**TITLE PAGE**

**THE DETERMINANTS OF BALANCE OF PAYMENT IN NIGERIA (1983 – 2007)**

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**ABSTRACT**

This study aimed at analyzing through econometric methodology the Determinant of Balance of payment in Nigeria. In the work, we capture balance of payment as the dependent variable while trade openness, external debt service and exchange rate as the explanatory variable. In the second page of the regression estimated we observed GDP as the dependent variable while balance of payment, trade openness exchange rate and external debt service being the independent variable. An ordinary least square was used to capture the relationship between the variables been the regression plane. From the result estimated, we observed that all parameters are statistically significant from the t-test statistics. We also realize from the F-test estimation that the model is statistically insignificant because the T-cal < T-tab in all the variable. The result went further in the test of autocorrelation through the Durbin-Watson that there is absence of autocorrelation among the variable

**CHAPTER ONE**

**1.0 INTRODUCTION**

**1.1 Background of the Study**

Trade in the primitive era was purely by barter, means exchange of goods. This form of trade involved discrepancies in exchange value, settlement in credit or money and this discrepancies constituted the origin of concept of balance of payment (Growell 1986:1).

The term balance of payment itself entered the English economic literature during the mercantilist period. After, 1570 the balance of payments developed slowly in response to the sets of circumstances; the first was the rise of mercantilisms and the desire on the part of English businessmen and government officials to be informed of the quantitative aspect of foreign commerce.

The generic meaning of the term today is the excess of receipts over payments of any economic activity, although the concept initially applied, to and received its greatest elaboration in the theory of international trade. In its original usage, a “balance of payment” means an “excess of payment over receipts and under the gold standards, this excess means a gold outflow.

But the term soon acquired the neutral meaning of the “state of balance of international economic covers both international financial transactions and international trade in commodities and services. International trade has money merits. Some of which include creation of employment opportunities. International trade also makes room for countries to enjoy higher standard of living.

Every nation has an international balance of payment problem (Bowdan 1986:662) developed, developing countries of the world, experience balance of payments problem. But the difference between the developed and developing of countries as regards to balance of payments is that due to deterioration in their term of trade, the developing nations suffer the impacts of balance payments deficit more than the developed ones.

Due to the fact that most of the less developed economics of the world have been experiencing the problem of financing then purchases from the developed nations, many of these less developed nations removed barriers in order to increase their sales and services to the developed economics.

Because of the advantages of international trade discussed above, different nations engage in international trade. “Each country keeps her own accounts of its international dealings. Their accounts are called the balance of payment accounts”. (Chikeleze 1989:1) The balance of payment accounts are divided into two broad account: - current account and capital account. Current account is that part of balance of payment which summarizes transactions in currently produced, goods and services, investment income etc, while capital account on the other hand, is that part of balance of payments accounts which summarizes transaction in financial assets including stocks, bonds short-term credits and indirect purchases of foreign plants or businesses.

Therefore, capital account covers investments and short-term monetary flows. These accounts among other thing help each nation to know the sources of its new foreign money and about the way they foreign money balances are being used up. Each nation’s international balance of payments shows their nation’s trading and financial position with the rest of the world. “The structure of a country’s balance of payments reflects both its stage of economic development and the pattern of each activity within the country. The accounting balance of payment records both regular transactions and transactions made to settle any gap between regular purchases and sales, (Jhingan, 1986:58-60). The problem in construction of a useful operational definition of the balance, payment is thus the problem of separating regular transactions from setting” transaction, distinction best suited to the purposes of the determinants of balance of payments analysis.

The growth performance of the Nigerian economy has been determined by both domestic production and consumption activities as well as foreign transactions in goods and services. Specifically, it has been acknowledged that foreign trade is an engine of growth and development. Further, in an economy that is characterized by macroeconomic stability and favourable investment climate, attractive trade policies would encourage foreign investment, technological advancement and exports which will inturn attract massive inflow of foreign exchange.

 Prior to the discovery of oil in 1960s, the Nigerian government was able to execute investment projects through domestic savings, earnings from agricultural product exports and foreign aids. However, the capacity of the economy to accumulate domestic savings, earnings to finance investment was limited. There was therefore, the inability of government to generate sufficient foreign exchange due to persistent balance of payment problem arising from the reliance on monoproduct primary export which is not competitive at the international market.

 After the discovery of oil and its massive exportation in the 1970s, one would expect that more foreign exchange earning will accrue to the economy, and the economy would be able to undertake viable investment projects that will lay a basis for sustainable growth and development.

 In an attempt to address the various macroeconomic problems in the economy, government adopted the demand management policy in 1982 when the problems were perceived as demand driven. Some measure where introduced like imposition of tariffs and application of contradictory fiscal and balance of payment equilibrium. All these have consequences for imports, savings and investment and growth particularly in developing countries such as Nigeria which heavily depends on imports for its capital goods and raw materials. Total Debt – GDP ratio rose from 9.6 percent in 1980 to 24.1 percent in 1985. With all these constraints on domestic financial resources and the inability of the private sector to champion the course of growth and development, the real GDP declined by 3.8 percent between 1980 and 1985.

 The persistence of the macro economic problems in the economy even after the introduction of a number of stabilization measures made the government to adopt the structural adjustment programme (SAP) in 1986. This was meant to further strengthening the existing demand management policies; restructure and diversify the productive base of the economy and reduce dependence on the oil sector and on imports, and to achieve fiscal and balance of payments viability, among other underlying objectives (Philips, 1987)

 Further, the SAP policy package includes trade and payment liberalization which suggests that there was no serious balance of payments constraint during the period of implementation of SAP compared to what is obtained before SAP. It should be noted that with the introduction of SAP in Nigeria, the procedure hitherto used in allocating foreign exchange and which consequently serve as a mechanism of controlling demand for foreign exchange was abolished. Thus, the foreign exchange market was deregulated. The policy aims at making foreign exchange available to whoever could avoid the prevailing exchange rate.

 Between 1986 and 1993, the ratio of investment to GDP ranged between 11.0 and 18.5 percent, while the ratio of savings to GDP was between 10.0 and 28.5 percent. The savings-investment gap – GDP ratio which was negative between 1986 and 1987, became positive in the subsequent years. This suggests that the SAP period was characterized by relatively low level absorptive capacity of the economy since some proportion of savings were not translated into investment (Adewuyi, 2000). Further, the relatively low level absorptive capacity of the economy continued in the subsequent period (after SAP) as the savings-investment gap- GDP ratio was positive, while the external trade performance indicators did not show significant improvements. The ratio of fiscal deficit to GDP reached a peak of 11.0 percent in 1994, while the real GDP growth rate was less than 4.0 percent in the period 1994 to 2000.

 All these is used to inform governmental authorities of the international position of the country, to aid governmental authorities in reaching decisions on monetary and fiscal policy on the one hard and trade and payments questions on the other, it is used to measure the resources flows between one country and another. Information on payments and receipts in foreign exchange constituting a foreign exchange goods and meeting payments in foreign currency when they became due and it is used to measure the influence of foreign transactions on national income.

**1.2 STATEMENT OF THE PROBLEMS**

In Nigeria, balance of payments problem has been a matter of concern to almost every citizen of the country for some decades now. Different households in Nigeria are encountering various economic problems brought about by the balance of payments disequilibrium. Our industrialization and technological advancement have remained very low. There has not been any substantial economic growth in the nation despites the fact that more than 60 percent of the country’s populations are engaged in Agriculture, the country still import food items to supplement those one produced in the economy.

Unemployment rate in Nigeria economy has become the basic problem in the balance of payments disequilibrium. Low rate of employment leads to low level of output and hence high cost of living. However, the central issues therefore are: what roles have our administrators to play regarding the imbalance in Nigeria’s balance of payment disequilibrium facing the economy? What impact has the nature of oil exports goods on the balance of payments problem? What influence has the activities of smugglers on the balance of payments disequilibrium? Has the low level of industrialization and technological advancement any effect on the Nigeria’s balance of payment problem?

**1.3 OBJECTIVE OF THE STUDY**

The broad objectives of this study are to discover the factors that influence Nigeria’s balance of payment (BOP). However, the specific objectives are:

1. To ascertain the determinants of Nigeria’s balance of payment (BOP).
2. To determine the impacts of balance of payment on economic growth in Nigeria.
3. The study also aims at proffering ways of achieving a sustainable and tolerable balance of payment equilibrium.

**1.4 HYPOTHESIS OF THE STUDY**

In order to achieve the objectives of this study, the following hypothesis are tested:

1. There are no significant determinants of balance of payment (BOP) in Nigeria.
2. Balance of payment has no significant impact on economic growth in Nigeria.

**1.5 SIGNIFICANCE OF THE STUDY**

The study will be useful in understanding the distribution and adjustments on international transactions and thus help the policy makers and implementors.

 The study will also be useful in evaluating the degree of Nigeria’s international solvency. In addition to the above mentioned points, this study will reveal the influence of national income on foreign transactions and its importance in the appraisal of Nigeria’s short-term international economic prospects.

**1.6 SCOPE AND LIMITATIONS OF THE STUDY**

This research work on the “a balance of payments determinant in Nigeria is going to cover all the Nigeria’s international economic transactions from the year 1983 to 2007. The researcher will have to find out how the balance of payment will affect the Nigeria’s economic growth within the period under study.

 But despite the fact that the above mentioned problems were encountered, the researcher still forged ahead on his study.

**CHAPTER TWO**

**2.0 LITERATURE REVIEW**

**2.1 Theoretical Literature**

Balance of payments of a country is a systematic record of all its economic transactions with the outside world in a give year. It is a statistical record of the character and dimensions of the country’s economic relationships with the rest of the world (Johnson H 1958:113).

 Determinants of balance of payment have been and are still a topic of interest to many people and nations. Because of its usefulness, many writers have contributed towards its meaning, causes and solutions. Some people have given little contributions as regards balance of payment equilibrium or disequilibrium. Others however, who seem to have understood the subject better have made more encompassing and well thought out contributions.

 In these contributions, Enuenwosu (1982:25) observed that our balance of payments problem is connected with a narrow export base and increased imports. In other words, our economy imports more than it exports and it also relies on every few export items. The effect of this is that Nigeria spends more foreign exchange than it receives.

 Akinyemi (1984:12 – 13) observed that Nigeria’s economic dilemma is brought about by the ostentation living of various governments. He was of the opinion that patriotism and honesty on the part of our leaders coupled with emphasis on the agricultural sector will help revive the economy of Nigeria.

 In the words of Ogbe (1983:10) “the fall in international oil market was the cause of economic recession in major oil producing nations. He saw Nigeria as being over-dependent on the outside world for food, raw materials and spare parts. He further observed that agriculture, which earned over 30% of our foreign exchange, has been neglected.

 Adeniyi (1984:23) in his contribution on the state of Nigeria economy said that “the country’s external reserve position is becoming lies comfortable. The existing dependence on one source, oil, for development programme is unhealthy considering current tendencies in the oil market and the fact that oil is a wasting asset”.

 Since the middle of 1981, Nigeria has been grappling with the adverse consequences of excessive reliance on crude petroleum as the “motor” of the economy, the source of foreign exchange earnings and almost of government funds (Obadan, 1985).

 Ozonwuomu (1985:16) said that Nigeria needs not to worry of maintaining a persistent balance of payments since she is making conscientious efforts towards industrialization. The reason for this she noted was that in order to widen our industrial base, those capital goods, machinery, equipment etc that cannot be produced locally need to be imported. In addition, she said that raw materials that have no local substitutes have to be imported if those industries using them are to stay in business and create employment. All these will certainly drain our foreign reserves. However, they cannot be avoided.

 In view of the above, contributors have opened our eyes as regards the balance of payments situation in Nigeria within the period under review. It should be noted that in the 1970s, Nigeria was receiving large inflows of exchange through the oil sector. That was the period of oil boom. The country’s foreign exchange was so comfortable that Nigeria was in a position to lend to the International Monetary Fund (IMF) under oil facility in 1974. But since 1980, the economy started staggering towards balance of payment deficit.

* 1. **THE MAJOR BALANCES THAT COMPOSE THE BALANCE OF PAYMENTS**

The major of principles balances that constitutes the balance of payments are; the merchandise of trade, the current account balance, the balance of regular transactions or overall balance and official balance (Lipsey G. and Chgystat M. 2004:122).

**THE MERCHANDISE (TRADE) BALANCE**

 This balance involves imports and exports of goods only. In other words, this balance has nothing to do with intangible items. The items include in trade or merchandise balance are only those ones that can be physically seen leaving and entering a country’s borders. These types of goods are known as tangible goods or visible items of the balance of payments. If the monetary value of imports. (tangible or visible) equates the monetary value of exports (tangible or visible) we say there is a balance of trade. When the latter is less than the former.

XM = Mm = 0…………………………………(1)

Where Xm means exports of merchandise and Mm represents imports of merchandise.

 The situation in the above equation depicts on balance in the balance of trade.

**THE CURRENT ACCOUNT BALANCE**

The current account adds service to the balance of trade. Those services include things like financial service provided by financial institutions, patent rights, dividend, transportation services etc. These services are usually termed intangible or invisible items. The tangible and intangible items are brought together in current account because of the fact that the transaction involved in exports and imports of tangible goods and services are usually concluded within a time frame of less than one year. When the monetary value of imports (both tangible and intangible items) is equally to the monetary value of exports (both tangible and intangible items), we say that there is a balance of the current account, if the later exceeds the former. We have a surplus in the current account and vice versa.

We should notice that this current account is made up of two accounts, the trade balance and the services balance. If the trade balance is imbalance and the service balance is not imbalance, the current account will not balance. However, a deficit in the balance of trade can be offset by a surplus in the services balance and vice versa.

 X + M = 0…………………………(2)

When X = export of goods and services.

 M = import of goods and services.

Equation (2) captures equilibrium in the current account.

**THE BASIC BALANCE**

The basic balance of payments draws attention to the long-run forces affecting a nation’s international transactions. Such forces affecting a nation’s international transactions include taste, national income, technology, changes in resources and inflationary and deflationary trends, all of which determine a country are price elastic, an increase in their Naira price would lead to a considerable reduction in import levels. Essentially, the elasticities approach is credited to Marshall (1924) and Lerner (1944) in what is referred to as the Marshall-Lerner condition which states that sum of the elasticities of the two demands (domestic demand for imports and foreign demand for the country’s exports) must exceed unity (Burrows and Hitiris, 1974).

**A. ELASTICITIES APPROACHES OR ELASTICITY OF DEMAND FOR EXPORTS AND IMPORTS**

Under this approach, it is observed that it exports are price elastic (their demand is sensitive to price changes) a reduction in the foreign currency price of the export will lead to a considerable increase in export sales in the overseas market hence improvement in the BOP’s. But in the exports are price inelastic (their demand is not sensitive to price changes) the reduced currency price might lead to only a small increase in overseas sales (eg sale of Nigeria’s crude oil whose export volume is determined and fixed by OPEC quota at any point in time). Hence worsening of the BDP’s. In the same vein, it imports

The capital account records transactions related to movement of long and short-term capital i.e. it shows the volume of private foreign investment and public grants and turns from individual nations and multi lateral donor agencies such UNDP and the world bank. It includes direct investment, portfolio investment, long term capital and short term capital. The capital account will e a deficit if payments exceed receipts but a surplus if receipts exceed payments.

**B. ABSORPTION APPROACH**

This involves production in rate of absorption (expenditure), increased domestic production and importation and other expenditure reduction measures.

 The defects of the elasticities approach led Alexander (1952) to introduce the absorption approach which he later synthesized with the elasticities approach in 1959 on recognition of the latter’s relevance. The absorption approach proceeds on the reasoning that a country produces an income (Y) of which if “absorbs” a portion and exports the rest. Absorption (A) means of not only consumption (C) but also outlay on investment (I) and government expenditure (G), hence A = C + I G. This absorption is partly led by imports (M), and it follows that what is not consumed out of Y + M becomes exports (E).

 Symbolically, Y + M – A = E which gives the trade balances (T).

 T = E - M

 T = Y + M - A - M

 T = Y – A

If we differentiate equation, we get

 dT = dY - dA

 Also, this approach tends to play down the role of elasticities by couching the entire process in terms of the “effects”. There is also the unrealistic assumption of constant domestic money supply as the trade balance shifts while the conceptual difficulties of income; saving, imports and exports remain.

 Apart from elasticities and absorption, the success of devaluation also depends on other factor including:

**C. RETALIATION BY TRADING PARTNERS**

If the devaluating country’s trade partners retaliate by devaluing their currencies then devaluation will have disruptive effects without improving the balance the trade. Indeed, there is all the more risk that the competitive devaluation by others might more than neutralize the extent of devaluation by the home country.

**D. TIME LAG**

In the short-term, devaluation of the exchange rate might result in lack of improvement or might even worsen the BOP’s position. Indeed, exports are slow to increase since it takes time for domestic industry to increase the level of output in response to increased export demand. Also, imports are slow to decline since it takes time for domestic industry to produce sufficient goods and services to replace imports.

**2.3 NIGERIA’S BALANCE OF PAYMENTS**

During the year 1988, a whopping N2,294.1m deficit was recorded while a provisional surplus of N8,727.8m was posted for 1989. Then, Nigeria negotiated with the IMF for a balance of payment loan and with the World Bank for a structural adjustment loan. Due to the stringent conditionality, Nigeria could not meet the IMF conditions (17 in number) notably amongst which are the removal of petroleum subsidy, trade liberalization and devaluation. However, Nigeria opted to accept some of the condition as part of her Structural Adjustment Programe (SAP) and consequently removed subsidy on petroleum, engage in export promotion, sort of liberalized trade, reduced government expenditure, hanned the importation of ice, wheat etc, embarked on privatization of government owned corporations and parastatals and devalued the Naira indirectly though the introduction of the second tier foreign exchange market (SFEM now FEM), etc. The SFEM (Inter FEM) was aimed at achieving a realistic (market determined) rate for the Naira. The most drastic effect has been tremendous increase in prices of almost all items. The IMF and World Bank have accepted the Structural Adjustment Programme hence the World Bank has extended structural adjustment loan (or about $459m) while our creditors notably the Paris Club and London Club have agreed to reschedule part of our foreign debts. It is hoped that all these measures will improve our balance of payment position n.

 In effect SAP could bring about BOP’s improvement as follows;

* By opening more lines of credits facilitates financing of BOP’s deficits.
* By encouraging local sourcing of raw materials and increased consumption of domestically produced goods and services.
* Through deregulatory measures aimed at encouraging foreign investment and inflow currencies from autonomous sources.
* By emphasizing the absorption approach to BOP’s adjustment i.e. reduction in the rate of absorption (expenditure), increased domestic production and importation and other expenditure reduction measures.
* Through expenditure switching policies such as depreciation of the Naira at SFEM/FEM/IFEM leading to the encouragement of export and discouragement of imports.

However, these positive effects might be croded by the law productivity in Nigeria and the negative of trade liberalization.

**DETERMINANTS OF TREND OF PAYMENT IN NIGERIA**

 The staff note prepared by the IMF committee on balance of payment statistics (2000) reports that BOP problems are due to the disequilibrium in the physical flows, namely exports and imports of goods and services. Thus, it could be analysed on the basis of partial elasticities of the exports and imports and the role of exchange rate in the adjustments of BOP to devaluation. In Nigeria, BOP fluctuation is motivated by facts is such as money illusion, terms of trade, external debt servicing and exchange rate (devaluation) movement (Olaluku, 1979). The “time serves data” presented in table indicates that (BOP) was N349.1m (1985), NS761.5M (1990), N195216.3M (1995), N326635M (1999) and N565353.3m for 2002, N162839.7m for 2003.

Balance of payment and some other macroeconomics variables in Nigeria 1983 – 2003

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| YEAR | BOP(N-M) | Official exchange rate | Inflation rate (%) | BOT(N-M) | Trade openness  | GDP | External debt growth | Term of trade |
| 1983 | 301.3 | 0.74 | 21.2 | -1001.2 | 0.02 | 0.24 | 0.24 | 345.0 |
| 1985 | 349.1 | 0.99 | 15.5 | 4658.2 | 0.26 | 0.19 | 0.14 | 300.0 |
| 1987 | 159.2 | 4.19 | 10.2 | 12498.9 | 0.45 | 0.18 | 0.18 | 252.3 |
| 1989 | -22994.2 | 7.65 | 40.9 | 27111.0 | 0.39 | 1.43 | 1.43 | 187.3 |
| 1991 | -101407.3 | 9.70 | 13.0 | 34515.2 | 0.65 | 0.79 | 0.7 | 135.1 |
| 1993 | -24060.4 | 22.63 | 57.2 | 52669.7 | 0.55 | 0.09 | 0.09 | 108.2 |
| 1995 | -195216.3 | 21.88 | 72.8 | 195533.7 | .86 | 0.16 | 0.16 | 100.0 |
| 1997 | 1077.7 | 21.88 | 8.5 | 395946.1 | 0.73 | 0.01 | 0.01 | 188.7 |
| 1999 | -326671.4 | 92.54 | 6.6 | 326499.7 | 0.38 | 0.035 | 0.035 | 107.6 |
| 2000 | 314139.1 | 109.55 | 6.9 | 982759.4 | 0.60 | 3.07 | 3.07 | 100.4 |
| 2001 | 24729.9 | 112.48 | 18.9 | 643535.8 | 0.61 | 0.20 | 0.20 | 104.3 |
| 2002 | -565353.3 | 126.4 | 12.9 | 302141.0 | 0.54 | 0.03 | 0.03 | 108.7 |
| 2003 | -162839.7 | 135.40 | 14.0 | - | 0.48 | 0.08 | 0.08 | 119.3 |

 In an attempt to identify the long-term causes of BOP fluctuation in Nigeria, the vulnerability of the economy to external shocks, external debt burden and debt servicing issues, inflationary effects, trade openness and exchange rate movements have remained the local issues. BOP adjustment through exchange rate changes relies upon the effect of the relative prices of domestic and foreign goods on the trade flows with the rest of the world (Thrillwall, 2007).

The terms of trade may vary both because of change in the prices expressed in the respective national currencies and because of exchange rate changes. Thrillwall (2004) noted that depreciation in the exchange rate at unchanged domestic and foreign prices n the respective currencies makes domestic goods cheaper in the foreign markets and foreign goods more expensive in the domestic market.

 Nigerian external debt burden and external debt servicing over the last two and half decades how been blamed by several authors for the negative profile of the country’s BOP. Clearly, the Nigerian external keeps arising over years. The implication of this circumstance is that debt service expenditure reduces wealth and the resources available to improve the country’s real activities, which is detrimental to DOP.

 Inflationary effects caused by currency depreciation might be expected to have an expenditure reducing impact (Dornbusch, 1992). Reduction in real expenditure will occur only if the appropriate (Fakiyesi, 1996). The BOP can caused by factors notably monetary, fiscal and structure of factors. Secondly, in an economy like Nigeria that is already beset with trend unfavourable balance of payment (BOP).

**2.4 COMPONENTS OF THE BALANCE OF PAYMENTS**

A more analytically convenient way to present a nation’s balance of payments is to divide it into three components viz: Current Account, Capital Account and Official Financing (Lipsey, 1983).

**THE CURRENT ACCOUNT**

 The current accounts records all transactions in god and services i.e. it portrays the flow of goods and services in the form of exports and imports for a country during a given year. When a country exports goods and services (X), it receives payment for them and therefore this appears on the credit side of the balance. This entails payments to foreigners and therefore came on the debit side. Recordings of only this position of balance of payments is termed visible balance of trade and such a balance may be positive (surplus, active or favourable) or negative (deficit, passive or unfavourable). The visible balance plus the invisible balance is called the balance of trade or the balance on current accounts (X + M = 0).

 In Nigeria, the current account includes unrequited transfers (private and official) or unilateral transfers, and they are transfers for which there is no corresponding “payment” nothing is given in return in economic terms.

**THE CAPITAL ACCOUNT**

Is export and imports of goods and services these underlying forces exert their impact on the current account and on the movement of long term capital. The basic balance views a deficit of surplus as the difference between exports and imports of goods and services and long term capital movement.

X + M + LTC = 0……………………………………………………(3)

 Where X and M remain the same as they were in the current account balance and LTC denotes long-term capital.

 Nweke (1973:84) used this concept as his definition of equilibrium. The U.S Brooking Report of 1963 also regarded it as central equilibrium concept. Other people however, regard it as in sufficient.

**BALANCE OF REGULAR TRANSACTION OR OVERALL BALANCE**

 The transactions involved in the international trade. Maybe autonomous transactions are transactions carried out to them without any regard to the balance of payment situation in the country. On the other hand, accommodation or compensatory transaction includes all those transactions carried out with a view to correcting balance of payment disequilibrium. While the former is triggered off as a result of commercial incentives and profit motivation, the latter embraces short-term official movements of gold and other international transfers. The advocates of the overall balance points out that even if the criteria of autonomous and compensatory transaction are used, short term capital transfer with regards to the balance of payments situation, short term capital transfers by individual should be compensatory. They hold that the correct liquid position of a country should be given as:

 X + M + LTC + STCP = 0…………………………………(4)

Where X, M and LTC remain the same as in equation (3) above, and STCP denotes short term capital.

 This short-term capital movement can clearly be seen in the case of private foreign investment of dis-investment or in the use of capital light. Capital flight is the use of financial resources across national boundaries in pursuance of interest rate differential. The balance that takes cognizance of short term private capital investment and autonomous transaction when added to the basic balance, it is used to determine deficits of surpluses in the balance of payments.

**OFFICIAL BALANCE**

This includes compensatory transactions undertaken by government to assure that the balance of payments balances. It includes short terms government capital transfers and changes in foreign reserve sit nation of the country.

This is stated as

X + M + LTC + STCP = GR + STCG

Where GR stands for government foreign reserves and STCG denotes government short-term capital. This balance is always expected to balance.

* 1. **APPROACHES TO A BALANCE OF PAYMENTS ANALYSIS AND MEASUREMENT OF SURPLUSES AND DEFICITS**

This balance of payment is related to other aspects of economic system because it describes the transaction of the residents of a country with the rest of the world. These connections have given rise to four approaches to balance of payments analysis that can be most simply by assuming, at first that three are no capital movements (this means that the balance of trade and balance of payments are the same). These approaches include the “elasticity approach”, the “absorption approach” and the “Monetary approach”. The “elasticity approach” works directly on the balance of payments equation (Robinson 1937:12).

B = X - M…………………………………..(5)

Where B represents balance of payments

X is the value of exports

M is the value of imports.

By differentiating equation (s) with respect to an exogenous parameter (say the exchange rate) a criterion can be established which shows. The effects of a change in the parameter on balance of trade assuming the export and import prices adjust to equate the demand and supply of exports and imports. In the literature the usual method of analysis has been to assume that exports depends on the price of exports, and imports on the price of imports (an inadequate vestige of partial equilibrium analysis) and then to translate these relations into elasticities (Crowel Collier, 1963:5).

 The “absorption approach” makes use of the fact that from national income accounting.

 B = Y - E……………………………………..(6)

Where B remains the same as above and Y is income, E is domestic expenditure (Meade 1951).

 This equation directs attention to the fact that the balance of trade can be improved by a policy change such as devaluation, only if income is increased more than expenditure.

 The “monetary approach”, stresses the fact that the balance of payments implies a change in foreign reserves of the monetary authorities (the central bank) and that the Central Bank total assets, which can be divided into foreign assets (reserves) and other assets (for example government bonds), must equal its monetary liabilities.

 When the banking system as a whole, inter bank transactions are cancelled, this means that B = H - C.

 Where H is boarding (additional domestic money holdings) by the public and C is credit creation by the banking system as whole. This approach, which is valid even when there was capital movement, directs attention to the fact that balance of payments cannot be improved unless credit creation is less than hoarding (Johnson 1958)

 However, the effectiveness of devaluation on a country’s balance of payments depends on several factors, reflecting the different approaches adopted in discussing devaluation. Two of such approaches are the elasticities approaches and absorption approaches.

**OFFICIAL FINANCING**

 Official financing items of official settlements represents transactions involving the central bank of the country whose balance of payment is being recorded and their ways in which credit items may occur on the official financing accounts.

* 1. **MEASUREMENT OF BALANCE OF PAYMENT SURPLUSES AND DEFICITS**

The notion of balance of payments surpluses and deficits is a concepts which the tabulation has inherited from the days of the mercantilists when balance of payments did not include all of the accounts or the total of all the economic transactions. Generally, the merchandise, service and unilateral transfers, later when the capital accounts were included, surpluses and deficits were based on all embracing compilation. In the nineteenth and early twentieth century days of gold standard monetary system, gold the principal reserve asset and its movement was generally held to measure payments deficits and surpluses. With the desire of the gold standard, other assets have joined gold as reserve assets and their movement is now used to in these net reserve assets during any period is regarded as surplus, a decrease as a deficit. These reserve assets today dollars, pounds and a new other convertible currencies together with ordinary and special drawing rights (SDRS) of the IMF.

**DIFFERENCE IN BALANCE OF TRADE AND BALANCE OF PAYMENT**

 The balance of trade is the difference between the value of goods and services exported and imported. It contains the first two items of the balance of payment account on the credit and the debit side. This is known as “balance of payment on current account” while the balance of payment of a country is a systematic record of its receipts and payments in international transactions in a given year.

**DIS-EQUILIBRIUM IN BALANCE OF PAYMENTS**

 A disequilibrium in the BOP of a country may be either a deficit or a surplus. A deficit or surplus in DOP of a country appears when its autonomous receipts (credit) do not match its autonomous payments (debits). If autonomous credit receipts exceeds autonomous debit payments, there is a surplus in the BOP and the disequilibrium is said to be favourable.

**CAUSES OF DISEQUILIBRIUM IN BALANCE OF PAYMENT**

* Temporary changes: There may be a temporary disequilibrium caused by random variation in trade, seasonal fluctuations, the effects of weather an agricultural production etc. Deficits or surplus arising from such temporary causes are expected to collect themselves within a short time.
* Price changes: Inflation or deflation is another cause of disequilibrium in the BOP. If there is inflation in the country, prices of exports increases. As a result, export fall. At the same time, the demand for imports, increases. Thus increase in export prices leading to decline in exports ad rise in imports results in adverse BOP.
* Political conditions: Political condition of a country is another cause of disequilibrium in BOP. Political instability in a country creates uncertainty among foreign investors which leads to the outflow of capita and retards its inflow. This causes disequilibrium in BOP of the country. Disequilibrium in BOP also occurs in the event of war of fear of war with some other country.

**2.7 ADJUSTMENT MECHANISM TO CORRECT OF BOP DISEQUILIBRIUM**

* Automatic adjustment through price and income changes. Price changes are studied under flexible as floating exchange rates and under the Gold standard which operated between 1880 – 1914, the currency in use was made of gold or was convertible into gold at a fixed rate. The central bank of the country was ready to buy and sell gold at the specific price. The rate at which the standard money of the country was convertible into gold was called the mint price of gold. This rate was called the mint party or mint par of exchange could vary above because it was based on the mint price of gold. The difference between the value of imports and exports would have to be paid in gold by US importers because the demand for pounds exceeds the supply of pound.
* Automatic price adjustment under flexible exchange rates (Price effect).

Under flexible (or fluctuating) exchange rates, the disequilibrium in the balance of payment is automatically solved by the force of demand and supply for foreign exchange. An exchange rate is the price of a currency which is determined like any other commodity by demand and supply, it varies with varying supply and demand conditions, but it is always possible to find an equilibrium exchange rate which clears the foreign exchange market and creates external equilibrium. This is automatically achieved by a depreciation (or appreciation) of a country’s currency in case of a deficit (or surplus) in its balance of payments.

**DETERMINANTS OF BALANCE OF PAYMENT**

* Direct controls

To collect disequilibrium in the balance of payments, government also adopts direct control which aims at limiting the volume of imports. The government restricts the import of undesirable or unimportant items by levying heavy import duties, fixation of quotas etc which is a determinant in a balance of payment of a country.

\* Income changes

Given the foreign exchange into and prices in a country, an increase in the value of exports, causes an increase in the income of all person associated with the export industries. These, inturn, creates demand for other goods and services within the country which is a determinant of balance of payment.

\* Capital Movement

A country can use capital imports to collect a deficit in its balance of payments. A deficit can be financed by capital inflows. When capital perfectly mobile within countries, a small rise in the domestic rate of interest brings a large inflow of capital. These and many others like trade openness, external debt, exchange rate, expenditure are determinant of balance of a country.

**2.8 EMPIRICAL LITERATURE**

Nwani (2006) investigates the long-run determinants of balance of payment dynamics in Nigeria between 1983 and 2007, using econometric method of co-integration and error correction mechanism. It found that all the variable except balance of payment, exhibited non-stationarity. The results also indicates that balance of payment co-integrated with all the identified explanatory variables, suggesting that the level of trade openness, external debt burden exchange rate movement and domestic inflation could be used as determinants of balance of payments in Nigeria, they concluded that a reduction in fiscal deficits, an increased domestic production through private investment, inflation targeting and regulated capital market integration are the panacea to the negative fluctuation in the Nigerian balance of payment.

Khemraj (2006) examines the monetary policy from a work of Guyana a tiny economy in he (ARICOM) region. Monetary policy is motivated by the IMF’s financing programming model. The financial programming model holds that the money supply is largely exogenous in the sense that control of the monetary bases gives the central bank control of the money. Supply base money can therefore be targeted in order to hit specific target paths of broad money and hence control inflation and being stability to the balance of payment.

Since, it is money that determines macroeconomic stability, our market sales of treasury bills are used persistently for ten years now in order to sterilize excess bank liquidity, which is a permanent feature of the Guyanese banking system. Resulting from the weekly sterilization activities is the growing domestic debt. The paper argued against the view that money supply (and bank reserves) is exogenous, but instead endogenous to different factors such as credit, economic activities in the underground economy, and remittances from abroad. Under such circumstances of targeting monetary aggregates is inefficient, costly and unnecessary indeed, the econometric exercise conducted in the paper tends to support the endogenous money view. Therefore, liquidity sterilization and its concomitant increase in domestic debt are all motivated by flawed theorietical underpinnings.

Kyle (2002) discusses the policy issues facing the country of Sao Tome principle a small inland country in the Gulf of Guinea, given the discovery and imminent exploitation of large reserves of oil in its territorial waters. While presenting huge opportunities, the history of other African oil-exporting countries demonstrates that there are dangers as well. An appropriate policy for macro balances and for disposal of oil exporting countries demonstrates that there are dangers as well. An appropriate policy for macro balance and for disposal of oil review will be essential. If Sao Tome principle is to avoid the economic pitfalls which have plagued contrary such as Nigeria. The two main lessons of external debt we could conclude that the adoption of an IMF Programme could work as a sort of signal of a country’s “good willingness”, which is thus rewarded with the debt relief. The results confirm the existence of a significant effect of the adoption of an IMF Program on the subsequent concession of a debt rescheduling by creditors.

**CHAPTER THREE**

**3.0 METHODOLOGY**

This study will adopt applied econometric approach, which is concerned with the estimation parameter of economic relationship and with the prediction by means of these parameters of the valuables of economic variables. The relationship of economic theory which can be measured with one or another econometric test which means there are relationship in which some variables we postulated as causes of variation of other variables, koutsoyiannis (1977).

 To be specific, the method to be employed in this research work is the single equation technique of economic simulation for its analysis. The ordinary least square (OLS) regression model will be adopted. The advantage of using ordinary least square test is based on the fact that it possesses a BLUE property which is lest linear unbiased estimated (koutsoyiannis 1997). Along with the OLS model, we shall use the Granger causality test for the casual relationship between foreign direct investment and gross domestic product in Nigeria.

 Econometric modeling which this work is concerned with requires three major steps:

1. Model specification
2. Data collection
3. Model specification (Soludo, 1998)
	1. **MODEL SPECIFICATION**

The specification of model for this work is drawn from the objective. Based on this the model is thus specified on the impact of foreign direct investment on economic go with in Nigeria.

 Theoretically, the model can be specified as gross domestic product (GDP) is a function of foreign direct investment and inflation rate, real exchange rate and interest rate. In this GDP is used as a proxy for economic growth. Thus, mathematically the relationship is stated as outflows in a compact form:

GDP = F (FDI, RXR, GCF)

Where

GDP = Gross domestic product as proxy for economic growth.

FDI = foreign direct investment

INF = inflation rate

GCF = gross capital formation

 Statistically, we can linearize the equation as a complete model of the following:

GDP = x0 + x1FDI + x2 RIR + GCF + U1

**3.2 METHOD OF EVALUATION**

**3.2.1 EVALUATION BASED ON ECONOMIC CRITERIA**

 This evaluation is based on theoretical criteria. Under these criteria the aprior expectation (signs and sizes) of the parameter estimates of the variables in the models will be evaluated to check whether they conform to economic theory.

 Hence, the constant term x0 occurs when the included variables are meant to be zero. Also ME, which is the random term capture or explain the proportion of the valuation in GDP, which is not accounted for by the model, due to other less important omitted variables that can be attributed to change and collective contribution to the model.

* + 1. **EVALUATION BASED ON STATISTICAL CRITERION**

The co-efficient of determination (R2)

R2 explains the total variation in the dependent variable caused by variation in the explanatory variables included in the model.

**THE T-TEST**

 This test is used to check whether the variables included in the models are significant or not in determining their effects on the dependent variables. Each clement of and follows that t-distribution within n-k degree of freedom.

**THE F-TEST**

 This test the overall significance of the regression model. That it investigates whether the entire model is statistically significant.

* + 1. **EVALUATION BASED ON ECONOMETRIC CRITERIA**

**Normality Test**

 This test will be carried to test whether the error term follows the normal distribution. The normality test would adopt the Jargue-Berc (JB) Test for normality. The JB Test of normality is an asymptotic or large-sample test. It will also be based on the OLS model.

**TEST FOR AUTOCORRELATION**

This is to test whether the errors corresponding to different observations are uncorrelated. The test will adopt the Durbin-Watson statistic because of the presence of lagged dependent variables as well as the regressions which indicates that the model is an autoregressive model (Cujarati, 2004).

**TEST FOR MULTICOLLINEARITY**

 This will be used to check for multicollinearity among the explanatory variables. The basis for the test being. The correlation matrix result, using the correlation coefficient between pairs of regressors.

**HETEROSKEDOSTRICITY TEST**

 This test would be conducted to ascertain whether the error term Ut in the regression model has a common or constant variance. The white heteroskedosticity (with no cross terms) will be adopted.

**3.4 SOURCES OF DATA**

 The determinants of balance of payment Nigeria is tested on the basis of annual data covering the period of 1983 – 2007. The data were acquired from various issues of Central Bank of Nigeria (CBN) annual statistical bulletin, as well as various issues of National accounts data from the central statistical office. The variable used were gross domestic product and data on determinants of balance of payment over time.

**CHAPTER FOUR**

**4.0 PRESENTATION OF REGRESSION RESULT**

The results of the estimated models of this study are presented and analysed in this section.

**4.1 PRESENTATION OF MODEL RESULTS**

Presented below is the regression analysis based on the ordinary least square (OLS) regression technique. The regression model shows the relationships between Gross Domestic Product and determinants of balance of payment in Nigeria for the period of 1983 – 2007. Presented by two regression model.

EQ (1) The Result from modeling BOP by OLS

|  |  |  |  |
| --- | --- | --- | --- |
| Variable | Coefficient | Standard Error | t-value |
| Constant | 61742 | 1.8817 | 0.328 |
| EDS | 0.085907 | 0.062848 | 1.367 |
| EXR | -400.19 | 1780.5 | -0.225 |
| TDO | -2.5876 | 3.6138 | -0.716 |

R2 = 0.139928, F(3,21) = 1.1389, DW = 2.01

RSS = 1.641847438 for 4 variables and 25 observations.

**4.2 EVALUATION OF RESULT**

**4.2.1 ECONOMIC INTERPRETATION OF RESULTS**

EDS: The coefficient of the variable showed a positive value of 0.08590. Simplifying that a unit increase in EDS causes BOP to increase by 0.085907 units.

EXR: The coefficient of the variable showed a negative value of -400.19. This implies that unit increase in EXR causes BOP to decrease by 400.19 units.

TDO: The coefficient of the variable showed a negative value of -2.5876. This implies that a unit increase in TDO causes BOP to decrease by -2.5876 units.

EQ (2) MODELLING GDP BY OLS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-value | t-prob. |
| Constant | 1.4978 | 28345 | 5.284 | 0.0000 |
| EDS | -0.049491 | 0.0098544 | -5.02 | 0.0001 |
| EXR | 3087.4 | 267.85 | 11.526 | 0.0000 |
| TDO | 1.5005 | 54959 | 2.730 | 0.0129 |
| BOP | 0.065786 | 0.032788 | 2.006 | 0.0585 |

R2 = 0.916469

F(4,200) = 54.858

DW = 1.52

RSS = 3.530215575 for 5 variables and 25 observations.

* + 1. **EVALUATION BASED ON STATISTICAL CRITERIA**

Coefficient of determination R2

 The R2 is 0.139928 or approximately 14%. The OLS result showed that in the long-run, the independent variables were able to explain the variation in BOP to the tune of 14%. Therefore, the regression line is poorly fitted.

**T-test**

 This test was conducted to ascertain the significant status of each of the parameter. At 5% level of significance with n-k degree of freedom.

 = 5%; /2 = 0.05/2 = 0.025; n-k = 25 – 4 = 21.

Hypothesis:

Ho: β = 0 statistically insignificant

H1: β ≠ 0 statistically significant

Decision Rule: Reject Ho if T – calculated is > T – tabulated or accept if otherwise.

Table: T-test

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | T-Calculated | T-Tabulated | Decision | conclusion |
| Constant | 0.328 | 2.080 | Accept Ho | StatisticallyInsignificant  |
| EDS | 1.367 | 2.080 | Accept Ho | StatisticallyInsignificant  |
| EXR | -0.225 | 2.080 | Accept Ho | StatisticallyInsignificant  |
| TDO | -0.716 | 2.080 | Accept Ho | StatisticallyInsignificant  |

The interpretation of the result of the t-test carried out shows that all parameters are statistically insignificant.

**F-test**

The F-test measures the overall significance of the model.

Hypothesis:

Ho: B1 = B2 = B3 = 0 (statistically insignificant)

H1: B1 ≠ B2 ≠ B3 ≠ 0 (statistically insignificant)

Decision Rule: Reject H0 if F – calculated is greater than F – tabulated.

For the numerator,

Degree of freedom is K – 1 = 4 – 1 = 3

For the denominator,

Degree of freedom is n – k = 35 – 4 = 31; at 5% level of significance.

Table: F-test

|  |  |  |
| --- | --- | --- |
| F-calculated | F-tabulated | Decision |
| 1.1389 | 2.84 | Accept Ho |

 Therefore, we conclude that the model is statistically insignificant.

**4.2.3 ECONOMETRIC TESTS**

Test for autocorrelation

 This problem is usually dictated with Durbin-Watson (DW) statistics.

Decision Rule:

d\* < d (reject Ho, presence of positive autocorrelation of first order.

d\* > (4 – dl) reject Ho, presence of negative autocorrelation of first order.

du < d\* < (4 – du) accept Ho, no autocorrelation

dl < d\* < dv or (4 – du) < d\* < (4 – dl), test is inconclusive.

Where: du = upper limit

 dL = lower limit

 d\* = estimated Durbin Watson

dl = 1.123

du = 1.654

d\* = 2.01

1.654 < 2.10 < 2.346, that is du < d\* < (4 – du).

We accept Ho and conclude the absence of autocorrelation.

**Heteroscedasticity test**

 The test is basically focused on the variance of the error term. The test helps to ascertain whether the variance of the error term is constant.

Ho: Homoscedasticity

H1: Heteroscedasticity

Decision Rule: Reject Ho if x2 > x2 0.05 and accept if otherwise.

 From our result, the calculated chi-square (x2) at 6 degrees of freedom is 16.931, while the tabulated x2 0.05 (6 degrees of freedom) is 12.592. Since x2 > x2 0.05, we reject Ho.

**Test for Multicollinearity**

 This test is carried out using partial coefficient of determination (Partial R2). When the partial R2 is > R2, we say that there is presence of multicollinearity, otherwise there is no presence of multicollinearity.

|  |  |  |  |
| --- | --- | --- | --- |
| Variable | R2 | Partial R2 | Conclusion |
| Constant | 0.139928 | 0.0051 | Absence of multicollinearity |
| EDS | 0.139928 | 0.0817 | Absence of multicollinearity |
| EXR | 0.139928 | 0.0024 | Absence of multicollinearity |
| TDO | 0.139928 | 0.0238 | Absence of multicollinearity |

EQ (2) MODELLING GDP BY OLS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-value | t-prob. |
| Constant | 1.4978 | 28345 | 5.284 | 0.0000 |
| EDS | -0.049491 | 0.0098544 | -5.02 | 0.0001 |
| EXR | 3087.4 | 267.85 | 11.526 | 0.0000 |
| TDO | 1.5005 | 54959 | 2.730 | 0.0129 |
| BOP | 0.065786 | 0.032788 | 2.006 | 0.0585 |

R2 = 0.916469

F(4,200) = 54.858

DW = 1.52

RSS = 3.530215575 for 5 variables and 25 observations.

**EVALUATION OF RESULT**

**ECONOMIC INTERPRETATION OF RESULT**

EDS: The coefficient of the variable showed a negative value of -0.049491. This implies that a unit increase in EDS causes GDP to decrease by 0.049491 units.

EXR: The coefficient of the variable showed a positive value of 3087.4. This implies that a unit increase in EXR causes GDP to increase by 3087.4 units.

TDO: The coefficient of the variable showed implies that a unit increase in TDO causes GDP to increase by .15005 units.

BOP: The coefficient of the variable showed a positive value of 0.065786. This implies that a unit increase in BOP causes GDP to increase by 0.05786 units.

**EVALUATION BASED ON STATISTICAL CRITERIA**

**Model A:** Coefficient of determination R2

 The R2 is 0.139928 or approximately 14%. The OLS result showed that in the long-run, the independent variables were able to explain the variation in BOP to the tune of 14%. Therefore, the regression line is poorly fitted.

**Model B: Coefficient of determination R2**

 The R2 0.916469.0 approximately 92%. The as result showed that in the long-run, the independent variables were able to explain the variation in GDP to the tune of 92%.

**T-test**

 This test was conducted to ascertain the significant status of each of the parameters. At 5% level of significance with n-k degree of freedom.

 = 5%; /2 = 0.05/2 = 0.025; n-k = 25 – 5 = 20.

Hypothesis:

Ho: β = 0

H1: β ≠ 0

Decision Rule: Reject Ho if T–calculated is > T–tabulated or accept if otherwise.

Table: T-test

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | T-Calculated | T-Tabulated | Decision | Conclusion  |
| Constant | 5.284 | 2.086 | Reject Ho | StatisticallyInsignificant  |
| EDS | 0.0098544 | 2.086 | Accept Ho | StatisticallyInsignificant |
| EXR | 267.85 | 2.086 | Reject Ho | StatisticallyInsignificant |
| TDO | 54959 | 2.086 | Reject Ho | StatisticallyInsignificant |
| BOP | 0.032788 | 2.086 | Accept Ho | StatisticallyInsignificant |

Based on the result, C, EXR, TDO are statistically significant while EDS and BOT are statistically insignificant.

**F-test**

 This test for the overall significance of the model.

Hypothesis:

Ho: B1 = B2 = B3 = 0

H1: B1 ≠ B2 ≠ B3 ≠ 0

Decision Rule: Reject H0 if F–calculated is greater than F – tabulated.

|  |  |  |
| --- | --- | --- |
| F-calculated | F-tabulated | Decision |
| 54.858 | 2.87 | Reject Ho |

 We conclude that the model is statistically significant.

**ECONOMETRIC TESTS**

 **Heteroscedasticity test**

 The test is basically focused on the variance of the error term. The test helps to ascertain whether the variance of the error term is constant.

Ho: Homoscedasticity

H1: Heteroscedasticty

Decision Rule:

Reject Ho if x2 > x2 0.05 and accept if otherwise from our result, the calculated chi-square (x2) at 8 degree of freedom is 19.372, while the tabulated x2 0.05 (8 degrees of freedom) is 15.507. Since our estimated x2 > x2 0.05, we reject Ho of homoscedasticity.

**Test for multicollinearity**

This test is carried our using partial coefficient of determination (Partial R2). When the partial R2 is > R2, we say that there is presence of multicollinearity, otherwise there is no presence of multicollinearity.

|  |  |  |  |
| --- | --- | --- | --- |
| Variable | R2 | Partial R2 | Conclusion |
| Constant | 0.916469 | 0.5827 | Absence of multicollinearity |
| EDS | 0.916469 | 0.5577 | Absence of multicollinearity |
| EXR | 0.916469 | 0.8692 | Absence of multicollinearity |
| TDO | 0.916469 | 0.2715 | Absence of multicollinearity |
| BOP | 0.916469 | 0.1676 | Absence of multicollinearity |

**EVALUATION BASED ON RESULT**

 The result from modeling BOP by OLS showed the regression is poorly fitted as the explanatory variables were only able to explain the variations in BOP to a tune of 14%. The T-test showed that the variables EDS, EXR and TDO were all statistically insignificant, while the F-test showed that model is entirely statistically insignificant.

 The result from modeling GDP by OLS showed that the variations in GDP can be explained to the tune of 92% by the explanatory variables. EXR, TDO were statistically significant while EDS and BOP were statistically insignificant.

**CHAPTER FIVE**

1. **SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 SUMMARY OF THE FINDINGS**

At the end of the research work, it was discovered that there is a negative relationship between the determinants of balance of payment in Nigeria for the sample period (1983 – 2007), the determinants of balance of payment, consisting of capital and current accounts was responsible for Nigeria economic growth and development. This discovery has lent credence by the high insignificant of ratio of the independent variable, coupled with a high coefficient of determination of about.

 There is absence of autocorrelation in the model. This could be found from the regression output where the value of the Dublin – Watson statistics was 2.10, showing a 800m indication of first order correlation in the model

**CONCLUSION**

 Gross domestic product and balance of payment are usually defined from the perspective of the person looking at the subject. GDP is the monetary value of the all the goods and services produced within a country, over a specified period, where as balance of transactions with the rest of the world over some period often a year.

 Furthermore, the relationship between the level of gross domestic product (GDP), and from the regression work done their degree of correlation shows a person indication of negative first order serial correlation.

 In the fore-going analysis, this research work on determinants of payment of payment in Nigeria within the period under review includes the gross domestic product (GDP) as dependent variable and balance of payment (DOP) consisting of current account and capita account as independent variable, so as to capture its effect. At the end of the study, it was discovered that there was statistically insignificant at four (4) percent level of significance.

 Having made the analysis, the government should therefore consider the policy recommendations made below with a view of improving the balance of payments.

**5.2 POLICY RECOMMENDATION**

Here, the researcher in bid to correct the determinants of balance of payment recommends the following.

* 1. Government authorities should adopt direct controls, which aims at limiting the volume of imports. The government should restrict the import of undesirable or unimportant items by levying heavy import duties, fixation of quotes etc.
	2. On the other hand, the government should impose exchange controls. Exchange controls have a dual purpose. They restrict imports and also controls and regulate the foreign exchange with reduction in imports and control of foreign exchange, visible and invisible balance of payments corrected thereby leading to growth and development in the Nigeria economy.
	3. Finally, a high scene of patriotism and honesty is needed on the part of the government officials on the one hand and the economic agents on the other. This when achieved will prevent the falsification of the trade data smuggling and all other economic malpractices.

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