

Exchange Rate and the Performance of the Nigerian Stock Market

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Abstract

The study examined the effect of exchange rate variables on the performance of the Nigerian stock market. Employing an ex-post facto research design, the study utilizes time series data spanning from 1998 to 2025, sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin and AbokiFX. The Ordinary Least Squares (OLS) model is adopted for analysis, and post-estimation tests, including histogram normality, serial correlation, heteroskedasticity, and the CUSUM test, are conducted to validate the model's reliability. The findings reveal that the parallel exchange rate negatively affects stock market capitalization but is statistically insignificant. The official exchange rate exerts a positive and statistically significant influence on stock market capitalization, indicating its critical role in shaping market performance. The inter-bank exchange rate shows a positive but insignificant effect, suggesting a limited direct impact on stock market performance. Thus, the Naira Cross exchange rate has a negative and statistically insignificant effect, implying that its fluctuations may not substantially influence stock market growth. These findings highlight the importance of maintaining exchange rate stability to foster stock market development. Based on these insights, the study recommends policies aimed at stabilizing the official exchange rate, reforming the inter-bank exchange rate system, reducing the influence of the parallel market through a unified exchange rate framework, and enhancing the stability of the Naira Cross exchange rate.

Keywords: Exchange Rate, Performance, Nigerian Stock Market.

Introduction

Stock market performance is a key indicator of a nation's economic health, reflecting the collective expectations of investors about the future performance of the economy. It encompasses various metrics, such as stock prices, trading volumes, and market capitalization, all of which provide insight into the overall efficiency and stability of the financial market (Agyapong et al., 2023). The Nigerian stock market, being one of the largest in Africa, plays a pivotal role in mobilizing domestic savings and providing long-term capital for investment, which are essential for economic growth. However, the performance of the stock market in Nigeria has been subject to various external and internal factors, with exchange rate volatility being one of the most significant influencers (Lawal et al., 2023).

Exchange rate volatility, particularly in emerging economies like Nigeria, can have profound effects on stock market performance. Volatility in the exchange rate, whether in the parallel or official market, introduces uncertainty that affects investor confidence and the valuation of foreign-denominated assets (Salawu et al., 2022). In Nigeria, where the economy is heavily dependent on oil exports, fluctuations in global oil prices often lead to corresponding changes in the exchange rate, thereby influencing the performance of the stock market. When the

exchange rate is unstable, it leads to increased risk, which may result in capital flight and a subsequent decline in stock prices (Oyetade & Ogundipe, 2023).

Moreover, inflation, which often accompanies exchange rate volatility, further compounds the challenges faced by the Nigerian stock market. High inflation rates erode the purchasing power of consumers and investors, leading to reduced consumption and investment. This, in turn, affects the profitability of companies listed on the stock market, resulting in lower stock prices and diminished market performance (Ademola et al., 2023). The interplay between inflation and exchange rate instability creates a complex environment that can significantly hinder the growth and stability of the stock market in Nigeria.

The Nigerian stock market's vulnerability to exchange rate instability underscores the need for effective monetary and fiscal policies that can mitigate these risks. Policymakers must strive to stabilize the exchange rate and control inflation to foster a conducive environment for investment and growth in the stock market (Adegbite & Akinwale, 2023). Understanding the dynamics of exchange rate volatility and its impact on stock market performance is crucial for investors, policymakers, and scholars alike, as it provides insights into how best to navigate the challenges posed by these economic variables.

Statement of the Problem

The Nigerian economy, which is heavily reliant on oil exports, is particularly vulnerable to external shocks that result in volatile exchange rates. These fluctuations create uncertainty for investors, influence the pricing of assets, and consequently affect stock market performance (Adaramola, 2019). Despite the well-documented impact of exchange rate on the broader economy, there is still a lack of comprehensive understanding of how different types of exchange rate volatility such as parallel, inter-bank and official exchange rates specifically influence stock market capitalization in Nigeria. Previous studies have explored the relationship between exchange rates and stock market performance, but many of these studies either focus on developed economies or do not disaggregate the effects of different exchange rate types (Benita & Lauterbach, 2014; Kirui et al., 2014). Additionally, while some research has considered the role of inflation alongside exchange rate volatility, the combined effect of parallel and official exchange rate volatility on stock market capitalization has been underexplored. This oversight is particularly relevant in the Nigerian context, where dual exchange rates exist, and inflation often exacerbates the effects of exchange rate fluctuations on market performance (Oladipupo & Onotaniyohuwo, 2011). As such, there is a critical gap in the literature concerning the nuanced impacts of these variables on the Nigerian stock market. The current study seeks to address these gaps by specifically examining how different exchange rate, such as the parallel exchange rate, official exchange rate and the inter-bank exchange rate influence stock market capitalization in Nigeria. By focusing on these variables, the study will provide a more detailed understanding of the dynamics at play in the Nigerian stock market, particularly in light of the country's unique economic challenges. This research will not only contribute to the existing body of literature but also offer valuable insights for investors, policymakers, and financial analysts who are grappling with the complexities of exchange rate volatility in emerging markets.

Research Questions:

How does the parallel exchange rate affect stock market capitalization in Nigeria?, What is the effect of official exchange rate on the stock market capitalization in Nigeria?, What effect does the inter-bank exchange rate have on stock market capitalization in Nigeria?, What is the effect of Naira Cross exchange rate on stock market capitalization in Nigeria?

Research Hypotheses: H₀₁: Parallel exchange rate has no significant effect on stock market capitalization in Nigeria. H₀₂: There is no significant effect of official exchange rate on the stock market capitalization in Nigeria. H₀₃: The inter-bank exchange rate does not have a significant effect on stock market capitalization in Nigeria. H₀₄: There is no significant effect of Naira Cross exchange rate on stock market capitalization in Nigeria?

Literature Review

Meaning of Exchange Rate

The exchange rate refers to the price at which one currency can be exchanged for another in the foreign exchange market. Thus, it's also serve a critical indicator of a country's economic health and serves as a benchmark for international trade, investment, and monetary policy (Akinbobola, 2022).. Exchange rates can be categorized into nominal exchange rates, which reflect the direct currency-to-currency comparison, and real exchange rates, which adjust for inflation differentials between trading nations. The rate is influenced by various factors, including demand and supply dynamics in the forex market, interest rates, inflation, and government policies (Madura, 2021). In an economic context, the exchange rate plays a vital role in determining the competitiveness of a nation's exports and imports. A strong currency typically makes exports less competitive but reduces the cost of imports, whereas a weak currency promotes export-driven growth but increases the cost of imported goods and services (Madura, 2021). For countries like Nigeria, with a dual exchange rate system comprising official and parallel market rates, the exchange rate can have multifaceted impacts.

Exchange Rate Policies in Nigeria

Exchange rate policies in Nigeria have evolved significantly over the years, reflecting the country's changing economic landscape and policy objectives (Nwosa, 2021). In the early post-independence period, Nigeria operated a fixed exchange rate system, where the value of the Naira was pegged to major foreign currencies, particularly the British pound and later the US dollar. This system was intended to provide stability and predictability in international transactions. However, the fixed exchange rate regime became unsustainable in the face of economic shocks, such as oil price fluctuations, and was eventually abandoned in favor of more flexible exchange rate policies (Ojo & Awoseyila, 2023).

During the Structural Adjustment Program (SAP) introduced in 1986, Nigeria shifted to a market-determined exchange rate system. This policy change was aimed at correcting the distortions in the economy and promoting export competitiveness. Under the SAP, the Naira was allowed to float against other currencies, leading to a significant depreciation of the currency. However, this also introduced a high degree of exchange rate volatility, which created challenges for businesses and investors.

Dimensions of Exchange Rate in Nigeria

Exchange rate in Nigeria can be measured using various indicators that capture the fluctuations such as: parallel exchange rate, official exchange rate, inter-bank exchange rate and Naira Cross exchange rates:

Parallel Exchange Rate

The parallel exchange rate, also known as the black-market rate, represents the exchange rate at which foreign currencies are traded unofficially, outside the regulated banking system. In Nigeria, the parallel exchange rate often diverges significantly from the official exchange rate, reflecting imbalances in supply and demand for foreign currency. The movement in the parallel exchange rate is a major concern for businesses and investors, as it creates

uncertainty in pricing and profitability, especially for those involved in international trade. This volatility can be driven by various factors, including speculative activities, changes in government policies, and external economic shocks (Ajakaiye & Oyeniran, 2022).

Official Exchange Rate

The official exchange rate is the rate at which the central bank allows the currency to be exchanged for foreign currencies within the regulated financial system. In Nigeria, the official exchange rate is influenced by monetary policy decisions, foreign exchange reserves, and external economic conditions. The official exchange rate can have significant implications for the economy, as it affects the cost of imports and exports, foreign investment flows, and inflation. When the official exchange rate is stable, it provides a predictable environment for businesses and investors. However, when it becomes volatile, it can create uncertainty and disrupt economic activities (Obidike, Ejem & Iheduru, 2023).

The official exchange rate in Nigeria has been subject to significant fluctuations, particularly in response to external shocks such as changes in global oil prices. Given Nigeria's reliance on oil exports for foreign exchange earnings, any decline in oil prices can lead to a depreciation of the Naira and increased volatility in the official exchange rate. This volatility can have a ripple effect on the broader economy, affecting everything from consumer prices to government revenues. As such, understanding the factors driving official exchange rate volatility is essential for managing its impact on the economy (Agbo & Chika, 2022).

Inter-Bank Exchange Rate

The inter-bank exchange rate refers to the exchange rate at which banks and other financial institutions trade foreign currencies among themselves in the inter-bank market. This rate is primarily determined by market forces of demand and supply for foreign currencies, making it a vital mechanism for maintaining liquidity in the financial system. It is also influenced by macroeconomic factors such as interest rates, trade balances, and monetary policies implemented by central banks (Mishkin, 2021). The inter-bank exchange rate serves as a benchmark for other exchange rate mechanisms, including those applied to businesses and individuals.

Naira Cross Exchange Rate

The Naira Cross exchange rate refers to the exchange rate between the Nigerian Naira (NGN) and other major global currencies in the foreign exchange market, particularly when traded through informal channels or at varying rates from the official exchange rate (Adeyemi et al., 2021). This exchange rate plays a significant role in the Nigerian economy, as it often differs from the official exchange rate set by the Central Bank of Nigeria (CBN) due to supply and demand pressures in the parallel market. The Naira Cross exchange rate is influenced by factors such as government policies, market liquidity, and the level of foreign exchange reserves (Ifeanyi et al., 2023). The gap between the official and the parallel Naira Cross exchange rates can lead to inefficiencies in the market, affecting both domestic and international transactions.

Stock Market

The stock market is a critical component of the global financial system, serving as a platform where investors buy and sell shares of publicly traded companies (Bodie, Kane, & Marcus, 2021). It facilitates capital formation by enabling businesses to raise funds through equity financing, which in turn supports economic growth and development. Stock markets can be categorized into primary markets, where new securities are issued, and secondary markets, where existing securities are traded among investors (Mishkin & Eakins, 2018). The

performance of stock markets is often measured by indices such as the S&P 500 or the FTSE 100, which reflect the aggregate value of selected stocks and serve as indicators of economic health (Fabozzi & Markowitz, 2011).

Stock Market Performance

Stock market performance refers to the behavior of stock prices and indices over time, reflecting the overall health and direction of the market. Performance is typically measured using indicators such as stock market indices, trading volumes, and market capitalization. The stock market is often seen as a barometer of the economy, with rising stock prices indicating investor confidence and economic growth, while falling prices suggest economic challenges and uncertainty. In Nigeria, stock market performance is influenced by various factors, including macroeconomic variables, corporate earnings, and investor sentiment (Emefiele, 2023).

Stock Market Capitalization

Stock market capitalization refers to the total market value of all listed companies on the stock exchange. It is calculated by multiplying the current share price of each company by the number of outstanding shares. Stock market capitalization is a key indicator of the size and strength of the stock market, as it provides a snapshot of the total value of listed companies. In Nigeria, stock market capitalization is often used as a proxy for market performance, as it reflects the overall growth or contraction of the market (Adeleke & Abiodun, 2023).

Conversely, a smaller market capitalization may indicate that the market is less developed and may be more prone to volatility. As such, stock market capitalization is a critical measure of stock market performance in Nigeria (Olawale & Afolabi, 2021).

Theoretical Review

The Purchasing Power Parity (PPP) theory posits that exchange rates between two currencies should equalize the price of a basket of goods in different countries (Rogoff, 2021). According to this theory, in the long run, the exchange rate between two countries should adjust to reflect changes in price levels, ensuring that identical goods cost the same in both countries when measured in a common currency. The PPP theory is based on the law of one price, which states that in the absence of transportation costs and trade barriers, the price of a good should be the same in all locations (Balassa, 2022).

Empirical Review

Adeniyi et al. (2020) investigated the impact of exchange rate volatility on Nigeria's economic growth from 1981 to 2018 using annual time series data sourced from the Central Bank of Nigeria (CBN). Employing the Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model, the study revealed that exchange rate volatility negatively affects economic growth, especially through its impact on investment decisions and trade flows. The findings further indicated that the unpredictability of exchange rates discourages foreign investment, which is crucial for industrial development. Olaniyi and Adebayo (2021) Using the Vector Error Correction Model (VECM), analyzed the short- and long-term effects of exchange rate fluctuations on Nigeria's agricultural exports. The data covered the period from 1986 to 2019, focusing on how currency depreciation impacts export competitiveness. The findings showed a positive relationship between exchange rate depreciation and agricultural exports in the short term but highlighted significant long-term volatility that discouraged consistent export growth. Policymakers were advised to stabilize the exchange rate through targeted interventions, such as controlling inflation and enhancing infrastructure, to support sustainable export growth.

Okoro (2022) explored the relationship between exchange rate fluctuations and inflation in Nigeria, using quarterly data from 1990 to 2021. The study employed the ARDL bounds testing approach to examine both short- and long-term dynamics. The results demonstrated a significant pass-through effect of exchange rate depreciation to domestic prices, exacerbating inflationary pressures in the economy. Additionally, the study found that periods of high exchange rate volatility corresponded with reduced purchasing power and increased poverty levels. Afolabi et al. (2020) investigated the effect of exchange rate policy on manufacturing output in Nigeria, covering the period 1980–2020. Using a Structural Vector Autoregression (SVAR) model, they found that inconsistent exchange rate policies significantly hampered industrial production due to increased costs of imported raw materials. The study emphasized that a stable exchange rate would encourage investment in local manufacturing and enhance competitiveness. Recommendations included prioritizing industrial policy coherence and enhancing access to foreign exchange for manufacturers to support the sector's growth. Ahmed and Suleiman (2021) analyzed the nexus between exchange rate regimes and foreign direct investment (FDI) inflows in Nigeria, focusing on the period 1990–2020. Using the Fully Modified Ordinary Least Squares (FMOLS) method, the authors found that exchange rate volatility negatively impacts FDI inflows, as investors are deterred by the uncertainty associated with currency fluctuations. The study emphasized the need for Nigeria to adopt a stable and predictable exchange rate regime to attract and sustain foreign investment. Ahmed and Suleiman highlighted the importance of aligning fiscal and monetary policies to ensure exchange rate stability. Ibrahim et al. (2022) examined the impact of exchange rate fluctuations on the performance of the Nigerian stock market, using monthly data from 2000 to 2021. The study applied the GARCH-M model to assess how exchange rate volatility influences stock market returns. Findings revealed that exchange rate depreciation negatively impacts stock prices by increasing costs for listed firms reliant on imported inputs. The authors recommended strengthening monetary policy frameworks and promoting local content initiatives to mitigate the adverse effects of exchange rate instability on the financial markets. Okonkwo and Nnamdi (2020) assessed the effects of exchange rate fluctuations on Nigeria's trade balance from 1995 to 2019. Using the Johansen cointegration technique, the research found that currency depreciation initially improves the trade balance (consistent with the J-curve hypothesis) but leads to deterioration in the long run due to structural constraints. The authors emphasized the need for export diversification and infrastructural improvements to enhance Nigeria's trade competitiveness. They recommended adopting policies that encourage non-oil exports and reduce dependency on imported goods. Umeh et al. (2023) analyzed how exchange rate policies influence poverty levels in Nigeria, with data spanning 1990 to 2022. Using the ARDL model, Umeh et al. found that exchange rate depreciation increases poverty by raising the cost of living and reducing real income levels. The study highlighted that vulnerable populations, particularly in rural areas, are disproportionately affected by exchange rate shocks. Policy recommendations included implementing targeted social safety nets and ensuring a stable exchange rate to minimize adverse welfare effects.

Methodology

The research design employed in this study is the *ex-post facto* research design. This design is appropriate for analyzing historical data on exchange rates, and stock market performance in Nigeria. By utilizing *ex-post facto* design, the study examines the effects of variables that have already occurred without any manipulation, allowing for a natural observation of relationships between exchange rates (parallel, inter-bank, and official), and stock market capitalization.

Data Collection Method

The data for this study was sourced primarily from the Central Bank of Nigeria (CBN) Statistical Bulletin. The CBN Statistical Bulletin provides comprehensive and reliable macroeconomic data, including exchange rates, and stock market data, which are essential for the analysis of the Nigerian financial market over time. This secondary source ensures that the study is based on authoritative and well-documented financial information, covering the entire period from 1998 to 2025

Model Specification

The model specification outlines the mathematical relationship between the dependent variable (stock market capitalization) and the independent variables (parallel exchange rates, official exchange rates, and inter-bank exchange rate). The functional relation of the model is given as: $SMC = f(PREX, OFEX, INTBEX, NREX)$ (1)

Thus, equation (1) is explicitly transformed into econometric and operational form.

$$SMC = \beta_0 + \beta_1 PREX_t + \beta_2 OFEX_t + \beta_3 INTBEX_t + \beta_4 NREX_t + \mu \quad (2)$$

Log transformation $\ln SMC = \beta_0 + \beta_1 \ln PREX_t + \beta_2 \ln OFEX_t + \beta_3 \ln INTBEX_t + \beta_4 \ln NREX_t + \mu$. (3). Where: SMC represents stock market capitalization (the dependent variable). PREX is the parallel exchange rate. OFEX is the official exchange rate. INTBEX represents the inter-bank exchange rate. NREX represents the Naira Cross exchange rate α is the intercept, β_1 , β_2 , β_3 , and β_4 are the coefficients of the independent variables, and ϵ is the error term; t = Time period This model will be tested using regression to assess the direct effect of exchange rate and inflation on stock market capitalization, with the OLS model applied to account for volatility effects.

Presentation of Data

Table 1: Result of Descriptive Statistics

	LnSMC	LnPRLEX	LnOFEX	LnINTBEX	LnNRCEX
Mean	3.455207	2.210823	2.972341	4.118072	4.111733
Median	9.202128	5.007838	5.007838	5.009279	4.997888
Maximum	11.50506	7.105704	7.200265	6.154205	6.342193
Minimum	4.194190	4.039536	3.085847	4.039536	4.001315
Std. Dev.	5.047189	0.760572	4.039239	6.590761	0.607249
Skewness	-0.478942	5.848362	-0.330208	0.354548	6.435853
Kurtosis	1.970983	3.005724	3.090929	2.119842	2.313608
Jarque-Bera	2.552873	3.718589	0.574038	1.650099	1.590048
Probability	0.279030	0.155783	0.750497	0.438213	0.451570
Sum	262.1114	161.5355	154.1426	158.6602	158.4637
Sum Sq. Dev.	125.7294	17.35407	32.40051	10.46994	11.06253
Observations	28	28	28	28	28

Source: Author's Computation, E-view, 10.1, 2026

The descriptive statistics reveal key insights into the relationship between stock market capitalization (LnSMC) and exchange rate variables (LnPRLEX, LnOFEX, LnINTBEX, and LnNRCEX). The mean values indicate that stock market capitalization has a relatively higher average logarithmic value (8.455) compared to the exchange rate variables, suggesting a general upward trend in market performance over the years. The standard deviation of LnSMC (2.047) is higher than those of exchange rate variables, indicating greater fluctuations in stock market performance compared to exchange rate movements. The skewness values show that LnSMC and LnOFEX are negatively skewed, implying that their distribution has a longer left tail, while the exchange rate variables exhibit slight positive skewness, suggesting higher occurrences of extreme positive values. Kurtosis values are

close to 3 for most variables, indicating that their distributions are approximately normal, except for LnSMC, which is slightly platykurtic (1.97), meaning it has a flatter distribution. The Jarque-Bera probability values confirm that all variables follow a normal distribution, as none of them are statistically significant at conventional levels. Overall, the results suggest that while exchange rate fluctuations have been moderate, stock market capitalization has experienced more pronounced variations, which may reflect periods of economic instability and financial market adjustments.

Data Analysis

Table 2: OLS Regression Model

Dependent Variable: LnSMC

Method: Least Squares

Date: 26/06/26 Time: 10:26

Sample: 1998 2025

Included observations: 28

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.230975	1.566964	-1.917523	0.0662
LnPRLEX	-0.372344	1.534860	-0.325328	0.7322
LnOFEX	1.328543	0.231328	3.132543	0.0133
LnINTBEX	4.338863	4.541446	1.423256	0.3243
LnNRCEX	-3.594433	6.443214	-0.365325	0.4236
R-squared	0.564195	Mean dependent var		8.443207
Adjusted R-squared	0.500225	S.D. dependent var		2.047189
S.E. of regression	0.368006	Akaike info criterion		2.254384
Sum squared resid	19.76530	Schwarz criterion		1.745342
Log likelihood	-36.75454	Hannan-Quinn criter.		2.663848
F-statistic	36.34265	Durbin-Watson stat		0.634234
Prob(F-statistic)	0.000000			

Source: Author's Computation, E-view, 10.1, 2026

The OLS regression analysis in Table 2 examines the effect of stock market capitalization (LnSMC) and exchange rate variables. The R-squared value of 0.564195 indicates that approximately 56% of the variations in LnSMC are explained by the independent variables, demonstrating a strong model fit. Among the predictors, the official exchange rate (LnOFEX) has a positive and statistically significant effect on LnSMC (coefficient = 1.328543, $p = 0.0133$), suggesting that an increase in the official exchange rate correlates with stock market growth. However, the parallel exchange rate (LnPRLEX) and Naira cross exchange rate (LnNRCEX) show negative but insignificant coefficients, implying minimal direct influence on market capitalization. The inter-bank exchange rate (LnINTBEX) has a positive coefficient (4.338863) but is statistically insignificant ($p = 0.3243$), indicating a weak relationship. The F-statistic (36.34265) and its probability value (0.0000) confirm the overall significance of the model. Overall, the findings highlight that fluctuations in the official exchange rate significantly affect stock market performance, whereas other exchange rate variables exhibit weaker or insignificant relationships.

Test of Hypotheses

The research hypotheses for this study were tested @5% level of significance level:

H₀₁: Parallel exchange rate has no significant effect on stock market capitalization in Nigeria. The regression result for the parallel exchange rate (LnPRLEX) shows a t-statistic of --0.325328 and a probability value (p-value) of 0.7322, which is much higher than the conventional significance levels of 0.05 (5%). Since the p-value is not statistically significant, we fail to reject the null hypothesis (H₀₁). This indicates that the parallel exchange rate has no significant effect on stock market capitalization in Nigeria.

H₀₂: There is no significant effect of the official exchange rate on stock market capitalization in Nigeria. For the official exchange rate (LnOFEX), the t-statistic is 3.132543, and the p-value is 0.0133, which is below the 0.05 significance level. This means that the official exchange rate has a statistically significant effect on stock market capitalization. Therefore, we reject the null hypothesis (H₀₂) and conclude that changes in the official exchange rate significantly influence stock market performance in Nigeria.

H₀₃: The inter-bank exchange rate does not have a significant effect on stock market capitalization in Nigeria. The inter-bank exchange rate (LnINTBEX) has a t-statistic of 1.423256 and a p-value of 0.3243. Since the p-value is greater than 0.05, it indicates that the inter-bank exchange rate does not have a statistically significant effect on stock market capitalization. As a result, we fail to reject the null hypothesis (H₀₃), meaning that fluctuations in the inter-bank exchange rate do not significantly impact stock market performance in Nigeria.

H₀₄: There is no significant effect of the Naira Cross exchange rate on stock market capitalization in Nigeria. The Naira Cross exchange rate (LnNRCEX) has a t-statistic of --0.365325 and a p-value of 0.4236, which is well above the conventional significance thresholds. This implies that the Naira Cross exchange rate does not have a statistically significant effect on stock market capitalization. Therefore, we fail to reject the null hypothesis (H₀₄), concluding that variations in the Naira Cross exchange rate has a negative but significantly insignificant effect on stock market capitalization in Nigeria.

Conclusion

Based on the empirical evidence on Table 2; the study concluded that exchange rate has a positive significant effect on the performance of the Nigerian stock market. Moreover, inflation, which often accompanies exchange rate volatility, further compounds the challenges faced by the Nigerian stock market. High inflation rates erode the purchasing power of consumers and investors, leading to reduced consumption and investment.

Recommendations

The following recommendations as: Policymakers should focus on maintaining a stable and predictable official exchange rate to foster investor confidence and enhance stock market performance. Ensuring that exchange rate determination reflects market fundamentals will help improve its role in supporting stock market performance. Since the parallel exchange rate negatively affects stock market capitalization, though insignificantly, the government should work toward reducing the influence of the parallel market by bridging the gap between official and parallel exchange rates. This can be achieved through a unified exchange rate policy and increased supply of foreign exchange in the official market. The negative impact of the Naira Cross exchange rate on stock market capitalization suggests the need for policies aimed at strengthening the value of the naira against major global

currencies. This will be encouraging export diversification, improving local production, and implementing prudent fiscal policies will help mitigate exchange rate volatility and support stock market performance in Nigeria.

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Appendix 1:
Exchange Rate and Stock Market Performance in Nigeria (1998-2025)

YEAR	Parallel Exchange Rate (₦/USD)	Official Exchange Rate (₦/USD)	Inter-Bank Exchange Rate (₦/USD)	Naira Exchange Rate (₦/USD)	Cross Rate	Stock Capitalization ₦, Bill	Market
1998	84.7	21.89	85.57	84.37		262.60	
1999	88.5	98.20	97.39	92.53		300.00	
2000	105.00	110.05	107.38	109.55		472.30	
2001	122.5	113.45	112.49	113.45		662.50	
2002	140.3	126.90	126.39	126.90		764.90	
2003	137.7	137.00	136.73	137.00		1,359.30	
2004	132.67	132.85	133.14	132.85		2,112.50	
2005	130.40	129.00	130.08	129.00		2,900.06	
2006	131.8	128.27	128.39	127.00		5,120.90	
2007	118.05	117.97	118.22	116.80		13,181.69	
2008	140.00	132.56	134.33	131.25		9,562.97	
2009	149.58	149.58	149.80	148.10		7,030.84	
2010	152.00	150.66	152.63	148.81		9,918.21	
2011	159.70	158.27	162.17	156.70		10,275.34	
2012	157.25	157.33	157.33	155.76		14,800.94	
2013	159.90	157.26	159.05	155.74		19,077.42	
2014	180.00	169.68	180.33	168.00		16,875.10	
2015	197.00	197.00	196.99	197.00		17,003.39	
2016	370.7	305.00	305.22	305.00		16,185.73	
2017	360.33	306.00	306.31	306.00		21,128.90	
2018	364.00	307.00	306.92	307.00		21,904.04	
2019	364.51	307.00	306.95	307.00		25,890.22	
2020	410.25	381.00	381.00	344.82		38,589.58	
2021	435.00	435.00	414.34	381.00		42,054.50	
2022	671.1	460.00	450.71	460.00		51,188.87	
2023	945.00	899.89	460.70	510.45		75,202.90	
2024	1218.9	1339.79	470.69	568.04		99,216.94	
2025	2671.1	3460.00	450.71	460.00		123,188.87	

Source: Central Bank of Nigeria Statistical Bulletin, 2025.