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ECONOMIC GROWTH IN OIL-EXPORTING AFRICAN COUNTRIES: THE INTERPLAY OF EXCHANGE RATE VOLATILITY AND INSTITUTIONAL QUALITY

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Abstract
The paper examined impact of exchange rate volatility on economic growth of oil-exporting African countries (OEACs) and moderating impact by institutional quality. It seeks to improve on the knowledge gap in the literature about governance moderating volatility-growth relationship in resource-dependent African economies where literature has hitherto focused on developed or emerging economies. Using Ex-post facto survey to enrich data source, the study discovered that exchange rate volatility affects growth negatively in the short-run but positively in the long-run because of increased competitiveness in exports. Institutional quality negatively directly affects growth, but positively moderates growth in the long run by lessening the negative effects and by means of increase in the effect of volatility due to increased policy implementation and stability. The article concludes that volatile institutions transform volatility into growth opportunities. The policy makers should accord priority to reform of governance, diversification of the economy, as well as selective exchange rate interventions, to ensure long-term stability.

Keywords: Economic growth, Oil Exporting African Countries, Exchange rate.

JEL Classification Codes: E44, O43, Q37.

Introduction

The fluctuating nature of currency rate is a major problem in the economic outlook of the oil-exporting African nations – OEAC. This partly due to volatile global oil prices, which constitute sources of foreign cash and government revenue. Countries like Nigeria, Angola, and Algeria are highly dependent on oil for foreign cash and government revenue. Such dependencies make them vulnerable to external shocks (Lal et al., 2023), Fluctuations in foreign exchange rates disturb trade balances, result in irregular fiscal policies, complicate

monetary policies that hinder economic growth. It is very important for an OEAC to know the cause of exchange rate fluctuation, countries that rely on oil and gas suffer direct impact from changes in oil prices, as exports yield foreign currency receipts, which change the supply of foreign currency. In 2023, when oil prices fell temporarily due to the global shifting of supply chains (Hakim, 2024), a sharp depreciation in the rate of the currency was often seen. As a result, inflationary pressure increased, and the purchasing power of consumers dropped. As the enterprises incur higher costs of imported items, this puts into question the repatriation of profits. It likely disrupts budgeting in the public sector and investments in the private sector, however, not all OEACs have the same type of instability.

The current expectation is that strong institutional frameworks will make countries with better governance systems, such as Ghana, more resilient to economic shocks than countries with worse governance systems, such as South Sudan (Agyemang et al., 2023). The difference in outcomes highlights how institutions like central banks, fiscal agencies, and regulators affect economic performance, especially during periods of exchange rate volatility (Munzhelele, 2024). Institutions signify the underlying or fundamental capacity of a nation to survive and respond to external shocks. Top institutions set up frameworks that are transparent and accountable to keep the negative effects of exchange rate volatility to a minimum. In response to the falling oil price, central banks can use monetary policies as a means to stabilize the currency. They can reduce or maintain interest rates or interfere in the FX market (Hakim, 2024). The IMF Report of 2022 showed that the central bank of Angola cut the exchange rate volatility by 15 percent through interventions during the oil price crash in 2020, this instilled confidence in the economy (Odhiambo et al., 2023). Similarly, by allocating oil revenues to sovereign wealth funds and spreading spending, fiscal institutions may alleviate volatility. The implementation in OEACs shows a large variation because of the institutional capabilities. Investors' trust is created by efficient institutions and they create smokescreens to draw in foreign direct investment (FDI) even in difficult situations (Boubacar et al., 2024). Fragile institutions, conversely, worsen destabilizing effects of exchange rate fluctuations. In countries with poor governance, like South Sudan, unstable exchange rates cause capital flight, inflation and constrain growth potential. Bashir and Ibrahim (2024) noted that the GDP of South Sudan dropped by 3.2% in 2023. Experts have attributed the drop in GDP to rampant currency devaluation and ineffective monetary regime. Other Oil-Exporting African Countries with weak institutional set-ups is indicated by indeed this trend as shown in South Sudan. Angola, Nigeria and Republic of Congo. Their economy impacted negatively due to fluctuations in the foreign exchange rate and poor quality of institutions. The Nigerian currency is falling which is going to throw inflationary challenges as it will with the poor budgetary discipline as well as the poor transparency in the foreign exchange allocations. The economy of Angola is also heavily dependent on oil proceeds with poorly developed financial institutions that make it expose to outside shocks and exchange rate fluctuations.

In these cases, institutional quality is lacking. Weaken monetary and fiscal policies effectively construed the possibility of policies to work. It also have high chances of speculative attacks. The rise and fall of foreign exchange shows the imbalances and to some extent excess institutional weaknesses that prevent real change. OEACs aims to establish solid institutional setups that will help them address exchange rate fluctuations and mitigate the adverse economic impacts that arise from the fluctuations in currency exchange rates. Corruption, rule of law and bad quality regulatory frameworks make the economy vulnerable so that it becomes incapable of implementing and stabilizing policies. The

efficiency of institutions is thus not only a bulwark of the long-term resilience of OEACs. The World Bank in 2023 noted that the institutional weaknesses of OEACs may account for as much as 40% of the growth losses from the commodity price shocks (Munzhelele 2024). Thus, understanding how institutions affect the volatility-growth relation is vital for policies that address structural weaknesses. The structural problems which are responsible for the underdevelopment and resource reliance persist. Fluctuations in exchange rates are interconnected and can significantly influence institutional quality. Research has been done on exchange rate volatility and economic growth. But there are reasons to believe that not much is known about how institutional quality mediates this relationship in oil-exporting African countries. While the current literature examines the interaction between inflation, trade and exchange rate volatility, the effect of governance and institutional strength on economic stability has been overlooked. Most studies emphasize only developed and emerging economies. Thus, there is a lack of understanding on how OEACs and the like manage currency volatility and economic resilience. For the purposes of this study, we want to proof whether institutional quality mediates the connection between exchange rate volatility and economic growth within these economies.

Literature Review

The aim of this study is to investigate the relationship between volatility of exchange rate, institutional quality and economic growth in Oil-Exporting African Countries (OEACs) using different key economic theories. The endogenous growth theory indicates that long-term economic growth will be driven by internal factors like human capital, innovation and institutions. Romer (1986) and Lucas (1988) suggested that the growth process is sustained by policy tools, technological progress and institutional structures. The oil exporting economies that face external shocks need a strong institutional set up that will convert the resource wealth into long term development. In other words, the quality of the institutions is what makes investment efficient and enforcement of policies effective. It brings better performance economic. The Exchange Rate Uncertainty and Investment Theory states that variations in the exchange rate have negative effects on investments and trade. The unpredictable changes in the exchange rate increase the risk associated with trading on foreign markets. It raises the cost of foreign direct investment and misleads macroeconomic planning. The international oil price and foreign exchange earnings are very closely related to the national revenue of oil-exporting economies. Exchange rate fluctuations of oil-exporting economies can thus make their national revenues erratic which further creates inflation and lack of confidence amongst the investors.

According to Donald North's Institutional Theory (1990), both formal institutions (legal systems and monetary authority) and informal institutions (norms and methods of governance) influence economic outcomes. Institutions affect how resources are distributed, how policies are implemented, and how economic agents make choices based on incentives. In the case of OEACs, the lack of appropriate institutional frameworks may amplify the negative effects of external shocks, such as exchange rate changes, due to the inability of the government to act. On the other hand, the major institutions can help reduce this effect through transparency, legitimacy of policies, and more stable policy resistance. These theories show that institutions need to be of good quality for the exchange rate stability to have an effect on economic growth. The institutions and effectiveness of OEACs are very important for them to cope with external shocks and achieve sustainable growth.

Empirical Review

Ullah et al. (2024) studied the moderating effect of regulatory quality on financial development and economic growth and economic volatility in developed and developing countries. The impactful finding revealed how high-quality regulations can foster banking growth and volatility reduction in developed economies while having a ringing effect over developing nations through the Panel Corrected Standard Errors and GMM. In developing economies, regulatory frameworks should be made stronger by making incremental improvements. According to Chowdhury et al. (2024), between 2002 and 2020, they examined 133 nations utilizing dynamic GMM, as well as panel threshold regression, to determine the threshold impact of institutional quality linking sovereign debt and macroeconomic stability. They discovered that debt hindered macroeconomic stability, whereas high-quality institutions mitigated that impact and facilitated improved debt management. In short, institutional improvements increase the effectiveness of managing the government debt. Tran and Nguyen (2021) used quantitative regression analysis to assess institutional quality and economic growth in 48 Asian countries between the years 2005 and 2018. Researchers discovered that the quality of institutions significantly increased growth, particularly in low income countries but noted a non-linear relationship as there was a threshold after which further enhancements in the quality of institutions did diminishes growth. The study suggested equality-related institutional change. Omotayo and et al (2023) investigated the influence of institutional quality on exchange rate volatility in Nigeria for the period 1981 to 2020, using the ARDL method. The varying sources of income and the associated political risk led to an increase in long-term exchange rate variability while there was a major role of contract-intensive money in the shorter term. Recommendations were given for economic diversification along with political change.

Ramoni-Perazzi and Romero (2022) also studied how exchange rate fluctuation affects economic development. Their study used GARCH based volatility and System and Difference GMM across 194 economies from 1995 to 2019. The study found that volatility has a negative effect on growth though in countries with a developed financial sector the effect is modest. The findings revealed that the harmful effects of volatility can be reduced by improving financial institutions. Fraj, Hamdaoui and Maktouf (2018) analyzed the relationship and implication of governance, exchange rate regime and growth for 50 countries during 1996-2012 with GMM. Governance wasn't too important while freedom in exchange rates was important because that boosted strong countries' growth and destabilised emerging countries. They concluded that lenient governments must match the quality of governance. Mujahid et al. (2022) investigated the effect of economic uncertainty and institutional quality on government size. The sample contains 182 countries from 1996 to 2016 with the help of World Bank panel data. According to them, volatility greatly affected government expenditure on health and education. They concluded that macroeconomic stabilization could enhance institutional effectiveness and resource utilization in the public sector. Abere and Akinbobola (2020) examined how external shocks and institutional quality influenced Nigeria's macroeconomic performance using an SVAR model. According to their findings, the primary causes of stability were external shocks, including terms of trade and aid, with the quality of institutions being the secondary cause. In order to limit shocks, they suggested improving the resilience of the institutions.

Boateng (2020). examined how the quality of institutions affects the relationship between the volatility of aid and growth in 45 Sub-Saharan African countries from 1980 to 2017 using a panel data technique. The study found that aid commitments do not help

growing countries; instead, they become worse off. The negative effect does not get tempered through institutional quality. The study suggested improved institutional frameworks to stabilize the aid flow. Also, Epo and Nochi (2020) studied the mediating effect of institutional quality on the natural resource-economic growth nexus in 44 African countries from 1996 to 2016, using IV regressions, dynamic panel GMM, and panel smooth transition, the impact of natural resources on growth depended on institutional capacity and the degree of resource measurement. They decided that strong institutions are necessary to transform resources into growth. Yakubu (2020) explored the impact of institutional quality on foreign direct investment in Ghana from 1985 to 2016 using ARDL techniques. The study's findings showed that the quality of institutions has a large positive impact on FDI in the short and long run. While inflation mattered a lot, GDP per capita and trade didn't matter much over time. He suggested improving institutions to effectively attract sustainable foreign direct investment.

Methodology

Specification of the Model: This study aims to analyze the interactive effect of exchange rate volatility and institutional quality on economic growth in OEACs by incorporating an interactive term into the estimated model, as articulated in Equation (1), which is reformulated as follows:

$$GDP_{it} = (EXCVO_{it}, INQ_{it}, EXP_{it}, INF_{it}, MS_{it}, INT_{it}, EXCVO_{it} * INQ_{it}) \quad (1)$$

Representing ($EXCVO_{it}$* $_{it}$) by $EXVNQ_{it}$, and re-specifying the resultant equation explicitly in semi-log form, Equation (1) becomes:

$$LNGDP_{it} = \beta_0 + \beta_1 EXCVO_{it} + \beta_2 INQ_{it} + \beta_3 LNEXP_{it} + \beta_4 LNINF_{it} + \beta_5 LN(MS_{it}) + \beta_6 LN(INT_{it}) + \beta_7 EXVNQ_{it} + \mu it \quad (2)$$

Where β_1, β_2, β_3, β_4, β_5, β_6 and β_7 are the coefficients of the independent variables and μ represents Error term or the residual.

Estimation Methodologies

To fulfill the study's purpose of analyzing the mediating role of institutional quality in the relationship between exchange rate volatility and economic growth in the OEACs, the Pooled Mean Group (PMG) method is utilized. The findings indicate specific effects of different variables in both the long-term and short-term equations.

Measurement of the Variables

This research employed panel data from specific oil-exporting African nations like Algeria, Angola, Chad, Congo, Egypt, Equatorial Guinea, Libya, Nigeria, Sudan, and Gabon, with all variables obtained from the World Bank's World Development Indicators (WDI). The variables were quantified as detailed below:

Gross Domestic Product (GDP): Utilized as an indicator of economic growth,

Exchange Rate Volatility (EXCVO): Assessed with real exchange rate data.

Institutional Quality (INQ) is assessed by six governance indicators: Regulatory Quality (RQ), Rule of Law (ROL), Control of Corruption (COC), Voice and Accountability (VA), Government Effectiveness (GOVE), and Political Stability and Absence of Violence (POAV).

Exports (EXP): Defined as the aggregate value of products and services dispatched abroad.

Inflation (INF): Assessed by the yearly percentage variation in consumer prices.

Money Supply (MS): Denoted by broad money as a proportion of GDP.

Interest Rate (INT): Assessed by the loan interest rate.

Hypothesis of the Study

H_1: Exchange rate volatility significantly affects economic growth in OEACs.

H_2: Institutional quality significantly influences economic growth in OEACs.

H_3: Institutional quality significantly moderates the exchange rate volatility–growth relationship in OEACs.

Result and Analysis

Pre-Estimation Assessment

Cross-Sectional Dependence Test: Table 1 shows the outcome of various cross-sectional dependence tests relating to these variables where LGDP is the dependent variables and the EXCVO INQ LINF LINT LEXP MS are the independent variables. These tests show whether shocks or change in one country affect other panel countries or not. In the case of LGDP (GDP per capita) and EXCVO (Exchange Rate Volatility), all t-statistics are highly significant (p-value = 0.0000). This shows a high level of interdependence among countries possibly due to economic integration or a common economic shock. A strong reliance on INQ (Institutional Quality) exists, however, dependence on PCD was not significant (p = 0.1616) which implies a weaker or uneven reliance. The relationship between LINF and LINT across the cross-country linear is strong for all assessments. This is because the pairs tend to react to the law in the same manner or are influenced by the same region. Export (LEXP) is dependent on all tests including PCD; however, the size of the test statistic is small. MS (Money Supply) shows the strongest correlation as all tests produce highly significant results.

Table 1: Cross Section Dependence

	BP-LM	PS-LM	BCS-LM	PCD	Remark
LGDP	1196.916*** (0.0000)	121.4226*** (0.0000)	121.3036*** (0.0000)	24.39316*** (0.0000)	Cross Section dependence
EXCVO	270.4863*** (0.0000)	22.71425*** (0.0000)	22.59520*** (0.0000)	4.832832*** (0.0000)	Cross Section dependence
INQ	1367.339*** (0.0000)	139.3868*** (0.0000)	139.2677*** (0.0000)	1.39961* (0.16I6)	Cross Section dependence
LINF	193.9271*** (0.0000)	15.69829*** (0.0000)	15.57924*** (0.0000)	8.511306*** (0.0000)	Cross Section dependence
LINT	1038.682*** (0.0000)	104.7433*** (0.0000)	104.6243*** (0.0000)	19.10052*** (0.0000)	Cross Section dependence
LEXP	746.1929*** (0.0000)	73.91222*** (0.0000)	73.79317*** (0.0000)	0.308487*** (0.0000)	Cross Section dependence
MS	1363.669*** (0.0000)	139*** (0.0000)	138.8809*** (0.0000)	36.30405*** (0.0000)	Cross Section dependence

Source: Authors' Computation (2025)

4.2 Panel Unit Root Result

The results of the unit root test indicate that the variable under investigation is stationary. This means that, over time, panels have constant mean and variance, as a result, they are needed in panel data to make econometric inferences. The panel uses the Levin, Lin & Chu

(LLC) test, Fisher-ADF test and Fisher-PP test to test for unit roots under two different model specifications. The first is with individual effects while the other is with individual effects plus individual linear trends. The summary of unit root tests on GDP, exchange rate volatility (EXCVO), institutional quality (INQ), inflation (INF), interest rate (INT), exports (EXP) and money supply (MS) is presented in Table 2 with varying types of integration. Inflation (INF) is found to be level stationary, integrated of order zero, I(0), which means it is stationary without differencing and/or transformation. On the other hand, the other variables (GDP, EXCVO, INQ, INT, EXP, and MS) which were nonstationary at the levels become stationary after first differencing thus they are integrated of one order I(1).

Table 2: Panel Unit Root Result

PANEL UNIT ROOT TEST

Individual Effects						**Individual Effects, Individual Linear Trends**						
VARIABLE	**LLC P<0.05**	**HADRI P>0.05**	**IPS P<0.05**	**ADF P<0.05**	**PP P<0.05**	**LLC P<0.05**	**HADRI P>0.05**	**IPS P<0.05**	**ADF P<0.05**	**PP P<0.05**	**BS P<0.05**	**REMARK**
GDP	-1.262 (0.104)	12.226*** (0.000)	1.943 (0.974)	8.941 (0.984)	15.671 (0.737)	1.943 (0.974)	6.043*** (0.000)	0.876 (0.8010)	19.151 (0.512)	29.339 (0.081)	-0.042 (0.483)	I(1)
ΔGDP		1.854** (0.032)	-7.747*** (0.000)	102.769*** (0.000)	146.270*** (0.000)	-5.036*** (0.000)	1.9430 (0.974)	-5.950*** (0.000)	74.646*** (0.000)	362.506*** (0.000)	-4.755*** (0.000)	
	-5.572*** (0.000)											
EXCVO	1.935 (0.974)	1.990** (0.023)	-4.923*** (0.000)	83.687*** (0.000)	125.212*** (0.000)	4.384 (1.000)	3.959*** (0.000)	-3.082** (0.001)	59.891*** (0.000)	107.004*** (0.000)	4.214 (1.000)	I(1)
ΔEXCVO	-5.786*** (0.000)	0.461 (0.322)	-14.48*** (0.000)	229.575*** (0.000)	259.331*** (0.000)	-3.297*** (0.001)	0.267 (0.395)	-13.16*** (0.000)	212.180*** (0.000)	1136.26*** (0.000)	4.270 (1.000)	
INQ	-2.377** (0.009)	12.944*** (0.000)	0.290 (0.614)	18.554 (0.551)	17.565 (0.616)	-0.356 (0.361)	7.584*** (0.000)	-2.718** (0.003)	38.333* (0.008)	46.572*** (0.000)	0.645 (0.741)	I(1)
ΔINQ	-7.062*** (0.000)	1.927*** (0.027)	-10.64*** (0.000)	145.899*** (0.000)	283.571*** (0.000)	-5.385*** (0.000)	-0.166 (0.566)	-9.235*** (0.000)	115.277*** (0.000)	345.433*** (0.000)	-6.683 (0.000)	
INF	-4.502*** (0.000)	7.599*** (0.000)	-5.778*** (0.000)	82.623*** (0.000)	84.376*** (0.000)	-4.398*** (0.000)	4.333*** (0.000)	-4.617*** (0.000)	66.127*** (0.000)	63.452*** (0.000)	-4.61*** (0.000)	I(0)
ΔINF	-1.102 (0.865)	-7.062 (0.000)	-16.77*** (0.000)	243.024*** (0.000)	313.066*** (0.000)	-12.08*** (0.000)	1.554 (0.060)	-15.43*** (0.000)	216.238*** (0.000)	999.27*** (0.000)	-8.89*** (0.000)	

INT	2.524 (0.994)	12.191*** (0.000)	3.144 (0.999)	12.468 (0.899)	13.749 (0.843)	0.509 (0.695)	4.701*** (0.000)	0.281 (0.611)	19.235 (0.507)	29.873 (0.072)	1.106 (0.866)	I(1)
ΔINT	-11.93*** (0.000)	-0.223 (0.588)	-11.94*** (0.000)	166.809*** (0.000)	230.040*** (0.000)	-11.43*** (0.000)	1.776 (0.0378)	-10.99*** (0.000)	140.030*** (0.000)	459.73*** (0.000)	-7.380*** (0.000)	
EXP	-0.789 (0.2150)	9.465*** (0.000)	1.119 (0.869)	13.320 (0.863)	9.027 (0.983)	-1.838 (0.033)	4.517*** (0.000)	-1.522 (0.064)	30.373 (0.064)	25.464 (0.184)	-4.96*** (0.000)	I(1)
ΔEXP	-10.73*** (0.000)	-1.139 (0.873)	-11.98*** (0.000)	167.419*** (0.000)	204.393*** (0.000)	-9.416*** (0.000)	1.019 (0.1540)	-10.53*** (0.000)	132.857*** (0.000)	432.554*** (0.000)	-1.096 (0.137)	
MS	8.589 (1.000)	12.165*** (0.000)	10.216 (1.0000)	7.863 (0.993)	28.208 (0.1045)	5.072 (1.000)	10.080*** (0.000)	7.315 (1.000)	8.801 (0.985)	35.677 (0.017)	6.431 (1.000)	I(1)
ΔMS	0.680 (0.752)	9.843*** (0.000)	-2.887*** (0.0019)	55.766*** (0.000)	118.692*** (0.000)	-1.398 (0.081)	8.662*** (0.000)	-4.340*** (0.000)	65.839*** (0.000)	126.713*** (0.000)	1.438 (0.925)	

Source: Authors' Calculation (2025)

Analysis of Pooled Mean Group (PMG) Results

Table 3 assesses the mediating role of institutional quality (INQ) in the relationship between exchange rate volatility (EXCVO) and economic growth (LGDP) in oil-exporting African countries (OEACs) which include Algeria, Angola, Chad, Congo, Egypt, Equatorial Guinea, Libya, Nigeria, Sudan, and Gabon with 43 each years of data. According to the research, Pooled Mean Group (PMG) is utilized in the analysis of short- and long-run dynamics such that the dependent variable is change in economic growth which is D(LGDP). The AIC suggests the variables that will be "EXCVO", "INQ", "LEXP", "LINT", "LINF", "LMS" and "EXVNQ" each four lags respectively. The long-run results indicate that exchange rate volatility (EXCVO) exerts a positive and statistically significant effect on economic growth in oil-exporting African countries ($\beta = 0.511$, $p < 0.01$). This suggests that, over time, OEACs are able to adjust to currency fluctuations and exploit exchange rate movements to enhance export competitiveness, especially in oil and non-oil tradable sectors. Volatile exchange rates may encourage resource reallocation toward export-oriented production and improve balance-of-payments dynamics in the long run. However, the short-run estimates reveal a contrasting outcome. The contemporaneous change in exchange rate volatility (D(EXCVO)) is negative and significant ($\beta = -0.055$, $p < 0.01$), indicating that sudden exchange rate fluctuations hinder economic growth in the short term. This negative short-run effect reflects heightened uncertainty, increased transaction costs, disrupted investment planning, and reduced investor confidence. Therefore, exchange rate volatility has an asymmetric effect on growth, constraining economic performance in the short run but fostering growth in the long run once economic agents adapt.

The long-run coefficient of institutional quality (INQ) is statistically significant ($\beta = -0.148$, $p < 0.01$), confirming that institutional structures play a crucial role in shaping economic growth in OEACs. This result highlights the importance of governance quality,

including regulatory effectiveness, rule of law, control of corruption, and political stability, in determining long-term economic performance. Strong institutions enhance policy credibility, improve resource allocation, and create an enabling environment for investment and productivity growth. In contrast, the short-run coefficients of institutional quality and its lags are statistically insignificant, indicating that institutional reforms do not generate immediate growth effects. Instead, their influence accumulates gradually through improved policy implementation, macroeconomic stability, and investor confidence. This finding underscores that institutional quality is fundamentally a long-term growth determinant rather than a short-term stabilizing mechanism in oil-exporting African economies. The interaction term between exchange rate volatility and institutional quality (EXVNQ) is positive and highly significant in the long run ($\beta = 0.095$, $p < 0.01$), providing strong evidence that institutional quality moderates the impact of exchange rate volatility on economic growth. This implies that in OEACs with stronger institutions, the adverse effects of exchange rate volatility are reduced and can even be transformed into growth-enhancing opportunities. Effective institutions facilitate prudent monetary and fiscal responses, limit speculative behavior, and enhance economic resilience during periods of currency instability. However, in the short run, the interaction term and its lags are statistically insignificant, indicating that the moderating role of institutions does not operate immediately. Instead, institutional quality strengthens the economy's capacity to absorb and manage exchange rate shocks over time, reinforcing the conclusion that institutional effectiveness is essential for converting exchange rate volatility into sustained economic growth.

The impact of the current interest rate (D(LINT)) on the dependent variable is positive, but not significant ($\beta = 0.115$, $t = 1.009$, $\rho = 0.316$). In other words, variations in the interest rate do not meaningfully impact the dependent variable in the short term. Also, D(LINT(-1)) ($\beta = 0.017$, $t = 0.263$, $\rho = 0.793$) and D(LINT(-2)) ($\beta = –0.045$, $t = –0.729$, $\rho = 0.468$) and D(LINT(-3)) ($\beta = 0.031$, $t = 0.665$, $\rho = 0.506$) do not show any significance either. Inflation shows a statistically demonstrably significant relationship with the dependent variable. The current change in inflation (D(LINF)) exhibits a positive and significant coefficient ($\beta = 0.088$, $t = 2.175$, $\rho = 0.032$), signifying that inflation rises promote short-term increases in the dependent variable. The second lag of inflation (D(LINF(-2))) has a statistical significance that is indicated in these tests ($\beta = 0.070$, $t = 2.026$, $\rho = 0.046$) whereas the first (D(LINF(-1)); $\beta = 0.020$, $t = 0.421$, $\rho = 0.675$) and third (D(LINF(-3)); $\beta = 0.027$, $t = 1.051$, $\rho = 0.296$) delays are not significant. In the short run, the money supply and its lags are not statistically significant. The money supply found now is negative but not significant ($\beta = -13.837$, $t = -1.104$, $\rho = 0.273$). Just like above, we see that D(LMS(-1)) ($\beta = 6.793$, $t = 1.426$, $\rho = 0.157$) , D(LMS(-2)) ($\beta = -15.446$, $t = -0.726$, $\rho = 0.470$) , and D(LMS(-3)) ($\beta = -4.789$, $t = -0.410$, $\rho = 0.682$) exert weak influence on the dependent variable, and are statistically insignificant.

Discussion of Findings

The panel form of the ARDL model prefaced by the Pooled Mean Group indicates that exchange rate volatility leads to a significant impact on the economic growth of Oil-Exporting African Countries (OEACs). This evidence indicates exchange rate volatility has positive long run effect on economic growth. This effect may seem paradoxical. When a currency's value decreases, demand increases because exports are cheaper than imports. This enhances their competitiveness. Short-term uncertainty for the investors and the firms creates economic instabiity in the country. OEACs policy makers should use foreign exchange reserves and manipulation of foreign exchange markets to stabilize exchange rates. To reap the long term

benefit, it is required to work on economic adjustment policies. In addition, the capacity of only OEACs for determining economic growth is deficient in their short-term quality. OEACs' economic growth is damaged due to the absence of a strong institutional framework. Corruption is a poor governance phenomenon, which happens to obstruct sustained economic growth other poor regulatory development processes. For equality in economic activity institutions like access to legal framework and regulatory environment must be empowered. A powerful institution is also a good thing apart from aiding economic growth. It also helps to reduce the negative impacts of currency fluctuations exchanges. The study indicates that with a better institutional quality, the negative impacts of exchange rate volatility on growth increases.

Conclusions and Recommendations

This study explores the impact of the exchange rate instability on economic growth in Oil Exporting African Countries (OEAC) and whether institutional quality can offset such effect. The findings reveal that If countries can handle volatility for a longer time, then growth opportunities can multiply. To address the risks posed by the exchange rate fluctuation and enjoy the benefits, policymakers should strengthen the institutions and diversify the economy. Also, they need to administer these policies to get good results. Flexibility and strategic implementation in OEACs will allow them to manage fluctuating currency leading to economic stability and resilience. It will make them successful in an increasingly unpredictable world market. Governments of African oil-exporting countries must strengthen their governance frameworks, improve the effectiveness of regulations and fight against corruption to alleviate negative effects and optimize long-term benefits. In the same way, using foreign exchange intervention and reserve buffers in a timely manner is also important to reduce excess volatility and uncertainty. Governments in the OEACs must have good inflation-targeting systems to reduce inflationary pressures and dependence on imports and enhance capacities and capabilities of their domestic industries. To keep the economy healthy government may increase interest rates to attract foreign investors. However, local businesses and consumers should have affordable interest rates, to grow the economy.

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Appendix

Table 3: Aggregated Mean Group (PMG) Outcomes

Dependent Variable: D(LGDP)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
	Long Run Equation			
EXCVO	0.511	0.050	10.232	0.000
INQ	-0.148	0.013	-11.052	0.000
LEXP	-0.321	0.093	-3.443	0.001
LINT	0.081	0.064	1.251	0.214
LINF	-1.136	0.112	-10.180	0.000
LMS	0.041	0.298	0.137	0.891
EXVNQ	0.095	0.007	13.692	0.000
	Short Run Equation			
COINTEQ01	-0.056	0.025	-2.237	0.028
D(LGDP(-1))	0.140	0.132	1.065	0.290
D(LGDP(-2))	-0.044	0.279	-0.157	0.876
D(LGDP(-3))	0.270	0.205	1.315	0.192

D(EXCVO)	-0.055	0.017	-3.293	0.001
D(EXCVO(-1))	-0.039	0.040	-0.974	0.333
D(EXCVO(-2))	-0.021	0.060	-0.351	0.726
D(EXCVO(-3))	-0.032	0.060	-0.539	0.592
D(INQ)	0.010	0.007	1.425	0.158
D(INQ(-1))	0.009	0.011	0.860	0.392
D(INQ(-2))	-0.007	0.005	-1.269	0.208
D(INQ(-3))	-0.007	0.005	-1.513	0.134
D(LEXP)	0.119	0.065	1.833	0.070
D(LEXP(-1))	0.185	0.104	1.773	0.080
D(LEXP(-2))	0.043	0.084	0.506	0.614
D(LEXP(-3))	-0.031	0.090	-0.344	0.732
D(LINT)	0.115	0.114	1.009	0.316
D(LINT(-1))	0.017	0.065	0.263	0.793
D(LINT(-2))	-0.045	0.062	-0.729	0.468
D(LINT(-3))	0.031	0.046	0.667	0.506
D(LINF)	0.088	0.041	2.175	0.032
D(LINF(-1))	0.020	0.046	0.421	0.675
D(LINF(-2))	0.070	0.034	2.026	0.046
D(LINF(-3))	0.027	0.026	1.051	0.296
D(LMS)	-13.837	12.537	-1.104	0.273
D(LMS(-1))	6.793	4.762	1.426	0.157
D(LMS(-2))	-15.446	21.279	-0.726	0.470
D(LMS(-3))	-4.789	11.669	-0.410	0.682
D(EXVNQ)	-0.006	0.008	-0.734	0.465
D(EXVNQ(-1))	0.001	0.011	0.099	0.922
D(EXVNQ(-2))	-0.009	0.016	-0.568	0.571
D(EXVNQ(-3))	0.009	0.015	0.637	0.525
C	0.838	0.368	2.278	0.025

Source: Authors computations (2025)