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Relationship Between Exchange Rate and the Nigerian Economy

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Abstract

This study examined the relationship between exchange rate and the Nigerian economy from 1986 to 2016. Secondary data obtained from the Central Bank of Nigeria statistical bulletin and the World Bank database was used. Econometric tools of analysis were employed to estimate the model. The output from the Augmented Dickey Fuller (ADF) unit root test revealed that all variables except inflation rate and interest rate were found to be stationary at first difference. The Johansen Cointegration technique reveals the presence of two and one cointegrating equations respectively indicating the existence of a long-run equilibrium relationship among Gross. The normalized cointegration equation revealed that exchange rate had positive relationship with economic growth (GDP). The slope of EXR (exchange rate) though insignificant is positive. The coefficient of INTR was observed to be negative and insignificant, while INFR was negative and statistically significant. Deriving from empirical findings, the study thus concludes that exchange rate has a positive long run relationship with economic growth. Based on the foregoing findings, the study has favoured the implementation of the following recommendations: government should encourage export promotion strategies in order to maintain a surplus balance of trade, conducive environment, adequate security, effective fiscal and monetary policies, as well as infrastructural facilities be provided so that foreign investors will be attracted to invest in Nigeria. The apex bank (Central Bank of Nigeria) should design and develop strategies that will stem the tide of rising inflation in the economy as persistent rise in prices has the tendency of adversely affecting consumers' purchasing power. Finally, monetary policy measures to reduce the present high interest rate adopted for borrowers should be initiated as fast as possible. It is only an affordable interest rate (cost of borrowing) that can motivate would-be investors to borrow and invest for the growth of the national economy.

Keywords: Exchange Rate, Economy, Nigerian