Exchange Rate Variation and Balance of Payments: The Nigerian Experience (1970-2012)

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Abstract : The study tried to examine relationship between exchange rate variations on the balance of payments in Nigeria from 1970 to 2012. Using time series on econometric measures such as Granger causality and ordinary least square (OLS), the study found that exchange rate movements especially the depreciation of naira has not contributed significantly on the balance of payments under the year of the study. The granger result conform the Marshall-Lerner short and long run prepositions that exchange rate devaluation enhances balance of payments. On disaggregation exchange rate granger causes current and capital account balances give the Nigeria data from 1970 to 2012. Overall in the long run OLS regression analysis, exchange rate on semi log functional form, exchange rate variation did not record significant effect on balance of payment equation. This height was also maintained in the current or trade balance which does not match the Marshall-Lerner. The capital account balance in reverse reported a significant impact of exchange rate variability on the capital account balance. Finally, on exchange rate determination equation, where many fundamentals were considered including lagged of exchange rate. Thus, the lagged of exchange rate recorded a positive and significant influence on the present exchange rate. This means that players in the financial markets usually out plays authority's policy's stances through their speculative tendencies. The work therefore, recommend that effort should be made by the authorities to providing enabling environment for production of goods and services to triumph in order to take advantages of steady devaluation of its currency. This is done by providing infrastructure, provision of science and technology. Thus, when this is done Nigeria would be able to have competitive power against the rest of the world.

Keywords : exchange rate variation, balance of payments, current account, capital account, Marshall-Lerner hypothesis
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