Balance of Payments and Macroeconomic Performance in Nigeria

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ABSTRACT
This study examined the effect of the balance of payments on macroeconomic performance in Nigeria between 1981 and 2021. The specific objectives are to determine the effects of current account balance, capital account, and external reserves on the gross domestic product (GDP) growth rate (the proxy of macroeconomic performance). This study employed secondary data sourced from the United Nations Conference on Trade and Development (UNCTAD), the Central Bank of Nigeria (CBN), and the database associated with Chinn and Ito. The study employed the augmented Dickey-Fuller method to examine the stationarity of the series and tested for cointegration among the variables using the bound test. The relationship between the balance of payments component and the gross domestic product growth rate was analysed using the autoregressive distributed lag (ARDL) method. The study confirmed the long-run relationship between components of the balance of payments and GDP growth. The ARDL shows that in the long run, current account balances had a positive and significant impact on GDP growth. The capital account proved not to be an effective policy for driving economic growth in the long run. It was found that external reserves had a positive and significant impact on GDP growth in the long run. Based on the findings, this study recommended a blend of export promotion policy and import substitution strategy to improve the balance of payments and create more opportunities for economic growth. Again, policymakers should focus on improving the financial depth and strengthening institutions, all of which support the liberalisation of the capital account and foster economic growth.

Keywords: Current account, capital account, external reserves, GDP growth and Nigeria

1. Introduction

International Monetary Fund (IMF) defines the balance of payments (BOP) effect on economic growth as a term that is used to refer to an accounting record for all the monetary transactions conducted by a country with other countries within a specified period of time, usually one year. It comprises all types of transactions of a county like exports and imports of goods and services, purchase and sale of foreign assets, foreign direct investment and portfolio investment as well as borrowing from and lending to the rest of the world. It is preferably presented in the country's domestic currency (IMF, 1996). In BOP transactions, if a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit. Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance, but in practice, this may not happen and its effect on economic growth may be severe.

The greatest importance of the balance of payments is its measure of the international performance of the economy of any country. It can also be used to appraise a nation's short-term outlook, evaluate the degree of its international solvency, and determine the appropriateness of the exchange rate of a country's currency (Mundell, 2017). The balance of payments can be favourable (positive), unfavourable (negative) or indifferent (around zero). Kennedy (2018) argues that a country's favourable balance of payments does not actually reflect economic prosperity or the unfavourable balance of payments, a reflection of economic failure. A poor country may have a favourable balance of payments due to a large inflow of foreign loans, foreign aids and equity capital. A developed country may have an unfavourable balance of payments due to massive assistance given to developing countries. Thus, a deficit or surplus balance of payments of a country should not be taken as a reflection of economic downturn or prosperity. However, the longer the balance of payments deficit continues, the more it would imply some fundamental problems in the stability of economic activities.

The current account balance is a crucial part of the balance of payments situation because it shows how a nation does business internationally. According to Egilmez and Kumcu (2011), this has a significant impact on how businesses make economic decisions. As a result, any deficit in this component of the balance of payments means that spending actually exceeds production, which increases the possibility of borrowing. Given the significance of the balance of payments to developing economies, the monetary authorities in these countries frequently work to maintain a favourable balance of payments through a variety of policy initiatives.

In addition, the current account deficit may imply that countries are relying on consumer spending, and are becoming uncompetitive. This often undermines export growth with negative implications on economic growth (Umar, 2017). Undoubtedly, balance of payment disequilibrium has been identified in economic literature as one of the macroeconomic shocks that limit sustainable growth and development in mono-cultural economies, including Nigeria. Shuaib, Augustine, and Frank (2015) opined that shocks in the current account and capital account balance are detrimental to economic development in Nigeria. The constraints often manifest in the form of increased borrowing from domestic and international sources, price instability, rising levels of interest rates, and instability in core macroeconomic variables.

According to the balance of payment-constrained growth model proposed by Thiriwall (1979), the role of demand as a determinant of domestic economic growth is constrained by unstable and unrealistic foreign exchange. This is because increase in exports and domestic production can boost GDP. This suggests that the balance of payments controls the growth rate since the economy can only expand to the extent necessary to maintain the equilibrium of the balance of payments. A Balance of payments deficit may lower confidence in investment (Imoisi, 2018). In view of the foregoing, the focus of this study is to investigate the empirical relationship between the balance of payments and macroeconomic performance with a focus on economic growth in Nigeria from 1981 to 2021.

2. Literature Review
2.1 Theoretical   Framework
2.1.1 Balance of Payments-Constrained Growth Theory

The balance of payments-constrained growth was put forth by Thirlwall (1979) as part of efforts to deepen the understanding of the growth implications of the balance of payments. This theory's fundamental assumption is that an economy's growth performance is influenced by its balance of payments. Anoka and Takon (2014) claim that this method of the balance of payments model connects trade to growth because exports drive demand. The basis for this relationship's justification is that trade poses a significant barrier to economic growth if the balance of payments deficits continue. It is crucial to highlight that the balance of payments-constrained growth method, which is the exact opposite of the neoclassical approach, focuses on the rate of growth or modifications in the relative price needed to bring about equilibrium in trade at given relative prices.

Thirlwall's (1979) original balance of payments constrained growth hypothesis, as an extension of the Harrod trade multiplier, is now well-known in international; economics literature. It is argued that current account equilibrium will be maintained over time if the domestic currency values of imports and exports are equal. Thus, the demand for a country's exports and imports are assumed to be stable functions of relative prices and income levels. Assuming that relative prices between countries do not vary, then the balance of payments equilibrium for each country will be determined by the ratio of the world's income elasticity of demand for its exports to the country's income elasticity of demand for imports.

Thirlwall and Hussain (1982) extended the balance of payments model, which Elliott and Rhodd (1999) later modified. They expanded the model to include external debt financing. They came to the conclusion that economic growth is hampered by debt service payments, which deplete the limited financial resources required for economic growth. Some assumptions of the post-Keynesian growth strategy are grounded on the model of balance-of-payments-constrained growth, most notably the one recently developed by Thirlwall (2013), the author of the original model. It centres on growth, productivity, factor accumulation, and even structural change explanations on demand. Although there are several definitions of post-Keynesian economics, the core tenet is unquestionably that demand affects economic activity in the long run.

The neoclassical approach treats nations as typically operating at full employment or resource-constrained growth rates of output, at least over the long run. However, using a Keynesian perspective, nations are not often considered as having resource constraints on their long-term growth. This suggests that aggregate demand is significant in both the long and short terms. McCombie (1997) claimed that the bone of disagreement is the long-run equilibrium growth rates and not the factors that determine the equilibrium levels of economic activity in their contribution to the balance of payment constraint on growth. According to Thirlwall (1997), while the basic tenets of the balanced payments constrained-growth model—that exports are the only element of autonomous demand, that trade is balanced, and that the terms of trade remain unchanged—might appear not plausible in the short term, the long-term variations in growth performance are captured.

However, Thirlwall's balance of payments constrained-growth model has been criticised for only taking into consideration the current account position. This method has a limited outlook since, in addition to current accounts, capital flows play a significant role in the growth of many emerging nations. Moreno-Brid (1999) added that the fact that it did not impose a limitation on the quantity of capital that may enter a country brought more criticism to the theory.

2.1.2 Elasticity Theory of Balance of Payments

The elasticity approach of the balance of payment focuses on the impact of relative price on the trade balances as outlined by Husted and Michael (1995). It emphasizes the responsiveness of variables in the trade and services account, consisting of imports and exports of merchandise and services relative to price changes induced by devaluation. The Marshall Learner condition, which serves as the foundation for the elasticity approach to the balance of payments, states that for a devaluation to have a positive impact on a country's balance of payments, the elasticity of demand for both imports and exports must be greater than unity.

According to the elasticity approach to the balance of payments, the impact of devaluation on the trade imbalance is dependent on the elasticity of import demand and the elasticity of supply of foreign goods. Changes in domestic export revenues depend on the country's export supply elasticity as well as the country's export demand elasticity. The domestic proceeds of imported foreign items will alter in response to any change in the foreign exchange rate. The devaluation of the Nigerian naira is expected to have a negative impact on domestic demand for imported goods while having a positive impact on global demand. If a nation is a large producer of goods that can effectively compete on the global market, this works out well.

In addition, the elasticity approach makes the assumption that a country's currency depreciation or devaluation gives it a competitive edge in the global market. Devaluation, according to Bano, Raashid, and Rasool (2014), boosts competitiveness, boosts exports, and shifts demand towards domestically produced items, which helps raise the production of tradable commodities. The fact that the elasticity technique uses partial equilibrium analysis to analyse the balance of payments, a significant portion of the overall economy, has been one of its most notable weaknesses. As a result, it is criticised for neglecting the relationships between comparable commodities, prices, demand, and supply. The Keynesians also criticise the elasticity analysis of the balance of payments for disregarding the net multiplier effects of changes in import expenditure associated with changes in both export proceeds and spending on domestic and exportable commodities. It explicitly assumes that any improvement in trade balance following devaluation is matched by savings in the form of accumulation of foreign exchange reserves and that the associated accumulation of foreign exchange has no feedback on the real economy.

2.3 Empirical Literature

In their study, Shuaib, Augustine, and Frank (2015) examined the relationship between Nigeria's balance of payments and economic growth from 1960 to 2012. Secondary data, in particular time series data, were obtained from the Central Bank Statistical Bulletin and used for the empirical study. The unit root test was utilised in the study to determine if the series were stationary. The co-integration technique was used in addition to the unit root test to evaluate the co-integrating characteristics of variables, particularly in a multivariate environment, to see if a long-term link existed between them. To determine the direction of causality between the variables, the study used pairwise-Granger causality at one lag time. The study showed that unidirectional causality runs from real GDP to balance of payment, exchange rate, external debt, and from external debt to foreign trade while bidirectional causality only exists between external debts to exchange rate. Considering the findings, the study recommended in addition to others that government should encourage the export of non-oil goods to the rest of the world in order to facilitate the diversification of the economy into other viable aspects.

Osisanwo *et al* (2019) critically analyzed the effect of balance of payments deficit and monetary policy on the economic growth in Nigeria between 1980 and 2013. The multivariate econometric model was formulated using variables similar to that of Kallon (1994) within the general framework of Thirlwall and Hussain (1982). Specifically, the study included balance of payments as a percentage share of gross domestic product, first lag of balance of payments as a percentage share of gross domestic product, the exchange rate of naira with respect to the US$ dollar, log of broad money supply and monetary policy rate in Nigeria during the review period as explanatory variables while economic growth proxied by real gross domestic product served as the dependent variable. The result indicated that there was a long-run relationship between the balance of payments, monetary policy and economic growth in Nigeria. Also, the balance of payments and monetary policy variables were found to be growth-enhancing during the reviewed period. The study, therefore, recommended policy coordination through the adoption of the policy of export promotion combined with an import substitution strategy with a view to moderating the balance-of-payments constraints in the long run.

The empirical relationship between the balance of payments and the growth of the Nigerian economy from 1990 to 2019 was examined by Otiwu (2022). The primary objective of the study was to examine how the balance of payments affected economic growth in Nigeria. The 2019 statistical bulletin from the Central Bank of Nigeria served as the primary source of secondary data for the study. Real gross domestic product served as the dependent variable, whereas oil exports and imports, and non-oil exports and imports served as the independent variables. Using a unit root test, it was found out that the variables were stationary at the first difference. The co-integration test was therefore conducted, revealing a long-term relationship between the variables. The VECM results revealed that the balance of payment position had little impact on Nigeria's economic growth. As a result, it was recommended, among other things, that Nigerian government should implement more export-friendly regulations on balance of payment issues in order to boost economic growth.

Adama, Ohwofasa and Onabote (2022) examined the impact of external reserves on economic growth in Nigeria using descriptive approach and autoregressive distributed lag (ARDL) model The data that were obtained from several issues of the Central Bank of Nigeria's annual report covering the period 1986–2020. Descriptively, the study found out that the economic growth rate and external reserves witnessed fluctuations, with the latter being relatively more pronounced. Accordingly, the study found that, in the long run, all the explanatory variables were key determinants of economic growth in Nigeria. Specifically, economic growth was significantly and positively responsive to changes in external reserves by 0.22%, the inflation rate by 0.08%, and a one-period lag of GDP of 0.21%, contrary to its negative response to changes in exchange rates of 0.10% in the short run. Thus, the study recommended that the government consider providing a conducive environment for increased productivity, thereby increasing foreign reserves.

Ehigiamusoe and Lean (2019) investigated the impact of foreign capital inflows on economic growth in Nigeria from 1980 to 2015. The study applied the Autoregressive Distributed Lag (ARDL)-bounds test, and found a cointegration relationship between foreign capital inflows and economic growth. Specifically, foreign portfolio investment had a positive impact on growth, while the impact of foreign loans was negative. Nevertheless, foreign direct investment and foreign

aid had an insignificant impact on growth, suggesting that Nigeria cannot rely on foreign direct investment and foreign aid as vehicles to stimulate growth. Given the findings, the study recommended that policymakers should scale up the outward-oriented policies to create more opportunities for the growth of the Nigerian economy.

Jayme (2020) applied Thirlwall's balance-of-payments constraint model to Brazilian economic growth in the period 1955-1998. According to Thirlwall (1979) and MacCombie and Thirlwall (1994), the demand-induced hypothesis of economic growth which states that aggregate demand drives economic growth was historically been used to explain disparities in long-term economic growth among nations. In order to ascertain the dynamic responses of exports to GDP, the model was evaluated on the Brazilian economy from 1955 to 1998 using the cointegration technique and a vector error correction (VEC) representation. The findings indicated a positive cointegration between export growth and Brazil's long-term economic growth, supporting the idea that external constraints limit Brazilian economic growth.

3. Methodology

3.1 Research Design

This study followed an ex-post facto research design. This justification for this research design is based on the fact that this study relies on secondary data which cannot be manipulated. Thus, annual time series data were obtained from the CBN Statistical Bulletin, IMF Financial Statistics Database and World Development Indicators over the period 1981-2021.

3.2 Model Specification
The model set up for this study is patterned after the work of Otiwu (2022), but with some modifications in the measure of the balance of payments due to the use of current and capital account balance in addition to the recognition of the role of the external reserve as documented in Adama, Ohwofasa and Onabote (2022). The functional specification of the model is provided as follows:

GDP= f (CAB, CII, ERV)   (1)
Where: GDP = gross domestic product growth, proxy for economic growth, CAB = Current account balance, CII = Capital account balance and ERV = External reserve
Specifically, the autoregressive distributed lag (ARDL) model representation of equation (1) is provided below:

$$GDP_t = \alpha_0 + \sum_{i=1}^{q}\alpha_{1i}\Delta GDP_{t-1} + \sum_{i=1}^{q}\alpha_{2i}\Delta CAB_{t-1} + \sum_{i=1}^{q}\alpha_{3i}\Delta CII_{t-1} + \sum_{i=1}^{q}\alpha_{4i}\Delta ERV_{t-1} + \text{ß}_1 GDP_{t-1} +$$

ß$_2$CAB$_{t-1}$ + ß$_3$CII$_{t-1}$ + ß$_4$ERV$_{t-1}$ + U$_{1t}$ (2)

Where: α_0 = constant parameter, α_1 - α_4 = short-run parameters of dynamic regressors, $\beta_1 - \beta_4$ = long run multipliers, Δ = first difference operator, U$_{1t}$ = error term, Δ = first difference operator and q = optimal selection operator

3.3 Method of Data Analysis
The ARDL model is applied to estimate the short and long-run relationship between the dependent and independent variables in a single equation set-up. The ARDL approach offers some desirable

statistical advantages compared to other estimation techniques. Essentially, the ARDL model allows for both the static and dynamic effects of the independent variables on the dependent variable, unlike a static model that accounts for static effects only. In addition, the ARDL is ideal for series that are mixed integrated [I(0) and I(1)] to be included in the model. It is also considered to allow for relatively small observations in the model, unlike other estimation techniques. Again, the ARDL model has a built-in error correction coefficient which captures the speed at which the model can adjust from short-run to long-run equilibrium position. In addition, the augmented Dickey-Fuller unit root test method as proposed by Dickey and Fuller (1981) was applied to test the null hypothesis of unit root was tested against the null hypothesis of no unit root at a 5 per cent significant level. The model set up for the augmented Dickey-Fuller test method is provided as follows:

$$\Delta y_t = \beta_0 + \delta y_{t-1} + \sum_{i-1}^{m} \Delta \alpha i y_{t-1} + Ut \qquad (3)$$

Where: y_t = Time series for investigation, y_{t-1} = the lagged value of the time series, Δ = first difference operator and U_t = random error term

This study also employed the bounds cointegration as proposed by Pesaran and Shin (1999) to test the null hypothesis that there is "no long-run relationship among the variables at the significance level of 5 per cent.

4. Results and Discussion
4.2.1 Descriptive Statistics
The descriptive analysis covered the mean values of the respective series, range (maximum and minimum values), and other measures of dispersion. The results of the descriptive analysis are summarized in Table 1.

Table 4.1: Descriptive Statistics

	GDP	CAB	CII	ERV
Mean	3.0414	2.4988	-1.0521	8.2605
Median	3.6471	1.2547	-0.8527	8.5812
Maximum	15.3291	20.7393	-0.6577	18.6246
Minimum	-13.1278	-4.2986	-1.9270	1.0195
Std. Dev	5.3854	5.3590	0.4957	4.9995
Skewness	-0.8191	1.4603	-0.9227	0.2614
Kurtosis	4.6206	5.2220	2.2487	2.1131
Jarque Bera	9.0721	23.0075	6.7819	1.8109
Prob.	0.0107	0.0000	0.0336	0.4043
Obs.	41	41	41	41

Source: E-views output

The results showed an average growth rate of 3.04 percent, as economic growth fluctuated between -13.12 percent and 15.32 percent. The current account balance averaged 2.49 percent of gross domestic product, with a minimum and maximum value of -4.29 percent and 20.73 percent of GDP respectively. Table 4.2 revealed an average financial openness of Nigeria's capital account of -1.0521, with an improvement in the level of financial openness of the capital account from -1.9270

to -0.6577. These results showed that the Nigerian current account is less open and this has major implication for capital accumulation, investment spending and economic growth. External reserve during the period averaged 8.26 per cent of gross domestic product, fluctuating between 1.0195 per cent and 18.6246 per cent of GDP. The study also examined the variations in the series using standard deviation statistics. The results showed volatility in the GDP growth rate, current account balance and external reserve. Most of the employed series do not follow a normal distribution, as the study rejects the null hypothesis of normal distribution. Specifically, the GDP growth rate, current account balance and financial openness of the capital account were not normally distributed. Due to this, the study carried out a stationarity test to determine the stability of the data.

4.2 Unit Root Test
The augmented Dickey-Fuller (ADF) test was applied in testing for the stationarity of the series. The results of the test are presented in Table 2.

Table 2: Unit Root Results

Variable	ADF				I(d)
	Level	5% Critical Value	1st Diff	5% Critical Value	
GDP_t	-3.1421**	-2.9389	-	-	I(0)
CAB_t	-2.5942	-2.9369	-5.8382***	-2.9369	I(1)
CII_t	-1.4932	-2.9369	-5.7316***	-2.9369	I(1)
ERV_t	-2.0907	-2.9369	-5.9268***	-2.9369	I(1)

Note: * - 10% , ** - 5% and *** - 1% significance levels
Source: E-views output

The results showed that current account balance (CAB) as a percentage of GDP, financial openness of capital account and external reserves as a percentage of GDP and external reserve are non-stationary in levels. GDP growth rate, on the other hand, was found to be stationary in level. The results further showed that there are different orders of integration. Based on the results, the series were mixed in order of I(0) and I(1).

4.3 Cointegration
This study employed the bound test to verify the long-run relationship. The results of the bound test are summarized in Table 3.

Table 3: Bound Test Results

Estimated Model		F-statistics	
$F_{GDP}(gdp/cab, cii, erv)$		6.342956***	
	K = 3		
Critical Value	I(0)	I(1)	
1%	2.37	3.2	

5%	2.79	3.67
2.5%	3.15	4.08
10%	3.65	4.66

Note: Null hypothesis: No long run equilibrium relationship; K = number of regressors; *, ** and *** denote significance at 10%, 5% and 1% level, respectively.

Source: E-views output

The results showed that the calculated F-statistics (6.343) is higher than the upper bound critical value (3.67) for the equation with GDP growth rate, current account balance, financial openness of the capital account and external reserves. This implies that there is a cointegrating relationship among the current account balance, financial openness of the capital account, external reserves and GDP growth rate. Given the result of the cointegration test, the study estimated the long run model and error correction model within the autoregressive distributed lag (ARDL) framework.

4.3 Model Estimation
The results of the ARDL model are presented in Table 4.

Table 4: ARDL Long and Short Run Results

Dependent Variable: GDP_t				
Part A: Long Run Results				
Variable	*Coefficient*	*Std. Error*	$t-Stats$	*Prob.*
CAB_t	0.5504***	0.2250	2.4463	0.0198
CII_t	-0.4258	2.0618	-0.2065	0.8376
ERV_t	0.2905**	0.1101	2.6382	0.0386
C	1.0135	3.5273	0.2873	0.7756
Part B: Short Run Results				
Variable	*Coefficient*	*Std. Error*	$t-Stats$	*Prob.*
$D(CAB_t)$	0.3667**	0.1473	2.4894	0.0178
$D(CII_t)$	-0.2837	1.3707	-0.2069	0.8373
$D(ERV_t)$	-0.3776	0.2478	-1.5239	0.1368
ECM_{t-1}	-0.6662***	0.1249	-5.3319	0.0000
$R^2 = 0.4853$		Adjusted $R^2 = 0.4717$		

Note: * - 10%, ** - 5% and *** - 1% significance levels

Source: E-views output

The long run results showed that current account balance had positive significant impact on GDP growth rate in Nigeria. It was observed that a one percent increase in current account balance is associated with 0.5504 percent increase in GDP growth rate. This finding conforms with studies such as Otiwu (2022) and Grace, Emmanuel and Thomas (2015), but fail to align with the findings of Rena and Moche (2021) who submits using the vector autoregressive (VAR) model that balance of payment had negative and significant impact on economic growth in South Africa. The regression result reported a negative and insignificant relationship between financial openness of the capital account and GDP growth in Nigeria. The long run ARDL elasticity of financial openness of the capital account with respect to GDP growth rate is below unit, estimated to be -0.4258. This indicate that a 1% increase in financial openness of the capital account index means

decrease in output level by approximately 0.4258 percent. Hence, the result fail to provide substantial evidence supporting the hypothesis that an opened capital account has long run effect on the performance of the Nigerian economy. This result contradicted earlier findings of Amah and Onoh (2013) and Lee (2016) who reported a positive and significant relationship between economic growth and capital account at 5 percent level.

It was also found that the effect of external reserves on macroeconomic performance is positive and significant at 5 percent level. The evidence of this is reflected in the coefficient of external reserves estimated to be 0.2905. In the context of this result, an increase in external reserves by 1% is expected to increase GDP growth by 0.2905 percent in the long run. The result is consistent with the findings of Adama, Ohwofasa and Onabote (2022) and Nwosa (2017) which found positive and significant relationship between external reserves and economic growth. However, the result contradicts the finding of Nwafor (2018) which found that external reserves had positive and insignificant impact on economic growth in Nigeria. The estimated error correction term had a negative sign and is less than unitary, indicating that the model converges to long run equilibrium over time. The estimated coefficient of -0.6662 indicate that, previous year's deviation from long run equilibrium level is corrected at a speed of 66 percent.

Table 5: Model Diagnostic Result

Test	Null Hypothesis	Test Type	Test Stat.	Prob
Autocorrelation	Serially Independent	Breusch-Godfrey LM	0.6493	0.7228
Heteroscedasticity	Homoscedastic	ARCH	0.1899	0.6630
Normality	Normally Distributed	Jarque-Bera	1.1700	0.5571
Stability	Stable Parameters	CUSUM		
Stability	Stable Parameters	CUSUM of Squares	-	-

Source: Authors' compilation (2023) using E-views 12

As reported in Table 5, the probability value of the calculated Chi-square statistics is greater than 5 percent level of significance. Hence, the study failed to reject the null hypothesis which indicate that there is no evidence of serial dependence of the errors. In testing for constant variance of the errors, the ARCH test was adopted. The result showed no evidence of heteroscedasticity of the errors since the probability of the Chi-Square statistics is higher than the 5 percent level of significance. The residual normality test, which followed the Jarque-Bera method, indicated that the estimated residuals followed a normal distribution.

5. Conclusion and Recommendations

The study assessed the impact of balance of payment on macroeconomic performance in Nigeria from 1981 to 2021. An ARDL model was utilized to examine the impact of current account, financial openness of capital account and external reserves on GDP growth rate. The results indicate the current account balance exert significant positive impact on the performance of the Nigerian economy. The study revealed that improvement in the external reserve position will cause an improvement in the Nigerian economy. However, it was discovered that, financial openness of the capital account exerted insignificant negative impact on GDP growth rate. The study concludes that, the performance of the macroeconomy is sensitive to changes in the balance of payments. Thus, it is recommended that the government should adopt a policy of export promotion, complementing it with an import substitution strategy, to promote export activities as such policies

will improve the current account position of Nigeria. The study also recommends for proper management of the reserves to ensure stability of the macroeconomy as result of the findings showed that external reserves had positive and significant impact on economic growth.

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