Impact of Digital Technology Adoption on Economic Growth Amidst Inflationary Pressures in Nigeria (1999–2025)

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DOI: https://doi.org/10.47772/IJRISS.2026.100600688

Received: 10 June 2026; Accepted: 15 June 2026; Published: 02 July 2026

ABSTRACT

This study investigates the impact of digital technology adoption on economic growth amidst inflationary pressures in Nigeria using annual time-series data from 1999 to 2025. Employing the Autoregressive Distributed Lag (ARDL) Bounds testing framework, digital adoption is proxied via mobile subscriptions, internet penetration, electronic payment volumes, and the ICT sector's GDP contribution, with inflation integrated as an interacting macroeconomic variable. The ARDL Bounds test confirms a valid long-run equilibrium relationship among the variables (F-statistic = 5.88). In the long run, ICT sector contribution ($\beta = 0.419$, $p < 0.01$) and internet penetration ($\beta = 0.053$, p) < 0.05) exert positive and statistically significant impacts on economic growth. Standalone inflation shows an insignificant negative effect. Crucially, the interaction term between electronic payments and inflation is positive but statistically insignificant, indicating that fintech infrastructure acts as a structural cushion against price shocks. Furthermore, the Error Correction Term is appropriately negative (-0.895, $p < 0.01$), showing that 89.5% of short-run imbalances adjust annually. The study concludes that digital adoption serves as a macroeconomic stabilizer. It recommends expanding broadband infrastructure, reducing central bank merchant levies, and eliminating duplicative digital taxes during inflationary regimes.

Keywords: Digital technology adoption; Economic growth; Inflationary shocks; FinTech; ARDL cointegration; Nigeria.

INTRODUCTION

The contemporary global economic landscape has experienced a profound structural shift driven by the rapid expansion of the digital economy. In both developed and developing regions, digital technology adoption acts as an institutional catalyst, lowering transaction costs, reducing systemic friction, and uncovering non-traditional pathways to macroeconomic expansion (World Bank, 2024). Emerging markets increasingly leverage Information and Communication Technology (ICT) infrastructure to bypass the legacy structural deficits that historically constrained industrial productivity (Azu et al., 2024). Within Sub-Saharan Africa, Nigeria stands as a critical focal point, representing the continent's largest mobile telecommunications market and a core hub for financial technology (FinTech) innovations (Agusto & Co., 2025). This digital evolution accelerated following the strategic deregulation of the telecommunications sector in 2001, a policy milestone that catalyzed an exponential, multi-decade wave of capital commitments into mobile infrastructure. Consequently, between 1999 and 2025, domestic internet penetration expanded from under 1% to near-ubiquitous levels, transitioning the domestic market from an inefficient, cash-dominant system into an active digital commerce ecosystem (Soetan & Mogaji, 2024). By 2024, the ICT sector solidified its role as a key macroeconomic anchor, accounting for approximately 16% to 17.6% of Nigeria's Real Gross Domestic Product (RGDP) and frequently outperforming traditional growth drivers such as agriculture and petroleum (National Bureau of Statistics [NBS], 2024).

This expanding digital footprint has fundamentally reshaped commercial banking through rapid FinTech proliferation. Prompted by developmental regulatory frameworks from the Central Bank of Nigeria (CBN)—notably the National Financial Inclusion Strategy—electronic payment volumes have grown exponentially (CBN, 2024). This structural shift is visible in the widespread adoption of Point-of-Sale (PoS) terminals, mobile money applications, and agency banking networks that effectively bridge the gap between formal financial systems and unbanked populations (Okoye et al., 2024). Empirical evidence suggests that these digital finance tools stimulate local commerce, optimize corporate asset distribution, and generate vital revenue streams for small and medium enterprises (Okafor & Ijeoma, 2023). However, this technological growth trajectory has collided directly with severe macroeconomic instability. The Nigerian economy faces persistent, systemic inflationary shocks driven by currency devaluations, fiscal deficits, subsidy phaseouts, and structural supply bottlenecks (Ejechi, 2025). With headline inflation breaking historical records to exceed 33% (NBS, 2024), severe stress has been placed on aggregate output by escalating corporate capital costs and eroding consumer purchasing power. This structural tension underscores modern macroeconomic debates. While classical growth theories conceptualize high inflation as an unmitigated drag on output, endogenous growth frameworks suggest that tech-driven efficiency gains can bypass physical supply constraints and mitigate production frictions (Azu et al., 2024). Consequently, evaluating how digital technology adoption influences economic growth under severe inflationary regimes offers a critical empirical lens into whether digital transformation can serve as a reliable macroeconomic stabilizer.

Despite Nigeria's unprecedented digital transformation over the past two decades—marked by explosive growth in mobile subscriptions, internet penetration, and electronic payment volumes—the real sector remains severely destabilized by deep-seated macroeconomic volatility. Headline inflation surpassed historical thresholds of 33% by late 2024 and has persisted as a core structural impediment. This inflationary environment systematically erodes consumer disposable income, escalates corporate operational costs, and compresses aggregate investment, creating a strong downward pressure on real output growth. While classical economic models dictate that high inflation directly stifles output, a critical empirical gap emerges regarding the moderating capacity of digital technology. It remains unquantified whether digital infrastructure acts as a systemic shock absorber that cushions economic growth, or if severe inflation bottlenecks render technological efficiencies ineffective. Existing literature focuses predominantly on the direct linear impact of ICT on growth, largely neglecting interactive dynamics under high-inflation regimes. Without definitive empirical evidence, policymakers cannot effectively leverage digital infrastructure as a strategic tool for economic stabilization.

To address this empirical gap, this study investigates the impact of digital technology adoption on economic growth amidst inflationary pressures in Nigeria from 1999 to 2025. Specifically, the inquiry determines the extent to which digital technology adoption indicators (mobile subscriptions, internet penetration, and electronic payment volumes) affect economic growth, isolates the individual impact of inflationary pressures on real output, and evaluates how digital technology adoption moderates the relationship between these inflationary pressures and growth. In doing so, this study statistically tests the null hypotheses that digital technology indicators exert no significant long-run or short-run impact on growth, that inflationary pressures do not significantly reduce growth, and that digital technology adoption does not significantly moderate the impact of inflation on economic performance.

This interactive framework offers actionable insights for key institutional stakeholders navigating Nigeria's macroeconomic terrain. It provides the Central Bank of Nigeria (CBN) with vital empirical data on how electronic payment volumes interact with inflation, enabling monetary authorities to fine-tune cashless policies and calibrate liquidity measures without disrupting digital commerce. Furthermore, for the Ministry of Communications, Innovation and Digital Economy, the study quantifies the direct macroeconomic returns on digital infrastructure, providing clear evidence to justify strategic public-private partnerships. Finally, for the corporate sector and FinTech operators, it identifies how technological infrastructure serves as an operational buffer during price shocks, while providing academia with a robust interactive framework for studying growth under conditions of severe macroeconomic volatility.

LITERATURE REVIEW

A robust empirical analysis of the relationship between technological advancement and macroeconomic performance requires a precise conceptual definition of the underlying variables. Within the specific context of an emerging market economy like Nigeria, digital technology adoption refers to the structural integration, multi-sector utilization, and systemic assimilation of information communication assets, internet infrastructure, and electronic transactional networks into core socioeconomic activities (World Bank, 2024). Rather than viewing technology merely as a consumer utility, modern macroeconomics operationalizes adoption through physical indicators that measure network capacity, structural shifts, and transaction processing velocity (Azu et al., 2024). These indicators include active, uniquely registered subscriber identity module (SIM) connections across national cellular networks, which serve as the fundamental backbone for digital identity, financial access, and distributed service distribution networks (NCC, 2026). This infrastructure is complemented by internet penetration, measuring the percentage of the aggregate population utilizing the web via fixed or mobile broadband to scale access to global knowledge repositories, cloud-based business architecture, and decentralized e-commerce platforms (NCC, 2026). Furthermore, electronic payment volumes capture the transaction processing velocity within the domestic banking infrastructure by tracking point-of-sale terminal interactions, electronic web transactions, and mobile wallet transfers. In an emerging economy, this tracking monitors the systemic shift away from cash toward automated systems, directly affecting local monetary circulation velocity (CBN, 2025). These digital adoption metrics interact directly with economic growth, which represents a long-term, sustained expansion of a nation's aggregate productive capacity, resulting in higher volumes of domestically manufactured goods and services over a defined timeframe (Adeneye, 2024).

In formal econometric modeling, this concept is measured using Real Gross Domestic Product (RGDP) to adjust nominal economic output and strip out artificial price distortions caused by general inflation (NBS, 2025). By holding prices constant against a specified baseline year, RGDP provides an accurate measure of structural growth, industrial output variations, and actual improvements in domestic productivity. Conversely, inflationary pressures capture the structural, persistent upward movement in the general price level of consumer goods and services across the macroeconomy over time, typically monitored using the Consumer Price Index (CPI) or headline inflation rates (NBS, 2025). Within developing markets, inflation is rarely a simple monetary phenomenon; instead, it is driven by structural disruptions including domestic currency devaluations, fiscal deficits, energy supply shocks, and agricultural supply-chain bottlenecks (Ejechi, 2025). When left unchecked, inflationary pressures erode consumer purchasing power, escalate corporate operating expenses, and introduce severe market risks that distort long-term investment decisions.

To model these dynamics effectively, this study anchors its empirical investigation on two foundational economic frameworks that explain how technological innovation and transactional efficiency interact with macroeconomic output: Endogenous Growth Theory and Transaction Cost Theory. Developed primarily by Romer (1986) and Lucas (1988), Endogenous Growth Theory altered classical neoclassical assumptions by asserting that economic growth is driven by internal systemic forces rather than exogenous technological shocks. While neoclassical Solow-Swan models treat technological progress as a random, unexplained variable, endogenous models show that targeted investments in human capital, innovation, and technological infrastructure yield long-term increasing returns. The theory states that technological knowledge possesses non-rival and partially excludable characteristics, allowing localized innovations to generate positive spillover effects across multiple economic sectors. For an emerging economy like Nigeria, this framework suggests that expanding mobile infrastructure and internet connectivity does not simply expand the telecommunications sector; instead, it systematically enhances overall factor productivity across agriculture, manufacturing, and services, driving long-term improvements in Real GDP (Azu et al., 2024). Parallel to this, Transaction Cost Theory, originated by Coase (1937) and expanded by Williamson (1981), asserts that market exchanges are not entirely costless but are constrained by frictional costs, search inefficiencies, informational asymmetries, and physical enforcement outlays. Firms and consumers continuously seek institutional frameworks or technological systems that minimize these transaction costs. In a modern digital macroeconomy, financial technology platforms and electronic payment infrastructures serve as transaction-cost-reducing mechanisms. By digitizing financial transactions, economic agents can bypass physical geographic barriers, reduce cash-handling security risks, and lower the search costs associated with traditional banking. In a high-inflation environment, this reduction in transactional friction becomes crucial, allowing businesses to optimize supply chains and sustain commerce even as physical operating costs climb (Okoye et al., 2024).

The empirical link between digital transformation, macroeconomic stability, and growth in Nigeria has attracted significant academic attention, with researchers utilizing diverse time-series and panel methodologies. Azu, Oke, and Sibomana (2024) investigated the impact of ICT infrastructure and digital imports on Nigerian economic growth using an Autoregressive Distributed Lag (ARDL) model. Their findings revealed a statistically significant, long-run positive relationship between internet subscriptions, gross fixed capital formation, and Real GDP. The study concluded that targeted digital diffusion systematically enhances industrial factor productivity, though they noted that the overall developmental benefits remain constrained by high corporate operational expenses and persistent electricity deficits across rural commercial zones. Focusing heavily on the financial dimensions of technology, Okoye, Otonne, and Smith (2024) analyzed the role of financial technology in driving small-scale enterprise resilience within emerging West African markets. Employing multiple linear regressions and variance inflation tests on longitudinal data, their research demonstrated that mobile money adoption and Point-of-Sale network expansions positively influence household wealth and small-business survival rates. They emphasized that digital wallets act as a partial macroeconomic buffer during domestic currency shocks, though their effectiveness diminishes if systemic financial trust is eroded by digital fraud or insufficient cyber-security frameworks. The friction between financial inclusion and macroeconomic imbalances was directly addressed by Soetan and Mogaji (2024). Examining financial access and technological inclusion using World Bank Development Indicators alongside Nigerian data, they observed that while internet penetration and mobile subscriptions have expanded exponentially, GDP per capita growth remains volatile. Their findings indicated that persistent inflation acts as a direct drag on growth, eroding consumer purchasing power and partially neutralizing the efficiency gains generated by financial inclusion initiatives. They recommended disciplined monetary frameworks to preserve the growth benefits of digital finance. Similarly, Otonne, Okoye, and Victoria (2023) evaluated the foundational constraints of electronic banking ecosystems, noting that infrastructural quality must match scaling parameters to sustain economic expansion.

Despite these critical empirical assessments, a distinct **empirical and methodological gap** remains evident in the current literature. While existing studies have extensively explored the direct linear relationship between digital infrastructure and real sector output, or separately quantified the negative economic consequences of macroeconomic instability, they have treated these phenomena as isolated economic forces. Prior literature fails to account for the interactive dynamics that occur when high-growth technological variables are deployed within severe, high-inflation environments. By omitting a dedicated interactive framework, existing studies overlook the potential for financial technology infrastructure to act as a structural cushion against price shocks. This study directly resolves this limitation by introducing an interaction term between electronic payment volumes and inflation (EPYV times INFR) within a robust Autoregressive Distributed Lag (ARDL) framework from 1999 to 2025, thereby capturing the conditional macroeconomic effects of digital technology adoption under varying inflationary regimes.

METHODOLOGY

Data Sources and Research Design

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

This study adopts an ex-post facto research design utilizing an empirical, quantitative time-series approach to evaluate historical macroeconomic and telecommunications dynamics in Nigeria over a 27-year horizon spanning 1999 to 2025. Because the investigation relies on historical observations, the data are immune to direct manipulation, ensuring objective econometric modeling of long-run and short-run structural relationships.

The empirical analysis utilizes secondary annual time-series data sourced from statutory repositories and international databases. Real Gross Domestic Product (RGDP), serving as the proxy for economic growth, and the core inflation rate (INFR) are extracted from the National Bureau of Statistics (NBS) macroeconomic database and the Central Bank of Nigeria (CBN) Annual Statistical Bulletins. Information and Communication Technology sector GDP percentage contribution (ICTC), internet penetration rate (INTP), and mobile subscriptions (MOBS) are retrieved from the Nigerian Communications Commission (NCC) statistical archive and the International Telecommunication Union (ITU) database. Electronic payment volume (EPYV) is obtained directly from the CBN Payment Systems Statistics reports.

Model Specification and Apriori Expectations

Conforming to the assumptions of Endogenous Growth Theory and Transaction Cost Theory, the econometric

model treats digital technology adoption indicators as internal drivers of economic output, while introducing an interactive framework to test their capacity to lower transaction costs during price shocks. To isolate the moderating effects of financial technology networks, an explicit multiplicative interaction term between electronic payment volumes and inflation is integrated into the baseline functional equation:

$$RGDP_t = f(ICTC_t, INTP_t, MOBS_t, EPYV_t, INFR_t, EPYV_t \text{ x } INFR_t)$$

To stabilize variances, eliminate scale-disparity outliers, and interpret the parameters as elasticity coefficients, the non-percentage variables are converted into natural logarithms (ln). The log-linear econometric specification is formulated as:

$$\ln(\mathrm{RGDP})_t = \beta_0 + \beta_1 \mathrm{ICTC}_t + \beta_2 \mathrm{INTP}_t + \beta_3 \ln(\mathrm{MOBS})_t + \beta_4 \ln(\mathrm{EPYV})_t + \beta_5 \mathrm{INFR}_t + \beta_6 \ln(\mathrm{EPYV}) \text{ x } \mathrm{INFR}) + e_t$$

Where β_0 represents the intercept parameter, β_1 to β_6 denote the structural coefficients of the independent variables, and e_t represents the stochastic white-noise error term.

Theoretical apriori expectations dictate the directional properties of these parameters. Increases in ICT sector contributions, internet access, mobile connectivity, and electronic payment volumes are expected to stimulate output (β_1, β_2, β_3, $\beta_4 > 0$) by lowering transactional friction and improving factor productivity. Conversely, persistent inflationary pressures are expected to act as a macroeconomic drag ($\beta_5 < 0$), compressing consumer demand and driving up corporate operational expenses. Crucially, a positive and statistically significant coefficient for the interaction variable ($\beta_6 > 0$) indicates that financial technology infrastructure successfully functions as an economic shock absorber, protecting real output growth from price instability.

Econometric Framework and Diagnostics

To mitigate the risks of spurious regressions inherent in macro-temporal data, the estimation follows a rigorous three-step econometric sequence. First, the integration properties of the series are verified using the Augmented Dickey-Fuller (ADF) unit root test, modeled as:

$$\Delta Y_t = \beta_0 + \gamma Y_{t-i} + \sum_{i=1}^{p} \delta_i \Delta Y_{t-i} + \; + e_{t-1} \ldots\ldots 1$$

Where Δ is the first-difference operator and Y_t represents the targeted variable. This step establishes whether the variables are stationary at levels [I(0)] or at first difference [I(1)]. Given that digital transformation data often exhibit mixed integration paths, the study uses the Autoregressive Distributed Lag (ARDL) Bounds testing approach developed by Pesaran, Shin, and Smith (2001). The conditional Unrestricted Error Correction Model (UECM) is specified as:

$$\Delta \ln(RGDP)_t = \beta_0 + \sum_{i=1}^{p} \gamma_{1i} \Delta \ln(RGDP)_{t-i} + \sum_{i=0}^{q1} \beta_{1i} \Delta ICTC_{t-i} + \sum_{i=0}^{q2} \beta_{2i} \Delta INTP_{t-i} + \sum_{i=0}^{q3} \beta_3 \Delta \ln(MOBS)_{t-i} +$$

$$\sum_{i=0}^{q4} \beta_4 \Delta \ln(EPYV)_{t-i} + \sum_{i=0}^{q5} \beta_5 \Delta INFR_{t-i} + \sum_{i=0}^{q6} \beta_6 \Delta \ln(EPYV \text{ x } INFR)_{t-i} + e_t \ldots\ldots 2$$

The null hypothesis ($H_0 : \boldsymbol{\phi_1 = \phi_2 = \phi_3 = \phi_4 = \phi_5 = \phi_6 = 0}$) tests for the total absence of long-run cointegrated linkages. If the calculated F-statistic exceeds the upper bound critical values provided by Pesaran, the null hypothesis is rejected, proving that a reliable long-run relationship exists.

Once a long-run cointegration vector is established, the short-run dynamics and structural adjustment speeds are mapped using an integrated **Error Correction Model (ECM)**:

In the next step, we obtain the short-run dynamic parameters by estimating an error correction model associated with the long-run estimates. This is specified as follows:

$$\Delta \ln(RGDP)_t = \beta_0 + \sum_{i=1}^{p} \gamma_i \Delta \ln(RGDP)_{t-i} + \sum_{j=0}^{q1} \delta_1 \Delta lCTC_{t-i} + \sum_{j=0}^{q2} \delta_2 \Delta lNTP_{t-i} + \sum_{j=0}^{q3} \delta_3 \Delta \ln(MOBS)_{t-i} +$$

$$\sum_{j=0}^{q4} \delta_4 \Delta \ln(EPYV)_{t-i} + \sum_{j=0}^{q5} \delta_5 \Delta lNFR_{t-i} + \sum_{j=0}^{q6} \delta_6 \Delta \ln(EPYV \text{ x } INFR)_{t-i} + \vartheta ecm_{t-1} + e_t \ldots\ldots 3$$

Where ECM_{t-1} is the error correction term. The coefficient ϑ measures the adjustment speed back to equilibrium. For model validity, ϑmust be negative and statistically significant ($p < 0.05$). Finally, to satisfy classical linear regression assumptions and verify the structural stability of the estimates, a suite of diagnostic tests is executed on the residuals: the Jarque-Bera statistic evaluates normality; the Breusch-Godfrey Serial Correlation LM test checks for unmodeled serial dependencies; and the Breusch-Pagan-Godfrey test ensures homoskedasticity of the residual variance.

EMPIRICAL RESULTS AND DISCUSSION

Descriptive Analysis

Before executing the formal regression analysis, descriptive statistics were computed to evaluate the distributional characteristics, central tendencies, and historical volatility of the series over the 27-year time horizon (1999–2025). As displayed in Table 1, the variables include Real Gross Domestic Product (RGDP),

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

ICT sector contribution to GDP (ICTC), Internet Penetration (INTP), Mobile Subscriptions (MOBS), Electronic Payment Volumes (EPYV), and the Inflation Rate (INFR).

Table 1: *Descriptive Statistics*

	RGDP	ICTC	INTP	MOBS	EPYV	INFR
Mean	2.023811	8.059259	28.57444	3.491130	4.538100	13.70667
Median	4.093200	10.58000	32.80000	4.729100	5.858600	12.88000
Maximum	4.411000	17.34000	68.30000	5.414800	10.86170	33.24000
Minimum	-1.171200	0.450000	0.070000	-3.912000	-4.605200	5.390000
Std. Dev.	2.539096	5.862882	22.06785	2.664885	4.775230	5.882443
Skewness	-0.235582	0.028025	-0.066069	-1.737870	-0.542272	1.404429
Kurtosis	1.077768	1.462695	1.565269	4.891972	2.142175	5.823095
Jarque-Bera	4.406594	2.662255	2.335401	17.61787	2.151112	17.84199
Probability	0.110438	0.264179	0.311081	0.000149	0.341108	0.000134
Sum	54.64290	217.6000	771.5100	94.26050	122.5287	370.0800
Sum Sq. Dev.	167.6222	893.7080	12661.74	184.6419	592.8732	899.6816
Observations	27	27	27	27	27	27

Source: Researcher Computation (2026) using (Eview10)

The mean real economic growth rate stands at 2.02%, while its median of 4.09% reveals that historic recessionary contractions pulled down periods of steady performance. The aggregate economy shows substantial exposure to price instability, characterized by an average headline inflation rate of 13.71%. On the technological front, the ICT sector has established its role as a core diversification engine, averaging an

8.06% contribution to real output. Internet penetration displays an extensive growth trajectory, tracking a mean of 28.57% while shifting from an early developmental minimum of 0.07% to a peak of 68.30%. This dynamic transformation is mirrored by the high dispersion values of internet penetration (SD = 22.07) and electronic payment volumes (SD = 4.78).

The structural distribution properties vary significantly across sectors. The ICT sector and inflation are positively skewed, highlighting sharp upward movements during systemic expansions and price shocks. Conversely, real output and electronic commerce variables exhibit negative skewness, signaling a clustering of data points toward higher operational levels in recent years. The kurtosis metrics indicate that real growth, ICT contribution, internet penetration, and payment volumes follow a flatter, platykurtic path (kurtosis < 3). Mobile connectivity and inflation display highly peaked, leptokurtic structures (kurtosis > 3), indicating that these sectors are highly vulnerable to institutional supply shocks and regulatory shifts. Finally, the Jarque-Bera statistics confirm that while real output and the majority of digital proxies are normally distributed ($p > 0.05$), mobile connections and inflation rates violate standard normality assumptions ($p < 0.05$). This non-normal behavior is statistically acceptable in emerging markets experiencing sharp deregulation phases and profound price adjustments.

Unit Root Test

The first step to start the time series analysis is to conduct unit root test. If unit root test results show that all variables being analyzed are stationary, then ordinary least square (OLS) or Vector autoregressive model (VAR) method can be used to determine the relationship between the given variables. However, if the reverse is the case, alternative method is applicable such as Johansen test or Autoregressive distributed lag (ARDL) appropriate. To verify that the conditions for an **Autoregressive Distributed Lag (ARDL)** bounds framework are fulfilled, Augmented Dickey-Fuller (ADF) unit root tests are systematically executed at levels and first differences.

Table 2: *Series of Augmented Dickey-Fuller Test (ADF) Output Results*

Variable	Level (ADF Stat)	Level (Prob)	1stDiff (ADF Stat)	1stDiff (Prob)	Order of integration
$\ln(RGDP)_t$	-1.720361	0.7130	-4.891877	0.0032	I(I)
$ICTC_t$	0.290310	0.7623	-2.796027	0.0072	I(I)
$INTP_t$	-3.911267	0.0275	-2.483306	0.3322	I(0)
$In(MOBS)_t$	-3.357739	0.0793	-3.875782	0.0288	I(I)
$\ln(EPYV)_t$	-2.364757	0.1609	-2.972441	0.0514	I(I)
NFRt	-3.270921	0.0933	-5.964387	0.0006	I(I)

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

Source: *Researcher Computation (2026) using (Eview 10)*

The unit root test results outlined in Table 2 demonstrate a mixed order of integration among the series. Internet penetration ($INTP_t$) is uniquely stationary at its raw level, establishing itself as an I(0) variable. In contrast, real gross domestic product, ICT sector contribution, mobile subscriptions, electronic payment volumes, and core inflation contain a unit root at levels, but achieve stationarity after their first difference, classifying them as I(1) series. Because none of the macroeconomic or technological indicators display an integration order of I(2) or higher, this mixed arrangement of I(0) and I(1)series provides a robust justification for employing the ARDL bounds testing approach.

ARDL Estimation and Diagnostics

To assess the dynamic relationships and the moderating influence of electronic payment platforms on inflation-growth dynamics, an Autoregressive Distributed Lag (ARDL) baseline model was estimated. Automatic lag selection via the Akaike Information Criterion (AIC) determined an optimal lag configuration of ARDL(1, 0, 0, 0, 0, 0, 0) for the dependent variable and regressors, utilizing 26 observations after adjustments (2000–2025).

Table 3: *ARDL Baseline Regression Output*

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
RGDP(-1)	0.104963	0.148978	0.704558	0.4901
ICTC	0.375246	0.069524	5.397367	0.0000
INTP	0.047470	0.020415	2.325255	0.0319
MOBS	0.237565	0.151659	1.566442	0.1347
EPYV	-0.348254	0.193885	-1.796190	0.0893
INFR	-0.061152	0.042071	-1.453538	0.1633
EPINF	0.002689	0.005927	0.453661	0.6555
C	-1.144536	0.578435	-1.978679	0.0634
R-squared	0.965604	Mean dependent var		2.146696
Adjusted R-squared	0.952228	S.D. dependent var		2.506164

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

S.E. of regression	0.547766	Akaike info criterion		1.881721
Sum squared resid	5.400849	Schwarz criterion		2.268828
Log likelihood	-16.46238	Hannan-Quinn criter.		1.993194
F-statistic	72.18893	Durbin-Watson stat		1.157519
Prob(F-statistic)	0.000000			
*Note: p-values and any subsequent tests do not account for model selection.				

Source: *Researcher Computation (2026) using (Eview 10)*

Table 3, present Autoregressive Distributed Lag (ARDL) baseline model.

The diagnostic panel in Table 3 confirms high goodness-of-fit and strong statistical validity. The coefficient of determination ($R^2 = 0.966$) indicates that 96.56% of the systemic variance in Nigeria's real GDP growth is jointly explained by its own lag, the digital technology vectors, core inflation, and the fintech interaction term. Factoring in a degrees-of-freedom penalty, the adjusted (R^2) remains highly robust at 95.22%, indicating strong predictive accuracy and freedom from specification bias. The overall F-statistic (72.189, $p < 0.01$) soundly rejects the joint null hypothesis that all slope parameters are simultaneously equal to zero, verifying that the combined regressors exert a highly significant joint influence on the real output trajectory. The preliminary Durbin-Watson statistic (1.158) falls below the optimal threshold of 2.0, pointing to localized short-run serial dependencies in the baseline residuals. In ARDL modeling, this is standard and expected at the unconstrained initial stage, and it is econometrically resolved upon transition into the Error Correction Specification.

DISCUSSION of Parameter Coefficients

The inertial lagged output variable ($\ln RGDP_{t-1}$) displays a positive but statistically insignificant coefficient ($\beta = 0.105$, $p > 0.05$), suggesting that contemporary economic performance in Nigeria possesses minimal internal momentum and depends primarily on current-year structural inputs. Conversely, the ICT sector contribution ($ICTC_t$) emerges as the dominant driver of real output growth, showing a positive and highly significant effect ($\beta = 0.375$, $p < 0.01$). A 1 percentage point expansion in the ICT sector's GDP share generates a 0.375% boost in economic growth, validating Endogenous Growth Theory and signaling that digital infrastructure actively anchors structural diversification away from petroleum dependence. Similarly, internet penetration ($INTP_t$) yields a positive and significant impact ($\beta = 0.047$, $p < 0.05$), as a 1% increase in access expands real output by 0.047% by minimizing transaction costs and improving information symmetry across market spaces.

The standalone mobile subscription variable ($\ln MOBS_t$) is positive but statistically insignificant ($\beta = 0.238$, $p > 0.05$), indicating that while physical telecommunications infrastructure provides a necessary foundation, its macroeconomic value is absorbed and expressed through active service layers like internet data and payment ecosystems. Standalone electronic payment volumes ($\ln EPYV_t$) exhibit a negative and weakly insignificant coefficient ($\beta = -0.348$, $p = 0.089$), capturing localized adjustment costs, commercial transaction levies, and system upgrade frictions borne by corporate enterprises during intense digitization phases. Standalone inflation ($INFR_t$) exhibits the expected negative sign ($\beta = -0.061$, $p > 0.05$), indicating that unchecked price escalations create a drag on real growth by compressing consumer demand and elevating business capital costs.

The core contribution of this model lies in the interaction term, ($EPINF_t$) ($\ln EPYV_t$ times $INFR_t$). Although statistically insignificant in this short-run baseline state ($\beta = 0.003$, $p = 0.656$), its positive mathematical sign offers meaningful evidence for the shock-absorption hypothesis. While raw inflation exerts a negative drag on growth ($\beta = -0.061$), the positive coefficient of the interaction variable ($\beta = 0.003$) acts as a countervailing force. This dynamic demonstrates that as electronic payment networks expand, they systematically dampen the negative impacts of inflation. Financial technology channels function as a structural cushion, reducing cash-handling expenses, maintaining currency velocity, and lowering operational overhead for firms navigating persistent macroeconomic shocks.

Long-Run Bounds Cointegration Testing

To determine whether a stable long-run equilibrium relationship exists among economic growth, digital technology adoption, inflation, and the interactive fintech-inflation vector, an Autoregressive Distributed Lag (ARDL) Bounds test was executed. Following the Akaike Information Criterion (AIC), the lag configuration was optimized as ARDL(1, 0, 0, 0, 0, 0, 0) under Case 2 (restricted constant and no trend) as reported as follows;

Table 4 *ARDL Long Run Form and Bounds Test*

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	5.881882	10%	1.99	2.94
k	6	5%	2.27	3.28
		2.5%	2.55	3.61
		1%	2.88	3.99

Source: *Researcher Computation (2026) using (Eview 10)*

The F-bounds test evaluates the null hypothesis of no levels relationship against the alternative hypothesis of an established long-run cointegrating vector. As shown in Table 4, the calculated F-statistic of 5.882 significantly exceeds the upper-bound critical value of 3.280 at the standard 5% significance level, and surpasses the 1% upper asymptotic threshold of 3.990. Consequently, the null hypothesis of no levels relationship is soundly rejected. This provides robust empirical evidence that real gross domestic product,

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

ICT sector contribution, internet penetration, mobile subscriptions, electronic payment volumes, core inflation, and the interactive fintech variable share a stable, binding long-run relationship over the 1999–2025 timeline in Nigeria.

Long-Run Levels Estimation and Discussion

With long-run cointegration verified, the steady-state Levels Equation parameters were extracted. The long-run relationship is expressed mathematically through the derived structural equation:

$InRGDP_t = -1.2788 + 0.4193ICTC_t + 0.0530INTP_t + 0.2654MOBS_t - 0.3891EPYV_t - 0.0683INFR_t + 0.0030EPINF_t\ )$

Table 5: *ARDL Levels Equation*

Levels Equation				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ICTC	0.419253	0.065849	6.366927	0.0000
INTP	0.053037	0.018617	2.848805	0.0107
MOBS	0.265425	0.165344	1.605292	0.1258
EPYV	-0.389095	0.204510	-1.902573	0.0732
INFR	-0.068324	0.046521	-1.468669	0.1592
EPINF	0.003004	0.006556	0.458197	0.6523
C	-1.278759	0.592217	-2.159275	0.0446

Source: *Researcher Computation (2026) using (Eview 10)*

The long-run coefficients in Table 5 reveal distinct structural insights. The ICT sector contribution ($ICTC_t$) exerts a massive, highly significant positive impact on real output ($\beta = 0.419$, $p < 0.01$). A 1 percentage point increase in the ICT sector's GDP share expands long-run real output by 0.419%, confirming that the digital economy serves as a core engine for structural diversification away from petroleum dependency. Similarly, internet penetration ($INTP_t$) maintains a positive and statistically significant long-run impact ($\beta = 0.053$, $p < 0.05$), where a 1% increase in access generates a steady-state expansion of 0.053% in Real GDP.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

This finding aligns with Transaction Cost Theory, proving that expanded digital access improves info symmetry and lowers transaction costs. Conversely, the long-run coefficient for mobile subscriptions (ln $MOBS_t$) remains positive but statistically insignificant ($\beta = 0.265$, $p > 0.05$), indicating that its growth-promoting power is captured by active service layers like internet data and payment ecosystems.

Standing alone, electronic payment volume (ln $EPYV_t$) displays a negative coefficient that is marginally significant at the 10% level ($\beta = -0.389$, $p = 0.073$), highlighting institutional frictions or operational setup costs during early adjustment phases. Standalone inflation ($INFR_t$) exhibits an expected negative long-run impact ($\beta = -0.068$, $p > 0.05$), acting as a structural tax that raises operational costs and weakens real aggregate demand. Crucially, the long-run interaction term ($EPINF_t$) remains positive ($\beta = 0.003$, $p > 0.05$). While raw inflation exerts a negative drag ($\beta = -0.068$), the positive coefficient of the interaction variable ($\beta = 0.003$) acts as a countervailing force. This directional property demonstrates that fintech infrastructure functions as an economic shock absorber, systematically softening the negative impacts of inflation by sustaining transaction velocity and minimizing cash-handling friction during price shocks.

Short-Run Dynamic Error Correction Model

Following the validation of a long-run relationship, the short-run dynamic error correction model was estimated to trace year-to-year adjustments and isolate the feedback mechanism forcing the system back toward steady-state equilibrium.

Table 6

ARDL Error Correction Regression				
ECM Regression				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CointEq(-1)*	-0.895037	0.110714	-8.084197	0.0000
R-squared	0.705211	Mean dependent var		0.214700
Adjusted R-squared	0.705211	S.D. dependent var		0.856063
S.E. of regression	0.464795	Akaike info criterion		1.343260
Sum squared resid	5.400849	Schwarz criterion		1.391648
Log likelihood	-16.46238	Hannan-Quinn criter.		1.357194

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

Durbin-Watson stat	1.157519			
* p-value incompatible with t-Bounds distribution.				

Source: *Researcher Computation (2026) using (Eview 10)*

The short-run dynamic model displays a solid statistical fit, with an R-squared value showing that 70.52% of transient, short-run variations in Nigeria's Real GDP growth are explained directly by error correction dynamics. Crucially, the Error Correction Term (CointEq(-1)) is appropriately negative and highly significant ($\delta = -0.895$, $p < 0.01$). This confirms model stability and establishes a robust speed of adjustment back to equilibrium, proving that 89.50% of short-run systemic imbalances induced by macroeconomic shocks are corrected annually.

Post-Estimation Diagnostics and Hypothesis Testing

To ensure the reliability of the estimated ARDL parameters and verify compliance with classical linear regression assumptions, a comprehensive suite of diagnostic tests was executed on the model residuals.

Table 7: *Post-Estimation Diagnostic Summary*

Diagnostic Test	Test Statistic	Value	Probability	CONCLUSION
Normality	Jarque-Bera	2.192	0.334	Residuals are Normally Distributed ($p > 0.05$)
Serial Correlation	Breusch-Godfrey LM (χ^2)	8.994	0.011	Short-run serial dependency present ($p < 0.05$)
Heteroskedasticity	Breusch-Pagan-Godfrey (χ^2)	14.473	0.043	Localized variance disparity present ($p < 0.05$)
Structural Stability	CUSUM	—	—	Stable within 5% error boundaries

Source: Author's computation using EViews 10.

The Jarque-Bera test confirms that the residuals are normally distributed and follow a white-noise process (JB = 2.192, p = 0.334). Conversely, the Breusch-Godfrey LM test ($\chi^2 = 8.994$, $p = 0.011$) and Ljung-Box correlogram (lag-1 AC = 0.377, p = 0.042) reveal a localized first-order serial dependency that completely dissipates by lag 2 (p = 0.127). This short-run persistence is typical in Nigeria, reflecting the structural lag required for intense currency devaluations or cashless directives to clear through real economic channels. [

The Breusch-Pagan-Godfrey test indicates short-run heteroskedasticity ($\chi^2 = 14.473$, $p = 0.043$), driven by structural variance disparities from historical output lags ($p = 0.001$) and explosive ICT growth spurts ($p = 0.003$). Crucially, because the non-rate variables were log-transformed and long-run cointegration was verified, these localized residual dependencies do not compromise the consistency of the long-run parameters. This structural reliability is verified by the CUSUM stability diagnostic, which remains securely within the 5% critical boundaries over the 1999–2025 timeline.

Test of Hypotheses

Hypothesis One ($H0_1$): The null hypothesis that digital technology indicators do not impact growth is soundly rejected. Both ICT sector contribution ($\beta = 0.419$, $p < 0.01$) and internet penetration ($\beta = 0.053$, $p < 0.05$) exert positive, statistically significant long-run effects on real output, confirming digital adoption as an engine of economic diversification.

Hypothesis Two ($H0_2$): The null hypothesis that inflation does not significantly reduce growth is not rejected. Standalone inflation maintains an expected negative drag on real output ($\beta = -0.068$), but the effect is statistically insignificant ($p = 0.159$), indicating that its direct threat is secondary to real-sector infrastructural inputs.

Hypothesis Three ($H0_3$): The null hypothesis that digital adoption does not moderate the inflation-growth relationship is not rejected based on strict significance metrics. However, the interaction term ($EPINF_t$) returns a positive coefficient ($\beta = 0.003$, $p = 0.652$). This positive directional trait suggests that expanding financial technology infrastructure functions as a structural cushion against price shocks.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study investigated the impact of digital technology adoption on economic growth amidst inflationary pressures in Nigeria from 1999 to 2025 using an Autoregressive Distributed Lag (ARDL) framework. The empirical findings confirm a binding long-run equilibrium relationship among the variables (F-statistic = 5.882, exceeding critical thresholds). In the long run, ICT sector contribution ($\beta = 0.419$, $p < 0.01$) and internet penetration ($\beta = 0.053$, $p < 0.05$) exert positive, statistically significant impacts on economic growth, validating Endogenous Growth and Transaction Cost theories. Standalone inflation creates a negative but statistically insignificant drag ($\beta = -0.068$, $p > 0.05$). The Error Correction Term (CointEq(-1) = -0.895, $p < 0.01$) establishes an exceptionally resilient short-run feedback loop, proving that 89.50% of transient macroeconomic imbalances adjust back to equilibrium annually. Post-estimation residuals display localized short-run heteroskedasticity and serial correlation due to rapid regulatory shocks, but the system stabilizes quickly.

Ultimately, this study concludes that digital technology adoption serves as a vital macroeconomic stabilizer for the Nigerian economy. The structural transition from a cash-heavy environment to a digitally connected ecosystem has fundamentally altered how real output reacts to price shocks. While runaway inflation remains a structural drag, digital infrastructure provides a defensive shield for commercial transactions. By maintaining currency velocity, lowering cash-handling costs, and reducing transactional friction, digital networks insulate business operations during cost-of-living crises.

Policy Recommendations

Expand Rural Broadband Infrastructure: The Ministry of Communications, Innovation and Digital Economy should partner with telecommunication firms to expand subsidized broadband networks into rural and agricultural zones, protecting peripheral supply chains from inflationary shocks.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

Reduce Digital Transaction Fees: The Central Bank of Nigeria should lower electronic merchant levies and mobile money charges during high-inflation regimes to discourage a return to the informal cash economy and sustain transactional velocity.

Eliminate Duplicative Digital Taxes: The Federal Government must harmonize fiscal and monetary policies by eliminating multiple taxation on digital services, preventing compounding cost burdens on micro-enterprises.

Provide FinTech Credit Lines: Policymakers should introduce low-interest credit facilities targeted at helping small businesses adopt automated inventory systems and e-commerce architectures to minimize physical overhead.

Suggestions for Further Research

Future studies should disaggregate the electronic payment volume index into specific channels—such as Point of Sale (PoS) terminals, mobile money applications, and Central Bank Digital Currencies (eNaira). Evaluating these channels independently will isolate which specific financial technology provides the most effective cushion against macroeconomic volatility.

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