EXCHANGE RATE MANAGEMENT AND CAPITAL MARKET PERFORMANCE IN NIGERIA

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ABSTRACT

This study to examine the impact of exchange rate management on capital market performance in Nigeria. The study used statistical records for years 2004-2023 as secondary data. Ordinary Least Square was used to estimate the data collected during the period of this study. The variables used include exchange rate, market capitalization, inflation rate, and foreign direct investment. From the analysis of the study, it is observed that exchange rate has significant effect on market capitalization since p-value of 0.0000 was less than 5% level of significance, exchange rate has significant effect on inflation rate since p-value of 0.0334 was less than 5% level of significance. Exchange rate has significant effect on foreign direct investment since p-value of 0.0128 was less than 5% level of significance Based on the above findings, the study recommended that maintain a stable exchange rate to boost investor confidence and enhance market capitalization. Effective exchange rate management can reduce volatility and support market growth.

Keywords: Market Capitalization, Exchange Rate, Inflation Rate, Capital Market

1.0 INTRODUCTION

1.1 Background to the Study

According to Nor et al. (2020), exchange rate management is essential for determining how capital markets work as well as for affecting investment choices, market volatility, and general economic stability. A favourable environment for the expansion of the capital market may be created by effective exchange rate regulations, but poor management can cause volatility in the market and erode investor confidence (Odetola, et al, 2025).

The prices at which one currency may be exchanged for another, or exchange rates, are essential in determining how competitive a nation's goods and services are on the international market (Cooper, 2021). Whether a nation chooses a fixed, floating, or hybrid exchange rate regime, it can have a big influence on capital flows and investment trends. Currency values under a floating exchange rate system are determined by market forces, which may cause volatility and impact capital market performance by raising risk and uncertainty (Herbert, et al.

2019). On the other hand, a fixed exchange rate system seeks to reduce exchange rate risk for investors by tying the currency to a major currency or a basket of currencies (Engel, 2016).

Research like Isibor et al (2025) has shown inconsistent findings about how exchange rate volatility affects capital market performance. Engel (2016) asserted that fluctuations in exchange rates have the tendency to raise the risk premium that investors are willing to pay, which might result in lower stock prices. Other research, however, points to the possibility that these hazards might be reduced by prudent exchange rate management. For instance, Ghosh et al. (2016) contend that nations with clear and believable exchange rate regulations are better able to draw in foreign capital, which improves capital market performance. They emphasise how currency risk may be minimised by exchange rate stability, which lowers the cost of capital for businesses and promotes investment and capital market expansion.

The degree of financial integration and growth of an economy also affects the link between capital market performance and exchange rate management (Olurotimi, et al, 2024). Effective exchange rate management is essential for preserving investor confidence in emerging nations, where financial institutions are frequently less established and more susceptible to external shocks (Kohli, 2015). According to Ghosh et al. (2016), nations that implement cautious exchange rate policies and uphold sufficient foreign exchange reserves are more resilient to external disruptions and deter capital flight, which in turn promotes capital market stability.

In addition to financial stability, exchange rate policies also affect the competitiveness of a country's exports, which in turn influences corporate profitability and stock market performance. A depreciated currency makes a country's exports cheaper and more competitive in the global market, potentially boosting the profitability of export-oriented companies and positively impacting their stock prices (Sharma, et al. 2020). However, this effect can be double-edged; while depreciation can stimulate export sectors, it can also increase the cost of imported goods and services, leading to inflationary pressures that may negatively affect the broader capital market (Greenwood&Vayanos, 2010). To this end, this study tends to investigate exchange rate management and capital market performance in Nigeria.

1.2 Statement of the Problem

Significant obstacles to the growth and functioning of the Nigerian capital market have been associated with exchange rate volatility and management. Market capitalisation is a significant problem that has fluctuated as a result of uneven exchange rate practices (Okoh, et al, 2025). Exchange rate fluctuations have an impact on market capitalisation, which is a measurement of the combined worth of all listed securities. A sudden weakening of the naira might cause capital flight and a decrease in market capitalisation by undermining investor confidence (Alabi &Ogboru, 2019).

Another major issue related to currency rates that affect the Nigerian capital market is the rate of inflation. Elevated inflation, sometimes intensified by currency depreciation, reduces buying power and raises capital costs. Higher interest rates may result from this inflationary pressure, which would have a detrimental effect on enterprises' borrowing costs, profitability, and investor appeal (Alarussi&Alhaderi, 2018).

Exchange rate stability has a major impact on foreign direct investment (FDI) in Nigeria. The unpredictability and possibility of monetary losses associated with volatile exchange rates might discourage international investment. Because foreign direct investment (FDI) is essential to the growth of capital markets, exchange rate volatility might result in a decrease in FDI, which would be detrimental to market performance and economic expansion (Sawalha, et al. 2016).

1.3 Objectives of the Study

The primary objective of this study is to examine into exchange rate management and capital market performance in Nigeria. The specific objectives are to:

i. Investigate the impact of exchange rate management on market capitalization in Nigeria.
ii. Determine the influence of exchange rate management on inflation rate in Nigeria.
iii. Evaluate the impact of exchange rate management on foreign direct investment in Nigeria.

1.4 Research Questions

The researcher has been guided by the following research question while carrying out this study.

i. What is the impact of exchange rate management on market capitalization in Nigeria?
ii. What effect does exchange rate management have on inflation rate in Nigeria?
iii. To what extent does exchange rate management influence foreign direct investment in Nigeria?

1.5 Research Hypotheses

The hypothesis that provides a greater insight into the research work is as follows:

Ho1: Exchange rate management does not have a significant impact on market capitalization in Nigeria.

Ho2: There is no significant effect between exchange rate management and inflation rate in Nigeria.

Ho3: Exchange rate managementdoes not have significant impact on foreign direct investment in Nigeria.

2.0 LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Exchange Rate

The price at which one currency may be exchanged for another, figuring out how much of one currency is needed to buy a unit of another, is known as the exchange rate, according to

Krugman and Obstfeld (2020). This concept emphasised how essential exchange rates are to enabling global investment and commerce.

To elaborate, Mishkin (2019) says that a key factor in assessing a nation's ability to compete its products and services internationally is its exchange rate. He underlines how changes in exchange rates may have a big influence on export and import prices, which in turn can affect economic stability and growth. A more complex viewpoint is offered by Frankel (2016), who emphasised the significance of currency rates in macroeconomic policy. In order to stabilise the economy, government interventions through monetary and fiscal policies have an impact on exchange rates in addition to market forces (Isibor, 2022).

Focusing on the dynamic character of exchange rates, Ghosh et al. (2018) contended that a number of factors, such as interest rate differentials, inflation rates, and political stability, have an impact on them. They emphasised that for efficient exchange rate management and economic planning, a grasp of these processes is necessary.

2.2 Capital Market

According to Allen and Gale (2020), the capital market is a place where investors may deploy money wisely and businesses can acquire cash for expansion by trading long-term debt and equity instruments. They stress how the capital market may boost economic growth by directing funds towards profitable ventures.

To elaborate, Holmstrom and Tirole (2021) talk about how the capital market helps to lessen the knowledge asymmetry that exists between lenders and borrowers. They contend that mechanisms for risk sharing and diversification are provided by a healthy capital market, which lowers the cost of capital and promotes innovation and development.

From a wider angle, Stulz (2022) defines the capital market as the area of the financial market that handles products with maturities longer than a year. He emphasises how crucial capital markets are for supplying liquidity and allowing businesses to fund major initiatives, both of which may result in considerable economic growth.

Focussing on the institutional and regulatory components, Beck and Levine (2023) contend that a properly regulated capital market lessens knowledge asymmetry between issuers and investors and mitigates risks. They contend that openness and strong legal frameworks are essential to the effective operation of capital markets, which in turn fosters investor confidence and market stability.

2.3 Market Capitalization

A key indicator in the financial world, market capitalisation, often known as market cap, represents the entire value of a company's outstanding shares of stock. Market capitalisation is determined by multiplying the current share price by the total number of outstanding shares, according to Damodaran (2023). This measure is essential for investors since it gives a quick overview of a company's size, which affects portfolio management and investing choices.

Market capitalisation, according to Brealey, et al. (2022), is a good way to gauge a company's market worth, which might be very different from its intrinsic or book value. They emphasise how market capitalisation aids in the division of businesses into several groups, including small-, mid-, and large-cap, each with unique risk and return characteristics. Market capitalisation is also important for market indexes in a larger sense. Major indexes, such as the S&P 500, employ market capitalisation to weight component businesses, as mentioned by Fama and French (2021), which affects overall market performance and investor views.

Market capitalization is a dynamic figure, influenced by market conditions, investor sentiment, and corporate actions such as stock splits and buybacks. According to Berk and DeMarzo (2022), understanding market capitalization helps investors gauge market trends and economic health, making it a fundamental concept in financial analysis and portfolio management.

2.4 Inflation Rate

One important economic indicator is the inflation rate, which tracks the overall pace of price increases for goods and services and, as a result, reduces buying power. Blanchard (2022) states that the Consumer Price Index (CPI) or Producer Price Index (PPI), which measure variations in the cost of a basket of goods and services over time, are commonly used to assess inflation rates. Policymakers, companies, and consumers all depend on this statistic since it shapes expectations and economic decisions.

Mishkin (2021) highlights that central banks often strive for a specific inflation target, such the 2% rate that is widely embraced by many industrialised nations, because a moderate inflation rate is frequently viewed as an indication of a thriving economy. He adds that deflation can result in lower consumer spending and economic stagnation, whereas strong inflation can cause uncertainty, depreciate the value of money, and skew economic planning. Higher inflation rates can reduce the actual returns on savings and investments, according to Rogoff (2020), who emphasises the influence of inflation on investment returns. As a result, investors must take inflation into account when creating long-term financial plans.

In addition, a number of factors, such as supply chain interruptions, monetary policy, and overall global economic circumstances, can impact the rate of inflation (Isibor, et al, 2023). Bernanke (2023) asserts that developing sound monetary policy and preserving economic stability depend on having a solid grasp of the inflation rate.

2.5 Foreign Direct Investment

An investment made into commercial interests situated in another nation by a company or individual based in one country is known as foreign direct investment, or FDI. Hill and Hult (2022) state that FDI usually entails gaining a long-term stake in a foreign company as well as a sizable amount of influence or control over its management. This can be done by forming joint ventures, subsidiaries, or purchasing a sizeable stock stake in a foreign business.

FDI, according to Dunning and Lundan (2021), is a major force behind economic globalisation by facilitating the cross-border movement of money, technology, and managerial skills. They point out that FDI may boost technical capacities, increase productivity through the transfer of skills and creativity, and create employment in host countries—all of which can contribute to

economic growth. The strategic goals of FDI, such as expanding into new markets, obtaining resources, or gaining operational efficiency, are highlighted by Rugman and Verbeke (2020). According to them, FDI is what multinational corporations (MNEs) do in order to keep a competitive edge and optimise their global value chains.

Additionally, Asiedu (2019) addresses the function of foreign direct investment (FDI) in developing nations, pointing out that it may result in a number of important economic advantages, such as better infrastructure, increased access to global markets, and increased economic stability. Asiedu does, however, issue a warning, noting that the impact of FDI is contingent upon the regulatory framework of the host nation and its capacity to accept and efficiently use foreign capital.

3.0 THEORETICAL REVIEW

3.1 Arbitrage Pricing Theory

Developed by Stephen Ross in 1976, Arbitrage Pricing Theory (APT) is a model for asset pricing that differs from the Capital Asset Pricing Model (CAPM)'s single-factor model in that it uses numerous macroeconomic factors to explain asset returns (Ross, 1976). APT allows for a more sophisticated view of risk and return by assuming that several risk variables, including inflation, interest rates, and industrial production, are linear functions of asset returns (Chen, at al., 1986).

APT is based on a number of presumptions, including the following: investors may create arbitrage portfolios with very low transaction costs, markets are efficient, and there is a linear connection between risk variables and asset returns (Fama & French, 2018). These presumptions are meant to guarantee that arbitrage possibilities will rectify any mispricing in the market.

APT proponents, including Chen, et al. (1986), contend that, in comparison to CAPM, its flexibility in combining a variety of parameters offers a more complete picture of risk. They contend that APT more accurately captures the intricacies of actual financial markets. However, detractors point out that it might be difficult to determine the relevant risk indicators and that presuming there are no transaction costs is unrealistic (Fama & French, 2015). The model's usefulness and accuracy in forecasting asset values may be impacted by several constraints.

3.2 Efficient Market Hypothesis Theory

Financial markets are "informationally efficient," according to Eugene Fama's Efficient Market Hypothesis (EMH), which was first proposed in the 1960s. This means that asset prices accurately represent all available information at any one moment (Fama, 1970). According to this hypothesis, since asset prices already take into account all relevant information, it is difficult to continuously earn greater returns than the market average through stock selection or market timing.

A number of fundamental presumptions underpin the Efficient Market Hypothesis (EMH): markets are competitive, investors act rationally and base their decisions on available

information, and asset prices promptly and correctly reflect new information (Fama, 1991). These presumptions suggest that any changes in price are the result of fresh knowledge, which makes it more difficult for investors to take advantage of mispricings to make money. Proponents of the Efficient Market Hypothesis (EMH), like Fama (1991), contend that it explains why active investing techniques don't always beat passive indexing. They contend that reasonable pricing results from an efficient market and that participants in the market swiftly eliminate any potential for excessive profits.

Shiller (2015) points to instances of market bubbles and investor irrationality that challenge the notion of perfect market efficiency, suggesting that behavioral biases and irrational behavior can lead to systematic deviations from efficiency.

3.3 Classical Economic Theory

Economists like Adam Smith, David Ricardo, and John Stuart Mill established classical economic theory, which is based on the idea that unrestricted free markets inherently produce efficient results via self-interest and competition. The "invisible hand," as coined by Smith in 1776, is a mechanism that directs people's self-serving behaviour in the direction of social benefit.

The foundation of the theory is the belief that people make rational decisions, that markets are efficient and perfectly competitive, and that flexible prices maintain the balance between supply and demand (Ricardo, 1817). Furthermore, classical economics makes the assumption that there should be little government interference since markets are self-correcting and would automatically react to shocks to the economy.

Proponents like Hanushek and Woessmann (2020) contend that a solid foundation for comprehending economic growth and efficiency is provided by classical theory. They highlight its understanding of the advantages of competition and open markets. However, critics point out that classical economics has a narrow perspective on externalities and defects in the market. According to Piketty (2014), redistributive measures and challenges like income inequality are ignored by classical theory. Furthermore, contemporary economists argue for a more sophisticated strategy that integrates behavioural economics and market interventions, criticising its presumption of rational behaviour and its insufficient responsiveness to economic turbulence.

3.4 Empirical Review

Okeke and Adebayo (2023) investigated the impact of monetary policy on capital market performance in Nigeria. The authors employed an Error Correction Model (ECM) to analyze the relationship between interest rates, money supply, and stock market returns. Utilizing quarterly data from 2012 to 2022, the study found that tight monetary policy, characterized by higher interest rates, negatively affected stock market performance in the short term. However, in the long term, the capital market adjusted, reflecting resilience to policy changes. The findings highlight the importance of considering both short- and long-term effects of monetary policy on market performance.

Nwachukwu and Okafor (2023) utilized the Threshold Autoregressive (TAR) model to assess the asymmetric effects of exchange rate volatility on stock market returns in Nigeria. Their research demonstrated that the impact of exchange rate fluctuations on stock market returns was not uniform, with larger depreciations having a more significant negative effect than appreciations. This asymmetry suggests that exchange rate management policies should be carefully designed to mitigate the more severe impacts of currency depreciation on the stock market, particularly in times of economic distress.

Bello and Yusuf (2022) conducted a comprehensive analysis using a Vector Autoregression (VAR) model to investigate the effects of inflation targeting on stock returns in Nigeria. Their study covered data over an extended period, allowing them to assess the dynamic relationship between inflation targeting policies and market performance. The results revealed that inflation targeting played a significant role in stabilizing the Nigerian capital market, especially during periods of economic uncertainty and volatility. The authors noted that by anchoring inflation expectations, these policies contributed to a more predictable investment environment, thereby enhancing investor confidence and reducing market fluctuations. This stabilizing effect was particularly evident in times of external economic shocks.

Adebayo and Ogundipe (2022) applied the Markov Switching Model to explore the impact of exchange rate regimes on stock market volatility in Nigeria. Their research uncovered that periods of fixed exchange rate regimes were associated with lower stock market volatility compared to floating regimes. The study concluded that a stable exchange rate environment under a fixed regime could help reduce uncertainty in the capital market, thereby enhancing investor confidence and encouraging long-term investments. These findings suggest that policymakers should carefully consider the choice of exchange rate regime to support capital market stability.

Eze and Nwankwo (2020) utilized the Generalized Autoregressive Conditional Heteroskedasticity (GARCH) model to explore the volatility spillover effects between the foreign exchange market and the Nigerian stock exchange. Their study focused on how fluctuations in exchange rates influenced stock market returns over a specific period. The analysis revealed that exchange rate volatility had a profound and statistically significant impact on stock market performance. The findings highlighted that periods of high exchange rate volatility were associated with increased uncertainty in the stock market, leading to greater fluctuations in stock returns. The authors emphasized the importance of stable exchange rate policies in minimizing adverse effects on market performance.

Ogunleye and Akinyemi (2019) conducted an empirical analysis to determine the long-term relationship between exchange rate movements and stock market performance in Nigeria using the Johansen cointegration test. Their findings revealed a strong and positive long-term relationship between the exchange rate and stock market indices, suggesting that exchange rate stability is critical for sustained stock market growth. The study emphasized that policymakers should focus on maintaining a stable exchange rate environment to foster long-term capital market development and attract both local and foreign investors.

Mlambo, at al. (2013) assessed the effects of currency volatility on the Johannesburg Stock Exchange. An evaluation of literature onexchange rate volatility and stock markets was

conducted resulting into specification of an empirical model. The Generalised Autoregressive Conditional Heteroskedascity (1.1) (GARCH) model was used in establishing the relationship betweenexchange rate volatility and stock market performance. The study employed monthly South African data for the period 2000– 2010. The data frequency selected ensured an adequate number of observations. A very weak relationship between currencyvolatility and the stock market was confirmed.

Similar to Hussin, et al. (2012) investigated the relationships that exist between Islamic stock market and macroeconomic variables in Malaysia. Using the Vector Auto Regression (VAR) method and Kuala Lumpur Shariah Index as a proxy for Islamic stock market, they discovered that the Islamic stock prices are cointegrated with the underlying variables of industrial production index, consumer price index, money supply, Islamic interbank rate, and exchange rate. Specifically, the money supply and exchange rate revealed significant negative relationships with the Islamic index, while the industrial production index and the consumer price index revealed the opposite direction of relationships. There was no significant relationship found between the Islamic index and the Islamic inter-bank rate.

Adjasi, et al. (2008) observed the relationship between stock market and foreign exchange market in a study that examined the impact of exchange rates movements on Ghana's stock market. The nexus between exchange rate volatility and stock market volatility was established using the exponential generalised autoregressive conditional heteroskedasticity (E-GARCH) model. The result revealed that there was negative relationship between exchange rate volatility and stock market returns.

In an earlier study, Ibrahim and Wan Yusoff (2001) found that the movement of Malaysian equity prices is driven more by domestic factors (for example, money supply) than external factors (for example, exchange rate). The result of their study showed that stock price responds immediately to monetary expansion. Although the results revealed a positive relationship between money supply and stock price in the short-run but in the long-run the results showed that money supply to have a negative effect on stock price. In addition to money supply, they also tested other variables such as real output, price level, and exchange rate. They found that besides money supply, stock prices are also influenced by the three other variables. The result of their studies showed that a change in stock prices leads to changes in consumer prices.

3.5 Gaps in Literature

Despite extensive research on exchange rates and capital markets, several gaps remain that require further investigation. One significant area lacking in-depth analysis is the interaction between exchange rate volatility and emerging capital markets. While substantial research exists on the effects of exchange rate fluctuations on developed markets (e.g., Frankel, 1993), less attention has been paid to how these dynamics affect capital flows and market stability in emerging economies. Emerging markets often face higher volatility and less liquid financial environments, which can exacerbate the impacts of exchange rate changes on investment and economic growth (Eichengreen& Mody, 2000). More research is needed to understand how exchange rate risks influence capital market performance in these contexts and how policymakers can mitigate adverse effects.

Another gap is the exploration of the impact of digital currencies and blockchain technology on traditional exchange rate mechanisms and capital market structures. Recent advancements in digital currencies and decentralized finance (DeFi) challenge established financial systems and market dynamics. While some studies have begun to address the implications of these technologies (e.g., Catalini & Gans, 2016), there is still limited research on how digital currencies affect exchange rate stability and capital market efficiency. Further investigation into how these innovations disrupt traditional economic models and what new regulatory or policy frameworks are needed is crucial.

Additionally, there is a need for more comprehensive research on the role of investor behavior in capital markets under different exchange rate regimes. Behavioral finance has shown that investor sentiment and psychological factors can significantly impact market outcomes (Shiller, 2015). However, the integration of these behavioral aspects with exchange rate fluctuations remains underexplored. Understanding how investor behavior interacts with exchange rate volatility can provide deeper insights into market anomalies and improve investment strategies and policy responses.

Lastly, the effects of climate change on exchange rates and capital markets represent an emerging research area. Climate-related financial risks are increasingly recognized as critical factors influencing market performance and exchange rate stability (Sullivan et al., 2021). However, there is limited empirical research on how climate risks and sustainability concerns impact exchange rate dynamics and capital market investments. Addressing this gap could help in developing strategies for integrating environmental considerations into financial decision-making and regulatory frameworks.

4.0 METHODOLOGY

4.1 Research Design

The ex-post facto research design refers to studies that investigate potential cause-and-effect relationships by observing plausible causal elements over time after an existing situation or state of affairs has occurred. This study utilized this approach to determine cause-and-effect relationships and identify independent and dependent variables. This was considered the most suitable research strategy for examining the fluctuation or relationship between two variables. The study was supported by adequate data and information to test the cause-and-effect relationship. Its primary focus was to investigate analysis into exchange rate management and capital market performancein Nigeriaand utilize empirical data to support the study's objectives.

4.2 Population of the Study

The population of the study refers to the entire group of individuals or entities that a researcher targets for investigation, which can be analyzed to draw conclusions and generalize findings (Creswell, 2014). The population consist of all data from the Central Bank of Nigeria (CBN) statistical bulletin.

4.3 Sources of Data

Data from the Central Bank of Nigeria (CBN) Statistical Bulletins served as a secondary source in this research. The data spanned a twenty-year period, from 2004 to 2023. Given the correlational nature of the study and its goal to assess the implications or lack thereof between the study variables, secondary data was considered appropriate.

4.4 Method of Data Collection

The study used secondary source of data collection and the instrument used for the collection of the data is through Central Bank of Nigeria (CBN) statistical bulletin.

4.5 Method of Data Analysis

The analysis employed the Ordinary Least Squares (OLS) econometric approach to estimate the relationship between the dependent variable, exchange rate (EXC), market capitalization (MC), inflation rate (INF), and foreign direct investment (FDI) will be estimated using it. To ascertain whether the variables in a time series are stationary or non-stationary, the unit root test is utilized. In this study, the Augmented Dickey-Fuller (ADF) unit root test will be employed. This test will be conducted before applying the cointegration test.

4.6 Model Specification

The econometric model was adopted for this study with some modifications in order to bridge the gap in the model and make this study more elaborated. However, based on the foregoing, exchange rate (explanatory variables) and market capitalization, inflation rate and foreign direct investmentas dependent variables were considered for this study. The model specification of this study is given as:

$MC_{it} = \beta_0 + \beta_1 EXC_{it} + \mu$ …………………………(i)

$INF_{it} = \beta_0 + \beta_1 EXC_{it} + \mu$ …………………………(ii)

$FDI_{it} = \beta_0 + \beta_1 EXC_{it} + \mu$ …………………………(iii)

Where:

EXC = Exchange rate; MC = Market Capitalization; INF = Inflation rate; FDI = Foreign Direct Investment; e = Error Term; β_0 = Intersect/Constant term

β_1 = Coefficients of the regressors; μ = error term

5.0 PRESENTATION AND DISCUSSION OF RESULTS

5.1 Presentation of Data

Table 4.1 Descriptive Statistics

	EXC	MC	INF	FDI

Mean	4.905085	4.158999	1.096314	2.172358
Median	4.936043	4.218189	1.092721	2.315921
Maximum	5.852961	4.709176	1.461198	2.635264
Minimum	4.256273	3.324797	0.731428	0.120000
Std. Dev.	0.372055	0.371409	0.161804	0.552141
Skewness	0.428497	-0.617096	-0.070235	-2.787813
Kurtosis	3.428961	2.889118	3.341005	10.77576
Jarque-Bera	0.765373	1.279605	0.113346	76.29167
Probability	0.682027	0.527397	0.944903	0.000000
Sum	98.10171	83.17997	21.92627	43.44716
Sum Sq. Dev.	2.630071	2.620944	0.497431	5.792326
Observations	20	20	20	20

The dataset provides a comprehensive overview of four variables: Exchange Rate (EXC), Market Capitalization (MC), Inflation Rate (INF), and Foreign Direct Investment (FDI). For EXC, the mean is 4.91 and the median is 4.94, reflecting a slightly right-skewed distribution with a skewness of 0.43, suggesting that higher values are more frequent. The kurtosis value of 3.43 is close to normal, indicating a distribution with a moderate peak around the mean. The Jarque-Bera statistic of 0.77, with a probability of 0.68, supports the normality of EXC. Market Capitalization (MC) shows a mean of 4.16 and a median of 4.22, with a negative skewness of -0.62, indicating a distribution that is slightly skewed to the left. The kurtosis of 2.89 suggests the data is close to a normal distribution, and the Jarque-Bera test confirms this with a statistic of 1.28 and a probability of 0.53.

In contrast, the Inflation Rate (INF) has a mean of 1.10 and a median of 1.09, with a skewness of -0.07, indicating a nearly symmetric distribution. Its kurtosis of 3.34 is near the normal value, and the Jarque-Bera statistic of 0.11 with a probability of 0.94 confirms its normality. Foreign Direct Investment (FDI) presents a different picture with a mean of 2.17 and a median of 2.32, but it is highly negatively skewed with a value of -2.79. This suggests a long left tail in the distribution, and its high kurtosis of 10.78 indicates frequent extreme values. The Jarque-Bera statistic of 76.29 with a probability of 0.00 shows a significant deviation from normality, highlighting that FDI data is not normally distributed.

5.2 Presentation of Results

Ho1: Exchange rate management does not have a significant impact on market capitalization in Nigeria.

Table 4.2: Regression Analysis of Exchange Rate on Market Capitalization

Variables	Coefficient	St. Error	T-stat	Prob
Constant	-0.267797	0.494626	-0.541412	0.5949
Exchange Rate	0.902491	0.100565	8.974200	0.0000
Adjusted R^2 overall	0.807178			
R^2	0.817326			
F stats	80.53627 (0.000)			

Dependent Variable: MC

Source: Author's Computation (2024)

The regression analysis with market capitalization (MC) as the dependent variable reveals several important insights. The constant term has a coefficient of -0.267797with a standard error of 0.494626, yielding a t-statistic of -0.541412and a p-value of 0.595. This indicates that the constant term is statistically insignificant, suggesting it does not have a meaningful impact on market capitalization.

In contrast, the exchange rate variable has a coefficient of 0.902491, with a standard error of 0.100565, and a t-statistic of 8.974200. The associated p-value is 0.000, which is highly significant. This suggests a strong and statistically significant positive relationship between the exchange rate and market capitalization.

The overall model fit is robust, as indicated by the adjusted R-squared value of 0.81, meaning that approximately 81% of the variation in market capitalization is explained by the exchange rate. An R² value of 0.817326 indicates that approximately 81.73% of the variance in the dependent variable can be explained by the independent variables in the model. This suggests a strong fit, meaning the model effectively captures the relationship between the variables, leaving only about 18.27% unexplained.Additionally, the F-statistic of 80.54 with a p-value of 0.000 confirms the overall significance of the model, indicating that the relationship between the Exchange Rate and Market Capitalization is statistically reliable.

Ho2: There is no significant effect between exchange rate management and inflation rate in Nigeria

Table 4.3: Regression Analysis of Exchange Rate on Inflation Rate

Variables	Coefficient	St. Error	T-stat	Prob
Constant	0.078399	0.443067	0.176946	0.8615
Exchange Rate	0.207522	0.090082	2.303696	0.0334
Adjusted R^2 overall	0.184795			
R^2	0.227700			
F stats	5.307017 (0.033)			

Dependent Variable: INF

Source: Author's Computation (2024)

The regression analysis for the inflation rate (INF) as the dependent variable shows intriguing results. The constant term has a coefficient of 0.08, with a standard error of 0.44, resulting in a t-statistic of 0.18 and a p-value of 0.862. This suggests that the constant term is not statistically significant, indicating that it does not significantly impact the Inflation Rate.

Conversely, the exchange rate variable has a coefficient of 0.21, with a standard error of 0.09, and a t-statistic of 2.30. The p-value of 0.033 indicates that this coefficient is statistically significant at the 5% level. This implies a positive relationship between the exchange rate and inflation rate, where a unit increase in the exchange rate is associated with an approximate 0.21 unit increase in inflation rate, all else being equal.

The model's overall explanatory power is relatively modest, with an adjusted R-squared value of 0.18, suggesting that only 18% of the variation in inflation rate is explained by the exchange rate. An R^2 value of 0.227700 indicates that about 22.77% of the variance in the dependent variable is explained by the independent variables in the model. This suggests a weak fit, meaning the model captures only a small portion of the relationship, with 77.23% of the variance remaining unexplained. However, the F-statistic of 5.31 with a p-value of 0.033 confirms the model's significance, indicating that the relationship between the exchange rate and inflation rate is statistically meaningful, though the explanatory power is limited.

Ho3: Exchange rate management does not have significant impact on foreign direct investment in Nigeria

Table 4.4: Regression Analysis of Exchange Rate on Foreign Direct Investment

Variables	Coefficient	St. Error	T-stat	Prob
Constant	6.145771	1.441517	4.263406	0.0005
Exchange Rate	-0.810060	0.293082	-2.763934	0.0128
Adjusted R^2 overall	0.258951			
R^2	0.297954			
F stats	7.639332 (0.012)			

Dependent Variable: FDI

Source: Author's Computation (2024)

The regression analysis for foreign direct investment (FDI) with Exchange Rate as the independent variable provides notable insights. The constant term has a coefficient of 6.15, with a standard error of 1.44, resulting in a t-statistic of 4.26 and a p-value of 0.0005. This indicates that the constant term is statistically significant and has a substantial impact on FDI, suggesting a baseline level of FDI when the exchange rate is zero.

The exchange rate variable has a coefficient of -0.81, with a standard error of 0.29, and a t-statistic of -2.76. The p-value of 0.013 signifies that this coefficient is statistically significant

at the 5% level. This negative relationship indicates that an increase in the exchange rate is associated with a decrease in FDI by approximately 0.81 units. This suggests that higher exchange rates may deter foreign investment, possibly due to increased costs or reduced competitiveness.

The model's adjusted R-squared value of 0.26 indicates that approximately 26% of the variation in FDI is explained by the exchange rate. An R^2 value of 0.297954 indicates that approximately 29.80% of the variance in the dependent variable is explained by the independent variables in the model. This suggests a relatively weak fit, with the model accounting for less than one-third of the variability, leaving about 70% unexplained.The F-statistic of 7.64 with a p-value of 0.012 confirms that the model is statistically significant, indicating that the exchange ratehas a meaningful impact on FDI.

5.3 Discussion of Findings

The finding that the exchange rate variable has a coefficient of 0.90 and a p-value of 0.000, indicating a strong positive relationship with market capitalization, aligns with recent studies suggesting that a stable or strengthening exchange rate can boost market capitalization by attracting investment (Chen et al., 2019). Conversely, some research highlights that exchange rate volatility may increase market uncertainty and deter investment (Ahmed & Younis, 2022).

The finding of a positive relationship between the exchange rate and inflation rate, with a coefficient of 0.21 and a p-value of 0.033, supports recent research suggesting that currency depreciation can lead to higher inflation by increasing import costs (Khan et al., 2023). However, some studies argue that this relationship may be influenced by other macroeconomic factors, which can mitigate the direct impact of exchange rates on inflation (Smith & Zhang, 2024).

The negative coefficient of -0.81 for the exchange rate, with a p-value of 0.013, suggests that an increase in the exchange rate negatively impacts foreign direct investment (FDI), aligning with recent findings that currency appreciation can deter foreign investors due to higher operational costs (Nguyen & Hoang, 2023). Conversely, some studies argue that the impact of exchange rates on FDI may be moderated by factors such as market potential and economic stability (Lee & Choi, 2024).

6.0 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

This study examinedinto exchange rate management and capital market performancein Nigeria, using 20-year time series data from 2004 to 2023. A time series model was employed with market capitalization, inflation rate, and foreign direct investment as the dependent variables, and exchange rate as independent variables. The analysis was conducted using E-views 9.0 at a 5% significance level.

The analysis of the exchange rate variable reveals three distinct relationships with different economic indicators. First, the exchange rate has a coefficient of 0.90 with a standard error of 0.10 and a t-statistic of 8.97, resulting in a highly significant p-value of 0.000. This indicates a

strong and statistically significant positive relationship between the exchange rate and market capitalization, suggesting that an increase in the exchange rate positively influences market capitalization. Second, the exchange rate shows a coefficient of 0.21, a standard error of 0.09, and a t-statistic of 2.30, with a p-value of 0.033. This result demonstrates a statistically significant positive relationship between the exchange rate and inflation rate, implying that an increase in the exchange rate is associated with higher inflation.

Lastly, the coefficient for the Exchange Rate is -0.81 with a standard error of 0.29, and a t-statistic of -2.76, yielding a p-value of 0.013. This suggests a statistically significant negative relationship between the exchange rate and foreign direct investment (FDI), indicating that a higher Exchange Rate may reduce FDI.

6.2 Recommendations

As a result of the findings of this study, the following are recommended:

Maintaining a stable exchange rate is crucial for boosting investor confidence and enhancing market capitalization, as effective exchange rate management can minimize volatility and support market growth. It is also important to monitor the impact of exchange rate fluctuations on inflation and adjust policies, such as interest rates, to manage inflationary pressures. Additionally, stabilizing the exchange rate helps prevent deterring foreign investors, while improving the investment climate can attract and retain foreign direct investment, even in the face of exchange rate fluctuations.

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