**Output growth, inflation and exchange volatility: Implication for economic stability**

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**Abstract**

Macroeconomic stabilization inconsistencies with output growth, inflation and exchange rate volatility has made the Nigeria economy susceptible to external shocks. Scholars with this opinion agree that it distorts optimal productivity capacity, induce volatility in domestic output, generate fluctuations in commodity prices, and increase the levels of debt with implication for the balance of payments. This study seeks to unveil the intricacies of these challenges and understand how they have made it unmanageable for policy makers to achieve output stabilization in the short-run and diversified self sustaining growth in the long-run. Consequently, this study seeks to investigate if there are causal effects emanating from the observed levels of output growth that influence the persisting rates of inflation and volatility in the rates of exchange. We adopted the vector autoregression (VAR) approach, to assess permanent shocks from macroeconomic stability; which was encapsulated in two forms. First, it was represented by budget deficits in order to deduce the impact of macroeconomic management in accordance with domestic policies and examine its influences on output growth. Secondly, it was captured by current account balance to measure how macroeconomic stability relates with international policies in order to cushion external shocks. Further, we test for the hypothesis of diagonal covariance and the symmetric covariance processes. Also, we examine the degree of own variance asymmetry exhibited by the variables in the model. This econometric technique was selected in order to ease the analysis of the related concepts of exogeneity and temporal precedence in association with the Granger causality. The variables in the model indicated various levels of statistical significance. The impulse response estimates were obtained and interpreted. The results disclosed that efforts by policy makers to strengthen the capacity for macroeconomic stability lack spontaneity and it does not foster internal and external shocks management in the economy. We establish that issues on macroeconomic stability are multidimensional and needs intensive policy monitoring to mitigate internal shocks, in order to put in place policies that are resilience to external shocks which will in turn propel the perceived sustainable growth strategies. Subsequently, we disclosed that inflationary shocks have implication for institutions of macroeconomic management, domestic organizations and foreign investors interested in the growth potentials of developing countries.

Key Words: Budget deficit, Current account, Macroeconomic policy, Inflation, Volatility, Vector autoregression models.

JEL Classification Code: C49, C51, E6, F52, F56, H60

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