

## Inflationary Rate and Small&Medium Enterprises (SMEs) Performance in Nigeria

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### Abstract

Small and Medium Enterprises (SMEs) are the backbone of the Nigerian economy. This paper determined the effect of inflationary rate on SMEs performance in Nigeria using hypothetical insights and most recent empirical works. It was found out that inflation has significantly influenced SMEs performance through high production costs, high costs of goods and services, and inadequate access to loan. It was suggested by the study that more access should be granted by banks to SMEs to improve their performance in the Nigerian economy.

**Key words:** inflation, SMEs, performance, high cost, Nigeria

## Introduction

Small and medium scale enterprises justify substantial proportion of business activities and contribute significantly to employment generation, innovation, and industrial development due to vital roles played in the Nigerian economic development (National Bureau of Statistics, 2023).

Recently, economic developments in Nigeria demonstrated by inflationary pressures have affected businesses and households. High inflation partly driven by currency devaluation, fuel subsidy removal, and structural economic reforms has significantly increased the cost of living and production inputs across sectors in Nigeria (Central Bank of Nigeria, 2024; World Bank, 2023). These conditions have created uncertain operating environment for SMEs which has engrossed high costs. Many businesses face structural challenges that limit their capacity to survive in inflationary environments despite the critical roles of SMEs in economic development (Adu&Abdulkafeel,2026).

Inflation is a persistent increase in the general price level of goods and services within an economy over a long period of time (Adu&Williams,2024). It makes the purchasing power of money to decline by affecting households and businesses. Nigeria as a developing economy witnesses inflation from structural challenges including exchange rate volatility, fiscal imbalances, and supply-side constraints (International Monetary Fund, 2023). An unstable business environment that significantly influences enterprise performance is created by these macroeconomic pressures (Adu&Uchegara,2024).

## 2.0 Literature Review

### Inflation

Inflation is defined as a continued surge in the average price level of goods and services within an economy over a period (Adu et al. 2023). It is usually measured by the Consumer Price Index (CPI) which signifies the rate at which purchasing power drops. High inflation reduces the real value of money and increases production costs for SMEs (Adu&Ajigbotoso, 2024).

Inflation has frequently been connected with exchange rate depreciation, fiscal deficits, energy price fluctuations, and supply disruptions (Central Bank of Nigeria, 2024; IMF, 2023). These features increase the cost of raw materials, transportation, and labour thus affecting business productivity (Adu, 2023).

### Small and Medium Enterprises (SMEs)

SMEs are businesses categorized by moderately small capital base, small workforce size, and minimal scale of operations. They serve as engines of economic development by promoting entrepreneurship, innovation, and local industrial growth (Adu et al., 2023).

They are generally known as key contributors to job provision and poverty reduction. SMEs play significant roles in job creation and economic activity, particularly in the informal sector as discovered in some researches conducted on enterprise development in Nigeria (National Bureau of Statistics, 2023). SMEs frequently operate with limited access to credit facilities and are more susceptible to economic shocks like inflation and currency instabilities (Adu, 2023).

### Performance of SMEs

This refers to ability of firms to achieve business objectives such as profitability, productivity, growth, and sustainability. Performance indicators commonly include increased revenue, job creation, market expansion, and contribution to gross domestic product (Adu et al., 2023).

## 3.0 Methodology

The descriptive and qualitative methods were adopted

## 4.0 Empirical Findings

SMEs often operate with limited financial resources and therefore struggle to absorb these increased costs. Inflation also reduces consumer purchasing power, which decreases demand for goods and services produced by SMEs (World Bank, 2023).

Subsequently, businesses experience reduced sales revenue and declining profitability. Some studies indicate that SMEs adopt adaptive strategies such as price adjustments to cope with inflationary pressures. However, these strategies may not be sustainable in the long run, especially when inflation remains persistently high (Adekunle, 2024).

### Summary

SMEs continue to play vital roles in the Nigerian economic development.

### Conclusion

Inflation still remains a substantial challenge for SMEs poor performance in Nigeria.

## Recommendations

Banks and other financial institutions should increase credit facilities to SMEs at affordable lending rates

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