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EFFECT OF EXCHANGE RATE VOLATILITY ON ECONOMIC GROWTH IN NIGERIA (1986-2014)

Abstract:

This study evaluates the effect of exchange rate volatility on economic growth in Nigeria from 1986 to 2014. It determines the extent and manner to which economic growth responds to exchange rate volatility in Nigeria. The empirical analysis of this study is to determine the degree of volatility of real effective exchange rate using the Generalised Autoregressive Heteroskedasticity (GARCH) model and the Generalized Method of Moments is used to determine the effect of real exchange rate volatility on economic growth. The study finds that there is high volatility of real effective exchange rate. It also reveals that real effective exchange rate is negatively and significantly related to economic growth. This finding suggests that exchange rate volatility is harmful to the growth of the Nigerian economy. This study recommends that government should constantly seek to maintain a stable exchange rate, increase its expenditure, particularly capital expenditure and implement sustainable reforms to increase the depth of the financial sector.

Keywords:

exchange rate, volatility, economic growth and GARCH

JEL Classification: E44