IJRCM

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

CONTENTS

BALANCE OF PAYMENT ADJUSTMENT: AN ECONOMETRIC ANALYSIS OF NIGERIA'S EXPERIENCE

ALEX EHIMARE OMANKHANLEN
DEPARTMENT OF BANKING AND FINANCE
COVENANT UNIVERSITY, OTA
OGUN STATE

DICK OLUKU MUKORO
DEPARTMENT OF ACCOUNTING
COVENANT UNIVERSITY
OTA, OGUN STATE

ABSTRACT
This study deals with the Balance of Payment adjustment for Nigeria for the period (1986-2007) using an econometric analysis. The main objective of the study is to empirically investigate the effect to which the monetary phenomenon approach to Balance of Payment adjustment explains the observed behaviour of Nigeria's balance of payment. Annual time-series data on the variables under study covering twenty-two year period are used. The balance on Current Account is considered. The ordinary least squares single equation technique is used for the study .In the model specified the study looked at the impacts of monetary and real variables on the current account balance. The explanatory variables include the total domestic credit, GDP and government expenditure .The study find out that the aggregate credits to the Domestic Economy were significant in explaining the current account balance. There were positive and significant relationship between GDP and current account balance. Also government expenditure was significant in explaining current account balance .It is recommended that the Nigerian Monetary and Fiscal Authorities should give greater priority to measures other than monetary tools to achieve balance of payment stability

KEYWORDS
Balance of payment, Credit, Current Account Balance, GDP.

INTRODUCTION
In any nation, there are basically four objectives of macroeconomic policy, such as high level of employment, a reasonably stable price, rapid economic growth, and maintenance of equilibrium in the international balance of payments. The last objective (balance of payments stability) is very crucial since the basic condition of the world community is one of mutual interdependence. Stemming from the above objectives, balance of payment (BOP) is very relevant. According to Kalu (2008) its importance includes:
- To provide us with important information about whether or not a country is "paying its way" in the international economy.
- It helps forecast a country's market potential – especially in the short run. If a country is running a deficit balance, it will not import as much as if there was a surplus balance.
- It is an important measure of the relative performance of nation's economy in global economy.
- The balance of payment helps measure the strain under which that country's currency is.
- It also plays an essential role in providing vital information to the government, private sector and firms. Such information includes nature and extent of transactions and the accompanying issues that affect the transactions, such as exchange rate, reserves, interest rate, among others.
- The balance of payment helps determine if investors are to expect a gain/loss in exchange rates.
- The Balance of payment helps show the size of any surplus or deficit that may exist. It tells us something about the state of the economy in question, both on its own and in comparison to other world markets.
- The BOP may be used as the indicator of economic and political stability. For example, if a country has a consistently positive BOP, this could mean that there is significant foreign investment within that country. It may also mean that the country does not export much of it currency.
- Balance of payments data are important for monetary and financial monitoring and policy deliberations in both territorial and international context. Such data are useful for analytical studies on income growth, external orientation of the economy, relationship between trade in goods and services and direct investment flows, links between the exchange rate and the current and financial accounts, international banking transactions, assets securitization and financial market development and external debt situation.
- Data in current transfers, when combined with Gross National Product (GNP) will enable the compilation of Gross National Disposable Income for a nation which should be a very useful measure of aggregate income for analyzing changes in consumption and savings.
- Data on external investment flows (direct investment, portfolio investment, financial derivatives and other investments) will provide a macroeconomic database to support economic analysis on many important issues like economic growth, productivity change, and industrial development among others.

Again, there is no country in the world that does not rely on international trade and payments for its well being. This truth carries particular force for most developing countries whose trade and payment magnitudes are particularly large in relation to domestic economic activity (killick 1981). Most of these countries run large deficits and their payments are thus of great importance to the economic progress of such countries and Nigeria in particular.

STATEMENT OF THE PROBLEM
For several years, Nigeria has been pursuing a strategy aimed at re-establishing international credit-worthiness and to achieve this goal, she has been seeking to narrow her balance of payments deficits on current account. But having such international payments equilibrium or deficits reduction is not an easy task. However there has been ways of achieving it, as offered by the traditional theories or approaches of balance of payments adjustment mechanism. More recently, a modern theory (monetary approach) has developed and it emphasizes the application of monetary analysis to the international balance of payments problem. This modern theory needs empirical investigation, and that is the major concern of this study.
Conventionally, the theory of balance- of- payments adjustment mechanism is viewed as a succession of approaches: the Hume's price specie flow mechanism, the elasticity's approach, the Keynesian Multiplier or income approach, the absorption approach and the policy approach that stresses internal and external balances (Arize, Grivoyannis, Kallianiotis & Malindretos, 2000). However a modern approach, a Monetary Phenomenon has developed in recent years. It is the monetary approach to the theory of balance-of-payments adjustment mechanism. The essence of the approach or theory is a consistent insistence that the balance of payments is a "monetary and not a real phenomenon" as postulated by the conventional theories such as Keynesian Multiplier approach, Absorption approach, Elasticity approach, and Economic Policy approach, Ardalan (2003). . While the traditional theories maintain that balance of payment disequilibria are permanent, the major point of the modern approach is the recognition of the fact that a country in balance of payment deficit (surplus) would ceteris paribus,