POLICY IMPLICATIONS OF LONG-RUN RELATIONSHIP BETWEEN EXTERNAL RESERVE AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

This study analysed the policy implications of external reserve on economic growth in Nigeria using time series data from 1980 to 2014. The study utilized Multiple Linear Regression analysis, Analysis of Variance (ANOVA), Augmented Dickey Fuller (ADF) Test, Johansen Cointegration Methods. The results of the Augmented Dickey Fuller test, showed that the data became stationary at the first difference thus, integrated of order one while the Johansen Cointegration method was used to test for the existence of long run relationship among the variables and the results showed that there is a presence of long run relationship between external reserve and economic growth. The results of the Multiple Linear Regression analysis showed that the estimated coefficient of the predictor variable, external reserve (EXTSV) was 3.42. By implication, a unit increase in External reserve resulted to an increase in economic growth by US$3.42billion in Nigeria. The policy implication of this is that measures that will enhance the stability in the amount of foreign reserve should be encouraged. Additionally, policies should be geared toward a permanent (long-run) increase in reserves rather than temporarily exchange reserve. It was recommended that the government should always be prepared to have a hedge against unforeseen periods of macroeconomic instability or external shocks by making policies that focus on more accumulation of the external reserves. One of the ways by which this can be done is to increase exports and reduce imports.

Keywords: Policy, external- reserve, growth and long- run.