Monetary policy dynamics and export competitiveness in Nigeria

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ABSTRACT

This study examines the effect of monetary policy dynamics on export competitiveness in Nigeria between 1994 and 2024. The persistent challenges of high interest rates, exchange rate instability, and inflationary pressures have raised concerns about the effectiveness of monetary policy in enhancing external sector performance. The study employed an ex-post facto research, while Autoregressive Distributed Lag (ARDL) model was used to estimate both short-run and long-run relationships among the variables. The data were subjected to series of statistical test, pre-estimation test (descriptive statistics, correlation, variance inflator factor, and unit root tests), standard econometric analysis (multiple regression analysis using the autoregressive distributed lag - ARDL model) and diagnostic test (multi-collinearity, serial correlation, CUSUM and CUSUM of square tests) at 5% level of significance The findings reveal that monetary policy has a significant effect on export competitiveness in Nigeria. Variables of monetary policy jointly had significant effects on export competitiveness $\{Adj.R^2 = 0.78, F(8, 21) = 23.08, \text{prob. } (0.0000), p < 0.05\}$. Specifically, interest rates, exchange rate fluctuations, and real effective exchange rate negatively affect export competitiveness in both the short and long run, while the error correction term indicates a rapid adjustment speed toward long-run equilibrium. The study concludes that unstable monetary conditions and weak exchange rate management undermine Nigeria's export performance. It recommends the stabilization of exchange rates, moderation of interest rates, and stronger macroeconomic coordination to enhance export competitiveness and improve Nigeria's integration into global markets.

Keywords: *Exchange rate fluctuation, Export competitiveness, Inflation rate, Interest rate, Monetary policy, Real effective exchange rate.*

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Highlights of this paper

- The study examines the effect of monetary policy dynamics on export competitiveness in Nigeria.
- Tight monetary conditions constrain firms' access to credit, while exchange rate fluctuation discourages long-term export planning.
- Prioritizing reduced interest rates, exchange rate stability, and strengthening anti-inflation policies, boost export competitiveness in Nigeria.

1. INTRODUCTION

Export competitiveness, defined as the ability of a country to produce and sell goods and services at competitive prices in international markets, remains a critical determinant of external sector performance and global economic integration (Olyanga et al., 2022). In developing economies such as Nigeria, export competitiveness is essential for diversifying the production base, reducing overreliance on crude oil exports, enhancing foreign exchange earnings and fostering sustainable economic growth. However, the competitiveness of exports is strongly influenced by macroeconomic conditions, particularly monetary policy dynamics, which shape the cost of capital, inflationary trends and exchange-rate behaviour. Monetary policy constitutes a fundamental macroeconomic management tool employed by central banks to regulate money supply and interest rates in pursuit of price stability, employment creation, output growth and broader economic stability (Akpunonu & Orajaka, 2021). Globally, monetary policy conditions differ markedly across economies, as real interest rates range from deeply negative levels below –40% to highly positive rates exceeding 30%, reflecting heterogeneous inflation pressures and policy responses (World Bank, 2024). Similarly, official policy interest rates vary substantially, ranging from 0% in some economies to above 35% in others, underscoring divergent monetary policy stances and institutional contexts (Trading Economics, 2026). These global disparities highlight the importance of country-specific analyses when evaluating the effectiveness of monetary policy dynamics on export competitiveness.

In Nigeria, monetary policy has been conducted within a medium-term framework designed to minimise time inconsistency and avoid excessive responses to temporary shocks, using instruments such as the Monetary Policy Rate (MPR), liquidity controls and interest-rate signaling to influence interbank and market rates (Dauda & Abdulkareem, 2023). Despite this framework, the monetary environment has remained exceptionally tight. The Central Bank of Nigeria raised the MPR from 22.75% in early 2024 to a peak of 27.5% by mid-2025, before a marginal reduction later in the year, reflecting aggressive tightening aimed at curbing inflation and stabilising the exchange rate (Trading Economics, 2026). By December 2025, the policy rate stood at 27.0%, while the inter-bank call rate reached 22.50%, indicating severe liquidity constraints within the financial system (Central Bank of Nigeria, 2025; Trading Economics, 2026). Commercial lending rates transmitted to large corporates averaged about 18.02%, underscoring the pass-through of restrictive monetary policy to borrowing costs in the real economy (Central Bank of Nigeria, 2025). These elevated borrowing costs increase production expenses and constrain access to credit, thereby weakening the ability of firms to compete in international markets.

Notwithstanding these restrictive conditions, inflation has remained persistently high, raising concerns about the effectiveness of interest-rate-based monetary control in Nigeria. Historically, Nigeria has experienced repeated inflationary surges, with inflation rising from 5.7% in 1986 to over 72.84% in 1995, moderating briefly in the late 1990s to 6.9%, before escalating again to 27.9% in 2024 (Akogwu, Chika, Maju, & Olamide, 2025). During the period 1985–2017, inflationary pressures contributed to significant economic distortions, undermining output stability and employment generation (Henry & Sabo, 2020). Persistent inflation distorts the price system, increases uncertainty, elevates risk premia and discourages productive investment, thereby eroding export competitiveness

(Adeleke, 2022; Ezeanyeji, Obi, Imoagwu, & Ejefobihi, 2021). Even as headline inflation eased to 23.71% in April 2025, the Central Bank maintained a tight policy stance, signalling persistent inflation risks and highlighting the limited responsiveness of inflation to conventional interest-rate adjustments (Adeleke, 2022; Norrenberger Financial Group, 2025). This persistent disconnect suggests underlying structural rigidities affecting monetary policy transmission.

Exchange-rate dynamics further compound Nigeria's macroeconomic challenges. The naira has undergone several and recurrent depreciation, falling from ₦2.02/$1 in 1986 to ₦1,561/$1 in 2023, reflecting sustained external imbalances and policy pressures (Bello, Okaro, & Okonkwo, 2024). While currency depreciation is theoretically expected to enhance export competitiveness by reducing the foreign-currency price of domestic goods, excessive volatility has instead increased the cost of imported inputs, weakened industrial productivity and heightened uncertainty for exporters (Bello et al., 2024; Femi-Olagundoye & Adedokun, 2025). Despite the adoption of a flexible exchange-rate regime and policy efforts to unify exchange-rate windows, exchange-rate instability remains a dominant macroeconomic challenge in Nigeria (Odey & Agunobi, 2024). Against this backdrop, a critical empirical gap emerges.

2. REVIEW OF LITERATURE

2.1. Conceptual Review

2.1.1. Export Competitiveness

Export competitiveness is a vital dimension of economic performance, especially in open economies where external trade drives growth and industrial transformation. It is broadly defined as the ability of a country to produce goods and services that meet international standards at competitive prices in global markets (Eje & Ugwu, 2022). Mukaila (2021) describes it as the sustained capacity of an economy to expand its export base while maintaining quality and cost efficiency despite fluctuations in exchange rates. Takpa, Oriin, and Akunna (2023) conceptualize export competitiveness as the extent to which domestic industries, particularly manufacturing, can withstand external pressures and penetrate international markets. According to Olasehinde and Ajayi (2022) export competitiveness is a function of FDI inflows, technology adoption, and trade policies that shape a country's external positioning. Similarly, Agbailu (2025) views it as the ability of developing economies like Nigeria to leverage multinational investment and resource endowments to achieve sustainable export-led growth.

2.1.2. Monetary Policy

Monetary policy is widely recognized as one of the most important instruments for regulating macroeconomic activity. It has been defined as the deliberate action taken by the central bank to control the supply of money and cost of credit in order to achieve price stability and economic growth (Akpunonu & Orajaka, 2021). Adeleke (2022) views monetary policy as the framework through which monetary authorities influence inflation and ensure stable prices, while Henry and Sabo (2020) defined it as a tool that moderates inflationary pressures through interest rate adjustments and liquidity control. According to Dauda and Abdulkareem (2023) monetary policy refers to the strategies used by the Central Bank of Nigeria (CBN) to regulate money supply, stabilize output, and maintain external balance. Similarly, Okeke and Chukwu (2021) explained that monetary policy embodies measures aimed at ensuring sustainable employment and macroeconomic stability by moderating credit flow, inflation, and investment. The characteristics of monetary policy make it both dynamic and complex in practice. First, it is primarily executed by the CBN, which determines the stance of policy through its monetary policy rate (Akpunonu & Orajaka, 2021). Second, monetary policy is forward-looking in design, as its effectiveness depends on shaping expectations about

inflation and output rather than reacting to past shocks (Adeleke, 2022). Third, it operates through multiple channels such as the credit market, exchange rate, and aggregate demand, making transmission both wide-ranging and uncertain (Dauda & Abdulkareem, 2023). Fourth, it is characterized by time lags, since the effects of monetary adjustments may take months or years to influence real sector variables like employment or investment (Henry & Sabo, 2020). Finally, monetary policy is inherently interdependent with fiscal policy, as excessive government borrowing often weakens its effectiveness in Nigeria (Onwuka, 2021).

2.2. Theoretical Review

2.2.1. Keynesian Theory of Monetary Policy

John Maynard Keynes laid the foundation of Keynesian economics in *The General Theory of Employment, Interest and Money*, arguing that aggregate demand comprising consumption, investment, government spending and net exports determines output and employment in the short run, and that economies may remain below full employment without policy intervention (Keynes, 1936). Within this framework, he emphasized liquidity preference, the influence of interest rates on investment and consumption, and the role of monetary and fiscal policies in stabilizing demand. This theory was further developed by scholars such as John Hicks, who introduced the IS-LM model (Hicks, 1937). Paul Samuelson, who advanced the neoclassical synthesis (Samuelson, 1948). Franco Modigliani, who refined interest rate theory (Modigliani, 1944) and Kalecki (1933) who provided complementary formulations of effective demand (Kalecki, 1933) with later contributions from Olivier Blanchard integrating Keynesian insights into modern macroeconomics (Blanchard, 2017). Despite its influence, Keynesian theory has faced criticism from monetarists such as Milton Friedman, who emphasized money supply control (Friedman, 1968) as well as from the rational expectations school led by Robert Lucas and Thomas Sargent with Neil Wallace, who argued that policy effectiveness is limited when expectations adjust (Lucas, 1976; Sargent & Wallace, 1976) alongside classical critiques from Friedrich Hayek on government intervention (Hayek, 1944). Nonetheless, Keynesian theory remains highly relevant, providing a robust framework for understanding how monetary policy instruments such as interest rates and money supply influence macroeconomic outcomes including GDP growth, unemployment, foreign direct investment and export competitiveness by shaping aggregate demand, investor confidence and consumption patterns, thereby offering a strong analytical basis for evaluating monetary policy dynamics in Nigeria.

2.3. Empirical Review

Empirical evidence on the nexus between monetary policy dynamics and macroeconomic performance in Nigeria and other developing economies reveals a complex and often inconsistent pattern of relationships, thereby justifying the need for a more integrated analytical approach. Early studies such as Ibrahim (2019) established that while the monetary policy rate (MPR) exerts a positive but statistically insignificant effect on economic growth, broad money supply (M2) significantly enhances growth outcomes. This finding suggests that liquidity expansion may be more effective than interest-rate targeting in stimulating economic activity. However, the study's narrow focus on limited policy instruments leaves unresolved, the broader question of how multiple monetary tools interact to influence economic performance. Extending this line of inquiry, Adegoke, Azeez, Ogiamien, and Osasona (2021) and Ademola, Alalade, Ogbebor, and Aworinde (2023) confirmed the existence of a long-run relationship between interest rates and economic growth, though with mixed effects, as lending rates often exhibit negative or insignificant impacts. Similarly, Adeleke (2022) found that interest rates have weak influence on price stability, while other instruments such as the cash reserve ratio play a more significant role. These studies collectively

highlight the limited effectiveness of conventional interest-rate channels in Nigeria, reinforcing concerns about weak monetary transmission mechanisms, as further evidenced by Eleam, Ekwom, Ariolu, Umebali, and Balogun (2021) who documented slow adjustment of retail interest rates to policy changes.

Building on the monetary policy–growth nexus, recent studies have increasingly examined the interaction between monetary policy and inflation dynamics. Adebiyi, Adamgbe, and Odu (2024) using a Bayesian DSGE framework, found that monetary policy shocks significantly influence inflation, although their effectiveness diminishes during crisis periods. This aligns with Ezeanyeji et al. (2021) who reported that monetary policy has little to no significant impact on inflation control in both the short and long run in Nigeria, suggesting structural rigidities and weak policy transmission. Complementary evidence by Ikue et al. (2024) and Yunusa, Nweze, Sulaiman, and Adenomon (2025) indicates that exchange rate movements play a more dominant role in driving inflation, particularly through asymmetric pass-through effects where currency depreciation exerts stronger inflationary pressures. These findings collectively point to the critical role of exchange-rate dynamics in shaping inflation outcomes, thereby linking monetary policy effectiveness to external sector stability.

Consequently, a significant body of literature has focused on exchange-rate volatility and its macroeconomic implications. Studies such as Adebiyi et al. (2024) and Jacob (2024) and Ejefobihi, Nkamnebe, Nwangene, and Nduka (2025) consistently find that exchange-rate volatility negatively affects economic growth, increases inflation and exacerbates unemployment. Similarly, evidence from other developing economies, such as Adjei (2019) for Ghana and Chikwira and Jahed (2024) for South Africa, confirms that exchange-rate instability undermines economic performance, while stability promotes growth by reducing uncertainty in trade and investment. However, contrasting findings by Dhakal et al. (2019) suggest that exchange-rate volatility may, in some contexts, attract foreign direct investment (FDI) as firms seek to hedge risks through direct ownership. This divergence indicates that the effects of exchange-rate volatility are context-specific and may depend on structural and institutional factors.

In the Nigerian context, the relationship between exchange rates, investment and sectoral performance has received considerable attention. Adamson, Victory, and Akinrinola (2025) and Adewale, Olopade, and Ogbaro (2024) examined the exchange rate–FDI nexus and found mixed results, with exchange-rate volatility showing insignificant or positive effects on FDI, while other macroeconomic variables such as GDP and interest rates exert stronger influences. Similarly, Dogara, Adamu, Ahmad, and Garba (2024) found that monetary policy contraction and real exchange rate appreciation negatively affect FDI inflows, highlighting the sensitivity of investment to macroeconomic conditions. Sector-specific studies further reveal that exchange-rate depreciation negatively impacts manufacturing performance (Bello et al., 2024; Gbarawae Nwikina, Akidi, & Abdullahi, 2025) while asymmetric exchange-rate movements significantly influence industrial output and bank credit dynamics (Igbinovia, Akpan, Mbagwu, Mohammad, & Umoru, 2025). These findings suggest that exchange-rate instability not only affects aggregate economic indicators but also constrains sectoral productivity and competitiveness.

The implications of exchange-rate dynamics for export competitiveness are particularly critical. Babagana (2023) found that flexible exchange-rate regimes reduce export competitiveness in Nigeria, while Gold and Yusuf (2025) and Yahaya et al. (2024) provide evidence that exchange-rate depreciation can enhance export performance, albeit with adverse effects from high interest rates and fuel costs. Similarly, Femi-Olagundoye and Adedokun (2025) demonstrated that exchange-rate management negatively affects export financing in the short run but may yield long-run benefits in specific sectors such as agriculture. These mixed findings underscore the dual role of exchange-rate movements in influencing export competitiveness, where depreciation may improve price competitiveness but volatility undermines production stability and investment planning.

Beyond the external sector, studies have also examined the broader macroeconomic implications of monetary policy. Babatunde and Olasunkanmi (2023) showed that monetary policy significantly influences economic performance across Sub-Saharan Africa, affecting growth, savings and investment. However, Aladejana, Olaosebikan, and Joseph (2024) and Fosu, Ankrah Twumasi, and Oppong (2025) highlight that monetary policy may have unintended consequences, such as increasing unemployment, particularly when policy tightening constrains economic activity. Furthermore, Hossain, Voumik, Ahmed, Alam, and Tasmim (2024) emphasised the importance of integrating geopolitical risk and institutional factors into macroeconomic analysis, while Kayode, John, and Okutepa (2025) demonstrated that the effectiveness of monetary policy varies across different exchange-rate regimes and time periods.

Overall, the empirical literature reveals several important stylised facts. First, monetary policy instruments, particularly interest rates, exhibit weak and inconsistent effects on key macroeconomic variables such as growth and inflation. Second, exchange-rate dynamics play a central role in influencing inflation, investment, output and export performance, often overshadowing traditional monetary channels. Third, the effects of exchange-rate movements and monetary policy are highly context-dependent, varying across sectors, time periods and institutional environments. Despite these insights, a major gap persists in the literature, as most studies adopt fragmented approaches by examining individual relationships in isolation. There is limited empirical evidence on the joint and dynamic interactions between monetary policy variables such as interest rates, money supply, inflation and exchange-rate fluctuations and export competitiveness alongside other macroeconomic outcomes. This gap underscores the need for a comprehensive and integrated empirical investigation that captures the multidimensional effects of monetary policy dynamics on export competitiveness and overall economic performance in Nigeria.

3. METHODOLOGY

3.1. Research Design

This study adopts an ex post facto research design to examine the effect of monetary policy on the performance of the Nigerian export competitiveness, as the approach enables the analysis of already existing data without manipulation of variables. Specifically, the study utilises secondary data on key monetary policy indicators of interest rate, inflation rate, exchange rate fluctuation and real effective exchange rate as well as economic performance variables including GDP growth, unemployment, foreign direct investment inflows and export competitiveness. These data are sourced from credible institutions such as the Central Bank of Nigeria Statistical Bulletin, the World Bank's World Development Indicators (WDI), the International Monetary Fund (IMF), the National Bureau of Statistics (NBS) and the UNCTAD World Investment Reports, ensuring reliability and consistency in the empirical analysis.

3.2. Model Specification

This study seeks to establish the effects of macroeconomic variables of monetary policy dynamics on export competitiveness in Nigeria. The study adapts the model of Odey and Agunobi (2024) which assessed the effects of Monetary Policy Rate on Economic Growth in Nigeria.

The model of Ovat et al. (2024) is specified as follows:

$$GRGDP_t = b_0 + b_1 MPR_{t-1} + b_2 CPI_{t-1} + b_3 REX_{t-1} + \epsilon \quad (1)$$

The working model of this study follows.

$$EC_t = f(IR_t, IFR_t, ERF_t, REER_t) \quad (2)$$

While the econometric model is:

$$EC_t = \Psi_0 + \Psi_1 IR_t + \Psi_2 IFR_t + \Psi_3 ERF_t + \Psi_4 REER_t + \delta \quad (3)$$

Where:

EC_t = Export Competitiveness at time t.

Ψ_0 = The constant intercept of the equation.

δ = The error term (Captures any unexplained variance).

t = Time or year.

Ψi (i= 1 – 4): Coefficients of the independent variables (which measure the strength of the relationship among the independent variables).

IR_t = Interest Rate at Time t.

IFR_t = Inflation Rate at Time t.

ERF_t = Exchange Rate Fluctuation at Time t.

$REER_t$ = Real Effective Exchange Rate at Time t.

Table 1. Measurement and description of variables.

Variable	Symbol	Description	Measurement/Unit
Export Competitiveness	EC	Export competitiveness refers to a country's ability to produce and sell goods and services to foreign markets	Global Competitiveness Index (GCI)
Inflation Rate	IFR	Annual percentage change in general price level	Consumer Price Index (% change)
Exchange Rate Fluctuation	ERF	Value of Naira in relation to the U.S. Dollar	Naira per US Dollar (End of Year Rate)
Interest Rate	IR	Cost of borrowing and return on investment	Monetary Policy Rate (MPR) (%)
Real Effective Exchange Rate	REER	Measures the value of a country's currency relative to its trading partners, adjusted for inflation.	Percentage Change

Table 1 presents overview of the dependent variable (export competitiveness) and the independent variables (monetary policy dynamics) proxied by inflation rate, exchange rate fluctuation, interest rate and real effective exchange rates. Each of the variables is accompanied by its symbol, description and unit or measurement. All variables are quantitative time-series data spanning from 1994 to 2024.

Table 2. Descriptive statistics.

Variable	Mean	Maximum	Minimum	Std. Dev.	Skewness
LEC	4.48	5.35	3.16	0.64	-0.53
IR	17.56	24.80	11.50	2.99	0.23
IFR	17.20	72.84	5.39	14.35	2.67
LERF	4.68	5.61	4.16	0.34	1.00
LREER	4.94	7.30	3.09	1.02	-0.32

Note: EC is Export Competitiveness, IR is Interest Rate, IFR is Inflation Rate, ERF is Exchange Rate Fluctuation, REER is Real Effective Exchange Rate.

Source: Author's Computation (2026);

4. RESULT AND DISCUSSION

The descriptive statistics in Table 2 indicate moderate variability across the variables, with export competitiveness (LEC) having a mean value of 4.48, fluctuating between 3.16 and 5.35, and exhibiting a slight negative skewness (-0.53), suggesting a distribution with more observations above the mean. Interest rate (IR) shows an average of 17.56% with relatively low dispersion (standard deviation of 2.99) and slight positive skewness

(0.23), indicating a fairly stable but mildly right-tailed distribution. Inflation rate (IFR), however, displays substantial volatility, with a high standard deviation of 14.35 and a maximum value of 72.84%, alongside strong positive skewness (2.67), reflecting the presence of extreme inflationary episodes in Nigeria. Exchange rate fluctuation (LERF) has a mean of 4.68 with low variability (0.34) and positive skewness (1.00), suggesting occasional upward spikes. Similarly, the real effective exchange rate (LREER) records a mean of 4.94 with moderate dispersion (1.02) and slight negative skewness (-0.32), indicating relatively balanced but somewhat left-tailed observations. Overall, the results suggest that while interest rates and exchange rate measures are relatively stable, inflation exhibits significant volatility, which may have important implications for export competitiveness and macroeconomic stability in Nigeria.

Table 3. Correlation matrix.

Variable	LEC	IR	IFR	LERF	LREER	VIF
LEC	1.00					
IR	-0.69	1.00				3.09
IFR	-0.34	0.14	1.00			1.10
LERF	-0.25	-0.21	0.13	1.00		2.59
LREER	0.75	-0.60	-0.29	-0.48	1.00	4.02

Note: EC is Export Competitiveness, IR is Interest Rate, IFR is Inflation Rate, ERF is Exchange Rate Fluctuation, REER is Real Effective Exchange Rate.

Source: Author's Computation (2026).

The correlation matrix in Table 3 reveals important relationships among the variables and suggests no serious multicollinearity concerns, as all Variance Inflation Factor (VIF) values are below the threshold of 10. Export competitiveness (LEC) is strongly and positively correlated with the real effective exchange rate (LREER) (0.75), indicating that improvements in relative price competitiveness are associated with higher export performance. Conversely, LEC shows a strong negative correlation with interest rate (IR) (-0.69), implying that higher borrowing costs may hinder export competitiveness. The relationship between LEC and inflation rate (IFR) (-0.34) as well as exchange rate fluctuation (LERF) (-0.25) is negative but relatively weak, suggesting that increases in inflation and exchange rate instability tend to reduce export competitiveness, though to a lesser extent. Among the independent variables, interest rate is moderately negatively correlated with LREER (-0.60), while exchange rate fluctuation also shows a moderate negative relationship with LREER (-0.48), indicating interconnected dynamics between monetary conditions and external competitiveness. Overall, the results suggest meaningful economic relationships without severe multicollinearity, supporting the suitability of the variables for further econometric analysis.

Table 4. Unit root test.

Variable	Augmented Dickey-Fuller test			Phillip Perron Test			Level of Integration	
	Level	First Diff.	Critical	Level	First Diff.	Critical	ADF	PPT
LEC	-1.63	-5.74	-2.99	-1.60	-5.07	-2.96	I(1)	I(1)
IR	-1.34	-4.86	-2.99	-1.19	-5.41	-2.96	I(1)	I(1)
IFR	-3.25	-	-2.99	-3.31	-	-2.96	I(0)	I(0)
LERF	-2.40	-5.01	-2.99	-2.53	-5.38	-2.96	I(1)	I(1)
LREER	-0.54	-4.35	-2.99	-0.09	-4.25	-2.96	I(1)	I(1)

Note: EC is Export Competitiveness, IR is Interest Rate, IFR is Inflation Rate, ERF is Exchange Rate Fluctuation, REER is Real Effective Exchange Rate.

Source: Author's Computation (2026).

The unit root results in Table 4 based on both Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests, indicate a mixed order of integration among the variables. Export competitiveness (LEC), interest rate (IR), exchange rate fluctuation (LERF), and real effective exchange rate (LREER) are all non-stationary at levels but become stationary after first differencing, as their test statistics at first difference exceed the critical values, confirming that they are integrated of order one, I(1). In contrast, inflation rate (IFR) is stationary at level, as its ADF (-3.25) and PP (-3.31) statistics are more negative than the respective critical values, indicating it is integrated of order zero, I(0). The consistency of results across both ADF and PP tests strengthens the reliability of these findings. Overall, the presence of a combination of I(0) and I(1) variables justifies the application of econometric techniques such as the Autoregressive Distributed Lag (ARDL) model, which accommodates mixed integration orders without requiring all variables to be stationary at the same level.

Table 5. Bound test cointegration of monetary policy dynamics and export competitiveness in Nigeria.

F-Bounds Test		**Null Hypothesis: No levels relationship**		
Test Statistic	**Value**	**Signif.**	**I(0)**	**I(1)**
F-statistic	5.42	10.00%	2.20	3.09
K	4.00	5.00%	2.56	3.49
		2.50%	2.88	3.87
		1.00%	3.29	4.37

Note: EC is Export Competitiveness, IR is Interest Rate, IFR is Inflation Rate, ERF is Exchange Rate Fluctuation, REER is Real Effective Exchange Rate.

Source: Author's Computation (2026);

The ARDL bounds test results in Table 5 evaluate the existence of a long-run relationship between monetary policy dynamics and export competitiveness in Nigeria. The computed F-statistic of 5.42 is compared with the critical bounds values. At the 5% level of significance, the lower bound I(0) is 2.56 while the upper bound I(1) is 3.49. Since the F-statistic exceeds both the lower and upper bounds, it clearly falls within the rejection region of the null hypothesis of no levels relationship, indicating strong evidence of cointegration among the variables.

Table 6. Estimated model evaluating the monetary policy dynamics influence export competitiveness in Nigeria.

Dependent Variable: LEC				
Method: ARDL				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
Short Run Equation				
D(LEC(-1))	-0.05	0.14	-0.35	0.73
D(LEC(-2))	-0.32	0.12	-2.76	0.01
D(IR)	-0.03	0.02	-1.71	0.11
D(IR(-1))	0.10	0.03	3.68	0.00
D(IFR)	0.01	0.01	1.35	0.20
D(LERF)	-2.02	0.65	-3.09	0.01
D(LERF(-1))	-1.71	0.78	-2.20	0.04
D(LREER)	-1.93	0.67	-2.89	0.01
D(LREER(-1))	-1.93	0.84	-2.30	0.04
ECT(-1)	-0.52	0.08	-6.71	0.00
Long Run Equation				
IR	-0.26	0.06	-4.22	0.00
IFR	0.07	0.04	1.81	0.09
LERF	-1.49	0.67	-2.23	0.04
LREER	-0.20	0.23	-0.89	0.39

C	17.15	4.97	3.45	0.00
Model Evaluation				
R-squared	0.85			
Adjusted R-squared	0.78			
F-statistics	23.08 (0.0000)			
Diagnostics				
Normality Test	0.12 (0.8859)			
Serial Correlation LM Test	0.78 (0.6783)			
Heteroskedasticity Test:	0.78 (0.6783)			
CUSUM	Stability			
CUSUM square	Stability			

Note: EC is Export Competitiveness, IR is Interest Rate, IFR is Inflation Rate, ERF is Exchange Rate Fluctuation, REER is Real Effective Exchange Rate, ECT is error correction term.

Source: Author's Computation (2026);

Table 6 present the Results on Monetary Policy Dynamics and Export Competitiveness in Nigeria. The short-run ARDL results indicate that monetary policy dynamics significantly influence export competitiveness (LEC) in Nigeria. The lagged dependent variable D(LEC(-2)) is negative and significant (α = -0.32, prob. = 0.02, p < 0.05), implying that deviations in export competitiveness from two periods ago reduce current export competitiveness by about 0.32%, suggesting the persistence of past effects. The contemporaneous interest rate D(IR) is not significant (α = -0.03, prob. = 0.11, p > 0.05), but its first lag D(IR(-1)) is positive and highly significant (α = 0.10, prob. = 0.00, p < 0.05), indicating that a 1% increase in the previous period's interest rate improves export competitiveness by approximately 0.10% in the short run. Inflation (IFR) is not significant in the short run, while exchange rate fluctuation (LERF) and its first lag are negative and significant (α = -2.02, prob. = 0.01; α = -1.71, prob. = 0.04, p < 0.05), showing that higher exchange rate volatility reduces export competitiveness in the short run, with a notable effect of about 2.02% for the current period and 1.70% for the previous period. Similarly, the real effective exchange rate (LREER) and its first lag are negative and significant (α = -1.93, prob. = 0.01; α = -1.93, prob. = 0.04, p < 0.05), suggesting that increases in the real effective exchange rate reduce export competitiveness in the short run. The error correction term (ECT(-1) is negative and highly significant (α = -0.52, prob. = 0.00, p < 0.05), indicating that about 52.0% of short-run disequilibrium adjusts toward the long-run equilibrium each period, reflecting strong adjustment dynamics.

In the long run, several monetary policy variables continue to significantly affect export competitiveness. The interest rate (IR) has a negative and significant effect (α = -0.26, prob. = 0.00, p < 0.05), showing that higher interest rates reduce long-run export competitiveness by about 0.26%, likely due to increased cost of capital for exporters. Exchange rate fluctuation (LERF) is also negative and significant (α = -1.49, prob. = 0.04, p < 0.05), indicating that sustained volatility in the exchange rate lowers export competitiveness by roughly 1.49%. Inflation (IFR) and real effective exchange rate (LREER) are not statistically significant in the long run.

The model evaluation statistics for the ARDL estimation of monetary policy dynamics on export competitiveness in Nigeria indicate a robust and reliable model. The R-squared of 0.85 shows that about 85.0% of the variation in export competitiveness is explained by the monetary policy variables included in the model, while the adjusted R-squared of 0.78 accounts for the number of predictors, indicating that approximately 78.0% of the variation is reliably explained after adjusting for degrees of freedom. The F-statistic of 23.08 (prob. = 0.00, p < 0.05) confirms that the explanatory variables jointly have a statistically significant effect on export competitiveness. Therefore, the study concluded that the null hypothesis (Monetary policy dynamics do not significantly influence

export competitiveness in Nigeria) is rejected, indicating that monetary policy dynamics have significant effects on Nigeria's export competitiveness.

The diagnostic tests further affirm the model's robustness. The normality test (prob. = 0.89, $p > 0.05$) indicates that the residuals are normally distributed. The serial correlation LM test (prob. = 0.68, $p > 0.05$) suggests no autocorrelation among the residuals, and the heteroskedasticity test (prob. = 0.68, $p > 0.05$) indicates constant variance of the residuals, showing homoscedasticity. The CUSUM and CUSUM of squares plots demonstrate coefficient stability over the study period, as the plots remain within the critical bounds. Overall, these statistics validate that the ARDL model is well-specified, stable, and suitable for drawing inferences on the effect of monetary policy dynamics on Nigeria's export competitiveness.

The findings of this study reveal that monetary policy exerts a significant influence on export competitiveness in Nigeria, both in the short and long run. Specifically, the results show that interest rates, exchange rate fluctuations, and the real effective exchange rate negatively affect export competitiveness in the short run, while higher interest rates and exchange rate instability continue to suppress export performance in the long run. This implies that tight monetary conditions, particularly high borrowing costs, constrain firms' access to affordable credit needed for production and export expansion. It also suggests that exchange rate volatility introduces uncertainty into trade decisions, discouraging long-term export planning and reducing the international competitiveness of Nigerian goods.

These findings are consistent with earlier empirical studies that emphasize the adverse role of restrictive monetary conditions on real sector performance. For instance, Bello et al. (2024) and Gbarawae Nwikina et al. (2025) similarly found that exchange rate depreciation and volatility negatively affect manufacturing output and industrial competitiveness, which are key drivers of exports. Likewise, Babagana (2023) reported that flexible and unstable exchange rate regimes tend to weaken export competitiveness in Nigeria, reinforcing the view that volatility rather than depreciation alone is harmful to trade performance. The results also align with Dogara et al. (2024) who found that contractionary monetary policy and real exchange rate pressures reduce foreign direct investment inflows, thereby limiting productive capacity for exports.

Furthermore, the negative effect of interest rates on export competitiveness supports the findings of Ademola et al. (2023) and Gold and Yusuf (2025) who observed that high lending rates constrain investment and reduce export capacity by increasing production costs. The persistence of these effects in the long run suggests weak monetary transmission and structural rigidities in the Nigerian economy, as earlier noted by Eleam et al. (2021) who documented delays in the adjustment of market interest rates to policy signals. Additionally, the significant role of the real effective exchange rate corroborates the findings of Akpansung (2021) and Central Bank of Nigeria (2025) which highlight that fluctuations in relative price competitiveness have long-term implications for external sector performance.

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

This study examined the effect of monetary policy dynamics on export competitiveness in Nigeria, with specific focus on GDP growth, unemployment rate, foreign direct investment (FDI) inflows, and export competitiveness. The empirical results from the ARDL model revealed that monetary policy variables exert significant effects on export competitiveness in both the short and long run. In the short run, lagged interest rates, exchange rate fluctuations, and the real effective exchange rate were found to negatively and significantly affect export competitiveness (e.g., $\alpha = -2.02$, $p = 0.01$; $\alpha = -1.93$, $p = 0.01$). The error correction term (ECT) was negative and statistically significant ($\alpha = -0.52$, $p = 0.00$), indicating a strong and rapid adjustment toward long-run equilibrium.

In the long run, interest rates and exchange rate fluctuations remained negative and significant (α = -0.26, p = 0.00; α = -1.49, p = 0.04), confirming the persistent adverse effects of restrictive monetary conditions on export performance. Consequently, the null hypothesis (Monetary policy dynamics do not significantly influence export competitiveness in Nigeria) was rejected, implying that monetary policy significantly affects export competitiveness in Nigeria.

In conclusion, the study establishes that monetary policy dynamics play a crucial role in shaping Nigeria's export competitiveness. However, the dominance of high interest rates and exchange rate instability undermines the country's ability to compete effectively in international markets. While monetary tightening may be necessary for macroeconomic stabilization, its adverse spillover effects on export performance highlight the need for a balanced policy framework that simultaneously supports price stability and external sector competitiveness.

Based on the findings, the study recommends that monetary authorities prioritize exchange rate stability through well-coordinated intervention strategies and improved foreign exchange management mechanisms. Additionally, gradual reduction in interest rates, where macroeconomic conditions permit, should be considered to lower the cost of production and enhance exporters' access to credit. Furthermore, policies aimed at reducing inflationary pressures should be strengthened, as persistent inflation undermines export profitability and competitiveness. Overall, consistent and well-coordinated macroeconomic policies are essential for improving Nigeria's export performance and strengthening its position in global trade markets.

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