THE EFFECT OF AUDIT QUALITY ON FINANCIAL REPORTING QUALITY OF DEPOSIT MONEY BANKS IN NIGERIA

BY

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A PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF NATIONAL DIPLOMA IN ACCOUNTANCY IN THE DEPARTMENT OF ACCOUNTANCY SCHOOL OF COMMERCE AND MANAGEMENT SCIENCES BAYELSA STATE POLYTECHNIC, ALEIBIRI

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DECLARATION

I declare that this project is based on a study conducted by me, TariebiThankgod in the Department of Accountancy, Bayelsa State Polytechnic, Aleibiri under the supervision of MrTiminipreOkpobo. This project report has not been submitted elsewhere for the award of a degree. The ideas and views of the research project are products of research undertaken by me. Where the ideas and views of other authors/researchers have been expressed, they have been duly acknowledged.

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CERTIFICATION

The project, the effect of audit quality on financial reporting quality of deposit money banks in Nigeria, meets the regulations governing the award of National Diploma in Accounting, Department of Accountancy, Bayelsa State Polytechnic, Aleibiri.

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DEDICATION

This project work is dedicated to the Almighty God for everything He has done, He is doing and He will do in my life. To Him alone be the glory, honour and praise forever.

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I want to appreciate all my lecturers at Bayelsa State Polytechnic, especially my project supervisor, MrTiminipreOkpobo, for his patience, understanding, constructive and painstaking corrections in the course of this work. Special thanks to the Dean of our school, Mr. James Poyeri, our amiable HOD, Dr Laime Isaac Odogu, Dr Sunday Zibaghafa, Mr Suleiman Disu and Mr Anderson Obalakumo, for the knowledge they have imparted in me throughout my programme.

I also want to sincerely appreciate my parents and siblings, as well as my friends and loved ones for everything they have done for me.

ABSTRACT

The objective of this study was to examine the effect of audit quality on financial reporting quality of deposit money banks listed on the Nigerian stock exchange. Data were extracted from audited annual reports of the eight deposit money banks with international authorization listed on the Nigerian Exchange Group for ten years, 2014-2023. These eight banks served as the population size and sample sie of this study. The study used panel multiple regression and employed Hausman's test to choose between Random and fixed effect model. Random effect model was chosen and interpreted. It was found out that audit firm size, audit tenure, and audit fees affect Financial reporting quality(FRQ), but only the effect of audit fees was statistically significant. On the basis of the findings of this study, it was recommended that, among others, banks should make use of the services of audit firms with unquestionable track records as it concerns audit quality and audit reputation, one whose character and integrity is beyond question.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Exchange rateis perhaps one of the most widely discussed topics not only in Nigeria today, but globally. In fact, it is at the hub of global financial system and it also sets the terms and conditions on which countries trade each other's goods and services. Exchange rateis one of the most crucial key microeconomic variables in the context of general economic policy making and reform programmes. It is an important component in determining the rate and extent of growth of the economy of the nation (Ani & Udeh, 2021). Therefore, the issue of methods of management of exchange ratehas been a common phenomenon in international monetary economics. Chou and Hsiao (2000) opined that the discourse on exchange ratemanagement transcended the collapse of the gold standard in the 1930s to the emergence of Bretton Wood System of adjustable peg from the 1940s through other various exchange rates. As a matter of fact, the debate moves along the two notable poles of fixation and flexibility. With the move from fixed to flexible exchange in Europe in 1973, there was increasing concern about effects of exchange ratevariability on trade. Flexible exchange ratewhich followed the collapse of the Breton Wood System is of concern to economists and policy makers (Bergen, 2017).

The Nigerian economy has been visibly distressed in the different phases of exchange rate management (ERM); each coming with its own possible problem. According to Ani and Udeh (2021), frequent changes in foreign exchange policies caused by unstable political environment have prevented these policies from coming full circle. Exchange rate stability, which is

essential for growth is influenced greatly by the appropriate policy mix by government in their quest to attain macroeconomic targets. Mordi (2006) posits that fluctuations in exchange rate have powerful effects on imports and exports of the countries in question through relative prices of goods, hence the Nigerian economy is highly dependent on imports for both consumption and production. According to World Bank (2003), many oil producing nations are exposed to variations in exchange rate due their large oil wealth. This variation which acts as tax on investment in trade goods production has adverse impact on growth especially on agricultural and manufacturing sectors. Campbell (2010) agrees that the exchange rate of the naira was relatively stable between 1970 and 1979 during the oil boom era and when agricultural produce accounted for more than 70% of the nation's Gross Domestic Products (GDP). In 1986, when thefederal government adopted Structural Adjustment Programme (SAP), the country moved from a pegged to a flexible regime where exchange rate was left completely to be determined by market forces but with monetary authorities intervening periodically in the foreign exchange market in order to attain some strategic objectives (Mordi, 2006). This inconsistency and lack of continuity in exchange rate policies aggravated the unstable nature of the naira rate (Gbosi, 2005). Benson and Victor (2012) note that despite various efforts by the government to maintain a stable exchange rate, the naira has continued to depreciate throughout the 80's to date. Gross National Product (GNP) was similarly affected. The combined effects of exchange rate variability on GDP and GNP, among others, resulted in the abysmal low level of per capita income of Nigerians. The economic implication of this may not be clear to the ordinary citizens. What they invariably understand is that the Naira has lost reasonable proportion of its purchasing power. This is often reflected in the quantity of goods and services purchased by Naira (Ani & Udeh, 2021).

Mordi (2006) asserts that another area where deplorable state of the GDP and GNP in Nigeria usually become evident is in unemployment rate. Consequent upon the intrinsic relationship

between these variables, unemployment rate in the country has continued to rise unabated with decline in the GDP and GNP. There is no gainsaying that the economic, psychological and physical consequences of unemployment in a country like Nigeria where provision of social welfare for the unemployed is seen as hallucination, can better be imagined than described (Mordi, 2006).

It goes without saying that, according to Ani and Udeh (2021),since the generalized fixed exchange rate regime and adoption of floating system by the industrialized countries in 1973, most countries including Nigeria, have experimented with various types of exchange rate arrangement ranging from the peg system to weighted currency basket, managed floating and more recently, to the monetary zone arrangement (Mordi, 2006). Inconsistent management of the various exchange rate regimes adopted so far by the country to help check volatility appears to have jeopardized the overall macroeconomic policy objectives. According to Mordi (2006), once an exchange rate is not fixed it will be subject to variation, thereby making floating exchange rates more volatile. The degree of volatility and the extent of stability maintained are affected by economic fundamentals. Thus, strong economic fundamentals are meant to produce favourable economic environment.

According to Ukangwa and Ikechi (2022), there is no gainsaying the fact that the naira exchange rate has been fluctuating since the introduction of the Structural Adjustment Programme (SAP) in 1986. The Nigerian situation since SAP has mostly been characterized by increasing demand which outstripped supply, contributing generally to the continuous depreciation of the naira. The SAP was designed to deal with the underlying imbalances in the Nigerian economy following the collapse of international oil market. This phenomenon of excess demand for foreign exchange in relation to supply has contributed to the dwindling fortunes of the naira in all the foreign exchange markets. Also, weak production base and undiversified nature of the economy are among the factors that led to the depreciation of Naira.

The country's over dependency on oil as the main source of revenue resulted in negligence of non-oil exports for foreign exchange earnings in the early 1970s and even up till this period (Egbujor, 2012). The enormous foreign exchange earnings from crude oil exports encouraged the massive importation of finished goods and services. The implication of over dependency on export of oil is that the economy is highly prone to external shocks to the extent that any crash in the oil price would lead to decline in foreign exchange earnings, and destabilizing effects on macroeconomic variables such as exchange rate, gross domestic product, interest rate and inflation rate. According to Ani and Udeh (2021), adverse foreign exchange rateregimes adopted so far have affected the Nigerian economy over the years. The combined effect of dwindling price of oil and the volatility in exchange ratedue to inconsistency in rate regimes has led to constant depreciation of naira.

In Nigeria, the exchange rate policy has undergone significant transformation from the immediate post-independence period when the country maintained a fixed parity with the British pound, through the oil boom of the 1970s, to the floating of the currency in 1986, following the near collapse of the economy between 1982 and 1985 period. In each of these epochs, the economic and political considerations underpinning the exchange rate policy had important repercussions for the structural evolution of the economy, inflation, the balance of payments and real income. There could not be a better time to research into this line of interest as there has never been a time in the history of Nigeria that Naira fell to the tune of N630 to 1 dollar in the official market, hence, the focus of this research is to examine the effect of Naira value on economic growth in Nigeria. This study therefore seeks provide answers to questions: does the Naira rate have significant impact on economic growth in Nigeria? It also seeks to establish the extent to which Naira rate have influenced economic growth; and to examine the extent to which the Naira rate have influenced the inflation in Nigeria.

1.2 Statement of the Problem

Promotion of economic growth is one of the major objectives of international trade, but in recent times, this has not been the case because the Nigerian economy is still experiencing some elements of economic instability such as price instability, high level of unemployment and adverse balance of payments. Furthermore, the benefits of international trade had not been noticed in the economic growth of Nigeria because some of the goods imported into the country were those that cause damages to local industries by rendering their products inferior and being neglected, thereby reducing the growth rate of output of such industries which later spread to the aggregate economy. Also the poor performance of international trade has been ostensibly blamed on factors such as different languages, difficulty in transportation, risk in transit, lack of information about foreign businessmen etc.

According to Mordi (2006), once an exchange rate is not fixed it will be subject to variation, thereby making floating exchange rates more volatile. The degree of volatility and the extent of stability maintained are affected by economic fundamentals. Thus, strong economic fundamentals are meant to produce favourable economic environment. The naira exchange rate has been fluctuating since the introduction of the Structural Adjustment Programme (SAP) in 1986. The Nigerian situation since SAP has mostly been characterized by increasing demand which outstripped supply, contributing generally to the continuous depreciation of the naira. The SAP was designed to deal with the underlying imbalances in the Nigerian economy following the collapse of international oil market. This phenomenon of excess demand for foreign exchange in relation to supply has contributed to the dwindling fortunes of the naira in all the foreign exchange markets. Also, weak production base and undiversified nature of the

economy are among the factors that led to the depreciation of Naira. The country's over dependency on oil as the main source of revenue resulted in negligence of non-oil exports for foreign exchange earnings in the early 1970s. The enormous foreign exchange earnings from crude oil exports encouraged the massive importation of finished goods and services. The implication of over dependency on export of oil is that the economy is highly prone to external shocks to the extent that any crash in the oil price will lead to decline in foreign exchange earnings, and destabilizing effects on macroeconomic variables such as exchange rate, gross domestic product, interest rate, and inflation rate. According to Obadan (2018), adverse foreign exchange rate regimes adopted so far have affected the Nigerian economy over the years. The combined effect of dwindling price of oil and the volatility in exchange rate due to inconsistency in rate regimes has led to constant depreciation of naira. It is against this background that this study is structured.

1.3 Objectives of the Study

The main objective of this study is to investigate the effect of exchange rate on economic growth in Nigeria. Specifically, this study aims to:

i. Examine the impact of exchange rate on gross domestic product (GDP) of Nigeria.
ii. Ascertain the effect of exchange rate on gross national product (GNP) of Nigeria.
iii. Investigate the effect of exchange rate on unemployment in Nigeria.

1.4 Research Questions

The following research questions are raised in order to empirically investigate the effect of exchange rate on Nigeria's economic growth:

i. What is the effect of exchange rate on gross domestic product of Nigeria?

ii. How does exchange rate impact the gross national product of Nigeria?

iii. What is the relationship between exchange rate and unemployment in Nigeria?

1.5 Statement of Research Hypotheses

In order to statistically investigate the effect of exchange rate on economic growth in Nigeria, the following research hypotheses are stated:

Ho 1: Exchange rate has no effect on gross domestic product of Nigeria.

Ha 1: Exchange rate has effect on gross domestic product of Nigeria.

Ho 2: There is no impact of exchange rate on gross national product of Nigeria.

Ha 2: There is impact of exchange rate on gross national product of Nigeria.

Ho 3: There is no relationship between exchange rate and unemployment in Nigeria.

Ha 3: There is a relationship between exchange rate and unemployment in Nigeria.

1.6 Significance of the Study

The significance of this research work lies in the fact that if the causes of the unstable exchange rate of the naira is identified and corrected, the economy will rapidly grow and develop into an advanced one. This is so because if the unstable exchange rate of the naira is proved to be affecting badly the macro-economic major variables, including real exchange rate, real interest rate, inflation rate, gross domestic product and trade openness of the country, attempts should be made to stabilize the exchange rate. This is because these variables are

gauge for the importantly measurement of growth and development of any economy. Importantly, this study would help the government and the central bank of Nigeria (CBN) to identify the strength and weakness of each foreign exchange system and hence adopts the policy that suits the economy best this will definitely enhance growth and development of the economy, the study will also serve as a guide to future researchers on this subject.

1.7 Scope of the Study

The scope of this study can be considered from three different angles. The **content scope** is exchange rate and economic growth. The **geographic scope** is the public sector of the Nigerian economy (comprising all ministries, departments and agencies of the federal government of Nigeria, and the **time scope** of this study is a 10-year period from 2013 to 2022.

1.8 Definition of Terms

Exchange rate: Exchange rate refers to the absolute value of a country's currency in comparison with other currencies on equal footing. It is the weight of a country's currency in an international scale. It is usually the basis of international payment between countries.

Economic growth: Economic growth can be defined as an increase in the production of goods and services in an economy. Increases in capital goods, labour force, technology and human capital can all contribute to economic growth.

Gross domestic product: Gross domestic product can be defined as the total monetary or market value of all the finished goods and services produced within a country's borders in a specific period of time

Gross national product: Gross national product can be defined as the total value of goods produced and services rendered by a country during one year, by the means of production owned by a country's residents.

Unemployment: Unemployment can be defined as a situation where a person actively searches for a job, a vocation or an occupation but finds none. It is considered to be a key measure of the health of the economy.

Forex market: This is a market that allows participants such as banks and individuals to buy, sell or exchange currencies for both hedging and speculative purposes. The foreign exchange (forex) market is the largest financial market in the wirld and is made up of banks, commercial companies, central banks, investment management firms, hedge funds, retail forex brokers and investors.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Conceptual Review

In an empirical investigation published in 2014, Adeniran, Yusuf and Adeyemi used secondary data from the Central Bank of Nigeria Statistical Bulletin and correlation and regression analysis of the ordinary least square (OLS) as methods for data analysis. They looked at the impact of exchange rate fluctuations on Nigerian economic growth from 1986 to 2013.Their findings confirmed those of earlier studies that developing countries are generally better off when choosing flexible exchange rate regimes by showing that exchange rates have a favourable but not particularly significant impact on economic growth. Their findings also suggested that while inflation and interest rates are detrimental to economic growth, they are not particularly so. According to Aiya (2014), currency devaluation is a macroeconomic fiscal strategy that focuses on a purposeful decline in the value of the domestic currency with the goal of maximizing gain in trade-able goods. If there is "fundamental imbalance" in a country's international payment situation, whether that the country's imbalance is caused by external sources or domestic developments or components. Devaluing a currency is a difficult decision that is made as a final option after several partial replacements have been used. Since currency values are mostly evaluated against the American "Dollar," a decline or appreciation in the dollar value of a foreign currency will have a significant impact on the value of another domestic currency when transacting internationally with that nation. However, the absorption technique maintains that the elasticity is irrelevant and that the trade balance only improves if the country's Gross Domestic Product (GDP) grows faster than domestic consumption. The Babangida-led Administration of Nigeria was responsible for legally introducing currency

depreciation. The Structural Adjustment Programme (SAP) was put in place in 1986 with the goal of achieving a reasonable exchange rate for the naira, which at the time was seen to be overvalued. In order to encourage the diversification of indigenous products and exports, several Nigerian governments, most notably the Buhari-led administration, have shown interest in devaluing the Nigerian naira. However, the Nigerian government's policy framework and priorities have consistently encouraged importing activities while discouraging exports. The consequences of this approach made life challenging for the typical Nigerian. (Aiya, 2014).

The value of the Nigerian "Naira" in relation to the American "Dollar" has been rising steadily, and similar trends have been observed for the British "Pound Sterling," Swiss "Franc," and European "Euro". One of the main reasons significant importation operations deal directly with these nations is because the CFA Franc, China Yuan, and Japanese Yen have all maintained a steady exchange rate to the Naira. For instance, China's sudden devaluation of the Yuan, which began in August 2015 and reduced its value by more than 3%, shocked the global economy.Despite capital outflows and reserve losses, China's currency has increased 33% versus the US dollar since 2005, which is a significant increase. Therefore, in order to stabilize reserves, China's capital account had to be tightened, which was not unexpected given that stability had long been a top priority for the Chinese economy in global commerce. China continues to expand three times faster than the developed world, which is largely the result of greater GDP and income growth in China than in the West. China's devaluation process has improved their ability to compete on the global trade market and has turned them into a major exporter of goods.

Since the end of apartheid in 1994, the South African economy has been a vital component of the global economy, making it more vulnerable to exchange rate changes and providing

excellent opportunities for trade (Jordaan &Netshitenzhe, 2015). In order to promote exports, South Africa needed to continuously improve its competitiveness, which was made clear in the policy documents of its National Development Plan (NDP). This was done in order to continue economic development, generate employment, and increase exportation operations. The struggle of the South African economy prompted discussions about depreciation, appreciation, or currency rate stabilization (Edwards & Garlick, 2007). The Congress of South African Trade Unions is a proponent of the depreciation of the South African "Rand," arguing that a weaker rand makes South African export goods more competitive. The real effective exchange rate (REER) of South Africa fell by 36% between January 1990 and January 2014, underscoring the impact of currency rate depreciation on the country's ability to generate income from exports. In response to the rand's REER devaluation, South Africa's overall exports of manufactured goods, mining exports, and agricultural products are anticipated to rise (Jordaan &Netshitenzhe, 2015). However, it was noted that after 2001, the Rand's strength had a detrimental impact on industrial output and potential exporting operations (Business Day, 2003). For instance, in Nigeria, the Naira exchange rate for the dollar climbed from 109.55 to 150.3 and then to 305.8 between 2000 and 2010 and 2017, respectively (IMF, 2018). Within the same time frame, the pounds, Euro, and Swiss Franc all had comparable value increases to the naira. However, the exchange rates between the Chinese Yuan and the Japanese Yen and the Naira remain constant and low. According to CBN (2016), the exchange rate for the Japanese yen ranged from 0.9546 to 2.1357 from 2000 to 2016. By maintaining a consistent low and single digit inflation rate in their economies and promoting exportation operations, the nations' inflation rates improved their standing on the global market. For instance, China's inflation rate ranged from 0.3 % in 2000 to 2.0 % in 2016, with the greatest rate of 5.9 % occurring in 2008 (IMF statistics, 2018). With its greatest inflation rate of 2.8 % in 2014, the Japanese inflation rate also showed -0.7 % in 2000 and 0.1 % in 2016. The

inflation rate in South Africa was 5.3 % in 2016 and continued to swing up and down, reaching 6.3 %, with the year 2008 seeing the highest inflation rate of 11.5 %. The worldwide economic recession of 2008, which had an impact on South Africa's economy's cost of living and foreign trade operations, was the cause of this inflationary pressure (IMF data, 2018). However, the inflation rate in Nigeria is quite high, having doubled between 2000 and 2016 to reach 15.7 % from 6.9 % in 2000.

With the highest exportation income of $126,865,798,283 in 2011 for South Africa and $202,589,270,000 in 2000 for China, the export of goods and services with primary income increased for both countries from $36,995,346,355 in 2000 to $103,835,466,913 in 2017 at an average annual rate of 8.02 percent and $2,702,274,321,141 in 2014 at an average annual rate of 17.70 percent, respectively (IMF data, 2018). This demonstrates that, as a result of the declining currency exchange rate to the dollar, the decline in the price of crude oil, the rise in inflation, and the high level of importation activities within the Nigerian economy in global trade, the commensurate increase experienced in South Africa and China completely lacks in the Nigerian factor. Nigeria's economy is very vulnerable to trade, and its continued reliance on imports is disastrous for its export-oriented operations. An important component of a nation's efforts to broaden its source of income and steer the economy toward expansion and economic advancement is the development of export revenue. In the same way that Ricardo noted that international commerce is extremely advantageous to a nation, it also plays a crucial part in the expansion of any economy. Economic literature refers to this as export led growth. According to Adenugba, Dipo, and Sheridan (2013) and 2014, export is a crucial catalyst for an economy's overall growth and an encouragement for growth. In a growing nation like Nigeria, increasing exports aids in maintaining a positive trade balance and, as a result, a positive balance of payments situation. As a result, domestic production capacity tends to

increase, employment levels rise, unemployment rates decline, aggregate demand is strengthened, and domestic investment grows further as foreign profits rise as a result of export expansion (Omojolaibi, Mesagan& Adeyemi, 2015). The best way to define the exportation sector of an economy is as those economic activities that involve exporting goods and services. This segment includes all transactions between citizens of one country and the rest of the world that involve the transfer of ownership of general merchandise, net exports of goods under merchant-like, non-monetary gold, and services from citizens to noncitizens. The following activities are included in this list: telecommunication services, tourism services (hotels, restaurants, parks, carnivals, movies, and health services), wholesale and retail trade, financial sector (banking and insurance) services, agricultural and mineral activities (products), trade, manufacturing activities (products), environmental services (cleaning, waste collection and recycling), ICT, etc (Adulagba, 2011 &Onwualu, 2012). The Nigerian economy needs to diversify in order to reduce its reliance on crude oil exports as a main source of income and to create other non-oil sectors of the economy that can also generate export money from their exporting operations.

2.1.2 Concept of Exchange Rate

Exchange rate is the price of one country's currency expressed in terms of other currencies. It determines the relative price of the domestic goods, as well as the strength of external sector participation in the internal trade. Exchange rate regime and interest rate remain important issues of discourse in the international finance as well as in developing nations, and more in economics embracing trade liberalization as requisite for economic development (Obansa, Okoroafor, Aluko & Eze, 2003). In the view of Ukangwa and Ikechi (2022), exchange rate refers to the absolute value of a country's currency in comparison with other currencies on

equal footing. It is the weight of a country's currency in an international scale. It is usually the basis of international payment between countries affected by certain factors. Bergen (2017) argues that it is affected by differential in inflation, differential in interest rate, current account deficits, public debts, balance of trade, political stability and economic performance. Conceptually, an exchange rate implies the price of one currency in terms of another; in the Nigerian context, it is the units of naira needed to purchase one unit of another country's currency e.g the United States dollar (Campbell, 2010). The management of any country's foreign exchange market is carried out within the ambit of a foreign exchange policy, which according to Egbujor (2012) is the sum total of the institutional framework and measures put in place to gravitate the exchange rate fluctuations towards desired levels in order to stimulate the productive sectors, curtail inflation, ensure internal balance, improve the level of exports and attract direct foreign investment and other capital inflows. Exchange rate policy also determines the mechanism for channeling foreign exchange to end-users and therefore, reflects the institutional framework, system of exchange rate determination and allocation of foreign exchange rate fluctuations as well as the policy options for managing the exchange rate fluctuations (Amadeo, 2018).

According to Ani and Udeh (2021), an exchange rate is the occurrence of two different values of a currency for different sets of monetary transactions. One of the most common types consists of a government setting one exchange rate for specific transactions involving foreign exchange and another exchange rate governing other transactions. An exchange rate policy can arise for a variety of reasons. In the past, European and Latin American countries have used exchange rates to ease the transition from a fixed rate to a floating rate. Exchange rates are similar to multiple exchange rates in that they can appear when there is simultaneously both an official and black market rate (Ani & Udeh, 2021).

To Ukangwa and Ikechi (2022), an exchange rate is a set up created by a government where their currency has a fixed official exchange rate and a separate floating rate applied to specified goods, sectors or trading conditions. The floating rate is often market-determined in parallel to the official to the official exchange rate. The different exchange rates are intended to be applied as a way to help stabilize a currency during a necessary devaluation. An exchange rate system is usually intended to be a short-term solution for a country to deal with an economic crisis. Proponents of the policy believe that it helps the government by maintaining optimal production and distribution of exports while keeping international investors from rapidly devaluing the currency in a panic. Critics of the policy believe that such an intervention can only add volatility to the market dynamics as it would increase the degree of fluctuation in normal price discovery (Ukangwa& Ikechi, 2022).

The view of Aliyu, Yakub, Sanni and Duke(2009) is that in an exchange rate system, currencies can be exchanged in the market at both fixed and floating exchange rates. A fixed exchange rate would be reserved for certain transactions such as imports, exports and current account transactions. Capital account transactions, on the other hand, may be determined by a market-driven exchange rate. An exchange rate system can be used to lessen pressure on foreign reserves during an economic shock that results in capital flight by investors. The hope would be that such a system can also alleviate inflationary pressures and enable governments to control foreign currency transactions (Aliyu *et al,* 2009).

2.1.3 Developments in Exchange Rate Policy in Nigeria

The objectives of an exchange rate policy include determining an appropriate exchange rate and ensuring its stability. Over the years, efforts have been made to achieve these objectives through the applications of various techniques and options to attain efficiency in the foreign

exchange market. Exchange rate arrangements in Nigeria have transited from a fixed regime in the 1960s to a pegged regime between the 1970s and the mid-1980s and finally, to the various variants of the floating regime from 1986 with the deregulation and adoption of the structural adjustment programme (SAP). A managed floating exchange rate regime, without any strong commitment to defending any particular parity, has been the most predominant of the floating system in Nigeria since the SAP.

Following the failures of the variants of the flexible exchange rate mechanism (the AFEM introduced in 1995 and the IFEM in 1999) to ensure exchange rate stability, the Dutch Auction System (DAS) was re-introduced on July 22, 2002. The DAS was to serve the triple purposes of reducing the parallel market premium, conserve the dwindling external reserves and achieve a realistic exchange rate for the naira. The DAS helped to stabilize the naira exchange rate, reduce the widening premium, conserve external reserves, and minimize speculative tendencies of authorized dealers. The foreign exchange market has been relatively stabilized since 2003.

As indicated by Mordi (2006), The conditions that facilitated the re-introduction of DAS in 2002 included, the external reserve position which could guarantee adequate funding of the market by the CBN; reduce inflationary pressures; instrument autonomy of the CBN and its prompt deployment of monetary control instruments in support of the DAS as well as the bi-weekly auctions as against the previous fortnightly auctions, thus assuring a steady supply of foreign exchange.

In order to further liberalize the market, narrow the arbitrage premium between the official interbank and bureau de change segments of the markets and achieve convergence, the CBN introduces the Wholesale Dutch Auction System (WDAS) on February 20, 2006. This was meant to consolidate the gains of the retail Dutch Auction System as well as deepen the foreign exchange market in order to evolve a realistic exchange rate of the naira. Under this

arrangement, the authorized dealers were permitted to deal in foreign exchange on their own accounts for onward sale to their customers. These exchange rate regimes have had some implication for economic performance.

2.1.4 Exchange Rate Movement and Macroeconomic Performance

Contained in Figure 1 is a graphical illustration of exchange rate movements and selected macroeconomic variables. Analysis of Nigeria's exchange rate movement from 1970-2010suggests a causal relationship between the exchange rate movements and macroeconomic aggregates such as inflation, fiscal deficits and economic growth. Evidently, the persistent depreciation of the exchange rate trended with major economic variables such as inflation, GDP growth, and fiscal deficit/GDP ratio. In this context, the exchange rate movement in the 1990's trended with inflation rate. A close observation indicates that during periods of high inflation rate, volatility in the exchange rate was high, which was also reversed in a period of relative stability. For instance, while the inflation rate moved from 7.5 per cent in 1990 to 57.2 per cent and 72.8 per cent in 1993 and 1995 respectively, the exchange rate moved from ₦8.04 to$1 in 1990 to ₦22.05 and ₦81.65 to a dollar in the same period. When the inflation rate dropped from 72.8 per cent in1995 to 29.3 per cent and 8.5 per cent, in 1996 and 1997 respectively, and rose thereafter to 10.0 per cent in 1998 and averaged 12.5 per cent in 2000-2009, the exchange rate trended in the same direction. A similar trend was observed for fiscal deficit/GDP ratio and GDP growth rate.

In summary, a tentative conclusion emerging from the trend analysis is that exchange rate movements engender inflation and there is some association between exchange rate movements and economic growth. However, an empirical analysis is required to determine the exact relationship existing between the variables.

2.1.5 Merits and Demerits of Exchange Rate Systems

Ani and Udeh (2021) opine that the advantages of exchange rate systems are tied primarily to their ability to prevent capital movements from affecting the current account and the exchange rate for current transactions by separating the exchange market for capital transactions and the exchange market for current transactions. Dual exchange systems are oftentimes used as a short-term alternative to placing quantitative controls on capital movements, especially in cases where a country may be transitioning between exchange rate types.

Government revenue

Besides inflation, Ani and Udeh (2021) assert that countries implementing exchange systems may merely separate the exchange rates for the current and capital account markets, or they may set controls on one or the other; the latter option being intended to raise revenue for the government. Countries implementing such systems typically put any exchange controls on the market for financing current transactions. However, economists such as Raymond Mikesell have argued against use of exchange controls in dual exchange systems except those necessary to maintain the separation of the markets (Ani & Udeh, 2021).

Inflation

Ani and Udeh (2021) further add that exchange rates are oftentimes used to stabilize currency values when countries face financial crises. Because most modern financial crises are preceded by substantial inflows and outflows of short to medium term loans (which create financial instability), countries may implement dual exchange markets in order to discourage undesirable capital markets. Exchange rates are able to discourage these undesirable imports while maintaining desirable capital imports and allowing the exchange rate of the current account market to remain independent of the exchange rate of the capital account market,

thereby preventing substantial negative effects on the current account. This separation would prevent the current account exchange rate from devaluing or overvaluing a country's exports and may prevent inflation that would otherwise take place due to the inflows of undesirable capital imports (Ani & Udeh, 2021).

Demerits of Exchange Rate System

According to Ani and Udeh (2021), in times of economic collapse, countries may choose to implement anexchange rate system. This policy change can be seen as an efficient way to alleviate short-run economic hardship. However, exchange rate policies have several long-run economic problems. The primary issue that may arise within an economy operating under anexchange rate is misallocation of resources because exchange rate would reduce some industries' favourableexchange rate and those industries would not necessarily reflect its actual need because its performance has been unnaturally inflated. Continual misallocation of resources would eventually cause economic distortion. Anexchange rate economy suffering from distortion would incur disparity between the financial exchange rate and the commercial exchange rate. Such an event can lead to the emergence of black markets and arbitrage from individuals seeking to make capital gains. Usage of a dual exchange system in the long run would cause inflation. The different exchange rates make it possible for a government to incur a loss in foreign currency transactions, resulting in the central bank printing more money to fix the loss. Over the long-run, this would result in significant inflation. If there is no government intervention, these issues would persist and create serious economic distortion behaviour (Ani & Udeh, 2021).

Shortcomings of Exchange Rate Systems

Mordi (2006) posits that exchange rate systems are susceptible to manipulation by parties with the most to gain from currency differentials. These include exporters and importers who may

not properly account for all of their transactions in order to maximize currency gains. Such systems also have the potential to trigger black markets as government-mandated restrictions on currency purchases force individuals to pay much higher exchange rates for access to dollars or other foreign currencies. In exchange rate systems, certain parts of an economy may enjoy advantages over others, leading to distortions on the supply side based on currency conditions rather than demand or other economic fundamentals. Motivated by profit, beneficiaries of such systems may push to keep them in place well beyond their period of usefulness (Mordi, 2006).

Amadeo (2018) asserts that academic studies of exchange rate systems have also concluded that they do not fully protect domestic prices due to the shifting of more transactions than mandated to the parallel exchange rate as well as the depreciation of the parallel rate compared to the official rate.

2.1.6 Determinants of Nigeria's Exchange RateVolatility

Exchange rate movements is an important determinant of international transactions. In Nigeria, the fluctuation according to Omojimite and Akpokodje (2010) have been influenced by changing pattern of international trade, institutional change in the economy and structural shifts in production. Furthering, Ogunleye (2010) noted that the real exchange rate in Nigeria has been principally influenced by external shocks resulting from the vagaries of world price of agricultural commodities and oil prices, both major sources of Nigeria export and foreign exchange earnings; contending that when the economy depended on agricultural exports, real exchange rate volatility was less pronounced given the fact that these products were subjects to less volatility and that there were more trading partners involved in the calculation of the

country's real exchange rate. This is minimally affected by the real exchange rate fluctuating by only 0.14% between 1970 and 1977. the increased dependence of the country on oil, resulted in several trade shocks from global oil price shock fluctuating the naira exchange rate by 10% between 1970 – 1985 (Ogunleye 2010). To Iyoha and Oriakhi (2002), movements in real exchange rate during this period were nominal shocks resulting from fiscal expenditure in ambitious development projects; and when the windfall ended, the government resorted to financing its expenditures through money creation. Thus expansionary monetary fiscal policy according to him, exerted upwards pressure on inflation, aggravating sharp movements in real exchange rate. From 1986, the adoption of the structural adjustment programme (SAP) became a contributory factor in shaping the dynamics of real exchange rate in Nigeria. One of the cardinal points of this policy was floating nominal exchange rate policy. As the naira was allowed to float the nominal exchange rate movement became more pronounced. Contributing to stronger movements in exchange rate during this period. Between 1986 and 1992, Ogunleye (2010) observed that the mean annual change in real exchange rate in the country increased to 25% reducing to 4.5% between 2000 and 2006. favourable terms of trade, less fiscal dominance, effective monetary policy induced by more independent and foreign exchange rate volatility.

2.1.7 Foreign Exchange Rate Volatility, Export Performance and Economic Growth

Fluctuations, positive or negative, are not desirable to producers of export products as it has been found to increase risk and uncertainty, international transactions. Findings by the International Monetary Fund (IMF) (1984) revealed that these fluctuations include undesirable macro-economic phenomena inflations though observed positive effect of exchange rate fluctuations on export trade in European Union countries (Caballew&Carba, 2019).

Walsh and Yu (2010) viewed the effect of these fluctuations from first its impact on foreign direct investment where they noted that low exchange rate favour the importation of production, machinery and production export in periods of high foreign exchange rate. Furthering, ford and stein (1991) found a strong evidence of a weak host country increase inward model as depreciation (down change in exchange rate) make a host country less expensive.

Blongein (1997) argued that exchange rate depression in host countries tend to increase foreign direct investment inflows adding that a strong real exchange rate strengthens the incentives of foreign companies to produce at home for export instead of investing in a host country for export. Different open economies experience different episodes of exchange rate appreciation. Exchange rate induces a contraction of the exporting manufacturing sector. Maintenance of export performance to them require the depreciation of the real exchange rate of a country's currency, the achievable through monetary injections noting that a policy of exchange rate depreciation can successfully prevent a contraction of export output, having an allocative effect in the economy (Lama and medina, 2010).

Adubi and Okunmadewa (1999) posited that Nigeria as a developing nation is expected to gain from export conversion price increases as a result of currency devaluation findings by Obadan (1994) and Osuntogun et al (1993) on the effect of stable exchange rate on export performance showed that exchange rate affect a country's export rate with its attendant risk affect export earnings, performance and growth positive to exporters when devaluated poor result from the floating exchange rate regimes of the 1970's necessitated a change in foreign exchange rate management. The structural adjustment programme was introduced in 1986, with the cardinal objective of restructuring the production base of the economy with a positive bias for agricultural export production. This reform facilitated the continued devaluation of the

Nigerian naira with the expected increase in domestic prices of agricultural export boasting domestic production.

To Srour (2006), diversification of countries export base is one reason given by developing nations for changing foreign exchange rates and regimes which in turn according to the world trade Organization (2010) increases local production, employment, income and economic growth concluding foreign exchange rate is a determinant of export trade and economic growth in Nigeria (Churwu, 2007; Adubi&Okunmadewa, 1999).

2.1.8 Concept of Economic Growth

According to Ani and Udeh (2021), economic growth can be defined as the process whereby simple, low-income national economies are transformed into modern industrial economies. It is generally employed to describe a change in a country's economy involving qualitative as well as quantitative improvements. To Ukangwa and Ikechi (2022), economic growth can also be described as a process of structural transformation with continuous technological innovation and industrial upgrading, which increase labour productivity, and accompanied improvements in infrastructure and institution, which reduce transaction costs. Moreover, Akpan and Atan (2015) put it that economic growth can also refer to the process by which the overall health, well-being and academic level of the general population of a nation improves. It also refers to the improved production volume due to the advancements of technology. According to It is the qualitative improvement in the life of the citizens of a country and is most appropriately determined by the Human Development Index (HDI). The overall development of a country is based on many parameters such as the creation of job opportunities, technological advancements, standard of living, living conditions, per capita income, quality of life, improvements in self-esteem needs, GDP, industrial and infrastructural development etc.

similarly, it is a multi-dimensional approach that looks into the income as well as the quality of life of a nation (Ukwanga& Ikechi, 2022).

2.1.9 Effect of Exchange Rate on Economic Growthin Nigeria

Egbujor (2012) opines that there is no consensus in the literature on the impact of exchange rate stability on economic growth nor on the mechanism through which oil price fluctuations affect growth from the macroeconomic perspective. Theoretically, flexible exchange rate allows for an easier adjustment in response to asymmetric country specific real shocks (Bergen, 2017). The macroeconomic effect of low exchange rate volatility under the fixed exchange rate system are associated with low transactions costs for international trade and capital flow thereby contributing to higher growth. Indirectly, fixed exchange rate enhances international price transparency as consumers can compare prices indifferent countries more easily. If exchange rate volatility is eliminated, international arbitrage enhances efficiency, productivity and welfare (Egbujor, 2012). Earlier, Ani and Udeh (2021) opine that monetary and exchange rate policies are the chief source of uncertainty and volatility in small open economics and economic growth is enhanced when exchange rate fluctuations are smoothed.

According to Ukangwa and Ikechi (2022), exchange rate is one of the basic economic tools that are used to correct a number of economic misalignments facing nations. It has been widely applied in most structural adjustment programmes across the world. It has been used as a strategic policy vehicle for directing the direction of flow of economic resources (skilled labour, Capital, managerial know-how, and foreign exchange) into import and export sectors. However, for this to result to sustainable economic growth and development stability must be maintained in exchange rate regime (Gbosi, 2005).

The transmission mechanism according to Campbell (2010) through which oil prices affect real economic activity include both supply and demand channels. The supply side effects are

related to the fact that crude oil is a basic input to production, and an increase in oil price leads to rise in production cost that induces firms to lower output, while the demand side effect is derived from the fact that oil price changes affect both consumption and investment decisions. Consumption is adversely affected because increase in oil price affect disposable income and the domestic price of tradeable goods. Investment is adversely affected because such increase in oil price also affects firms' input prices and thereby increasing their costs (Egbujor, 2012).

2.2 Theoretical Framework

2.2.1 The Mint Parity Theory

This theory is associated with the working of the international gold standard. Under this system, the currency in use is made of gold or is convertible into gold at a fixed rate (Jhingan 2004). Here, the value of the currency unit was defined in terms of certain weight of gold and the Central Bank of the country concerned was always ready to buy and sell gold at the specified price. The rate at which the local currency could be converted into gold is called the mint price of gold.

2.2.2 The Purchasing Power Parity Theory

This Theory states that spot exchange rate between currencies will change to the differential in inflation rate between countries. The theory states that the equilibrium exchange rate between two inconvertible paper currencies is determined by the equality of their purchasing power. That is, the exchange rate between two countries is determined by their relative price levels (Obadan, 2006).

This theory states that the equal purchasing power of two non-convertible paper currencies determines the equilibrium rate of exchange. It means that the exchange rate between two

nonconvertible paper currencies is influenced by the domestic price levels of two nations. One of the earliest and possibly most well-known theories of exchange rates is the purchasing power parity (PPP) idea. This assumes that the exchange rate would be the same as the pertinent national price levels for two currencies. It makes the assumption that there are no trade restrictions, transaction costs, or purchasing power parity (PPP) (Obioma, 2000). While the relative version bases the equilibrium rate of exchange in the current period (R1) on the equilibrium rate of exchange in the base period (R1) and the ratio of the price indices of the current and base periods in one country to the ratio of the price indices of the c, the absolute version defines the rate of exchange as the ratio of the outlay required to buy a specific set of goods at home as compared to what it would buy in a foreign country. In this version, the purchasing power parity (PPP) doctrine equates the equilibrium exchange rate of the ratio of domestic to foreign price level (Lyon, 1992).

$$E\text{-}\frac{Pd}{PE}$$

E is the nominal exchange rate, which is expressed as the value of one domestic currency in terms of one foreign currency. If all the countries produced explicitly the same tradable commodities, then Pd is the foreign price, PE level with perfect efficiency and no trade barriers, and the purchasing power parity (PPP) doctrine would be equivalent to the application of the law of one price. It is crucial to be aware that the PPP plays a significant role in the monetary approach used to determine the equilibrium exchange rate between the two currencies (Gustaar Cassel 1998). It is frequently used in exchange rate analysis as a stand-in for the monetary model (CBN, 1998). The relevant version of PPP doctrine relates the equilibrium exchange rate to the product of the exchange rate in a base period and the ratio of

the countries price indices (Argh, 1994). By definition, we have the relative purchasing power parity (PPP) as.

E – Pd Ro

The amount of units of domestic currency for each unit of foreign currency is known as the real exchange rate, or Ro. The definition of the purchasing power parity theory. To align international comparisons on the assumption of some technological efficiency in all countries could be deceptive. Again the choice of the base year for the relative purchasing power parity (PPP) is often arbitrary. Finally, PPP is often presented as if causality runs from price level to exchange rate. Actual experiences are often more complicated when monetary/fiscal policies move, both causality could be quite exogenous or bi-directional.

2.2.3 The Balance of Payment Theory

This theory stipulates that under free exchange rate, the exchange rate of the currency of a country depends upon its balance of payment. According to Jhingan (2004), a favourable balance of payments raises the exchange rate, while an unfavorable balance of payments reduces the exchange rate. Thus the theory implies that the exchange rate is determined by the demand for and supply of foreign exchange.

2.2.4 Optimal Currency Area Theory

Optimal currency area (OCA) theory was developed by Mundell (1961) and McKinnon (1963). This literature focuses on trade, and stabilization of the business cycle. It is based on concepts of the symmetry of shocks, the degree of openness, and labor market mobility. According to the theory, a fixed exchange rate regime can increase trade and output growth by reducing exchange rate uncertainty and thus the cost of hedging, and also encourage investment by lowering currency premium from interest rates. However, on the other hand it can also reduce

trade and output growth by stopping, delaying or slowing the necessary relative price adjustment process. Later theories focused on financial market stabilization of speculative financial behaviour as it relates particularly to emerging economies. According to the theory, a fixed regime can increase trade and output growth by providing a nominal anchor and the often needed credibility for monetary policy by avoiding competitive depreciation, and enhancing the development of financial markets (see Barro and Gordon (1983), Calvo and Vegh (2004), Edwards and Savastano (2000), Eichengreen et al (1999), and Frankel (2003) among others).

On the other hand, however, the theory also suggests that a fixed regime can also delay the necessary relative price adjustments and often lead to speculative attacks. Therefore, many developing and emerging economies suffer from a ―fear of floating, in the words of Calvo and Reinhart (2002), but their fixed regimes also often end in crashes when there is a ―sudden stop of foreign investment (Calvo, 2003) and capital flight follows, as was evident in the East Asian and Latin American crises and some sub-Saharan African countries.

2.3 Empirical Review

Akoku (2015) analyzed the effect of money supply, exchange rate fluctuations on the Nigeria economic growth using the annual data between 1975 and 2008. Using Ordinary Least Square technique, the result revealed that money supply and exchange rate exerted positive impact on economic growth in Nigeria. In short the choice of exchange rate regime and economic growth is yet unresolved. There therefore the need for more empirical research on the subject matter. This is particularly important in the view of the nature choice of exchange rate regime in the developing countries like Nigeria.

Ferrando (2017) examined the relationship between exchange rate fluctuations and economic growth in China using the annual data between 1990 and 2012. Using the Generalized Method

of Moment (GMM) technique, the study revealed that exchange rate and import have a negative effect on economic growth in China.

Atique and Mlik (2017) examined the impact of domestic and external debt on the economic growth of Pakistan separately over a period of 1990 – 2015 using ordinary least square approach (OLS). Their finding was that the result shows an inverse relationship between domestic debt and economic growth.

Momodu (2018) examined the correlation between debt servicing and economic growth in Nigeria. The study sought to find a relationship between the Gross Domestic Product (GDP) and Gross Fixed Capital Formation of Current Market Prices (GFCF). Ordinary Least Square multiple regression method was used for the analysis. The result revealed that debt payment to Nigeria creditors has significantly impacted on the GDP and GFC

Oladapo and Oloyede (2019) examined the impact of exchange rate management on the level of economic growth in Nigeria from 1990-2015, the study employed the OLS (ordinary least squares) methodology and the ECM (error correction model), and they result demonstrate that exchange rate, import, export and money supply has a positive relationship with economic growth.

Eze and Okpala (2019) tested the impact of the two exchange rate policy (fixed and floating) practiced in Nigeria using annual data covering from 1990-2016. It was revealed that exchange rate moves around the same direction with trade in the long run. The research split the period in two- before and after the introduction of the SAP. After conducting a chow test, they showed that there is no statistically significant impact of the exchange rate regime of economic growth. They suggested that what mattered was the management of such policy.

Akpan and Atan (2020) examined the effect of exchange rate movements on real output growth in Nigeria. Based on quarterly series for the period 1986 to 2010, the paper examines the possible direct and indirect relationship between exchange rates and GDP growth. The relationship is derived in two ways using a simultaneous equations model within a fully specified (but small) macroeconomic model. A Generalised Method of Moments (GMM) technique was explored. The estimation results suggest that there is no evidence of a strong direct relationship between changes in exchange rate and output growth. Rather, Nigeria's economic growth has been directly affected by monetary variables. These factors have tended to sustain a pattern of real exchange rate, which has been unfavourable for growth. The conclusion is that improvements in exchange rate management are necessary but not adequate to revive the Nigerian economy. A broad program of economic reform is required to complement the exchange rate policy adopted.

Udeh, Ugwu and Onwuka (2020) studied the External Debt and Economic Growth: The Nigeria Experience. The ex-post research design was adopted for the study. The dependent variable was GDP, while the independent variables were external debt stock, external debt service and exchange rate. The data were analyzed using Ordinary Least Square. The paper concluded that exchange rate fluctuation had negative impact on the Nigeria economy while external debt stock and debt service payment had negative impact on the Nigeria GDP.

Sebastian (2020) in his research on the impact of the choice of exchange rate regimes and its impact on economic growth between 1993-2017, conducted across different levels of country development, the result of this paper contrast the findings of many research papers. It employed a cross sectional analysis and found that the choice of exchange rate regime has no statistically significant impact on economic growth. Monetary policy targets and exchange rate regime according to their finding has not changed significantly.

Isola, Oluwafunke, Victor and Asaleye (2020) investigated the effect of exchange rate fluctuation on economic growth from 2000-2010. They employed the Autoregressive Distributed Lag model (ARDL), and based on their sample, they found no effect of exchange rate fluctuations on economic growth in the long run. However, in the short run an effect exists. A similar research aimed at ascertaining the impact of the various regimes on economic growth found that fixed exchange rate regime in Nigeria constrains growth.

The study of Ani and Udeh (2021) examined the effect of exchange rate on the economic growth of Nigeria. It specifically looked at effect of exchange rate on gross domestic product (GDP), gross national product (GNP) and unemployment. Secondary data from the Central Bank of Nigeria Statistical Bulletin were collected for a period of ten years, 2009 to 2018. Ex-post facto research design was utilized. While some diagnostic tests were carried out to confirm the integrity of the data and their relatedness in both short and long term basis, Ordinary Least Square technique was employed in the analysis of hypotheses. It was found that while exchange rate had significant effect on GDP and GNP, it was non- significant on unemployment. This implies that micro economic indices of GDP and GNP could be used to consciously adjust standard of living of the citizens. The study concludes that exchange rate should be handled with utmost concern by experts in the field to avoid unnecessary fluctuations that may inflict unbearable economic consequences on the Nigerian people. The study recommends, among others, the adoption of policies that will affect GDP in such a way that the welfare of the people can be upgraded.

Ukwanga and Ikechi (2022)examined the effect of Nigeria's exchange rate on the economic growth of Nigeria. It is focused on establishing the extent to which Naira rate have influenced economic growth from using data spanning between 1987 and 2018; and the extent to which the Naira rate has influenced inflation in Nigeria within the same time frame. This study

employed Ordinary Least Squares technique of analysis to construct a regression model to test stated hypotheses. Findings revealed that the Naira rate has no significant impact on economic in Nigeria and that the Naira rate has a significant influence on inflation rate in Naira. The study, therefore, recommended that the export base of Nigeria should be strengthened to ensure a sustainable impact and that local manufacturing should be fully encouraged.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

The research design that this study adopted is ex-post facto research design. The reason for this choice of research design is that historical data relating to both the independent variables and dependent variables are being used in this study; historical in the sense that relevant data was obtained from already prepared and published sources. Because the effect of the exchange rate on economic growth has occurred before the time of gathering the data, both the independent and dependent variables are already available and were observed at the same time in this study. This research design is suitable for this research because it is not possible to directly manipulate or control any of the independent variables because the data to be used are already existing.

3.2 Characteristics of the Study Population

The population of this study is the entire public sector of the Nigerian economy, which comprises all ministries, departments and agencies of the federal government of Nigeria.

3.3 Sampling Design and Procedures

Since the data used is sourced from the National Bureau of Statistics and the Central Bank of Nigeria websites, the sample size of this study consisted of all the ministries, departments and agencies whose data relating to the measures of the dependent variables used in this study are available on the internet. Therefore, the sample size used for this study is put at fifty (50) MDAs of the federal government.

3.4 Method of Data Collection

The instrument used in collecting the data used in this study is the secondary instrument, precisely data sourced from the websites of both the National Bureau of Statistics and the Central Bank of Nigeria Statistical Bulletin between 2013 and 2022.

3.5 Operational Measure of Variables

In this section, we first present the variable included in our specification to analyze the effect of exchange rate on economic growth in Nigeria. Therefore, the variables used in this study are:

Independent Variable: Exchange rate.

Dependent Variables: Gross Domestic Product (GDP), Gross National Product (GNP) and Unemployment (Ump).

The study utilized model:

$$EXR = \beta_o + \beta_1 GDPt + \beta_2 GNPt + \beta_3 UMP + \mu$$

Where;

EXR = Exchange rate.

GDP = Gross Domestic Product

GNP = Gross National Product

UMP = Unemployment

3.6 Method of Data Analysis

Descriptive statistics, some diagnostic tools and Ordinary Least Square techniques were employed in the analysis.

The study utilized model:

$$EXR = \beta_o + \beta_1 GDPt + \beta_2 GNPt + \beta_3 UMP + \mu$$

Where;

EXR = Exchange rate.

GDP = Gross Domestic Product

GNP = Gross National Product

UMP = Unemployment

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

Table 1: Data showing exchange rate, Gross Domestic Product, Gross National Product and Unemployment.

YEARS	EXR	GDP	GNP	UMP
2013	370.00	89607.16	96526.94	4857427.82
2014	380.00	137354.80	128633.00	5096976.42
2015	320.00	129596.80	113344.00	5271237.01
2016	300.00	13660.80	122568.00	5402164.73
2017	199.00	101229.3	91862.38	5515412.55
2018	162.90	89054.31	84374.06	7037216.94
2019	161.50	78618.20	82547.50	6831487.79
2020	165.10	66817.72	74937.47	11494038.44
2021	154.80	58166.10	61746.62	14030495.82
2022	171.00	67918.49	65790.54	14153503.24

Source: CBN Statistical Bulletins for various years.

4.2 Test of Hypotheses

Ho 1: Exchange rate has no significant impact on the Gross Domestic Product in Nigeria.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.856[a]	.733	.700	16318.38484

Source: Author's computation using SPSS 16, 2024.

a. Predictors: (Constant): Exchange Rate

Table 3: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5849267347.451	1	5849267347.451	21.966	.002[b]
	Residual	2130317470.204	8	266289683.775		
	Total	7979584817.655	9			

Source: Author's computation using SPSS 16, 2024

a. Dependent Variable: GDP
b. Predictors: (Constant): Exchange Rate

Table 4:Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	25805.311	15740.511		1.639	.140
	ExchangeRate	300.242	64.062	.856	4.687	.002

Source: Author's computation using SPSS 16, 2024.

a. Dependent Variable: GDP

Result from our regression analysis shows that the co-efficient of correlation (R) value is 0.856 coefficient of determination, R^2, measures the extent or degree to which changes in exchange rate can be relied on to explain the changes in GDP. The (R^2) value of 0.733 means that one percent changes in exchange rate explains73.3% percent of the changes in GDP. Since our p

value 0.002 is less than 0.05 we can conclude that exchange rate has a significant impact on the GDP. Therefore, the null hypothesis is rejected.

The study discovered that the exchange rate has a significant impact on the GDP based on the premise that the $R^2$is 0,.733 which implies that one percent change in exchange rate explains 73.3% change in GDP. The result of this study did not agree with that of Lawal, Atunde and Ahmed (2016) which states that exchange rate has no effect on the economic growth. Again, the findings of Udeh, Ugwu and Onwuka (2016) agreed that that exchange rate impacts on the economic growth of Nigeria, though negatively.

Ho 2: Exchange Rate has no significant impact on the Gross National Product (GNP) in Nigeria.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.907[a]	.822	.800	10319.76065

Source: Author's computation using SPSS 16, 2024

a. Predictors: (Constant): Exchange Rate

Table 6: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3947784916.212	1	3947784916.212	37.069	.000[b]
	Residual	851979678.293	8	106497459.787		
	Total	4799764594.505	9			

Source: Author's computation using SPSS 16, 2024

a. Dependent Variable: GNP
b. Predictors: (Constant), Exchange Rate

Table 7: Coefficients

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.

		B	Std. Error	Beta		
1	(Constant)	34956.205	9954.312		3.512	.008
	ExchangeRate	246.659	40.513	.907	6.088	.000

Source: Author's computation using SPSS 16, 2024

a. Dependent Variable: GNP

Table 5 above shows that the R^2 is 0.822 which is about 82%. The R^2 is used to explain the goodness of fit. Therefore, since R^2 is about 82%, it implies that about 82% changes in the dependent variable being the Gross National Product is explained by the independent variables and the higher for R^2 the better fit for the independent variable. Since p value 0.000 is less than 0.001, we conclude that the exchange rate has a significant impact on the GNP. Therefore, the null hypothesis is rejected. The study discovered that exchange rate has statistically significant impact on the GNP since the p value, .0000 is less than .001. This finding contrasts with that of Chris and Anyinganga (2010) in which they found an inverse relationship between the interest rate and economic growth in Nigeria.

Ho 3: Exchange rate has no significant effect on unemployment in Nigeria**.**

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.631[a]	.399	.324	1.61459

Source: Author's computation using SPSS 16, 2024

a. Predictors: (Constant): Exchange Rate

Table 9 :ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	13.831	1	13.831	5.305	.050[b]
	Residual	20.855	8	2.607		
	Total	34.686	9			

Source: Author's computation using SPSS 16, 2024

a. Dependent Variable: Unemployment
b. Predictors: (Constant), Exchange Rate

Table 10 : Co-efficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.515	1.557		5.467	.001
	Exchange Rate	-.015	.006	-.631	-2.303	.050

Source: Author's computation using SPSS 16, 2024

a. Dependent Variable: Unemployment

Table 8 above shows that R^2 is 0.399 which is about 39.9% approximate 40%. The R^2 is used to explain the goodness of fit. Therefore, since R^2 is about 40% changes in the dependent variable being unemployment is explained by the independent variable and the higher for R^2 better fit for the independent variable. Since p value is 0.05 is greater than 0.005 we conclude that exchange rate has no statistical significant impact on the unemployment, therefore the null hypothesis is accepted.

The study discovered that exchange rate has no statistical significant impact on unemployment. The inverse significance also occurred in the work of Atique and Maliki (2012) between domestic debt and economic growth. The result is on the premise that p value 0.050 is greater than 0.005.

4.3 Discussion of Findings

Result from our regression analysis relating to the effect of exchange rate on gross domestic product shows that the co-efficient of correlation (R) value is 0.856 coefficient of determination, R^2, measures the extent or degree to which changes in exchange rate can be relied on to explain the changes in GDP. The (R^2) value of 0.733 means that one percent

changes in exchange rate explains73.3% percent of the changes in GDP. Since our p value 0.002 is less than 0.05 we can conclude that exchange rate has a significant impact on the GDP. Therefore, the null hypothesis is rejected, hence the alternative hypothesis is accepted, meaning that exchange rate has an effect on gross domestic product.

Table 5 above showed that the R^2 is 0.822 which is about 82%. The R^2 is used to explain the goodness of fit. Therefore, since R^2 is about 82%, it implies that about 82% changes in the dependent variable being the Gross National Product is explained by the independent variables and the higher for R^2 the better fit for the independent variable. Since p value 0.000 is less than 0.001, we conclude that the exchange rate has a significant impact on the GNP. Therefore, the null hypothesis is rejected, and the alternative hypothesis accepted. Therefore, we conclude that exchange rate has a statistically positive impact on gross national product.

Table 8 above showed that R^2 is 0.399 which is about 39.9% approximate 40%. The R^2 is used to explain the goodness of fit. Therefore, since R^2 is about 40% changes in the dependent variable being unemployment is explained by the independent variable and the higher for R^2 better fit for the independent variable. Since p value is 0.05 is greater than 0.005 we conclude that exchange rate has no statistical significant impact on the unemployment, therefore the null hypothesis is accepted, while the alternative hypothesis is accepted. Therefore, it can be concluded that there is a statistically significant relationship between exchange rate and unemployment.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

This study set out to examine the effect of exchange rate on economic growth of the Nigerian economy. Specifically, the objectives of the study were to examine the effect of exchange rate on gross domestic product, gross national product and unemployment.

Analysis of data and subsequent findings from the analysis revealed the following:

With respect to exchange rate and gross domestic product, findings revealed that exchange rate has a positive and significant effect on gross domestic product.

In relation to exchange rate and gross national product, the result of the findings is that the effect of exchange rate on gross national product is positive and statistically significant.

Similarly, the result of the findings of the relationship between exchange rate and unemployment is that the relationship between the two variables is positive and statistically significant.

In conclusion, we infer that the effect of exchange rate on economic growth in the economy of Nigeria is positive and statistically significant.

5.2 Conclusion

The objective of this study is to examine the effect of exchange rate on economic growth of Nigeria. Using gross domestic product, gross national product and unemployment as proxies of economic growth, and gathering relevant data from the National Bureau of Statistics and the Central Bank of Nigeria Statistical Bulletin over a period of 10 years from 2013 to 2022, findings revealed that there is a positive and significant effect of exchange rate on economic growth. On this note, certain policy implications arose from the findings. Principal among them is that exchange rate depreciation affects GDP and GNP. It demonstrates the need for a monetary policy frame work that complements the existing exchange rate policy.

5.3 Recommendations

Based on the findings of this study, the following recommendations are proffered:

i. Micro-economic factors that tend to influence GDP should be properly managed to help in stabilizing the exchange rate to the benefit of the citizens.
ii. Government should provide enabling environment to encourage individuals to put in their best to enhance the GNP which will translate to a better well-being of the masses.
iii. There should be a deliberate effort by the government to stimulate small and medium scale enterprises so that the rising unemployment in the country can be checkmated.

iv. The government should create incentive such as loan subsidy etc, to small scale industries, thereby encouraging them to process domestic goods into processed goods that will help boast our export.

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