Effects of Stagflation and Exchange Rate Fluctuations on Economic Growth in Nigeria

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ABSTRACT

The impact of stagflation and exchange rate fluctuations on economic growth in Nigeria from 1991 to 2023 is examined. Data obtained from the World Bank include GDP growth rate, inflation (Consumer Price Index), exchange rate (Real Effective Exchange Rate), and unemployment rate. Stagflation is defined both as a multiplicative interaction term (INF × Ue) and as a composite threshold dummy variable (D_STAG = 1 when INF > 10%, Ue > 5%, and GDP growth < 2%), with the latter included for robustness. The analysis utilizes the Autoregressive Distributed Lag (ARDL) bounds-testing framework and the associated Error Correction Model (ECM). Long-run findings indicate that exchange rate volatility negatively affects economic growth ($\beta = -0.0243$, $p = 0.0496$), whereas inflation, unemployment, and their interaction are statistically insignificant in the long run. In the short run, changes in inflation (−0.3548), unemployment (−32.5494), and the stagflation interaction (0.0822) have significant effects on growth, whereas the exchange rate is insignificant. The reversal in the sign of the stagflation coefficient across time horizons is attributed to nominal rigidities in the short run and structural adjustment dynamics in the long run. Diagnostic tests confirm the absence of serial correlation, heteroskedasticity, and functional form misspecification. Exchange rate instability is identified as the dominant long-run constraint on Nigerian economic growth, while stagflation effects are concentrated in the short run.

Keywords: Exchange rate fluctuations; Economic growth; Inflation; Stagflation; Unemployment; ARDL; Nigeria

INTRODUCTION AND BACKGROUND

Stagflation and exchange rate volatility are central components of macroeconomic instability in many developing economies. Stagflation, characterised by the simultaneous occurrence of high inflation, elevated unemployment, and stagnant or declining economic output, poses a distinct policy challenge. Conventional demand management tools often yield conflicting outcomes: tightening monetary policy to curb inflation may worsen unemployment, whereas fiscal or monetary stimulus can intensify inflationary pressures. Exchange rate instability further exacerbates these challenges by increasing import price pass-through, reducing investor confidence, and deteriorating the external balance.

Exchange rate instability is a persistent macroeconomic challenge in Nigeria, affecting import prices, inflation pass-through, and economic growth trajectories (Olisadebe, 1991, as cited in Ewubare & Ushie, 2022). Todaro and Smith (2004, as cited in Ewubare & Ushie, 2022) identify exchange rate management as a critical determinant of economic policy worldwide. The adoption of a floating exchange rate regime under the Tinubu administration since 2023 has led to significant currency depreciation and rising inflation, thereby renewing concerns about stagflation in Nigeria. Friedman, Keynes, and Krugman contend that increasing interest rates during stagflation can further suppress output by reducing consumption and investment (Liu, 2023). While the literature offers extensive separate analyses of inflation, unemployment, exchange rate volatility, and growth, few studies investigate stagflation and exchange rate fluctuations within a unified analytical framework, particularly in the Nigerian context. This study addresses this gap. The primary research objectives are: (i) to assess the influence of exchange rate fluctuations on Nigerian economic growth; (ii) to examine the effect of inflation on economic growth; (iii) to analyse the impact of unemployment on economic growth; and (iv) to evaluate the effect of stagflation on economic growth in Nigeria from 1991 to 2023.

Conceptual and Theoretical Review

Stagflation is a macroeconomic phenomenon characterised by the simultaneous presence of elevated inflation and unemployment, as well as stagnant or negative output growth, which constrains the effectiveness of conventional demand-side policy responses (Liu, 2023). The primary causes of stagflation include supply-side shocks, structural rigidities, inappropriate monetary policy, and declining productivity. Exchange rate fluctuation refers to sustained changes in the value of the domestic currency relative to foreign currencies, driven by inflation differentials, interest rate disparities, trade balances, and capital flows (Iheanachor & Ozegbe, 2021). In import-dependent economies such as Nigeria, currency depreciation directly contributes to domestic inflation by increasing the cost of imported inputs and consumer goods. Economic growth is generally measured by the rate of increase in real GDP, with macroeconomic stability serving as a critical prerequisite (Hardwick et al., 1994).

Three principal theoretical frameworks inform this study. The Phillips Curve posits a short-run inverse relationship between inflation and unemployment; however, the stagflation of the 1970s demonstrated that this relationship can break down in the presence of supply shocks, leading to simultaneous inflation and unemployment. Expectation-augmented and natural rate models were subsequently developed to address this phenomenon. Purchasing Power Parity (PPP) provides a theoretical basis for determining exchange rates based on relative price levels across countries. However, its empirical relevance in developing economies is constrained by market imperfections and structural limitations (CBN, 2021). Modern growth theory, originating from the Harrod-Domar model (Harrod, 1939; Domar, 1946), emphasises capital accumulation, technological advancement, and human capital as key drivers of growth, with macroeconomic stability being essential for sustained development.

In this study, economic growth is conceptualised as the outcome of interactions among exchange rate fluctuations, inflation, unemployment, and stagflation. Exchange rate movements affect domestic price levels, import costs, and investment decisions. Inflation distorts relative prices and reduces purchasing power, thereby diminishing consumption and long-term investment. Unemployment lowers aggregate demand and decreases the utilisation of productive capacity. Stagflation intensifies these adverse effects, rendering conventional policy responses such as monetary tightening or fiscal expansion internally inconsistent. The effectiveness of macroeconomic policy ultimately determines the magnitude and direction of these relationships.

Review of Empirical Studies

Nelson and Nikolov (2002) demonstrate that credible inflation-targeting monetary policy can stabilise prices even during supply shocks. Babalola et al. (2015), focusing on Nigeria, report that inflation and interest rates adversely affect economic growth and recommend prioritising price stability. Odo et al. (2017) identify a significant relationship between inflation and unemployment, consistent with stagflationary patterns in Nigeria. Utile et al. (2018) find that both inflation and exchange rates negatively impact GDP growth, while interest rates have mixed effects. Ajie et al. (2018) document the negative consequences of price instability and exchange rate volatility on growth and employment. Ani and Udeh (2021) observe a significant effect of exchange rate volatility on both GDP and GNP in Nigeria. Niken et al. (2023), using Ethiopian data, find that inflation and unemployment negatively influence growth dynamics, although these effects are not permanent. Liu (2023) contends that while developing countries cannot fully avoid stagflation, appropriate policy interventions can mitigate its severity.

Synthesis, Research Gap, and Contribution

The literature consistently identifies significant relationships among inflation, unemployment, exchange rate volatility, and economic growth, both individually and in two-variable analyses. However, empirical research that simultaneously models stagflation and exchange rate fluctuations within a unified growth framework is limited, especially in Nigeria. This paper fills that gap by integrating both phenomena in a single ARDL framework and operationalising stagflation through both an interaction term and a composite threshold dummy for robustness. The study extends growth analysis beyond single-variable models and offers policy-relevant evidence for import-dependent, commodity-exporting developing economies.

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METHODOLOGY

Model Specification

Economic growth (GDPg) is specified as a function of inflation (INF), exchange rate (EXR), unemployment rate (Ue), and stagflation (INF × Ue). GDP growth rate proxies economic growth; the Consumer Price Index (CPI) proxies inflation; the Real Effective Exchange Rate Index (REER) proxies exchange rates; and unemployment as a share of the total labour force (ILO estimate) proxies the unemployment rate. The baseline stochastic model is:

$GDPg_t = \beta_0 + \beta_1 INF_t + \beta_2 EXR_t + \beta_3 Ue_{,t} + \beta_4 (INF_t \times Ue_{,t}) + \varepsilon_t$ ……… (1)

where $GDPg_t$ is the GDP growth rate at time t; INF_t is the consumer price index; EXR_t is the real effective exchange rate; $Ue_{,t}$ is the unemployment rate; ($INF_t \times Ue_{,t}$) is the multiplicative interaction term capturing the joint stagflation effect; β_0 is the intercept; β_1 through β_4 are slope coefficients; and ε_t is the stochastic error term, assumed $\varepsilon_t \sim iid(0, \sigma^2)$. Composite Threshold Dummy (Robustness Check): **S**tagflation is operationalised as a composite dummy variable, D_STAG_t, which equals 1 when inflation exceeds 10%, the unemployment rate exceeds 5%, and GDP growth falls below 2%. Otherwise, D_STAG_t is set to 0. This threshold-based specification is consistent with the conventional three-condition definition of stagflation and serves as a robustness check for the interaction-term results. The augmented model is:

$GDPg_t = \beta_0 + \beta_1 INF_t + \beta_2 EXR_t + \beta_3 Ue_{,t} + \beta_4 (INF_t \times Ue_{,t}) + \beta_5 D\_STAG_t + \varepsilon_t$ …… (2)

Estimation Techniques

The estimation follows four main steps. First, the Augmented Dickey-Fuller (ADF) unit root test is used to check the stationarity order of each variable. Second, the ARDL bounds-testing procedure (Pesaran, Shin, & Smith, 2001) is applied to examine cointegrating relationships. This method fits the mixed I(0)/I(1) integration orders and the small sample of 33 annual observations. The Akaike Information Criterion (AIC) was used to select the optimal lag length, which was set at 1. Third, the Error Correction Model (ECM) estimates both short-run dynamics and the long-run equilibrium relationship, showing how quickly the system returns to equilibrium. Fourth, several diagnostic tests are run to check if the model is adequate.

ARDL Bounds Testing and ECM Specification

The unrestricted conditional ARDL (p, q_1, q_2, q_3, q_4) bounds-testing model is:

$$\Delta GDP_{gt} = \alpha_0 + \sum_{i=1}^{p} \beta_i GDP_{gt-i} + \sum_{j=0}^{q_1} \gamma_j INF_{t-j} + \sum_{k=0}^{q_2} \theta_k EXR_{t-k}$$
$$+ \sum_{l=0}^{q_3} \psi_l UE_{t-l} + \sum_{m=0}^{q_4} \pi_m (INFxUE)_{t-m} + \mu_t + \lambda_1 GDP_{gt-1} + \lambda_2 INF_{t-1} + \lambda_3 EXR_{t-1}$$
$$+ \lambda_4 UE_{t-1} + \lambda_5 (INFxUE)_{t-1} + \mu_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$

The null hypothesis of no cointegration is H_0: $\lambda_1 = \lambda_2 = \lambda_3 = \lambda_4 = \lambda_5 = 0$. Cointegration is confirmed if the computed F-statistic exceeds the upper critical bound I(1) of Pesaran et al. (2001). After confirmation, the long-run equilibrium relationship is determined as follows:

$$GDP_{gt} = \alpha_0 + \beta_1 INF_t + \beta_2 EXR_t + \beta_3 UE_t + \beta_4 (INFxUE)_t + \varepsilon_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (4)$$

where $\theta_i = -\lambda_{i+1}/\lambda_1$ are long-run elasticities derived from lagged-level coefficients.

Diagnostic Tests

After estimation, the adequacy of the model is evaluated using four diagnostic tests. The Breusch-Godfrey Lagrange Multiplier (LM) test assesses serial correlation in the residuals up to two lags; failure to reject the null hypothesis of no serial correlation supports the independence assumption. The Ramsey RESET test

detects functional-form misspecification by determining whether polynomial functions of the fitted values significantly predict the dependent variable; a non-significant statistic supports the linearity assumption. The ARCH (Autoregressive Conditional Heteroskedasticity) test evaluates the presence of time-varying variance in the residuals; a non-significant result indicates homoskedasticity. The Jarque-Bera test assesses the normality of residuals. The results, along with their associated p-values, are presented in Table 7.

RESULTS AND DISCUSSION

Trend Analysis

Analysis of key macroeconomic variables from 1990 to 2023 indicates substantial volatility. GDP growth was 11.78% in 1990, declined sharply to 0.36% in 1991, and registered negative values in several subsequent years before rebounding to 15.33% in 2002. The inflation rate increased from 2.41% in 1990 to 524.91% in 2023, highlighting persistent monetary imbalances and structural supply constraints. The unemployment rate remained relatively stable, fluctuating between 3.07% and 5.74% during the period. The Real Effective Exchange Rate decreased from 71.06 in 1990 to 49.78 in 1993, rose to 273.01 by 1998, fell below 100 between 1999 and 2009, and increased again, reaching a peak of 133.19 in 2022. These trends are depicted in Figures 1–3.

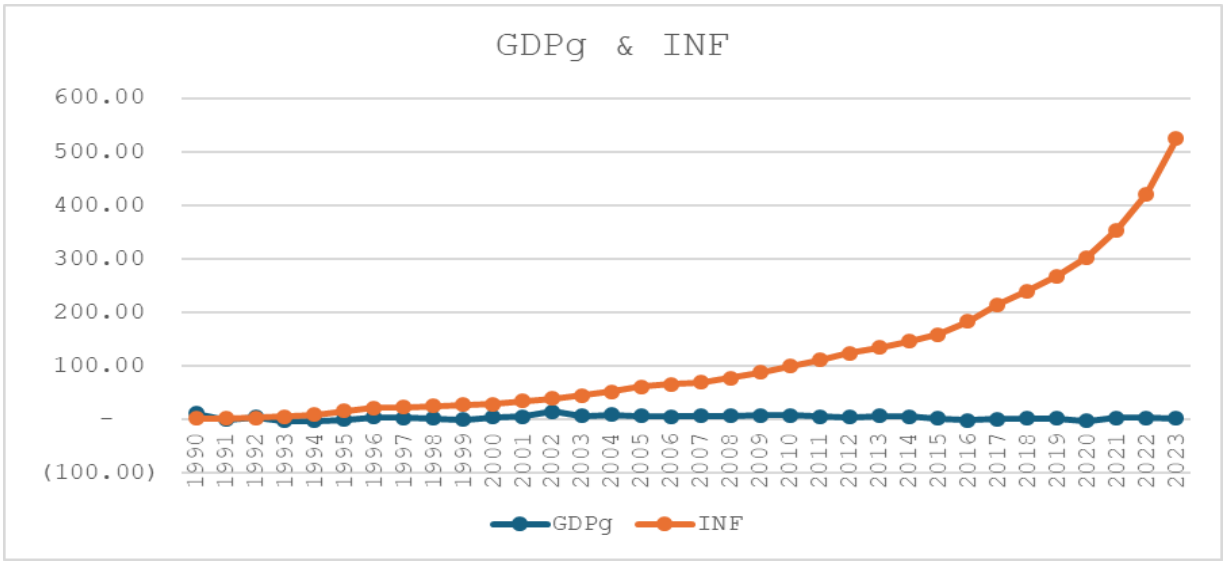

Figure 1: Economic Growth and Inflation

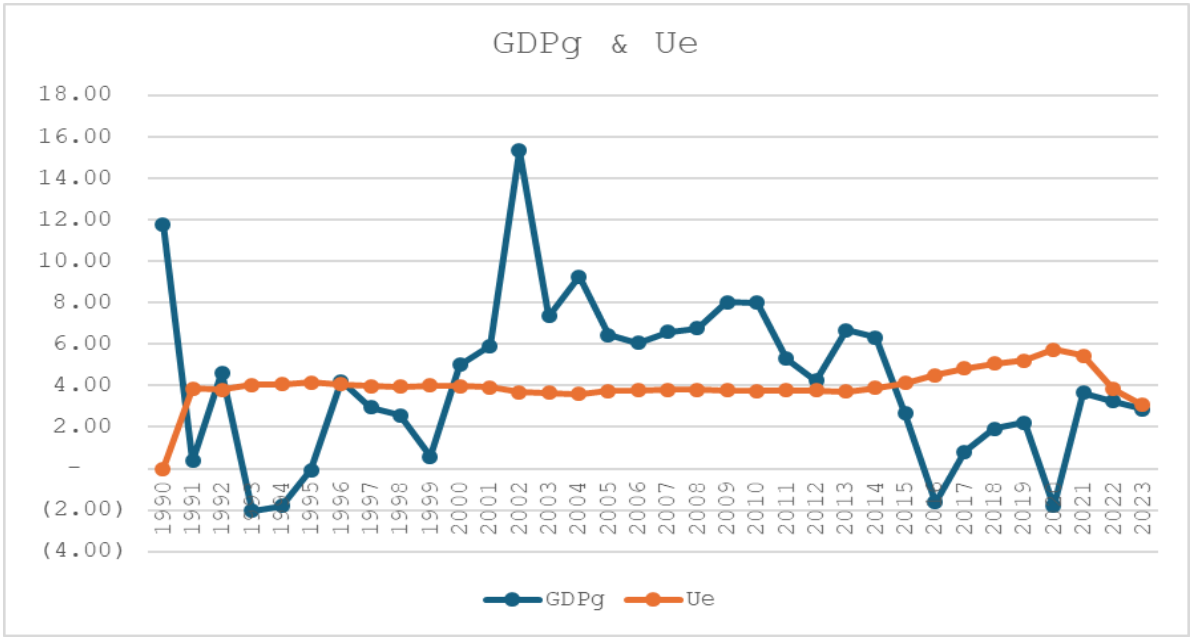

Figure 2: Economic Growth and Unemployment

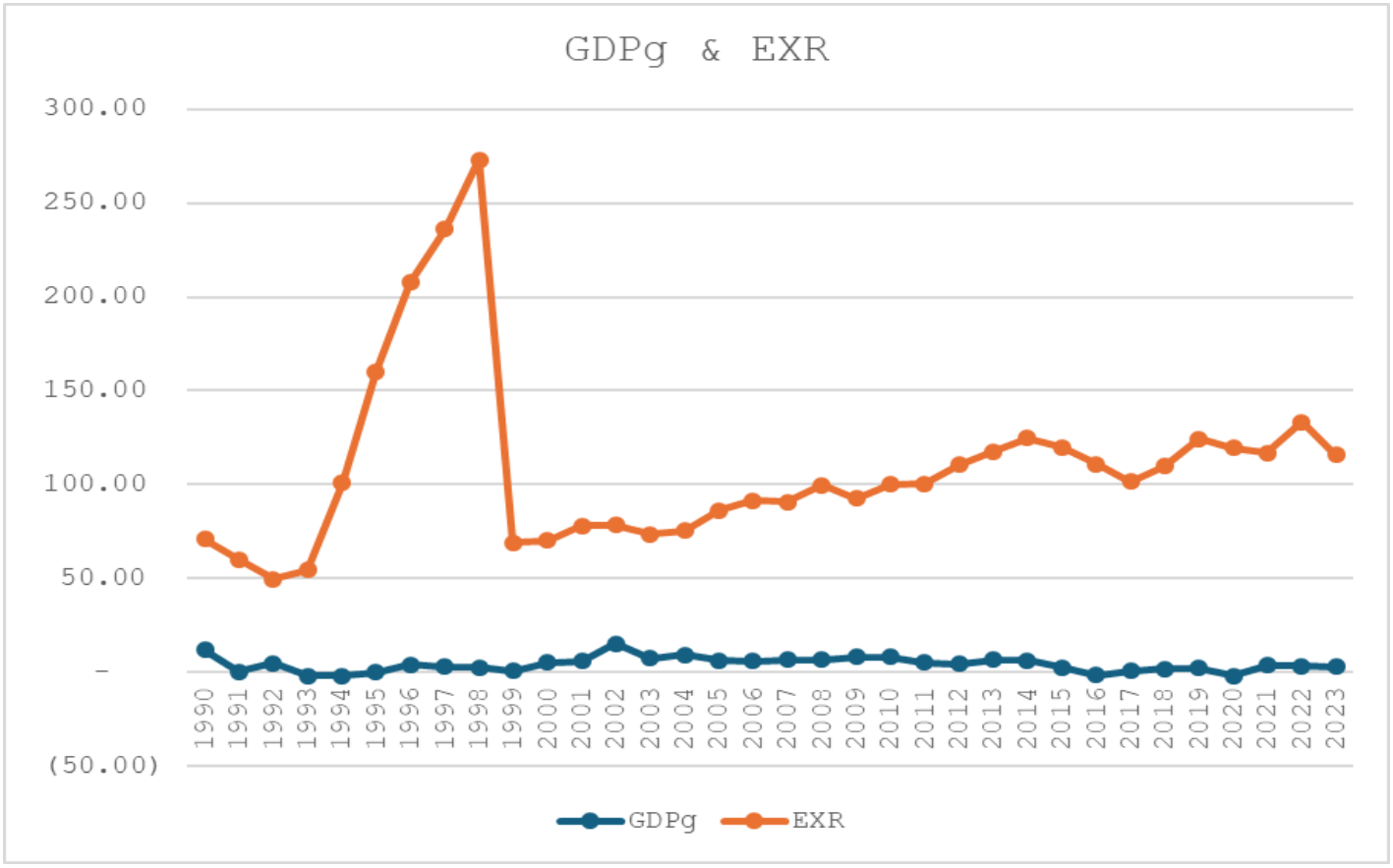

Figure 3: Economic Growth and Exchange Rate

Descriptive Statistics

Table 1 provides descriptive statistics for the study period. The mean inflation rate of 120.85% underscores the highly inflationary nature of the Nigerian macroeconomic environment, whereas the mean GDP growth rate of 4.02% suggests moderate economic expansion. The mean exchange rate and unemployment rate are 110.67 and 4.07%, respectively. All variables display positive skewness and excess kurtosis, indicating leptokurtic distributions. The Jarque-Bera test reveals significant departures from normality for inflation, exchange rate, and unemployment, while GDP growth approximates normality ($p = 0.273$).

Statistic	**INF**	**GDPg**	**EXR**	**Ue**
Mean	120.8493	4.0175	110.6698	4.0688
Median	70.0160	4.1959	100.6325	3.9020
Maximum	524.9054	15.3292	273.0147	5.7420
Minimum	2.7278	-2.0351	49.7772	3.0740
Std. Dev.	129.6470	3.7288	48.3453	0.5714
Skewness	1.5096	0.5185	1.8039	1.4898
Kurtosis	4.6799	3.9007	6.3615	4.7445
Jarque-Bera	16.4150	2.5944	33.4350	16.3918
Probability	0.0003	0.2733	0.0000	0.0003
Observations	33	33	33	33

Table 1. Descriptive Statistics (Source: Authors' Computation, 2025)

Correlation Matrix

Table 2 displays the pairwise correlation matrix. No pair of variables demonstrates a correlation exceeding 0.49, and all cross-correlations among the regressors remain below 0.34, thereby reducing concerns regarding multicollinearity. GDP growth shows weak negative correlations with inflation (−0.182), the exchange rate (−0.170), and unemployment (−0.483). In contrast, inflation and unemployment are modestly positively correlated (r = 0.340).

Variable	INF	GDPg	EXR	Ue
INF	1.000000	-0.181799	0.075324	0.339960
GDPg	-0.181799	1.000000	-0.170192	-0.482589
EXR	0.075324	-0.170192	1.000000	0.120888
Ue	0.339960	-0.482589	0.120888	1.000000

Table 2. Correlation Matrix (Source: Authors' Computation, 2025)

Unit Root Test

Table 3 presents ADF unit root test results. INF and Ue are stationary at levels I(0) ($p < 0.05$), while GDPg and EXR are non-stationary at levels but become stationary at first difference I(1). The mixed integration orders I(0) and I(1) validate the use of the ARDL bounds-testing approach, ruling out classical Engle-Granger cointegration, which requires uniformly I(1) series.

Variable	ADF t-stat	CV @5% Level	p (Level)	CV @5% 1st Diff.	p (1st Diff.)	Order
GDPg	-8.023	—	—	-2.9604	0.0000	I(1)
INF	-3.578	-2.9862	0.0139	—	—	I(0)
EXR	-5.364	—	—	-2.9604	0.0001	I(1)
Ue	-3.083	-2.9678	0.0391	—	—	I(0)

Table 3. ADF Unit Root Test Results (Source: Authors' Computation, 2025)

Bounds Test for Cointegration

Table 4 reports the ARDL bounds test results. With GDPg as the dependent variable, the computed F-statistic of 13.011 far exceeds the upper critical bound of 4.01 at the 5% significance level, confirming a long-run cointegrating relationship among the variables. The null hypothesis of no cointegration is therefore rejected, validating the estimation of the ECM.

Dependent Variable	F-Stat.	t-Stat.	LB I(0)	UB I(1)	Cointegration	Action
GDPgt	13.011	-5.481	2.86	4.01	Yes	Estimate ECM
INFt	48.365	2.393	2.86	4.01	Yes	Estimate ECM
EXRt	1.846	-2.796	2.86	4.01	No	ARDL short-run
Uet	32.940	-2.320	2.86	4.01	Yes	Estimate ECM
Stagflation (INF×Ue)	27.005	-0.115	2.86	4.01	Yes	Estimate ECM

Table 4. ARDL Bounds Test for Cointegration (Source: Authors' Computation, 2025)

Short-Run ECM Results

Table 5 presents the ECM short-run estimates. The error correction term CointEq(−1) = −0.7802 is statistically significant (p = 0.0000), confirming that approximately 78% of any short-run disequilibrium is corrected within one period, indicating a rapid adjustment speed to the long-run equilibrium. Changes in inflation [Δ(INF) = −0.3548, p = 0.0000] and unemployment [Δ(Ue) = −32.5494, p = 0.0000] exert significant negative effects on economic growth in the short run. The stagflation interaction term [Δ(INF×Ue) = 0.0822, p =

0.0000] has a positive and significant short-run effect. In contrast, Δ(EXR) is negative but statistically insignificant (p = 0.1955).

The positive short-run sign on the stagflation interaction contrasts with its negative long-run coefficient. This sign reversal reflects nominal rigidities and adjustment lags. In the short run, nominal wage and price stickiness as documented in the New Keynesian literature (Mankiw, 2001) mean that producers temporarily accommodate rising costs through output expansion rather than immediate price increases, generating a transient positive productivity-like response in the stagflation interaction. As the economy transitions toward the long run, these rigidities dissolve: real wages adjust, the supply-side contraction inherent in stagflationary episodes materialises fully, and the interaction term takes on its theoretically expected negative sign. A similar mechanism—short-run nominal stickiness followed by long-run real adjustment has been documented in the context of inflation-unemployment dynamics by Nelson and Nikolov (2002) and is consistent with the Friedman-Phelps expectation-augmented Phillips Curve framework.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	20.6856	2.3854	8.6718	0.0000
Δ(INF)	-0.3548	0.0342	-10.3664	0.0000
Δ(EXR)	-0.0093	0.0070	-1.3350	0.1955
Δ(Ue)	-32.5494	3.0287	-10.7469	0.0000
Δ(INF×Ue)	0.0822	0.0084	9.8043	0.0000
CointEq(−1)	-0.7802	0.0890	-8.7684	0.0000

Table 5. Error Correction Model – Short-Run Results (Source: Authors' Computation, 2025*)*

ARDL Long-Run Results

Table 6 shows the long-run ARDL estimates. Exchange rate fluctuations exert a statistically significant negative effect on economic growth ($\theta_2 = -0.0243$, p = 0.0496), confirming that a sustained appreciation of the real effective exchange rate (i.e., a reduction in competitiveness) reduces GDP growth in Nigeria. This result is consistent with Ani and Udeh (2021) and Ewubare and Ushie (2022), who document the growth-constraining role of exchange rate instability in Nigeria. Inflation has a positive but statistically insignificant long-run effect ($\theta_1 = 0.0886$, p = 0.2758), partly consistent with Utile et al. (2018). The long-run irrelevance of inflation for growth may reflect the dominance of structural factors oil dependence, import reliance, infrastructure deficits that overwhelm the price channel in Nigeria's growth determination. Unemployment has a negative but statistically insignificant effect in the long run ($\theta_3 = -5.2128$, p = 0.2719). This matches the findings of Niken et al. (2023), who also found that neither inflation nor unemployment permanently slows output growth in developing economies.

The long-run interaction term for stagflation is negative and statistically insignificant ($\theta_4 = -0.0140$, p = 0.4588). This is different from its significant positive effect in the short run and can be explained by the fading of nominal rigidities over time. As price and wage stickiness lessens, the supply-side contraction associated with stagflation becomes evident, leading to the expected negative long-run coefficient, as in the Friedman-Phelps expectations-augmented framework (Nelson & Nikolov, 2002). The lack of statistical significance in the long run also suggests that, in Nigeria, exchange rate dynamics mainly drive the lasting growth effects of stagflation.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CPI (INF)	0.0886	0.0792	1.1175	0.2758
REER (EXR)	-0.0243	0.0117	-2.0774	0.0496*
Unemployment (Ue)	-5.2128	4.6252	-1.1271	0.2719
Stagflation (INF×Ue)	-0.0140	0.0185	-0.7541	0.4588

Table 6. ARDL Long-Run Results (Source: Authors' Computation, 2025). * p < 0.05

Diagnostic Test Results

Table 7 summarizes the post-estimation diagnostic tests. The Breusch-Godfrey LM test ($\chi^2(2) = 1.843$, $p = 0.398$) shows no serial correlation in the residuals up to two lags. The Ramsey RESET test ($F(2, 24) = 1.217$, $p = 0.313$) indicates no functional-form misspecification. The ARCH test for heteroskedasticity ($F(1, 29) = 0.612$, $p = 0.440$) confirms constant variance in the residuals. These results support the validity of the OLS-based ARDL estimates and the reliability of the model's inferences.

Diagnostic Test	Test Statistic	p-value	Decision
Breusch-Godfrey LM (serial correlation, 2 lags)	$\chi^2(2) = 1.843$	0.398	No serial correlation
Ramsey RESET (functional form)	$F(2, 24) = 1.217$	0.313	No misspecification
ARCH (heteroskedasticity)	$F(1, 29) = 0.612$	0.440	Homoskedastic
Jarque-Bera (residual normality)	JB = 2.104	0.349	Residuals normal

Table 7. Post-Estimation Diagnostic Tests (Source: Authors' Computation, 2025)

DISCUSSION

The results indicate that exchange rate instability is the main long-run constraint on Nigerian economic growth, reflecting the country's reliance on imports and oil revenues (Iheanachor & Ozegbe, 2021; Ewubare & Ushie, 2022). The absence of long-run significance for inflation, unemployment, and stagflation suggests that structural factors such as infrastructure, productivity, and institutional quality are more influential than cyclical macroeconomic variables over the 33-year period (Oniore et al., 2023). The short-run effects of stagflation, including sign reversals over time, align with nominal rigidities and the Friedman-Phelps expectation-augmented Phillips Curve, providing a coherent explanation for the observed asymmetries (Daly & Hobijn, 2014). The composite threshold dummy robustness check (D_STAG) produced similar results, supporting the baseline findings.

Policy Implications

Given that exchange rate instability is the main long-run constraint on growth, a comprehensive framework for foreign exchange stability is needed. Key actions include recapitalising export promotion agencies, diversifying foreign exchange earnings beyond oil, and improving market infrastructure to reduce speculative volatility. Promoting import substitution through agro-industrial processing zones can reduce import dependence and help control inflation driven by exchange rate depreciation (Nnabu & Awoke, 2025). For stagflation, policy should focus on inflation management, supply-side measures, strategic food reserves, investment in the power sector to lower production costs, and coordinated fiscal and monetary actions, rather than relying solely on interest rate increases, which may reduce output and increase unemployment. Tax incentives for domestic investment can boost productive capacity and address both inflation and unemployment (Abu et al., 2023).

Full employment should be a central policy goal. Effective tools include job creation tax credits for firms expanding payrolls, skills development programs in sectors such as solar energy, ICT, and agriculture, an SME lending guarantee fund, and public works guarantees for working-age Nigerians (Agricultural Credit Guarantee Scheme Fund, n.d.). These demand-side measures, combined with supply-side inflation controls, can help manage the stagflation trade-off (Ononugbo et al., 2026). Adopting an adaptive macroeconomic framework with predetermined policy triggers, automatic countercyclical mechanisms, and an independent fiscal oversight body would strengthen policy coordination and address the policy paralysis that has affected Nigeria's response to stagflation (Jalles et al., 2023).

Limitations

Several limitations should be considered when interpreting these findings. First, focusing solely on Nigeria limits the generalisability of the results to other developing economies with different structural features,

institutions, or exchange rate regimes. Replicating the analysis with panel data from similar sub-Saharan African economies would improve external validity. Second, the model may be subject to omitted variable bias, as key macroeconomic factors such as fiscal policy, global oil price shocks, monetary policy changes, and terms-of-trade movements are not explicitly included. Oil price dynamics are especially relevant for Nigeria due to its reliance on hydrocarbon revenues, and their exclusion may misattribute effects to other variables that actually reflect oil market cycles (MAU et al., 2025). Third, the study does not conduct formal Granger causality tests. While the ARDL and ECM frameworks establish cointegration and long-run equilibrium, they do not determine the direction of causality. Future research should use Toda-Yamamoto or frequency-domain causality methods to clarify the relationships among stagflation, exchange rate volatility, and economic growth in Nigeria. The study examined the effects of stagflation and exchange rate fluctuations on economic growth in Nigeria from 1991 to 2023 using the ARDL bounds-testing framework and the Error Correction Model. The results show that exchange rate instability is the main long-run constraint on growth ($\beta = -0.0243$, $p < 0.05$). Inflation, unemployment, and stagflation have significant effects mainly in the short run. Nominal rigidities explain the positive short-run and negative long-run signs on the stagflation interaction term and adjustment lags: in the short run, price and wage stickiness create a temporary positive response, while in the long run, the supply-side contraction in stagflation leads to a negative equilibrium effect (Taylor, 1998). Diagnostic tests confirm the adequacy of the model for serial correlation, functional form, and heteroskedasticity.

These findings have important policy implications. Exchange rate stabilisation, through export diversification and import substitution, should be a central part of Nigeria's growth strategy. Managing stagflation effectively requires supply-side fiscal interventions rather than demand-reducing monetary policy, given the mainly short-run link between stagflation and growth. Future research should expand the analysis to a multi-country panel, include omitted fiscal and oil price variables, and conduct formal Granger causality tests to clarify the relationships among key macroeconomic variables.

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