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The Effect of Foreign Exchange and Real Exchange Rate on Foreign Trade in Liberia: An Application of Autoregressive Distributed Lag (ARDL) Approach

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ABSTRACT

In this study, we adopted an ARDL model framework in estimating the effect of foreign exchange intervention and exchange rates on foreign trade in Liberia in three separate models namely export, import and trade balance using yearly data from 1980-2015. The results indicate a statistically significant positive effect of nominal exchange rate on export, but not necessarily for real exchange rate. Nominal exchange rate was confirmed to be inversely related to import while real exchange rate was positively related to import. The trade balance model results show a statistically significant negative effect of nominal exchange rate on trade balance while real exchange rate was seen to be positively related to trade balance. The exchange rate regime change and monetary intervention by the central bank seems ineffective particularly due to the dual currency and high dollarization. The depreciation in the Liberian dollar tend to worsen the trade balance.

KEYWORDS Nominal Exchange Rate; Real Exchange Rate; Foreign Trade; ARDL model; Dual currency

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