



FOREIGN EXCHANGE REGIMES AND MACRO-ECONOMIC PERFORMANCE IN NIGERIA

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Abstract

The focus of the study is to examine the implications of foreign exchange regimes on selected macro-economic indicators in Nigeria from 1999 to 2020. This study adopts Ex-Post Facto and time-series research design. In this study, secondary data retrieved from the CBN statistical bulletin, Federal Inland Revenue Service (FIRS) and National Bureau of Statistics for various years will be used for the study. The data analysis technique that is utilized in this study is multiple regression analysis with aid of e-view 9.0. However, the relationship between exchange rate regimes and economic growth remains controversial. The relationship between exchange regimes and inflation is positive though not significant at 5%. The relationship between exchange regimes and current account balance (CAB) is positive but not significant at 5%. The study recommends that the CBN continues to critically examine the exchange rate system in Nigeria especially because of the potential devaluation of the Naira in the community of other currencies.

Key Words: Foreign exchange regime, Inflation, and current account balance

Introduction

The topic of exchange rate management and macroeconomic success in developing nations has gotten a lot of attention and has sparked a lot of discussion. The discussion centers on the magnitude of exchange rate swings in the face of internal and external shocks. There appears to be widespread agreement that depreciation or devaluation can improve domestic production by encouraging the net export component (Data & Oyeranti, 2012). This can be seen in the increased international competitiveness of domestic sectors, which leads to a shift in spending from foreign items with high costs to domestic ones.

Someone has to translate in international trade, just as someone has to translate in international discussion. People in different nations speak different languages and use different currencies. The exchange rate - the price of one country's money in units of another country's money - acts as a translator between currencies (Pugel 2007). According to the Central Bank of Nigeria, the foreign currency market is a channel of interaction between foreign exchange sellers and buyers. The supply of foreign exchange is created by the seller, while the demand is created by the buyer (Okorontah, 2020). The supply of foreign exchange is derived from oil export, non-oil export, expenditure of foreign tourist in Nigeria, capital repatriation by Nigerian residents abroad etc. The demand for foreign exchange on the other hand consist of payments for imports, financial commitments to international organizations, external debt service obligations etc.

According to Obadan (2009), developing countries' choice of exchange rate regime is critical to their self-protection from speculative attacks and currency crises, as well as their ability to achieve long-term growth. It is a fundamental economic policy that heavily influences a country's economic health, and its variability is an important endogenous factor that influences macroeconomic variables such as outputs, imports, export prices, interest rate, and inflation rate (Iyoboyi and Muftau, 2014). Some academics believe that exchange rate policies, particularly in developing nations, are the consequence of a political process with major distributive and welfare implications. Upon the demise of the Bretton Woods system, a generalized system of floating exchange rates emerged, particularly for the developed countries. The developing countries have had varied experiences with exchange rate regimes.

Even in recent years, questions have persisted over whether there is a systematic relationship between exchange rate regimes and macroeconomic performance. Empirical evidence on the relationship between exchange rate regime and macroeconomic performance is frequently disputed and ambiguous, and the impact of the chosen regime on other significant economic variables continues to be a source of debate and controversy among economists. One of the many explanations for the disparity could be the difference between the exchange rate regimes that countries actually use (de facto) and the ones that they publicly advertise (de jure). Many economists have discussed how many nations with ostensibly float regimes heavily intervene in their currency rates, a phenomenon called the "Fear of Floating" by Calvo and Reinhart (2002). As a result, several countries that profess to fix their currencies may devalue in times of economic turmoil. In this paper, we contribute to the debate by examining the influence of different exchange rate regimes on three macroeconomic indicators: real growth, current account, and inflation, with a specific focus on stylized facts in Nigeria.

The exchange rate regime involves a number of important economic policy decisions that have a direct impact on economic performance, but it also limits the alternatives available in other areas of policy (Adenekan, Sanni, & Itodo, 2019). It has an immediate and possibly long-term impact on economic well-being. Most governments find it difficult to choose an

exchange rate regime, as seen by the frequent changes in regime seen in many countries over time. Given that currency prices fluctuate by the minutes, the foreign exchange market is the largest traded market in the world, and the massive volume of transactions involved creates arbitrage opportunities for speculators. Such speculation, which is fueled by market expectations, often influences the behavior of the exchange rate and creates a distortion, driving increased exchange rate volatility. Exchange rate volatility has far-reaching ramifications for macroeconomic and financial stability (Adenekan, Sanni, & Itodo, 2019). Because of its proclivity for causing exchange rate mismatch, it can have a detrimental impact on commerce. Foreign direct investment is discouraged by erratic gyrations because of the significant risk of exchange losses, which could damage the operating profit of international enterprises operating in a competitive domestic context.

It's worth noting that there have been few studies on the exchange rate's volatility behavior in Nigeria, and they've mostly relied on low-frequency data (for example, Adenekan, Sanni, and Itodo, 2019; Bala and Asemota, 2013; Dada and Oyeranti, 2012 Adeoye and Atanda, 2011 and Olowe, 2009). As a result, this study differs from others in that it uses daily series volatility—higher frequency data—rather than the weekly or monthly series used in previous studies. In the 1980s, Nigeria's currency rate regime and policy transitioned from a fixed or pegged system to a floating or floating system. In 1985, with the introduction of the structural adjustment programme (SAP), the exchange rate regime shifted to a floating or floating system. This research contributes to the debate by discussing impact of exchange rate regime choice on indicators of macroeconomic performance-inflation and current account for a developing country like Nigeria. The broad objective of the study is to examine the relationship between foreign exchange regimes and macro-economic performance in Nigeria. The specific objectives are to;

- i. Determine the relationship between foreign exchange regime and current account balance in Nigeria.
- ii. Ascertain the relationship between foreign exchange regime and inflation rate in Nigeria.

Review of Related Literature

Exchange Rate and Regimes

The exchange rate is the price of one country's currency in terms of another country's currency. The Nigerian naira, for example, has an exchange rate against the US dollar and a variety of other currencies. It can be expressed as either a nominal or a real exchange rate (Okorontah, 2020).

The nominal exchange rate (N/S) is a monetary term that measures the relative price of two currencies, whereas the real exchange rate (R/S) is a real concept that measures the relative price or worth of different countries' products. A system's exchange rate can be fixed or allowed to fluctuate. A fixed exchange rate is a system in which a country's exchange rate remains constant or stays within some small margin of fluctuation around a constant par value. On the other hand, the floating exchange rate (which is our concern in this study) is an exchange rate system with no government or central bank action to keep it stable (Black 2003).

Ngerebo and Ibe (2013) defined exchange rate as the price of one currency in relation to another, the number of units of one currency necessary to purchase another currency (Mordi, 2006), or, in plain English, the rate at which domestic money is exchanged for foreign currency. Exchange rate policy, on the other hand, relates to how a country manages its currency's exchange rate with other foreign currencies in the foreign exchange market. The

fixed or pegged exchange rate system, the free-floating or flexible exchange rate system, and the hybrid or managed float exchange rate system are the three main types of exchange rate regimes. Countries determine the type of exchange rate that applies to their currency depending on their policy objectives. A fixed exchange rate regime is one where the currency is tied or pegged directly to the value of another currency (Rewane, 2015), or to a basket of other currencies, or even to another measure of value, such as gold. In other words, it is the type in which exchange rates are maintained at fixed levels, where a country has its currency fixed against another currency. In this instance, a country adopting fixed exchange rate means that their apex financial institution is ready and willing at any time, to exchange the domestic currency with the foreign currency at the fixed rate.

Because maintaining a realistic exchange rate for the naira is so important, an understanding of its behavior outside of the traditional structural determinant is necessary. Given that one of the Central Bank of Nigeria's primary challenges is the regulation of exchange rates and the smoothing of the swings associated with exchange rate movements, this study is timely and pertinent (Adenekan, Sanni, & Itodo, 2019). The Central Bank of Nigeria has used a variety of exchange rate regimes over the years, including controlled, float, and managed float, as well as intermittent intervention measures, to achieve market stability, albeit at a high cost.

Exchange Rate Regimes and Inflation

Inflation, according to Ojo (2000), is defined as a broad and consistent rise in the prices of goods and services in a given economy. The percentage change in a price index (consumer price index, wholesale price index, producer price index, and so on) is used to calculate inflation. The relationship between the exchange rate regime and the rate of inflation has long been a source of discussion and is one of the most contentious issues in international macroeconomics (Yamada, 2013). The widely held perspective on the relationship between the exchange rate regime and inflation is that pegged exchange rates help to keep inflation low and steady (De Grauwe & Schnabel, 2004). Advocates of fixed exchange rate regimes typically emphasized that in countries with unrestricted capital mobility, a fixed exchange rate regime can help achieve greater price stability in several ways, including by providing monetary discipline, anchoring inflationary expectations, and limiting the scope for expansionary monetary policy and debt monetization.

According to Adegbite and Owolabi (2013), Except for MVOL, which demonstrated a divergence from a priori expectation as evidenced by the positive connection between inflation and market volume, all of the indicators had a negative relationship with inflation. As a result, it is determined that inflation and capital market pessimism have a negative association. Daferighe and Charlie, (2012) revealed that these measures were negatively related to inflation in convergence to a priori expectation except for which showed a positive relationship. Engle and Rangel (2005) revealed that a predictable increase in the rate of inflation can slow down financial market development.

According to Bekaert and Engstrom (2009), as projected inflation rises, bond yields rise as well, but because stock investors discount real cash flows erroneously using nominal rates, the increase in nominal yields leads to equity underpricing and vice versa. Expected inflation and real returns are not connected, according to Ugur (2005). The findings indicate a negative link between inflation and stock returns, which could be due to the negative impact of unexpected inflation on stock returns. Similar results are obtained by Husain, Mody and Rogoff. (2005) and Coudert and Dubert (2005). Ghosh ,Gulde and Wolf, (2002) and Rogoff, Husain, Mody, Brooks and Oome (2004) works support the findings that fixed regimes are

associated with the low inflation only in lower and lower-middle income countries, while floating regimes are associated with low inflation in upper-income countries.

Furthermore, literature reveals differences in the impact of sub-categories of fixed regimes on inflation: first, regimes that underwent "frequent" adjustments in central parity and, for basket pegs, in the composition and/or weights of the basket, generated higher inflation than "infrequent" adjusters; second, single-currency pegs, which are easier to verify than other pegs, had lower inflation rates than other pegs.

Exchange rate regimes and International Trade-Current Account balance

The literature (Gosh, Terrones, and Zettelmeyer 2010) implies that the kind of exchange rate arrangement influences international trade, although it is unclear which regime is more likely to stimulate international trade. It has been proposed that under set arrangements, trade should be higher since exchange rate volatility and uncertainty will be lower, lowering the cost of trade and therefore increasing volume. Flexible exchange rates, according to proponents of fixed exchange rate regimes, reduce the volume of international trade and investments by introducing a level of uncertainty not present under fixed rates, and are more prone to lead to destabilizing speculative bubbles (Domac, Peters & Yuzefovich, 2001).

Flexible regimes, on the other hand, are thought to be more supportive of export growth since they are less likely to generate circumstances for long-term misalignment. Flexible exchange rate proponents (Calvo & Reinhart, 2002; Chinn & Wei, 2008; Coudert & Dubert, 2005; D'Adamo & Rovelli, 2014) argue that these regimes are more efficient than fixed exchange rates at resolving balance of payments imbalances. They also emphasize that flexible exchange rates help the accomplishment of internal balance and other economic objectives by allowing a country to achieve external balance simply and automatically. A number of empirical studies have attempted to investigate the impact of exchange regimes on trade balances; for example, Domac, Peters, and Yuzefovich (2001) found that countries with fixed exchange rates appear to have higher current account deficits than countries with intermediate and flexible regimes. Contrary to popular belief, nations in transition with a flexible exchange rate have bigger current account deficits on average. According to Gosh, Terrones, and Zettelmeyer (2010), large current account reversals occur very rarely under flexible exchange rate regimes, and when they do, they have much lower initiating costs. Allowing for threshold effects, they conclude that exchange rate regimes seem to be highly relevant for current account dynamics.

Hermann (2009) examined the relationship between the exchange rate regime and the pace of current account adjustment. The panel data set includes 11 catching up countries from central, eastern and south-eastern Europe between 1994 and 2007. The exchange rate regime is measured by a continuous z-score measure of exchange rate volatility. Based on a basic autoregression estimation, the results indicate that a more flexible exchange rate regime significantly enhances the rate of current account adjustment.

Edwards (2004) employing panel data set for 157 countries in period 1970-2011 examined the mechanisms of unexpected pauses of capital inflows and current account reversals. The empirical research suggest that countries with more flexible exchange rate are able to tolerate better shocks coming from a reversal than countries with more restrictive exchange rate regimes. The research of D'Adamo and Rovelli (2014) examines the impact of exchange rate regimes on country competitiveness, as measured by export market share or total export as a percentage of world exports. The results suggest that a fixed exchange rate is related with an EMS that is around 8% lower, while even more rigid regimes (that are not fixed) are

associated with an EMS that is about 12% lower. More flexible exchange rate regimes are associated with economically and statistically significant faster current account adjustment, according to Ghosh, Qureshi, and Tsangarides (2013), who used a measure of regimes based on trade-weighted bilateral exchange rate volatilities. Tippkötter (2010) looked at the effect of different exchange rate regimes on the process of current account adjustment. For the years 1970 to 2008, the dataset includes 171 countries. He discovered a monotonic link between exchange rate flexibility and current account reversion, showing that more flexible regimes had faster current account convergence.

Gnimassoun and Coulibaly (2014) analyzed sustainability of current accounts in Sub-Saharan Africa and determine whether this sustainability depends on the exchange rate regime. They rely on formal theoretical framework and recent panel cointegration techniques. Their findings show that sustainability of current account has been lower for countries operating fixed exchange rate regimes or belonging to a monetary union. Arratibel, Furceri, Martin and Zdzienicka (2011) confirms that hard pegs tended to experience relatively larger external imbalances than floaters, by using panel estimations for the period of 1995 to 2008 on the Central and Eastern European EU Member States.

Empirical Studies

Okorontah (2020) looked on the influence of macroeconomic variables on the performance of the Nigerian currency rate. The study examined the relationship between some macroeconomic variables and the Naira exchange rate using annual data from 1985 to 2018. It used the ordinary least square (OLS) technique, the unit root test, the Johansson cointegration test, and the error correction mechanism (ECM). The findings imply that, both in the short and long run, the unemployment rate is a key driver of the Naira's exchange rate. The impact of naira-to-dollar exchange rate volatility on naira exchange rate returns in Nigeria is investigated by Adenekan, Sanni, and Itodo (2019). The study generated an AR(5)-TGARCH (1,1) using daily percentage exchange rate returns of the naira per US-Dollar to see if there is any asymmetry in the time course of the naira exchange rate volatility. According to the research, exchange rate volatility causes an increase in exchange rate returns (depreciation). There is also asymmetry in the movement of exchange rate volatility, such that negative shocks that cause exchange rate returns to decrease cause volatility to fall by a larger amount than the impact of the negative shock. Since the democratic dispensation, Oraka, Ezejiofor, and Erhirhie (2018) investigated the effects of inflation on the performance of the Nigerian capital market. The data was gathered from the Statistical Bulletin of the Central Bank of Nigeria and the Fact Book of the Nigerian Stock Exchange. With the help of SPSS version 20.0, the data was processed and the coefficient correlation coefficient statistical approach was employed to evaluate the hypotheses. The study discovered that there is a negative substantial association between inflation rate and Nigerian market capitalization, as well as a negative correlation between inflation rate and all share index in Nigeria. The level of inflation, on the other hand, has a negative relationship with the value of the domestic share traded in Nigeria.

Hu and Oxley (2017) used Phillips, Shi, and Yu (2015)'s Generalized Sup ADF (GSADF) unit root tests to look at the evidence for exchange rate bubbles in certain G10, Asian, and BRICS countries from March 1991 to December 2014. They looked for explosiveness in the nominal exchange rate and its origins, as well as whether such explosiveness is driven by rational bubbles or exchange rate fundamentals. Results for some G10 cross rates suggested no evidence of bubbles in most exchange rate pairs with only a few exceptions. Moreover,

there was also evidence of significant explosive behavior in the US Dollar-Mexican Peso exchange rate as well, supporting the hypothesis of a bubble in the US.

Vadivel and Sampath (2017) investigated whether the large variations in exchange rates and foreign currency assets (FCA) witnessed in India in the foreign exchange markets have any long memory properties. The study used monthly data from January 1993 to March 2017 and used Granger and Joyeux's (1980) and Hosking's (1980) fractionally integrated autoregressive moving average (ARFIMA) frameworks (1981). Their findings suggested that the foreign currency rate has a long memory property, and they proposed setting the reference rate and frequent involvement in the foreign exchange market to reduce exchange rate volatility and boost export. With the goal of investigating the characteristics of exchange rate volatility in Nigeria and modeling it with exogenous variables to measure any improvement or otherwise of the specified models, as well as to determine the forecasting performance of the specified models, David, Dikko, and Gulumbe (2016) used the GARCH (1,1) to examine the naira exchange rate vis-à-vis the US dollar, euro, British pound, and Japanese yen. In order to build an early warning system for currency crises in Nigeria, Omotosho (2015) evaluated the probabilities of currency crises as a logistic function of chosen macroeconomic indices. By disentangling the effects of exchange rate volatility and real exchange rate misalignment on the probability of currency crisis, the study looked into the extent to which real exchange rate misalignment could be employed as a leading indication of currency crisis. The study found that real exchange rate misalignment raises the risk of a crisis, among other things. The real exchange rate volatility, in particular, was highly stable, which improved the model's performance. Dada and Oyeranti (2012) determined the impact of the currency rate on Nigerian macroeconomic aggregates. The research explores the probable direct and indirect association between real exchange rates and GDP growth using annual time series data from 1970 to 2009. A vector-autoregressive model and a simultaneous equations model within a fully described (but tiny) macroeconomic model are used to derive the relationship. There is no indication of a substantial direct association between changes in the exchange rate and GDP growth, according to the estimation results. Improvements in exchange rate management are required but insufficient to revitalize the Nigerian economy, according to the findings.

Contrary, there are few researches which concluded that there is no relationship between exchange rate regime and current account imbalances such as the study of Chinn and Wei (2008) which examined the subject for a sample covering over 170 countries, over the 1971-2005 period. The authors looked at whether the rate of current account reversion is affected by the degree of de facto exchange rate fixity as evaluated by two widely used indices. They discovered that the rate of current account reversion has no substantial, robust, or monotonic link with the exchange rate regime.

Methodology

Research Design

This study adopts a time-series research design. In this study, secondary data retrieved from the CBN statistical bulletin, and National Bureau of Statistics for various years will be used for the study. The data will cover the period from 1999-2020.

Method of Data Analysis

The empirical analysis included descriptive analysis to describe the data and determine data associations, as well as an examination of the pattern of qualitative data movements between variables over time. Similarly, by observing the variability of the data with statistics such as deviation, standard deviation, skewness, kurtosis, and Jarque-Bera, the behavior of the data

can be easily examined. Because of the nature of the data, which would contain both time series and cross sectional qualities, the Jarque-Bera test was extremely relevant in this investigation. The second method was the advanced econometric analysis. In particular, the panel data regression techniques would be used to estimate the relationship between foreign exchange regimes, inflation, and current account balance. The nature of data has necessitated the adoption of the method in this study with the aid of E-view 9.0 econometric software.

Model Specification

The specified multiple regressions estimated model takes the following form:

$$EXR = \beta_1 INF_i + \beta_2 CAB_i + \beta_3 OPN_i + e_i \quad i$$

INF = Inflation Rate

CAB= Current Account Balance

OPN= Economic Openness measured as Import-Export ratio

β_0 = autonomous variable

$\beta_1, \beta_2, \beta_3$, are coefficients of the independent variables

Decision Rule

The decision for the acceptance and rejection of alternative hypothesis and null hypothesis depends on the coefficient of determination (R) tested at 5% significance level.

Data Analysis and Discussion

Table 1: Descriptive Analysis

	FXR	INF	CAC	OPN
Mean	145.8806	11.41318	1550.619	35.24964
Median	132.5696	10.85000	1635.768	36.67000
Maximum	306.7095	18.90000	4891.744	50.77000
Minimum	21.88600	6.600000	-3033.480	21.16000
Std. Dev.	70.73601	3.406433	1856.423	7.295545
Skewness	0.745701	0.523280	-0.214566	-0.092799
Kurtosis	3.874521	2.621119	3.113874	2.625361
Jarque-Bera	2.739977	1.135602	0.180695	0.160235
Probability	0.254110	0.566770	0.913614	0.923008
Sum	3209.373	251.0900	34113.63	775.4920
Sum Sq. Dev.	105075.3	243.6795	72372472	1117.725
Observations	22	22	22	22

Source: Source: Researchers Compilation (2021)

The descriptive statistics for the variables shows that the mean FXR has mean of 145.881 in the flexible regime period. Firstly, it was observed that on the average over the twenty two (22) years periods (1999-2020), the sampled exchange rate in Nigeria were characterized by positive inflation rate (INF) = 11.41, current account balance (CAB) = 1550.62. The large difference between the maximum and minimum value of the inflation rate (INF), current account balance (CAB) Economic Openness measured as Import-Export ratio (OPN) show that the sampled economic variables in this study are not dominated by macroeconomic with large foreign exchange regimes.

It was also observed that the average OPN value over the period was 35.250; the maximum value was 50.7700 while the minimum stood at 21.1600. This shows that most quoted banks in Nigeria are with high market value or have more investment value. Lastly, in table above, the Jarque-Bera (JB) which test for normality or the existence of outlier or extreme values among the variables shows that all our variables are normally distributed and significant at 5% level and the result could be generalized. This also implies that a least square regression can be used to estimate the pooled regression models.

Test of Hypotheses

Table 2: Regression analysis between EXC, INF, CAB and OPN

Dependent Variable: EXC

Method: Least Squares

Date: 10/08/21 Time: 20:57

Sample: 1999 2020

Included observations: 22

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	358.1814	63.93719	5.602083	0.0000
INF	2.524721	3.362690	0.750804	0.4625
CAB	0.012917	0.006393	2.020404	0.0585
OPN	-7.408465	1.606681	-4.611037	0.0002
R-squared	0.551922	Mean dependent var		145.8806
Adjusted R-squared	0.477242	S.D. dependent var		70.73601
S.E. of regression	51.14354	Akaike info criterion		10.87012
Sum squared resid	47081.92	Schwarz criterion		11.06849
Log likelihood	-115.5713	Hannan-Quinn criter.		10.91685
F-statistic	7.390524	Durbin-Watson stat		1.174106
Prob(F-statistic)	0.001981			

In Table 2, R-squared and adjusted Squared values were (0.552) and (0.477) respectively. This indicates that all the dependent variables jointly explain about 55% of the systematic variations in foreign exchange regime over the twenty two years periods (1999-2020). The F-statistics (7.391) and its P-value (0.002) show that the foreign exchange regression model is well specified.

Test of Autocorrelation: Using Durbin-Waston (DW) statistics which we obtained from our regression result in table 2, it is observed that DW statistics is 1.174 and an Akika Info Criterion and Schwarz Criterion which are 10.87 and 11.07 respectively, also further confirms that the model is well specified. In addition to the above, the specific findings from each explanatory variable are provided as follows:

Inflation Rate (INF), Based on a t-value of 0.751 and a p-value of 0.463, it was discovered to have a favorable impact on macroeconomic performance, although this impact is not statistically significant because the p-value is bigger than 0.05. As a result of this finding, we should adopt null hypothesis one (Ho1), which argues that foreign exchange regimes have no substantial impact on Nigeria's macroeconomic inflation rate. This suggests that an economy with a high inflation rate does not function better, since the data shows that every \$1 increase in inflation in Nigeria results in a \$1.00 drop in the economy. This possibly suggests that regulated exchange rate regimes tend to have a stronger tendency to reduce inflation than exchange regimes. This supports view that nominal anchoring of exchange rate or pegging to the currency of low-inflation economy helps in maintaining price stability.

Current Account Balance (CAB), Foreign exchange regimes were shown to have a positive influence on our sampled indicator of macroeconomic performance, with a t-value of 2.020404 and a p-value of 0.059, however this influence was not statistically significant because the p-value was more than 5%. As a result of this finding, we accept our null hypothesis (Ho2) that the current account balance has no major impact on the Nigerian macroeconomic foreign exchange regimes.

Discussion of findings

The analysis shows that foreign exchange regimes have no significant effect on inflation rate and current account balance in macroeconomic performance in Nigeria. The findings support the perspective that flexible regimes are more supportive of export growth, because they are less likely to create conditions for persistent misalignments. Proponents of flexible exchange rates (Calvo & Reinhart, 2002; Chinn & Wei, 2008; Coudert & Dubert, 2005; D'adamo & Rovelli, (2014), claim that these regimes are more efficient than fixed exchange rates in correcting balance of payments disequilibria, allowing country to achieve external balance easily and automatically and facilitate the achievement of internal balance. Edwards (2004) supports this view by identifying that countries with more flexible exchange rate are able to accommodate better shocks stemming from a reversal than countries with more rigid exchange rate regimes. The finding is supported by studies of Ghosh et al. (2013) Tippkötter (2010) though in contrast with Chinn and Wei (2008). The error correction estimate $ecm_{(-1)}$ for all estimations has the expected negative coefficient which is statistically significant at 5% and thus confirms the presence of dynamic adjustments in the relationships in long run.

Conclusion and Recommendation

The study's main goal is to look into the effects of different foreign exchange regimes on Nigeria's macroeconomic indicators. The main point of contention in the debate over the impact of exchange rate regimes on macroeconomic performance is whether there is a systematic relationship between exchange rate regimes and macroeconomic performance. Various empirical research provided varied responses to these concerns, depending on the nations or time periods studied, the technique used, and the classification of currency rate regimes used. The exchange rate regime and policy in Nigeria shifted from a fixed or pegged system in the 1980s, particularly in 1985, when the structural adjustment programme (SAP) was implemented, and the exchange rate regime entered a world of floating and managed regimes.

This study adds to the debate by examining the influence of exchange rate regime choice on macroeconomic performance measures such as inflation and current account for a developing economy like Nigeria. The results reveal that there is a positive but not significant association between flexible regimes and inflation rate (INF) and current account balance (CAB) at 5%. As a result, the study suggests that the CBN continue to scrutinize Nigeria's exchange rate system, particularly in light of the Naira's potential depreciation in the international currency community.

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