

EXCHANGE RATE FLUCTUATIONS AND MANUFACTURING PRODUCTIVITY IN NIGERIA

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Abstract

This paper empirically examined the impact of exchange rate fluctuation on manufacturing productivity in Nigeria. The paper made use of secondary data, covering periods of 1981-2019. The autoregressive distributed lag (ARDL) framework was used to analyse a multiple regression model that captured the effect of exchange rate volatility, nominal exchange rate, lending rate, inflation rate, and interest rate on manufacturing productivity in Nigeria. Data for this study was obtained from the CBN statistical bulletin, World Bank Development indicators, and the CBN annual report. Results of the regression analysis indicated that exchange rate fluctuation does not pose a serious harm to manufacturing productivity in Nigeria, rather it has positive impact on manufacturing productivity. Notably, this is because exchange rate fluctuations have been minimal in Nigeria since the year 2000. On the other hand, nominal exchange rate was reported to have significant positive effect on manufacturing productivity in Nigeria. These results show that while increase in exchange rate imply added cost of production to manufacturing firms, the fluctuations caused by movement in exchange rate are minimal. Hence, with minimal exchange rate fluctuation, manufacturing sector performance has not been adverse. Based on the foregoing, the paper recommends that the CBN should endeavour to always manage exchange rate in Nigeria in such a way that its fluctuations are minimal. This could be by way of introduction of guided intervening fund to the foreign market and ensuring that forex are only allocated to those who need it for positive investment purpose.

Keywords: Exchange rate, Exchange rate Fluctuations, Manufacturing Productivity, Nigeria, theory of rational expectation