

EVALUATING THE EFFECT OF EXCHANGE RATE ON FOREIGN DIRECT INVESTMENT (FDI) IN NIGERIA

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Abstract

This study evaluates the effect of exchange rate on foreign direct investment in Nigeria. However, Openness of the Economy and Balance of Payments was included in the study as complementary variables in order to make for comparison. Secondary data spanning 1980-2014 used in the study were derived from the Central Bank of Nigeria Statistical Bulletin. The ADF unit root test was used to test the stationarity of the variables, while the Ordinary Least Squares (OLS) estimation technique was utilised in the analysis of the data. The results revealed that Exchange Rate, Openness of the Economy, and Balance of Payments has a significant and positive effect on Foreign Direct Investment inflows in Nigeria. Although, all the variables were statistically significant, the elasticities indicated that Exchange Rate with the highest elasticity has more influence on Foreign Direct Investment (FDI) followed by Openness of the Economy and Balance of Payments. On the basis of the findings, we recommend further depreciation of the Nigeria's currency (Naira) to allow for more inflow of foreign direct investment, while discouraging importation of luxury goods. Also, the government should combat tirelessly the issue of insecurity and ensure economic and social stability in order to boost the confidence of foreign investors, among others.

Keywords: Balance of Payments; Exchange Rate; Foreign Direct Investment; Openness of the Economy.

JEL classification: F2, F3, O1, O2, O4