

**ANALYSIS OF THE EFFECTS OF FOREIGN EXCHANGE RISKS ON
ECONOMIC GROWTH OF NIGERIA**

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**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF
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CERTIFICATION

We the undersigned hereby certify that this project titled “Analysis of the effects of Foreign Exchange Risks on Economic Growth of Nigeria was carried out by **IDEMUDIA OSATOHANMWEN JOY** with Matric No. **SBS/2282051153**, under our supervision in the Department of Banking and Finance, Auchi Polytechnic, Auchi, Edo State.

We also certify that the project is adequate both in scope and quality and submitted to the Department of Banking and Finance in requirements of the award of Higher National Diploma (HND) in Banking and Finance.

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DEDICATION

I dedicate this project to God Almighty who has been there from the beginning to this very point.

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I wish to express my profound gratitude to God Almighty, the giver of life and wisdom for his infinite mercies, love towards me and making this program a success.

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ABSTACT

This research examined analysis of the effects of foreign exchange risk on economic growth of Nigeria. The objective of this study is to examine the

relationship between foreign exchange risk and Economic growth, to evaluate the effect of inflation rate on Nigeria's Economic growth, establish the relationship between interest rate and Nigeria's economic development and to find out the effect external reserves on Nigeria's economic growth. To achieve this objective, relevant data used spanning from 2010-2021 were sourced from Central Bank of Nigeria (CBN) Statistical Bulletin, CBN Annual Report and Account and World Bank Data Base for the period under review and the banks annual financial report. Descriptive statistics, and Ordinary Least Square (OLS) regression was carried out to test the hypotheses. E-Views 9.0 is used as the statistical tool for this study. The findings of the study revealed that there exist a negative relationship between foreign exchange movement and gross domestic product in Nigeria. This is an indicative that improved GDP requires reduction on exchange rate (EXR) because the higher the exchange rate, the lower the importation of equipment and raw materials that can boost production which is a prerequisite for GDP growth. The study, therefore concludes that long run economic growth has heightened in Nigeria, especially given recent experience of long-term downturns. Two critical aspects in stimulating growth which both domestic policy makers and international bodies have agreed on is with respect to stabilizing the exchange rate and ensuring macroeconomic stability. The study recommended that there is need for other foreign exchange management measures especially in terms of meeting the high demand for foreign currency which characterized and dictate the performance and trade balance and overall economic performance in Nigeria.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The Nigerian economy has been bedeviled by the challenge of instability in its foreign exchange rate market due to a high level of volatility (Kelikume2018). Exchange rate fluctuation is the continuous gyration in the foreign exchange market of nations which has emerged as the dominant subject of discussion in recent international finance literature owing to its fatal consequences on the economies of developing nations like Nigeria. In Nigeria, the formulation and implementation of the infamous Structural Adjustment Programme (SAP), a component of the Economic Recovery Program (ERP) in 1986, introduced financial sector reforms. Part of the reforms includes the jettisoning of the fixed exchange rates in favor of the free floating regime in the late 1980s.

This transition was conducted based on the assumption that flexible exchange rates would curb the boom-and-bust syndrome and turn the country towards a growth trajectory. The growth-enhancing impact emerging from the exchange rate channels are expected in the area of consumer price stability, volumes, investments and terms of trade. In Nigeria up to the time of the structural adjusted programme (SAP), it appeared that Nigerian's exchange rate policy deliberately encourages overvaluation of the Naira because, in 1981, it was ₦1 to 0.90 cents. This, invariably, encouraged imports and discourages non-oil export and over-dependence of the Nigerian economy on imported input over exported output. An economy with its import exceeds export will experience an unfavorable balance of payment, and such economy's currency will be devalued against other country currencies involved in trades.

The exchange rate of that country to other currencies will be low in terms of value; for example, the Nigerian Naira to dollars is \$1 to ₦197.00, pounds-sterling is £1 to ₦281.29 etc. (Omorie, 2020). The adverse impact of the global economic and financial crisis on the Nigerian exchange rate was a phenomenon as the Naira exchange rate to the dollar rose dramatically from about ₦120/\$ to more than ₦180/\$ between 2008 and 2009. This is linked to the sharp drop in foreign earnings and national revenue of Nigeria due to the continuous fall of crude oil price in the world market. The renewed emphasis on the production of alternatives

to fossil-fuel energy, such as wind, bio-energy and solar, in the advanced economies has made the demand for crude oil decline and consequently led to a sharp drop in the prices from \$110 per barrel to below \$50 per barrel between mid-2018 and early 2019 and currently at \$38.77 per barrel in the last quarter of 2020. This further weakened Nigeria's foreign earnings and revenues to finance priority sectors that will create jobs, boost economic activities, increase per capita income, and improve living standards.

Therefore, this study is motivated by the quest to investigate why the efforts of monetary authorities in Nigeria to vigorously pursue internal and external balances and improve standards of living for her citizenry. However, a desperate bid to achieve the above macro-economic goals and also ensure domestic price stability has yielded little or no positive results in recent periods. Given that the government has made several attempts to ensure exchange rate stability and sustainable economic growth since 1994, it is imperative to raise the following research questions to guide this inquiry. Why is there a persistent exchange rate fluctuation in Nigeria? What are the effects of exchange rate fluctuation on Nigeria's economic performance? Answering these questions will provide essential insights to the various economic agents such as policymakers, public and private investors, and the nexus between exchange rate and economic performance in Nigeria.

While anecdotally, the exchange rate volatility has been linked to macroeconomic instability, a minimal attempt has been made to investigate the factors behind it and its impact on internal and external stability. Moreover, discussions surrounding Nigeria's exchange rate fluctuations are only gleaned from public discourses on the economy with very little empirical and theoretical content. As such, to bridge the theoretical and empirical gaps and improve on the weaknesses of the previous studies from the Nigerian context, this study built its theoretical foundation on the optimal currency area (OCA) theory, propounded by Mundell (1961), and McKinnon (1963). This study therefore intends to analyze the effect of Foreign Exchange Risks on Economic Growth of Nigeria.

1.2 Statement of the Problem

The Nigerian economy has been confronted with exchange rate depreciation over the years. The continued exchange rate decline cannot be unrelated to poor foreign exchange management in the economy. The poor exchange rate is a consequence of sustained excess imports over exports, dwindling foreign reserves and poor foreign direct investment which is partly due to political and social unrest in the Nigerian economy among other several factors. After over sixty years of political independence, the export volume of the Nigerian economy remains relatively lower than the import volume. The foreign reserve is not increasing and

the rate of foreign direct investment is still abysmal. Over the years, in Q4 2019 to be precise, import volume stood at about N5.35trn as against export of N4.77trn.

The system inability to achieve the major aims of exchange rate policy led to September 1986 policy reversal with the fluctuation of the Naira. The flexible exchange rate system was operated between the period from 1986- 1993, a temporary halt to deregulation in 1994 with the “guided deregulation” of the foreign exchange market, through exchange rate liberalization and the institution of a dual exchange rate mechanism (Oladapo & Oloyede, 2014). The need for foreign exchange rate stability 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. Thus, this makes economic issue relevant in a bid to ensuring a guaranteed growth for the country, owing 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 (Oladapo & Oloyede, 2014).

Similarly exchange rate has been declining at a geometric rate and this poses adverse effect on the Nigerian economy. The above issues prompted the researcher to delve into the problem for probable solution. Hence, this study seeks to analyse the effects of foreign exchange risks on Economic growth of Nigeria.

1.3 Objectives of the Study

The general objective of this study is to examine the analysis of the effects of Foreign Exchange Risks on Economic growth of Nigeria. The specific objectives of this research are:

1. There examine the relationship between foreign exchange risk and Economic growth.
2. The evaluate the effect of inflation rate on Nigeria's Economic growth.
3. The establish the relationship between interest rate and Nigeria's economic development.
4. To find out the effect external reserves on Nigeria's economic growth.

1.4 Research Questions

In line with the following objectives, the following are the research questions;

1. What is the relationship between foreign exchange risk and economic growth?
2. What is the effect of inflation rate on Nigeria's gross domestic product?
3. What is the relationship between interest rate and Nigeria's economic development?
4. What is the effect of external reserve on Nigeria's gross domestic product?

1.5 Statement of the Hypotheses

The hypothesis of this research are stated in the null format;

Hypothesis I

Ho: Foreign exchange risk has no effect on economic growth of Nigeria

Hypothesis II

Ho: Inflation rate has no effect on Nigeria's gross domestic product.

Hypothesis III

Ho: There is no relationship between interest rate and Nigeria's economic development

Hypothesis IV

Ho: External reserve has no effect on Nigeria's gross domestic Product.

1.6 Scope of the Study

The scope of this research is limited to the analysis of foreign exchange risks on the Economic growth of Nigeria within the period 2010 – 2021.

1.7 Significance of the Study

The research lays emphasis on the effect of foreign exchange risks on economic growth of Nigeria. More importantly, it will be of immense value to the following:

a. Government and Policy Makers: This research will examine the movement of exchange rates in the near past and act as a policy guide to public policy makers in the `near future. Precisely the Central Bank of Nigeria can draw inference from this research while drafting policies relating to foreign exchange management. This is because this is an empirical study that is based on available data and facts. Thus

the chances of trial and error is greatly minimized, *ceteris paribus* which would gear the country towards her desired economic growth and subsequently development.

b. The Public and Researchers: This study will act as a guide to other researchers interested in developing ideas related to foreign exchange management with respect to specific areas they are to carry out researches on, such that economic growth in Nigeria increases. Specifically, students in tertiary institutions or government parastatals can refer to this research work to act as a guide given the drive for more recent literature in the academic field on the research subject. More so given that a combination of the variables in this study is rare in the academic field, this work will be a go-to area for younger researchers.

c. Foreign Exchange Dealers: This research will also be relevant to the operators in foreign exchange management *vis a viz* the Central Bank of Nigeria, financial and non-financial firms as well as individuals seeking to decide how best to invest to in foreign exchange rate which will in turn improve the Nigerian economy. The questions of ‘Should I Invest in Foreign Exchange in Nigeria?’, ‘When Can Invest given the market fundamentals?’, ‘How much resources should I commit to foreign exchange?’, ‘How efficient will the investment be?’ are partly answered in this research given that the workings of the foreign exchange market are somewhat embedded here.

1.8 Limitations of the Study

There already exist the issues of dependability and availability of data in less developing climes including Nigeria. Also, the concept of foreign exchange management is a very controversial area of study because due to globalization countries have lesser control over the exchange rate determination of their currencies. In addition, the concepts of Nominal Exchange Rate, Real Exchange rate, Real Effective Exchange Rate are also some areas that are too broad for this study to handle.

Furthermore, the inconsistency in the migration from one foreign exchange rate policy or regime to another may result in data analysis complication and result interpretation as the data may have been extracted from different policy periods or regimes.

1.8 Operational Definition of Terms

1. Exchange rate: - This is the rate at which a currency is exchanged for another currency. (2) Foreign

2. Exchange Market: - This is a market for trading in foreign currencies and other financial instruments available for international transactions. (

3 Economic growth: - This refers to the increase in the Gross Domestic Product (GDP) or national output or national income of a country.

4 Bureau De Change: - A company or an agent that provides lowvalue foreign exchange services for foreign transactions.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Concept of Exchange Rate

Exchange rate is the price at which a unit of country's currency is exchanged for another country's currency at any point in time. The price at which the Nigerian N1 is exchanged for \$1 is exchange rate. Ibenta (2012) defined exchange rate as the price of the unit of one country's currency quoted in terms of another country's currency, it is the mathematical, qualitative or quantitative expression of one country's currency in terms of another. Uddin, Rahman and Quaosa (2014) sees

exchange rate as the domestic price of a unit of foreign currency and exchange rate can be called the conversion factor that determines the rate of change of currencies.

For Danladi and Uba (2016), exchange rate is the price of one country's currency in relation to another country, or the required amount of units of a currency that can buy an amount of units of another currency. The management of exchange rate system has been on the ladder of every government today owing to its great influence on the external sector performance. A favourable exchange rate is expected to lower cost of living, especially for developing countries who rely heavily on imports for consumption like Nigeria, for instance, the exchange rate of the Nigerian Naira against the US dollar affects and sharpens the production activities in Nigeria. Any fluctuation in the value of the US dollar would transfer such shock to Nigeria due to our reliance of dollar for importations.

The depreciation of Nigerian Naira against the US dollar have made some financial experts and analyst to calling on the government to form an alliance with the Chinese to ease over dependent on the US dollar and improve the strength of the Naira. In lieu of the significance of exchange rate on domestic and foreign economic activities, business owners appear convinced that its fluctuations have real effects especially on oil prices and economic performance of a country (Osigwe, 2015). Azu and Nasiri (2015) rhetorically ask "can one be right to say that change in exchange has account to more improvement in Nigerian economy,

how about the recent decline in growth and currency values”? From the angle of Azu and Nasiri (2015), the positive balance of payment and recently increasing export in Nigeria due to government export promotion strategy.

2.1.2 Exchange Regime in Nigeria

The Central Bank of Nigeria is in charge of managing Nigeria's foreign exchange reserves. Section 16 of the CBN Act 2007 explains this duty by stating that "the Naira exchange rate would be decided, from time to time, via a suitable method devised by the Bank for that purpose" (CBN Act, 2007). The country's foreign exchange rate has seen various variations since its independence in 1960, swinging between a fixed (parity) and flexible system, with capital control or government intervention playing a key role. Nigeria's currency rate policy, for example, had moved from a stable parity when it was completely tied to the British pound sterling by 1960. When the pound sterling was devalued in 1967, the US dollar was included in the parity exchange. The parity exchange with the British pounds sterling was terminated after the US dollar became a stronger currency in 1972. Following the depreciation of the US currency in 1973, the suspension was lifted. The following year (1974), Nigeria's currency was re-linked to both the British pound sterling and the US dollar in order to mitigate the consequences of currency depreciation (Obi, Oniore, & Nnadi, 2016).

The Nigerian currency was linked to seven currencies at the end of the 1970s, primarily those of Nigeria's key trading partners. In 1985, this policy was again jettisoned in favour of quoting the naira against the dollar. The prevailing exchange rate before 1985 favoured an overvaluation of the naira. As part of the implementation of the SAP introduced by the Babangida administration in 1986 however, a market-based exchange rate system was introduced to usher in a realistic naira exchange rate.

The SAP package also saw the establishment of the Second Tier Foreign Exchange Market (SFEM), with the goals of achieving a realistic naira exchange rate through market forces, ensuring efficient resource allocation, stimulating non-oil exports, and encouraging foreign exchange inflow while discouraging outflow. It also attempted to eradicate currency trafficking by eliminating the parallel foreign exchange market and boosting the balance of payments (Mordi, 2006). Several changes were made to accomplish the goals of SFEM, according to Obi, Oniore, and Nnadi (2016).

These modifications ranged from changing the Foreign Exchange Market (FEM) to Autonomous Foreign Exchange Market (AFEM) to Dutch Action System (DAS), and to the Wholesale Dutch Action System (Wholesale DAS). Bureau De Change market was introduced in 1989 to enlarge the scope of foreign exchange market, and in 1994, the fixed exchange rate system was reintroduced. In

1999, the Interbank Foreign Exchange Market (IFEM) was established to further expand the foreign exchange market. It should be remembered that the IFEM was created as a two way quote system with the goal of diversifying the supply of foreign exchange in the economy by encouraging the use of privately generated foreign exchange to fund interbank operations.

The IFEM also attempted to help the naira obtain a more reasonable exchange rate. Due to supply-side rigidities, the government's continual expansionary fiscal operations, and the attendant problem of chronic excess liquidity in the economy, the IFEM's functioning had similar problems and setbacks as the AFEM's. The DAS was conceived as a two-way auction system in which both the CBN and authorised dealers would participate in the foreign exchange market to buy and sell foreign exchange. The CBN is expected to determine the amount of foreign exchange it is willing to sell at the price buyers are willing to buy. The marginal rate, which by definition is the rate that clears the market, represents the “ruling” rate at the auction. Since its introduction in July 2002, the DAS has been largely successful in achieving the objectives of the monetary authorities. Till date the wholesale DAS is the system that is in place.

2.1.3 Economic Growth

Economic growth is the rise in the total output of a country over a specified period of time. The growth of an economy over time is widely measured with

Gross Domestic Product (GDP). The GDP may be nominal GDP or real GDP, the nominal GDP does not take account the devastating effect of inflation, but the latter is adjusted to capture the likely impact of inflation. Nigeria economic performance since independence in 1960 has been decidedly mediocre, despite the availability and expenditure colossal amount of foreign exchange derive mainly from its oil and gas resources, economic growth has been weak and the incidences of poverty has increased (Ismaila, 2016).

Economic growth are determined by various macroeconomic indices which include but no limited to exchange rate, inflation, government expenditure, capital mobilization visa viz: well functioning of the financial sector, human capital development and index of industrial production among others. Traditionally, inflation and economic growth negatively correlated, because the higher the prices of commodities less the purchasing power of money and more people will be reluctant to spend.

A reduction in spending would result in low production of goods and services, which ultimately decrease the GDP. Similarly, if government expenditure is high there is no corresponding monetary policy measure to cope inflation, there will much money in circulation resulting in inflation. The purchasing power of money for productive activities would be eroded, hurting the total output within that period of budget implementation. However, the liquidity mop up measure,

higher government would lead capital accumulation which will enhance production, thereby increasing the GDP.

2.1.4 The Linkage between Exchange Rate Policy and Economic Growth

Within and outside theoretical realm, there is accepted/optimal exchange rate will enhance economic growth. While macro-and microeconomic analysis of exchange rate system are relied upon in the former, supply and demand analysis of the impact of changes in oil price is used in the latter (Asher, 2012). The exchange rate system adopted by a country majorly depends on its need and level of development attained.

The free floating exchange rate system where exchange rate is determined by the forces of demand and supply which has been found to have worked for developed countries like US and UK has not been successful in developing countries. For instance, Nigeria government announced the reintroduced a flexible exchange rate system on 15th June 2016 to strengthen the value of the local currency and ease pressure on external, yet the value of the local currency kept on depreciating against the US dollar, even up to the point of N520 per 1US dollar in the black market (20th February, 2017).

Economic theory does not clearly articulate how exchange rate regimes can affect economic growth, and there are a limited number of studies which investigate this relationship (Jakob, 2016). While controlling the likely impact of

inflation rate, gross capital formation (%GDP), index of government spending, and index of human capital per person and using data from 74 countries for year 2012, Jakob (2016) empirically established that there is a positive and significant correlation between pegged exchange rate and growth in GDP.

The link between exchange rate regimes and economic growth is still up for debate. There are three types of studies in this area: those that believe a fixed exchange rate regime can contribute to faster economic growth; those that believe a floating exchange rate regime can contribute to faster economic growth; and those that believe a floating exchange rate regime can contribute to Moreno (2000), on the other hand, discovered that the foreign exchange system has a beneficial impact on economic growth, with nations with pegged exchange rates growing faster than those with fixed rates.

These findings are based on a study of 98 emerging East Asian countries from 1974 to 1999. opBleaney and Francisco (2007) found negative correlation between flexible FX regime and growth, using the sample of 91 developing countries, in period 1984-2001. Opposite conclusion can be found in the work of Bailliu (2003). They had a sample of 60 countries, in the period 1973-1998 and by using generalized methods of moments (GMM) conclude that the more flexible FX rates are associated with faster growth. De Grauwe and Schnabl (2004) found the same results, with the same method using the sample of 10 CEE countries, like

Eichengreen and Leblang (2003) who used dynamic panel regression analysis on 21 countries, in period 1880-1997. Dubas (2005) confirm this conclusion and on sample of 180 countries, in period 1960-2002 and found that the countries with fixed foreign exchange regimes have, on average, higher growth (apx. 1%) compared with the countries with floating regimes, but these conclusion is significant only for non-industrialized countries. Third group of studies came up with no effect or inconclusive results.

Husain (2005) used sample of 158 countries, in period 1970-1999, and based on pooled regression found that flexible FX regime do not provide economy growth. No relationship between regime and growth for developed economies can be found in the empirical work of Huang and Malhorta (2004). During the period 1976-2001, they used a rather small sample of 12 developing and 18 developed counties. Domac (2001) validated these findings using a small sample of 22 transition countries during a 10-year period (they used different period, after 1990, for each county). It's also worth mentioning Miles' (2008) work, which applies the difference-in-differences method to a group of emerging markets that changed their currency policy.

2.1.5 Determinants of Exchange Rate in Nigeria

Apart from other macroeconomic factors such as inflation, interest rate, index of industrial and gross fixed capital formation among others, exchange rate is

one of the pivotal determinant of the health of a country. The mechanism of exchange rate determination are different systems of managing the exchange rate of a nation's currency in terms of other currencies and this should be properly done in a way that will bring about efficient allocation of scarce resources so as to achieve growth and development (Udoye, 2009).

Economist have pinpointed factors that determine the adoption of a particular exchange rate system. Interest rate, inflation, balance of payment, current account balance and debt burden have been adjudged to be the most influential elements facilitating the adoption of any exchange rate system. Other consideration include political stability, recession and speculation.

Nwude (2012) has shown that gross domestic product, balance of payment, external reserves, composite consumer price index (inflation rate), deposit rate and lending rate are determinants of exchange rate as there is no statistically significant between real exchange rate and these macroeconomic variables. However, there have been some divergent view in this regard. Adesoye (2012) and Oriavwote and Oyovwi (2012) empirically showed that among other macroeconomic fundamentals, inflation was the determinant of real exchange rate. Not left out is Bakare and Olubokun (2011) who authenticated that purchasing power parity option is the best determinant of real exchange rate.

2.2 Theoretical Background

Exchange rate moves up and down due to dynamic nature of business environment coupled with fluctuation other macroeconomic factors. A downward movement indicates a loss in value (depreciation) while an upward movement indicates a gain in value (appreciation) against other foreign currency (Ibenta, 2012).

Theories such as purchasing power parity, interest rate parity theory, traditional flow theory, portfolio balance model, etc. have been advanced to explain this up and down movement in exchange rate. Nevertheless, the work is hinged on the purchasing power parity theory. For the purpose of this work only purchasing power parity and traditional flow theories were succinctly discussed.

2.2.1 Purchasing Power Parity Theory

Gustav Cassel in 1918 developed the purchasing power parity theory. In effort to retort to call for a substitute exchange rate determination system following the fall of the fixed exchange rate system, the purchasing power parity theory was advanced. The theory states that the exchange rate between two currencies is solely determined by movement of demand and supply forces. The basis of the theory is that, if any pair of currency is set at par, then, the exchange rate differential should reflect variations arising from the purchasing powers of the relative currency in relation to the Base Exchange rates (Ibenta, 2012).

Mimicking the example of Ibenta (2012), the price of semolina in Nigerian and Ghanaian markets should trade at the same price (after adjusting for exchange rate). If the price of semolina is lower in Nigeria, then purchasers will buy wheat in Ghana so far as the price is cheaper (after taking into account transportation costs). This will result in a fall in demand in Nigeria and a rise in Ghana. From this explanation, a favourable/appreciative exchange rate (local currency against foreign currency) will spur economic growth as demand for goods and services would increase production, which eventually leads to a rise in gross domestic product. The purchasing power parity theory has undergone reforms over time and is generally accepted by international financial market operators in determining exchange rates between two currencies.

2.2.2 Traditional Flow Theory

The traditional flow theory of exchange rates centres on the trade account between two countries. The level of goods and services that are traded determines the price at which a unit of one country's currency is exchanged for another country's currency. The linkage existing between the real exchange rate and the movement of goods and services is determined by the current account balance. In a situation where the exchange rate adjusts based on the demand and supply of goods and services within two countries, the country with a trade surplus will accumulate more foreign

currency, and where this is the case, the local currency of surplus trade country will rise while the deficit trade country foreign currency will depreciate.

A common feature of the traditional flow theory of exchange rate determination to the balance of payment is the general is the believe in the ability of exchange rate or domestic price changes to effect a change in relative price and the balance of payments (Ayodele, 2004). In the traditional flow model, the exchange rate adjusts to balance the demand by the domestic resident for foreign exchange on the assumption that the foreign demand for domestic goods is determined essentially by domestic income, the relative income plays a major role in determined exchange rate under the flow model (Onyekachi, 2012).

2.2.3 The Optimal Currency Area (OCA) Theory

The ground-breaking optimal currency area (OCA) theory, developed by Mundell (1961) and McKinnon (1963), remains a theoretical foundation for the adoption of exchange rate policies. This theory emphasizes the need to ensure stability in the business cycle and trade. It is based on concepts of labor market mobility, degree of openness, and symmetry of shocks. In the view of the theory, a fixed exchange rate regime can accelerate trade and output growth by reducing

exchange rate uncertainty and the cost of hedging and encouraging investment by reducing currency premium from interest rates.

Nevertheless, it can also retard output growth and trade by slowing down and stopping the necessary relative price adjustment process. Contemporary exchange rate theories are anchored on the monetary and the asset market or portfolio balance approaches to the balance of payments and view the exchange rate, for the most part, as a purely financial phenomenon. On the other hand, a traditional exchange rate theory lays emphasis on trade flows and contributes to the explanation of exchange rate gyration in the long run. With financial flows now dwarfing trade flow, interest has shifted to modern exchange rate theories, but traditional theories remain essential in the long run (Salvatore, 2012).

2.3 Empirical Review

Okorontah (2020) investigated the impact of macroeconomic variables on the performance of the Nigerian exchange rate. Using annual data from 1985 to 2018, the study looked at the relationship between some macroeconomic indicators and the Naira exchange rate. The OLS technique, the unit root test, the Johansson co-integration test, and the error correction mechanism were all employed (ECM).

The data suggest that the unemployment rate is a crucial determinant of the Naira's exchange rate in the short and long run.

From 2000 to 2017, Ofurum (2019) assessed the contribution of Foreign Direct Investment (FDI) to Nigeria's Gross Domestic Product (GDP). The study was conducted using an ex-post facto research design. In order to test the assumptions, the regression analysis technique was used with the help of E-view version 9.0. According to the report, foreign direct investment in Nigeria's financial industry has had a favorable and considerable impact on the country's Gross Domestic Product. It also revealed that foreign direct investment in the oil sector has had a beneficial and considerable impact on Nigeria's Gross Domestic Product.

Itodo, Adenekan and Sanni (2019) used daily percentage exchange rate returns of the naira per US-Dollar to build an AR(5)-TGARCH (1,1) to see if there is any asymmetry in the time course of the naira exchange rate volatility. Exchange rate volatility, according to the study, produces an increase in exchange rate returns (depreciation). There is also asymmetry in the movement of exchange rate volatility, with negative shocks causing lower exchange rate returns causing volatility to fall by a bigger amount than the negative shock's impact.

From March 1991 through December 2014, Hu and Oxley (2017) employed Phillips, Shi, and Yu (2015)'s Generalized Sup ADF (GSADF) unit root tests to

examine the evidence for exchange rate bubbles in a number of G10, Asian, and BRICS countries. They examined for explosiveness in the nominal exchange rate and its origins, as well as if such explosiveness is caused by rational bubbles or fundamentals in the exchange rate. With a few exceptions, the results for some G10 cross rates indicated that there was little indication of bubbles in most exchange rate pairs. Moreover, there was also evidence of significant explosive behavior in the US Dollar-Mexican Peso exchange rate as well, supporting the hypothesis of a bubble in the US.

From 1986 through 2015, Anyanwu, Ananwude, and Okoye (2017) investigated the impact of the real exchange rate on Nigeria's gross domestic product and industrial capacity utilization. We obtained the time series data from the 2015 Central Bank of Nigeria statistical bulletin. The developed models were estimated using the ordinary least square estimation technique. In terms of impact assessment, the pairwise granger causality demonstrates that real exchange rate has a considerable impact on real gross domestic product and that real exchange rate and real gross domestic product have a positive but negligible association.

Vadivel and Sampath (2017) looked into whether the huge changes in exchange rates and foreign currency assets (FCA) seen in India's foreign exchange markets have any long memory properties. The study employed monthly data from January 1993 to March 2017 using the fractionally integrated autoregressive

moving average (ARFIMA) frameworks of Granger and Joyeux (1980) and Hosking (1980) (1981). Their findings revealed that the foreign currency rate has a long memory, and they advocated that the reference rate be set and that regular participation in the foreign exchange market be encouraged to reduce exchange rate volatility and enhance exports. With the goal of investigating the characteristics of exchange rate volatility in Nigeria and modeling it with exogenous variables to measure any improvement or otherwise of the specified models, as well as to determine the forecasting performance of the specified models, David, Dikko, and Gulumbe (2016) used the GARCH (1,1) to examine the naira exchange rate vis-à-vis the US dollar, euro, British pound, and Japanese yen. In order to build an early warning system for currency crises in Nigeria, Omotosho (2015) modeled currency crisis probability as a logistic function of macroeconomic data.

The study investigated into the extent to which real exchange rate misalignment may be used as a leading indicator of currency crisis by disentangling the impacts of exchange rate volatility and real exchange rate misalignment on the probability of currency crisis. The analysis discovered that, among other things, real exchange rate misalignment increases the likelihood of a crisis. The model's performance was improved by the fact that real exchange rate volatility was very stable. Dada and Oyeranti (2012) determined the impact of the

currency rate on Nigerian macroeconomic aggregates. The research explores the probable direct and indirect association between real exchange rates and GDP growth using annual time series data from 1970 to 2009. A vector autoregressive model and a simultaneous equations model within a fully described (but tiny) macroeconomic model are used to derive the relationship. There is no indication of a substantial direct association between changes in the exchange rate and GDP growth, according to the estimation results. Improvements in exchange rate management are required but insufficient to revitalize the Nigerian economy, according to the findings.

Karahan (2020) studied from 2002-Q1 to 2019-Q1, the effect exchange rate has on Turkey's economic growth; using Innovation Accounting Techniques, Johansen co-integration test and Granger causality test. The result reveals that between exchange rate and economic growth there is a negative effect. Ribeiro, McCombie and Lima (2020), also achieved a negative result after observing the connection real exchange rate has with the economic growth of fifty-four developing countries by focusing on the structural features from 1990-2010.

Morina, Hysa, Ergün, Panait and Voica (2020) utilizing yearly data from 2002 to 2018 for 14 Central and Eastern European countries inspect real exchange rate volatility effect on economic growth. The result shows after the use of panel data that real economic growth is affected significantly and negatively by exchange

rate volatility. In Cambodia, Vorlak, Abasimi and Fan (2019) examined how exchange rate affect the country's economic growth utilizing ordinary least squares (OLS) model on data set spanning 1995 to 2017. The variables in the study consist of trade openness, rate of inflation, gross domestic product, foreign direct investment, exchange rate and money supply. The findings showed a contrast from the previous authors revealing a positive relationship between gross domestic and product exchange rate.

Hussaini, Aguda Niyi and Davies (2018) investigated how exchange rate volatility influences the economic growth of West African English-Speaking Countries. The outcome after employing ordinary least square and fixed and random analysis show that there is an inverse relationship between real exchange rate and economic growth. In Indonesia, using ARDL model on yearly data from 1990 to 2017, Agus, Ignatius and Long (2018) conducted an analysis of exchange rate disconnect puzzle. The analysis showed a relationship involving macroeconomic fundamentals and the rate of exchange. Utilizing GARCH models, Latief and Lefen (2018) examined the relationship international trade, Foreign Direct Investment (FDI) and the rate of exchange have on seven countries that are developing which include; Pakistan, India, Bangladesh, Sri Lanka, Bhutan, Maldives and Nepal.

The study was from 1995-2016 and the outcome showed that the rate of exchange has a direct relationship with international trade for countries like Nepal, Bhutan and Maldives but an inverse relationship for Pakistan. For the relationship between the rate of exchange and FDI, India and Pakistan show a direct relationship while reverse is the case for Nepal and Bhutan. Studying just Nepal, Koirala (2018) looked at how real exchange rate affects economic growth from 1975-2015, with the use of time series data on real exchange rate, money supply, real gross fixed capital formation, gross domestic product and level of trade openness. The outcome of ECM shows a positive relationship between real exchange rate and real GDP. Utilizing generalized differences and methods of moments on forty-five developing countries, Zmami (2018) looked at exchange rate variations and its effect on economic growth from 1985-2015. The outcome reveals an inverse relationship between exchange rate variations and economic growth. It also suggested that exchange rate variations rely on exchange rate regimes and the openness of finances.

In Bangladesh, Khondker (2017) investigated from 1980 to 2012 the impact exchange rate fluctuation has on the growth of the economy. The variables were all stationary at first difference according to ADF outcome. ECM result revealed that on an average in the long-run, a ten per cent fall in real exchange is connected to a three per cent rise in the growth of the economy. The reverse is the case in the

short-run. Using ARDL technique, Peter and Isaac (2017) investigated real rate of exchange and economic growth relationship in Ghana from 1984-2014. The variables employed in the study include; trade openness, real gross domestic product growth, real effective rate of exchange, foreign direct investment, labour force, fixed capital formation and government spending. The result show that in the long run the rate of exchange has an adverse effect on economic growth while the reverse is the case in the short run.

In Nigeria, Musa et al (2019) studied from 1981 to 2017, the connection between the rate of foreign exchange and economic growth of Nigeria. Utilizing ARDL, the result showed that in the long run exchange rate has an inverse and significant relationship with economic growth while in the short run it is insignificant.

Yakub, Sani, Obiezu and Aliyu (2019) utilizing ARDL technique, studied exchange rate fluctuations effect on the flow of trade in Nigeria from 1997 to 2016. GARCH model was employed to produce nominal rate of exchange fluctuations series. The result showed that in the long run there is a direct impact of the rate of exchange fluctuations on the flow of trade while the reverse is the case for the short run. The study also revealed that in the short run trade flows could be impacted negatively by the rate of exchange if neglected. Also using ARDL procedure, Idris, Ashemi and Musa (2019) looked at exchange rate and GDP's

relationship in Nigeria from 1981-2017. The outcome was that exchange rate variation had no significant impact on the gross domestic product of Nigeria. Still in Nigeria but using ordinary least square method, Ufoeze, Okuma,

Nwakoby and Alayekwu (2018) assess how the economy is affected by exchange rate movement. Money supply, oil revenue, gross domestic product, rate of inflation, and rate of exchange were the variables used in the study. The outcome showed that the rate of inflation and the rate of exchange have an inverse effect on economic growth while supply of money and oil revenue have a direct relationship on the economy. In Nigeria, Mohammed (2016) focused on the period during the Structural Adjustment Programmes (SAP) and after, to examine the decline in the rate of exchange and its resultant effect on economic growth spanning 1986- 2012. GDP, government spending, broad money supply, rate of exchange and net export were used as variables.

Using ECM model, the outcome shows no significant impact on economic growth by the rate of exchange. Kenneth, Jonathan and Kenneth (2016) and Obi et al (2016) both studied from 1970 to 2014, the impact exchange rate regime had on the economic growth of Nigeria. Employing generalized moment method (GMM), the result suggested that the lessening of the rate of exchange system will trigger economic growth. They observed that exchange rate regimes matter in the performance of Nigeria. Employing Augmented Dickey Fuller (ADF) test,

standard deviation method, Error Correction Model (ECM), Multiple Regression Model and Johansen Co-integration test,

Amassom and Odeniyi (2016) investigated the rate of exchange fluctuation impact on Nigeria's economic growth from 1970-2013. Rate of inflation, trade openness, rate of exchange fluctuation, oil price and real GDP are the variables used in the study. The outcome observed that in the long run and short run, the rate of exchange has a direct but not significant impact on economic growth. Utilizing Ordinary Least Square technique (OLS), Augmented Dickey Fuller test (ADF) and Granger Causality test, Inam and Umobong (2015) examined the connection between the rate of exchange fluctuations and Nigeria's economic growth from 1970 to 2011. The outcome of the analysis shows a direct and insignificant connection between the rate of exchange and economic growth.

2.4 Summary of the Review

The empirical and theoretical review above revealed inconclusiveness in the results of extant studies. The emphasis placed on the foreign exchange risk and economic growth nexus as shown in the literature and the inconsistency of successive Nigerian political administrations in implementing exchange policies forms the basis for the investigation. The aim of this research is to fill the gap in literature on the role of foreign exchange risk in the Nigerian economy from 2010

– 2022 Therefore, to address the empirical and theoretical gaps identified in the literature, the hypothesis stated in the study will be tested.

CHAPTER THREE

METHODOLOGY

3.2 Research Design

The study adopted an ex-post facto research design which is a form of descriptive research in which researcher starts with the observation of the explained variable then studies the explanatory variable in retrospect for possible relationship and effects on the dependent variable. Onwumere (2009) posits that secondary data are those data already collected and collated and often exist in a

published form. Theoretical and empirical data for this study were obtained from past and relevant studies on the subject matter under study while statistical data for this study were sourced from CBN Statistical Bulletin, 2021.

3.3 Population of the Study

The population of this research is the Nigerian economy from 1960 till date with focus on analysis of the effect of foreign exchange risks on economic growth of Nigeria.

3.4 Sample and Sampling Procedure

The sample size of this research is foreign exchange risks vis – a – vis economic growth in Nigeria within a period of eleven years (2010– 2021).

3.5 Source of Data

This work employed secondary source of data. Secondary data were obtained from the annual statistical bulletin and other reports of Central Bank of Nigeria, and National Bureau of Statistics over the period 2010 – 2020.

3.6 Method of Data Analysis

In this study the researcher adopted the multiple regression analysis based on the classical linear regression model, otherwise known as ordinary least square (OLS) technique. The estimation covered the period between 2010 – 2021 while

the secondary data obtained from the Central Bank (CBN) statistical bulletin for various years were analyzed using E – View 8 package.

3.7 Model Specification

For the purpose of the study a multivariate econometric model was specified and estimated. The model examines the relationship between foreign exchange risk and economic growth using selected appropriate variables such as exchange rate, inflation rate, interest rate and external reserve. The functional specification is shown thus;

$$\text{GDP} = f (\text{EXR}, \text{INF}, \text{INT}, \text{EXRV}) \dots\dots\dots$$

(1) Where: GFP = Gross domestic Product

EXR = Exchange rate

INF = Inflation rate

INT = Interest rate

EXRV = External reserve

The mathematical function is stated thus

$$\text{GDP} = f (\beta_0 + \beta_1\text{EXR} + \beta_2\text{INF} + \beta_3\text{INT} + \beta_4\text{EXTV})$$

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSION

4.1 Data Presentation

Table 4.1: Showing data of Gross Domestic Product (GDP), Exchange Rate (EXR), Inflation Rate (INF), Interest Rate (INTR) and External Reserve(EXRV).

YEAR	GDP Mil ₦	EXR Mil ₦	INF	INTR \$ - ₦	EXTR
2010	9,918.21	1,925.314	12.00	24,770.52	149.69

2011	10,275.34	1,235,467	11.80	20,730.63	150.48
2012	14,800.94	1,147,626	10.30	28,078.81	158.21
2013	19,077.42	3,245.866	12.00	41,329.19	157.32
2014	16,185.73	2,248,939	8.00	34,657.15	157.27
2015	17,003.39	950.001	8.00	28,642.25	169.68
2016	16,185.73	837.259	9.60	26,874.62	196.99
2017	21,128.90	879.067	18.60	38,243.19	305.22
2018	21,904.04	1,048,777	15.40	31,430.50	306.31
2019	25,890.22	875,711	11.40	26,842.07	306.92
2020	38,589.58	1,156.830	11.98	40,270.72	306.95

Source: CBN statistical Bulletin, 2022

4.2 Presentation and Analysis of Result

Dependent Variable: GDP
Method: Least Squares
Date: 09/12/22 Time: 22:45
Sample: 2010- 2020
Periods included: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.020498	0.068268	0.300253	0.7645
EXR	-0.332223	0.111001	-1.422112	0.0005
INF	-0.212345	0.100200	-1.222523	0.0222
INT	-0.191102	0.004222	-5.334222	0.0000
EXRV	6.223112	1.001110	6.123452	0.0000

Effects Specification			
		S.D.	Rho
R-squared	0.8422	Mean dependent var	15632.520
Adjusted R-squared	0.974731	S.D. dependent var	0.177961
S.E. of regression	0.169499	Akaike info criterion	-0.536274
Sum squared resid	-204.6108	Schwarz criterion	0.026480
Log likelihood	-212.3022	Hannan-Quinn criter.	-0.307645
F-statistic	198.5644	Durbin-Watson stat	1.142161
Prob(F-statistic)	0.0000		

Source: E-view 10, 2022

The above result can be represented in an equation form as seen in the work of Morgan (2010) thus: $GDP = -0.332223 (EXR) - 0.212345 (INF) - 0.191102(INT) + 6.223112 (EXR)$

Modeling GDP by OLS

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.020498	0.068268	0.300253	0.7645
EXR	-0.332223	0.111001	-1.422112	0.0005

INF	-0.212345	0.100200	-1.222523	0.0222
INT	-0.191102	0.004222	-5.334222	0.0000
EXRV	6.223112	1.001110	6.123452	0.0000

Source: E-view 10, 2021

Interpretation of Result of Model

Multiple regression models were used to analyze the data this was to establish a function relationship between GDP in one hand and exchange rate, inflation rate, interest rate and external reserve on the other hand.

- ✓ From the result above, the estimate of β_0 is 1.020498. This shows that if the independent variable is zero, the dependent variable would be 1.020498. It also shows that there is a direct relationship between the dependent variable and independents variables.
- ✓ The estimate of Exchange Rate (EXR) is -0.332223. This means that there is a negative relationship between the dependent variable and the independent variable. An increase in Exchange Rate (EXR) by one percent would reduce Gross Domestic Product (GDP) by -0.332223units. Thus, a unit change in Exchange Rate (EXR) would cause Gross Domestic Product (GDP) to change by -0.332223 units.

- ✓ The coefficient of inflation (INF) is -0.212345. This means that there is a negative relationship between the dependent variable and the independent variable. An increase in Inflation (INF) by one unit would cause a reduction in Gross Domestic Product (GDP) by -0.212345 units. Thus, a unit change in Inflation Rate (INF) would cause Gross Domestic Product (GDP) to change by -0.212345 units.
- ✓ A unit change in Interest Rate (INTR) would bring about - 0.191102 change in Gross Domestic Product (GDP) and a unit change in Interest Rate (INTR) will bring about - 0.191102 decrease in Gross Domestic Product (GDP). This shows that there is also a negative relationship between interest rate and Gross domestic product.
- ✓ External Reserve (EXRV) is seen to have a coefficient of 6.223112. This shows that a unit change in External Reserve (EXR) will increase Gross Domestic Product (GDP) by 6.2 units. The out come of this analysis shows that there is a direct positive relationship between government external reserve and Gross Domestic Product.
- ✓ The co-efficient of determination (R^2) is 0.8422 This implies that the dependent variable Gross domestic product (GDP) was able to explain 84.22% of the total variation while the remaining 15.78% was captured by the stochastic variable (u) showing that the variables are suitable.

4.3 Testing of Hypotheses

Hypothesis I

Ho: Foreign exchange risk has no effect on economic growth of Nigeria

The estimate of Exchange Rate (EXR) is -0.332223. This means that there is a negative relationship between the dependent variable and the independent variable.

An increase in Exchange Rate (EXR) by one percent would reduce Gross Domestic Product (GDP) by -0.332223units.

The study therefore concludes that there is no significant relationship between Exchange rate (EXT) and Nigeria's Economic Development (GDP). As such, the null hypothesis Ho which states that Exchange rate (EXT) has no effect on Nigeria Gross domestic product is accepted while the alternate hypothesis is rejected.

Hypothesis II

Ho: Inflation rate has no effect on Nigeria's gross domestic product.

Decision: The coefficient of inflation (INF) is -0.212345. This means that there is a negative relationship between the dependent variable and the independent variable.

An increase in Inflation (INF) by one unit would cause a reduction in Gross Domestic Product (GDP) by -0.212345 units.

The study therefore concludes that there is no significant relationship between inflation rate (INF) and Nigeria's Economic Development (GDP). As such, the null

hypothesis H_0 which states that inflation rate has no effect on Nigeria Gross domestic product is accepted while the alternate hypothesis is rejected.

Hypothesis III

H_0 : There is no relationship between interest rate and Nigeria's economic development

A unit change in Interest Rate (INTR) would bring about - 0.191102 change in Gross Domestic Product (GDP) and a unit change in Interest Rate (INTR) will bring about - 0.191102 decrease in Gross Domestic Product (GDP).

The study therefore concludes that there is no significant relationship between interest rate (INT) and Nigeria's Economic Development (GDP). As such, the null hypothesis H_0 which states that interest rate has no effect on Nigeria Gross domestic product is accepted while the alternate hypothesis is rejected.

Hypothesis IV

H_0 : External reserve has no effect on Nigeria's gross domestic Product.

External Reserve (EXRV) is seen to have a coefficient of 6.223112. This shows that a unit change in External Reserve (EXR) will increase Gross Domestic Product (GDP) by 6.2 units.

The study therefore concludes that there is a positive and significant relationship between External reserve (EXTR) and Nigeria's Economic Development (GDP). As such, the null hypothesis H_0 which states that External reserve (EXTR) has no

effect on Nigeria Gross domestic product is rejected while the alternate hypothesis is accepted.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study examined the effect of foreign exchange risk on economic growth of Nigeria. The study covered the period between the 2010 – 2020. The simple

regression model were used to analysed the data. The following were the findings of the research.

1. It was established that there exist a negative relationship between foreign exchange movement and gross domestic product in Nigeria. This is an indicative that improved GDP requires reduction on exchange rate (EXR) because the higher the exchange rate, the lower the importation of equipment and raw materials that can boost production which is a prerequisite for GDP growth.
2. The study also revealed a negative relationship between inflation rate and gross domestic product. An increase in inflation rate affects the country's economic development.
3. It was discovered that there is no relationship between interest rate and Nigeria's economic development, the relationship that exists between the variables is a negative one. Reduction in interest rate will encourage businesses to flourish and boost the country's gross domestic product.
4. The study also found a positive and significant relationship between Nigeria's external reserve on gross domestic product. The external reserve of a country facilitates its growth and development.

5.2 Conclusion

The need for promoting long run economic growth has heightened in Nigeria, especially given recent experience of long-term downturns. Two critical aspects in stimulating growth which both domestic policy makers and international bodies have agreed on is with respect to stabilizing the exchange rate and ensuring macroeconomic stability. This has made the role of exchange rate management every crucial for attaining growth, especially in the long run in Nigeria. Policymakers in the country are also facing numerous challenges from the global changes in investment strategies over time with implications for the naira. These are the main areas of focus in this study where the role of exchange rate management (including foreign reserves and foreign capital inflows) on economic growth is examined. The study has shown that though exchange rate depreciations negatively affects economic growth in the short run, the long run responses of growth are only felt when there are sharp changes in the naira exchange rate.

5.3 Recommendations

Recommendations Based on the findings of the study, the following recommendations are made;

- i. Policymakers and monetary authorities should evolve policies on foreign exchange to avoid speculation in the foreign exchange market, political influence and premium seekers taking advantage of the Nigerian economy.
- ii. Nigerian government should endeavour to stabilize the exchange rate of Naira in order to increase economic growth.
- iii. The government should encourage and increase money supply in a bid to finance domestic production of export commodities in order to reduce imports which leads to rise in the value of exchange rate.
- iv. To maintain exchange rate and economic stability, more attention needs to be paid by the Nigerian government to other more relevant macroeconomic variables like oil price and inflation rate in Nigeria.
- v. There is need for other foreign exchange management measures especially in terms of meeting the high demand for foreign currency which characterized and dictate the performance and trade balance and overall economic performance in Nigeria.

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APPENDIX I

YEAR	GDP Mil ₦	EXR Mil ₦	INF	INTR \$ - ₦	EXTR
2010	9,918.21	1,925.314	12.00	24,770.52	149.69
2011	10,275.34	1,235,467	11.80	20,730.63	150.48
2012	14,800.94	1,147,626	10.30	28,078.81	158.21
2013	19,077.42	3,245.866	12.00	41,329.19	157.32

2014	16,185.73	2,248,939	8.00	34,657.15	157.27
2015	17,003.39	950.001	8.00	28,642.25	169.68
2016	16,185.73	837.259	9.60	26,874.62	196.99
2017	21,128.90	879.067	18.60	38,243.19	305.22
2018	21,904.04	1,048,777	15.40	31,430.50	306.31
2019	25,890.22	875,711	11.40	26,842.07	306.92
2020	38,589.58	1,156.830	11.98	40,270.72	306.95

Source: CBN statistical Bulletin, 2022

Dependent Variable: GDP
Method: Least Squares
Date: 09/12/22 Time: 22:45
Sample: 2010- 2020
Periods included: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.020498	0.068268	0.300253	0.7645
EXR	-0.332223	0.111001	-1.422112	0.0005
INF	-0.212345	0.100200	-1.222523	0.0222
INT	-0.191102	0.004222	-5.334222	0.0000
EXRV	6.223112	1.001110	6.123452	0.0000

Effects Specification			
		S.D.	Rho
R-squared	0.8422	Mean dependent var	15632.520
Adjusted R-squared	0.974731	S.D. dependent var	0.177961
S.E. of regression	0.169499	Akaike info criterion	-0.536274
Sum squared resid	-204.6108	Schwarz criterion	0.026480
Log likelihood	-212.3022	Hannan-Quinn criter.	-0.307645
F-statistic	198.5644	Durbin-Watson stat	1.142161
Prob(F-statistic)	0.0000		