MONETARY POLICY AND EXCHANGE RATE STABILITY IN NIGERIA: AN EMPIRICAL INVESTIGATION

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ABSTRACT

This study focuses on the investigation of the efficiency of monetary policy in ensuring stability in exchange rate in Nigeria. Data covering from 1981 to 2014 were obtained from secondary sources particularly Central Bank of Nigeria (CBN) statistical Bulletin and National Bureau of Statistics of various issues. Analysis was carried out using multiple regression method, Augmented Dicky-Fuller unit root test, Johansen co-integration test and Error Correction Mechanism (ECM). The results revealed that all variables were not stationary at their level form rather stationary after first differencing hence they are integrated of order one 1(1). The results also showed that a long-run relationship exists among the variables as well as the presence of one co-integrating vector in the model. The result also showed that the impact of monetary policy on exchange rate was significant while the ECM showed the extent of reverting to stability when deviated from stable path. On this note, the authors made the following recommendations among others: sincere efforts need be made to reduce the disparity between the official exchange rate and parallel market rate; the CBN should intensify its efforts in monitoring or regulating foreign exchange demand to discourage speculative demand; and the economy should be diversified to expand the sources of foreign exchange to satisfy demand.

KEYWORDS: Exchange Rate, Investigation, Monetary Policy, Stability