

Exchange Rate and Nigerian's Economic Performance

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Abstract

The study examined how the exchange rate impacts Nigeria's economic growth. An ex-post facto research design was employed utilizing Autoregressive Distributed Lag (ARDL) model. The results showed the presence of long-run relationships among the variables. The findings indicate that about 41% of the short-run imbalance is corrected every year. The findings further showed exchange rate positively but insignificantly impacted GDP growth rate (proxy for economic growth) in the long run, while its impact was negative in the short run. Based on the results, the research recommends that the government of Nigeria, through its monetary authorities, should ensure the stability of the naira exchange rate relative to those of its trading partners to foster long-run economic growth in the country.

Keywords: GDP growth rate, exchange rate, Economic growth, Autoregressive Distributed Lag (ARDL)

Introduction

The dynamics of exchange rates play a significant role in the economic stability and growth path of any country, especially in developing countries such as Nigeria. The exchange rate, which refers to the price at which a nation's currency is exchanged for another country's currency, has direct effects on trade competitiveness, inflows of capital, inflation, and total macroeconomic performance of countries. Nigeria's economy which significantly depends on oil exports and importation of essential goods, variations in exchange rates can have profound implications for economic growth. Nigeria had adopted several exchange rate policies since 1960, to maintain an appropriate exchange rate in order to achieve optimal distribution of foreign exchange and promote non-inflationary growth. Between 1973 and 1979, Nigeria's exchange rate was stable to some extent, a time frame when agriculture contributed above 70% to the country's GDP Ewa (2011). The launch of the Structural Adjustment Policy (SAP) in 1986 however, brought forward an exchange rate that was flexible, enabling market forces to dictate the exchange rate. This change has resulted in irregularities and discontinuities in exchange rate policies, leading to the naira's instability, which greatly impacts the growth rate of Nigeria (Nyeche, 2024).

Exchange rate changes have triggered extensive deliberations within the academic literature concerning their economic growth effect. Fapetu (2013) emphasized that changes in the exchange rate have a significant effect on Nigeria's economic growth. Changes in exchange rates (appreciation or depreciation) affect domestic prices by influencing total demand and supply. For instance, when the currency depreciates, prices of imports increase, which brings about an increase in marginal costs and higher prices for goods produced within the country. Conversely, currency appreciation leads to lower prices of imports. Firms facing import competition may also increase their prices as a reaction to increases by foreign competitors to boost their profit margins, which can negatively affect economic growth (Uduakobong & Enobong, 2015). In addition, Olawuni (2020) discovered that exchange rate appreciation raises imports and decreases exports, while

exchange rate depreciation promotes exports and discourages imports. In spite of many policy interventions targeted at stabilizing Nigeria's exchange rate, the country has continued to face fluctuating economic growth. Exchange rate instability caused by factors such as oil price shocks, inflation, and foreign exchange market inefficiencies, raises key questions about its effect on Nigeria's economic growth.

Previous studies provided mixed results on the nature and extent of the impact of exchange rate on Nigeria's economic growth; hence a gap remains in understanding the true effect of the exchange rate on Nigeria's economic growth. This study therefore aims to investigate the effect of the exchange rate on Nigeria's economic growth and provide empirical evidence that can guide more effective exchange rate policies in Nigeria.

The study's broad objective is to investigate the impact of exchange rate on Nigeria's economic growth, while the specific objectives are to ascertain the extent to which foreign direct investment, inflation rate, and interest rate affect Nigeria's economic growth.

This research is guided by the hypothesis:

H0: Exchange rate has not significantly affected Nigeria's economic growth.

Conceptual Clarification

Exchange Rate

The price of a unit of a nation's currency in terms of another country's currency is referred to as the exchange rate (Kenneth & Onyedikachi, 2021). Likewise, Feng et al. (2021) defined exchange as the amount of a currency needed to buy a certain amount of another currency. The exchange rate system has a large influence on the functioning of the external sector, thus, managing it has become so important for all governments nowadays. Nigeria like other developing countries, depends mainly on imports for consumption, A favorable rate of exchange is envisaged to lower the cost of living. For instance, Naira's value relative to the US dollar affects and weakens the country's production activities.

Several financial analysts and professionals have urged the government to forge a partnership with China to lessen the country's dependence on the US currency and bolster the Naira's value relative to the US dollar. Company owners seem to believe that variability of the exchange rate has a veritable impact, mainly on oil prices and a country's economic performance (Nwosa, 2021). Nigeria is likely to experience a shock from any variations in the US dollar's value because we rely on it for imports (Okolo & Udabah, 2019).

Economic Growth

Economic growth can be defined as an increase in a country's GDP or output. A country has experienced growth if its output level (both products and services) has increased over a given period of time (Adeleye & Eboagu, 2019). Economic growth is often measured by the increase in GDP. According to Adedoyin & Zakari (2020), the shorter periods of economic growth variation are called business cycles. During this period, economies usually experience recessions, and the longer time period of growth may be hard to determine because even small growth rates can have a significant effect. An economy's ability to grow depends upon several long-term issues. According to Mgbomene and Igben (2023), the level of interest rates and the aggregate supply of money in circulation are the two basic instruments of monetary policies which can lead to the growth of the economy. Also included are increasing capital stock of the country, growth in labor

productivity, human resource utilization, as well as technological advancements (Kartono et al., 2021).

Trend of Growth and Exchange Rate in Nigeria

Nigeria's economic growth was 3.3% in 2022, but in 2023, it fell to 2.9% due to high inflation and slow global economic growth, which was 3.5% in 2022, but fell in 2023 to 3.2% (ADB, 2024). Nigeria's growth was primarily influenced by agriculture and the service sector (supply side) as well as by investment and consumption (demand side). Growth in Nigeria is forecasted to increase to 3.2% in 2024 and 3.4% in 2025, due to improved security, bigger oil production, and stronger consumer demand. Nigeria's exchange rate depreciated by 95.6% in 2023, due to the floating of the naira in June 2023 (ADB, 2024).

Theoretical Review

There are several theories explaining the relationship between economic growth and the exchange rate.

Purchasing Power Parity (PPP) Theory

According to the theory, exchange rates should coincide in the long term to achieve parity in the prices of similar services and commodities across different nations, thereby removing any price differences. It provides a major basis for analysing how exchange rate shifts or fluctuations can affect economic variables (Cassel, 1918).

Balance of Payments Theory

This theory illustrates the nexus between a nation's exchange rate and the balance of international payments. It asserts that when a nation's balance of payments is in deficit, it typically results in a weakening of its currency, due to exchange rate depreciation, which can eventually affect economic growth (Frenkel & Johnson, 1978).

Theoretical Framework

The study is anchored on the optimal currency area (OCA) theory propounded by Mundell (1961). The optimal currency area (OCA) theory is one of the major theories in international economics that addresses the conditions under which it is countries can benefit if they share a common currency. The main proposition of the theory is that a group of countries or regions gain by adopting a common currency or fixed exchange rate system if certain economic conditions are met. The key economic conditions are:

- a. Labour mobility
- b. Wage flexibility and capital mobility
- c. Fiscal transfers
- d. Similar business cycle
- e. Consumption and production integration

However, the theory has several limitations which include:

- i. Static framework: The theory does not consider dynamic adjustment of countries over time.
- ii. It is difficult for most countries in meeting the conditions of the theory
- iii. Member countries loose national control over exchange rate tools
- iv. Political and institutional challenges of member nations

The optimal currency area (OCA) theory is relevant to this study because it will help in assessing whether a nation like Nigeria maintain its own currency or be part of a currency union like ECOWAS. Additionally, the theory can be used evaluate if Nigeria's current exchange rate is efficient or if a more integrate monetary framework would yield better economic growth outcomes for the country.

Empirical review

Empirical literature regarding the effect of exchange rate on Nigeria's economic growth has been unsettled and it has continuously been researched. Ajagbe *et al* (2024) investigated the influence of exchange rate and oil price on Nigeria's economic growth, over the period of 1990 to 2023. The study used various statistical methods (descriptive statistics, unit root tests, correlation analysis, serial correlation tests, heteroskedasticity tests, and normality tests). Growth rate was the dependent variable, while crude oil price, exchange rate, and interest rate served as independent variables. The findings reveal a weak negative effect of exchange rate on growth rate in Nigeria, showing that the growth rate tends to decrease significantly as the rate of exchange increases. The Vector Error Correction (VEC) model results reveal that exchange rate lags (first and second lags) have significant and positive impacts on Nigeria's economic growth.

John (2024) empirically investigated how exchange rate fluctuations affect Nigeria's economic growth for the period of 1992 to 2023, using time series data. The study relied on the Balance of Payment (BOP) Theory. Exchange rate of Naira to Pounds, exchange rate of Naira to Dollars, and exchange rate of Naira to Euros were used to proxy the study's independent variable (exchange rate). Also, GDP growth rate was used to proxy Nigeria's economy (dependent variable). The OLS and GARCH method were used for data analysis. Findings showed a positive and insignificant association between exchange rate of Naira to Pounds and GDP growth rate, a negative and significant association between exchange rate of Naira to Dollars and GDP growth rate, as well as a positive and insignificant association between exchange rate of Naira to Euros and GDP growth rate. The author concluded that exchange rate fluctuations negatively impact Nigeria's economic growth.

Olawale (2024) studied the effect of volatility of exchange rate on Nigeria's economic growth. Quantitative data between 1960 to 2022, as well as qualitative data from various journal reviews, were used. The study used the Multivariate Adaptive Regression Spline (MARS) method and found a nonlinear relationship between GDP and key variables (exchange rates, interest rates, inflation, imports, and exports). The results showed that exchange rate changes are the most significant factor affecting economic growth, which directly and significantly impacts GDP. The study underscored the need for Nigerian government reforms in order to stabilize the exchange rate which in turn reduces its adverse effects on economic growth.

Eze *et al* (2024) evaluated exchange rate effect on Nigeria's economic growth from 1970 to 2021. The study used the ADF and PP unit root tests, the Johansen cointegration test, as vector error correction model (VECM). The results showed that appreciation of the exchange rate reduces economic growth. The causality tests indicated that the exchange rate and growth strengthen one another. The study recommended the need to build sufficient foreign reserves to mitigate trade shocks and gain from the benefits of variations in the exchange rate.

Nwobia *et al* (2020) studied the effect of exchange rate variations on Nigeria's external trade from 2000 to 2019, using secondary data. The data were analysed using correlation analysis of the OLS. The result showed that the three independent variables have a significant effect on GDP and external trade of Nigeria. Exchange rate, in particular, has a negative effect on GDP because as it rises, the external trade is negatively influenced.

The relationship between exchange rates and Nigeria's economic growth was studied by Babatunde *et al* (2016) over the period of 1978 to 2014. The data was analysed using the OLS technique and they found that exchange rates had a significant and positive impact on growth. The cointegration technique was also used which showed that a long-run relationship existed among the variables used.

Apollos *et al* (2015) utilized the OLS method to investigate the relationship between GDP, imports, exports, exchange rate, and inflation rate in Nigeria for the period 1986-2013. The findings from their study revealed a significant positive relationship between the GDP and all the explanatory variables including the exchange rate.

Amassoma and Odeniyi (2016) used a multiple regression model to examine how exchange rate fluctuation impacted Nigeria's economic growth for the period 1970-2013. The results revealed an insignificant positive effect of exchange rate fluctuations on economic growth in both the long and short runs.

Adeniran *et al* (2014) evaluated how exchange rate affected Nigeria's economic growth by utilizing annual data from 1986- 2013. The study adopted the OLS method and the findings showed exchange rate had a positive but insignificant effect on economic growth. Further results revealed that interest rate as well as inflation rate have negative but insignificant effects on Nigeria's economic growth over the studied period.

Methodology

This study utilized the ex-post facto research design method since the data are already available. This research used secondary data covering the period of 1980-2024, which are available in the World Development Indicators (2025) of the World Bank, and CBN Statistical Bulletin (2023). The data were analysed using Eviews 12. The variables used are EXR, INTR, FDI, and INFR which are the independent variables, and GDPGR (proxy for economic growth) which is the dependent variable. The research starts with a unit root test. 1 ADF unit root test was conducted on each of the variables to ascertain the stationarity status of the variables. This was closely followed by the F-Bound cointegration test to determine if a long-run relationship exists among the variables. Autoregressive Distributed Lag (ARDL) model was employed. The ARDL model is an econometric technique used primarily to estimate the long-run and short-run relationships between time series variables, particularly when variables are integrated of different orders (i.e., I (0) and I (1)), but not I (2). Lastly, the diagnostic check which comprises the Breusch-Godfrey Serial Correlation LM test, Jarque-Bera normality test, Breusch-Pagan-Godfrey heteroscedasticity, and CUSUM stability test was included in this analysis.

Model Specification:

This study adopted and modified the model of Adeniran et al. (2014) who examined the effect of fluctuation of exchange rate on Nigeria's economic growth. Hence, the model for this study is presented as:

$$\text{GDPGR} = f(\text{EXR}, \text{INTR}, \text{INFR}, \text{FDI}) \quad (1)$$

Where:

GDPGR = GDP growth rate (economic growth proxy)

EXR = exchange rate, INTR = interest rate, INFR = inflation rate, FDI = Foreign Direct Investment.

The econometric form of the model is given as:

$$\text{GDPGR} = \beta_0 + \beta_1\text{EXR} + \beta_2\text{INTR} + \beta_3\text{INFR} + \beta_4\text{FDI} + U_t \quad (2)$$

$$\beta_4 > 0, \beta_1, \beta_2, \beta_3 < 0$$

The natural log form of the model is given as:

$$\ln\text{GDPGR} = \beta_0 + \beta_1\ln\text{EXR} + \beta_2\ln\text{INTR} + \beta_3\ln\text{INFR} + \beta_4\ln\text{FDI} + U_t$$

Result of the Findings

In line with the objectives of this research, this section presents the findings from the data analysis carried out to examine the impact of exchange rate on GDP growth rate in Nigeria.

Table 1. Summary of ADF Unit Root Test

Unit Root (ADF) Test					
Variables	ADF Test Statistic	Test critical value at 5%	P – Value	Order of Integration	Conclusion
<i>ln</i> GDPGR	-12.44853	-2.933158	0.0000	I(1)	Stationary
<i>ln</i> EXR	-5.551264	-2.933158	0.0000	I(1)	Stationary
<i>ln</i> INTR	-5.365687	-2.931404	0.0001	I(0)	Stationary
<i>ln</i> INFR	-5.512890	-2.931404	0.0000	I(0)	Stationary
<i>ln</i> FDI	-4.235155	-2.931404	0.0017	I(0)	Stationary

Source: Author's Computation

Table 1 shows the result for the Augmented Dickey-Fuller (ADF) test of the variables. From the table, there is a mixture of levels and first difference stationarity i.e. I (0) and I (0) at a significance level of 5%. This is because, the ADF Test Statistics of the variables are less than the critical values at the chosen level of significance (5%). Further proof of stationarity of the variables can be seen from the p-value of all variables which are less than 0.05 (i.e. at a significance level of 5%). Therefore, the ARDL Bounds Cointegration test can be conducted to ascertain whether a long-run relationship exists among the variables.

Table 2. Summary of the ARDL Bounds Cointegration Test

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistics	Value	Significance	I (0)	I (1)
F- Statistic	6.684554	10%	2.2	3.09
K	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37

Source: Author's Computation

Table 2. shows the result for the ARDL Bounds Cointegration Test. This result indicates cointegration among the variables since the F-statistic (6.684554) is more than the upper bound (3.49) at a significance level of 5%. Hence, a long-run relationship exists among the variables.

Table 3. Summary of ARDL Long Run EstimatesDependent Variable: *lnGDPGR*

Variable	Coefficient	Std. Error	t - Statistics	Prob.
EXR	0.003317	0.012679	0.261604	0.7966
FDI	0.057647	0.021538	2.676582	0.0154
INFR	-0.643627	0.526360	-1.222790	0.2372
INTR	-0.400927	0.683240	-0.586802	0.5646
C	3.596179	4.100539	0.877002	0.3920

Source: Author's Computation

Table 3. shows the long-run effect of the independent variables (*lnEXR*, *lnFDI*, *lnINFR*, and *lnINTR*) on *lnGDPGR* (proxy for economic growth). The result indicates that exchange rate (*lnEXR*) with a coefficient of 0.003317 and a p-value of 0.7966 has an insignificant positive impact on *lnGDPGR* in the long term at a significance level of 5%. This does not conform to a priori expectation. A 1% increase in exchange rate increases *lnGDPGR* by 0.003% in the long run.

Foreign direct investment (*lnFDI*) with a coefficient of 0.057647 and a p-value of 0.0154 has a positive and significant impact on *lnGDPGR* in the long term at a significance level of 5%. This conforms with a priori expectation. A 1% increase in FDI increases GDP growth rate by 0.06% in the long term.

Inflation rate (*lnINTR*) with a coefficient of -0.643627 and a p-value of 0.2372 has a negative but insignificant impact on *lnGDPGR* in the long term at a significance level of 5%. This conforms with a priori expectation. A 1% rise in the inflation rate decreases the GDP growth rate by 0.64% in the long term.

Interest rate (*lnINTR*) with a coefficient of -0.400927 and a p-value of 0.5646 has a negative but insignificant impact on *lnGDPGR* in the long term at a significance level of 5%. This conforms with a priori expectation. A 1% rise in interest rate decreases the GDP growth rate by 0.40% in the long term.

Table 4. Summary of Short-Run Results (Error Correction Model)Dependent Variable: *lnGDPGR*

Variable	Coefficient	Std.Error	t - Stat.	Prob.
D (<i>lnGDPGR</i> (-1))	-0.383036	0.079383	-4.825173	0.0001
D(<i>lnEXR</i>)	-0.022133	0.012411	-1.783360	0.0914
D(<i>lnINFR</i>)	-0.343706	0.166011	-2.070388	0.0531
D(<i>lnINTR</i>)	-0.188429	0.154841	-1.216921	0.2393
D(<i>lnFDI</i>)	-0.011094	0.003696	-3.001167	0.0077
D (<i>lnEXR</i> (-1))	0.056811	0.013077	4.344202	0.0004
D (<i>lnEXR</i> (-2))	0.068010	0.012604	5.395809	0.0000
D (<i>lnEXR</i> (-3))	0.128161	0.012149	10.54903	0.0000

ECM (-1)	-0.411685	0.057508	-7.158788	0.0000
R-squared	0.930521		Durbin-Watson stat	2.237737
Adjusted R-squared	0.882187		Mean dependent var	0.003596
S.D. dependent var	0.044547			

Source: Author's computation

Table 4. shows the short-run effect of the independent variables (lnEXR, lnFDI, lnINFR, and lnINFR) on lnGDPGR (proxy for economic growth). The R-squared with a value of 0.930521 reveals that about 93% of the total changes in the dependent variable (lnGDPGR) are explained by all the independent variables combined. The finding reveals that exchange rate with a coefficient of -0.022133 and a p-value of 0.0914 has a negative but insignificant impact on lnGDPGR in the short-run at a significance level of 5%. This conforms with a priori expectation. A 1% increase in the exchange rate decreases the GDP growth rate by 0.002% in the short term. However, past exchange rate changes (lagged values of exchange rate) positively and significantly impacted GDP growth in the short run period.

Inflation rate with a coefficient of -0.343706 and a p-value of 0.0531 has a negative but insignificant impact on GDP growth rate in the short term at a significance level of 5%. This conforms with a priori expectation. A 1% rise in the exchange rate decreases the GDP growth rate by 0.002% in the short term.

Interest rate with a coefficient of -0.188429 and a p-value of 0.2393 has a negative but insignificant impact on GDP growth rate in the short-run at a significance level of 5%. This conforms with a priori expectation. A 1% rise in interest rate decreases GDP growth rate by 0.19% in the short term.

Foreign direct investment with a coefficient of -0.011094 and a p-value of 0.0077 has a negative but insignificant impact on GDP growth rate in the short term at a significance level of 5%. This does not conform to a priori expectation. A 1% rise in interest rate decreases the GDP growth rate by 0.19% in the short term.

The error correction term coefficient (-0.411685) is negative as well as significant at a significance level of 5%, as shown by its associated probability value of 0.0000. This means that about 41% of the short-run disequilibrium is corrected each year. Any short-term fluctuations in GDP growth rate caused by the explanatory variables are adjusted at a rate of 41% in order to get to long-term equilibrium.

Table 5. Summary of Diagnostic Tests

Test	Null Hypothesis	Test Type	Test Statistic	Prob.
Normality Test	Normally Distributed Residuals	Jarque-Bera	JB-statistic (2.705145)	0.258574
Autocorrelation Test	Serial Correlation does not exist	Breusch-Godfrey LM Test	F-statistic (1.351148)	0.2869
Heteroscedasticity Test	Homoscedasticity exists	Breusch-Pagan-Godfrey	F-statistic (0.648547)	0.8301

Source: Author's computation

Table 5. shows the summary of the various diagnostic tests conducted. The Jarque–Bera normality test result indicates normal distribution of the residuals, since the probability of the Jarque–Bera statistic (0.258574) is greater than 0.05 at a significance level of 5%. The Breusch-Godfrey LM Test result shows the absence of Autocorrelation since the probability of the F-statistic (0.2869) is greater than 0.05. Also, the Breusch-Pagan-Godfrey test result shows the absence of Heteroscedasticity since the probability of the F-statistic (0.8301) is greater than 0.05.

Stability Tests

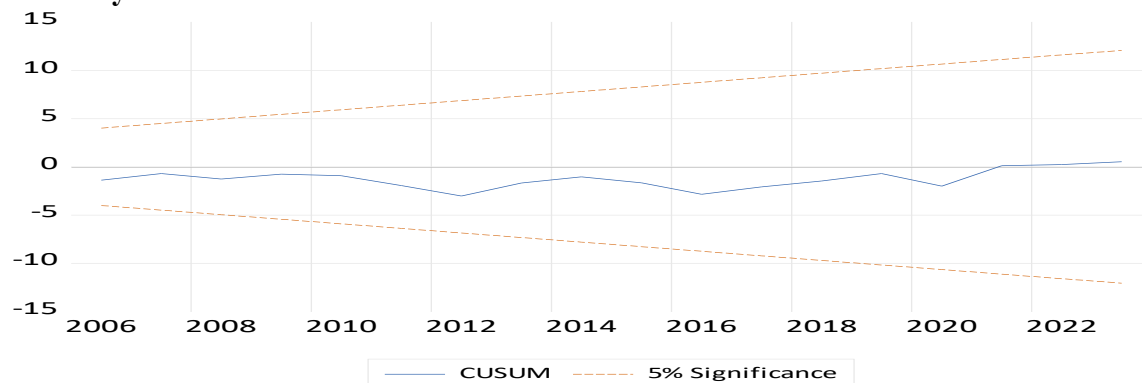


Figure 1: CUSUM Stability Tests

Figure 1 above shows the CUSUM stability test. The result indicates a stable model, since the blue line is within the range of the two red lines (that show the 5% critical bounds). This implies that over the entire sample period, the estimated coefficients are stable. Hence, the coefficients are reliable and suitable for policy making.

Discussion of Findings

The exchange rate had an insignificant impact on GDP growth rate (proxy for economic growth). The impact was negative in the short term but was positive in the long term. Exchange rate may impact positively on Nigeria's economic growth based on the fact that depreciation of the currency makes Nigerian exports cheaper and more competitive internationally. This can in turn increase income from foreign exchange and promote long-run economic growth. The insignificant effect of exchange rate on Nigeria's economic growth is due to the fact that Nigeria like many other Sub-Saharan African countries depends heavily on imports, and its exports are often primary commodities with inelastic demand. This implies that currency depreciation does not always lead to significantly higher export volumes, thereby limiting its economic growth effect in the country. Additionally, Nigeria's economy is heavily dependent on oil exports, which are priced in U.S. dollars. Hence, exchange rate may not significantly influence the GDP growth rate because oil revenues are mainly determined by world oil prices than the naira's value. This finding conforms with previous studies such as John (2024) who found an insignificant relationship between exchange rate of Naira to Pounds and GDP growth rate as well as a positively insignificant relationship between the exchange rate of Naira to Euros and growth rate of GDP. This finding is also supported by Amassoma and Odeniyi (2016), who found that exchange rate fluctuations positively but insignificantly impacted Nigeria's economic growth both in the long and short run. Adeniran et al. (2014) also supported this finding by concluding that exchange rate had a positive but insignificant impact on Nigeria's economic growth.

Exchange rate may negatively impact Nigeria's economic growth if the changes in exchange rate (particularly depreciation) don't instantly affect domestic prices or output. Also, the heavy dependence of Nigeria on imports may weaken the immediate gains of a depreciated currency (which is supposed to boost exports). The negative impact of exchange rate on Nigeria's economic growth conforms with previous studies such as Eze *et al* (2024) who discovered that exchange rate appreciation affects Nigeria's economic growth. Ajagbe *et al* (2024) also discovered a weakly negative association between economic growth rate and Nigeria's exchange rate, indicating that the growth rate tends to decline as exchange rate increases. Similarly, Nwobia *et al* (2020) found that exchange rate negatively impacts Nigeria's GDP.

Further results reveal that interest rate has a negative but insignificant impact on GDP in Nigeria both in the short and long runs. This conforms with a priori expectation. Theoretically, a rise in interest rate increases borrowing costs for businesses, which decreases investment by firms which in turn slows down aggregate output. Conversely, lower rates of interest encourage economic growth because cheaper credit makes it easier to finance investments and consumption, which can stimulate business expansion and in turn increase economic activities and output.

The inflation rate had a negative but insignificant effect on the growth rate of GDP, which is in line with a priori expectation. Keynesian theory asserts that too much inflation can hurt economic growth by reducing the purchasing power of money, increasing uncertainty, and discouraging investment. Nigeria has historically faced high and volatile inflation, driven by factors such as exchange rate depreciation, supply shocks, and fiscal deficit. This has led to the fall of the naira's value, increased uncertainty, and discouraged both local and foreign investment, leading to slower economic growth.

Foreign direct investment has a positive and significant long-run impact on GDP growth rate. However, the short run was negative. This conforms with a priori expectation. Economic theory supports a positive association between FDI and economic growth, particularly through capital formation, productivity gains, and export growth.

Conclusion

This study investigated the impact of exchange rate on Nigeria's economic growth. It particularly analyzed the impact of exchange rate on Nigeria's GDP growth rate within the sample period 1980 to 2023. The Ex-post factor research design was used for this research. The study utilized the following variables: GDP growth rate (GDPGR), exchange rate (EXR), foreign direct investment (FDI), interest rate (INTR), and inflation rate (INFR). The findings indicated that the exchange rate had a positive but insignificant effect on GDP growth rate (proxy for economic growth) in the long term over the study period. However, the effect was negative but insignificant in the short term. The study therefore concludes that the exchange rate does not significantly impact economic growth in Nigeria over the study period.

Recommendations

The following recommendations are made based on the research findings.

- i. Given that exchange rate has a long run positive impact on GDP growth rate, the government of Nigeria through its monetary authorities should ensure the stability of exchange rate of the naira in relation to those of its trading partners. This will eventually

make the country's exports more competitive in the international market, and in turn will lead to increased exports and economic growth.

- ii. Given that foreign direct investment has a long run positive and significant impact on GDP growth rate, the government should create policies and incentives that attract and retain foreign investors such as tax holidays, and also provide the needed infrastructure such as a good communication network and roads. This will bring about increased income and economic growth.
- iii. The government should also control inflation and interest rates because both variables negatively affect GDP in the short run and long run (implying the important need for prudent monetary policy).

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