AFRICAN SOCIAL AND EDUCATIONAL JOURNAL
IMO STATE UNIVERSITY
OWERRI, IMO STATE
NIGERIA
VOL. 14 NO. 2 NOVEMBER 2025

INFLATION AND ECONOMIC GROWTH IN NIGERIA: THE ROLE OF GOOD GOVERNANCE

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ABSTRACT

Good governance plays a key role in directing a society's economic road map, paving the way for sustained economic development, social stability and national prosperity. This paper empirically examined inflation and economic growth in Nigeria: the role of good governance between 1981 and 2024 using the institutionalist variant of the political economy approach. Both descriptive statistics and the Ordinary Least Square (OLS) method of multiple regression analysis were employed to analyze the data. The result of the OLS shows that Inflation (INFL) has a negative and a significant relationship with Per Capita Real Gross Domestic Product (PCRGDP), a proxy for economic growth in Nigeria. This means that Inflation (INFL) reduces Economic Growth in Nigeria within the period of study. Exchange Rate (EXCR) has a positive and an insignificant relationship with Per Capita Real Gross Domestic Product (PCRGDP), a proxy for economic growth in Nigeria. This means that Exchange Rate (EXCR) increases economic growth in Nigeria within the period of study. Interest Rate (INTR) has a positive and a significant relationship with Per Capita Real Gross Domestic Product (PCRGDP) a proxy for economic growth in Nigeria. This means that Interest Rate (INTR) increases Economic Growth in Nigeria within the period of study. Money Supply (MS) has a negative and an insignificant relationship with Per Capita Real Gross Domestic Product (PCRGDP) a proxy for economic growth in Nigeria. This means that Money Supply (MS) do not have a significant effect on Economic Growth in Nigeria within the period of study. The paper therefore concludes that Inflation (INFL) reduced economic growth while interest rate increased economic growth in Nigeria within the period under review. The paper therefore recommended amongst others that the Central Bank of Nigeria (CBN) should pursue a credible, flexible inflation-targeting regime. Also, the federal government of Nigeria should promote non-oil exports (e.g., agriculture, manufacturing, services etc.) to make the economy more responsive to exchange rate movements. The paper further recommended that the federal government of Nigeria should promote and implement transparent mechanisms and citizens participation in governance. This will help to tame systemic corruption and achieve minimal inflation and sustained economic growth in Nigeria.

Keywords: Inflation, Economic Growth, Good Governance, Nigeria.

Introduction

The basic responsibility of government in any economic system, irrespective of its political arrangement, is to initiate policies towards the achievement of the four basic macro-economic goals, namely:

i) Price stability; (ii) Maintaining full employment; (iii) Achieving equilibrium in the balance of payments positions; and (iv) Achieving sustained economic growth (Akinnifesi, 1980 in Onuchuku, 2016).

The achievement of these goals is referred to as economic stability. However, for most countries, the maintenance of price stability continues to be the overriding objective of monetary policy. The emphasis given to price stability in the conduct of monetary policy is with a view to promoting sustainable growth and development as well as strengthening the purchasing power of the domestic currency among others (Central Bank of Nigeria, 2007).

In the economics literature, it is argued that the concept of inflation has been exogenously linked to money, as captured by the often-heard maxim "inflation is too much money chasing too few goods (Central Bank of Nigeria, 2007). As observed by Hamilton (2001), inflation has been widely described as an economic situation when the increase in money supply is "faster" than the new production of goods and services in the same economy. Though, economists have attempted to distinguish inflation from an economic phenomenon of a one-time increase in prices or when there are price increases in a narrow group of economic goods or services. Thus, Akpakpan (1999) describes the term inflation as a general upward movement of prices, or a rise in the prices of most goods and services in an economy.

In recent years, the rate of inflation in Nigeria has been on the increase. The surging inflation rate has become a serious concern for all policy makers and stakeholders in the country. As noted by Bada, Olufemi, Tata, Peters, Bawa, Omwubiko & Onyowo (2018), a high rate of inflation is a sign of an economy that is failing since it causes an increase in the cost of living; causes firms in the economy to perform below expectations; and even more worrying and disturbing is the declining quality of living that leads to an increase in the poverty rate in the country. Going by the figures published by the World Bank, the consumer price index (CPI) of Nigeria has climbed at a fast pace over the last few years. Specifically, in 2013, the consumer price index in Nigeria was at 8.5 percent, but by the year 2022, it had jumped to 18.8 percent, showing a growth of 120 percent during the previous decade (World Bank, 2022). In June 2024, the headline inflation rate increased to 34.19% relative to the May 2024 headline rate which was 33.95% (National Bureau of Statistics, 2025). As a result, it is expected that the country's poverty rate has also increased, going from 33.1 percent in 2013 to 63.1 percent in 2022 (National Bureau of statistics, 2022). According to the World Bank's latest April 2025 Poverty and Equity Brief for Nigeria, rural dwellers are overwhelmingly bearing the brunt of economic stagnation, inflation, and structural challenges that have characterized the country's growth trajectory in recent years. The data, derived from Nigeria's most recent nationally representative surveys, show that while 41.3% of the urban population lives below the poverty line, the figure for rural Nigeria is almost double, reaching an alarming 75.5% (Tunji, 2025).

Inflation remains a central issue to policy makers and analysts. Its importance is premised on the distortions that high inflation rate can exert on domestic macroeconomic conditions, with the potential to derail the economy from the path of sustainable growth and development (Morch, Essien, Adenoga, Omanukwue, Ononugbo, Oguntade, Abeng & Ajao (2007). For a developing country like Nigeria, an investigation into the nexus between inflation and economic growth is very pertinent.

The debate on inflation growth nexus has remained perennial and has attracted substantial theoretical and empirical efforts. For instance, while the structuralists argue that inflation is crucial for economic growth, the monetarists posits that inflation is harmful to economic growth. The two basic aspects of the debate relate to the presence as well as the nature of relationship between inflation and growth and the direction of causality (Doguwa, 1999).

For decades, there has been a persistent argument that the Nigerian economy underperforms due to a lack of state capacity and political will to deal with contemporary governance complexities. As noted by Salami, et al. (2023), poor governance in Nigeria has resulted in poor economic performance, as evidenced by corruption, political instability, and ineffective rule of law and institutions. Thus, it has been argued that economic growth and the development processes do not occur in a political and institutional vacuum (Solimano. 2005). As a result, stability, the rule of law, and social cooperation capable of fostering wealth creation and impressive economic performance are expected to characterize a good governance environment (Bayar, 2016).

Consequently, the United Nations (UN) conceives good governance as a fundamental component of its Sustainable Development Goals (SDG) as it establishes a framework for reducing poverty, inequality, and other shortcomings in any country especially developing countries, including Nigeria (Omri & Mabrouk, 2020). However, Nigeria and other sub-Saharan African countries have a poor track record of good governance and economic growth (Feyissa &Nsiah, 2013).

Based on the foregoing, this paper examined the nexus between inflation and economic growth in Nigeria with specific emphasis on the role of good governance.

Literature Review

The concept of Inflation

Fernando (2024) defined inflation as a gradual loss of purchasing power that is reflected in a broad rise in prices for goods and services over time. The inflation rate is calculated as the average price increase of a basket of selected goods and services over one year. That is, high inflation means that prices are increasing quickly, while low inflation means that prices are growing more slowly.

Economic Growth

Lewis (1955) defined economic growth as the growth of output per head of the population. Akpakpan (1987) defined economic growth as the achievement of yearly increase in both the total and per capita output of goods and services. It refers to the sustained increase in the actual output of goods and services of the nation concerned.

Good Governance

Johnston (2002) defined good governance as “legitimate, accountable, and effective ways of obtaining and using public power and resources in the pursuit of widely accepted goals”. This definition by Johnston links good governance with rule of law, transparency and accountability, and embodies partnerships between state and society, and among citizens.

Theoretical Literature Reviewed

The Solow- Swan Theory of Economic Growth

The Solow-Swan model is a neoclassical growth theory developed independently by Robert

Solow and Trevor Swan in 1956, explaining long term economic growth through capital accumulation, labour growth and technological progress. It posits that capital accumulate drives short-term growth, but diminishing returns lead to a steady state where growth depends on exogenous technological advancements. The model highlights how technology is a boundless, yet external factors essential for sustained increase in per capital output.

The key components of the Solow-Swam Model include:

i. Capital accumulation: The model emphasizes how savings and investment in new capital (like machinery and buildings) increase a nation's productive capacity, driving short-term growth.
ii. Labour growth: The growth of the population (labour force) is another factor, contributing to overall economic output.
iii. Technological progress: According to Solow and Swan, this is the crucial element for long-term growth, as it increases productivity without requiring more capital or labour inputs.

The Solow-Swan model provided a robust framework for understanding long-run economic growth, building on earlier Keynesian models. It highlights that while capital accumulation is vital for short-term growth, technological advancement is the key to sustained increases in the long-run.

Empirical Literature Reviewed

Linh (2024) studied the relationship between inflation and economic growth: empirical evidences from Vietnam in 1996-2023. The study utilized the ordinary least squares method (OLS) with the Newey-West standard error. The result showed that inflation supports growth in the short term and harms growth in the long term, at a high level, but does not find a converse impact, which is economic growth affecting inflation. The study noted that the relationship between economic growth and inflation is a long-term relationship.

Bangura and Dmojolaibi (2024) carried out a study on inflation-economic growth nexus in Nigeria: new evidence on threshold effects covering a period from 1990 to 2021. The finding from the study revealed a non-linear relationship between inflation and economic growth in Nigeria, with a single inflation threshold of 12.88%.

Oligbi (2024) studied inflation, external debt and economic growth in Nigeria: empirical appraisal using ARDL. Covering the period spanning from 1985-2023, the study utilized the Auto-Redistributive log methodology. The findings of the study revealed that both inflation and external debt has a reverse effect on economic growth in Nigeria. While an increase in the exchange rate leads to a substantial decrease of roughly 1362 units in GDP.

Conteh (2024) studied the impact of inflation on economic growth in sub-Saharan Africa countries. The result shows that inflation hinders economic growth in Sub-Saharan African nations.

Asboton (2024) studied the relationship between inflation and economic growth in the West African Economic and monetary union (WAEMU): a search for new evidence of causality. Results from the study highlight a unidirectional causality between inflation and economic growth and support the view that public spending controls can reduce inflation.

Abdullahi (2023) studied the impact of inflation on economic growth in Nigeria from 1990 to 2022. Cointegration and Granger causality technique were employed in the study. The result for the cointegration showed negative long-run relationship between inflation and economic growth,

while the results of Granger causality indicated un-directional causality running from economic growth to inflation in Nigeria.

Onwubuariri, Oladeji and Bank-Ola (2021) studied inflation and economic growth in Nigeria: An ARDL bound testing approach. Results from the study indicated that inflation has negatively affected economic growth over the years as it reduces competitiveness as well as lowering the purchasing power of money.

Batramcea (2021) studied empirical evidence regarding the impact of economic growth and inflation on economic sentiment and household consumption in Romania. The results estimated via panel least squares (with cross-section weights, time fixed effects) showed that economic sentiment and household consumption were significantly shaped by the proxies of economic growth and inflation.

Al-Khulaifi (2018) carried out an empirical study on inflation and economic growth in Qatar for the period of 1980-2016. A time series analysis of unit roots tests, Johansan cointegration method and Granger causality tests were applied on data. The variables were found to be cointegrated, hence a long-run relationship between them exists. Granger causality test found causality runs from inflation to economic growth.

Anidiobu and Okolie (2018), carried out a study on the analysis of inflation and its effect on economic growth in Nigeria and utilizing annualized data covering the period 1986-2015. The regression results indicated that inflation rate had a positive and non-significant effect on economic growth (measured by RGDP) in Nigeria during the period studied.

Adigwe (2024) in a paper titled "Citizen and Government: The Role of Good Governance – A Case study of Nigeria's Economic Situation" observed that good governance plays a fundamental role in shaping a nation's economic situation, paving the way for sustainable development, social stability, and individual prosperity.

Materials and Methods

Model specifications

This paper adopted and modified the linear model of Banguar & Omojolaibi (2024), whose work was focused on inflation Economic Growth Nexus: New Evidence on Threshold Effects from 1990-2021. The model is specified below:

$Rdpgrt = d0 + Θ1Inflt + Θ2\ xt + ξt$ ……1

Where:

Rdpgr = the growth rate of real gross product

Infl = the annual growth rate of consumer price index

Xt = a vector of control variables that affect economic growth

Θ1 and Θ2 = the parameters to be estimated

Ɛt = the error term

The adopted model was however modified to enable us include the variables of the present paper. The functional form of the model to be used in this paper is expressed as:

PCRGDP = f(INFL, EXCR, INTR, MS) ……2

Where:

PCRGDP = Per Capital Real Gross Domestic Product (a proxy for economic growth).

INFL = Inflation rate

EXCR = Exchange rate

INTR = Interest rate

MS = Money Supply (as check variable)
F = functionality symbol

The ordinary least squares multiple regression equation based on the mathematical model is expressed as:

PCRGDP=B0+B1INFL+B2EXCR+B3INTR+B4MS+U ……..3

B0 = the regression constant
B1-B4 = the parameter estimates of the explanatory variables U = error term
All other variables are as earlier defined. Apriori theoretical expectations
Based on economic theory, we expect the following signs of the parameter estimates
B1<0; B2<0, B3<0; and B4>0

Method of Data Analysis

This paper used the ordinary least square (OLS) method of regression analysis to estimate the model. The paper conducted some other tests such as: R2, T-test, F-test, DW-tests.

The R2-test was used to test for the percentage variation in the regress and that is accounted for by the regressors. The F-test was used to test for the overall significance of the model. The DW-test was adopted to test for the presence of auto correlation of the error term.

Data Presentation

Table1 shows the trend of Nigeria's Per Capita Real GDP (a proxy for economic growth), Inflation Rate (INFL), Exchange Rate (EXCR), Interest Rate (INTR); and Money Supply (MS) between 1981 and 2024.

Table 1: Nigeria's PCRGDP, INFL, EXCR, INTR and MS, 1981-2024

Year	PCRGDP (%)	INFL (%)	EXCR (N/$)	INTR (%)	MS (N' Billion)
1981	-15.76	20.81	0.61	7.75	14.47
1982	-9.55	7.70	0.67	10.25	15.79
1983	-13.20	23.21	0.72	10.00	17.69
1984	-3.62	17.82	0.76	12.50	20.11
1985	2.95	7.44	0.89	9.25	22.30
1986	-2.62	5.72	2.02	10.50	23.81
1987	0.49	11.29	4.02	17.50	27.57
1988	4.50	54.51	4.54	16.50	38.36
1989	-0.79	50.47	7.39	26.80	45.90
1990	8.80	7.36	8.04	25.50	47.42
1991	-2.26	13.01	9.91	20.01	75.40
1992	1.92	44.59	17.30	29.80	111.11
1993	-4.60	57.17	22.05	18.32	165.34
1994	-4.37	57.03	21.89	21.00	230.29
1995	-2.67	72.84	21.89	20.18	289.09
1996	1.51	29.27	21.89	19.74	345.85
1997	0.29	8.53	21.89	13.54	413.28

1998	-0.06	10.00	21.89	18.29	488.15
1999	-2.03	6.62	92.69	21.32	628.95
2000	2.24	6.93	102.11	17.98	878.46
2001	3.08	18.87	111.94	18.29	1,269.32
2002	12.21	12.88	120.97	24.85	1,505.96
2003	4.43	14.03	129.36	20.71	1,952.92
2004	6.27	15.00	133.50	19.18	2,131.82
2005	3.53	17.86	132.15	17.95	2,637.91
2006	3.17	8.23	128.65	17.26	3,797.91
2007	3.68	5.39	125.83	16.94	5,127.40
2008	3.83	11.58	118.57	15.14	8,643.43
2009	5.07	12.54	148.88	18.99	9,687.51
2010	5.03	13.74	150.30	17.59	11,101.46
2011	2.40	10.83	153.86	16.02	12,628.32
2012	1.38	12.22	157.50	16.79	15,503.41
2013	3.81	8.50	157.31	16.72	18,743.07
2014	3.54	8.05	158.55	16.55	20,415.61
2015	0.08	9.01	193.28	16.85	20,885.52
2016	-4.02	15.70	253.49	16.87	24,259.00
2017	-1.62	16.50	305.79	17.56	28,604.47
2018	-0.41	12.10	306.08	19.33	29,774.43
2019	-0.01	11.40	306.92	15.53	34,257.90
2020	-3.86	13.25	358.81	12.32	36,038.01
2021	1.50	16.95	400.24	11.48	40,370.41
2022	1.11	18.85	425.98	12.33	48,461.42
2023	0.72	24.66	645.19	14.01	63,512.40
2024	1.29	33.24	1535.04	16.61	67,081.41

Note: (i) PCRGDP = Per Capita Real GDP a proxy for Economic Growth,
(ii) INFL = Inflation Rate,
(iii) EXCR = Exchange Rate,
(iv) INTR = Interest Rate; and
(v) MS = Money Supply.

Source: *WDI (2024) and CBN Statistical Bulletin (2024)*

The trend of the variables such as Economic Growth (PCRGDP) a proxy by Per Capita Real GDP, Inflation Rate (INFL), Exchange Rate (EXCR), Interest Rate (INTR); and Money Supply (MS) from 1981 to 2024 are presented in table 1 above and figure 1 below.

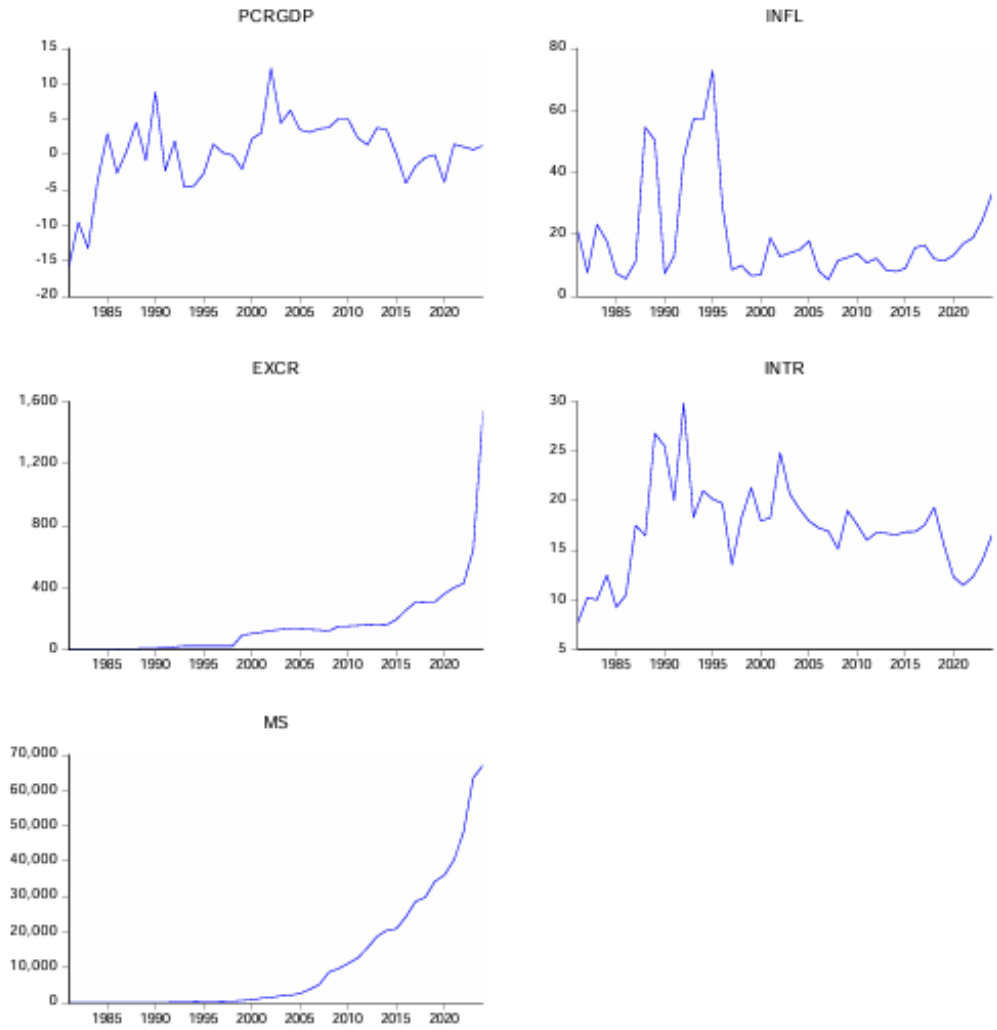

Figure 1: Trend of the Variables from 1981 to 2024

From Table 1 and figure 1 shows that the values of Economic Growth (PCRGDP) a proxy by Per Capita Real GDP between 1981 and 2024 was also in puzzle form with fundamental strong up and down spike as shown in the figure. It increased steadily from 1981 to 1985, move up to 1990, and to 1995 and move up to 2000 to 2005to 2010and to 2015 before it went up steadily till 2024.

Also, the table shows that the value of Inflation Rate (INFL) between 1981 and 2024 was also in puzzle form with fundamental strong up and down spike as shown in the figure. It increased steadily from 1981 to 1985 to 1990 to 1995 to 2000 up to 2008 before it came down in 2009 went up again to 2011, came down to 2016, went up again to its peak in 2018, went down to 2020 before it went up till 2024.

Exchange Rate (EXCR) has been on the increased during the period chosen for this study. It increased from 1981 to 1985 to 1990 to 1995 to 2000 to 2005 and to 2010, it later increases to 2015 and move up to 2020 before it reached 2024.

Interest Rate (INTR) has been on the increased during the period chosen for this study. It increased from 1981 to 1985 to 1990 to 1995 to 2000 to 2005 and to 2010, it later increases to 2015 and move up to 2020 before it reached 2024.

While Money Supply (MS) has been on the increased during the period chosen for this study. It increased from 1981 to 1985 to 1990 to 1995 to 2000 to 2005 and to 2010, it later increases to 2015 and move up to 2020 before it reached 2024.

Result and Discussions

The analyses of the data were done in two phases. The first phase is the descriptive statistics to ascertain the behaviour of the variables. Secondly, is the OLS followed by the post estimation test.

Descriptive Statistics

Table 2 below presents the result of the descriptive statistics of the variables employed in the estimations in this study.

Table 2: Descriptive Statistics Results

	PCRGDP	INFL	EXCR	INTR	MS
Mean	0.394938	19.40136	160.0309	17.10428	11642.96
Median	1.203820	13.12650	119.7685	17.09875	1729.442
Maximum	12.21039	72.83550	1535.040	29.80000	67081.41
Minimum	-15.75851	5.388008	0.610025	7.750000	14.47117
Std. Dev.	5.047126	16.23182	254.7410	4.563400	17567.64
Skewness	-0.957954	1.795631	3.846357	0.358237	1.687291
Kurtosis	5.221552	5.275433	20.62904	3.580815	5.108421
Jarque-Bera	15.77767	33.13706	678.2619	1.559584	29.02762
Probability	0.000375	0.000000	0.000000	0.458501	0.000000
Sum	17.37725	853.6598	7041.358	752.5885	512290.4
Sum Sq. Dev.	1095.360	11329.30	2790399.	895.4588	1.33E+10
Observations	44	44	44	44	44

Source: *Author's Computation (2025)*

The result of the descriptive statistics shows Per Capita Real GDP ((PCRGDP) proxy for economic growth has a mean value of 0.394938 with a standard deviation of 5.047126. The skewness value of PCRGDP is negative (-0.957954), meaning that PCRGDP has a long-left tail while the kurtosis value of PCRGDP is 5.221552 (i.e. greater than 3), meaning that it is leptokurtic. This means that the series has a more values higher the sample mean, that is, it has a peak distribution or surface. Inflation Rate (INFL) has a mean value of 19.40136 with a standard deviation of 16.23182. The skewness value of Inflation Rate (INFL) is positive (1.795631), meaning that Inflation Rate (INFL) has a long-right tail while the kurtosis value of Inflation Rate (INFL) is 5.275433(i.e. greater than 3), meaning that it is leptokurtic. This means that the series has a more values higher the sample mean, that is, it has a peak distribution or surface.

Exchange Rate (EXCR) has a mean value of 160.0309 with a standard deviation of 254.7410. The skewness value of Exchange Rate (EXCR) is positive (3.846357), meaning that Exchange Rate (EXCR) has a long-right tail while the kurtosis value of Exchange Rate (EXCR) is 20.62904 (i. e.

greater than 3), meaning that it is leptokurtic. This means that the series has a more values higher the sample mean, that is, it has a peak distribution or surface.

Interest Rate (INTR) has a mean value of 17.10428 with a standard deviation of 4.563400. The skewness value of Interest Rate (INTR) is positive (0.358237), meaning that Interest Rate (INTR) has a long-right tail while the kurtosis value of Interest Rate (INTR) is 3.580815(i. e. greater than 3), meaning that it is leptokurtic. This means that the series has a more values higher the sample mean, that is, it has a peak distribution or surface.

Money Supply (MS) has a mean value of 11642.96 with a standard deviation of 17567.64. The skewness value of Money Supply (MS) is positive (1.687291), meaning that Money Supply (MS) has a long-right tail while the kurtosis value of Money Supply (MS) is 5.108421 (i. e. greater than 3), meaning that it is leptokurtic. This means that the series has a more values higher the sample mean, that is, it has a peak distribution or surface.

Again, one important observation in this table is the Jarque-Bera statistics of the variables. It shows that the value of all the variables PCRGDP INFL EXCR and MS has a value greater than 5.99, suggesting that they do not has a normal distribution while INTR has a value less than 5.99, suggesting that it has a normal distribution.

Table 3: OLS Estimation Results

Dependent Variable: PCRGDP				
Method: Least Squares				
Date: 09/04/25 Time: 22:05				
Sample: 1981 2024				
Included observations: 44				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.698010	4.797953	-1.604436	0.1167
INFL	-0.103933	0.039074	-2.659893	0.0113
LOG(EXCR)	1.661286	1.316399	1.261993	0.2144
INTR	0.500648	0.187400	2.671543	0.0110
LOG(MS)	-0.668077	0.956663	-0.698341	0.4891
R-squared	0.488333	Mean dependent var		0.394938
Adjusted R- squared	0.435854	S.D. dependent var		5.047126
S.E. of regression	3.790879	Akaike info criterion		5.609718
Sum squared resid	560.4598	Schwarz criterion		5.812466
Log likelihood	-118.4138	Hannan-Quinn criter.		5.684907
F-statistic	9.305352	Durbin-Watson stat		1.861714
Prob(F-statistic)	0.000022			

Source: *Author's Computation (2025)*

Table 3 shows that the computed R^2 is 0.488333. This means that about 49 percent of the total variation in Economic Growth (PCRGDP) a proxy by Per Capita Real GDP is caused by the independent variables - Inflation Rate (INFL), Exchange Rate (EXCR), Interest Rate (INTR); and

Money Supply (MS) while the remaining 51 percent is caused by other factors outside the model but covered by the error term. This further supported by the adjusted R^2 of 44 percent. Also, the F-statistic calculated is 9.305352with a probability value of 0.000022which is lower than 0.05 level. Thus, it means that the overall model is significant at 5 percent confidence level. Furthermore, Durbin – Watson value calculated is 1.861714. This value is very close to 2, which indicate that there is a minimal serial autocorrelation in the model. Hence, the model can be adopted for longun analysis.

The result of the OLS shows the coefficient of Inflation Rate (INFL) has a negative (-0.103933) and a significant relationship with Per Capita Real GDP. This implies that a unit increase in Inflation Rate (INFL) decreases Per Capita Real GDP by about 0.103933 units.

The coefficient of Exchange Rate (EXCR) has a positive (1.661286) and an insignificant relationship with Per Capita Real GDP. This implies that a unit increase in Exchange Rate (EXCR) increases Per Capita Real GDP by about 1.661286 units.

Also, the study found that the coefficient of Interest Rate (INTR) has a positive (0.500648) and a significant relationship with Per Capita Real GDP. This implies that a one percent increase in Interest Rate (INTR) increases Per Capita Real GDP by about 0.500648 units.

Again, the study found that the coefficient of Money Supply (MS) has a negative (-0.668077) and an insignificant relationship with Per Capita Real GDP. This implies that a one percent increase in Money Supply (MS) decreases Per Capita Real GDP by about 0.668077 units.

Post Estimation Test

The researcher also conducted a diagnostic test to ascertain whether or not the series are free from autocorrelation (Breusch-Godfrey Serial Correlation LM Test), heteroscedasticity (Breusch- Pegan-Godfrey Test) and linearity (Ramsey RESET Test).

The result of the diagnostic test is presented in Table 4 below.

Table 4: Serial Correlation LM Test, Homoscedasticity Test and linearity Test Results

	F-Statistic	Prob. Value
Breusch-Godfrey Serial Correlation LM Test	1.780421	0.1827
Breusch-Pagan-Godfrey Heteroskedasticity Test	2.088016	0.1009
Ramsey RESET Test	0.755566	0.3902

Source: *Author's Computation using E-view Software*

From Table 4 above, the results of the diagnostic test shows that the serial or autocorrelation test using Breusch-Godfrey Serial Correlation LM Test shows that the f-statistic is 1.780421with a Chi-Square probability value is 0.1827. This indicates that the probability value of about 18 percent (0.1827) is greater than 5 percent (0.05) critical value; hence the study confirms no serial correlation in the model.

The result of the heteroscedasticity test using Breusch-Pegan-Godfrey test shows that the f-statistic is 2.088016 with a Chi-Square probability value of 0.1009. The result suggests that there is no evidence of heteroskedasticity in the model since the probability Chi-square value is more than 5 percent ($P > 0.05$). So, residuals do have constant variance which is desirable in regression meaning that residuals are Homoscedastic.

Parameter Stability Test

The stability of the parameters in the short-run of the model is examined using the plots of

the cumulative sum of recursive residuals (CUSUM) and cumulative sum of squares of recursive residual (CUSUMSQ) as advocated by Adebiyi and Dauda (2004). Instability of the parameters arises due to structural changes and the institution of different policy regimes over the sample period. Whilst the CUSUM test is particularly useful for detecting systematic changes in the regression coefficients, the CUSUMSQ test is significant in situations where the departure from the constancy of the regression coefficients is haphazard and sudden. If any of the straight lines in the graph is crossed, the null hypothesis that the regression equation is correctly specified is rejected at the 5 percent level of significance. From figures 4.6 the CUSUMSQ stays within the 5 percent critical line, indicating parameter constancy throughout the sample period in this study.

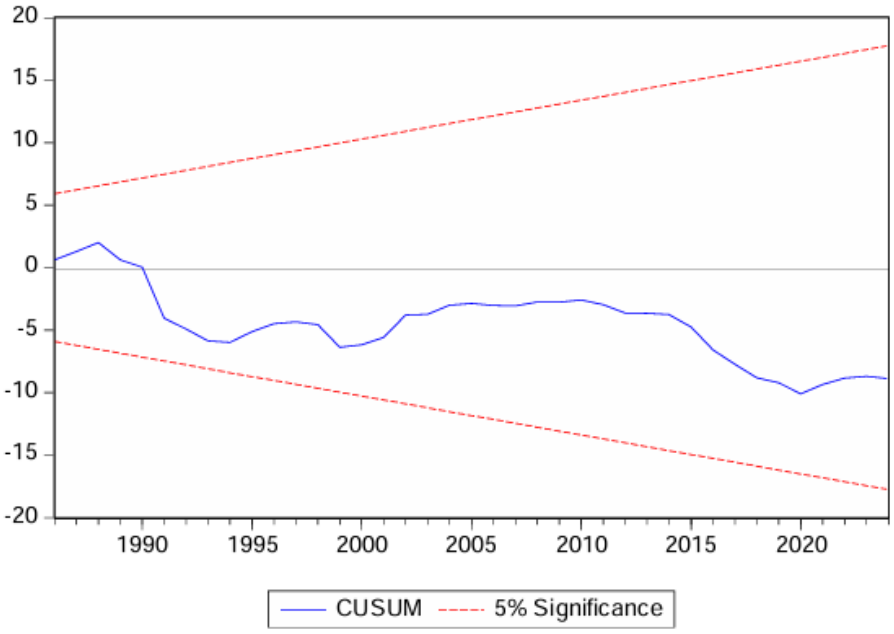

Figure 2: Stability Test Result based on CUSUM

Normality Test

Here we present a histogram and descriptive statistics of the residuals, including the Jarque-Bera statistic for testing normality. If the residuals are normally distributed, the histogram should be bell-shaped and the Jarque-Bera statistic should not be significant. Jarque-Bera is a test statistic for testing whether the series is normally distributed. The test statistic measures the difference of the skewness and kurtosis of the series with those from the normal distribution. If the computed p- value is greater than 0.05 significant levels, then we do not reject the null hypothesis and conclude that residuals are normally distributed. Conversely, if the computed p-value is less than 0.05 significant levels, then we reject the null hypothesis and conclude that residuals are not normality distributed.

The result of the normality test using Jarque-Bera test is presented in figure 3 below. The result revealed that the Jarque-Bera test for normality of the model shows a probability value of about 56 percent (0.560941) which is higher than the 5 percent (0.05), therefore the model is normally distributed.

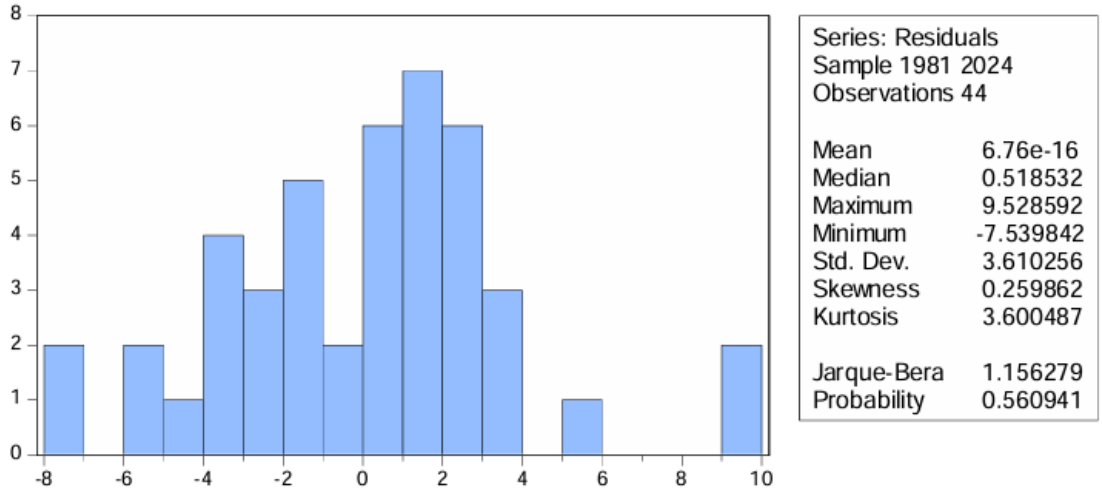

Figure 3: Jarque-Bera Normality Test

Discussions

Inflation Rate (INFL) and Per Capita Real Gross Domestic Product in Nigeria

Based on the OLS result, the coefficient of Inflation Rate (INFL) has a negative and a significant relationship with Per Capita Real GDP. This implies that a unit increase in Inflation Rate (INFL) decreases Per Capita Real GDP in Nigeria within the period of study. The negative sign of the coefficient of Inflation Rate (INFL) conform to the a priori and therefore it's in line with economic theory, that increases in Inflation Rate (INFL) will decrease Per Capita Real GDP.

The coefficient of Inflation Rate (INFL) is statistically significant with Economic Growth (PCRGDP) a proxy by Per Capita Real GDP at 5 percent level. This is so because the p-value calculated of 0.0113is less than the table p-value of 0.05 per cent level. Arising from the above, the study therefore rejects the null hypothesis which says that there is no significant relationship between Inflation Rate and Per Capita Real GDP but do not reject the alternative hypothesis.

Exchange Rate (EXCR) and Per Capita Real Gross Domestic Product in Nigeria

The result revealed that, the coefficient of Exchange Rate (EXCR) has a positive and an insignificant relationship with Per Capita Real GDP. This implies that a devaluation of the Exchange Rate (EXCR) will increases Per Capita Real GDP in Nigeria within the period of study. The positive sign of the coefficient of Exchange Rate (EXCR) conforms to the a priori and therefore is in line economic theory, that a devaluation of Exchange Rate (EXCR) will increase Economic Growth.

The coefficient of Exchange Rate (EXCR) is not statistically significant with Per Capita Real GDP at 5 percent level. This is so because the p-value of 0.2144 is greater than the table p-value of 0.05 level. Arising from the above, the study therefore accepts the null hypothesis which says that there is no significant relationship between Exchange Rate (EXCR) and Economic Growth proxied by Per Capita Real GDP.

Exchange Rate (EXCR) has a positive but statistically insignificant effect on Economic Growth proxied by Per Capita Real GDP) in Nigeria. This implies that changes in exchange rate have no strong or reliable impact on per capita income growth over the period studied even though the sign is positive.

Interest Rate (INTR) and Per Capita Real Gross Domestic Product in Nigeria

The result revealed that the coefficient of Interest Rate (INTR) has a positive and a significant relationship with Per Capita Real GDP. This implies that a one percent increase in Interest Rate (INTR) increases Per Capita Real GDP in Nigeria. The positive sign of the coefficient of Interest Rate (INTR) do not conform to the a priori and therefore not in line with economic theory, that increases in Interest Rate (INTR) decreases Economic Growth.

The coefficient of Interest Rate (INTR) is statistically significant with Per Capita Real GDP at 5 percent level. This is so because the p-value of 0.0110 is less than the table p-value of 0.05 level. Arising from the above, the study therefore rejects the null hypothesis which says that there is no significant relationship between Interest Rate (INTR) and Economic Growth but do not reject the alternative hypothesis.

The positive and significant effect of Interest Rate (INTR) on Economic Growth (PCRGDP) in Nigeria appears to go against conventional economic theory (which usually expects a negative relationship). But this result can make sense when one account for the structural, institutional, and economic realities of Nigeria.

Money Supply (MS) and Per Capita Real Gross Domestic Product in Nigeria

The result revealed that the coefficient of Money Supply (MS) has a negative and an insignificant relationship with Per Capita Real GDP. This implies that a one percent increase in Money Supply (MS) decreases Per Capita Real GDP in Nigeria. The negative sign of the coefficient of Money Supply (MS) do not conform to the a priori and therefore not in line with economic theory that increase in Money Supply (MS) increases Economic Growth.

The coefficient of Money Supply (MS) is not statistically significant with Per Capita Real GDP at 5 percent level. This is so because the p-value calculated of 0.4891is greater than the table p-value of 0.05 level. Arising from the above, the study therefore accepts the null hypothesis which says that there is no significant relationship between Money Supply (MS) and Economic Growth.

The insignificant and negative effect of money supply on economic growth in Nigeria underscores the need for structural, institutional, and policy reforms. Expanding money supply alone is insufficient without ensuring that liquidity is efficiently channeled into productive sectors. Therefore, monetary expansion must be complemented by targeted fiscal spending, improved policy coordination, and a robust investment climate to translate into tangible economic growth for the Nigerian population.

The Role of Good Governance in the Inflation- Economic Growth Nexus

The result from the OLS table shows that inflation rate (INFL) has a negative and a significant relationship with Per Capita Real Gross Domestic Product in Nigeria. This means that high inflation Rate reduces economic performance of any country. This result corroborates with Okowa (2017) finding that growth in Nigeria has been very poor and development has been dismal. See 5 table below.

Table 5: Per capita Real GDP Growth (%), Inflation Rate (%), 2010-2024

Year	Rate of Growth (%)	Inflation rate (%)
2010	5.03	13.74
2011	2.40	10.83
2012	1.38	12.22
2013	3.81	8.50
2014	3.84	8.05
2015	0.08	9.01
2016	-4.02	15.70
2017	-1.62	16.50
2018	-0.41	12.10
2019	-0.01	11.40
2020	-3.86	13.25
2021	1.50	16.95
2022	1.11	18.85
2023	0.78	24.66
2024	1.29	33.24

Source: WDI (2024) and CBN statement Bulletin, 2024

From the table, there is a clear drop in RGDP growth rate in 2010 and continuing poor performance thereafter. On the other hand, there is a clear increase in inflation rate from 13.74% in 2010 to 33.24% in 2024.

The upshot of the foregoing statistics reveals that Nigerian economy is performing dismally. Hence there is need for government intervention through increased voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption which are all indicators of good governance. We need to reemphasize that in any society, the relationship between citizens and their government is crucial for wellbeing and progress for the nation. Good governance plays a crucial role in addressing a nation's economic situation, paving the way for sustainable development, social stability, and individual prosperity.

What is Good Governance?

Adigwe (2024) defined good governance as a set of principles and practices that ensure accountability, transparency, participation, fairness and efficiency in the functioning of a government. It serves as a framework for effective decision-making policy implementation, and public service delivery. According to Adigwe (2024), the key elements of good governance include: the rule of law, strong institutions, respect for human rights and citizen engagement.

In Nigeria, it has been observed that weak governance contributes to both high inflation and slow economic growth (as seen in table 5 above) by fostering policy inconsistency, corruption, inadequate institutional strengthening and lack of transparency which can lead to excessive borrowing, increased money supply, and economic uncertainty.

Good governance is tightly linked to the fight against corruption. According to (UNODC), some of the core principles of good governance are also principles of anti-corruption. The literature identifies good governance with political systems that are:

1. Participatory;
2. Consistent with the rule of law;

3. Transparent;
4. Responsive;
5. Consensus-oriented;
6. Equitable and inclusive;
7. Effective and efficient, and
8. Accountable (Rothstein & Teorell, 2008, UN 2009).

According to UNODC (2025), some of the most popular indices related to good governance are the World Bank's Worldwide Governance Indicators (WGI), the Index of Public Integrity and Freedom House's Freedom in the World report. There are also indices with a regional focus, such as the Ibrahim Index of Africa Governance. These indices measure good governance by examining different aspects of governance and their various indicators. For example, the World Bank's WGI, which his widely used around the world, attempts to quantify good governance by measuring the following six aspects of governance based on "views of a large number of enterprises, citizen and expert survey respondents in industrial and developing countries":

- Voice and accountability, which implies citizen participation and independent media including political and media freedom as well as civil liberties.
- Political stability and absence of violence/terrorism, which implies threat of state coup.
- Government effectiveness, which implies quality of civil service.
- Regulatory quality, which implies market-friendly policies.
- Rule of law, which implies perceptions of crime, an effective judiciary, enforceable contracts.
- Corruption, which implies control of corruption, measured through composite survey instruments (UNODC, 2025).

Empirical evidence has shown that good governance contributes positively to economic growth. Fayissa & Nsiah (2010) studied the impact of governance on Economic Growth: further evidence for Africa. The objective of the paper was to investigate the role of governance in explaining the sub-optimal economic growth performance of African economies while controlling for the conventional sources of growth. The results suggest that good governance or lack thereof contributes to the gaps in income per capita between richer and poorer African countries.

Feyesa et al. (2022) studied the three-dimensional impacts of governance on economic growth of governance on economic growth: panel data evidence from the emerging market. The results revealed that among the six-governance quality indicators; control of corruption, government effectiveness, regulatory quality, and rule of law positively affect real GDP per capita (economic growth), while political stability and absence of violence and voice and accountability are statistically insignificant to affect real GDP per capita.

Awolaja, Onakoya & Akinola (2024) studied governance and economic growth in selected sub- Saharan African countries. The result shows that there exists a direct relationship between control of corruption, voice and accountability, political stability and absence of violence on real gross domestic product in SSA respectively, while regulatory quality and government effectiveness has a negative effect on real gross domestic product (RGDP) respectively.

How Governance affects Inflation

The key areas by which governance affects inflation include:

i. Fiscal policy and Borrowing: It has been argued that excessive government expenditure financed by borrowing from the Central Bank or foreign institution increase money supply contributing to inflation (see Asian Development Bank, 1995).
ii. Structural issues: It has been observed that ineffective responses to structural problems, such as widespread insecurity and bottlenecks in agricultural productivity distorts supply claims, especially for food, which drives up food inflation (see Grindle, 2010).
iii. Exchange Rate Management: It has been stated that government policies that lead to currency devaluation, such as the devaluation of the naira increase import costs and domestic production expenses, thereby fueling inflation (see Mc Caroley, 2005).

How Governance Affects Economic Growth

The key areas by which Governance affects Economics Growth include:

i) Policy Stability: It has been argued that inconsistent policies and lack of strategic direction disrupt price stability thereby slowing down growth (see Doornbos, 2003).
ii) Corruption and Inefficiency: It has been observed that weak governance, characterized by corruption and lack of transparency discourages investment thereby slowing down growth. (see Kanfman, et al 1999).
iii) Weak Institutions: It has been stated that poorly built and inefficient institutions struggle to deliver essential services, implement policies and protect property right thereby slowing down growth (see Campose, 1999.)

Strategies for Improving Governance

i) Strengthening monetary policies;
ii) Enhancing security;
iii) Promoting transparency and citizens participation;
iv) Boosting local production; and
v) Investing in productive section (Igwe, 2024; Okowa, 2017)

Conclusion

We have in this paper examined inflation- economic growth nexus in Nigeria: the role of good governance. Our findings show that good governance is key to achieving minimal inflation and sustaining higher growth levels. That is, by implementing transparent mechanisms, enduring accountability, promoting citizen participation, and strengthening institutions; the government can address the existing challenges of persistent price change and slower growth in Nigeria.

Recommendations

i. The Central Bank of Nigeria (CBN) should pursue a credible, flexible inflation-targeting regime.
ii. Promote non-oil exports (e.g., agriculture, manufacturing, services) to make the economy more responsive to exchange rate movements.
iii. Maintain interest rate policies that support macroeconomic stability, financial sector development, and sustainable economic growth, without stifling access to productive credit.
iv. The federal government of Nigeria should promote and implement transparent mechanisms and citizens participation in governance. This will help to tame systemic corruption and achieve minimal inflation and sustained economic growth in Nigeria.

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