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Exchange Rate Volatility and Inflation Pass-Through: An Assessment of Imported Inflation in Nigeria

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Abstract

The study examines the extent to which exchange rate volatility contributes to inflation pass-through in Nigeria, with particular emphasis on imported inflation dynamics, using data spanning 2000 to 2025 and an Autoregressive Distributed lagged (ARDL) model for the estimation. The results suggest that there exists a long-run relationship among the variables. Exchange rate volatility and money supply were found to increase imported inflation, while the level real effective exchange rate exerts a negative effect on

inflation. The study therefore stresses that is exchange rates pass-through to imported inflation in Nigeria, suggesting that the Nigerian economy is highly sensitive to currency fluctuations. The paper, therefore, stresses the need for a coordinated exchange rate management and improvement in monetary and fiscal policies measures to achieve sustainable price stability through market deepening and strategic intervention of government.

Keywords: Nigeria, Exchange Rate Volatility, Inflation Pass-Through, Imported Inflation, ARDL Model

1. Introduction

The behaviour of the exchange rate has remained one of the most delicate macroeconomic concerns in Nigeria, largely because the economy is highly dependent on imported goods and intermediate inputs for domestic production. Consequently, price stability has become closely associated with currency movements (Ikue *et al.*, 2024) ^[15]. Over the years, fluctuations in the value of the naira have frequently coincided with increases in domestic prices, particularly during episodes of sharp depreciation, suggesting that the exchange rate pass-through mechanism operates strongly within the Nigerian economy (Onipede *et al.*, 2020) ^[20]. Beyond depreciation itself, exchange rate volatility introduces uncertainty into pricing decisions, contractual arrangements, and cost planning for importers and producers. Such uncertainty often leads to precautionary price mark-ups, thereby intensifying inflationary pressures (Adedokun *et al.*, 2022) ^[1].

Inflation dynamics in Nigeria have evolved since the adoption of flexible exchange rate regimes following the Structural Adjustment Programme of 1986. Price formation appears increasingly influenced by external shocks rather than purely domestic demand factors (Tiamiyu, 2022) ^[28]. As documented in the National Bureau of Statistics (2024), headline inflation rose from 11.4 percent in 2019 to over 28 percent by late 2024, a period that also witnessed significant foreign exchange market volatility. While some scholars attribute inflationary pressures to structural bottlenecks such as infrastructural deficits and insecurity, others argue that exchange rate instability remains a primary driver, particularly through its effect on the domestic prices of imported food, fuel, machinery, and raw materials.

Imported inflation has therefore emerged as a critical channel through which exchange rate volatility affects household welfare and business sustainability in Nigeria, especially in an economy where imports constitute a substantial share of both consumption and production inputs. Data from the Central Bank of Nigeria (CBN), 2023 ^[7] indicate that episodes of exchange rate depreciation are typically accompanied by rising import bills, reinforcing the proposition that currency instability transmits directly into domestic price levels. Although Adedokun *et al.* (2022) ^[1] observe that monetary policy stance may moderate exchange rate pass-through, the Nigerian context presents unique challenges, including persistent foreign exchange shortages and relatively weak transmission mechanisms. Global evidence further supports this perspective. The International Monetary Fund (IMF), 2023 ^[14] reports that exchange rate pass-through tends to be stronger in developing economies than in advanced economies due to weaker institutions, lower policy credibility, and higher dependence on imports—features that align with the structural characteristics of the Nigerian economy. Although, the literature on exchange rate pass-through is vast in the

developing Sub-Saharan Africa, Nigeria included, majority of the studies focus on exchange rate levels with little attention on exchange rate volatility, thus neglecting the role of uncertainty in explaining inflation dynamics.

The Nigerian economy continues to experience persistent inflationary pressures despite repeated policy interventions aimed at stabilising prices. Inflation has steadily eroded purchasing power and widened income inequality, suggesting that existing macroeconomic instruments may be insufficient or inadequately targeted (Ikue *et al.*, 2024) ^[15]. Exchange rate fluctuation has intensified due to liberalization of the foreign exchange market, declining oil revenues, and recurring external shocks, causing inflation to remain persistently high and raising questions about the monetary policy stance of government linking exchange rate dynamics to domestic prices. Although the Central Bank of Nigeria has implemented monetary tightening measures and exchange rate reforms, these actions have often coincided with rising inflation rather than sustained price stability, implying that the pass-through process may be more complex than conventionally assumed.

High and persistent inflationary pressure affect the whole economy, raising issues regarding purchasing power, unemployment and widespread income inequality. Considering that exchange rate volatility is a key dimension in imported inflation, and given the ease with which capital flows between countries, and the impact such flows can have on the macroeconomy fundamentals, it is imperative for government to take measures aimed at stabilization of the exchange rate to withstand possible impact of imported inflation. Recent studies including Adedokun *et al* (2022) ^[1] and IMF, (2023) ^[14] have pointed to the important role of weak institutions, lower policy credibility and higher dependence on imports-features that characterise the structure of the Nigerian economy, in exacerbating the influence of exchange rate pass-through on imported inflation. It is in the light of this that this paper assesses the impact of imported inflation in Nigeria through the channel of exchange rate volatility vis-à-vis the monetary policy stance of government. The key point is the need for government to adopt measures directed towards effective stabilization of the exchange rate in order to avert inflationary penalties of depreciation and volatility of exchange rate. The rest part of this paper is organised into sections as follows. Section 2 clarifies certain conceptual/theoretical underpinning as related to the study; section 3 reviews the related literature; section 4 presents the research methodology of the study; section 5 presents and analyses the empirical results while section 6 concludes the paper.

2. Conceptual/Theoretical Underpinning

2.1 Conceptual Issues

The study examines the notion of exchange rate volatility and imported inflation in developing economies. Exchange rate volatility is defined according to (Salihu *et al.*, 2025) ^[27], as the uncertainty or fluctuation in a currency's value over time, serving as a primary indicator of macroeconomic stability in developing nations. In the Nigerian context, these fluctuations are driven by a combination of domestic monetary policy shifts, global commodity price shocks, and speculative capital flows (Musa, 2021) ^[17]. Volatility is a concrete economic phenomenon that reshapes pricing behaviour, investment decisions, and trade balances

(Onukwuru *et al.*, 2025) ^[21]. Periods of extreme volatility are closely linked to price spikes, raising the cost of imports; triggering second-order impacts on inflation expectations, wage negotiations, and the structuring of contracts (Iliyasu & Sanusi, 2023) ^[13]. The transmission of these shocks often causes domestic prices to rise quickly particularly during currency depreciation but rarely fall as much during appreciation.

Imported inflation on the other hand, refers to the proportion of domestic price increases that can be directly attributed to rising prices of imported goods and services, typically driven by exchange rate movements and external price shocks (Ezaal & Alwell, 2023) ^[10]. In an economy such as Nigeria's characterised by substantial reliance on imported consumer goods, industrial inputs and energy products, domestic price levels are particularly sensitive to external developments (Nnabu & Awoke, 2025) ^[19]. Theoretical, imported inflation is anchored in exchange rate pass-through literature, which posits that depreciation of the domestic currency increases the local-currency price of imports, which subsequently transmit to broader consumer prices. Empirical studies, including (Sa'ad *et al.*, 2023) ^[26], indicate that short-run transmission tends to be weaker than long-run effects, suggesting that adjustment processes are moderated by market frictions, pricing-to-market strategies, contractual rigidities, and wage stickiness.

2.2 Theoretical Literature

The theoretical literature on exchange rate determination and inflation transmission is commonly anchored on three major frameworks: the Purchasing Power Parity (PPP) theory, the monetary approach to exchange rates, and the exchange rate overshooting Model.

The PPP theory explains the long-run relationship between exchange rates and relative price levels across countries. It argues that identical baskets of goods should cost the same when expressed in a common currency, implying that exchange rates adjust to offset differences in national inflation rates. The theory suggests that countries with higher inflation should experience currency depreciation relative to countries with lower inflation. However, PPP depends on restrictive assumptions such as free trade, zero transport costs, perfect competition, and the absence of market frictions, conditions that rarely exist in developing economies like Nigeria. Even so, it remains useful in explaining how sustained currency depreciation raises the domestic prices of imported goods and fuels imported inflation.

The monetary approach to exchange rates extends the monetarist view based on the argument that exchange rates are fundamentally determined by the relative supply and demand for money across countries. Under this framework, increases in domestic money supply that are not matched by growth in real output led to higher price levels and downward pressure on the currency (Boughton, 2013) ^[6]. In the Nigerian context, rapid monetary expansion often weakens the naira, making imports more expensive and intensifying inflationary pressures. Although the theory assumes stable money demand and smooth price adjustments, which may not always hold in emerging economies, it remains important because it highlights the role of money supply growth in exchange rate depreciation and inflation dynamics. This provides a strong justification for including broad money supply (M3) in empirical models

examining inflation and exchange rate behaviour in Nigeria. The Exchange Rate Overshooting Model, developed by Dornbusch (1976) ^[8], explains the excessive short-run volatility often observed in exchange rates after monetary or external shocks. The model assumes that financial asset prices, including exchange rates, adjust quickly, while goods prices respond slowly because of price stickiness. As a result, exchange rates may depreciate beyond their long-run equilibrium level before gradually returning to normal as domestic prices adjust. This framework is highly relevant to Nigeria, where the foreign exchange market often reacts sharply to policy announcements, oil price changes, and capital flow reversals. In such cases, exchange rate shocks immediately increase import prices and generate short-run inflation spikes. While the model relies on assumptions such as rational expectations and sticky prices, it remains valuable for understanding exchange rate volatility and inflation pass-through in the short run. Together, the overshooting model complements the PPP and monetary approach by providing a dynamic explanation of how exchange rate shocks transmit to domestic prices.

3. Review of Related Literature

The literature on the subject is vast but would undertake a brief review in the study. For instance, Hamzat, Oye, and Deji (2024) ^[12] investigated exchange rate pass-through on import and consumer prices using quarterly data on Nigeria from 2000 to 2021. Applying Autoregressive distributed lag (ARDL) and Non-linear ARDL (NARDL) models, the authors found that ERPT in Nigeria is asymmetric and incomplete. They observed that gross domestic product (GDP) exerts a greater influence on consumer prices than the exchange rate, suggesting that demand-side factors also play a crucial role. However, the study confirmed a direct link between currency appreciation and domestic price reductions.

Osabuohien *et al* (2018) ^[23] examined the nexus between inflation, exchange rate volatility, and pass-through in Nigeria, using GARCH and cointegration techniques on data from 2006 to 2015. They found that the parallel market exchange rate drives short run inflation, whereas the official rate influences inflation only in the long run. The study also brought to a fore that exchange rate volatility has a positive and statistically significant long run effect on inflation. Given Nigeria's long-standing parallel market premium, this study underscores the danger of focusing solely on official exchange rate movements when assessing imported inflation. The nexus between external price shocks and domestic inflation was examined by Adeleye, *et al* (2020) ^[2]. Using Johansen cointegration and a vector error correction model (VECM) on Nigeria data over the period 1981 to 2017, the authors found a strong correlation between external price shocks and domestic inflation, lending empirical weight to the concept of imported inflation. Earlier support for this external channel comes from Asekunowo (2016) ^[3], who analysed persistent inflation in Nigeria from 1974 to 2013 using an ARDL bounds test. He concluded that the pass-through of import prices to domestic prices via markup pricing by firms is a key mechanism underlying Nigeria's inflation.

Ndume and Akanegbu (2025) ^[18] employed a structural vector autoregression (SVAR) model on Nigeria data spanning 2003 to 2023. They found that exchange rate shocks have a strong, immediate, and persistent impact on

consumer prices. They stressed that exchange rate movements is the single most important driver of inflation in Nigeria, surpassing money supply and fiscal shocks.

In contrast, Osunkwo *et al.* (2025) ^[24] reported a relatively low pass-through effect of exchange rate on imported inflation in Nigeria, employing Impulse Response Function (LPIRF) on data spanning 1981 to 2023. The authors argue that foreign exporters often engage in pricing-to-market strategies, absorbing exchange rate shocks to maintain market share in Nigeria. This finding suggests that while volatility exists, its direct translation to consumer inflation may be weaker than often assumed, a point of departure from other studies.

Similarly, Oyadeyi, Oyadeyi, and Iyoha (2024) ^[25] applied threshold autoregression and self-exciting threshold autoregressive (SETAR) models to quarterly data from 2000 to 2023 on Nigeria in examining the nexus between exchange rate pass-through and imported inflation in depreciation and appreciation of the domestic currency scenario, and found a non-linear relationship. This non linearity explains why some periods of exchange rate adjustment led to runaway inflation while others do not, and it provides a clear rule of thumb for monetary policy intervention.

The conflicting results from the above studies suggest the need to revisit the evidence, this time, explicitly modelling inflation with exchange rate volatility as a pass-through on imported inflation. Specifically, this study explicitly model inflation with imported inflation as the transmission channel through which exchange rate volatility affects headline inflation, and by accounting for asymmetry, volatility persistence and the distinct roles of official versus parallel exchange rates, the study aims to provide greater insight to the problem of persistent inflationary pressure in Nigeria.

4. Research Methodology

The study adopts an ex-post facto research design using monthly time-series data from 2000 to 2025. Imported inflation is proxied by relevant price indices, while exchange rate volatility is measured using GARCH-based estimates. The real effective exchange rate and a control variable of broad money supply (M3) are included in the model as explanatory variables. ARDL model is employed for the estimation of the model. These methods are well-suited to mixed integration orders and enable a clear distinction between temporary dynamics and long-run equilibrium relationships.

The empirical relationship between exchange rate volatility, real effective exchange rate, money supply, and imported inflation is specified within an Autoregressive Distributed Lag (ARDL) framework, functionally specified as follows:

$$CPI = f(EXVOL, REER, M3) \quad (1)$$

Where,

CPI = imported inflation (measured by changes in consumer price index).

EXVOL= exchange rate volatility;

REER= real effective exchange rate;

M3_t = broad money supply;

The corresponding linear ARDL specification is,

$$CPI = \alpha_0 + \alpha_1 EXVOL + \alpha_2 REER + \alpha_3 M3 + \epsilon \quad (2)$$

4.1 Variable Description

Real Effective Exchange Rate: The Real Effective Exchange Rate (REER) measures the value of a domestic currency relative to a basket of foreign currencies, adjusted for relative price levels. It is widely regarded as a key indicator of a country's international competitiveness (Ejedegba, 2015, Nnabu & Awoke, 2025) ^[9, 19]. Unlike the nominal exchange rate, REER incorporates inflation differentials across trading partners, making it particularly appropriate for analysing inflation pass-through especially in import-dependent economies such as Nigeria (Kinda & Barry, 2021) ^[16].

A depreciation of the REER implies a decline in the external value of the naira after adjusting for price differentials. This increases the domestic cost of imported goods, machinery, and intermediate inputs, thereby contributing to imported inflation (Sa'ad *et al.*, 2023) ^[26]. The real exchange rate integrates nominal exchange rate changes with domestic and foreign price dynamics, offering a more comprehensive perspective on how external shocks influence domestic prices. Accordingly, REER is incorporated as an independent variable to capture the combined effect of currency depreciation and inflation differentials on import prices. Although the computation of REER is sensitive to the selection of trade weights and price indices, the dominance of key trading partners in Nigeria enhances its reliability as a measure of currency competitiveness and its inflationary implications (Kinda & Barry, 2021) ^[16].

Money Supply: Money supply, commonly measured by broad aggregates such as M3, represents the total stock of money circulating within an economy, including currency in circulation, demand deposits, and time deposits held in the banking system (Gbe & Ejedegba, 2020) ^[11]. Within macroeconomic theory, particularly the monetarist tradition, money supply plays a central role in price determination. Sustained expansion of liquidity without corresponding growth in real output is expected to generate inflationary pressures (Olise & Ejedegba, 2025) ^[22].

The principal assumption underlying the use of money supply as a determinant of inflation is that money demand remains relatively stable and that price levels adjust predictably to changes in liquidity (Adeboye *et al.*, 2025). However, in emerging economies such as Nigeria, financial innovation, volatile capital flows, and a sizeable informal sector may weaken the stability of money demand, thereby complicating the direct relationship between money supply and prices (Ben-Obi *et al.*, 2025) ^[5]. Even so, money supply remains analytically relevant because it interacts with exchange rate dynamics to influence imported inflation. Excess liquidity may exert downward pressure on the domestic currency, leading to depreciation, which in turn raises the domestic cost of imported goods and reinforces inflationary pressures (Salihu *et al.*, 2025) ^[27].

Moreover, monetary expansion typically operates with time lags. Current increases in money supply may generate both immediate and delayed inflationary effects, implying that M2 functions as both a short-run and long-run determinant within the inflation process (Olise & Ejedegba, 2025) ^[22]. This dynamic aspect strengthens the case for its inclusion in models that capture adjustment processes over time.

Money supply is incorporated as an independent variable to capture the monetary dimension of inflation pass-through. By examining M3 alongside exchange rate volatility and REER, the empirical framework offers a more

comprehensive account of how liquidity management interacts with currency dynamics to shape imported inflation. This integration provides both theoretical and empirical justification for treating money supply as a core variable in the analysis of inflation transmission mechanisms.

Imported Inflation: The imported inflation is the dependent variable of the model in the study. It captures the direct economic burden of external shocks on households and firms, providing a clearer signal of foreign-driven price pressures.

5. Presentation and Analysis of Results

Table 1: Summary Statistics

	CPI	EXVOL	M3	REER
Mean	153.106	15.801	87.732	11.038
Median	152.680	15.540	87.745	10.585
Maximum	211.180	25.000	96.960	18.560
Minimum	93.690	12.230	78.290	5.850
Std. Dev.	33.278	2.081	4.620	2.793
Skewness	0.045	1.925	0.091	0.621
Kurtosis	1.806	8.695	1.801	2.651
Jarque-Bera	18.632	614.269	19.111	21.649
Observations	312	312	312	312

Source: Author's Computation, 2026

Table 1 presents the summary statistics for the variables employed in the study. The proximity between the mean and median for each variable suggests that the data series are relatively stable around their central values. The mean of CPI stands at 153.106, with a significant spread as indicated by the standard deviation of 33.28, suggesting that imported prices in Nigeria have experienced substantial movement over the study period. Money Supply (M3) and Exchange Rate Volatility (EXVOL) show relatively lower standard deviations of 2.79 and 2.08 respectively. However, the wide gap between the minimum (12.23) and maximum (25.00) values for EXVOL highlights periods of intense currency instability. All variables exhibit positive skewness with EXVOL standing out with a high coefficient of 1.92, which indicates that extreme spikes in volatility are more frequent than extreme drops, and the high kurtosis of 8.70 confirms the presence of "fat tails," implying that Nigerian economy frequently experiences outlier shocks in exchange rate volatility.

Table 2: Augmented Dickey-Fuller (ADF) Unit Root Test Results

Unit Root Test at Levels						
Variables	ADF Test Statistics	Mackinnon Critical Values			Prob. value	Remarks
		1%	5%	10%		
CPI	0.262	-3.452	-2.871	-2.572	0.976	I(1)
EXVOL	-5.064	-3.452	-2.871	-2.572	0.000	I(0)
REER	-1.746	-3.452	-2.871	-2.572	0.407	I(1)
M3	0.216	-3.452	-2.871	-2.572	0.973	I(1)

Source: Author's Computation, 2026.

The unit root results indicate mixed integration properties across the variables. Exchange rate volatility (EXVOL) is stationary at level, implying integration of order zero, I(0). In contrast, REER, money supply (M3), and CPI fail to reject the null hypothesis of a unit root at level but become stationary after first differencing, confirming integration of order one, I(1). The mixed order of integration, therefore,

provides econometric justification for the ARDL estimation strategy adopted.

Table 3 presents the ARDL bounds test, conducted to examine the existence of a long-run equilibrium relationship among exchange rate volatility (EXVOL), real effective exchange rate (REER), money supply (M3), and imported inflation (CPI).

Table 3: ARDL Bounds Test for Co-integration

Test Statistic	Value
F-statistic	23.783
Critical Bounds (5%)	
Lower Bound I(0)	2.790
Upper Bound I(1)	3.670

Source: Author's Computation, 2026

The computed F-statistic (23.783) exceeds the upper bound critical value (3.670) at the 5 percent significance level. Therefore, the null hypothesis of no co-integration is rejected. This result confirms the existence of a stable long-run relationship among the variables.

Table 4: ARDL Model Estimates

Variable	Coefficient	Std. Error	t-Statistic	Probability
CPI(-1)	-0.037	0.013	-2.996	0.003
EXVOL(-1)	-0.075	0.088	-0.853	0.395
REER	-0.250	0.084	-2.990	0.003
M3(-1)	0.091	0.080	1.133	0.258
C	29.562	9.884	2.991	0.003

Source: Author's Computation, 2026 using EViews 14.

The slope coefficient of exchange rate volatility is negative with coefficient value of -0.075 though statistically insignificant at the conventional significance level, suggesting that exchange rate volatility does not exert a permanent effect on imported inflation.

The real effective exchange rate exerts a negative and statistically significant long run effect on imported inflation. The coefficient of REER is -0.250 with probability value of 0.003. This result implies that appreciation in the exchange rate contributes significantly to reduction in imported inflation in Nigeria.

Money supply exhibits a positive but statistically insignificant long run coefficient of 0.091, suggesting that monetary expansion contributes more strongly to inflationary pressure.

Table 5: Diagnostic test for the model

Test Statistic	ARDL	
	F-Statistics	Probability
Serial Correlation LM Test	1.563	0.211
Heteroskedasticity Test	0.009	0.926
Jarque Bera Normality Test	0.238	0.888
Ramsey RESET Test	1.313	0.253

Source: Author's computation, 2026.

The Breusch Godfrey Serial Correlation LM tests show probability values greater than 0.05 for the ARDL model, indicating absence of serial correlation. The ARCH heteroskedasticity tests also indicate homoscedastic residuals since the probability value exceed 0.05. The Jarque Bera normality test confirm that the residuals are normally distributed. Similarly, the Ramsey RESET tests indicate correct functional form specification since the probability

value is statistically insignificant at the 5 percent level. Therefore, the estimated model satisfies the major econometric assumptions required for valid inference.

The CUSUM and CUSUM of Squares tests for the model is presented in the figures below and show that the recursive residuals remain within the 5 percent critical bounds throughout the sample period, confirming that the estimated parameters are stable over the study period and the model is suitable for policy analysis and forecasting.

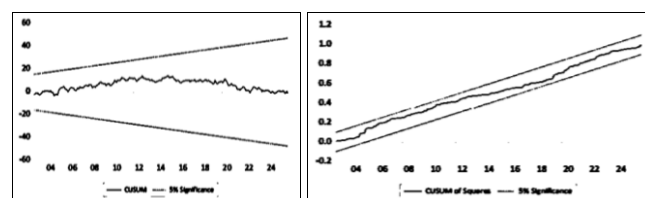


Fig 1: ARDL CUSUM and CUSUM of Square

The findings of this study demonstrate that exchange rate dynamics play an important role in explaining imported inflation in Nigeria. The ARDL bounds test confirms the existence of long run equilibrium relationship among imported inflation, exchange rate movements, exchange rate volatility, and money supply. The results reveal that exchange rate volatility exerts significant effects on imported inflation in Nigeria. This finding is consistent with the structure of the Nigerian economy which depends heavily on imported goods, imported industrial inputs, refined petroleum products, machinery, and intermediate raw materials. Consequently, fluctuations in exchange rates rapidly transmit into domestic prices through higher import and production costs. The findings align with Musa (2021) ^[17], who reported that exchange rate volatility amplifies inflationary pressures in Nigeria, particularly during periods of speculative attacks and external shocks, suggesting that exchange rate volatility is not merely a financial market phenomenon but a direct channel through which macroeconomic instability affects household welfare, production costs, and price stability.

The significant negative effect of the real effective exchange rate indicates that exchange rate appreciation contributes to reduction in imported inflation. This result supports theoretical expectations that appreciation lowers the domestic prices of imported goods and reduces inflationary pressure. These findings are consistent with Kinda and Barry (2021) ^[16], who observed faster pass-through under depreciation regimes in West African economies. Ben-Obi *et al.* (2025) ^[5] also documented that REER depreciation significantly contributes to temporary inflation surges in Nigeria. The results underscore that REER movements reflect deeper structural issues relating to trade competitiveness, external exposure, and exchange rate management. Import-dependent sectors are particularly vulnerable to costs pressure arising from real depreciation.

The study also brought to a fore that money supply exerts strong positive effects on imported inflation, especially in the short run. This suggests that imported inflation in Nigeria is influenced not only by external sector dynamics but also by domestic monetary conditions, similar to the observation of Musa (2021) ^[17] and Adeboye *et al.* (2025). Expansionary monetary policy therefore contributes significantly to inflation persistence within the Nigerian economy. Olise and Ejedegba (2025) ^[22] similarly observe

that a positive long-run relationship between the monetary policy rate and inflation, led to cost-push pressures, exchange rate pass-through, and fiscal dominance.

Overall, the findings suggest that exchange rate stability and prudent monetary management remain critical for controlling imported inflation in Nigeria. Policymakers should strengthen exchange rate management policies, reduce excessive dependence on imports, promote domestic production capacity, and maintain disciplined monetary policy in order to achieve sustainable price stability.

6. Conclusions

The study examined exchange rate volatility and imported inflation pass through in Nigeria, using ARDL framework. The findings provide strong empirical evidence that exchange rate dynamics significantly influence imported inflation in Nigeria. The study established the existence of long run equilibrium relationships among imported inflation, exchange rate volatility, exchange rate movements, and money supply. The results indicate that exchange rate volatility exerts substantial effects on domestic prices, reflecting the heavy import dependence of the Nigerian economy. Monetary expansion was also found to contribute significantly to inflation persistence in Nigeria. Exchange rate volatility and excessive monetary expansion remain major drivers of imported inflation in Nigeria. Consequently, achieving sustainable price stability requires coordinated exchange rate management and improved monetary and fiscal policies measures. Volatility of exchange rate could be reduced through market deepening and by strategic intervention of government operation. These actions could help to stabilize inflation expectations and by extension improves trade balance. The CBN should strengthen foreign exchange market interventions and improve exchange rate management mechanisms in order to minimize sharp fluctuations in the value of the naira and maintain disciplined monetary policy in order to control excessive liquidity growth within the economy.

7. References

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