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Full Length Research Paper

The effects of foreign exchange regimes on industrial growth in Nigeria

Owolabi A. Usman and Adegbite Tajudeen Adejare

Department of Management And Accounting, Ladoke Akintola University of Technology, Ogbomoso.

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The study empirically examines the Effect of Foreign Exchange Regimes on Industrial Growth in Nigeria, in line with the objectives of this study, secondary data were obtained from Central Bank of Nigeria Statistical Bulletin covering the period of 1985 to 2005.In concluding the analysis, multiple regressions were employed to analyze data on such variables as Gross Domestic Product, World Price Index, Per Capita Income, and Net Export. Exchange rate (broadly define, narrowly define and quasi money) were all found to have significant effects on the Economics Growth with the Adjusted R^2 of 69%. Following the outcome of this study, it is therefore concluded that the effect of using Foreign exchange, World Price Index, Per Capita Income, and Net Export as an inducement for greater performance for stable economic growth and are capable of giving stability in prices for manufactured goods.

Keywords*:* Foreign Exchange; Real Growth; Nigeria Economy.

BACKGROUND TO THE STUDY

There is scarcely any country that lives in absolute autarky in this globalised world. The economics of all the countries of the world are linked directly or indirectly through asset or/and goods in the markets. This linkage is made possible through trade and foreign exchange. The price of foreign currencies in terms of a local currency (i.e. foreign exchange) is therefore important to the understanding of the growth trajectory of all countries of the world. The consequences of substantial misalignments of exchange rates can lead to output contraction and extensive economic hardship. Moreover, there is reasonably strong evidence that the alignment of exchange rates has a critical influence on the rate of growth of per capital output in low income countries (Isard, 2007). Nigeria, like many other low income open economics of the world, has adopted the two main exchange rate regimes for the purpose of gaining internal and external balance. The augments and Conditions for and against each of the regime is clear given that they ail aimed at maintaining stability in exchange rates. Direct administrative control exchange rate policy was used to manage Nigeria's foreign exchange from independence in 1960. The country changed to a market regulated regime in 1986 for obvious reasons. The fundamental objectives of exchange, rate policy in Nigeria are to preserve the value of the domestic currency, maintain a favorable external reserve position and ensure external balance without compromising the need for internal balance and the overall goal of macro-economic stability. In an attempt to achieve optimal level of foreign exchange efficiency, several policy guidelines and requirements were introduced to manage the nation

*Corresponding author Email: adetajud@yahoo.com

Foreign exchange market. Remarkable among the prominent policies emerged in .1986 upward when Nigeria shift to market oriented economy with view to promote productive sector and enhance the facilitation of foreign direct investment (FDI) influx into the country. What is however yet to be clear is the relative advantage of (he various organized market arrangement for selling and buying the foreign exchange under the dirty float regime that the country now operates. The country has and is still experiencing with various market arrangements. First in 1986, it chose to operate the Second Tier Foreign Exchange Market (SFEM) on an auction basis. More than two decades now after the introduction of the flexible exchange regime, Nigeria has operated several variants of the auction system (Auction System, Dutch Auction System, Wholesale Dutch Auction System, and Retail Dutch Auction System) towards determining the exchange rate of the naira to US dollar. Thus, Nigeria economy had experienced financial and economic reform through the adoption of structural adjustment programme (SAP) with deregulation and liberalization of foreign exchange market, Naira exchange rate was deregulated on Sept. 29, 1986, whereby deregulation of exchange rate system was hinged on the belief that during fixed exchange rate regime, naira was overvalued implying that tradable were priced lowly in the domestic economy which indicate a disincentive to export production. The expectation was that naira deregulation will generate a realistic exchange rate that would accelerate the rate of economic growth through the attraction of foreign capital, investment and discouragement of capital flight. The institutional framework of the market has witnessed metamorphosis from second tier foreign exchange market established in 1986 to foreign exchange market (FEM), Inter-bank foreign market (IFEM), Autonomous foreign exchange market (AFEM) and now back to IFEM-all reflecting a high degree of deregulation. This research is important now more than ever because the naira is facing a lot of challenges as the world faces financial meltdown.

Statement of the research problem

Many economies of the world are experiencing foreign exchange rate instability which affects economic performances of their economies as a result of inability to achieve expected realistic exchange rate and price stability.

Theory has also shown that for standard of living to be improved or the economy to grow and expand developmentally such economy has to be opened, that is, presence of external economy. The presence of external factors in the economy generates an influence which is hard to manage and control. Prior to the introduction Of Structural Adjustment Program (SAP) in 1986, Naira (Nigerian Currency) enjoyed appreciable value against US dollar a factor that creates opportunity for rapid economic growth and stability. With introduction of new economic program, the country began to suffer unstable exchange rate that cause a high degree of uncertainty in the Nigeria business environment.

Domestic investors face enormous risk as no one, no matter how intelligent could predict the likelihood of the foreign exchange market performance. The situation must equally have an effect on importation level of the country. Nigeria is a developing country striving to develop its industrial needs to harness its foreign exchange market to enable domestic investors import relevant machineries, equipments and raw materials for the industrial consumption.

OBJECTIVES OF THE STUDY

The broad objective of this study is to identify, evaluate and address the effect of foreign exchange regimes industrial growth in Nigeria. The objectives are broken down into the following specifics:

(i) To evaluate the effect of foreign exchange on an economy,

(ii) To examine the relationship between real growth and foreign exchange.

(iii) To asses foreign exchange effects on Nigeria economy either positively or negatively.

LITERATURE REVIEW

Foreign Exchange in Nigeria

Foreign Exchange refers to as the financial transaction where currency value of one country is traded into another country's currency. The whole process gets done by a network of various financial institutions like bank, investors and government. Our major discussion is based on the government i.e. Nigeria.

Conceptually, an exchange rate constitutes the price of one currency in terms of another. Nationally, in the Nigeria situation, it is the units of naira needed to purchase one unit of another country's currency (e. g. the United States dollar). That is, the value of the naira in terms of the dollar or pounds sterling in the case of the United States (U.S.) or United Kingdom (U.K) respectively.

The evolution of the foreign exchange market in Nigeria up to its present state was influenced by a number of factors such as the changing pattern of international trade, institutional changes in the economy and structural shifts in production. Before the establishment of the Central Bank of Nigeria (CBN) in 1958 and the enactment of the Exchange Control Act of 1962, foreign exchange was earned by the private sector and held in balances abroad by commercial banks which acted as agents for local exporters. During this period, agricultural exports contributed the bulk of foreign exchange receipts. The fact that the Nigerian pound was tied to the British pound sterling at par, with easy convertibility, delayed the development of an active foreign exchange market. However, with the establishment of the CBN and the subsequent centralization of foreign exchange authority in the Bank, the need to develop a local foreign exchange market became paramount.

The increased export of crude oil in the early 1970s, following the sharp rise in its prices, enhanced official foreign exchange receipts. The foreign exchange market experienced a boom during this period and the management of foreign exchange resources became 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. The increasing demand, for foreign exchange at a time when the supply was shrinking encouraged the development of a flourishing parallel market for foreign exchange.

The exchange control system was unable to evolve 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 were based on market forces. To enlarge the scope of the Foreign Exchange Market Bureau de Change were introduced in 1989 for dealing in privately sourced foreign exchange. 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 Bureau de Change to buy foreign exchange as agents of the CBN, the reaffirmation of the illegality of the parallel market and the discontinuation of open accounts and bills for collection as means of payments sectors. The Foreign Exchange Market was liberalized in 1995 with the introduction of in Autonomous Foreign Exchange Market (AFEM) for the sale of foreign exchange to end-users by the CBN through selected authorized dealers at market determined exchange rate. In addition, Bureau de Change was 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).

What is Economic Growth

Economic Growth is defined as the increasing capacity of the economy to satisfy the wants of goods and services of the members of society. Economic growth is enabled by increases in productivity, which lowers the inputs (labor, capital, material, energy, etc.) for a given amount of output. Lowered costs increases demand for goods and services. Economic growth is also the result of population growth and of the introduction of new products and services. There are various theories in economic growth in which we will consider just few.

Real Growth in Manufacturing Companies in Nigeria

Basically the growth of a manufacturing company depends on the stability of foreign exchange of the country. Growth is a positive increment in doings and can only be achieved if the value of the currency used in transactions does not depreciate.

Following the fluctuation of the Naira in 1986, a policy induced by the Structural Adjustment Programme (SAP), the subject of exchange rate fluctuations has become a topical issue in Nigeria. This is because it is the goal of every economy to have a stable rate of exchange with its trading partners. In Nigeria, this goal was not realized in spite of the fact that the country embarked on devaluation to promote export and stabilize the rate of exchange. The failure to realize this goal subjected the Nigerian manufacturing sector to the challenge of a constantly fluctuating exchange rate. This was not only necessitated by the devaluation of the naira but the weak and narrow productive base of the sector and the rising import bills also strengthened it. In order to stem this development and ensure a stable exchange rate, the monetary authority put in place a number of exchange rate policies. However, very little achievement was made in stabilizing the rate of exchange. As consequences, the problem of exchange rate fluctuations persisted throughout the study period.

The manufacturing sector plays catalytic role in a modern economy and has many dynamic benefits that are crucial for economic transformation. In advanced countries, the manufacturing sector is a leading sector in many respects. It is an avenue for increasing productivity in relation to import substitution and export expansion, creating foreign exchange earning capacity, raising employment, promoting the growth of investment at a faster rate than any other sector of the economy, as well as wider and more efficient linkage among different sectors (Fakiyesi, 2005), But the Nigerian economy is under- industrialized and its capacity utilization is also low. This is in spite of the fact that manufacturing is the fastest growing sector since 1973/74 (Obadan, 1994). The sector has become increasingly dependent, on the external sector for import of non-labour input (Okigbo, 1993). Inability to import therefore, can impact negatively on manufacturing production.

Structure of Nigeria's Foreign Exchange Market

The Nigeria foreign exchange market has witnessed tremendous changes'.

The Second - tier Foreign Exchange Market (SFEM) was introduced in September, 1986, the unified official market in 1987, the Autonomous Foreign Exchange Market (AFEM) in 1995, and the Inter - bank Foreign Exchange Market (IFEM) in 1999. Bureau de Change is licensed in 1989 to accord access to small users foreign exchange and enlarges the officially recognized foreign exchange.

Exchange rates in the Bureau de Change are market determined. A parallel market for foreign exchange has been in existence since the exchange control era.

GROWTH of the Market Exchange in Nigeria

The parallel market for foreign exchange emerged in Nigeria during the World War II. Then, the returning veterans that brought home foreign currencies exchanged them in the market. For a very long time afterwards, activities in the parallel market for foreign exchange were on a very moderate scale. The market received a boost shortly after independence betv.een 1963 and 1966 as politicians exchanged their estacodes then in the market. At this time there was a one-to-one relationship between the Nigerian pound and the British pound sterling in the official market. Administrative measures were used to sustain the parity with the anchor currency. This fixed parity lasted until the British pound was devalued in 1967. Rather than devalue the Nigerian pound, the monetary authorities decided to peg the Nigerian currency to the US dollar at par. This was done to make imports cheaper for the import substituting industries that still relied heavily on foreign inputs.

The parallel market further expanded following the outbreak of civil war in Nigeria in 1967. At that time uncertainties regarding the outcome of the war led to capital flight. This necessitated the imposition of severe import restrictions and strict administrative controls on foreign remittances. In addition, the boom witnessed in the parallel market at that time reflected over invoicing of imports which was very rampant then. Furthermore, government officials in the military regime then were reported to be transferring funds abroad through the parallel market. By this time, Lagos had become a major center of parallel foreign exchange operations. However, the change of the Nigerian currency early in the civil war in January 1968 made things pretty difficult for the parallel market operators; participants had o go as far as Abidjan for transactions. Nonetheless, the market reappeared, though on a very limited scale by May 1968. As the civil war ended in 1970 and the air of uncertainty and insecurity was over, activities and the exchange rate of the Nigerian pound in the parallel market plummeted. Consequently, the anchor currency was traded at a discount in the parallel market for foreign exchange. It is clear that up to this time parallel premium was not an important feature of the Nigerian economy, partly because the extent of rationing was limited and excess demand was very low.

The collapse of the Bretton Woods System and the subsequent, 10% devaluation of the US dollar in 1971 slightly increased the rate of activities in the parallel market. This was because the Nigerian authorities refrained from devaluing the Nigerian pound then. The fear was that devaluation would engender high cost of imports of capital goods and raw materials needed to implement the national development plan. Thus, parity with the US dollar was discontinued and the Nigerian pound was once again fixed at par with the British pound. In 1972, when the British pound sterling was floated, the parity relationship between the pound sterling and the Nigerian pound was abandoned. In January 1973, the Nigerian pound w is replaced with naira, a decimal - based currency, and pegged to the US dollar. In spite of the terrific inflow of foreign exchange from crude oil sales at that time, capital flight installed. This may have been a direct result of the indigenization programme introduced by the Nigerian government in 1972 to check the increasing dominance of major sectors of the economy by foreign firms. The resulting excess demand for foreign currency and pervasive rationing (together with other factors) made the naira very weak in the market. From that time onward, the US dollar was sold at a premium in the parallel market.

However, this policy did not last long. Soon after, the US dollar was devalued. In sympathy, the naira was devalued too even though macroeconomic fundamentals dictated otherwise. This led to higher premium in the parallel market for foreign exchange. The shortcoming of Nigeria's post-independence exchange rate policy of pegging the national currency to a single currency became apparent at this time. It was expected that the devaluation exercise would ensure stability of the local currency value of exports and protect local Industries from excessive competition. The measure rather worsened Nigeria's inflationary situation. Thus, the need to manage the naira exchange rate became very clear.

Accordingly, the country decided to implement an adjustable exchange rate system in 1974. This entailed pegging the naira to the US dollar or the British pound sterling, whichever of their, was stronger in the foreign exchange market. In effect, the Nigerian monetary authorities implemented an independent exchange rate management policy between April 1974 and late 1976. The basic policy objective then was to influence real economic variables in the economy and lower the inflation rate. The decision to manage the naira led to its gradual appreciation. The policy of allowing the naira to appreciate as an overvalued currency was deemed necessary for the import substitution industrialization programme that was being implemented then. This was possible because of the large inflows of foreign exchange from crude oil sales during the oil boom era. The naira became so strong that it w-is openly traded in the London foreign exchange market. This marked the beginning of a very active parallel market for foreign exchange in Nigeria. The independent exchange rate policy continued until 1976 when Nigeria's economic fortunes began to decline.

Between 1976 and 1985, the policy of pegging the naira to an import weighted basket of currencies was experimented. A basket of seven currencies of Nigeria's major trading partners was adopted. The currencies were US dollar, the British pound sterling, the German mark, the French franc, the Dutch guilder, the Swiss franc, and the Japanese yen. This policy was abandoned in 1985; the naira has since then been quoted against the US dollar. Following, the economic crisis that started in January 1981, which worsened afterwards, the naira became grossly overvalued against the US dollar. This was in spite of the fact that the currency was deliberately depreciated during the period. As the economic crisis deepened, the government introduced a market-determined exchange rate policy as part of its structural adjustment policies (SAP) in September 1986. This stance of policy has continued since then to date in various forms.

In sum, the deliberate overvaluation of the exchange rate during the 'oil boom' years, and the resultant lower import prices altered the structure of incentives in favor of imports and Import- competing sectors and against agriculture and export production. Furthermore, the policy greatly eroded the competitiveness of the economy. This stifled the growth of the private sector and non-oil export earnings, and entrenched the reliance on the public sector oil export earnings as the main source of foreign currency in the economy. Also, the policy resulted in massive capital outflows and serve reserve shortages. In the early days of the boom, foreign exchange was not a constraint; consequently, imports increased markedly. The quantitative policies implemented at the onset of the oil crisis in the late 1970s (and repeated in 1982 and 1984) provided the impetus for the growth of the parallel market. The market emerged to satisfy the demand that could not be met at the official market. As a result of the rationing of foreign exchange, the parallel market became a major source of foreign exchange to a wide variety of economic agents. Absence of documentation requirements and he ease of import duty evasion join to make the market to thrive.

Exchange rate has a more homogenous behaviour during this period than the official rate. The growth in the latter was quite small relative to the parallel rate before 1986. Between 1986 and 1993 however, the two rates exhibited closer profiles. This reflects effort of the Central Bank of Nigeria (CBN) geared market towards exchange rate convergence across the segment of the foreign exchange market. In spite of the foreign exchange reform of 1986, multiple exchange regimes prevailed in the Nigerian economy. Furthermore, the foreign exchange market was characterized by the continuous decline in the value of the naira and lack of tendency towards exchange rate convergence.

To achieve stability and convergence of the multiple exchange rates, the CBN 'deregulated' the foreign exchange market on 5 March 1992. Equating the realistic exchange rate to the parallel market rate, the CBN merged the official rate with the former. Temporary convergence was achieved through the equalization policy on 5 March 1992. However, the forced convergence was not sustained. The CBN was to induce stability of the exchange rate by increasing the supply of foreign exchange demand through fiscal and monetary restraints. Contrary to expectations, CBN's supply of foreign exchange through the end of 1992 was erratic; foreign exchange sales were suspended three times. Also, federal deficit in 1992 was 1097% greater than it was at the inception of adjustment policies in 1986. Not only did the foreign exchange market rate divergences continue afterwards, the naira continued to depreciate against the dollar in the market.

RESEARCH METHODOLOGY

This chapter describes the methodology employed in this study. Methodology consists of the procedures to be used for collecting data, summarizing and analyzing the data gathered in older to answer the research questions. It is intended to applying the chosen methods in the research to minimize the costs of obtaining the data and analyzing them while maximizing the expected values of resultant information as well as association level of accuracy. For the purpose, issues addressed include; research design, study population sample and sampling technique, data collection and research instrument validation.

This research shall be based on a cross-sectional survey between the periods from 1985 to 2005 financial years. The research shall be designed to capture how selected respondents perceive the independence of auditors in Nigeria. A pilot study shall be conducted using eighty-four samples of questionnaires. This was to ensure the relevancy of the data gathering instrument.

Method of Data Collection

Method employed in Carrying out this research work was by secondary data. Secondary data is the name given to data that has been used for some purpose other than that for which they were originally collected. Secondary data generally used when the term manpower resource necessary for survey arc not available and of course the relevant information required. My secondary data were gotten from different sources e.g. CBN Statistical Bulletin 2005 and Nigeria Bureau of Statistics.

Sample Size

The duration of my research was basically from 1985-2005 which is in the range of 20yrs. This duration was used because it is detailed enough to give a good result and analysis.

Data Analysis Techniques

The analysis was carried out in two forms and they are regression analysis and correlation. Regression analysis includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables.

Regression models in the following variables:

The unknown parameters denoted as P: this may be a scalar or a vector.

The independent variable X

The dependent variable Y

In various fields of application, different terminologies are used in place of dependent and independent variables

A regression model relates V to a function of X and β

Y = U(X, β)

Model Specification

Nigeria economy is measured using GDP
GDP of WPI, PCI, EXR, NEX + Error term

Model A

GDP = U (WPI, PCL, EXR, NEX)

GDP = aO1og+ a Log WPI + a 21ogPCH- a31ongEXR+ a 41ogNEX+Ut
Where: a = alpha
Ut = error term
GDP = Gross Domestic Product a proxy for economic growth
WPI = World Price index
PCI = Per Capita I: come: GDP/POPULATION
EXR = Exchange Rate: (NAIRA TO US DOLLAR)
NEX = Net Export: (CURRENT EXPORT - CURRENT IMPORT)

Model B

Real growth on manufacturing sector and manufactured products
RG = βo + βllogCP[+β21ogEXR+ β31ogGDP+p41ogNEX+Ut
Where: β = beta
Ut Error term
RG = (βo - β4) = Real Growth (total investment on manufactured product)
CPI Consumer Price Index a proxy for inflation.
NEX = Net Export
EXR – Exchange Rate
GDP = Gross Domestic Product

Presentation and Analysis of Data

This chapter will be used in analyzing and presentation of data collected from different reliable source like CBN Statistics Bulletin 1999, 2005. Nigeria Bureau of Statistics. This was done so as to determine the effect of foreign exchange on industrial growth in Nigeria from the period of 1985 to 2005.

According to the research question, to what extent does foreign exchange and real growth and after getting the results or answers to these questions, we can now decide if this research has affected Nigeria economy positively or negatively during the periods in which the data are used for the research.

The following tables below are actually gotten from different sources but they are answers to these research questions.

RESULT PRESENTATION AND DISCUSSION

The estimated model used observations for the periods 1985 - 2005 (21 years).

Table 1 Effect of Foreign Exchange, World Price Index, per Capital Income, Net Export on GDP as proxy for Nigeria economy.

Variable	**Coefficient**	**t-statistics**	**Significant**	**Alpha coefficient**	**R^2=0.682**
Constant	43884.261	0.342	0.732		Adj
EXR	658.085	0.794	0.439	0.222	R2-0.682
PCI	128925.53	1.514	0.150	0.245'	S.E- 83465
WPI	22.209	2.065	0.055	0.569	F.Stat-8.59
NEX	0.46	0.484	0.635	0.074	7

Dv = 215408.856

Table 2 Effect of Consumer Price Index, Exchange Rate, Net Export, Gross Domestic Product on Real Growth

Variable	Coefficient	t-statistics	Significant	Ainha coefficient	R2=n7RQ
Constant	1090.076	1.650	0.119		Adj
EXR	0.085	0.300	0.768	0.084	R^2 = 0.698
Rvi	22.806	Z2.465	0.025	0.624	S.E= 897.31
WPI	0.00	-0.265	0.794	0.037	524
NEX	0.003	1.041	0.313	0.218	F'.Stat-12.5
					69

Dv = 215408.856

Data Analysis: February 2012

Table 1 shows the result of the effect of EXR, PCI, WPI and NEX on Nigeria economy.

It could be seen that there is a positive relationship between all the variable rates and the Gross Domestic Product (GDP) which means as all the rate increases, there is also an increase in the economic growth. As the countries Exchange rate (EXR) increases by 658.085 there is also an increase in the economic growth. The coefficient growth rate which means for every ₦1 increase in exchange rate there is almost 6% increase in Gross Domestic Product. The t-statistics indicates that Exchange Rate is 0.439 significant levels to the model. The coefficient of 128925.53 for Per Capita Income (PCI) rate shows that an increase in causes increase Per Capita Income in economic growth rate (PCI) rate shows that an increase in causes increase Per Capital Income in economic growth rate (GDP). This signifies for every ₦1 increase in Per Capital Income, there would be almost 12.8% increase in Gross Domestic Product. The t-statistics shows that Per Capital Income is 0.150 significant levels to the model. Increase in World Price Index (WPI) causes increase in economic growth (GDP). From the diagram, World Price Index rate coefficient of 22.209 shows an increase in economics growth. This implies that every ₦1 increase in World Price index rate causes increase in Gross Domestic Product by approximately 2% the model is 0.055 significant levels to the economic growth. The coefficient indicates that the explanatory variables that were used in this model accounted for 20.8% changes in the Gross Domestic Prod act of the country. This means that though the selected explanatory variables arc relevant there are still other variables that would account for changes in the economic growth that are not considered in the model. The standard error of the model is high in relative tern s While the validity test, F-statistics indicates that the model is statistically significant to the study and that there is relatively little auto-correction in the model. The coefficient of determination, R^2, indicates that the explanatory variables that were used in this model accounted for 68% changes in the Gross Domestic Product of the country. This means that the selected explanatory variables in the model are relevant for the stability in the economic growth.

Table 2 shows the effect and relationship between CPI, EXR, NEX and GDP on real Growth. Consumer Price Index has an increasing relationship with Real Growth. CPI has the coefficient value of 0.085, which stands for every ₦1 increase in Consumer Price index there is 0.08% increase on Real Growth. The t-statistics indicate that 0.768 significant level to the model. The coefficient of 22.806 for Exchange rate signifies for every ₦1 increase in Exchange Rate there would be 2% increase on Real Growth. The t-statistics shows 0.025 significant to the model. The coefficient of 0.00 shows that Net Export is has no relationship or effects on the real growth during these periods. From the diagram, Gross Domestic ₦1 increase in Gross Domestic Product causes increase on Real Growth by 0.3%, F-statistics indicates that the model is statistically significant to the study and that there is a feasible relationship with the selected variables and Real Growth.

SUMMARY AND CONCLUSION

This study has reviewed the Effects of Foreign Exchange on Industrial Growth in Nigeria economy. The links between real growth and exchange rate has assessed. The real exchange rate has a positive impact on growth after a considerable lag. The outcome implies that revaluation or appreciation of real exchange rate might be growth enhancing provided that a realistic exchange rate policy can be ensured. In together negatively related to output growth in Nigerian economy, and all the variables are statistically significant. The question is that what are the policy implications of these outcomes for the Nigerian economy?

The outcomes showed that output growth would be promoted if real exchange rate is allowed to appreciate so far it operates through aggregate supply channel and not aggregate demand channel. This will make the cost of imported capital goods and raw materials to be very cheap and cost of production to be low which can boost output growth, by and large reduce the inflation rate. It implies that fiscal, monetary and exchange rate policies have to be designed in order to ensure sustainable and suitable macroeconomic stability. By stimulating real appreciation in order to enhance economic growth, care needs to be exercised to ensure real appreciation dies not exceed the equilibrium point so as not derail domestic industries at the advantage of massive importation of goods.

POLICY RECOMMENDATIONS

Based on the results of this research and the realization of effect of Foreign Exchange on the Real Growth in Nigeria Economy, the following recommendations are made;

1. Positive exchange rate stock should be monitored regularly, so as not to allow those that find exchange rate as an avenue of investment like banks and public carry out their business, which is more devastating to the economy.
2. Government should stimulate export diversification in the area of agriculture, agro-investment, and agro-allied industries, oil allied industries such will improve Foreign Exchange Earnings on Real growth in Nigeria Economy.

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