange rate. Further in the past traders who used official exchange rates to import goods have sold them at Prices dictated by the black market exchange rates which are higher than the present SFEM rates. The traders and middlemen thus earned supernormal profits. These supernormal profits would be effectively reduced and prices do not necessarily have to rise as high as the new SFEM rates would suggest.

Since the marginal rate pricing used in the price fixing sessions comply with economic rationality, it's use should be continued in all future auctions. The alternative dutch auction which implies a penalty for high bidders since they would be compelled to buy at their bid rates and sell at the marginal rate, would portray the Government as a perfectly discriminating monopolist only interested in maximizing its revenue and not in establishing a stable exchange rate. The dutch auction would lead to different rates for different banks and this could give rise to secondary speculative transactions that would not conduce to stability. The marginal rate pricing conformed to economic rationality because as demand increased at given supply, the exchange rate rose; and as demand fell with increased supply, the exchange rate fell. Thuse there was no tendency for the market to artificially leave prices high as speculated by some commentators. The marginal rate pricing thus conformed to efficient market hypothesis. The important cosideration is for the true value of the naira to emerge. Further in subsequent trading sessions the difference between the highest and lowest bids narrowed showing that dealers are acquising expertise in correct bidding.

For effective planning and to attract investments, a stable exchage rate is preferable to floating and variable rates. So it is recommended that after a year of trading the loan run equilibrium price of the naira should be stabilised and held for one year and allowed to vary by narrow margins within a lower and upper intervention point by the Central Bank. Year by year changes of the central rate instead of weedkly variations should be entertained henceforth because variable rates increase instability and introduce high risk elements in international capital flows.

It is also recommended that public sector wages be updated by a reasonable percentage escalator. If not, fixed income receivers in the public sector would continue to suffer as a result of stagnant incomes at the face of gradually rising prices which have continued for over a decade now.[15] The funds for such salary review would be available given the increased revenue prospects for the Government as foreign exchange is monetised at very favourable exchange rates. A 100% change in wages could effect only a 10% increment in prices. Wages have increased, but everybody is better off because of induced changes in productivity.[16]

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