



Balance of Payments Disequilibrium and Implication for Economic Growth in Nigeria

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ABSTRACT

This study examined the impact of Balance of Payments Disequilibrium and Implication for Economic Growth in Nigeria over the time frame of 1981 to 2020. Secondary data were sourced from Central Bank of Nigeria statistical bulletin of various issues and CBN annual reports. In analyzing the short and long-run dynamic relationship between Gross Domestic Product and selected Balance of Payment determinants which include; Balance of Payment and Exchange rate. This study utilized the Unit root test, Ordinary Least Square method, Granger Causality and Generalized Autoregressive Conditional Heteroskedasticity (GARCh) in capturing the short-run and volatility dynamics of the variables used in the model. The result revealed the existence of negative and insignificant relationship between Balance of Payment and Gross Domestic Product proxy for Economic growth while Exchange rate exhibited negative and significant relationship on economic growth in Nigeria. The study therefore recommends that Balance of payments position in Nigeria constitutes a structural problem that can hinder the attainment of potential growth.

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It has been shown clearly that, these problems can be addressed by diversifying the structure of production; reduce dependency on imports, making exports competitive in the international markets

through macroeconomic stability, improvement in the state of infrastructure, human capital development, and eradication of corruption. Also, Government should create an incentive that would encourage investment in the country and also improve the balance of payments position.

Introduction

A nation's viability and status is determined by its economy. For the economy to be robust there must be vibrant and successful businesses going on within the country. As a result of the indispensability of any country, transactions are bound to take place between countries of the world. Where there is such transaction or trade between residents of a reporting country and the rest of the world (ROW) then international trade is said to have taken place which in turn leads to balance of payment. Thus, balance of payments of any country measures in summary, all the flow of economic transactions between the government, business and residents (whether citizens or not) of that country and another, prepared either quarterly or annually on the age-long accounting principle of double entry, which requires both the giver and the receiver to be represented by a credit and a debit voucher respectively (Esezobor, 2009). Hence, International Trade Statistics (ITS), is used to measure the quantities and values of goods that move into (imports) or out of a country (export). Normally, the main source of this information is usually from custom's bills of entry, that are often completed by traders. This bill of entry are records of the quantities and values of goods imported into or exported out of the reporting country's economy. However, where customs data are not available ITS can also be derived from records of transactions in foreign exchange. According to the explanatory notes of the CBN statistical Bulletin, Vol 30 December 2019, 'BOP is defined as a systematic record of economic and financial transactions for a given period between residents of an economy and non-residents'. Such transactions may involve the provision and receipts of real resources and changes in claims on assets and liabilities to the ROW. BOP specifically, records events and movement of income and expenditure, goods and services, as well as changes in ownership and other holdings of financial instruments monetary gold inclusive. Special Drawing Rights (SDRs) and claims on, and liabilities to, the ROW. The BOP also records current transfers - the provision or receipt of an economic value without the acceptance or relinquishing of something of equal value, or quid pro quo. It is a periodic report that summarizes the flow of economic transactions with foreigners. It provides information on the nation's exports, earnings of domestic assets owned by foreigners, international capital movements, and official transactions by Central Banks and governments (Kolte, Rossi, Torriero, Patil, & Pawar, 2021; Musili, 2021).

In the middle 80s when the Nigerian policy makers devaluated the naira, hoping that it will reduce pressure on external reserve as well as BOP huge balance of payments deficits and depletion of the foreign reserve took place instead and the economy was far from recovery. Based on available statistics from the Central bank of Nigeria (CBN), both the current and capital account recorded deficits in 1987, 1988 and 1989 hence the devaluation did not significantly improve the country's external reserve, trade and economic performance instead a huge deficits were recorded.

The role a Balance of Payments' position play in the economy of any nation cannot be over emphasized and Nigeria is no exception. It can either be in equilibrium or disequilibrium. In its disequilibrium state, it can also be surplus or deficit traceable to a variety of factors such as the Rate of Inflation, the Level of Economic Development, Interest Rate, Structural Economic Factors as well as Random Factors to mentioned but few. Where a country's import exceeds its export over a particular period, it is said to have a deficit or unfavourable balance of payment, while when its export exceeds its import it is said to have a favourable or surplus balance of payment. A deficit BOP is an indication that the country does

not have enough money (foreign reserves) to pay for its import; which in turn may warrant the country to borrow to fund their current account. Also, a negative balance of payment position may lead to loss in value (depreciation) of the country's currency while appositive balance of payment may lead to gain in the value (appreciation) of the country's (Aniekan, 2013). Sometimes the debit may exceeds the credit and vise-visa thereby causing an imbalance in the balance of payment account. Such an imbalance is called the disequilibrium. Disequilibrium may take place either in the form of deficit or in the form of surplus due to any or combination of the following: Population Growth, embarking on Development Programmes, Demonstration Effect, Natural Factors such as draught or flood, Globalisation, poor marketing strategy, Flight Of Capital, inflation, and Cyclical Fluctuations due to business cycle to mention but few.

A deficit disequilibrium may arise when the receipts from exports transaction fall short of payment for import. This occurs when the effective demand for foreign exchange of the country exceeds its supply at a given rate of exchange hence it is called an 'unfavourable balance'. While a surplus disequilibrium arises when the country's receipts exceed its payments. Such a situation arises when the effective demand for foreign exchange is less than its supply. Such a surplus disequilibrium is termed as 'favourable balance'. Thus, a large current account deficit may be an indication that the economy is too much geared in terms spending on import or export and too little on exports or import. It can also occur when the saving ratio falls and domestic consumers spend more on imports and could also be a sign of underlying inflationary pressures. As domestic goods increase in price, people buy imported items instead. Interestingly, current account deficit often occurs towards the end of a boom – when domestic demand is rising faster than domestic supply. It may also be an indication the country is losing competitiveness. This is especially important in a fixed exchange rates regime. For example the Southern European countries experienced a current account deficits in 2008-10 due to becoming uncompetitive within the fixed exchange rate – the Euro. A deficit may also be a reflection that saving is less than investment and investment is being financed by capital inflows from abroad (Esezobor, 2009).

However, correcting Disequilibrium in the Balance of Payments especially when the visible and invisible exports of a country are less than all her imports (or the imports exceed the exports) over a long period and the difference is big, may include but not limited to improving the balance of trade through import restrictions and measures of export promotion. A country having an adverse balance of payments must check imports, or to stimulate exports and some extreme cases apply both. In the case of Imports, it can be checked either by total prohibition, or by levying import duties, or by a quota system or by import substitution measures. Exports can be stimulated by measures of export promotion i.e. granting bounties or other concessions to industrialists and exporters. While other methods may include Deflation, Exchange control, Devaluation even though the success of devaluation in improving the balance of trade, and through it the BOP may depends upon the demand elasticity's of imports and exports of the devaluing country. In other words, an improvement in the balance of trade will depend upon whether the demand for imports and exports is elastic or inelastic.

In the recent times, Nigeria has been battling with sharp fall in the revenue from oil which have been providing approximately 90% of the nation's foreign exchange, coupled with the global pandemic-COVID 19 with a crushing debt services burden resulting from the failure of the nation to channeled its import needs to the available foreign exchange resulted into severe pressures on the balance of payment in the last few years. This could be traceable to the fact that Nigeria economy is highly import dependent (Jadhav, 2020).

In the face of these, the process of deregulation coupled with an appreciable degree of openness that took place during the SAP era had made Nigerian economy vulnerable to international trade shocks and the widening of the size of disequilibrium in BOP due to deficit recorded. During this period, the Naira depreciated from N0.99 per dollar in 1986 to N9.00 per dollar in 1990 with a considerable amount of deficit being recorded. Worthy of note is that, between 1985 and 1990, there was an increase in BOP deficits from N339.60 million to N4.51 billion, even though the current account was in surplus due to mainly through the revenue derived from the export of crude oil, while a large amount of the deficits incurred were from the capital account and increased importation of food products, textiles, machinery, equipments as well as automobiles (Central Bank of Nigeria annual reports and statement of account, 2005).

Thus, based on available literature, the impact and implication of the BOP disequilibrium on Nigeria's economy has not been fully harnessed for it to gained the required popularity. To fill this gap, this paper therefore aims at providing a supplement to the existing studies that have been carried out in Nigeria on the subject matter. The broad objective of this study is to test the Marshall-Lerner hypothesis as a balance of payments (BOPs) correcting mechanism in Nigeria. Based on the Marshall-Lerner's Hypothesis, the study would examine the influence of exchange rate and balance of payment in Nigeria. it will specifically examine the following:

1. To determine the impact of Balance of Payment on Gross Domestic Product in Nigeria.
2. To examine the effect of Official Exchange Rate on Gross Domestic Product in Nigeria.

The content scope of this study is limited to the time period of 1970 to 2020.

Theoretical Framework

The elasticity approach to balance of payments is built on the Marshall Learner condition which states that the sum of elasticity of demand for a country's export and its demand for imports has to be greater than unity for a devaluation to have a positive effect on a country's balance of payments. If the sum of this elasticity is smaller than unity, then the country can instead improves its balance of trade by revaluation. Thus, Marshall-Lerner (ML) condition (1923; 1944) is a major tenet of the elasticity approach to exchange rate-trade balance relationship. The theory that a devaluation of a domestic currency will improve current account balance is founded on a number of elasticity approach models such as the monetary and absorption views (Kolte et al., 2021).

Monetary View

Analysis of the theory of policy instruments for correcting balance of payments equilibrium is, however, clearly spelt out in the work of Meade (1951). Meade (1951) proposes that a country can offset adverse trends in its balance of payments by a change of financial policies. A policy of price adjustments, which involves changes in money wage and changes in the exchange rate, is devaluation. This is presently called expenditure – switching policy. The aim of expenditure reducing policies is to reduce domestic expenditure on consumption and investment and thereby releases goods for export, while leaving aggregate output unchanged. On the other hand, the aim of expenditure switching policy is to switching domestic demand from imported to home made goods (Musili, 2021). The extent to which the switching is achieved depends on elasticity of supply and demand for tradeable goods.

Absorption View

The absorption approach emphasizes changes in real domestic income as a determinant of a nation's

balance of payments –exchange rate relationship. It treats prices as constants and therefore all variables are in real term. The absorption approach emphasizes changes in real domestic income as a determinant of a nation's balance of payments –exchange rate relationship (Amassoma et al., 2020).

There are two other basic theories that have been propounded to addressing balance of payments imbalance, these include: Inflationary theory: Inflation is a state of persistent rise in the general price level and hence falling value of money (Osisanwo et al., 2019). It is a malign condition that eats accumulated wealth and diverts the energies of the economy. Countries report by the IMF, shows that the cause of Nigeria's inflation are; increase in money supply despite decrease in foreign exchange reserves (a decrease in foreign exchange reserve has the effect of decreasing money supply). Budget deficit is also stated to be a contributory factor. Faced with increasing population and the need to improve the standard of living, the Nigerian government has embarked on various programmes to accelerate the rate of economic growth and provide government services, thereby increasing expenditure within a limited scope of public borrowing leading to fiscal deficits (Nwakoby et al., 2021).

Empirical Review

Kolte, et al. (2021) examined the trend of Balance of Payment trend that India has undergone during two major economic crises since its independence, which were connected to the balance of payment (BOP) difficulties of 1991 and 2013. The study using a descriptive trend observed that, as a result of insufficient foreign exchange reserves for making payments, the crisis in 1991 presented itself because of the BOP difficulties.. This paper aims to study the BOP crisis of 1991 and 2013 and identify major factors responsible for these crises with root causes, and providing suggestions for prevention of future BOP crisis, including fiscal restraint, reduction of excessive imports, diversification of export destinations, abolition of the mechanism of inverted duty and flexible system of exchange rates.

Musili (2021) undertook a descriptive analysis of the Balance of Payment in Kenya. The study observed that Kenya's current account for quite over a long time has experienced deterioration and hence reflecting a deficit. It is however despite the deterioration Kenya marked some significant surpluses the current accounts within the period for some years that is 1977 and 2003. In 1977 the surplus was attributed to the coffee boom and in 2003 it was attributed to decline in imports as receipts from exports increased. The performance of BOP is influenced by a number of factors which among others include; trade balance, terms of trade, competitiveness, domestic money supply, exchange rate, fiscal deficit, economic growth rate, domestic capital formation, inflation rate, net foreign direct investment, capital market, remittances and loans.

Nwakoby, *et al.* (2021) reviewed the effect of Covid-19 on balance of payment in Nigeria with particular attention to in pre and post era. Balance of payment in this study captures the behaviour of current and the capital account during covid-19 and post era. The current account in this study reflects a country's net income, while the capital account reflects the net change in ownership of national assets. The study shows that Covid-19 affected balance of payment negatively, as well as international trade. Furthermore, the study revealed that current account diminishes, and the rank of Nigerian international competitiveness was low, whereas foreign remittances fell drastically. Thus, import was on the high side, while export was very low. Hence, from the findings, the study suggests for the initiation of policy that will promotes economic diversification and as well, improves health system in Nigeria. This in turn will promote growth, trade and balance of payment.

Amassoma, *et al.* (2020) explored the effect of the monetary approach to the balance of payments adjustment as a result of the persistent imbalances in the country's Balance of payments and to find out

its inherent causes in Nigeria using Autoregressive distributed lag approach. The data used in the study span from 1980 to 2019 originates from the Central Bank of Nigeria Statistical Bulletin and the National Bureau of statistics. Evidence from the ARDL Bound test approach revealed that monetary approach (broad money supply and exchange rate) impacts on Balance of payment, hence supports the monetary approach to BOP adjustment. Also, the results showed that trade-balances effect BOP adjustments but ineffective in correcting the longed experienced BOP deficits due to the country's over-reliance in imported goods and oil revenue. The study concludes that the monetary variables impacts on BOP adjustment but ineffective in correcting Nigeria's BOP deficits.

Sangvikar, et al. (2019) sought to improve the understanding of the economic turbulence calamity, balance of payment crisis, and reforms in India during the nineties. This paper also helps us to understand the components of the balance of payment. The primary purpose of this paper is to understand the trend of the balance of payment crisis, to know India's position and also the reasons behind such trends. The significance of the balance of payment has also been discussed in this paper. In this paper, it is studied how the period has been divided into three sub-periods depending on the nature of the balance of payment problems. This paper comprises different types of balance of payment namely balance BOP, surplus BOP and deficit BOP. The government had to approach to International Monetary Fund (IMF) and World Bank to solve the crisis problem by adopting the new economic policy.

Naandam (2019) estimated the effect of exchange rate volatility on Balance of Payment, the Auto Regressive Distributed Lag (ARDL) technique was employed after the yearly exchange rate volatility had been calculated using the GARCH approach. The results of the study suggest that exchange rate volatility has a deleterious effect on Balance of Payment both in the short run and long run but the effect is more pronounced in the long run than the short run. Moreover, with the exception of inflation which was only significant in the short run, GDP growth and interest rate all had a favourable effect on Balance of Payment in both short run and long run. The study recommends that Bank of Ghana intensifies its exchange rate stabilization measures to reduce the exchange rate risk imposed on trade players.

Adeleye, Adeteye and Adewuyi (2015), examined the impact of balance of trade on economic growth in Nigeria, using net export (that is, total export less total import) and Balance of Payment as proxies for international trade while Gross Domestic Product represented economic growth. The study employed regression analysis, using co-integration and error correction modeling techniques to find out the long-run relationship between economic performance and international trade. Findings from their study revealed that only total export (TEX) remained positive and significant while others were insignificant, which means that Nigeria is running a mono-cultural economy where only oil acts as the sole support of the economy without tangible support from other sectors such as industrial, manufacturing and agriculture.

Agbo, Agu, and Eze (2018) evaluated the impact of balance of trade on Nigeria's economic growth. The objectives of their study were to ascertain the impact of export trade on the Nigerian economy and to determine the impact of import trade on the Nigerian economy. Multiple regression analysis techniques were employed in estimating the various components of foreign trade. The data used for the study was extracted from the 2012 edition of the CBN Statistical Bulletin, covering the period from 1980 to 2012. The results of their study showed that there is a significant impact of export trade on Nigerian economic growth. Their study also revealed that there is no significant impact of import trade on Nigeria's economic growth.

Methodology

Research Design: The researcher adopted the Ex-post facto research design for the study since the various elements of the design are not under the control of the researcher and past data sets were utilized. The data explored in this research is basically the secondary type of data which is collected from the Central Bank of Nigeria (CBN) statistical bulletin. This data will be estimated using Econometric Views (E-Views) version 8 statistical application package and it cover a period from 1981 2020.

Operational Measure of Variables: For a meaningful research work to be carried out, it is necessary to indicate the meaning of the variables and its relevancy to the operational use. Thus, the following are the operational measures of the variables utilized on this study.

Dependent variable:

Real Gross Domestic Product: is the total monetary or market value of all the finished goods and services produced within a country's usually a year. It is measured in millions of Naira.

Independent variables:

Balance of Payment: also known as balance of international payments and abbreviated BoP or BP, of a country is the record of all economic transactions between the residents of the country and the rest of the world in a particular period (over a quarter of a year or more commonly over a year), It is measured in millions of Naira.

Official Exchange Rate: This is the official price of one currency in terms of another. It is the number of unit of foreign exchange of one unit of domestic currency will buy. Measured in Naira units.

Model Specification

From the foregoing, the multiple equation models to be estimated can be stated as follows:

$$GDP = f(BOP_t, OEXR_t) \quad (3.1)$$

The mathematical form of the model is written by introducing estimation parameters in the model below:

$$GDP = a_0 + a_1BOP_t + a_2OEXR_t \quad (3.2)$$

In econometrics, the above equations 1 and 2 are not sufficient in specification due to absence of error term. Therefore, we introduce the error terms as follows;

$$GDP = a_0 + a_1BOP_t + a_2OEXR_t + \mu_1 \quad (3.3)$$

Where:

GDP = Gross Domestic Product

BOP = Balance of Payment

OEXR = Official Exchange Rate

a_0 = Constant Parameters

a_1, a_2 = Estimation parameters

μ_1 = Error term

Apriori Expectation

On apriori, the mathematical form of the theoretical relationship anticipated is On apriori $a_1 < 0$, and $a_2 < 0$. A negative relationship is anticipated between Balance of Payment and Exchange

Results and Discussion

Our statistical data for investigation was collected from The Central Bank of Nigeria Statistical Bulletin (2020) and annual financial statement of Banks. It will present both the depended and independent variables as related to the study.

Stationarity Test Output

Unit Root Test (Augmented Dickey Fuller).

we therefore intend to capture the stationarity of the employed variables, since a stationary variable is useful in forecasting and predicting and has a great possibility of the effect if shock to die out gradually, while non-stationary data are not suitable for long run test.

Table 1: Result of Stationarity (Unit Root) Tests:

Variable	ADF t-statistics	Critical Value 5%			Order of Integration	Prob.
		1%	5%	10%		
D(GDP)	-5.632985	-3.632900	-2.948404	-2.612874	I (1)	0.0000
D(BOB)	-8.829029	-3.621023	-2.943427	-2.610263	I (1)	0.0000
D(OEXR)	-4.165091	-3.615588	-2.941145	-2.609066	I (1)	0.0023

Source: Extraction from E-view 10

The Unit Root test results in Table 4.1 show that the time series values of all the variables are stationary their first difference I (1).

Table 2: Ordinary Least Square Output.

Dependent Variable: GDP

Method: Least Squares

Date: 02/03/22 Time: 23:36

Sample: 1981 2020

Included observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18938.06	2220.276	8.529598	0.0000
BOP	-0.023962	0.060128	-0.398511	0.6925
OEXR	-174.6641	13.10660	13.32642	0.0000
R-squared	0.834993	Mean dependent var		37243.45
Adjusted R-squared	0.826073	S.D. dependent var		20015.68
S.E. of regression	8347.439	Akaike info criterion		20.96934
Sum squared resid	2.58E+09	Schwarz criterion		21.09600

Log likelihood	-416.3867	Hannan-Quinn criter.	21.01513
F-statistic	93.61629	Durbin-Watson stat	0.245544
Prob(F-statistic)	0.000000		

Source: *Extraction from E-view 10*

The regression result presented in the above equations 4.2 is analysed based on our stated method of analysis.

The determination coefficient (R-Square) is as follows: The R-square which is also known as coefficient of determination is a statistical tool used to determine goodness of fit of the model. Variations in the explanatory variables can be used to indicate how much of the variance in the dependent variable can be explained. Thus, it is measured in %. Table 4.2 shows an estimated linear multiple regression model with an R-squared value of 0.834993, which indicates that the selected explanatory variables account for 83.49 percent of the variation in the Gross Domestic Product (a proxy for Economic Growth) over the study period, while the remaining explanatory variables account for 16.51 percent of the variation.

The F-Test This is a test to see if the model is statistically significant. This is done at a significance level of 5%, which is considered fair. For this test, the null hypothesis is that there isn't any significance to the model we've estimated. If the tabulated F-value is bigger than the computed F-value, we must accept the null hypothesis and use the choice rule. Linear regression results in a 93.61629 F-value estimated by linear regression and 0.000000 probability F-value. So, we may conclude that the overall parameter estimate is significant, and we can reject the null hypothesis because it's less than 5% significant.

According to the Balance of payment, the corresponding coefficient is -0.023962. Keeping all other variables, the same, a one-unit increase in the Balance of payment will result in a 0.023962 drop in the gross domestic product. However, the Official Exchange Rate has a coefficient of -174.6641. Therefore, a decrease of one unit in the Official exchange rate will translate to an increase in economic growth of 174.6641 units assuming all other parameters remain constant.

Granger Causality Test

This test how changes in one variable, affects changes in the other variable.

Table 3: Pairwise Granger Causality Test

Pairwise Granger Causality Tests			
Date: 02/03/22 Time: 23:46			
Sample: 1981 2020			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
BOP does not Granger Cause GDP	38	0.21583	0.8070
GDP does not Granger Cause BOP		0.60831	0.5503
OEXR does not Granger Cause GDP	38	0.32894	0.7220
GDP does not Granger Cause OEXR		2.18507	0.1285
OEXR does not Granger Cause BOP	38	0.82730	0.4461
BOP does not Granger Cause OEXR		0.48624	0.6193

Source: *Extracted from Eviews-11*

Using the 0.05 (5%) significance level as the threshold for significance as probability level above 0.05 significant level as seen as unsubstantial and therefore showing no causal tendency and vice versa,

- ✓ No relationship exists in the above table.
- ✓ The granger Causality tests shows absent of causal relationship among the variables;

Generalized Autoregressive Conditional Heteroskedasticity (GARCH)

The generalized autoregressive conditional heteroskedasticity (GARCH) process is an econometric term developed in 1982 by Engle, an economist and 2003 winner of the Nobel Memorial Prize for Economics, to describe an approach to estimate volatility in financial markets.

Table 4: GARCH Output

Dependent Variable: GDP

Method: ML ARCH - Normal distribution (BFGS / Marquardt steps)

Date: 02/04/22 Time: 04:07

Sample: 1981 2020

Included observations: 40

Convergence achieved after 36 iterations

Coefficient covariance computed using outer product of gradients

Presample variance: backcast (parameter = 0.7)

GARCH = C(4) + C(5)*RESID(-1)^2 + C(6)*GARCH(-1)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	17595.04	418.2256	42.07068	0.0000
BOP	-0.018237	0.010904	-1.672480	0.0944
OEXR	-145.8126	3.771406	38.66265	0.0000
Variance Equation				
C	989984.4	1974778.	0.501314	0.6161
RESID(-1)^2	1.310936	0.735571	1.782203	0.0747
GARCH(-1)	-0.021614	0.203432	-0.106246	0.9154
R-squared	0.762949	Mean dependent var		37243.45
Adjusted R-squared	0.750136	S.D. dependent var		20015.68
S.E. of regression	10005.12	Akaike info criterion		19.79951
Sum squared resid	3.70E+09	Schwarz criterion		20.05284
Log likelihood	-389.9901	Hannan-Quinn criter.		19.89110
Durbin-Watson stat	0.128951			

Source: Extracted from Eviews-10

The output above in table 4.4 shows the evidence of volatility in the employed model. The RESID(-1)^2 which represents the volatility variable can be observed to display a probability value of 0.0747. This shows the evidence of volatility in the balance of payment and economic growth. While the

GARCH(-1) which shows the spill over of this volatility shows a probability value of 0.9154 which is greater than the 0.05(5%) significance level. This therefore shows the absence of Garch effect i.e there is no spill over effect of the volatility. This means that variation in balance of payment does not necessarily transmit economic growth in Nigeria.

Summary, Conclusion and Recommendations

In evaluating the trend of the Nigerian Balance of Payment over the period of 1981 to 2020 (Post-Structural Adjustment Program period) utilizing the Unit Root Test (Augmented Dickey Fuller), Ordinary Least Square, Granger Causality Test and Generalized Autoregressive Conditional Heteroskedasticity (GARCH). The study revealed that Balance of Payment shows a negative and insignificant influence on Gross Domestic Product in Nigeria. This shows that an increase in the Balance of Payment will stimulate the level of growth and promote productive activities in the Nigerian economy which supports the apriori expectation and the study of Naandam (2019) that exchange rate volatility has a deleterious effect on Balance of Payment both in the short run and long run but the effect is more pronounced in the long run than the short run. Although, this influence is insignificant. Official exchange rate shows a negative and significant influence on Gross Domestic Product in Nigeria. This shows that, as Official Exchange Rate depreciates, it promote the level of growth which supports the apriori expectation. The study nonetheless goes against the study of Jadhav (2020) that the Exchange Rate has insignificant impact on the Balance of Payment of developing economies in Nigeria.

Conclusion

It can thus be concluded that the Nigerian balance of payment is adverse despite the corrective potential imbedded in the disequilibrium in the balance of payment in light of growth in the Nigerian economy. The balance of payment still fails in stimulating a positive tide on gross domestic product in Nigeria. This invariably shows a misapplication of some policies and misallocation of foreign exchange to other classified sector of which such efforts towards curtailing output in the country might not be achieving its expected results, despite its potentials. Overall, the volatility in the foreign exchange market does significantly affect economic growth activities in Nigeria within the period of this study.

Recommendations

Based on the study's findings, it is therefore important to consider policies that would ensure sustained growth in Nigeria.

- i) Balance of payments position in Nigeria constitutes a structural problem that can hinder the attainment of potential growth. It has been shown clearly that, these problems can be addressed by diversifying the structure of production; reduce dependency on imports, making exports competitive in the international markets through macroeconomic stability, improvement in the state of infrastructure, human capital development, and eradication of corruption.
- ii) Government should create an incentive that would encourage investment in the country and also improve the balance of payments position.
- iii) Activities of the parallel market via the bureau De change (BDC) should be curtailed to ensure that foreign exchange sectoral allocation and mobilization is adhered to.
- iv) To stop further devaluation of the naira till our export capacity is improved for us not to be paying more for imported items.

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