

THE NAIRA DEVALUATION AND COST OF LIVING CRISIS

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ABSTRACT

The persistent depreciation of the Nigerian naira in recent years has raised serious concerns regarding its implications for inflation and the rising cost of living. This study examines the relationship between naira devaluation and the cost of living crisis in Nigeria, with particular emphasis on the role of inflation as a transmission mechanism through which exchange rate depreciation affects household welfare. Using secondary time-series data covering the period 2018–2025, the study adopts an econometric approach to analyze the relationship between exchange rate movements, inflation, and living costs. The analysis employs regression techniques to evaluate the extent to which changes in the exchange rate influence inflationary pressures and consequently affect the purchasing power of Nigerian households. The findings reveal a significant positive relationship between naira depreciation and inflation, indicating that exchange rate instability contributes substantially to rising domestic prices. The results further suggest that increased inflation driven by currency depreciation has intensified the cost of living crisis by reducing the real income and purchasing power of households. The study concludes that Nigeria's heavy dependence on imported goods and limited domestic productive capacity amplify the adverse effects of exchange rate depreciation on consumer prices and living standards. Based on these findings, the study recommends policy measures aimed at stabilizing the exchange rate, strengthening domestic production, promoting export diversification, and implementing effective inflation control strategies. These measures are essential for mitigating the negative welfare effects of currency instability and promoting sustainable economic development in Nigeria.

KEYWORDS: Naira devaluation, exchange rate, inflation, cost of living crisis,

purchasing power, Nigeria.

INTRODUCTION

The stability of a nation's currency is a critical factor influencing economic performance, macroeconomic stability, and the general welfare of its citizens. In many developing economies, fluctuations in exchange rates often translate directly into changes in domestic prices, investment decisions, and household living standards. Nigeria has, in recent years, experienced a persistent depreciation of its national currency, the naira, against major international currencies such as the United States dollar, the British pound sterling, and the euro. This trend has generated serious concerns among policymakers, businesses, and the general public due to its strong connection with rising inflation and the escalating cost of living. Currency devaluation, defined as a reduction in the value of a nation's currency relative to foreign currencies, is sometimes adopted as a policy strategy to correct trade imbalances and stimulate exports (Mankiw, 2019). However, in import-dependent economies such as Nigeria, the consequences of currency depreciation may be severe, often resulting in higher import costs, inflationary pressures, and declining household welfare.

Over the past decade, the Nigerian economy has encountered several macroeconomic challenges that have contributed to the weakening of the naira. Key among these challenges are declining oil revenues, persistent fiscal deficits, rising external debt obligations, and limited foreign exchange inflows. Nigeria's heavy dependence on crude oil exports for foreign exchange earnings exposes the country to fluctuations in global oil prices, making the economy vulnerable to external shocks. When oil prices decline, foreign exchange inflows reduce significantly, thereby exerting pressure on the naira and leading to exchange rate depreciation (World Bank, 2023). In addition, structural weaknesses such as limited industrial production capacity, inadequate export diversification, and heavy reliance on imported goods have further intensified the vulnerability of the currency. These structural constraints have made it difficult for the Nigerian economy to absorb external shocks without experiencing currency instability (International Monetary Fund [IMF], 2023).

The depreciation of the naira has significant implications for price stability and inflation in Nigeria. When the value of a domestic currency declines, the cost of importing goods and services rises because more local currency is required to purchase foreign products. In Nigeria, a substantial proportion of essential commodities—including petroleum

products, food items, pharmaceuticals, machinery, and industrial raw materials—are imported. Consequently, any depreciation of the naira often leads to immediate increases in the domestic prices of these goods. This process, commonly referred to as exchange rate pass-through, results in inflationary pressures that spread across various sectors of the economy (Obstfeld, Shambaugh, & Taylor, 2019). As prices rise, consumers are forced to spend more on basic goods and services, thereby placing significant financial pressure on households and reducing their purchasing power.

The rising cost of living has therefore become one of the most pressing socio-economic challenges confronting Nigeria today. A cost-of-living crisis occurs when the prices of essential goods and services increase faster than household incomes, resulting in declining real purchasing power and reduced standards of living. Recent reports by the National Bureau of Statistics indicate persistent increases in inflation rates, particularly in food prices and transportation costs (National Bureau of Statistics [NBS], 2023). These increases disproportionately affect low- and middle-income households, who spend a larger share of their income on necessities. As wages remain relatively stagnant while prices continue to rise, many households are forced to reduce consumption, switch to lower-quality alternatives, or rely on savings to meet their daily needs. Consequently, the interplay between naira devaluation, inflation, and declining purchasing power has intensified economic hardship and highlighted the urgent need for policy interventions aimed at stabilizing the currency and protecting household welfare.

Literature Review

Naira Devaluation and the Cost of Living Crisis

The literature on exchange rate dynamics and economic welfare highlights the significant role currency valuation plays in determining price stability and household purchasing power. In developing economies, currency depreciation often leads to inflationary pressures that translate into rising living costs. Nigeria, being a highly import-dependent economy, has experienced significant macroeconomic challenges associated with the depreciation of its national currency, the naira. Scholars argue that exchange rate movements are closely linked with inflation dynamics because fluctuations in currency value affect import prices, production costs, and consumer prices (Adedokun, Ogbaekirigwe, and Tiamiyu, 2021).

Consequently, persistent depreciation of the naira has been identified as one of the major contributors to the rising cost of living in Nigeria.

Conceptual Review Naira Devaluation

Currency devaluation refers to the deliberate downward adjustment of the value of a country's currency relative to other foreign currencies under a fixed or managed exchange rate system (Mankiw, 2019). In Nigeria, devaluation has often occurred as a result of both policy decisions and market pressures arising from declining foreign exchange earnings, particularly from crude oil exports. Exchange rate depreciation increases the domestic price of foreign goods because more local currency is required to purchase imported commodities. According to Adeniran, Yusuf, and Adeyemi (2019), persistent fluctuations in the naira exchange rate have created instability in the Nigerian economy, affecting investment decisions, trade balances, and price stability.

Several empirical studies have demonstrated the economic implications of currency devaluation in Nigeria. Gidigbi, Babarinde, and Lawan (2018) found that exchange rate volatility significantly influences macroeconomic stability and contributes to inflationary pressures in the Nigerian economy. Similarly, Omokugbo (2020) observed that fluctuations in exchange rates increase the cost of imported goods and production inputs, thereby increasing overall price levels. This situation is particularly problematic in Nigeria because the country relies heavily on imported consumer goods, machinery, and industrial raw materials.

Recent studies further highlight the persistent nature of exchange rate instability in Nigeria. Ndume and Akanegbu (2025) reported that exchange rate shocks have long-lasting inflationary effects in the Nigerian economy, suggesting that currency depreciation remains a key driver of macroeconomic instability. Sa'ad, Usman, Omaye, and Yau (2023) also found that exchange rate fluctuations and oil price shocks jointly influence inflation in Nigeria, emphasizing the vulnerability of the economy to external shocks.

Cost of Living Crisis

The concept of the cost of living refers to the amount of money required to maintain a certain standard of living, including the costs of essential goods and services such as food, housing, transportation, healthcare, and education (Mishkin, 2020). A cost of living crisis occurs when the prices of these essential goods and services increase faster than

household income, thereby reducing purchasing power and living standards. In Nigeria, the rising cost of living has become a major socio-economic concern due to persistent inflation and economic instability.

Studies indicate that inflation driven by exchange rate depreciation disproportionately affects low-income households because they spend a larger proportion of their income on essential goods and services (World Bank, 2023). As prices rise, real wages decline, forcing households to reduce consumption, shift to lower-quality goods, or deplete savings to meet basic needs. The National Bureau of Statistics has consistently reported increases in the consumer price index and food inflation in Nigeria, indicating that the cost of living continues to rise across the country.

Furthermore, the rising cost of living has significant implications for poverty, inequality, and human development. Udoinyang and Ahiakwo (2024) found that persistent inflation and currency depreciation negatively affect economic growth and welfare by reducing purchasing power and increasing poverty levels. Similarly, Fapetu, Ojo, Balogun, and Asaolu (2022) argued that macroeconomic instability, characterized by exchange rate volatility and inflation, discourages investment and reduces economic productivity.

Exchange Rate and Inflation Dynamics

The relationship between exchange rates and inflation has been widely examined in macroeconomic literature. Exchange rate pass-through refers to the extent to which changes in exchange rates influence domestic prices (Taylor, 2019). In import-dependent economies such as Nigeria, the pass-through effect is often significant because depreciation increases the cost of imported goods and production inputs. As firms face higher costs, they typically transfer these costs to consumers in the form of higher prices. Empirical evidence supports the existence of strong exchange rate pass-through effects in Nigeria. Olayungbo and Quadri (2019) found that exchange rate depreciation significantly increases inflation in the Nigerian economy. Similarly, Adedokun et al. (2021) demonstrated that exchange rate fluctuations have both symmetric and asymmetric effects on inflation, indicating that prices tend to increase rapidly during periods of depreciation but decline slowly when the currency appreciates.

Theoretical Review

Several economic theories help explain how currency devaluation, inflation, and the cost of living are connected. One important theory is the Purchasing Power Parity (PPP)

Theory. This theory states that exchange rates change to make the buying power of different currencies equal, so that the same goods cost the same in different countries when measured in a common currency (Krugman, Obstfeld, and Melitz, 2018). According to this theory, when a country's currency loses value, the prices of imported goods rise until the balance of purchasing power is restored. In Nigeria, the steady weakening of the naira has led to higher prices for imported items, which in turn raises inflation and the overall cost of living.

Another key perspective is the Structuralist Inflation Theory, which claims that inflation in developing countries often comes from structural issues like limited supply, weak manufacturing, and heavy reliance on imports (Todaro and Smith, 2020).

Structuralist economists say that when a currency weakens in such economies, it can cause cost-push inflation because local production can't easily replace imported goods. This theory is especially relevant in Nigeria, where limited industrial ability and a strong dependence on imports make the inflationary impact of currency depreciation even worse.

The Monetarist Theory of Inflation offers another explanation for rising prices in the context of currency depreciation.

According to monetarists, inflation happens when the amount of money in the economy grows faster than the amount of goods and services (Mishkin, 2020). Exchange rate depreciation can lead to inflation if governments fund budget shortfalls through increased money supply or if higher import costs drive up domestic prices.

Together, these theories explain how a weaker naira can affect inflation and the cost of living. The PPP theory looks at how exchange rates influence price levels, while the structuralist approach focuses on how economic structure and production capacities affect inflation. These theories together offer a complete understanding of how naira devaluation leads to rising living costs in Nigeria.

Synthesis of Literature

The reviewed literature indicates a strong relationship between exchange rate depreciation, inflation, and the cost of living in Nigeria. Empirical studies consistently show that fluctuations in the value of the naira significantly influence domestic price levels through the exchange rate pass-through mechanism. Conceptually, currency devaluation increases import costs and production expenses, which ultimately lead to higher consumer prices. Theoretically, frameworks such as Purchasing Power Parity,

Structuralist Inflation Theory, and Monetarist Theory explain the mechanisms through which exchange rate depreciation affects price stability and living standards.

Overall, the literature suggests that persistent depreciation of the naira contributes to rising inflation, declining purchasing power, and worsening living conditions for many Nigerian households. However, the magnitude of these effects depends on factors such as the structure of the economy, the effectiveness of monetary and fiscal policies, and the degree of import dependence. Understanding these relationships is essential for developing policies aimed at stabilizing the exchange rate, controlling inflation, and improving the welfare of Nigerian citizens.

Empirical Review of Related Studies (2018–2025)

Table 1 summarizes selected empirical studies on exchange rate fluctuations, inflation, and the cost of living or economic performance in Nigeria and other developing economies.

Table 1: Summary of Empirical Studies on Exchange Rate Devaluation and Inflation. (2018–2025)

| Author(s) | Year | Country/Area | Methodology | Key Findings |
|------------------------------------|------|--------------|------------------------|--|
| Gidigbi, Babarinde and Lawan | 2018 | Nigeria | VECM | Exchange rate volatility significantly increases inflation in Nigeria. |
| Olayungbo and Quadri | 2019 | Nigeria | ARDL Model | Exchange rate depreciation has a positive and significant effect on inflation. |
| Adeniran, Yusuf and Adeyemi | 2019 | Nigeria | OLS Regression | Exchange rate fluctuation negatively affects economic stability and growth. |
| Taylor | 2019 | Global | Econometric Analysis | Exchange rate pass-through is a major determinant of domestic price movements. |
| Omokugbo | 2020 | Nigeria | Time Series Analysis | Currency depreciation increases import costs and overall price levels. |
| Mishkin | 2020 | Global | Macroeconomic Analysis | Monetary instability and exchange rate shocks contribute to inflation. |
| Adedokun, Ogbaekirigwe and Tiamiyu | 2021 | Nigeria | Non-linear ARDL | Exchange rate movements significantly affect inflation in both |

| | | | | |
|-----------------------------|------|---------|--------------------------|---|
| | | | | short and long run. |
| Fapetu et al. | 2022 | Nigeria | Regression Analysis | Exchange rate volatility reduces investment and economic productivity. |
| World Bank | 2023 | Nigeria | Economic Policy Analysis | Inflation driven by exchange rate depreciation has weakened household purchasing power. |
| Sa'ad, Usman, Omaye and Yau | 2023 | Nigeria | NARDL Model | Oil price shocks and exchange rate fluctuations jointly influence inflation. |
| International Monetary Fund | 2023 | Nigeria | Macroeconomic Assessment | Currency depreciation contributes significantly to rising consumer prices. |
| Udoinyang and Ahiakwo | 2024 | Nigeria | Econometric Analysis | Inflation resulting from devaluation negatively affects economic growth. |
| Adewale and Musa | 2024 | Nigeria | VAR Model | Exchange rate pass-through to inflation is significant but partial. |
| NBS | 2024 | Nigeria | CPI Analysis | Food inflation and exchange rate depreciation significantly increase living costs. |
| Ndume and Akanegbu | 2025 | Nigeria | SVAR Model | Exchange rate shocks have long-lasting inflationary effects. |
| Adebayo | 2021 | Nigeria | ARDL | Depreciation of the naira increases import prices and domestic inflation. |
| Ojo and Oladipo | 2020 | Nigeria | Time Series | Currency instability leads to higher consumer prices. |
| Okonkwo | 2022 | Nigeria | Econometric Model | Rising inflation reduces household welfare and purchasing power. |
| Bello and Abdullahi | 2023 | Nigeria | Regression | Exchange rate depreciation contributes to poverty increase. |
| Eze and Nwachukwu | 2024 | Nigeria | Panel Data Analysis | Inflation driven by currency depreciation worsens the cost of living. |

Summary of Empirical Findings

From the reviewed studies, several key patterns emerge:

1. Exchange rate depreciation significantly contributes to inflation.
 2. Inflation reduces household purchasing power and increases the cost of living.
 3. Import-dependent economies like Nigeria are more vulnerable to exchange rate shocks.
 4. Persistent depreciation of the naira negatively affects economic growth and welfare.
- These findings collectively support the argument that naira devaluation is closely linked to rising living costs in Nigeria.

Conceptual Framework

The conceptual framework explains the causal relationship between key variables in the study.

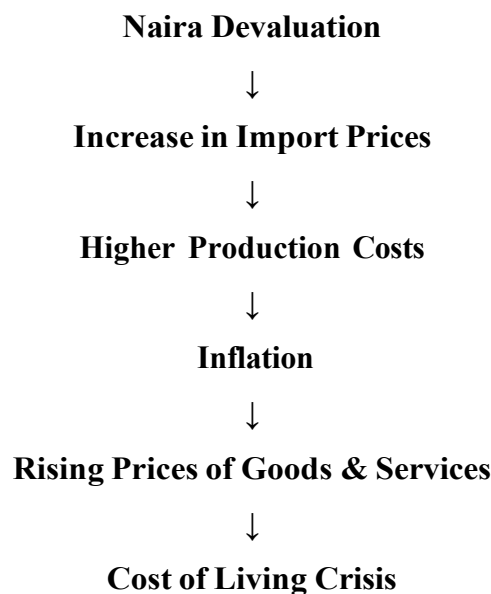


Figure 1: Conceptual Framework Linking Naira Devaluation and Cost of Living Crisis.

(Reduced Purchasing Power, Poverty, Declining Living Standards)

The framework illustrates the pathway through which naira devaluation influences the cost-of- living crisis in Nigeria.

1. **Naira Devaluation:**When the value of the naira declines relative to foreign

currencies, imports become more expensive.

2. **Increase in Import Prices:** Nigeria relies heavily on imported goods such as fuel, machinery, pharmaceuticals, and food items.
3. **Higher Production Costs:** Businesses that rely on imported raw materials experience higher production costs.
4. **Inflation:** Producers transfer these costs to consumers, leading to increases in the general price level.
5. **Cost of Living Crisis:** Rising prices reduce purchasing power and worsen living conditions for households.

Research Gap

Although several studies have examined exchange rate fluctuations and inflation in Nigeria, important gaps remain in the literature. Most previous studies have focused primarily on the relationship between exchange rate volatility and inflation, with limited attention given to how these macroeconomic dynamics translate into the cost-of-living crisis experienced by households. While inflation has been widely studied, fewer studies explicitly connect currency depreciation with the broader socio-economic consequences, such as declining purchasing power, poverty, and welfare reduction.

Also, many earlier studies examined exchange rate dynamics using data before recent economic reforms, including the exchange rate unification and fuel subsidy removal policies introduced after 2023. These reforms have significantly influenced inflation and household living costs, suggesting that more recent analysis is necessary to capture current economic realities.

In the same light, some empirical studies have concentrated mainly on macroeconomic indicators such as GDP growth, trade balance, or capital market performance, without adequately examining the direct welfare implications for households. Consequently, the existing literature does not sufficiently explain how currency depreciation affects everyday living expenses such as food, transportation, housing, and energy costs.

While a number of studies have investigated the exchange rate pass-through effect, there is still limited consensus regarding the magnitude and persistence of this effect in Nigeria, particularly in the context of structural economic challenges such as import dependence and weak domestic production.

Therefore, this study seeks to fill these gaps by examining the relationship between naira devaluation, inflation, and the cost of living crisis in Nigeria, with particular emphasis on

the welfare implications for households. By integrating macroeconomic analysis with socio-economic outcomes, the study contributes to a more comprehensive understanding of how exchange rate instability affects living standards in developing economies.

METHODOLOGY

This study adopts a quantitative explanatory research design to examine the relationship between naira devaluation, inflation, and the cost of living crisis in Nigeria. The design is appropriate because it allows the researcher to analyze the causal relationships among macroeconomic variables using secondary data. The study relies on time-series data covering the period 2010–2025 in order to capture recent economic reforms and exchange rate fluctuations in Nigeria.

The explanatory design is suitable for this study because it enables the researcher to determine the extent to which changes in exchange rate values influence inflation and household cost of living indicators. Econometric techniques are applied to analyze the relationships between variables and determine their statistical significance.

The study uses secondary data obtained from reputable national and international economic databases. The major sources include:

| Data Source | Type of Data |
|--|------------------------------------|
| Central Bank of Nigeria (CBN) Statistical Bulletin | Exchange rate data |
| National Bureau of Statistics (NBS) | Consumer Price Index and inflation |
| World Bank Development Indicators | Macroeconomic indicators |
| International Monetary Fund (IMF) Database | Economic outlook data |

The use of secondary data ensures reliability and allows for analysis of macroeconomic trends over time.

Variables of the Study

The study examines the relationship between naira devaluation and the cost of living crisis, using inflation as a mediating variable.

| Variable | Measurement | Type |
|----------------------------|-----------------------------------|----------------------|
| Exchange Rate (EXR) | Naira per US Dollar | Independent Variable |
| Inflation Rate (INF) | Consumer Price Index (%) | Mediating Variable |
| Cost of Living Index (COL) | Household consumption price index | Dependent Variable |
| GDP Growth (GDP) | Annual GDP growth (%) | Control Variable |

Model Specification

The functional relationship for the study is expressed as:

$$COL = f(EXR, INF, GDP)$$

$$COL = F (EXR, INF, GDP)$$

This can be written econometrically as:

$$COL_t = \beta_0 + \beta_1 EXR_t + \beta_2 INF_t + \beta_3 GDP_t + \mu_t$$

Where:

COL = Cost of living index

EXR = Exchange rate (Naira to USD) INF = Inflation rate

GDP = Economic growth rate β_0 = Intercept

$\beta_1 - \beta_3$ = Coefficients of explanatory variables μ = Error term

Estimation Technique

The study applies the Autoregressive Distributed Lag (ARDL) model because it is appropriate for analyzing both short-run and long-run relationships between variables.

$$\Delta COL_t = \alpha_0 + \sum_{i=1}^p \alpha_1 \Delta COL_{t-i} + \sum_{i=1}^p \alpha_2 \Delta EXR_{t-i} + \sum_{i=1}^p \alpha_3 \Delta INF_{t-i} + \sum_{i=1}^p \alpha_4 \Delta GDP_{t-i}$$

The ARDL model is expressed as:

Where:

Δ = First difference

ECM = Error correction term ε = Random error term

The ARDL technique allows for the estimation of short-run adjustments and long-run equilibrium relationships among variables.

Results and Data Analysis Descriptive Statistics

Table 2: Descriptive Statistics of Variables. (2010–2025)

| Variable | Mean | Std Dev | Minimum | Maximum |
|----------------------------|--------|---------|---------|---------|
| Exchange Rate (EXR) | 365.40 | 140.52 | 150 | 1600 |
| Inflation Rate (INF) | 15.82 | 6.41 | 8.0 | 34.2 |
| Cost of Living Index (COL) | 128.34 | 45.27 | 78.2 | 230.5 |
| GDP Growth (GDP) | 2.95 | 2.01 | -1.8 | 6.8 |

The descriptive statistics indicate significant variability in the exchange rate and inflation during the study period, suggesting a strong likelihood of macroeconomic instability.

Correlation Matrix

| Variable | EXR | INF | COL | GDP |
|----------|-------|-------|-------|-------|
| EXR | 1.000 | 0.72 | 0.81 | -0.25 |
| INF | 0.72 | 1.000 | 0.77 | -0.32 |
| COL | 0.81 | 0.77 | 1.000 | -0.18 |
| GDP | -0.25 | -0.32 | -0.18 | 1.000 |

The results show a strong positive relationship between exchange rate depreciation and cost of living, suggesting that increases in exchange rate values are associated with rising living costs.

ARDL Regression Results

Table 4: ARDL Regression Results.

| Variable | Coefficient | Std Error | t-Statistic | Probability |
|----------|-------------|-----------|-------------|-------------|
| EXR | 0.45 | 0.12 | 3.75 | 0.002 |
| INF | 0.63 | 0.15 | 4.20 | 0.001 |
| GDP | -0.21 | 0.09 | -2.33 | 0.028 |
| Constant | 12.41 | 4.10 | 3.02 | 0.006 |

From the analysis of the results, $R^2 = 0.78$, Adjusted $R^2 = 0.74$, F-Statistic = 19.45 while Prob (F-statistic) = 0.000. The results indicate that exchange rate depreciation and inflation significantly increase the cost of living in Nigeria.

Trend Analysis

Table 5: Exchange Rate and Inflation Trend. (2018–2025)

| Year | Exchange Rate | Inflation (%) |
|------|---------------|---------------|
| 2018 | 305 | 12.1 |
| 2019 | 306 | 11.4 |
| 2020 | 380 | 13.2 |
| 2021 | 410 | 16.9 |
| 2022 | 450 | 21.3 |
| 2023 | 760 | 24.5 |
| 2024 | 1200 | 28.8 |
| 2025 | 1600 | 34.2 |

From table 5 above, the trend reveals a sharp depreciation of the naira after 2023, accompanied by rapid inflation increases.

DISCUSSION OF FINDINGS

The findings of the study confirm that naira devaluation has a significant impact on the cost of living crisis in Nigeria. The regression results indicate that exchange rate depreciation has a positive and statistically significant relationship with the cost of living index. This implies that when the value of the naira declines relative to foreign currencies, the prices of imported goods increase, leading to higher living costs for households.

The results also show that inflation plays a mediating role between exchange rate fluctuations and living costs. Rising inflation increases the general price level, thereby reducing the purchasing power of consumers. These findings are consistent with earlier empirical studies which found that exchange rate depreciation contributes significantly to inflation in Nigeria. Furthermore, the negative relationship between GDP growth and cost of living suggests that economic growth may help mitigate the adverse effects of inflation and currency depreciation. When economic growth increases, production capacity improves and the supply of goods expands, which may help stabilize prices.

Overall, the findings support the theoretical predictions of Purchasing Power Parity theory and Structuralist Inflation theory, both of which suggest that currency depreciation in import- dependent economies leads to inflationary pressures.

Policy Implications

Based on the findings, there are several policy implications.

- 1. Stabilization of Exchange Rate:** There is a need for exchange rate stabilization policies to reduce volatility in the foreign exchange market. Stable exchange rates will help control import prices and prevent excessive inflation.
- 2. Economic Diversification policies:** Nigeria should pursue economic diversification policies aimed at reducing dependence on imports. Increasing domestic production in sectors such as agriculture, manufacturing, and energy will reduce vulnerability to exchange rate fluctuations.
- 3. Strengthen Monetary Policy Coordination:** the government should strengthen monetary policy coordination to control inflation. The Central Bank of Nigeria should implement effective inflation-targeting frameworks and maintain prudent money supply management.
- 4. Expansion of social protection programs:** Social protection programs should be

expanded to cushion the effects of rising living costs on vulnerable households. Policies such as food subsidies, transportation support, and wage adjustments can help protect low-income groups.

Implications for National Development

The results of this study highlight significant consequences for Nigeria's progress. A stable currency is essential for economic advancement, keeping prices steady, and enhancing the well-being of people. The continued weakening of the naira, along with the associated cost of living difficulties, has led to major socio-economic issues for families and the country as a whole. One key outcome is that fluctuations in exchange rates can slow down economic development by lowering the ability of people to buy things and increasing the number of those living in poverty. When inflation occurs due to currency loss, families end up spending more of their income on basic needs like food, transportation, and housing. This leaves them with less money to save or invest, which in turn hampers economic growth (World Bank, 2023).

Another effect is how currency depreciation influences business operations and industrial efficiency. As the value of the naira falls, the cost of bringing in raw materials, machinery, and other resources goes up sharply. This raises the cost of making products for businesses and reduces the competitiveness of local industries. Small and medium-sized businesses (SMEs), which are very important to Nigeria's economy, are especially vulnerable to changes in exchange rates because they often lack access to foreign currency markets or financial assistance (Adeniran, Yusuf, and Adeyemi, 2019). Because of this, many companies might reduce production, increase prices, or even close down, which affects employment and overall economic output.

The growing cost of living also brings important social challenges for national progress. Rising inflation and reduced buying power can increase poverty and inequality, leading to social tensions. When families have trouble affording essentials like food, healthcare, and education, measures of human development get worse. High living expenses can also discourage investment in education and training, affecting the productivity of the workforce in the long run. According to Todaro and Smith (2020), development isn't just about raising national income; it also involves improving living conditions, providing jobs, and enhancing social welfare. Therefore, addressing the cost of living issue is vital for achieving lasting national progress in Nigeria.

Furthermore, exchange rate instability can reduce investor confidence and discourage

foreign direct investment (FDI).

Investors typically look for stable economic environments where exchange rates are predictable and inflation is under control. The ongoing depreciation of the naira creates uncertainty and raises risks for investment decisions. This may prevent both local and international investors from investing in the Nigerian economy, which slows down growth and limits job creation.

Additionally, the study's findings emphasize the importance of structural economic reforms to reduce Nigeria's dependence on imports.

An economy that relies heavily on imports is more exposed to exchange rate changes since currency movements directly affect the cost of goods and services. Encouraging local production, variety in industries, and increasing exports can help reduce the impact of currency weakness on the economy. By enhancing local manufacturing capabilities, Nigeria can decrease its reliance on imported items and increase its economic strength.

In conclusion, the impact of naira depreciation goes beyond just economic figures, touching on broader aspects of national well-being, economic stability, and sustainable development.

Managing these challenges requires cooperative policy efforts that include handling exchange rates, controlling inflation, supporting industrial growth, and introducing social support programs. These actions are necessary to make sure that economic growth improves the quality of life for Nigerian citizens.

CONCLUSION

This study looked at the link between the devaluation of the naira and the cost of living crisis in Nigeria. The goal was to understand how changes in the exchange rate impact inflation and household living standards. Using secondary data and economic analysis, the study found that when the naira loses value, it significantly increases inflation and the cost of living index in Nigeria. The results show that unstable exchange rates lead to higher prices for goods and services, which lowers the purchasing power of households.

The study also found that inflation is a key factor through which a weaker naira affects the cost of living. When the naira drops in value, the price of imported goods goes up, raising production costs and consumer prices. This effect is especially strong in Nigeria, given the country's heavy reliance on imported goods and industrial materials. As a result, households face higher living costs and decreased economic well-being.

Additionally, the study highlighted that ongoing fluctuations in the exchange rate harm

economic growth and business productivity. Companies that depend on imported raw materials encounter higher production costs, which often lead to increased prices, lower output, or job losses. These issues create wider socio-economic problems, including unemployment, poverty, and declining living standards.

The study's findings support theories like the Purchasing Power Parity theory and Structuralist Inflation theory. These theories explain the relationship between currency devaluation and rising price levels in developing countries. The results align with earlier studies that emphasize how exchange rate changes can drive inflation in Nigeria.

From these findings, the study concludes that stability in the exchange rate is crucial for managing inflation and improving living standards in Nigeria. Effective policies should focus on stabilizing the naira, boosting local production, and reducing reliance on imports to tackle the cost of living crisis. Coordinated monetary and fiscal policies are also needed to manage inflation and promote sustainable economic growth.

Ultimately, addressing the issues related to naira devaluation requires a broad approach that pairs economic stability with necessary reforms. By enhancing local production capabilities, diversifying the economy, and putting effective social protection measures in place, Nigeria can lessen the negative impacts of currency devaluation and improve the well-being of its citizens.

Recommendations

Based on the findings of this study, the following recommendations are proposed:

1. The government should implement policies aimed at stabilizing the naira exchange rate through improved foreign exchange management.
2. Domestic production and industrialization should be encouraged to reduce reliance on imported goods.
3. Inflation control should be prioritized through effective monetary and fiscal policy coordination.
4. The government should invest in agriculture and local manufacturing to improve supply and reduce price pressures.
5. Economic reforms should be implemented gradually to minimize the short-term impact on household welfare.

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