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Evaluating the Macroeconomic Impact of Remittances on Economic Growth and Exchange Rate Stability in Nigeria

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ABSTRACT
This study investigates the macroeconomic effects of remittance inflows on Nigeria's economic growth, currency stability, and inflation dynamics. Using a mixed-methods approach, it combines econometric analysis of data from 1980 to 2024 with qualitative interviews. The Autoregressive Distributed Lag (ARDL) model reveals a significant positive impact of remittances on GDP, with a 1% increase linked to 0.25% growth. Remittances enhance household welfare, stimulate consumption, and support small business activity. However, persistent inflows also appreciate the naira, reducing export competitiveness in line with the Dutch Disease hypothesis. Additionally, remittances fuel inflationary pressures, with a 1% increase causing a 0.3% rise in the Consumer Price Index, particularly in urban areas. Interviews confirm that remittances are consumed mainly rather than invested productively, limiting long-term development benefits. The study concludes that while remittances support short-term growth, policies promoting investment, financial literacy, and structured channels are needed to ensure sustainable economic development.
Keywords: Remittances, Currency Stabilisation, Autoregressive Distributed Lag (ARDL), Dutch Disease, Foreign Exchange Reserves, Financial Inclusion, Household Welfare

INTRODUCTION

Remittances have become a significant source of external financing for many developing countries, including Nigeria. The financial transfers, sent by Nigerians in the diaspora to their families and communities back home, have been instrumental in alleviating poverty (Enaberue et al., 2024), improving access to education and healthcare (Ismail et al., 2024a), and supporting small-scale businesses (Magaji et al., 2024). In 2019, Nigeria received approximately $24.8 billion in remittances, making it one of the largest recipients in Africa (World Bank, 2020). This substantial inflow underscores the critical role of remittances in the Nigerian economy.

Despite their positive impact at the microeconomic level, the macroeconomic effects of remittances in Nigeria remain complex and multifaceted. While some studies suggest that remittances contribute to

economic growth by increasing household income and consumption, others indicate potential adverse effects, such as currency appreciation and inflation, which can undermine the competitiveness of the export sector (Chami et al., 2019). For instance, a study by Ikwuagwu et al. (2024) found that remittances had a negative and significant impact on Nigeria's economic growth in both the short and long term, after controlling for factors such as foreign direct investment, gross fixed capital formation, inflation, and exchange rates.

High transaction costs, limited access to formal financial services, and the predominance of informal remittance channels further compound the challenges associated with remittance utilisation in Nigeria. These factors hinder the effective use of remittances for productive investments and economic development. Moreover, the over-reliance on remittances can create a dependency syndrome, where households and communities become less inclined to engage in entrepreneurial activities or seek alternative sources of income.

In response to these challenges, the Nigerian government has initiated several reforms aimed at enhancing the developmental impact of remittances. These include the establishment of diaspora bonds, the reduction of transaction costs through digital financial platforms, and the implementation of policies to encourage the productive use of remittances in sectors such as agriculture, education, and healthcare (Central Bank of Nigeria, 2024). Additionally, the Central Bank of Nigeria has been working to formalise remittance channels to ensure that these funds contribute more effectively to economic development.

This study aims to investigate the macroeconomic effects of remittances on Nigeria's economic growth and currency stabilisation. Specifically, it seeks to assess the impact of remittance inflows on Nigeria's GDP, exchange rates, and inflation rates. By employing econometric models and analysing data from 1980 to 2024, the study intends to provide empirical evidence on the relationship between remittances and macroeconomic indicators in Nigeria. The objective of this article is to analyse the impact of remittance inflows on Nigeria's GDP growth.

Literature Review

Conceptual Definitions

Remittances have emerged as one of the most significant financial flows to developing countries, often surpassing foreign direct investment (FDI) and official development assistance (ODA). They are defined as monetary transfers made by migrants to their households and communities in their country of origin, either through formal channels such as banks and money transfer operators or through informal networks (Ratha, 2013). In Nigeria, remittances represent a critical lifeline for millions of households and constitute a significant component of national external financing. The World Bank (2020) reports that Nigeria consistently ranks among the top ten global remittance-receiving countries, with inflows reaching approximately USD 24.8 billion in 2019. This figure far exceeds the country’s earnings from FDI and ODA, highlighting their centrality to Nigeria’s economic stability.

One distinguishing feature of remittances compared to other financial flows is their countercyclical nature. During periods of economic downturn, financial crisis, or conflict, remittance inflows tend to increase as migrants provide additional support to their families back home (Chami et al., 2019). Thus, remittances offer households a cushion against poverty and income shocks (Magaji et al., 2025). For Nigeria, a country vulnerable to fluctuations in global oil prices and foreign exchange volatility, remittances serve as an important stabiliser of household welfare.

From a macroeconomic perspective, remittances are defined not only by their direct contributions to household income but also by their broader effects on key indicators, including gross domestic product (GDP), exchange rates, inflation, and balance of payments (Magaji et al., 2022). Evidence suggests that remittances can stimulate GDP growth by raising household consumption, improving savings, and financing small businesses (Barajas et al., 2010). At the same time, persistent inflows of foreign exchange may generate unintended consequences such as genuine exchange rate appreciation, inflationary pressures, and over-reliance on external transfers (Ismail et al., 2024b). These challenges are particularly pronounced in Nigeria, where remittances averaged more than USD 20 billion annually between 2015 and

2020 (World Bank, 2020). Hence, remittances must be understood both as a developmental asset and as a potential source of macroeconomic distortion.

Theoretical Framework

The literature on remittances draws on a range of economic theories to explain their effects on growth, currency stabilisation, and inflation dynamics. Four main frameworks are particularly relevant to this study:

1. **Neoclassical Growth Theory:** According to neoclassical growth theory, remittances enhance savings and investments, contributing to capital accumulation and long-term economic growth (Solow, 1956). By providing households with additional resources, remittances can increase investments in education, health, and entrepreneurial ventures, which in turn raise productivity and output (Adamu et al., 2009). In Nigeria, this theory suggests that remittances should complement domestic savings and help bridge the financing gap for development.
2. **Dependency Theory**: In contrast, dependency theorists argue that reliance on external transfers fosters economic dependency, reduces incentives for local productivity, and limits sustainable growth (Frank, 1969). When households become overly dependent on remittances, they may reduce their engagement in productive activities. At the national level, heavy reliance on remittance inflows may discourage structural reforms, reinforce consumption-oriented economies, and exacerbate inequality—Nigeria's over-reliance on oil revenues, combined with high remittance inflows, risks reproducing this dependency trap.
3. **Dutch Disease Hypothesis:** The Dutch Disease hypothesis provides another perspective, suggesting that large inflows of foreign exchange, whether from natural resources or remittances, can lead to currency appreciation, undermining the competitiveness of the tradable goods sector (Acosta et al., 2009). In the Nigerian case, sustained remittance inflows may strengthen the naira, making exports less competitive while encouraging imports. This effect can undermine the diversification agenda of the economy, which is already heavily dependent on oil exports.
4. **New Economics of Labour Migration (NELM)**: NELM provides a more optimistic lens, emphasising the role of remittances in risk-sharing and household income smoothing (Stark & Bloom, 1985). Migrant remittances help households cope with shocks such as unemployment, crop failure, or inflation, thereby stabilising consumption and reducing poverty (Abeke et al., 2025). Within the Nigerian context, NELM underscores the welfare-enhancing role of remittances, especially in rural communities where access to credit markets is limited (Oyinloye et al., 2025).

Together, these theoretical perspectives highlight the dual role of remittances: as a driver of growth, welfare, and stability on the one hand, and as a potential source of macroeconomic distortions and dependency on the other. The balance between these outcomes depends on how effectively remittances are channelled into productive uses through sound policies and institutional frameworks.

Empirical Evidence

Empirical findings on the macroeconomic effects of remittances in Nigeria and beyond are mixed, reflecting the complexity of their impacts.

Empirical studies have examined the relationship between remittances and economic growth in various developing countries, highlighting both the positive and negative macroeconomic effects. Studies such as those by Loto and Alao (2016) suggest that remittances can have a long-term positive impact on economic growth. They find that remittance inflows are positively associated with GDP per capita in Nigeria, enhancing household income, stimulating consumption, and contributing to the development of human and physical capital. Similarly, Orumwense et al. (2025), using ARDL models, demonstrate that remittances have a statistically significant positive effect on GDP per capita in Nigeria. By fostering household investment in education, healthcare, and small businesses, remittances support local demand and stimulate overall economic growth.

However, the impact of remittances on Nigeria's broader macroeconomy is not without its challenges. Chami et al. (2019) highlight that while remittances can stabilise a nation's currency by increasing foreign exchange reserves, large and persistent inflows can also lead to currency appreciation. This phenomenon, often referred to as the "Dutch Disease," suggests that an appreciation of the national currency due to remittance inflows may reduce the competitiveness of a country's export industries, particularly in a resource-dependent economy like Nigeria, where oil exports dominate the economy. This currency appreciation makes locally produced goods more expensive on international markets, thereby undermining export competitiveness and hindering economic diversification (Giuliano & Ruiz-Arranz, 2020).

In addition to these exchange rate effects, the inflationary impact of remittances is another area of concern. Chami et al. (2019) argue that while remittances boost household consumption and reduce poverty, they also increase domestic demand, which may lead to inflationary pressures, especially in urban areas. In cities like Lagos and Abuja, where demand for non-tradable goods such as housing and transportation is more elastic, remittances can drive up prices, disproportionately affecting those who do not benefit directly from remittance inflows. This increase in the cost of living can undermine the poverty-reducing effects of remittances, as the real value of remittance funds may be eroded by inflation.

Despite these challenges, remittances continue to be a crucial component of the Nigerian economy, contributing to foreign exchange reserves, alleviating poverty, and promoting local economic development. However, existing research points to significant gaps that need to be addressed to harness the potential of remittances for sustainable growth fully. Notably, there is limited understanding of the sector-specific impacts of remittances, particularly in the context of Nigeria’s oil-dependent economy (Periola, 2025). Furthermore, the long-term sustainability of remittance-driven economic growth remains underexplored, especially in light of fluctuating global economic conditions and the volatility of remittance inflows. The role of remittances in promoting financial inclusion, particularly for women and marginalised communities, also warrants further investigation (Abokyi, 2023).

However, other evidence points to limitations and adverse effects. Ikwuagwu et al. (2024) reported that remittances exert a negative and significant impact on Nigeria’s long-term growth after controlling for inflation, exchange rates, and investment levels. This suggests that much of Nigeria’s remittance inflows are channelled into consumption rather than productive investment, supporting the arguments of Chami et al. (2019) that remittances often fail to generate sustainable development outcomes. Additionally, studies have shown that high volumes of remittances may contribute to exchange rate appreciation, reducing the competitiveness of Nigeria’s non-oil exports (Central Bank of Nigeria, 2024).

International studies further reinforce this duality. Acosta et al. (2009), analysing Latin American economies, found that remittances contributed to Dutch Disease effects, leading to real exchange rate appreciation and reduced export performance. Similarly, Barajas et al. (2010) highlight that remittances can create inflationary pressures by raising demand for non-tradable goods such as housing and food. In contrast, Adams and Cuecuecha (2010) show that remittances enhance investments in human capital and reduce poverty in multiple developing countries.

An emerging theme in the literature is the role of institutions and financial infrastructure in mediating the effects of remittances. For instance, limited access to formal financial services in Nigeria has led to widespread use of informal remittance channels, reducing the developmental impact of inflows (World Bank, 2020). High transaction costs and weak policy frameworks also limit the productive use of remittances. Conversely, reforms aimed at reducing costs, formalising remittance channels, and encouraging investment in productive sectors can amplify the benefits of remittances while minimising their risks (Central Bank of Nigeria, 2024).

The literature reveals that remittances play a complex role in shaping Nigeria’s macroeconomic landscape. At the microeconomic level, they clearly improve welfare, reduce poverty, and finance education, health, and small businesses. However, at the macroeconomic level, they can pose challenges to currency stability, inflation, and long-term growth. Theoretical perspectives such as Dutch Disease and dependency theory emphasise the risks, while NELM and neoclassical growth theory highlight their

developmental potential. Empirical evidence, both from Nigeria and abroad, confirms that the balance of outcomes depends heavily on policy frameworks, institutional effectiveness, and the extent to which remittances are channelled into productive uses.

METHODOLOGY

The methodology employed in this study is designed to investigate the macroeconomic effects of remittances on Nigeria's economic growth, currency stabilisation, and inflation dynamics. Given the multifaceted nature of remittance inflows and their varying impacts on different sectors of the economy, a mixed-methods approach has been adopted, combining both quantitative and qualitative data sources. This comprehensive methodology enables a robust analysis of the relationship between remittances and key macroeconomic indicators, while also providing insights into the household-level effects of remittances.

To begin with, a quantitative approach was used to assess the macroeconomic effects of remittances on Nigeria's GDP, exchange rates, and inflation. The analysis of secondary data, primarily from the Central Bank of Nigeria (CBN), the National Bureau of Statistics (NBS), and the World Bank, forms the backbone of this study. These data sources provide reliable and consistent annual data on remittance inflows, GDP growth, exchange rates, and inflation rates for the period spanning from 1980 to 2024. The data was analysed using econometric models, particularly the Autoregressive Distributed Lag (ARDL) bounds testing approach, which is well-suited for examining the long-run relationships between remittances and macroeconomic variables (Pesaran et al., 2001). The ARDL model has been widely used in empirical studies examining the relationship between remittances and economic growth, as it allows for the inclusion of both short-term and long-term dynamics (Chami et al., 2019). This model enables the investigation of how remittances influence Nigeria's GDP growth, inflationary pressures, and exchange rate fluctuations.

The first part of the analysis focuses on remittance inflows and their contribution to GDP. Previous studies have shown a positive relationship between remittances and economic growth, particularly in developing economies (Ratha et al., 2020). For Nigeria, the inflow of remittances can serve as a source of foreign exchange, boosting household consumption and investment in education, healthcare, and small businesses. In this study, the GDP growth rate is regressed against remittance inflows, controlling for other macroeconomic variables such as foreign direct investment (FDI), oil prices, and government expenditure. The model aims to determine whether remittances have a statistically significant and positive effect on Nigeria's economic growth.

The second aspect of the methodology examines the impact of remittances on currency stabilisation. Nigeria's economy is heavily reliant on oil exports, which have historically made the naira vulnerable to fluctuations in global oil prices. Remittance inflows, however, have been shown to provide a stabilising effect on exchange rates by increasing foreign exchange reserves (Giuliano & Ruiz-Arranz, 2020). The study employs an exchange rate model, in which the nominal exchange rate is regressed against remittances and other macroeconomic variables, including inflation and interest rates. The results of this analysis will shed light on whether remittances play a significant role in stabilising the naira, particularly during periods of global oil price volatility.

The third part of the study explores the inflationary effects of remittances. While remittances have been credited with boosting household income and reducing poverty, they can also lead to inflationary pressures, especially in urban areas where the demand for goods and services is more elastic (Chami et al., 2019). This study uses the Consumer Price Index (CPI) as a measure of inflation and regresses it on remittance inflows, alongside other control variables such as money supply and oil prices. The results are expected to provide insights into whether remittances contribute to inflationary pressures by increasing domestic demand for non-tradable goods, particularly in cities with high levels of remittance receipts.

In addition to the quantitative analysis, qualitative data were collected through semi-structured interviews with key stakeholders, including remittance recipients, local business owners, financial institutions, and policymakers. The purpose of these interviews is to gain a deeper understanding of how remittances are

used at the household and community levels, as well as to explore any challenges associated with remittance transfers, such as high transaction costs and limited access to formal financial services. Previous studies have indicated that high transaction costs and the use of informal channels can limit the developmental potential of remittances (Chami et al., 2019). The qualitative data collected through these interviews will complement the quantitative findings, providing a richer context for interpreting the results.

To analyse the qualitative data, a thematic analysis approach was employed, whereby key themes were identified from the interview transcripts. These themes included the impact of remittances on household welfare, the barriers to utilising remittances for productive investments, and the role of financial institutions in facilitating remittance transfers. Thematic analysis is an effective method for understanding the perspectives of stakeholders and identifying the challenges faced by remittance recipients in utilising these funds for long-term economic development (Braun & Clarke, 2006).

RESULTS

The results of the study provide an analysis of the impact of remittance inflows on Nigeria's economic growth, currency stabilisation, and inflation, addressing the primary objectives of the research. The findings suggest that remittances have a statistically significant positive effect on economic development, contributing to an increase in household income, consumption, and small-scale investment. The study also reveals the dual role of remittances in both stabilising and destabilising the Nigerian naira, depending on the magnitude and flow of remittance inflows. Furthermore, the results highlight the inflationary pressures associated with high remittance inflows, particularly in urban areas where demand for non-tradable goods is more elastic.

The first objective of the study, which is to examine the impact of remittance inflows on Nigeria's GDP, was addressed using econometric models that regressed GDP growth on remittance inflows, controlling for factors such as foreign direct investment (FDI), government expenditure, and oil prices. The results from the ARDL bounds testing approach showed a long-run positive relationship between remittance inflows and GDP growth in Nigeria. Specifically, a 1% increase in remittance inflows led to a 0.25% increase in GDP growth. This finding is consistent with previous studies that have demonstrated a positive association between remittances and economic development, particularly in developing countries where remittances constitute a significant share of national income (Ratha et al., 2020). The positive impact of remittances on GDP is likely driven by their contribution to household consumption, which stimulates demand for goods and services, as well as small business investments that foster local economic activities (Giuliano & Ruiz-Arranz, 2020).

Table 1 presents the descriptive statistics for the variables used in the analysis of the impact of remittance inflows on GDP growth. The table provides the mean, standard deviation, minimum, and maximum values for remittances, GDP growth, FDI, oil prices, and government expenditure over the study period (1980–2024). The table highlights the variation in remittance inflows, with a mean value of $8.5 billion and a maximum value of $24.8 billion, reflecting the significant role of remittances in the Nigerian economy.

Table 1: Descriptive Statistics for Key Variables

Variable	Mean	Standard Deviation	Minimum	Maximum
Remittance Inflows	8.5	4.2	2.3	24.8
GDP Growth (%)	3.2	1.5	1.0	6.3
FDI	2.1	1.2	0.5	5.8
Oil Prices ($/barrel)	60.0	15.2	40.5	110.3
Government Expenditure	10	2.3	6	15

In examining the second objective, which is to assess the relationship between remittance inflows and exchange rate fluctuations in Nigeria, the study used a model in which the nominal exchange rate was regressed on remittance inflows, oil prices, and inflation rates. The results indicated that remittance

inflows play a significant role in stabilising the naira by increasing foreign exchange reserves. However, the results also suggested that excessive remittance inflows can lead to an appreciation of the naira, which in turn can make Nigerian exports less competitive. Specifically, a 1% increase in remittance inflows was associated with a 0.15% appreciation in the nominal exchange rate. This finding supports the Dutch Disease hypothesis, which suggests that large inflows of remittances can contribute to currency appreciation, thereby reducing the competitiveness of the export sector (Giuliano & Ruiz-Arranz, 2020). In Nigeria, where oil exports dominate the economy, this effect is particularly concerning as it may undermine efforts to diversify the economy and promote non-oil exports.

Table 2 provides the results of the exchange rate model, illustrating the impact of remittance inflows on the nominal exchange rate. The table shows that remittances contribute to both the stabilisation and appreciation of the naira, with the effect being more pronounced during periods of high remittance inflows.

Table 2: Exchange Rate Model Results

Variable	Coefficient	t-Statistic	p-Value
Remittance Inflows	0.15	2.64	0.011
Inflation	0.09	1.83	0.072
Oil Prices	0.11	1.92	0.065

The third objective, which focuses on investigating the inflationary effects of remittance inflows, was addressed by analysing the relationship between the Consumer Price Index (CPI) and remittance inflows. The study found that remittances contribute to inflationary pressures, especially in urban areas, by increasing domestic demand. Specifically, a 1% increase in remittance inflows was found to lead to a 0.3% increase in the CPI, indicating that higher remittance inflows drive up the prices of goods and services. This result is consistent with Chami et al. (2019), who suggest that remittances can lead to inflation, particularly for non-tradable goods such as housing, transportation, and food. In cities like Lagos and Abuja, where remittance receipts are concentrated, the demand for these goods is highly elastic, exacerbating inflationary pressures and increasing the cost of living. The findings suggest that while remittances help reduce poverty by increasing household income, the inflationary effects can offset some of the benefits, particularly for those not receiving remittances.

Table 3 presents the results for the inflation model, showing the inflationary effect of remittance inflows on the CPI. The table confirms that higher remittance inflows contribute to increased demand and, consequently, rising prices in urban areas.

Table 3: Inflation Model Results

Variable	Coefficient	t-Statistic	p-Value
Remittance Inflows	0.30	3.45	0.004
Money Supply	0.20	2.56	0.015
Oil Prices	0.12	1.92	0.065

The qualitative interviews further corroborated these findings, with stakeholders emphasising that remittances are primarily used for consumption rather than investment in productive sectors. Interviewees noted that while remittances improve household welfare, they often do not lead to sustainable economic development, as the funds are typically directed toward immediate needs such as food, education, and healthcare. This pattern of consumption-driven remittances contributes to inflationary pressures, especially in urban areas, where the demand for non-tradable goods is more sensitive to price changes. Several interviewees also expressed concerns about the potential dependency created by remittances, with some suggesting that recipients become less inclined to engage in entrepreneurial activities or seek alternative sources of income. These qualitative insights align with the quantitative findings, reinforcing the notion that remittances, while beneficial in the short term, may pose challenges to long-term economic sustainability if not channeled into productive investments.

DISCUSSION OF FINDINGS

The discussion of findings provides an in-depth interpretation of the results, linking them to existing literature, highlighting key insights, and offering implications for policy and practice. This section addresses each of the primary research objectives and interprets the findings in the context of Nigeria's economic environment.

Impact of Remittance Inflows on Economic Growth

The study found a statistically significant positive relationship between remittance inflows and GDP growth in Nigeria. Specifically, a 1% increase in remittance inflows was associated with a 0.25 percentage point increase in GDP growth. This result aligns with the findings of Ratha et al. (2020), who argue that remittances contribute to economic growth by increasing household consumption and stimulating demand for goods and services. The positive impact of remittances on Nigeria's GDP is consistent with studies that have highlighted the role of remittances in supporting consumption and investment, particularly in the absence of sufficient local employment opportunities (Giuliano & Ruiz-Arranz, 2020).

However, while remittances do have a positive effect on GDP, this growth is largely consumption-driven. As noted in the qualitative interviews, a significant portion of remittance funds is directed toward meeting immediate household needs such as education, healthcare, and housing. While these expenditures improve living standards and reduce poverty, they do not always lead to productive investments that could foster long-term sustainable growth. This suggests that although remittances contribute to short-term economic growth, their potential to promote broader economic development is limited unless channelled into more productive uses, such as small-scale business investments or infrastructure development.

Remittance Inflows and Currency Stabilisation

The second objective of the study was to assess the relationship between remittance inflows and exchange rate fluctuations in Nigeria. The results indicated that while remittances contribute to stabilising the Nigerian naira by increasing foreign exchange reserves, they also have the potential to cause currency appreciation. A 1% increase in remittance inflows was associated with a 0.15% appreciation in the nominal exchange rate. This finding supports the Dutch Disease hypothesis, which suggests that large inflows of foreign currency—such as remittances—can lead to currency appreciation, thereby reducing the competitiveness of export industries (Giuliano & Ruiz-Arranz, 2020). In the Nigerian context, where the economy is heavily reliant on oil exports, this appreciation of the naira poses challenges for diversification efforts. The oil sector benefits from a strong currency, but other industries, such as agriculture and manufacturing, may face difficulties competing in global markets due to reduced price competitiveness.

Furthermore, the findings suggest that remittances have a dual role. In periods of economic instability or when oil revenues are volatile, remittances help stabilise the naira by providing a steady source of foreign currency. This is particularly important in Nigeria, where fluctuations in global oil prices often lead to large swings in exchange rates. Remittances thus act as a buffer against these shocks, providing a degree of economic stability. However, when remittance inflows are too high or persist for long periods, they may contribute to currency overvaluation, exacerbating the challenges of economic diversification.

Inflationary Effects of Remittance Inflows

The third objective of the study sought to investigate the inflationary effects of remittance inflows. The results indicated that remittances contribute to inflationary pressures, especially in urban areas. Specifically, a 1% increase in remittance inflows was found to lead to a 0.3% increase in the Consumer Price Index (CPI). This result is consistent with the findings of Chami et al. (2019), who note that while remittances boost household consumption, they can also increase demand for non-tradable goods, thereby pushing up prices, especially in urban areas with high concentrations of remittance recipients.

This inflationary pressure is particularly concerning for low-income households that do not receive remittances from abroad. As demand for goods and services rises, prices increase, eroding the purchasing power of individuals and exacerbating income inequality. In cities like Lagos and Abuja, where

remittance receipts are concentrated, the demand for non-tradable goods such as housing, transportation, and food becomes more elastic, leading to higher inflation rates. This phenomenon contributes to an increase in the cost of living, offsetting some of the poverty-reducing effects of remittances.

Moreover, the inflationary impact of remittances is more pronounced in economies with less diversified production sectors, such as Nigeria, where reliance on oil exports leaves the economy vulnerable to external shocks. As remittances boost demand in the absence of corresponding increases in domestic production, the resulting price increases can drive inflation, particularly for goods that are not easily imported or substituted.

Policy Implications and Recommendations

The findings of this study have several important policy implications for Nigeria. First, while remittances contribute to short-term economic growth, their long-term developmental potential can be maximised through targeted policy interventions. The government should implement policies that encourage the productive use of remittances, such as providing incentives for small business investments and promoting financial literacy programs that teach recipients how to use remittance funds for income-generating activities rather than consumption alone.

Second, while remittances help stabilise the naira in the short run, the appreciation effect observed in this study suggests that there is a need for policies that manage the flow of remittances more effectively. To mitigate the Dutch Disease effect, Nigeria could explore strategies to channel remittance inflows into productive sectors, such as agriculture and manufacturing, through the establishment of diaspora bonds, matched funding schemes, or tax incentives for remittance recipients investing in these sectors.

Finally, the inflationary pressures associated with remittance inflows call for careful monitoring and management of domestic demand. Policymakers should consider introducing measures to curb inflationary pressures, particularly in urban areas, where demand for non-tradable goods is more elastic. Such measures could include improving local production capacities and promoting import substitution to reduce reliance on imports, thereby mitigating the inflationary impact of increased demand driven by remittances.

CONCLUSION

The study highlights the complex and multifaceted role of remittances in Nigeria's economy. While they contribute positively to economic growth, currency stabilisation, and poverty reduction, remittances also present challenges related to currency appreciation, inflation, and dependency. Addressing these challenges requires a comprehensive approach that maximises the positive impacts of remittances while mitigating their potential adverse effects. By promoting the productive use of remittances, managing their inflows strategically, and addressing inflationary pressures, Nigeria can harness the full potential of remittances as a driver of sustainable economic development. Future research should further explore sector-specific impacts, long-term sustainability, and the role of remittances in financial inclusion, particularly for marginalised groups such as women and rural populations.

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