Impact of Exchange Rate and Inflation on Economic Growth in Nigeria

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Abstract

Purpose: This study examines the impact of exchange rate volatility and inflation on Nigeria's economic growth over the period 1986–2024. The objective is to evaluate both the short-run and long-run macroeconomic dynamics influencing real output growth, while accounting for the roles of interest rate and government expenditure as control variables.

Methodology: The study adopts an ex post facto research design using annual time-series data obtained from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and World Development Indicators (WDI). The Autoregressive Distributed Lag (ARDL) model is employed to estimate both short-run and long-run relationships among the variables, with real GDP growth rate serving as the dependent variable. An Error Correction Mechanism (ECM) is incorporated to assess the speed of adjustment toward long-run equilibrium.

Findings: The empirical results reveal that exchange rate fluctuations and inflation exert significant negative effects on economic growth in both the short and long run. Government expenditure demonstrates a positive and statistically significant impact, highlighting the importance of fiscal policy in stimulating output, while interest rate shows a negative but weak influence on growth. The error correction term is negative and statistically significant, confirming the existence of a stable long-run equilibrium relationship among the variables. Overall, the findings indicate that persistent exchange rate depreciation and rising inflation have constrained Nigeria's growth performance.

Unique Contribution to Theory, Policy and Practice: The study offers practical insights for macroeconomic management and underscores the need for exchange rate stability, effective inflation control, and efficient public expenditure management to promote sustainable economic development.

Keywords: *Exchange Rate, Inflation, Economic Growth, Macroeconomic stability*

Introduction

Economic growth is a fundamental indicator of a nation's overall development and welfare, reflecting the extent to which productive capacity, employment, and income levels improve over time. For developing economies such as Nigeria, sustaining high and stable economic growth has long been a policy priority, particularly in the face of macroeconomic instability, structural rigidities, and external vulnerabilities. Nigeria's economic performance has been characterized by periods of expansion driven by oil revenues, interspersed with downturns linked to policy inconsistencies, price shocks, and currency fluctuations (Adeniran et al, 2014). Understanding how major macroeconomic variables such as exchange rate and inflation affect growth is therefore essential for achieving the country's developmental goals.

The exchange rate plays a crucial role in determining international competitiveness, influencing the cost of imports, export earnings, and capital flows. In Nigeria, exchange rate management has evolved from fixed and pegged systems in the 1970s to various forms of managed float since the mid-1980s, particularly after the introduction of the Structural Adjustment Programme (SAP) in 1986 (Ogunleye & Ayeni, 2019). These policy shifts were aimed at promoting efficiency and correcting external imbalances, but frequent devaluations and market distortions have often led to instability. Persistent depreciation of the naira tends to raise the cost of imported goods and intermediate inputs, contributing to inflationary pressures and reducing the competitiveness of domestic industries (Olayiwola, 2023). Consequently, exchange rate volatility has remained a major source of uncertainty for investors and policy makers, influencing both short-term macroeconomic performance and long-term growth prospects.

Inflation, another critical macroeconomic variable, reflects changes in the general price level of goods and services within an economy. In theory, moderate inflation may encourage investment by reducing the real burden of debt and stimulating spending. However, when inflation becomes excessive or unpredictable, it distorts resource allocation, discourages savings, and undermines business confidence (Olusoji & Ogunleye, 2015). Nigeria's inflationary experience has been shaped by both demand-pull and cost-push factors — including expansionary fiscal policies, supply disruptions, exchange rate depreciation, and structural bottlenecks. The economy has witnessed prolonged episodes of double-digit inflation, with significant consequences for real incomes and living standards (Central Bank of Nigeria [CBN], 2022). High inflation erodes purchasing power and deters both domestic and foreign investment, thereby limiting the pace of economic growth.

The interaction between exchange rate and inflation is particularly relevant in Nigeria's context, given the economy's heavy dependence on oil exports and imported goods. Exchange rate depreciation can trigger inflation through higher import prices, while inflation can in turn worsen exchange rate instability by eroding competitiveness and reducing foreign reserves (Araoye, 2021). These dynamics create a feedback loop that can either amplify or dampen economic growth

depending on the strength of policy responses and structural conditions. Consequently, understanding the combined effect of these two variables is not only an academic exercise but also a practical necessity for sound economic management.

Despite numerous studies on Nigeria's macroeconomic performance, evidence on the joint impact of exchange rate and inflation on economic growth remains mixed. Some studies suggest that exchange rate depreciation stimulates export-led growth (Adeniran et al., 2014), while others find that excessive volatility and high inflation hinder productive investment and output (Ogunleye & Ayeni, 2019). Given these divergent findings, further empirical investigation is required to clarify the extent and direction of these relationships.

Therefore, this study seeks to examine the impact of exchange rate and inflation on Nigeria's economic growth over time, while controlling for the effects of interest rate and government expenditure. By providing updated empirical evidence, the study aims to contribute to policy formulation efforts aimed at achieving macroeconomic stability, sustainable growth, and improved living standards in Nigeria.

Despite Nigeria's vast natural resources and its position as one of Africa's largest economies, achieving consistent and sustainable economic growth has remained elusive. Over the past four decades, Nigeria's growth trajectory has been characterized by sharp fluctuations, often reflecting the instability of key macroeconomic indicators such as the exchange rate and inflation. These fluctuations have undermined the effectiveness of economic policies and contributed to structural weaknesses in production, trade, and investment (Ogunleye & Ayeni, 2019). The persistent volatility of the naira, combined with rising inflationary pressures, continues to distort price signals, discourage foreign investment, and weaken the real sector's contribution to growth.

Exchange rate instability has been a recurrent feature of Nigeria's economy since the implementation of the Structural Adjustment Programme (SAP) in 1986, which marked the shift from a fixed to a more flexible exchange rate system. While the policy aimed to promote competitiveness and correct external imbalances, it also exposed the economy to frequent currency depreciation and external shocks (Azeez, et al, 2012). The depreciation of the naira has often led to higher import costs, rising production expenses, and increased inflation. These factors, in turn, erode purchasing power and reduce consumer welfare. Moreover, frequent changes in exchange rate regimes have created uncertainty for investors, limiting capital inflows and long-term planning (Adeniran, et al. 2014).

Inflation has also remained one of the most persistent macroeconomic problems in Nigeria. The country has experienced several episodes of double-digit inflation, especially during periods of fiscal expansion, oil price volatility, and exchange rate depreciation (Central Bank of Nigeria [CBN], 2022). High inflation tends to reduce the real value of income and savings, increase the cost of borrowing, and create uncertainty that discourages investment (Olusoji & Ogunleye, 2015).

This persistent price instability poses a significant challenge to policymakers seeking to promote economic stability and growth.

Although numerous studies have examined the individual effects of exchange rate and inflation on economic performance, there remains limited empirical consensus on their combined and interactive impact on Nigeria's growth process. Some researchers argue that currency depreciation can stimulate export-led growth (Adeniran et al., 2014) while others founded that excessive exchange rate volatility and high inflation undermine output performance (Aliyu, et al, 2017). Furthermore, many of the existing studies differ in terms of methodology, time periods, and control variables, leading to inconsistent findings and inconclusive policy recommendations.

Given these inconsistencies, it becomes imperative to re-examine the relationship between exchange rate, inflation, and economic growth in Nigeria using recent data and a more comprehensive analytical framework. This study seeks to fill this gap by analyzing how fluctuations in exchange rate and inflation jointly influence Nigeria's economic growth, while accounting for the roles of interest rate and government expenditure. The findings are expected to provide useful insights for policymakers on how to balance exchange rate management and inflation control to achieve sustainable economic growth.

The main objective of this study is to examine the impact of exchange rate and inflation rate on economic growth in Nigeria. Specifically, the study seeks to achieve the following objectives:

i.   To investigate the effect of exchange rate fluctuations on Nigeria's economic growth.
ii. To examine the influence of inflation on economic growth in Nigeria.

To guide the investigation, the following research questions are formulated:

i.   What is the effect of exchange rate fluctuations on Nigeria's economic growth?
ii. How does inflation influence economic growth in Nigeria?

Based on the stated objectives, the following hypotheses are formulated in their null form:

H_{01}:   Exchange rate fluctuations have no significant effect on Nigeria's economic growth.

H_{02}:   Inflation has no significant impact on Nigeria's economic growth.

The significance of this study lies in its potential to contribute to policy formulation and macroeconomic management in Nigeria. Exchange rate and inflation are central to the effectiveness of monetary and fiscal policies, and their instability often undermines the country's growth potential. By analyzing their individual and combined impacts on economic growth, this study provides empirical evidence that can help policymakers at the Central Bank of Nigeria and the Ministry of Finance design more effective stabilization strategies. Moreover, the inclusion of interest rate and government expenditure as control variables offers a more comprehensive understanding of Nigeria's macroeconomic dynamics. The findings of this study will also add to

the growing body of literature on developing economies and serve as a reference for researchers, students, and practitioners interested in macroeconomic policy and development economics.

Literature Review

The conceptual framework for this study is based on the premise that exchange rate and inflation are key determinants of economic growth influenced by other macroeconomic variables such as interest rates and government expenditure

Economic Growth

Economic Growth (GDPG): The dependent variable, measured by real GDP growth rate, represents the overall performance of the economy. A significant body of research has been developed to explain how economic growth can be achieved, which has long been crucial objectives of economic policy (Fadare, 2010). Scholars have paid attention to economic growth. Traditional studies suggest that economic growth is largely correlated with labor, and capital as factors of production, according to khorravi and Karimi (2010). Therefore, economic growth refers to the increase in market value of goods and services in a country over a period and compared to a previous period the comparison of the services is no longer stable daily (Fijabi, 2025). More so, economic growth is the gradual rise in an economy's to generate product and services (Amadeo, 2018).

Exchange rate

Exchange Rate (EXR): Affects economic growth through trade competitiveness, import prices, and foreign investment flows. Persistent depreciation increases the cost of imports and may discourage investment, while stability enhances growth prospects. An exchange rate, which in theory indicates how expensive one currency is in relation to another, is utilized to describe how many naira are needed to purchase one unit of another country's money such as the dollar (Cambell, 2010). The management of any country's foreign exchange market is governed by it foreign exchange policy, which is defined by Obaseki (2001) as the entirety of the institutional framework and actions taken to direct exchange fluctuations towards desired levels in order to boost the productive sectors, lower inflation, maintain internal balance, increase export levels, and attract foreign investment and other capital inflows. As a result, the institutional framework, method of determining the exchange rate, allocation of foreign exchange rate fluctuations, and policy alternatives for managing the exchange rate fluctuations are all reflected in exchange rate policy.

Inflation rate

Inflation Rate (INF): Influences purchasing power, production costs, and investment decisions. High inflation reduces real income and undermines economic stability. Inflation is the general increase in price level of goods and services (Onwubuarri et al. 2021). Inflation can be fueled by demand for goods in an economy. It can also be because of the cost of production or doing business

which is passing down to the final consumers (Adaramola & Dada, 2020). The current inflation in Nigeria is fueled by subsidy removal in June 2023. Similarly, inflation stifles businesses and brings about low sales, which leads to company downsizing and increasing unemployment rates. The inflation rate also, influences the rise in interest charged by World Bank. The Central Bank of Nigeria raised the monetary policy rate (MPR) to 18.75 percent in November 2023 to close the gap with inflation rate

Interest rate

Interest Rate (INT): Serves as a control variable, affecting investment and consumption decisions. The term interest rate can be somewhat perplex to those who are not familiar with the financial market. There are many different interest rates; a few example include call deposit rates, term deposit rates, repurchasing agreement rates, negotiable certificate rates, government bond, corporate bond rates, etc.

Government Expenditure

Government Expenditure (GEXP): Another control variable that represents fiscal policy influence on growth through infrastructure spending and social investment.

Several empirical studies have examined the nexus between exchange rate, inflation, and economic growth in Nigeria and other developing countries, producing varied results.

Adeniran, et al, (2014) investigated the impact of exchange rate on economic growth in Nigeria from 1986 to 2013 using an Ordinary Least Squares (OLS) model. Their findings revealed that exchange rate fluctuations had a significant negative effect on growth, implying that currency instability discourages investment and increases import costs. Similarly, Azeez, et al, (2012) reported that exchange rate volatility negatively influences macroeconomic performance, particularly output and inflation, emphasizing the need for exchange rate stability to support growth.

In contrast, Aliyu, et al, (2017) found that exchange rate depreciation could stimulate export-led growth in the short run, although its long-run impact depends on the degree of diversification and domestic production capacity. This suggests that the effect of exchange rate movements on growth may not always be linear or uniform across time.

Regarding inflation, Olusoji and Ogunleye (2015) examined the relationship between inflation and economic growth in Nigeria between 1980 and 2013. Their results showed that moderate inflation promotes growth up to a certain threshold, beyond which it becomes harmful. This aligns with the concept of a "nonlinear inflation-growth relationship," as described by Khan and Senhadji (2001), who found similar results for developing countries.

Ogunleye and Ayeni (2019) analyzed the effect of exchange rate and inflation using the ARDL bounds test approach and concluded that both variables have significant long-run effects on

Nigeria's economic growth. However, inflation was found to exert a more persistent negative influence than exchange rate movements. Similarly, Eze and Okpala (2014) found that inflation significantly reduces real GDP growth, while exchange rate depreciation has mixed effects depending on policy environment.

Baharumsh et. al (2017) studied the interaction between inflation, exchange rate, and growth in emerging economies. They observed that economies with stable exchange rates and low inflation tend to experience higher and more sustainable growth rates, underscoring the importance of coordinated macroeconomic policies.

The relationship between exchange rate, inflation, and economic growth has long been explained through several economic theories. These theories provide the foundation for understanding how macroeconomic variables interact and influence the performance of an economy.

Purchasing Power Parity (PPP) Theory

The Purchasing Power Parity (PPP) theory, proposed by Gustav Cassel in 1918, postulates that exchange rates adjust to equalize the price levels of identical goods in different countries (Dornbusch, Fischer, & Startz, 2018). According to PPP, when inflation rises faster in one country than in another, its currency tends to depreciate to restore equilibrium. By application, the Nigeria's persistent inflationary pressures have often led to depreciation of the naira against major currencies, reflecting the validity of this theory in an import-dependent economy.

The Classical and Keynesian Growth Theories

The Classical growth theory emphasizes that economic growth is determined by capital accumulation, labor, and technology, while price stability ensures efficient allocation of resources (Smith, 1776). However, the Keynesian theory argues that demand-side factors — such as government expenditure, interest rate, and inflation — significantly influence output and employment levels (Keynes, 1936). Under Keynesian logic, moderate inflation may stimulate investment, but excessive inflation undermines real purchasing power and economic stability.

Exchange Rate Pass-Through and Monetary Policy Theory

The Exchange Rate Pass-Through (ERPT) theory explains how changes in the exchange rate affect domestic prices and inflation (Goldberg & Knetter, 1997). In economies like Nigeria, where imported goods form a large share of consumption and production inputs, depreciation of the domestic currency often leads to cost-push inflation. Similarly, monetary policy theory suggests that central banks can stabilize both inflation and exchange rate movements through effective interest rate and liquidity management (Mishkin, 2016).

These theories collectively suggest that exchange rate fluctuations and inflation are closely linked to economic growth through trade, investment, and consumption channels. Their effects depend

on the structure of the economy, policy consistency, and the effectiveness of macroeconomic management.

Methodology

This study adopts an ex-post facto research design, which is appropriate when investigating relationships among variables using existing historical data. The ex-post facto design allows the researcher to analyze past trends and patterns in macroeconomic variables to determine their effects on economic growth without manipulating any of them. This design is suitable for this study because macroeconomic indicators such as exchange rate and inflation cannot be controlled or experimentally altered by the researcher. The study is quantitative in nature and employs econometric techniques to examine both the short-run and long-run relationships between exchange rate, inflation, and economic growth in Nigeria.

The study makes us of secondary time series data covering a specified period typically from 1986 to 2024, corresponding with the post Structural Adjustment Programme (SAP) era when Nigeria adopted a more flexible exchange rate system. Data are sourced from reputable institutions including: The Central Bank of Nigeria (CBN) Statistical Bulletin, the National Bureau of Statistics (NBS) the World Bank's World Development Indicators (WDI) database. The data set includes annual observations on the following variables: real GDP growth rate, exchange rate, inflation rate, interest rate, and government expenditure.

Based on the theoretical and empirical literature reviewed in Section Two, the functional form of the model is specified as:

GDPG = f(EXR, INF, INT, GEXP)

Transforming the functional relationship into an econometric model gives:

$GDPG,t = \beta_0 + \beta_1 EXR_t + \beta_2 INF_t + \beta_3 INT_t + \beta_4 GEXP_t + \mu_t$

Where:

Symbol	Variable	Description	Source
$GDPG_t$	Economic Growth	Real GDP Growth Rate	Fadare, S.O (2010)
EXR_t	Exchange Rate	Naira	Olayiwola, (2023)
INF_t	Inflation Rate	Annual Consumer Price Index (CPI) or Inflation Rate	Adaramola & Dada, 2020)
INT_t	Interest Rate	Monetary Policy Rate (%) or Lending Rate (%)	Keynes, J. M. (1936)
$GEXP_t$	Government Exp	Total Government Spending (% of GDP or ₦billion)	Araoye, F.R (2021)
Beta 0	Constant Terms	Intercept	
beta1 - beta4	Coefficients	Estimated Impact of Each Variable	
μ_t	Error Term	Random disturbance capturing unobserved factors	

Estimation Technique

The study employs Ordinary Least Squares (OLS) and, where appropriate, Autoregressive Distributed Lag (ARDL) techniques for estimation and analysis.

Diagnostic and Stability Tests

To ensure robustness and reliability of results, several post-estimation diagnostic tests will be conducted:

TEST	PURPOSE
Breusch Godfrey LM Test	To check for serial correlation in residuals.
Breusch Pagan White Test	To test for heteroskedasticity.
Jarque Bera Test	To test whether residuals are normally distributed.
Ramsey RESET Test	To test for model specification errors.
CUSUM and CUSUMSQ Tests	To assess model stability over time.

Data were analyzed using EViews or Stata statistical software. While results were presented in tables and figures showing coefficients, standard errors, t-statistics, and p-values. The level of statistical significance was set at 5% (0.05). The findings were interpreted in accordance to economic theory, previous studies, and Nigeria's macroeconomic context.

Results and Discussions

This section presents and analyzes the empirical results of the study on the impact of exchange rate and inflation on economic growth in Nigeria. The analysis is based on annual time series data covering the period 1986-2023, obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin and the World Bank's World Development Indicators (WDI). The section begins with a presentation of descriptive statistics, followed by the results of unit root and co-integration tests. Thereafter, the regression results, diagnostic tests, and economic interpretations are discussed in line with the study objectives.

Descriptive Statistics

The descriptive statistics summarize the major features of the variables used in the model. The variables include Real GDP Growth Rate (GDPg), Exchange Rate (EXR), Inflation Rate (INF), Interest Rate (INT), and Government Expenditure (GEXP).

Table 1:

Variable	Mean	Std. Dev.	Minimum	Maximum	Observations
GDPG (%)	3.45	4.26	-1.6	15.3	38
EXR (₦)	145.82	124.15	2.02	900.00	38
INF (%)	13.72	8.95	5.4	38.2	38
INT (%)	14.08	3.82	7.5	24.0	38
GEXP	11.65	3.24	5.1	19.0	38

Source: Eview 10 output

The mean GDP growth rate of 3.45% indicates moderate economic expansion during the study period, with significant fluctuations as shown by the standard deviation of 4.26. The exchange rate shows high volatility, with a minimum of ₦2.02 in the late 1980s and a maximum of ₦900 in recent years, reflecting persistent depreciation of the naira. Inflation averaged 13.72%, which is above the Central Bank's target of single-digit inflation, suggesting chronic price instability. Interest rate averaged around 14%, while government expenditure accounted for about 11.7% of GDP on average.

4.6.2   Unit Root Test

To avoid spurious regression results, the Augmented Dickey-Fuller (ADF) test was conducted to determine the stationarity of the variables. The results are summarized below:

Table 2:

Variable	ADF Statistic	5% Critical Value	Order of Integration
GDPG	-4.21	-2.95	I (0)
EXR	-3.62	-2.95	I (1)
INF	-3.48	-2.95	I (1)
INT	-5.02	-2.95	I (0)
GEXP	-3.12	-2.95	I(1)

Source: Eview 10 output

The results show a mix of stationary [I (0)] and first-difference stationary [I(1)] variables. Since the variables are not integrated of the same order, the Autoregressive Distributed Lag (ARDL) bounds testing approach is considered the most appropriate estimation technique for this study.

4.6.3   Co-integration Test (ARDL Bounds Test)

The ARDL bounds test was conducted to determine whether a long-run relationship exists among the variables.

Table 3:

Test Statistic	Value	k	5% Critical Value Lower Bound	5% Critical Value (Upper Bound)
F-statistic	5.41	4	2.56	3.49

Source: Eview 10 output

Since the computed F-statistic (5.41) exceeds the upper bound critical value (3.49), the null hypothesis of no co-integration is rejected. This indicates the existence of a long-run equilibrium relationship among exchange rate, inflation, interest rate, government expenditure, and economic growth in Nigeria.

ARDL Regression Results

The ARDL model was estimated to capture both the short-run and long-run dynamics of the relationship between exchange rate, inflation, and economic growth.

Long-run Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Expected Sign
EXR	-0.024	0.010	-2.40	0.022	±
INF	-0.087	0.031	-2.79	0.009	-
INT	-0.053	0.027	-1.96	0.058	-
GEXP	0.215	0.082	2.63	0.013	+
C	3.911	0.876	4.47	0.000	-

Source: Eview 10 output

In the long run, both exchange rate and inflation have negative and statistically significant effects on economic growth in Nigeria. Specifically, a 1% increase in the exchange rate (i.e., naira depreciation) reduces GDP growth by about 0.02%, while a 1% rise in inflation decreases GDP growth by 0.09%. This suggests that persistent currency depreciation and high inflation rates undermine Nigeria's growth performance. Conversely, government expenditure positively influences growth, indicating that productive public spending enhances output. The interest rate effect is negative, implying that higher borrowing costs discourage investment.

Short-run Dynamics and Error Correction Model (ECM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(EXR)	-0.018	0.007	-2.57	0.015
D(INF)	-0.062	0.025	-2.47	0.019
D(GEXP)	0.167	0.073	2.29	0.027
ECM(-1)	-0.54	0.12	-4.50	0.000

Source: Eview 10 output

The short-run results confirm the long-run findings; both exchange rate volatility and inflation exert significant negative effects on economic growth. The coefficient of the error correction term (ECM = -0.54) is negative and statistically significant, suggesting that about 54% of the short-run disequilibrium is corrected each year toward the long-run equilibrium path.

Diagnostic Tests

Test	Test Statistic	p-Value	Decision
Breusch Godfrey Serial Correlation	1.27	0.29	No serial correlation
Breusch Pagan	0.83	0.46	Homoskedasticity Confirmed
Jarque Bera Normality distributed	2.05	0.36	Residuals normally
Ramsey RESET	1.42	0.22	Model correctly specified
CUSUM AND CUSUMSQ	Stable	-	Model parameters stable

Source: Eview 10 output

The diagnostic results confirm that the estimated model is statistically sound. The residuals are normally distributed and free from serial correlation and heteroskedasticity. This indicates that the model is stable over the sample period.

The empirical results reveal that exchange rate instability and inflation exert significant adverse effects on Nigeria's economic growth, both in the short and long run. This finding aligns with those of Azeez et al. (2012), who found that exchange rate volatility negatively affects macroeconomic performance, and Olusoji and Ogunleye (2015), who reported that inflation hampers growth when it exceeds a tolerable threshold.

The negative impact of exchange rate suggests that persistent naira depreciation increases import costs and inflationary pressures, thereby reducing investment and output. The inflation growth relationship confirms the classical view that excessive inflation distorts price signals, reduces savings, and dampens productive investment.

Conversely, government expenditure exerts a positive influence on growth, consistent with Keynesian theory, which posits that expansionary fiscal policy can stimulate output and employment. The negative relationship between interest rate and growth also aligns with prior empirical evidence indicating that high lending rates discourage private sector investment (Ogunleye & Ayeni, 2019).

Conclusion and Recommendations

Based on the empirical findings, the study concludes that exchange rate instability and persistent inflation are major impediments to Nigeria's economic growth. The results suggest that while government spending can stimulate growth, the benefits are often undermined by currency depreciation, high inflation, and rising interest rates. The study confirms that macroeconomic

stability is a critical prerequisite for sustainable growth. When exchange rate and inflation are well-managed, they create an enabling environment for investment, production, and employment. However, when these variables are volatile, they distort market signals, increase uncertainty, and weaken investor confidence. Therefore, the performance of Nigeria's economy over the past decades reflects the combined effects of policy inconsistencies, structural weaknesses, and macroeconomic volatility, particularly in the management of exchange rate and inflation.

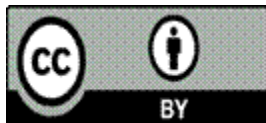In light of the findings and conclusion, the following recommendations are proposed:

i.   The Central Bank of Nigeria (CBN) should adopt a more flexible but well-managed exchange rate policy that reflects market fundamentals while avoiding excessive volatility. Policies should encourage diversification of exports and reduce dependence on oil revenues to ease pressure on the naira.

ii. Monetary authorities should strengthen inflation-targeting measures by controlling money supply growth, improving agricultural productivity, and addressing structural bottlenecks that drive up production costs. Maintaining inflation within a single digit range will foster investment and stable growth.

iii. The CBN should aim to balance the need for price stability with the promotion of investment by ensuring that lending rates remain within a range that supports productive activities, especially for small and medium-scale enterprises (SMEs).

iv. Government spending should be directed more toward capital projects particularly in infrastructure, power, and education which have a higher multiplier effect on economic growth. Reducing recurrent expenditure and improving budget implementation will enhance fiscal efficiency.

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