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Effects of trade and financial openness on inflationary pressure in Nigeria

■ **Abstract.** The continuous rapid upsurge in inflationary pressure in Nigeria amidst the gradual liberalisation of the country's trade and financial market calls for questioning of the role of trade and financial openness in the inflationary trend in Nigeria, which makes the research on this issue relevant. The purpose of this study was to determine the effects of trade and financial openness on inflation in Nigeria. In the estimation of the model built to capture the objective of the study, the fully modified ordinary least squares was employed based on the data collected from the World Development Indicators covering the period of 1981 to 2023. The results showed that trade openness and exchange rate exerted a significant negative effect on inflation in Nigeria while exchange rate showed a significant positive effect. The study concluded that financial openness had a positive significant effect on inflation while trade openness and exchange rate exerted a significant negative effect. The need for government to review their foreign trade policies in such a way that the importation of both finished and intermediate goods and services from the rest of the world can be significantly reduced by boosting local production was recommended. The study offers two-folds contributions. It provides new information on the factors that determine inflation and it specifically shows the nexus among trade and financial openness. The findings therefore revealed that higher trade and financial openness raises inflation implying openness-induced inflation. The findings from the study will be of practical value to policy makers such as those in the fiscal authorities and the Central Bank of Nigeria in devising policies to tame the current inflationary pressure in Nigeria

■ **Keywords:** capital flows; trade liberalisation; financial liberalisation; fully modified least squares

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■ INTRODUCTION

Due to the persistency of inflation as an economic challenge in many countries with Nigeria inclusive, it has continued to be matter of concern for policymakers as it can introduce uncertainty that adversely affects economic growth. Furthermore, high inflation rates can have a detrimental effect on various aspects of the economy, from production and resource distribution to international relations (Guender & McHugh-Smith, 2023; Nguyen *et al.*, 2023). It can erode the purchasing power of money, create uncertainty in financial markets, and impede long-term economic planning. Understanding the determinants of inflation volatility and its relationship with trade openness is vital for policymakers and researchers alike. Thus, it is necessary to delve into the impact of inflation on the Nigerian economy.

In the literature, several authors have explored the link among trade, financial openness, and inflation. For example, C. Lidiema (2020) investigates the relationships between trade openness, crude oil prices, and food inflation in Kenya. The author employs the autoregressive distributed lag (ARDL) model to estimate both short- and long-run effects between the variables. The finding indicates the existence of long-run relationships. The study's empirical results indicate that trade openness significantly reduces food inflation, affirming the presence of Romer's hypothesis in Kenya. In contrast, crude oil prices are found to exert a positive and significant influence on food inflation. It is interesting, that the study did not find a significant impact of money supply on food inflation. P.-C. Lin *et al.* (2020) explores the relationship between trade openness and inflation in different monetary regimes. The authors utilize an endogenous switching regression model. In nations that employ a flexible exchange rate system and lack widespread adoption of information technologies (IT), the degree of openness in trade exerts a notable adverse influence on inflation. In contrast, within countries that have integrated information technology, the level of trade openness does not demonstrate a statistically significant influence on inflation. This divergence between the effect of trade openness and inflation is predominantly observed in developing countries with a flexible exchange rate system, not in developed nations. The impact of financial openness on inflation is positive in developing countries without IT, but not significant in developing countries with IT. Trade openness is associated with reduced inflation volatility in countries without IT, regardless of their development status.

A. Khana *et al.* (2021) investigates the effects of trade and financial openness on financial development in the Gulf Cooperation Council region. The research utilizes a dataset encompassing 43 Islamic and 49 conventional banks, spanning the years 2007 to 2015. The study's empirical findings indicate that trade and financial openness have a positive effect on the profitability of both banks. However, the interaction term of openness is negative for the profitability of Islamic banks, suggesting that excessive financial openness reduces their profitability. Trade and financial openness affect Islamic banks differently, with trade openness decreasing the loan volume of Islamic banks. Conversely, the interaction effect of trade and financial openness is positive, indicating that Islamic banks are positively affected. Similarly, M.N. Nasrat (2020) investigate the relationship between trade openness and inflation in six South

Asian countries from 1980 to 2016. The study employs panel data analysis, specifically fixed effects and random effects models. The research findings indicate a significant and positive effect of trade openness on the inflation rate in the selected South Asian countries. This outcome is contrary to Romer's hypothesis, which suggests a negative relationship between trade openness and inflation.

Although the previous studies have documented the relationship among these variables, the specific mechanism through which trade affects inflation remains unclear specifically as it relates to how both trade and financial openness affect inflation in Nigeria, considering the country's specific dynamics in this context. The goal of this study was to investigate the nexus among trade, financial openness and inflation in Nigeria. The specific objectives were: to analyse the trend of trade, financial openness and inflation in Nigeria; to evaluate the effect of trade on inflation in Nigeria; to evaluate the effect of financial openness on inflation in Nigeria.

■ MATERIALS AND METHODS

This study employed an ex-post facto research design, which is a type of quasi-experimental study used to explore how an independent variable, existing before the study, impacts a dependent variable. To unravel the effect of trade openness on inflation in Nigeria, as stated in the research objectives, this study adopted a model used in prior research conducted by O.E. Ada *et al.* (2014). In this current study, the model was adjusted to make inflation the dependent variable, with trade openness, capital flow, and exchange rate as the explanatory variables, aligning with the study's objectives and simplifying the analysis. The model formulated for this study in a fictional relationship is stated as follows:

$$INF = F(TOP, CFL, EXR), \quad (1)$$

where *INF* is inflation; *TOP* is trade openness measured by [exports + imports/(gross domestic product)]; *CFL* is capital flow; *EXR* is exchange rate; and *F* is functional identifier. The transformation of the functional relationship gives:

$$INF = \beta_0 + \beta_1 TOP + \beta_2 CFL + \beta_3 EXR + e, \quad (2)$$

where β is the slope coefficient of the explanatory variables. The theoretical positions on the expected signs of parameters of the variables are highlighted as shown below. Trade openness is expected to exert a negative effect on inflation in Nigeria. That is:

$$\frac{\partial INF}{\partial TOP} < 0, \quad (3)$$

where ∂ is partial derivative identifier. In line with theoretical position capital flow is expected to exert a negative effect on inflation in Nigeria. Given as:

$$\frac{\partial INF}{\partial CFL} < 0. \quad (4)$$

In line with theoretical position, exchange rate is expected to exert a negative effect on inflation in Nigeria. That is:

$$\frac{\partial INF}{\partial EXR} > 0. \quad (5)$$

Considering the nature of the models used in this research, it is essential to have access to data that allows for the estimation of the stochastic equations. The dataset used in this study covers the period from 1981 to 2023 and was sourced from reputable database, specifically the Central Bank of Nigeria Statistical Bulletin (n.d.). In the estimation process, this study employs the fully modified ordinary least squares (FMOLS) approach. The choice of FMOLS as the estimation technique was made because this method adapts the ordinary least squares to take care of serial correlation effects and the endogeneity in the independent variables due to the prevalence of cointegration in the data. In the process of analysing and estimating the model, this study employs several evaluation methods. These include a priori criteria, statistical tests,

such as the Jarque-Bera test for normality, examinations for multicollinearity, and trend analysis facilitated by the use of line graphs. These methods collectively contribute to the comprehensive assessment and understanding of the estimated model's validity and outcomes.

■ RESULTS AND DISCUSSION

The focus here was on investigating how trade, financial openness, and related factors influence inflation in Nigeria, utilizing quantitative data analysis. In the section, as a preliminary evaluation, the result of the Jarque-Bera tests of normality for the descriptive analysis of the dataset with the aim to ascertain the nature of the distribution of the variables in the model are presented as follows (Table 1).

Table 1. Descriptive statistics

	<i>INF</i>	<i>TOP</i>	<i>CFL</i>	<i>EXR</i>
Mean	18.94662	0.399350	1.440092	115.6556
Median	12.94178	0.360670	1.078745	114.8990
Maximum	72.83550	1.067601	5.790847	425.9792
Minimum	5.388008	0.162482	-0.039130	0.617708
Standard deviation	16.45496	0.182918	1.242847	119.1827
Skewness	1.877082	1.571041	1.737520	1.025345
Kurtosis	5.437063	6.142320	6.157231	3.230143
Jarque-Bera	35.05778	34.55701	38.57702	7.452019
Probability	0.000000	0.000000	0.000000	0.024089
Sum	795.7582	16.77271	60.48388	4857.537
Sum square deviation	11101.40	1.371813	63.33140	582385.6
Observations	42	42	42	42

Source: created by the authors

As shown in Table 1, the descriptive analysis indicates that Nigeria's inflation rate, on average, stood at nearly 19% over this time frame. The minimum and maximum values exhibited substantial variation, ranging from 5.39% to astounding 72.84%. This suggests that Nigeria's economy experienced considerable price fluctuations during the last four decades. The standard deviation of 16.45% indicates a moderate level of volatility in inflation rates. The positive skewness (1.88) and kurtosis (5.44) values reveal a right-skewed distribution with heavy tails, implying the presence of high inflation periods. The Jarque-Bera statistic of 35.06 and a probability of 0.00 suggest that the inflation data does not adhere to a normal distribution. Such significant variations in inflation rates are indicative of economic instability and pose a challenge to maintaining the purchasing power of the currency.

The mean trade openness of 0.40 underscores Nigeria's relatively open economy. The range of trade openness, from 0.16 to 1.07, showcases fluctuations in the nation's trade engagement. The standard deviation (0.18) points to moderate volatility, while a positive skewness (1.57) and kurtosis (6.14) signify a right-skewed distribution with heavy tails. The Jarque-Bera statistic of 34.56 and a probability of 0.00 highlight the deviation from a normal distribution. This result suggests that maintaining a relatively open economy is crucial for economic growth

and diversification, but it also exposes Nigeria to external economic factors. The average capital flows were 1.44, signifying a moderate level of capital inflow and outflow. Capital flows ranged from -0.04 to 5.79, indicating substantial fluctuations. The standard deviation of 1.24 demonstrates moderate volatility. Positive skewness (1.74), high kurtosis (6.16), and a Jarque-Bera statistic of 38.58 with a probability of 0.00 suggest non-normal distribution of capital flows data. The substantial fluctuations in capital flows can impact the investment climate and overall economic stability.

The mean exchange rate was 115.66 Naira to the US Dollar, reflecting the average Naira value. Exchange rates ranged widely from 0.62 to 425.98, indicating substantial fluctuations. A high standard deviation of 119.18 underscores significant volatility. Positive skewness (1.03) and a kurtosis of 3.23 suggest a right-skewed distribution with less pronounced tails. The Jarque-Bera statistic of 7.45 and a probability of 0.02 reveal some deviation from a normal distribution. This suggests that Nigeria's sensitivity to external factors like oil price fluctuations and foreign exchange reserves requires careful management. As illustrated in Table 2, the negative correlation between inflation rate and trade openness suggests that as trade openness increases, inflation tends to decrease. This could be due to increased competition from foreign markets, which can lower prices.

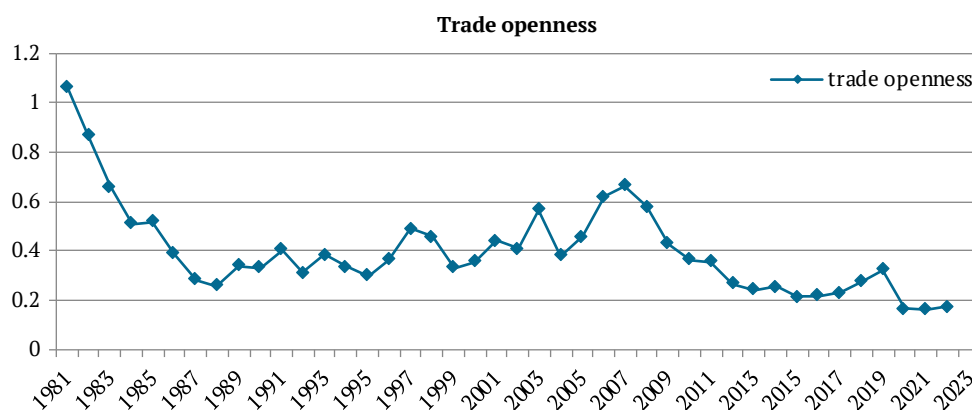
Table 2. Correlation analysis

	<i>INF</i>	<i>TOP</i>	<i>CFL</i>	<i>EXR</i>
<i>INF</i>	1.000000	-0.148496	0.447226	-0.289572
<i>TOP</i>	-0.148496	1.000000	-0.006144	-0.494094
<i>CFL</i>	0.447226	-0.006144	1.000000	-0.241304
<i>EXR</i>	-0.289572	-0.494094	-0.241304	1.000000

Source: created by the authors

On the other hand, the positive correlation between inflation rate and capital flows indicates that when capital flows into the country, inflation tends to rise, possibly due to increased demand for goods and services. The negative correlation with exchange rate means that a stronger exchange rate is associated with lower inflation. Trade openness shows a negative correlation with both inflation rate and capital flows. A decrease in trade openness is associated with higher inflation, possibly indicating that protectionist trade policies can lead to rising prices. The negative correlation with capital flow suggests that reduced capital inflows can lead to increased trade protectionism. The strong negative correlation with the exchange rate means that a stronger exchange rate is linked to reduced trade openness, possibly due to reduced export competitiveness. Capital flows have a positive correlation with inflation rate, indicating that increased capital inflows can contribute to

higher inflation. The negative correlation with trade openness suggests that when trade openness declines, capital flows will increase, possibly due to investors seeking higher returns in a less open economy. The negative correlation with the exchange rate suggests that a stronger exchange rate is linked to reduced capital flows, possibly due to a less attractive investment environment. The exchange rate shows negative correlations with all other variables. A stronger exchange rate is associated with lower inflation, reduced trade openness, and fewer capital flows. This could be due to a strong currency making exports more expensive and imports cheaper, which may negatively impact trade and capital inflows. In conclusion, it's important to note that there is no potential multicollinearity in the dataset, as several correlation coefficients are far or below the 0.8 rule of thumb for multicollinearity. The trend of trade openness in Nigeria is shown below (Fig. 1).

**Figure 1.** Trend of trade openness in Nigeria, 1981-2022

Source: created by the authors

The trend of trade openness shown in Figure 1 demonstrates that in 1981, Nigeria's trade openness was relatively high at 1.067601, indicating that a significant portion of its economic activity was linked to international trade. However, over the years, this figure declined steadily, with a few fluctuations along the way. By 1987, trade openness had dropped to 0.284864, reflecting a significant reduction in Nigeria's reliance on global trade. The late 1980s and early 1990s saw a modest recovery in trade openness, reaching 0.403917 in 1991, but it then declined again. The subsequent years witnessed fluctuations, with the figure oscillating between 0.25 and 0.45. There was a notable dip in trade openness in 2009, possibly due to the global economic crisis, and it gradually recovered but remained

relatively modest until 2013. From 2014 to 2018, there was some stability, with trade openness staying around 0.25 to 0.33. The years 2019 to 2020 saw an increase, suggesting a slight resurgence in international trade activity. However, in 2020, there was a sharp decline to 0.167631, indicating a significant reduction in trade openness, which could be attributed to various factors, including the COVID-19 pandemic, which disrupted global trade. In 2021 and 2022, trade openness remained at a low level, with values of 0.162482 and 0.1743, respectively. These low values might be influenced by ongoing global challenges and Nigeria's economic circumstances. As shown in Figure 2, from 1981 to 1987, Nigeria experienced high inflation rates, peaking at 54.51122% in 1988.

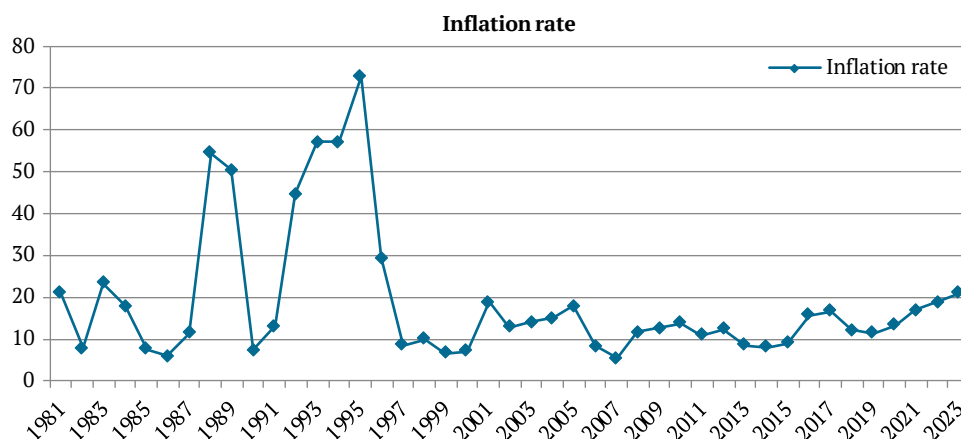


Figure 2. Trend of trade inflation in Nigeria, 1981-2023

Source: created by the authors based on World Development Indicators (2023)

These high inflation rates during this period indicate a period of economic instability. High inflation erodes the purchasing power of the currency, making it more challenging for people to afford basic goods and services. In the late 1980s and early 1990s, inflation rates continued to be relatively high, with a peak of 57.16525% in 1993. These high inflation rates were indicative of a lack of economic stability and could have been driven by factors such as government mismanagement, fiscal deficits, and economic uncertainties. From the mid-1990s to the early 2000s, there was a gradual decline in inflation rates, with a few fluctuations. However, inflation rates remained in the double digits, indicating that Nigeria was still grappling with inflationary pressures. The period from 2007 to 2016 saw relatively lower inflation rates, which could be attributed

to more stable economic conditions, better fiscal management, and prudent monetary policies. However, inflation rates started rising again from 2016, reaching 16.95285% in 2021 and 18.84719% in 2022. This recent surge in inflation rates from 2016 to 2022 could be influenced by various factors, including currency devaluation, supply chain disruptions, and fiscal deficits.

In conclusion, the historical trend of inflation rates in Nigeria reveals a history of economic instability and fluctuation. Recent years, specifically between 2016 and 2022 have seen resurgence in inflation, and addressing this issue is crucial for maintaining economic stability, ensuring the well-being of the population, and attracting investments. The estimates of the ordinary least square regression are presented in Table 3.

Table 3. FMOLS regression estimates

Dependent variable: LOG(INF)				
Variable	Coefficient	Standard error	t-statistic	Probability
TOP	-1.695081	0.705493	-2.402692	0.0214
CFL	0.231360	0.075583	3.061000	0.0041
LOG(EXR)	-0.165877	0.055038	-3.013850	0.0046
C	3.674268	0.419603	8.756534	0.0000
R-squared	0.630536			
Adjusted R-squared	0.576255			
Long-run variance	0.345726			

Source: created by the authors

The negative coefficient of trade openness -1.695081 suggests an inverse relationship between trade openness and inflation. In simpler terms, as the degree of trade openness increases, inflation tends to decrease. This is an interesting finding that aligns with economic theory. When a country opens up to international trade, it often experiences heightened competition, leading to lower prices for consumers. This result means that as Nigeria engaged more with global markets, there was an inhibiting effect on inflation. Moreover, the relatively large magnitude of the coefficient indicates that changes in trade openness have a significant effect on inflation in Nigeria. Importantly, the statistical significance at the 5% level (p -value: 0.0214) assures us that this negative relationship

is not merely the result of random fluctuations but carries economic meaning.

The positive coefficient of capital flows 0.231360 implies a positive relationship with inflation. In other words, when capital flows increase, inflation tends to rise. This outcome can be understood through the lens of economics as well. When foreign capital flows into a country, it often stimulates investment and spending, which can drive up prices. This suggests that increased capital inflows in Nigeria during the study period contributed to higher inflation there. The size of the coefficient is of average magnitude, indicating that changes in capital flows have a moderate effect on inflation. Nevertheless, the fact that this coefficient is statistically significant at the 5%

level (p -value: 0.0041) signifies that this relationship is not random but carries economic importance.

Finally, considering the Exchange Rate, the negative coefficient of -0.165877 reveals an inverse relationship between the exchange rate and inflation. In practical terms, when the exchange rate is stronger, inflation tends to be lower. A stronger currency makes imports cheaper, potentially reducing inflationary pressures. The average magnitude of the coefficient implies that exchange rate changes have a moderate impact on inflation. Additionally, its statistical significance at the 5% level (p -value: 0.0046) emphasizes that this relationship is not a random occurrence but rather a significant factor. In conclusion, this regression model with an R -squared value of 0.630536 suggests that these variables – trade openness, capital flows, and exchange rate – together account for a significant portion of the variation in inflation in Nigeria.

The result of the analysis as presented in the previous sections revealed that there is a significant inverse relationship between trade openness and inflation implying that as the degree of trade openness increases, inflation tends to decrease. This means that as Nigeria engaged more with global markets, there was an inhibiting effect on inflation. Also, it was found that capital flows have a significant positive relationship with inflation implying that as capital flows increases, inflation tends to rise. Finally, the study established a significant inverse relationship between exchange rate and inflation implying that when the exchange rate is stronger, inflation tends to be lower but weaker exchange rate as in the case of Nigeria is associated with higher inflation.

The findings of the analysis align with existing studies. The study's finding that increased trade openness is associated with decreased inflation is supported by M.N. Nasrat (2020), who emphasizes the transformative impact of economic globalization on countries. According to him, trade openness, characterized by reduced trade barriers and increased cross-border trade, is a fundamental aspect of globalization. While there is a consensus that trade openness brings economic benefits, the researcher notes that it also affects inflation rates. The study aligns with this perspective, suggesting that as Nigeria engages more with global markets, there is an inhibiting effect on inflation. It also corroborates the findings of K. Ben Jedidia *et al.* (2019) and X. Yang & M.N. Shafiq (2020) that trade openness has a negative effect on the economy.

In contrast, C. Raghutla (2020) and H. Becha *et al.* (2023) established a positive effect of trade openness on the economy. The result is supported by M. Chhabra & Q. Alam (2020) findings on the relationship between trade openness and inflation in India from 1974 to 2016. The authors employed the ARDL model with a bounds testing approach to co-integration. The findings of the study revealed that there is a positive relationship between inflation and trade openness in India. This contradicts Romer's hypothesis, which suggests an inverse association between trade openness and inflation. Similarly, the study conducted by T.G.E. Elhassan (2020) on the asymmetric impact of trade openness on inflation in Sudan during the period from 1970 to 2018 also gave credence to the study findings. The research applies the nonlinear auto-regressive distributive lag (NARDL) model. The findings reveal an asymmetric

impact of trade openness on inflation in Sudan. Positive shocks in openness, both in the short and long terms, result in an increase in the inflation rate. Conversely, negative shocks in openness in the short term lead to a decrease in the inflation rate. However, negative shocks in openness in the long term do not have a significant effect on the inflation rate.

The study's identification of a positive relationship between capital flows and inflation is substantiated by A. Khana *et al.* (2021). They discuss how higher financial openness, including increased capital flows, can introduce external funding sources but also pose risks. They point out that in scenarios where banks lower credit standards and increase financing, overall bank risk may rise, potentially reducing stability. This aligns with the study's finding that as capital flows increase, inflation tends to rise, indicating potential challenges associated with external funding and its impact on inflation. This finding also corroborates the findings of T.Y. Hong & D.H.A. Ali (2020) and D.-H. Kim & S.-C. Lin (2023) that capital flows and inflation have a positive relationship.

The study's conclusion regarding the inverse relationship between exchange rates and inflation finds support in the context of Nigeria's economic liberalization efforts. A. Sule *et al.* (2023) noted that Nigeria has been moving towards greater economic liberalization and openness, including reducing restrictions on capital flows. As the exchange rate strengthens, the study suggests that inflation tends to be lower, while a weaker exchange rate, as observed in Nigeria, is associated with higher inflation. This is consistent with the challenges posed by increased openness, capital flows, and fluctuations in inflation rates in the country. This result also corroborates the findings of E. Özen *et al.* (2020), Y. Turna & A. Özcan (2021) and R.S. Gürkaynak *et al.* (2023) that exchange rate and inflation have a positive relationship. A. Watson (2016) notes that increased competitive pressure amplifies the relevance of the price ratio between imported and domestic goods when determining domestic inflation.

To mitigate the vulnerability of Nigerian economy, trade policies should incentivize the growth non-oil sectors such as agriculture, manufacturing, and technology that can contribute to a more resilient and balanced export portfolio, including providing export subsidies, reducing trade barriers, and facilitating access to global markets. Also, the government can employ strategic tariff and import policies to regulate the inflow of goods and services to protect domestic industries while ensuring that essential goods remain affordable. Additionally, the government can consider using tariff revenues to fund strategic sectors or provide support to industries vulnerable to international competition. To manage speculative capital flows, Nigeria can consider implementing targeted capital controls and prudential measures. These may include restrictions on short-term capital inflows, reserve requirements on foreign currency deposits, and regulatory measures to discourage speculative activities in financial markets. These controls aim to stabilize financial markets and prevent abrupt movements in capital that could disrupt the overall economy. The Securities and Exchange Commission and the Central Bank should collaborate to monitor and regulate financial instruments, ensuring that they align with the broader economic goals. Periodic reviews of capital market

regulations and the introduction of measures to prevent market manipulation can contribute to a stable financial environment. These policy measures could contribute to more stable inflation in Nigeria.

■ CONCLUSIONS

This study explored the effect of trade and financial openness on inflation in Nigeria. The motivation for this study is the continued rapid upsurge in inflationary pressure in Nigeria amidst the continued gradual liberalization of the country's trade and financial market which call for questioning the role of trade and financial openness in the inflationary trend in Nigeria. To establish the effect of trade and financial openness in the inflation in Nigeria, time series data collected from World Development Indicators over the period of 1981 to 2023 was analysed using the FMOLS estimation technique. The study from the result submitted that the increasing trend of openness in Nigeria contributes to the high level of inflation, potentially due to imported inflation. This suggests that as the country opens up to international trade, the heightened competition leads to high inflationary pressure. Similarly, capital flows were also found to mount upward pressure on inflationary trend in the country while as Naira exchange rate depreciates, the level of inflation reduces. Thus, this result suggests the need for serious caution in the area of liberalisation of trade and financial market due to the negative implication of such policy on inflationary trend in Nigeria.

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This calls for the need for regulation of the flow of trade and foreign capital in Nigeria in a way that will minimise the inflationary pressure.

To address this issue, the study recommends implementing non-monetary and non-fiscal measures to control inflation, such as increasing production volume, implementing rationing policies, and enhancing the managerial and financial systems. Additionally, reducing dependence on oil and exploring alternative energy sources like renewables could help mitigate the impact of external oil shocks resulting from international trade. To contribute valuable insights to the ongoing discourse on the effect of trade and financial openness on inflation further studies can assess the impact of trade diversification policies on Nigeria's economic resilience and inflation dynamics; investigate how specific trade policies, such as export subsidies or preferential trade agreements, influence the diversification process, and investigate the role of capital controls and prudential measures in managing speculative capital inflows. They can also evaluate the effectiveness of these policies in promoting sustainable economic growth, reducing dependency on oil, and controlling inflation.

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■ CONFLICT OF INTEREST

None.

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Вплив торговельної та фінансової відкритості на інфляційний тиск в Нігерії

■ **Анотація.** Тривале стрімке зростання інфляційного тиску в Нігерії на тлі поступової лібералізації торговельного та фінансового ринку країни змушує поставити під сумнів роль торговельної та фінансової відкритості в інфляційному тренді в Нігерії, що робить дослідження цього питання актуальним. Метою даної роботи було визначення впливу торговельної та фінансової відкритості на інфляцію в Нігерії. Для оцінки побудованої для досягнення мети дослідження моделі було використано повністю модифікований метод найменших квадратів на основі даних Індикаторів світового розвитку, що охоплюють період з 1981 по 2023 рік. Результати показали, що відкритість торгівлі та обмінний курс мали суттєвий негативний вплив на інфляцію в Нігерії, тоді як обмінний курс мав значний позитивний вплив. Дослідження показало, що фінансова відкритість мала значний позитивний вплив на інфляцію, тоді як відкритість торгівлі та обмінний курс мали значний негативний вплив. Уряду рекомендовано переглянути свою зовнішньоторговельну політику таким чином, щоб імпорт як готових, так і проміжних товарів та послуг з інших країн світу міг бути значно зменшений за рахунок стимулювання місцевого виробництва. Дослідження надає подвійний внесок. Надано нову інформацію про фактори, що визначають інфляцію, і конкретно показано зв'язок між торгівлею та фінансовою відкритістю. Таким чином, результати дослідження показали, що вища торговельна та фінансова відкритість призводить до зростання інфляції, що означає інфляцію, спричинену відкритістю. Результати дослідження матимуть практичну цінність для політиків, таких як працівники фіскальних органів та Центрального банку Нігерії, при розробці політики, спрямованої на стримування поточного інфляційного тиску в Нігерії

■ **Ключові слова:** потоки капіталу; лібералізація торгівлі; фінансова лібералізація; повністю модифікований метод найменших квадратів