Convertibility of the Naira: Issues and Prospects

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ABSTRACT

This study examined the convertibility of the naira in Nigeria, focusing on the issues and prospects associated with selected macroeconomic variables. Specifically, the study investigated the short-run and long-run relationships between naira convertibility proxied as Exchange Rate Premium (ERP) and the foreign exchange rate (FER), current account balance (CAB), foreign direct investment (FDI), inflation (INF) and terms of trade (TOT). The Autoregressive Distributed Lag (ARDL) model was employed to estimate the short-run and long-run coefficients. The short-run results revealed that the second lag of naira convertibility, current account balance and inflation had statistically significant relationships with naira convertibility, although the signs of the current and lagged coefficients differed for the current account balance and inflation. Foreign direct investment was statistically insignificant in the short run. The long-run results indicated that inflation had a positive and statistically significant relationship with naira convertibility at the 5% level. The current account balance, foreign direct investment and terms of trade were statistically significant at the 10% level but not at the 5% level, while the foreign exchange rate was statistically insignificant. Furthermore, the error correction term was negative and statistically significant at −0.978124, indicating that approximately 97.81% of the previous period's deviation from the estimated long-run equilibrium was corrected within one period. The study concludes that naira convertibility is associated with short-run macroeconomic adjustments and selected long-run macroeconomic conditions. It recommends effective inflation management, export diversification, the promotion of productive foreign direct investment, improved foreign exchange market transparency and consistent macroeconomic policies to support a more stable and credible foreign exchange system in Nigeria.

Keywords: Naira convertibility, Exchange Rate Premium, foreign exchange rate, current account balance, foreign direct investment, inflation, terms of trade, ARDL.

INTRODUCTION

Currency convertibility is the ability to exchange a domestic currency for foreign currencies at a market-determined rate, subject to the rules governing foreign exchange transactions. It is an important aspect of integration into the global economy (Ashinze & Onwioduokit, 1995). Convertibility may apply to current-account transactions, such as trade in goods and services, or to capital-account transactions, such as cross-border investment. The distinction matters because a currency may be convertible for some transactions while restrictions remain on others.

In Nigeria, successive exchange-rate reforms have sought to improve access to foreign exchange and narrow the gap between official and parallel-market rates. Yet persistent inflation, dependence on crude-oil export earnings, and demand for imported goods and capital equipment continue to place pressure on the naira. When foreign exchange supply is insufficient or access is restricted, a parallel-market premium can emerge, encouraging speculation and distorting the allocation of resources. Exchange-rate unification alone may therefore be insufficient to sustain broader convertibility without stronger macroeconomic fundamentals and a more reliable supply of foreign exchange.

These conditions present a policy challenge. Restrictions on foreign exchange transactions may constrain trade and investment, while rapid liberalisation in the absence of adequate reserves and domestic stability could intensify exchange-rate volatility and inflation. A credible path towards greater naira convertibility requires evidence on the economic factors associated with exchange-rate pressures and the conditions under which reforms can be sustained. This paper examines those factors and considers their implications for the prospects of naira convertibility.

The main objective of this study is to examine how foreign exchange management and selected macroeconomic fundamentals affect the prospects for naira convertibility (proxied as exchange rate premium) in Nigeria. To achieve this, the study assesses how foreign exchange reserves and the terms of trade relate to exchange-rate pressures. It also examines the relationship between inflation and those pressures, evaluates the roles of foreign direct investment, and considers how the current-account balance relates to exchange-rate pressures.

The paper is organised into five sections. Section One introduces the study. Section Two reviews the conceptual, theoretical, and empirical literature. Section Three presents the methodology. Section Four reports and discusses the findings. Section Five concludes with policy recommendations.

LITERATURE REVIEW

This segment examines the meaning and conditions of currency convertibility, the theories that explain exchange rate pressure, and the implications for Nigeria. The central distinction is between permitting conversion for legitimate international payments and removing restrictions on cross-border capital transactions. That distinction matters because the benefits, risks and institutional requirements differ. The review concludes by relating the proposed explanatory variables to the parallel market premium and identifying limits of that measure.

2.1 Conceptual Review

2.1.1 Meaning and scope of currency convertibility

Currency convertibility refers to the ability to exchange domestic currency for foreign currency and use the proceeds for permitted international transactions at an applicable exchange rate. It is a legal and operational property of an exchange system, not a promise that the exchange rate will remain fixed or that every transaction will be free of regulation. Ashinze and Onwioduokit (1995) associate convertibility with the unrestricted international use and exchange of a currency. For analytical clarity, however, its scope must be specified by transaction type, eligible user and administrative conditions.

Current account convertibility permits access to foreign exchange for bona fide payments for goods, services, income and transfers, subject to ordinary documentation and applicable law. Capital account convertibility concerns the ability to acquire or dispose of foreign financial assets and liabilities across borders. The latter exposes an economy more directly to abrupt portfolio reversals and therefore generally requires stronger financial supervision and risk management. De facto convertibility also depends on whether foreign exchange can actually be obtained in reasonable time and at transparent prices; formal permission alone may have limited practical value when access is rationed.

The terms “soft” and “hard” convertibility are sometimes used to contrast conversion at a market-determined rate with conversion at a predetermined rate. These labels are not substitutes for the current versus capital account distinction. A floating rate does not guarantee unrestricted conversion, and a fixed rate does not by itself establish a right to convert. If a monetary authority commits to a fixed rate, it must have credible means to supply foreign exchange at that rate; under a floating rate, holders ordinarily bear more exchange rate risk.

2.1.2 Conditions supporting sustainable convertibility

1. Macroeconomic consistency: fiscal and monetary policies should be compatible with price stability and a sustainable external position. Persistent inflation and fiscal financing pressures raise expected depreciation and demand for foreign currency.

2. A credible exchange rate framework: the real exchange rate should avoid prolonged misalignment, while the pricing and allocation of foreign exchange should be transparent. Greater exchange rate flexibility can absorb external shocks, although it does not eliminate volatility.

3. Adequate external liquidity: usable reserves and reliable foreign exchange inflows provide a buffer against temporary shortages. Reserve adequacy should be assessed against imports, short-term external liabilities and potential capital outflows rather than a single nominal target.

4. Sound financial institutions: well-supervised banks, resilient payment systems and effective prudential rules help contain currency and maturity mismatches when cross-border transactions expand.

5. Confidence and implementation capacity: predictable rules, credible institutions and reliable settlement arrangements support willingness to hold and use the naira. Capital account liberalization also calls for careful sequencing and monitoring of cross-border risk.

These conditions are interdependent. For example, reserves can smooth temporary shocks, but cannot indefinitely offset an exchange rate that is inconsistent with domestic policies. Likewise, lifting controls without improving market access and confidence may shift activity into informal channels rather than produce effective convertibility.

2.1.3 Potential benefits and risks

More reliable conversion can reduce the costs of foreign exchange rationing and improve access to imported inputs and capital goods. It may support trade, investment and competition where domestic firms can respond productively. Transparent access may also narrow incentives to transact outside official channels. These are potential gains, conditional on complementary policies and the capacity of firms and banks to adjust.

Greater openness can increase exposure to external shocks. Sudden capital outflows, changes in oil receipts and shifts in international interest rates can place pressure on the naira. Short-term portfolio flows are particularly sensitive to expected returns and risk, while direct investment is generally less liquid but is not immune to policy uncertainty. Opening the capital account before banks and firms can manage foreign-currency exposure may magnify balance sheet losses during depreciation.

The policy trilemma further constrains the choice of regime: with highly mobile capital, a country cannot simultaneously maintain a fixed exchange rate and full monetary policy independence. This is a choice among policy objectives, not proof that convertibility necessarily causes an economic collapse. The scale of the trade-off depends on the exchange rate arrangement, the degree of capital mobility and the credibility of policy.

2.1.4 Exchange Rate Premium

This refers to the percentage spread between an informal, uncoordinated market rate and the government maintain and regulated official pegged rate. It arises when currency control, rationing or capital restrictions create excess demand pressure on foreign assets. It can be viewed in terms of parallel market premium, as noted by Agenor and Montiel (2015), as the measure of the extent to which the price of foreign currency in the legal or illegal informal markets exceeds the official price set by monetary authorities reflecting market expectations of devaluation, trade restrictions and capital controls. It is stated as: Parallel Market Premium = $(E_{informal} - E_{official})/E_{official} \times 100$

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THEORETICAL FRAMEWORK

No single theory explains every movement in the naira or the gap between official and parallel market rates. The theories below identify distinct channels through which inflation, external earnings, capital flows and policy credibility may affect foreign exchange demand and supply. Their predictions should be tested rather than assumed to hold at all horizons.

2.2.1 Purchasing power parity

Purchasing power parity (PPP), associated with Cassel (1918), links exchange rates to relative price levels. In its relative form, depreciation of the domestic currency tends, over a sufficiently long horizon, to reflect domestic inflation in excess of foreign inflation. With the exchange rate defined as naira per unit of foreign currency, an approximate statement is:

2.2.2 External balance and foreign exchange flows

The balance of payments framework relates foreign exchange demand and supply to trade, services, income, transfers and financial flows. Stronger export receipts or remittances may ease pressure on the foreign exchange market, while import demand and external debt service may intensify it. Terms of trade changes matter especially for an oil-dependent exporter: a fall in export prices can reduce foreign currency earnings even if import demand adjusts slowly.

A current account balance is an accounting outcome and must be interpreted alongside financial flows and reserve changes. A balance of payments accounts identity does not, by itself, determine the exchange rate or establish a causal effect. The empirical model should therefore specify the channel and timing by which terms of trade and current account conditions could affect the premium.

2.2.3 Monetary and portfolio approaches

The monetary approach, associated with Johnson (1972) and Frenkel (1976), relates the exchange rate to relative money supply and money demand, under assumptions about prices and international asset substitution. Monetary expansion that exceeds demand for domestic money may weaken confidence in the naira and increase demand for foreign currency. The effect of reserves depends on how intervention is financed and whether underlying monetary and fiscal pressures persist.

Portfolio balance theory, associated with Tobin (1969) and Branson (1977), allows domestic and foreign assets to be imperfect substitutes. Expected returns, risk and exchange rate expectations shape holdings of naira and foreign assets. Foreign portfolio investment may respond quickly to changes in yields and perceived risk. Foreign direct investment may add to foreign exchange supply and productive capacity, though its timing and composition make a simple contemporaneous relationship with the premium uncertain.

2.2.4 Application to the parallel market premium

The parallel market premium can be defined as $100 \times (E_0 - E_o)/E_o$, where E_0 and E_o are comparable parallel and official rates expressed as naira per unit of the same foreign currency. A positive premium reflects a higher naira price in the parallel market. It may capture restrictions, unmet demand, transaction costs, expectations and differences in access or settlement. It is an indicator of market segmentation and exchange rate pressure, not a complete measure of legal currency convertibility.

The theoretical channels suggest examining inflation differentials, terms of trade, current account conditions, foreign investment flows and reserve adequacy. Their expected effects are conditional: improved external earnings or liquidity may reduce the premium, while higher inflation and risk may increase it; foreign investment can have different effects by type and timing. Policy changes, multiple exchange rate windows and shifts in

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enforcement should also be considered because they can alter the premium independently of macroeconomic fundamentals.

2.2.5 Synthesis and Research Gap

The conceptual literature distinguishes the legal permission to convert from effective market access. PPP points to relative prices; external balance theory to foreign currency receipts and payments; monetary theory to money and expectations; and portfolio theory to capital allocation under risk. Taken together, these perspectives suggest that Nigeria's convertibility prospects cannot be inferred from reserves or the exchange rate alone. The central empirical question is whether the proposed macroeconomic variables explain changes in the parallel market premium after accounting for policy and market structure.

The study should define its observation period, rate sources and frequency; verify that the official and parallel rates refer to the same currency and timing; and address the possible joint determination of the premium and explanatory variables. Conclusions should distinguish evidence about the premium from broader claims about the feasibility of full capital account convertibility. A documented review of Nigeria-specific empirical studies, including methods and conflicting findings, is still needed to establish a literature-based empirical gap.

2.3 Empirical Review

The empirical literature on currency convertibility addresses three related questions: how restrictions on foreign exchange transactions affect the gap between official and parallel market rates; how exchange rate movements influence economic performance; and whether macroeconomic conditions can sustain a more open exchange regime. These questions are relevant to Nigeria because a narrower exchange rate gap does not, by itself, establish that foreign exchange is consistently available for legitimate transactions.

Early studies of exchange liberalisation emphasised the sequence of reform. Quirk (1994) and Greene and Isard (1991) examined the conditions under which restrictions on current and capital transactions could be relaxed. Their analyses suggest that opening the capital account while fiscal and monetary imbalances persist may expose an economy to volatile flows and exchange rate pressure. Guitián (1996) similarly stressed the importance of macroeconomic stability and coherent exchange rate arrangements. These studies provide a basis for assessing convertibility as a sustained policy outcome, rather than a one-time removal of controls. Much of this early literature, however, is institutional or descriptive and offers limited direct evidence on the determinants of Nigeria's parallel market premium.

Research on dual exchange markets provides a closer link to the present study. Lizondo (1991) analysed how policy choices affect the spread between official and free market exchange rates under a dual market regime. Where access to official foreign exchange is restricted, the parallel rate can respond to changes in liquidity, expectations and the allocation of transactions between markets. In the Nigerian context, Ashinze and Onwioduokit (1995) identified a realistic exchange rate, appropriate macroeconomic policies and adequate external reserves among the conditions for naira convertibility. Their policy analysis helps frame the institutional requirements for reform, although it does not estimate how changes in these conditions affect the premium over time.

A separate empirical strand examines the consequences of exchange rate movements. Using a panel of more than 150 countries and external instruments to address potential reverse causality, Habib, Mileva and Stracca (2017) found that real exchange rate appreciation tends to reduce growth, with the relationship particularly relevant for developing economies. Their outcome variable is economic growth, however, rather than the official–parallel exchange rate premium. The study therefore informs the wider economic implications of exchange rate policy without directly explaining the premium's behaviour in Nigeria.

Nigeria-focused studies cited in the manuscript point to external reserves, oil prices and balance-of-payments pressures as possible drivers of exchange rate divergence. Englama et al. (2010) and Dodo (2023) associate reserve and exchange rate developments with pressures in the foreign exchange market, while Effiong and

Omeliye (2024) draw attention to the possibility that adverse and favourable shocks have unequal effects. Oki (2023) considers the sensitivity of investment flows to exchange rate conditions, and Umar et al (2022) discusses the incentives for trade misinvoicing and arbitrage when official and parallel rates diverge. Taken together, these studies motivate an analysis that considers external sector variables alongside domestic policy conditions. Their reported methods, sample periods and findings should be checked against the original publications before the manuscript attributes specific estimates or causal effects to them

2.3.1 Synthesis of the Literature and Research Gap

The literature establishes that exchange restrictions, macroeconomic instability and external sector shocks can contribute to divergence between official and parallel exchange rates. It also shows why exchange rate unification, current account convertibility and capital account convertibility must be assessed separately. An official rate may converge with the parallel rate while delays, rationing or limits on accessing and repatriating foreign exchange persist.

Three gaps guide the present study. First, evidence estimated mainly from periods of multiple official exchange rates may not adequately describe the behaviour of the premium following Nigeria's 2023 foreign exchange market reforms. Second, studies of the exchange rate or economic growth do not necessarily explain movements in the parallel market premium as the dependent variable. Third, the joint short-run and long-run relationships between the premium, balance-of-payments components, external reserves and oil price shocks remain insufficiently established across changes in the exchange rate regime.

The present study addresses these gaps by modelling the parallel market premium directly and testing whether its relationships with external sector variables change around the 2023 reforms. The analysis can provide evidence on exchange rate convergence as one dimension of naira convertibility. Claims about investors' ability to repatriate funds would require separate evidence on foreign exchange access and settlement times.

RESEARCH METHODOLOGY

This segment explains how the study evaluates the macroeconomic conditions associated with naira convertibility. Annual time series analysis estimates the determinants of the parallel market exchange rate premium, while a structured review of policy documents places the estimates in the context of foreign exchange regulation. The premium is an indicator of foreign exchange market segmentation; it is not a direct measure of legal convertibility.

3.1 Research design

The study uses a quantitative dominant design with a complementary documentary policy review. The econometric component estimates short run and long run associations between the exchange rate premium and selected macroeconomic variables. The documentary component examines the timing and content of foreign exchange policies to interpret structural breaks and institutional constraints. The policy review is integrated at the interpretation stage; it is not presented as interview based qualitative research or as causal proof of policy effects.

3.2 Data sources and study period

The sample comprises 32 annual observations (1994 - 2025). The period comprised various exchange rate regimes in Nigeria which includes Re-regulation and Fixed Exchange system of 1994, Guided Deregulation and Dual Exchange Rate system of 1994 – 1999, Inter-bank Foreign Exchange Market (IFEM) of 1999 – 2002, Dual Auction system (DAS) of 2002 – 2015, the Multiple Exchange Rate and Pegged/managed Float system of 2015 – 2023 and the recent Unified Market-determined Manage Float period (2023 – present 2025). The data was obtained from the Central Bank of Nigeria Publications. Official exchange rates, reserves and external sector data was checked against Central Bank of Nigeria publications and IMF databases; inflation and FDI against National Bureau of Statistics, IMF and World Bank series; and terms of trade against the relevant international

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series obtained from World Bank's World Development Indicator (WDI). Parallel market quotations was gotten from Aboki FX Archives, which was used to compute the exchange rate premium (ERP) as defined in table 3.1.

All exchange rates are expressed as naira per US dollar. Annual averages are used for flows, prices and the exchange rate premium; end of year reserves are used consistently where the selected series measures stocks. Policy documents, circulars and official reports supply the documentary evidence. The sample period and all data is from 1994 to 2025 used for estimation.

3.3 Variables and measurement

Table 3.1 Variables, Measurement and Sources

Symbol	Variable	Measurement	Candidate source
ERP	Exchange rate premium	100 × (parallel rate − official rate) / official rate; annual average	CBN official rate; documented parallel rate series
FER	Foreign exchange reserves	Natural log of gross external reserves in US dollars; end of year	CBN or IMF International Financial Statistics
INF	Inflation rate	Annual percentage change in consumer price index	NBS or World Bank WDI
FDI	Foreign direct investment	Net FDI inflows as percentage of GDP	World Bank WDI or IMF balance of payments
TOT	Terms of trade	Export price index divided by import price index, where both indices are positive	World Bank WDI or UNCTAD stat
CAB	Current account balance	Current account balance as percentage of GDP; signed value	IMF balance of payments or World Bank WDI

Source: Authors' measurement framework, 2026.

Table 3.1 defines the primary specification. Positive values of the premium indicate that a dollar costs more in the parallel market than in the official market. A narrowing premium may be consistent with improved market access, but alone cannot establish unrestricted current or capital account convertibility.

The functional baseline model (mathematical form) is stated thus:

$$ERP_t = f(FER_t, INF_t, _t, FDI_t, TOT_t, CAB_t) \quad (1)$$

$$ERP_t = \beta_0 + \beta_1 FER_t + \beta_2 INF_t + \beta_3 FDI_t + \beta_4 TOT_t + \beta_5 CAB_t + \varepsilon_t \quad (2)$$

Where: β_0 is the intercept parameter (constant term)

$\beta_1, \beta_2, \ldots, \beta_5$ is the structural coefficient mapping out individual impacts.

ERP (Naira Convertibility): often proxied by the exchange rate or foreign exchange turnover or otherwise referred to as exchange rate premium (ERP)

FXR: Foreign Exchange Reserves (measures the "backstop" for convertibility

INF: Inflation Rate (measures the internal value of the Naira)

FDI: Foreign Direct Investment as a percentage of GDP

TOT: Terms of Trade as a percentage of GDP

CAB: Current Account Balance

ε_t : Stochastic error term.

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3.4 Expected A priori Economic Signs

The theoretical expectations for the coefficients are:

$\beta_1 < 0$ (FER): Larger reserves boast Central Bank defenses leading to currency appreciation (lowering the foreign exchange premium of the currency)

$\beta_2 > 0$ (INF): Higher inflation degrades domestic purchasing power, typically triggering currency depreciation

$\beta_3 < 0$ (FDI) Capital inflows drive up immediate market place demand for the naira, appreciating its relative value.

$B_4 < 0$ (TOT): Favorable terms of trade yields higher export revenue, strengthening the local currency

$B_5 < 0$ (CAB): A current account surplus expands net foreign asset accumulation, causing domestic currency value to firm up.

$$ERP_t = \beta_0 + \beta_1 FXR_t + \beta_2 INF_t + + \beta_3 FDI_t + \beta_4 TOT_t + \beta_5 CAB_t + \varepsilon_t \quad (3)$$

ARDL Unrestricted Error Correction Model (UECM)

The ARDL formation capturing co-integration and short-term adjustment dynamics is specified as:

$$\Delta ERP_t = \alpha_0 + \sum_{j=0}^{p} \gamma \beta_1 \Delta FXR_t + \beta_2 INF_t + \beta_3 FDI_t + \beta_4 TOT_t + \beta_5 CAB_t + \varepsilon_t \quad (4)$$

$$\Delta ERPt = \beta_0 + \sum_{i=1}^{p} \gamma_i \Delta ERP_{t-i} + \sum_{J=0}^{q1} \delta_{1j} \Delta FXR_{t-j} + \sum_{j=0}^{q2} \delta_2 \Delta INF_{t-j} + \sum_{j=0}^{q3} \delta_{3j} \Delta FDI_{t-j} + \sum_{j=0}^{q4} \delta_4 \Delta TOT_{t-j} + \sum_{j=0}^{q5} + \delta_5 \Delta CAB_{t-j} + \theta_1 ERP_{t=1} + \theta_2 FXR_{t-1} + \theta_3 INF_{t-1} + \theta_4 FDI_{t-1} + \theta_5 TOT_{t-1} + \theta_6 CAB_{t-1} + \varepsilon_t \quad (5)$$

Where:

Δ: first difference operator

p, $q_1 \ldots q_5$: optimal lag lengths selected via information criteria (AIC/SBC)

δ: short-run dynamic parameters

θ: long-run multiplier parameters

ε_t : white noise error term

3.6 Estimation and diagnostic procedure

First, plot each series, describe its distribution, verify units and inspect exceptional observations and policy regime changes. Second, apply ADF and Phillips–Perron unit root tests, specifying intercept and trend as appropriate, to exclude any I(2) series. Third, select a parsimonious lag structure using an information criterion, with a small maximum lag justified by 32 annual observations. Fourth, conduct the bounds test and estimate short run and, if supported, long run parameters. Fifth, examine residual serial correlation, heteroskedasticity, functional form, normality and parameter stability (including CUSUM and CUSUM of squares where applicable).

Because a six regressor ARDL may be overparameterized for 32 annual observations, the study reported the effective sample and degrees of freedom, restrict maximum lags, and consider a theory led reduced specification if diagnostics or sample size demand it. Potential breaks associated with exchange rate reforms was investigated using documented dates and sensitivity checks, rather than assuming a constant policy regime. Estimates describe conditional associations and should not be interpreted as causal effects without a credible identification strategy.

3.7 Documentary policy analysis

A dated matrix of official policy documents records exchange rate arrangements, access and surrender rules, capital transaction controls, market unification measures and implementation dates. Documents were coded by policy instrument and intended channel, then compared with movements in the premium and econometric break dates. Contradictory accounts and changes in definitions was noted. This structured review supports interpretation of the empirical findings and the discussion of prospects for convertibility; it does not generate independent statistical observations.

3.8 Ethical considerations and limitations

The analysis uses published aggregate data and publicly available policy documents and therefore does not involve human participants. Sources, access dates, transformations and exclusions were documented. Material limitations include the quality of parallel market quotations, revisions to official statistics, limited annual observations, overlapping external sector indicators, endogeneity, and abrupt policy changes. The premium captures market segmentation and scarcity, but formal convertibility also depends on legal permissions, settlement access and enforcement. Conclusions about the prospects for convertibility therefore combined model estimates with institutional evidence and express uncertainty where the data cannot decide the issue.

RESULTS AND DISCUSSION OF FINDINGS

The analysis uses annual observations for 1994 - 2025 and treats the parallel market exchange rate premium (ERP) as an indicator of exchange market segmentation. A smaller premium is consistent with greater convergence between official and parallel market rates; it does not, by itself, establish legal or operational currency convertibility. The results indicate a long-run relationship among the variables, although individual long-run coefficients are imprecisely estimated.

4.1 Descriptive Statistics

Table 4.1: Descriptive Statistics

Variable	Mean	Median	Range
ERP (%)	59.43	12.20	1.50–350.00
Foreign exchange reserves (US$ billion)	27.40	32.75	1.40–53.00
Inflation (%)	17.24	13.05	5.40–72.80
FDI (% of GDP)	1.58	1.55	0.10–3.90
Terms of trade index	118.79	107.50	68.30–182.00
Current account balance (% of GDP)	3.92	2.35	−8.50–24.10

Source: Authors' Computation 2026

The mean ERP substantially exceeds its median, reflecting several exceptionally large premiums. Inflation and the current account balance also vary markedly across the sample. These descriptive patterns motivate the dynamic analysis but cannot identify the causes of exchange rate movements.

4.2 Correlation Matrix

Table 4.2: Correlation Matrix

Below are the results of the correlation matrix analysis to ascertain if there is serial correlation among series used.

	CAB	ERP	FDI	FER	INF	TOT
CAB	1					
ERP	-0.303	1				
FDI	0.7095	0.0660	1			
FER	0.2696	-0.622	-0.061	1		
INF	-0.200	0.6107	-0.033	-0.4026	1	
TOT	0.6055	-0.589	0.4153	0.6573	-0.413	1

Source: Researchers' computation

From the table 4.2 above, it can be observed that all the matrix elements outside the leading diagonal are less than 0.8 which confirms absence of multi-collinearity, according to Cooper and Schindler (2009).

4. 3 Stationarity and Bounds Test

Table 4. 3 ADF and Phillip-Peron Unit Root Test Result

Variables	ADF t-statistics	PP t-statistics	ADF p-value	PP p-value	ADF Level of Integration	PP Level of Integration
ERP	-3.1112	-6.5994	0.0361	0.0000	I(0)	I(0)
FER	-0.9950	-3.3084	0.0004	0.0234	I(1)	I(1)
INF	-3.4663	-3.7593	0.0160	0.0079	I(0)	I(0)
FDI	-5.5143	-5.6021	0.0001	0.0001	I(1)	I(1)
TOT	-4.9141	-4.8914	0.0004	0.0004	I(1)	I(1)
CAB	-3.0106	-5.1169	0.0465	0.0002	I(1)	I(1)

Source: Authors' Computation using E-Views 10

The reported Augmented Dickey–Fuller and Phillip-Peron tests classify ERP, foreign exchange reserves, inflation, FDI, terms of trade as and the current account balance as a mixed order of integration of I(0) and I(1). These reported integration orders permit an ARDL bounds approach if no series is I(2).

Table 4.4: ARDL Bounds Test Result

Model		**F-Statistic** = 9.4594
ERP = f(FER, CAB, FDI, INF, TOT)		K = 5
Critical Values	Lower Bound	Upper Bound
10%	2.08	3.00
5%	2.39	3.38

Source: Researchers' computation from E-views10

Given that F-statistic (9.4594) in model lies outside the lower and upper bounds value at 5% level (2.08 and 3.38) for upper and lower bounds, respectively the null hypothesis of no long run relationship is rejected and conclude that there is level long run relationship existing among dependent and independence variables.

4.5 ARDL Error Correction Regression Estimate of the Short-Run Coefficients

Table 4.5: ARDL Error Correction Regression Estimate of the Short-Run Coefficients Dependent Variable: Naira Convertibility (ERP)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(ERP(-1))	0.047879	0.074931	0.638980	0.5332
D(ERP(-2))	0.436964	0.082909	5.270392	0.0001
D(CAB)	-6.335042	0.773284	-8.192384	0.0000
D(CAB(-1))	5.832402	0.732339	7.964076	0.0000
D(FDI)	8.664851	8.630594	1.003969	0.3324
D(INF)	2.024532	0.825462	2.452606	0.0279
D(INF(-1))	-4.742923	0.555536	-8.537557	0.0000
D(INF(-2))	-1.516935	0.575821	-2.634387	0.0196
CointEq(-1)*	-0.978124	0.100568	-9.725989	0.0000

R-squared 0.9179; Adjusted R-squared 0.8851

Source: Researchers' computation from E-views10

Table 4.5 shows that the short-run behaviour of Exchange rate premium (naira convertibility) is influenced by changes in the current account balance (CAB) and inflation (INF), while foreign direct investment (FDI) does not have a statistically significant immediate effect. The results are discussed below.

Lagged values of Exchange Rate Premium (ERP) (Naira Convertibility)

The coefficient of the first lag of the change in Exchange rate premium (proxied for Naira Convertibility), D(ERP(-1)), is positive at 0.047879, with a probability value of 0.5332. Since the probability value exceeds 0.05, the coefficient is statistically insignificant at the 5% level. This suggests that the change in naira convertibility in the preceding period does not have a statistically significant short-run effect on its current change.

However, the second lag, D(ERP(-2)), has a positive coefficient of 0.436964 and a probability value of 0.0001. This indicates a positive and statistically significant relationship between the change in exchange rate premium two periods earlier and its current change. Holding other variables constant, a one-unit increase in the second-lag change in ERP is associated with a 0.437-unit increase in the current change in ERP, based on the estimated model.

Current Account Balance (CAB)

The coefficient of the current change in CAB, D(CAB), is negative at −6.335042, with a probability value of 0.0000. This indicates a negative and statistically significant short-run relationship between changes in the current account balance and naira convertibility. Thus, a one-unit increase in the current change in CAB is associated with a 6.335-unit decrease in the current change in ERP, holding other factors constant.

In contrast, the first lag of the change in CAB, D(CAB(-1)), has a positive coefficient of 5.832402 and a probability value of 0.0000. This suggests that changes in the current account balance have a positive and statistically significant effect on naira convertibility in the subsequent period. The opposite signs of the current and lagged coefficients suggest that the short-run effect of CAB changes is not uniform over time. However, the economic interpretation depends on how CAB and ERP are measured, particularly whether an increase in ERP represents greater convertibility or greater exchange-rate restrictions.

Foreign Direct Investment (FDI)

The coefficient of D(FDI) is positive at 8.664851, with a probability value of 0.3324. Since the probability value exceeds 0.05, the coefficient is statistically insignificant at the 5% level. This implies that the study does not find

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sufficient statistical evidence of an immediate short-run effect of changes in FDI on Exchange rate premium (naira convertibility).

Although the coefficient is positive, it would be inappropriate to conclude that FDI significantly improves naira convertibility in the short run. Other factors, including foreign-exchange market conditions and the composition of capital inflows, may be relevant, but their effects are not established by this coefficient.

Inflation (INF)

The current change in inflation, D(INF), has a positive coefficient of 2.024532 and a probability value of 0.0279. This indicates a positive and statistically significant short-run relationship between changes in inflation and changes in exchange rate premium (naira convertibility) at the 5% level.

However, the first lag of the change in inflation, D(INF(-1)), has a negative coefficient of −4.742923, with a probability value of 0.0000. Similarly, the second lag, D(INF(-2)), has a negative coefficient of −1.516935 and a probability value of 0.0196. Both coefficients are statistically significant at the 5% level. These findings suggest that inflation has different short-run relationships with exchange rate premium across the current and lagged periods. While the current change in inflation is positively associated with the change in ERP, the first- and second-period lagged changes are negatively associated with it. This pattern may reflect delayed effects of inflation on foreign-exchange conditions, although further evidence would be needed to establish the underlying mechanism.

Error Correction Term: CointEq(-1)

The coefficient of the error correction term, CointEq(-1), is -0.978124, with a t-statistic of -9.725989 and a probability value of 0.0000. The coefficient is negative and statistically significant, satisfying an important condition for convergence towards the long-run equilibrium relationship, provided the error correction term is correctly specified and the model is otherwise valid. The coefficient indicates that approximately 97.81% of the previous period's deviation from long-run equilibrium is corrected within one period. This suggests a relatively rapid adjustment of naira convertibility towards its long-run equilibrium following a short-run shock.

The negative and significant error correction term therefore provides evidence of an adjustment mechanism linking short-run movements to the estimated long-run relationship. Nevertheless, it does not, on its own, establish that every explanatory variable has a causal effect on naira convertibility.

The R-squared value of 0.9179 indicates that approximately 91.79% of the variation in the dependent variable, as represented in the estimated regression, is explained by the included regressors. The remaining 8.21% is not explained by the model. The adjusted R-squared of 0.8851 indicates that approximately 88.51% of the variation is accounted for after adjusting for the number of explanatory variables included in the regression. Both statistics suggest a strong in-sample fit, although a high R-squared does not independently establish that the model is correctly specified or that the relationships are causal.

Above all, the results in Table 4.5 indicate that short-run changes in naira convertibility are significantly associated with the second lag of ERP, the current and first-lag changes in CAB, and the current, first-lag and second-lag changes in inflation. In contrast, the first lag of ERP and the current change in FDI are statistically insignificant at the 5% level. Most importantly, the negative and statistically significant error correction coefficient suggests a rapid return towards the estimated long-run equilibrium after short-run deviations. The findings highlight the importance of accounting for both immediate and delayed effects when examining naira convertibility. However, the economic meaning of the positive and negative coefficients should be interpreted in relation to the precise definitions and measurement scales of ERP, CAB and INF.

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4.6 ARDL Error Correction Regression Estimate of the Long-Run Coefficients

Table 4.6: Estimate of the Long-run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FER	-0.178968	0.666145	-0.268662	0.7921
CAB	-5.880277	2.924582	-2.010638	0.0640
FDI	30.47385	16.38003	1.860427	0.0840
INF	3.212810	1.253143	2.563801	0.0225
TOT	-0.436171	0.236043	-1.847849	0.0859
C	21.68289	41.37186	0.524098	0.6084

Source: Researchers' computation from E-views10

Analysis of Table 4 6: Estimate of the Long-Run Coefficients

Table 4.6 presents the estimated long-run coefficients of the ARDL model examining the issues and prospects of naira convertibility in Nigeria. The table reports the coefficients, standard errors, t-statistics and probability values for the explanatory variables, namely FER, CAB, FDI, INF and TOT. The results are interpreted at the 5% level of significance.

Foreign Exchange Rate (FER)

The coefficient of FER is negative at −0.178968, with a probability value of 0.7921. Since the probability value exceeds 0.05, the coefficient is statistically insignificant. This indicates that the study does not find sufficient evidence of a significant long-run relationship between FER and naira convertibility. Although the negative coefficient suggests an inverse relationship, this effect cannot be considered statistically established.

Current Account Balance (CAB)

The coefficient of CAB is negative at −5.880277, with a probability value of 0.0640. The result is statistically insignificant at the 5% level, although it is significant at the 10% level. This suggests a negative long-run relationship between the current account balance and naira convertibility, but the evidence is insufficient to establish statistical significance at the conventional 5% threshold. The result may indicate that changes in the current account balance are associated with long-run pressures on naira convertibility, depending on how both variables are measured.

Foreign Direct Investment (FDI)

The coefficient of FDI is positive at 30.47385, with a probability value of 0.0840. This coefficient is statistically insignificant at the 5% level but significant at the 10% level. The positive sign suggests that an increase in foreign direct investment is associated with an increase in naira convertibility in the long run. This may reflect the potential contribution of foreign investment to foreign-exchange availability. However, the evidence is not strong enough to establish a statistically significant relationship at the 5% level.

Inflation (INF)

The coefficient of inflation is positive at 3.212810, with a probability value of 0.0225. Since the probability value is below 0.05, the coefficient is positive and statistically significant at the 5% level. This indicates that inflation has a statistically significant positive long-run relationship with naira convertibility in the estimated model. Holding other variables constant, a one-unit increase in inflation is associated with a 3.213-unit increase in naira convertibility, based on the model's measurement scales.

Nevertheless, the economic implication of this finding depends on the definition of the dependent variable. If a higher ERP value indicates greater convertibility, the result suggests a positive relationship. If higher ERP

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represents exchange-rate pressure or restrictions, the interpretation would differ. The positive coefficient should therefore not automatically be interpreted as evidence that inflation improves the convertibility of the naira (proxied as exchange rate premium).

Terms of Trade (TOT)

The coefficient of TOT is negative at −0.436171, with a probability value of 0.0859. The coefficient is statistically insignificant at the 5% level but significant at the 10% level. The negative sign indicates an inverse long-run relationship between terms of trade and naira convertibility. However, this relationship is not statistically significant at the conventional 5% level. Its economic interpretation depends on how terms of trade and naira convertibility are defined in the study.

The long-run estimates in Table 6 reveal that inflation is the only explanatory variable with a statistically significant coefficient at the 5% level. Its coefficient is positive, suggesting a positive long-run association with naira convertibility as measured in the model. The coefficients of FER, CAB, FDI and TOT are not statistically significant at the 5% level, although CAB, FDI and TOT are significant at the less stringent 10% level. The constant term is also statistically insignificant. These findings suggest that inflation is the strongest statistically supported long-run correlate of naira convertibility among the variables reported in Table 6. However, the results should be interpreted cautiously, particularly because the statistical significance of a coefficient does not establish causality.

long-run effect on the exchange rate premium during the period covered by the study (1994 – 2025).

Policy Implications of the Findings

The findings of this study on the convertibility of the naira have several policy implications for the Nigerian economy. The long-run estimates indicate that inflation has a positive and statistically significant relationship with naira convertibility at the 5% level, while the coefficients of the current account balance, foreign direct investment and terms of trade are significant only at the 10% level. The foreign exchange rate is statistically insignificant at the conventional 5% level. Furthermore, the short-run estimates reveal significant relationships involving the current account balance and inflation, while foreign direct investment has no statistically significant immediate effect. These findings have the following policy implications.

First, the Central Bank of Nigeria (CBN) should strengthen inflation management and macroeconomic stability. The statistically significant long-run relationship between inflation and naira convertibility highlights the need for effective monetary policies that promote price stability. The CBN should strengthen inflation monitoring, improve the effectiveness of monetary policy transmission and coordinate with the fiscal authorities to address factors contributing to persistent inflation. However, since the estimated coefficient is positive, policymakers should not interpret the result as evidence that higher inflation improves naira convertibility. Rather, the finding underscores the need to investigate the relationship between inflation and convertibility within the broader macroeconomic environment.

Second, the government should promote a sustainable balance of payments position. The negative long-run coefficient of the current account balance, which is statistically significant at the 10% level but not at the 5% level, suggests that external-sector conditions may be relevant to naira convertibility. The government should therefore implement policies that strengthen domestic production, expand non-oil exports, reduce excessive dependence on imports and diversify export earnings. Such measures could improve foreign-exchange inflows and reduce vulnerabilities arising from external imbalances.

Third, policies should encourage productive foreign direct investment. Although the long-run coefficient of FDI is positive and statistically significant at the 10% level, its short-run coefficient is statistically insignificant. This suggests that the potential contribution of foreign investment to naira convertibility may be more evident over a longer period than immediately. Consequently, the government should improve the business environment, strengthen policy consistency, provide reliable infrastructure and promote investment in productive sectors,

particularly manufacturing, agriculture and export-oriented industries. Policies should prioritise investments capable of generating sustainable foreign-exchange earnings rather than relying solely on short-term capital inflows.

Fourth, Nigeria should pursue policies that improve its terms of trade and reduce external vulnerability. The negative coefficient of terms of trade is statistically significant at the 10% level but not at the 5% level. This finding suggests a possible long-run relationship between external trading conditions and naira convertibility, although the evidence is not conclusive at the conventional 5% threshold. The government should strengthen export diversification, improve the competitiveness of domestic products and reduce excessive dependence on crude oil exports. These measures could make the economy more resilient to fluctuations in international commodity prices and external demand.

Fifth, exchange-rate policy should be supported by broader structural reforms. The foreign exchange rate has a negative but statistically insignificant long-run coefficient. This does not establish that exchange-rate conditions are irrelevant to naira convertibility; rather, the model does not provide sufficient evidence of an independent long-run relationship at the 5% level. Policymakers should therefore avoid relying exclusively on exchange-rate adjustments to achieve convertibility. Instead, exchange-rate management should be complemented by policies that strengthen domestic productive capacity, improve foreign-exchange market transparency and encourage confidence in the financial system.

Finally, policymakers should recognise the importance of both short-run adjustments and long-run equilibrium. The error correction coefficient of −0.978124 in Table 5 is negative and statistically significant, indicating rapid adjustment towards the estimated long-run equilibrium following a deviation. This implies that macroeconomic policies should consider both immediate market responses and longer-term adjustment processes. The government and the CBN should monitor the effects of policy changes over time, maintain consistency in policy implementation and use regular empirical assessments to guide decisions concerning foreign-exchange management.

In conclusion, the findings suggest that policies aimed at improving naira convertibility should combine inflation management, external-sector stability, productive foreign investment, export diversification and sound exchange-rate administration. However, policy decisions should be guided by the strength of the statistical evidence and the precise measurement of naira convertibility. In particular, the positive inflation coefficient should not be interpreted as a recommendation to tolerate higher inflation, while the 10%-significant results should be treated as suggestive rather than conclusive evidence.

Table 4.7: Summary of Diagnostics Test Result

Dependent Variable: ERP

Test	Null Hypothesis	F-Statistics	Probability Value
Normality Test	No Normal Distribution	0.4428	0.8013
LM Test	No Serial Auto-Correlation	0.4910	0.4958
ARCH	No Heteroscedasticity	0.8774	0.7694

Source: Researcher's computation with E-views10

From table 4.7, the value of histogram normal coefficient (0.4428) distribution is not statistically significant at 5% level of significance, given that its p-value is 0.8013. This implies that the error term is normally distributed as required. The F-Statistic value for the Serial Auto-Correlation coefficient (0.4910) is statistically insignificant at 5% level of significance given that its p-value is 0.4958. Thus, the null hypothesis of no serial correlation is accepted, showing that the model was free from auto-correlation. In the heteroscedasticity test, the F-Statistic coefficient (0.8774) is not statistically significant given that the p-value is 0.7694. Thus, the null hypothesis of no heteroscedasticity cannot be rejected. This therefore implies that, there is homoscedasticity in the regression result-constant variance.

Figure 1: Stability Test

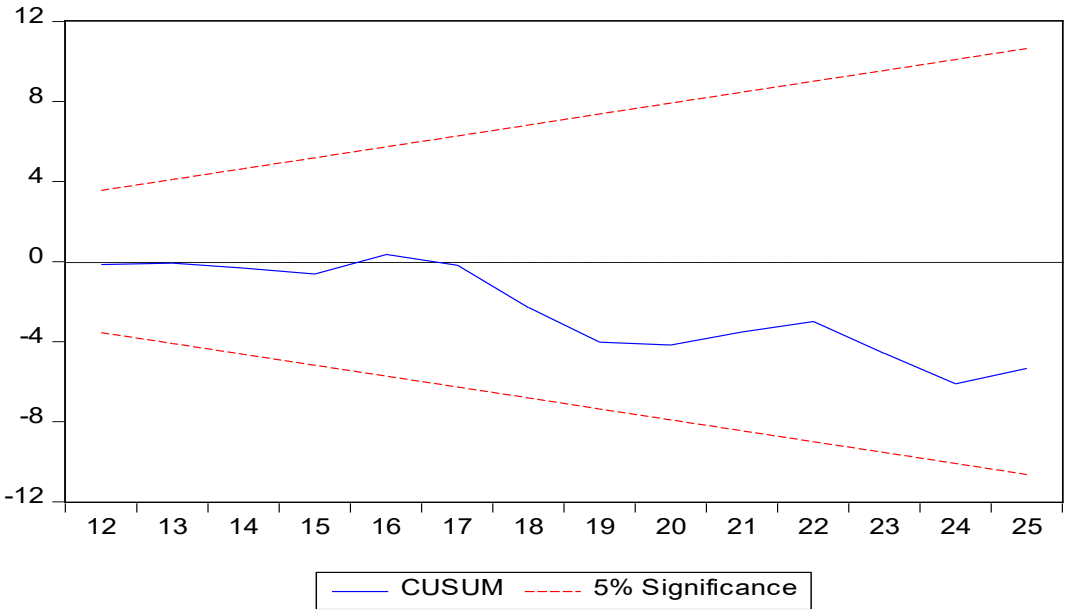
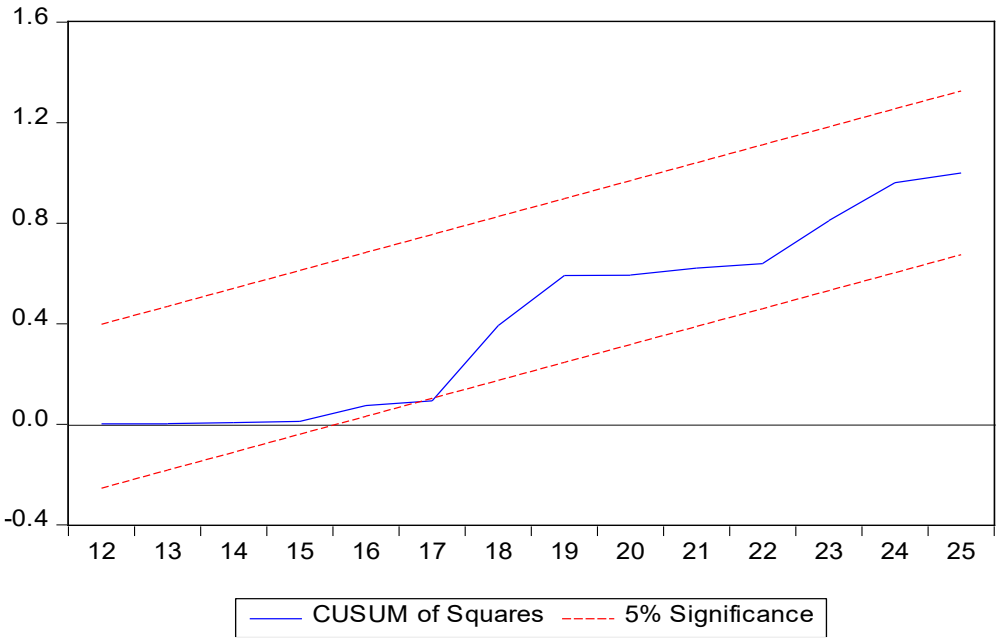


Figure 2: Stability Test



The CUSUM (Cumulative Sum of Recursive Residuals) tests indicate that the model is stable, as the CUSUM line remains within the 5% significance boundaries throughout the sample period. This confirms that there are no structural breaks or instabilities in the estimated coefficients. Model stability implies that the relationship between Naira Convertibility (ERP) and explanatory variables remain consistent over time. Consequently, the ARDL short- and long-run results are reliable, and the findings can be confidently used to inform policy recommendations without concern for parameter instability.

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

This study examined the convertibility of the naira in Nigeria, focusing on the issues and prospects associated with the country's foreign exchange environment. The study considered the short-run and long-run relationships between naira convertibility proxied as exchange rate premium, and selected macroeconomic variables,

including the foreign exchange rate (FER), current account balance (CAB), foreign direct investment (FDI), inflation (INF) and terms of trade (TOT). The Autoregressive Distributed Lag (ARDL) framework was employed to examine the relationships among the variables.

The short-run results revealed that the second lag of naira convertibility had a positive and statistically significant relationship with its current change, while the first lag was statistically insignificant. The current account balance exhibited a negative and statistically significant relationship with naira convertibility in the current period, but its first lag had a positive and statistically significant coefficient. Similarly, inflation had a positive and statistically significant short-run relationship with naira convertibility, whereas its first and second lags had negative and statistically significant coefficients. However, foreign direct investment did not have a statistically significant immediate short-run relationship with naira convertibility.

The long-run estimates showed that inflation was positively and statistically significantly associated with naira convertibility at the 5% level. In contrast, the foreign exchange rate, current account balance, foreign direct investment and terms of trade were not statistically significant at the 5% level. Nevertheless, the current account balance, foreign direct investment and terms of trade were statistically significant at the 10% level, suggesting weaker evidence of long-run relationships. The foreign exchange rate and the constant term were statistically insignificant.

Furthermore, the error correction term was negative and statistically significant, with a coefficient of −0.978124. This indicates that approximately 97.81% of the previous period's deviation from the estimated long-run equilibrium is corrected within one period, suggesting a rapid adjustment process. The result supports the existence of an adjustment mechanism towards the estimated long-run relationship, subject to the validity of the model specification and diagnostic tests.

Overall, the findings suggest that naira convertibility is associated with a combination of short-run macroeconomic movements and longer-run economic conditions. Inflation emerged as the only explanatory variable with a statistically significant long-run coefficient at the 5% level, while the results for the current account balance, foreign direct investment and terms of trade provided weaker evidence at the 10% level. Consequently, improving the conditions for naira convertibility requires a coordinated approach to macroeconomic stability, external-sector management, investment promotion and structural economic reforms.

5.2 Recommendations

Based on the findings of the study, the following recommendations are made:

1. **Strengthen inflation control and macroeconomic stability:** The Central Bank of Nigeria should pursue effective monetary policies aimed at maintaining price stability and reducing persistent inflationary pressures. Improved monetary policy coordination, effective liquidity management and closer collaboration with fiscal authorities are necessary to strengthen macroeconomic stability. Although inflation has a positive and statistically significant long-run coefficient in the estimated model, this finding should not be interpreted as evidence that higher inflation improves naira convertibility.
2. **Promote a sustainable current account position:** The Federal Government should implement policies that expand non-oil exports, improve domestic productive capacity and reduce excessive dependence on imported goods. Supporting local industries, improving export infrastructure and diversifying foreign-exchange earnings could help strengthen Nigeria's external position and reduce vulnerability to external shocks.
3. **Encourage productive foreign direct investment:** The government should create a more predictable investment environment through consistent economic policies, improved infrastructure, transparent regulations and effective institutional frameworks. Particular attention should be given to investments in manufacturing, agriculture, agro-processing and export-oriented industries that can increase domestic production and generate sustainable foreign-exchange earnings. Since FDI was statistically insignificant in the short run but significant at the 10% level in the long run, policies should focus on attracting

investments with lasting productive benefits rather than assuming immediate improvements in naira convertibility.

4. **Diversify exports and improve trade competitiveness:** The government should reduce excessive dependence on crude oil exports by promoting non-oil sectors, strengthening value addition and supporting businesses that can compete in international markets. Such measures could improve resilience to international price fluctuations and help reduce the economy's exposure to external shocks. This recommendation is particularly relevant given the negative long-run coefficient of terms of trade, although the relationship was statistically significant only at the 10% level.
5. **Improve foreign exchange market transparency and policy consistency:** The Central Bank of Nigeria should strengthen transparency in foreign exchange market operations, improve access to reliable market information and promote confidence in the foreign exchange system. Exchange-rate policies should be supported by sound macroeconomic fundamentals, adequate foreign-exchange supply and credible institutional arrangements rather than relying solely on exchange-rate adjustments to improve naira convertibility.
6. **Adopt a coordinated approach to short-run and long-run policy management:** The government and the Central Bank of Nigeria should consider both the immediate and delayed effects of macroeconomic changes when designing policies affecting naira convertibility. The significant error correction coefficient suggests rapid adjustment towards the estimated long-run equilibrium. Accordingly, policymakers should regularly monitor the effects of economic policy changes and avoid abrupt or inconsistent interventions that could undermine confidence in the foreign exchange market.

In conclusion, sustainable naira convertibility requires more than exchange-rate management alone. It depends on a stable macroeconomic environment, a stronger productive base, diversified foreign-exchange earnings, effective external-sector management and consistent policy implementation. By pursuing these recommendations, the Nigerian government and monetary authorities can work towards a more transparent, resilient and credible foreign exchange system. The recommendations should, however, be implemented with due consideration for the strength of the empirical evidence and the broader economic conditions prevailing in Nigeria.

5.3 Contribution of the Study

This study contributes to the existing body of knowledge on naira convertibility by examining its relationship with selected macroeconomic variables in Nigeria. Specifically, the study employs the Autoregressive Distributed Lag (ARDL) framework to investigate both the short-run and long-run relationships between naira convertibility and the foreign exchange rate, current account balance, foreign direct investment, inflation and terms of trade.

First, the study contributes empirical evidence on the short-run dynamics of naira convertibility in Nigeria. The results reveal that the current account balance and inflation have significant short-run relationships with naira convertibility, although the signs of their coefficients differ across the current and lagged periods. This highlights the importance of accounting for delayed effects when examining the relationship between macroeconomic conditions and naira convertibility.

Second, the study provides evidence on the long-run relationships between naira convertibility and selected macroeconomic variables. Inflation emerged as the only explanatory variable with a statistically significant coefficient at the 5% level, while the current account balance, foreign direct investment and terms of trade were significant at the 10% level. These findings provide a basis for further investigation into the macroeconomic conditions associated with naira convertibility in Nigeria.

Third, the study contributes methodologically by applying the ARDL framework to distinguish between short-run adjustments and long-run relationships. The negative and statistically significant error correction coefficient indicates a rapid adjustment towards the estimated long-run equilibrium. This provides additional insight into the adjustment process following deviations from the estimated equilibrium relationship.

Finally, the findings offer useful information for policymakers, researchers and other stakeholders concerned with foreign exchange management in Nigeria. The results highlight the importance of considering inflation management, external-sector conditions, foreign investment and trade performance in discussions of naira convertibility. The study also provides a foundation for further empirical research into the determinants and implications of exchange-rate policies and currency convertibility in developing economies.

5.4 Suggestions for Further Studies

Based on the scope and findings of this study, the following suggestions are made for further research.

First, future studies should examine naira convertibility using alternative measures or proxies to determine whether different indicators produce similar empirical results. This would help establish the robustness of the findings and provide a clearer understanding of the concept of naira convertibility in the Nigerian economy.

Second, further research should consider additional explanatory variables, such as foreign exchange reserves, interest rates, trade openness, capital flows, government expenditure and external debt. Including these variables may provide a broader understanding of the macroeconomic and institutional factors associated with naira convertibility.

Third, future studies should investigate the effects of major foreign exchange policy changes on naira convertibility in Nigeria. Such research could distinguish between different policy periods and examine whether the relationships between naira convertibility and the explanatory variables have changed over time.

Fourth, subsequent research could employ alternative econometric techniques, such as the Vector Error Correction Model (VECM), Nonlinear ARDL (NARDL) or structural break models, where appropriate to the properties of the data. These methods could help investigate asymmetric responses, structural changes and alternative adjustment mechanisms that may not be fully captured by the conventional ARDL framework.

Fifth, comparative studies could examine naira convertibility alongside currency convertibility in selected African economies. Such comparisons could identify similarities and differences in the macroeconomic conditions, foreign exchange policies and institutional arrangements associated with currency convertibility across countries.

Finally, further studies should investigate the implications of naira convertibility for economic growth, international trade, foreign investment, employment and poverty reduction. Such research would extend the present study by examining not only the macroeconomic factors associated with convertibility but also its broader implications for economic development in Nigeria.

In conclusion, these areas provide opportunities to extend the present research, test the robustness of its findings and deepen understanding of the factors influencing naira convertibility and its implications for the Nigerian economy.

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