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Market and Government: Elevated Inflation and Policy Interventions in Nigeria

Abstract

This paper draws on range of data sources to explain the various policy interventions in the elevated inflation in Nigeria, at least since Year 2023. The pertinent research question is stated as follows: *Are broad money supply, interest rate, government expenditure, gross domestic product, food and oil prices, and exchange rate impacting inflation in Nigeria?* Consequently, the specific objectives flow respectively from the research questions and by extension the hypotheses. The research design to be adopted is longitudinal that involves collecting data from the same subjects over a period of time, often with the goal of studying changes, trends, or patterns. This design allows researchers to track the development, progress, or evolution of variables, phenomena, or relationship over time. The scope of the study will cover 1986 to 2024. The study anticipates that inflation targeting adoption will exhibit significant explanatory power in relation to economic growth.

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Background

The Nigeria 1999 Constitution (as amended) provides for the control of the economy in such manner as to secure the maximum welfare, freedom and happiness of all. Despite the fundamental objectives and directive principles, Nigeria had witnessed a struggling economy, defined by record debt, high unemployment, low oil output, power shortages, and crimped growth (*The East African* 2024). In response, newly inaugurated President Bola Ahmed Tinubu acknowledged the hardship endured by the citizens, and expressed his commitment to the Nigerian ideal, which would be more than just an improvement in statistics (economic and otherwise). The President's Third Principle emphasizes a remodeled economy that would activate growth and development through job creation, food security and an end of extreme poverty (State House 2023). Amongst others, the president targets a higher growth in gross domestic product (GDP), and significant reduction in unemployment by stimulating the economy without causing inflation (through budgetary reform). Practicalities of the current economic reforms include fuel subsidy removal (to bolster the state revenues by freeing up some money for improvements in infrastructure and quality of life), foreign exchange market liberalization (entailing an end to foreign exchange subsidy, a re-organization of the bureau de change operations, and lifting of foreign exchange regulations on certain imports), as well as 300 percent increase in electricity tariff (targeting consumers accessing electricity supply for more than 20 hours a day classified as Band A).

In the main, the fuel subsidy removal, and the subsequent increase in pump price of petrol quickly led to a 50 percent reduction in petrol importation (Igwe 2024). There have also been significant savings and increase in government revenues, and by extension an astronomical rise in the funds accruing to the Federation Account, shared monthly by the three tiers of government. For example, statutory allocations to the subnational and local governments rose to ₦3.34 trillion in the second half of Year 2023, indicating an increase of ₦545 billion or 19.5 percent from the ₦2.79 trillion allocated before the subsidy removal in the first half of Year 2023 (Tolu-Kolawole, Aina, & Shaibu 2024). Apart from having more funds to implement various policies and programs, the federal and subnational governments have started reducing their debt profiles (Shaibu 2025), although emerging media reports on public debt contest this claim. For example, the International Monetary Fund (IMF) confirmed that Nigeria has fully repaid the $3.4 billion COVID-19 financial support it received as Special Drawing Rights. However, Nigeria still owes $30 million of ₦48.2 billion as the SDR charges that would be paid over a period of four years, amounting to ₦190 billion (Aliyu 2025).

In February 2024 alone, foreign investor asset purchases exceeded $1 billion, and overseas remittances passed $1.3 billion (Onu 2024). The reforms attracted $30 billion in foreign direct investment (FDI) into key sectors of the economy, such as manufacturing, telecommunications, health, as well as oil and gas, amongst others (Jannamike 2024). Capital importation into Nigeria increased by six percent in the last quarter of the Year 2023, thereby reversing a decline from the previous quarter. Additionally, the Nigerian Stock Exchange All-Share Index surpassed 100,000 points (in January 2024), to reach its highest level ever. As of April 2024, the Nigerian Stock Exchange was one of the top performing stocks in the world (Igwe 2024). Despite the promise of long-term growth (Fagbule 2024), the 2023 economic reforms had grave impacts on the Nigerian economy, causing the worst economic crisis in decades, with skyrocketing inflation, a national currency in free-fall, and millions of people struggling to feed (Maclean, & Auwal 2024). According to the IMF, the Nigerian economy, which was Africa's largest in 2022 was sliding to a fourth place (with a GDP of $235 billion) behind Algeria (with a GDP of $267 billion), Egypt

(with a GDP of $348 billion), and South Africa (with a GDP of $373 billion) (Aganpa 2024). The fuel subsidy removal led to a tripling of price of petrol. The National Bureau of Statistics (NBS) Petrol Price Watch showed that the average retail price of a liter of petrol rose from ₦254.06 (in April 2023) to ₦701.24 (in April 2024), representing a 176.02 percent increase (Atungwu 2024). The retail price of a liter of petrol climbed as high as ₦1,025 (in Lagos) and ₦1,060 (in FCT) in 2024 before dropping to at least ₦920 in private filling stations in 2025. The Nigeria Naira has experienced significant depreciation, and this amplified the costs of imported goods and essential commodities, and increased the financial burdens on citizens. The harsh economic realities suggest that families are struggling to make ends meet (Fagbule 2024). There have been skyrocketing food and transportation costs, escalated energy costs for households and businesses, and a 50 percent hike in telecom tariffs (*Punch* 2025).

This paper draws on range of data sources, especially the CBN, NBS, IMF, and the World Bank to explain the various policy interventions in the elevated inflation in Nigeria, at least since Year 2023. The paper starts from the fundamental premise that the market entails decisions made by individuals, businesses, and governments for the production, distribution and consumption of goods and services. Even in the free world, the growing influence of market, as well as its new economic actors, is somewhat at the expense of political power (Tirole 2017). This resonates with government as an enabler of the market environment, intervening when market fails, and reconciling varied interests. Presumably, people are interested in alternative economic institutions only if they expect that markets are not performing satisfactorily. "If market failure is interpreted strictly as failure to achieve some individual normative goal, then we must be cautious about prescribing government intervention as a remedy (Buchanan, & Flowers 1987, 10).

Research problem, question and objectives

The 2023 inflation in Nigeria has started gaining attention in both academic and policy circles. For example, GARCH modelling was applied to analyze the dynamic of inflation process in Nigeria, stressing the importance of monitoring inflation dynamics and implementing timely policies to ensure sustained economic growth and development (Ekpeyong 2023). Additionally, a most recent literature suggests that high or volatile inflation rates can hinder economic growth and development, recommending that the Central Bank of Nigeria (CBN) should adopt appropriate monetary policies to control inflation rates within acceptable levels (Ekekwe, & Njoku 2024). Available evidence notwithstanding, no systematic attempt has been made to investigate the elevated inflation and policy interventions in Nigeria. The pertinent research question is stated as follows:

> *Are broad money supply, interest rate, government expenditure, gross domestic product, food and oil prices, and exchange rate impacting inflation in Nigeria?*

Consequently, the specific objectives flow respectively from the research questions and by extension the hypotheses.

The framework

In developing a lens for this paper, we draw on the concepts of public goods and good governance, complemented with the portfolio theory of inflation.

Public goods

A veritable ground for state intervention in market is the existence of externalities, alluding to the divergence between marginal private costs and benefits and marginal social costs and benefits (Pigou 1920). These externalities are conceived as transaction spillovers, or costs and benefits unaccounted for in the given price of a good or service (Emas 2015, 1). As a way of correcting the market failure, the Pigouvian tax would help to ensure that the market price accurately reflects the comprehensive costs and benefits of the activity (Emas 2015). Many economic models suggest that private goods are the only ones around, and this is typically the case when the invisible hand is given the task of doing visible good. Private goods are found in a market economy, while public goods are provided in a governmental (or "collective) economy. There is much evidence that the share of public goods in national consumption has grown rather dramatically in most countries in the world (Sen 1977, 330). The central principles of public goods are indivisibility (or non-rivalry) and non-excludability (Samuelson 1954). Indivisibility principle implies that public goods cannot be directly priced, otherwise, there would be no need for government. Additionally, indivisibility principle does not require that all citizens of the political unit should be called to support the service; rather, the collective consumption intervention provides the ground for an economic theory of the division of governmental functions in a multi-governmental economy. This is applicable to the listed powers in a federation. However, the Nigerian federal constitution empowers the federal government to act on monetary stability through the CBN.

The non-excludability principle suggests that it is impossible to keep those who have not paid for a good from consuming it. Thus, no individual can be denied the benefits without undue costs. As argued by Elinor Ostrom, Samuelson's (1954) sorting was in sync with the dichotomy of the institutional world into private property exchanges in a market setting and government-owned property organized by a public hierarchy. Curiously, the people of the world were viewed primarily as consumers or voters (Ostrom 2010, 642). This paper notes that monetary stability or the provision of monetary "order" must be accepted by all citizens to address unpredictable changes in the value of the monetary unit. Thus, it aligns with the fundamental objectives and directive principles of state policy in the Nigerian 1999 Constitution (as amended) to provide for the control of the national economy. Monetary stability is particularly needed as a policy response to inflation, alluding to an increase in the level of prices of commodities that individuals (or "households") buy. Inflation remains bad news; distorting prices, eroding savings, discouraging investment, stimulating capital flight, inhibiting growth, and evoking unrest. In effect, monetary stability is one mechanism by governments to deal with this plague (Debelle, Masson, Savastano, & Sharma 1998). However, governments rarely play this role adequately because they create the "public bad" of inflation more than the public good" of maintaining monetary stability (Buchanan, & Flowers 1987).

Good governance

The significant depreciation witnessed by the Nigeria Naira amplified the costs of imported goods and essential commodities, and increased the financial burdens on citizens (*Businessday* 2024). Most Nigerians, especially young people, had perceived the worsening cost-of-living crisis as the outcome of bad governance, and organized a 10-day protest codenamed #EndBadGovernance in August 2024 (Falola 2024). Good governance, as a state intervention in economic development, emerged from three processes (Hardt 2012). First, there was a consensus among development practitioners that the idea of financial assistance alone to developing

countries does not lead to economic growth. Thus, regulatory reforms ought to complement financial assistance. This "Washington consensus" was formed at the end of the 1980s. Second, there was a speedy transition to the market economy, which succeeded the collapsed communist model in some countries. This demonstrated the importance of an institutional framework for the market system. Debates on the successful developmental state of Asia served to complement the institution building (Ubhenin, & Edeh 2014). Third, there was a focus on institution as the major determining factor of long-term economic growth, combined with the new institutional economics. Despite these coalescing factors that led to the emergence of good governance, there remains a relative imprecision of the conceptual definition. This was partly informed by the preference of the Bretton Woods Institutions, namely: IMF and the World Bank, which preferred to deploy non-offensive terms, ostensibly to avoid any form of antagonisms with reluctant developing country governments.

It has also been observed in the literature that rich countries are endowed with better institutions (more good governance) than poor countries. However, available evidence does not seem to support the claim that good governance has to come first and that every good must go together (Lauridsen 2011). Good governance is, therefore, a basis for investigating what Grindle (2007, 553) calls the long menu of institutional changes and capacity-building initiatives currently deemed important (or essential for development)". The principles of good governance are accountability, transparency, rule of law, consensus, effectiveness and efficiency, equity and inclusiveness, participation, and responsiveness (Sheng 2007). We draw on these principles to ascertain the extent to which the Nigerian government policy responses to the elevated inflation have followed the good governance pathways.

Portfolio theory of inflation

Apart from domestic agents, some critical allocation decisions are taken by global financial markets (or global investors) and such decisions affect the effectiveness of macroeconomic policy in open and highly financially integrated economies. This is the assumption of the portfolio theory of inflation (PTI), developed by Bossone (2019a, 2019b) to illustrate a country's credibility that matters in addressing currency depreciation and higher inflation. PTI is a lens for investigating the role of global financial markets in determining the effectiveness of macroeconomic policy in open and fully financial integrated economies. "These investors allocate resources across national economies based on local investment opportunities and policy credibility" (Bossone 2019a, 1).

PTI is useful in explaining different economic outcomes deriving from similar policies adopted in different country contexts. PTI can reflect the dominant role of global finance in defining the space available for national authorities of open and financially integrated economies to undertake active, effective and non-inflationary demand management policies. On a broader note, PTI aims to investigate the central role of global financial markets in determining the effectiveness of macroeconomic policy in open and fully financial integrated economies (Bossone 2019a).

The PTI model consists of two open and highly financially integrated country economies *D* and *F*, where *F* is relatively large vis-à-vis *D* and acts as price setter in the international markets for goods and services. The issuance of government debt bonds B_j in country $_j$, where $_j = D, F$, and their market value are tied to the country government's IBC. We also ascertained the extent to which the monetary stability policy has been either weakened or aided by the global investors and vice versa.

Inflationary trends and impacts in Nigeria

In explaining the inflationary trends in Nigeria, the NBS adopts the Consumer Price Index (CPI) as a measure of the change over time in prices of 740 goods and services consumed by populations for everyday living. The CPI tracks the rate at which prices change over time, monthly or annually (Odugbemi 2025). The most important CPI categories (in percentage) are: food and non-alcoholic beverages (52); housing, water, electricity, gas and other fuel (17); clothing and footwear (8); transports (7); furnishings and household equipment maintenance (5); education (4); health (3); miscellaneous goods and services (2); restaurants and hotels (1); alcoholic beverages, tobacco and kola (1); recreation and culture (1); and communication (1). The index weights are based on expenditures of both urban and rural households in all the states of the federation (Trading Economics Undated).

The CBN introduced an inflation target of 6 to 9 percent in 2013, but inflation in Nigeria has maintained double digits above the set target since 2015. Between 2015 and 2023, annual inflation averaged 16.2 percent, that 7.2 percentage points above the target ceiling of 9 percent (Oluwole 2024). The first half of 2023 witnessed an uptrend in inflation in Nigeria, with increases in the indices of both food and non-food components of the CPI basket. Headline inflation (year-on-year) rose to 22.79 percent at the end of June 2023, above 21.34 percent at the end of December 2022. The major enablers of this increase were the legacy structural factors, exacerbated by election-related spending in the first quarter of 2023 and the removal of fuel subsidy, as well as the recent reforms in the foreign exchange market. In particular, food inflation (year-on-year) rose to 25.25 percent, from 23.75 percent in the second half of 2022, driven largely by the persistent security challenges and flooding that disrupted farming activities in some parts of the country as well as the increases in the prices of imported food items. Core inflation also rose to 20.27 percent, compared with 18.49 percent in the second half of 2022, which was due, mainly to elevated prices of imported items and other legacy structural factors (Central Bank of Nigeria 2023).

The first half of 2024 also witnessed elevated inflation as all three measures (food, core and headline) increased. The increases reflected the rising energy costs, rising food prices, exchange rate depreciation pass-through and high inflation expectations. Headline inflation (year-on-year) rose to 34.19 percent, from 28.92 percent at the end of December 2023. The major driver remained food inflation, which increased to 40.87 percent, from 33.93 percent in the preceding period. In particular, food inflation (year-on-year) rose by 6.94 percentage points, driven largely by higher cost of inputs, transport and logistics. Similarly, core inflation increased by 4.34 percentage points to 27.40 per cent, owing mainly to higher manufacturing input costs (Central Bank of Nigeria 2024).

Nigeria's inflation rate witnessed modest decline, from 24.23 percent (in March 2025) to 23.71 percent (in April 2025), representing 0.52 percentage points. This offered a glimmer of hope amid persistent economic challenges and rising cost-of-living pressures across the country (Adigun 2025). Compared to April 2024, the Year-on-Year inflation rate decreased in April 2025, that is, the headline inflation rate was 9.99 percent lower than the 33.69 percent recorded in April 2024. The core inflation rate was 26.84 percent in April 2024, which dropped to 23.39 percent in April 2025, representing 3.45 percentage decline. The annual inflation rate for the 12 months ending April 2025 was 24.91 percent, with a 2.07 percent points higher over the 22.84 percent for the 12 months ending April 2024. In April 2024, urban inflation rate was 36.00 percent, sliding to 24.29 percent in April 2025, representing 11.71 percentage points decline. On the other hand, rural inflation was 40.53 percent in April 2024, sliding to 22.83 percent in April

2025, representing with 8.81 percentage points decline. Food inflation rate was 40.53 percent in April 2024, sliding to 21.26 percent in April 2025, representing 19.27 percentage points decline (Adigun 2025).

Most recent data from the NBS suggest that Nigeria's inflation dropped to 22.97 percent in May 2025, representing a decline of 0.74 percentage points when compared to the 23.71 per cent recorded in April 2025. Additionally, headline inflation fell by 10.98 percentage points from 33.95 per cent recorded in May 2024, year-on-year. The inflation decline was largely driven by a slowdown in the rate of increase in the average prices of goods and services. The food inflation rate stood at 21.14 percent year-on-year in May, a sharp drop from 40.66 per cent recorded in May 2024. However, food inflation rose on a month-on-month basis to 2.19 percent in May 2025 from 2.06 percent in April 2025, driven by increases in the prices of yam, cassava, maize flour, sweet potatoes, fresh pepper, and ogbono (Tunji 2025b). In sum, Nigeria's spiraling inflation peaked at 34.6 percent, accounting for a 28 year high in November 2024 (Donatus, & Alli 2024). Due to the elevated inflation of 2023, markets started recording few customers and diminishing patronage.

High operating costs led to reduction in profitability of many enterprises, which also led to job losses and in some cases, business closures. Job losses spike is indicated by the National Pensions Commission disbursement of ₦14.2 billion to 8,651 Nigerians who experienced temporary job loss in the first quarter of 2024 (Tunji 2025a). Those in paid employment are also affected. For the country is hard hit by inflation which has, for the first time in two decades, rose to 31.7 percent as wages and salaries remain stagnant since 2018 (*The East African* 2024). In April 2024, the headline inflation rate rose to 33.67 percent from 33.20 percent (in March 2024), representing an increase of 0.49 percent points. The headline inflation rate was 22.22 percent (in April 2023), rising significantly to 11.47 percent points higher (in April 2024) (Fakoyejo 2024). In particular, food inflation surged to 40.01 (or 40.53) percent (in March 2024), representing a 15.points compared to the rate recorded in the corresponding year (March 2023) (Ariemu 2024).

The measure of physical and economic access to healthy diets has also increased. The cost of healthy diet (or CoHD) was ₦1,035 per adult per day in April 2024 (i.e., 5.4 percent) (Izuaka 2024). Due to significant deprecation of the national currency, high costs of goods and services, and increased the financial burdens on citizens, families struggle to make ends meet (Fagbule 2024). As noted by the Nigerian policymakers, inflation is the most disruptive force to the economic welfare of the populations. Therefore, the federal government is desirous of reducing inflation to single digits in a sustainable manner (Olawoyin 2025).

Nigerian government responses to the elevated inflation

One of the Nigerian government responses to the elevated inflation is inflation rate rebasing, a representation of accurate price movements and economic conditions, informed by the need to reflect changes in consumption patterns. The NBS structured approach to improve accuracy of inflation measurements by expanding its data collection efforts to include a broad range of subnational and local governments, as well as rural communities (Odugbemi 2025). This entails updating the CPI basket, rebasing the inflation index, adjusting the CPI weights, and expanding the data collection coverage. By updating the CPI basket, the NBS reviewed and changed the composition of goods and services in the CPI basket to align with the shifts in consumer spending habits. Greater weights were allocated to telecommunications and technology, while lesser weights were given to less relevant items (including food and non-alcoholic beverages) to ensure the CPI accurately represents present-day household expenditure.

In rebasing the inflation index, changes were made to the reference (or base) year, that is, from 2009 to 2024. The purpose was to align inflation measurements with current economic realities, reducing distortions caused by outdated reference periods. Further, the NBS has implemented high-frequency data collection methods, such as the National Longitudinal Phone Survey, which allows for more timely assessments of economic indicators. In adjusting the CPI weights, each price of the CPI was given a new weight based on updated national consumption data. Spending categories with increased significance, such as transport and digital services, were given higher weights. And categories with declining relevance, such as gas and other fuels. Were adjusted downward. In expanding data collection coverage, the NBS has improved data collection by increasing the sample size and geographical coverage, increasing data collection frequency, and integrating price variations from informal markets. The inclusion of the informal economy is understandable: it accounts for approximately 58 percent of the country's GDP (Odugbemi 2025).

In exercise of its price stability mandate, the CBN has severally adjusted the benchmark interest rate, formally called Monetary Policy Rate (MPR), a key tool used by central banks to influence borrowing costs, inflation, and overall economic activity. The CBN raised the MPR from 11.5 per cent in 2022, including six hikes in 2024 alone, amounting to a cumulative 875 basis points (Adegboyega 2025). The benchmark interest rate was 16.5 percent in January 2023, and 18.75 percent at the end of 2023, culminating in 27.5 percent in 2024 (Aguolu 2024; Omolaoye 2025). The CBN increased the Cash Reserve Ration (CRR) for Other Regulatory Corporations by 1,750 basis points to 50.00 percent. The CBN further adjusted the systemic corridor around MPR. The CBN also cleared the $7bn foreign exchange backlog, thereby restoring market confidence and improving foreign exchange liquidity. The CBN further lifted the restrictions on 41 items previously banned from accessing the official foreign exchange market since 2015. The CBN also introduced new minimum capital for banks (effective March 2026), to enhance resilience and global competitiveness in the sector (Tunji 2025a). The CBN is also transiting from unorthodox (i.e., i.e., exchange rate) to orthodox (i.e., inflation targeting). The planned transition to inflation targeting is intended to restore purchasing power and ease economic hardship (Akanbi 2025). In 2025, the CBN launched the Nigeria Foreign Exchange Code to foster integrity, fairness, transparency and efficiency in the foreign exchange market. It is envisaged that the Code will rebuild trust and inspire confidence in the market.

Methodology

The research design to be adopted is longitudinal that involves collecting data from the same subjects over a period of time, often with the goal of studying changes, trends, or patterns. This design allows researchers to track the development, progress, or evolution of variables, phenomena, or relationship over time. The scope of the study will cover 1986 to 2024.

Linking theoretical framework with empirical model

Linking theoretical framework with empirical model using portfolio theory of inflation, as well as Fama and Schwert (1977) and Fama (1981) models. This paper is anchored on portfolio theory of inflation which suggests that inflation expectations and risk influence investors' portfolio decisions such as asset allocation between nominal and real assets. The key ideas are that investors seek to optimize their portfolios by balancing risk and return. Inflation affects the returns on nominal assets (for example, bonds) and real assets (for example, stocks and commodities) and that investors adjust their portfolios based on inflation expectations and risk

tolerance. To empirically examine the theoretical link, the paper draws on the models developed by Fama and Schwert (1977) and Fama (1981) who examined the relationship between inflation, and assets return and investigated the relationship between inflation, interest rates and assets prices supporting the portfolio balance approach. Fama and Schwert (1977) model is stated thus:

$R_t = \alpha + \beta\pi_t + \mu_t$

Fama's (1981) model is expressed as:

$R_t = \alpha + \beta_1\pi_t + \beta_2\Delta IP\pi_t + \mu_t$

where:

R_t means asset (stock) return at time t

α defines the intercept term

β is coefficient

π denotes inflation rate at time t

t stands for time period

Δ represents change operator

IP connotes industrial production (a proxy for real activity at time t

μ_t is used as error term

Accordingly, this paper adapts Fama's (1981) model to suit the Nigerian context while aligning it with the portfolio theory of inflation. The modified econometric model is specified as follows:

$INF_t = b_0 + b_1\Delta INT_t + b_2\Delta M2_t + b_3\Delta GOVT_t + b_4GDP_t + b_5FOOD_t + b_6OIL_t + b_7EXR_t + \mu_t$

This model allows for testing the hypotheses that inflation indicators contribute to the rate of inflation in Nigeria.

The *a priori* expectations are: $b_1 < 0$; b_2, b_3 b_4, b_5, b_6, $b_7 > 0$. This implies that when broad money supply, government expenditure, gross domestic product, food and oil prices and exchange rate increase, there will also be increases in inflation. However, increases in interest rate decrease inflation.

Methods/procedures for data analysis

To empirically evaluate the dynamic relationship between inflation and indicators of inflation in Nigeria, the study will employ robust time-series econometric techniques. The approach will integrate both short-run and long-run analytical frameworks.

Augmented Dickey-Fuller (ADF)

The Augmented Dickey-Fuller (ADF) test will be employed to check for the presence of unit roots in the time-series variables. This is essential for determining the order of integration of the variables and ensuring that regression results are not spurious. The null hypothesis (H_0) states that the series has a unit root (i.e., non-stationary), while the alternative hypothesis (H_1) suggests stationarity. The test equation is as follows:

$$\Delta Y_t = \alpha + \beta t + \gamma Y_{t-1} + \sum_{i=1}^{p} \delta_i \Delta Y_{t-i} + \epsilon_t$$

Where Y_t is the variable under test, Δ is the first-difference operator, t is the time trend, and ϵ_t is the error term. If the absolute value of the test statistic is greater than the critical value, the null hypothesis is rejected, indicating stationarity (Dickey, & Fuller 1979).

Johansen's Cointegration Test

The Johansen cointegration test will be used to examine the existence of a long-term equilibrium relationship among the integrated variables. It is appropriate for multivariate time series and tests whether a linear combination of the variables is stationary. The Johansen test is based on a vector autoregressive (VAR) framework, with trace and maximum eigenvalue statistics used to determine the number of cointegrating equations (Johansen 1988). The test is expressed as:

$$\Delta Z_t = \Pi Z_{t-1} + \sum_{i=1}^{k-1} \Gamma_i \Delta Z_{t-i} + \epsilon_t$$

Where Z_t is a vector of non-stationary variables, Π contains the long-run information, and Γ_i represent short-run dynamics. A significant trace or max-eigenvalue statistic indicates cointegration.

*Auto Re**gressive Distributive Lag** (ARDL)*

According to Lydon and Gbalam (2019), the basic form of the relationship between economic growth and Fintech development indicators is dynamic in nature hence the Autoregressive Distributed Lag (ARDL) procedure is identified for estimating the relationship.

The ARDL form of the model is specified as:

$$\begin{aligned}\Delta INF = a_0 + a_1\Delta INF_{t-1} + a_2\Delta INT_{t-1} + a_3 ln\Delta M2_{t-1} + a_4 ln\Delta GOVT_{t-1} + a_5 ln\Delta GDP_{t-1} \\ + a_6 ln\Delta FOOD_{t-1} + a_7 ln\Delta OIL_{t-1} + a_8\Delta EXR_{t-1} \\ + \sum_{i=1}^{k} b_1 i\Delta INF_{t-1} + \sum_{i=1}^{k} b_2 i\Delta INT_{t-1} + \sum_{i=1}^{k} b_3 i\Delta M2_{t-1} + \sum_{i=1}^{k} b_4 i\Delta GOVT_{t-1} \\ + \sum_{i=1}^{k} b_5 i\Delta GDP_{t-1} \\ + \sum_{i=1}^{k} b_6 i\Delta FOOD_{t-1} + \sum_{i=1}^{k} b_7 i\Delta OIL_{t-1} + \sum_{i=1}^{k} b_8 i\Delta EXRt - 1 + \varepsilon t\end{aligned}$$

Where k= la**g** length for the unrestricted error correction model.

Δ = first differencing operator

εt = white noise or disturbance error term

Error Correction Model (ECM)

The Error Correction Model (ECM) will be employed to analyze short-run dynamics while maintaining the long-run equilibrium relationship. The ECM captures how deviations from the long-run path are corrected over time. The model is specified as:

$$\Delta INF = \beta_0 + \sum_{i=1}^{p} \beta_i \Delta \ln(X_{t-i}) + \lambda ECT_{t-1} + \epsilon_t$$

Where $\Delta \ln(INFt)$ represents changes in INF, $\Delta \ln(X_{t-i})$ are the first-differenced independent variables (e.g., M2, INT, GOVT), ECT_{t-1} is the lagged error correction term derived from the cointegration equation, and λ is the speed of adjustment. A negative and significant λ confirms adjustment toward long-run equilibrium (Engle, & Granger 1987).

The model will be subjected to a comprehensive set of diagnostic tests to validate its reliability: Breusch-Godfrey Serial Correlation LM Test will be used to detect autocorrelation in

the residuals. General Heteroskedasticity Test will be employed to check for the presence of heteroskedasticity. Jarque-Bera Normality Test will confirm whether the model residuals follow a normal distribution. Variance Inflation Factor (VIF) may also be used to assess multicollinearity among the regressors. The data will be analyzed using EViews 10, providing robust statistical outputs, visualization of trends, and the derivation of policy-relevant interpretations.

By employing these advanced econometric tools, this study will provide a comprehensive examination of how inflation indicators affect the Nigerian economy.

Preliminary analysis

In consideration of the available evidence on the Nigerian government response to the elevated inflation, we would be focusing our analysis on inflation rate rebasing, benchmark interest rate increase, inflation targeting, and ancillary interventions.

Inflation rate rebasing

Broadly, economies striving for better data accuracy embark on inflation readjustment. More fundamentally, countries are to update their base year every five to 10 years to reflect changes in the structure of the economy or consumer behavior (Olatunji 2025). Within Africa, Ghana and Kenya did readjustment recently. In August 2018, the Ghana Statistical Service changed the reference period for calculating inflation from 2012 to 2018, and increased the number of markets where prices are gathered from 42 (with 267 items) to 44 with 307 items). The 2018 Ghana CPI rebasing led to a lower reported inflation rate, which was calculated based on newer spending habits. The year-on-year September 2019 inflation was 7.6 percent down by 0.2 percentage points from the 7.8 percent recorded in August 2019.

Whereas, this falls within the government's inflation target of 8±2 with the Bank of Ghana holding the policy rate at 16 percent for the fourth consecutive time, the figure would have been the lowest recorded since March 1992 had the GSS not introduced a new base year in 2018 (Segbefia 2019; *Class FM Online* 2019). The Kenya National Bureau of Statistics highlights the rebasing process in its Consumer Price Index Rebasing Report (31st March 2020). Following the rebasing, the CPI has a new basket of 330 items, compared to the previous basket of 234 items. Obsolete items in the old basket were dropped, while new and more relevant items were included. The weights in the rebased CPI were also updated and the Expenditure Groups were recalculated, based on the 2015/16 Kenya Integrated Household Budget Survey (Central Bank of Kenya 2020).

The Nigeria CPI rebasing led to a drop in the inflation rate from 34.8 percent in December 2024 to 24.48 percent in January 2025 (Lawal 2025), as well as a cut in spiraling prices by about 10 percent (Alli 2025). Despite the CPI rebasing, however, the cost of living has remained high (Odugbemi 2025). The NBS' CPI Report (April 2025) showed a slight easing in Nigeria's inflation rate compared to previous months, and the same period in 2024. The sharp drop in inflation rate to 1.86 percent in April 2025, from 3.90 percent in March 2025, indicated a slower rate of price increased across common goods and services during the month. However, the gradual but persistently higher inflation rates continue to put severe strain on households' disposable incomes, thereby exacerbating poverty and food insecurity. Additionally, the ease of inflation at the national level has yet to translate into relief for many Nigeria, especially those living in states with persistently high inflation. According to the NBS, CPI report (April 2025),

inflation surpassed 30 percent in Delta, Enugu, Ekiti, Gombe, Kebbi, Nasarawa, Niger, Sokoto, & Federal Capital Territory (FCT) (Tunji, Ogundeji, & Nwafor 2025).

When weighed against the principles of good governance, the inflation rate rebasing highlights accountability, transparency, rule of law, as well as equity an inclusiveness. Arguably, the inflation rate rebasing represents attempts by the Nigerian federal government, through the NBS, to accurately report price movements and economic conditions. This aligns with accountability and transparency as core principles of good governance. Curiously, accountability is enforceable when complemented with transparency and the rule of law. Perhaps, transparency would shed light on the federal government's approach to addressing the elevated inflation. In September 2024, the Federal Ministry of Budget and Economic Planning held a dialogue with experts, users and stakeholders to affirm the government's commitment to global best practices in rebasing, and extract inputs to enhance the robustness and comprehensiveness of the survey and rebasing processes (Akubuike 2024). However, it cannot be said that the citizens were adequately informed of the procedure adopted in the inflation rate rebasing. In response, the NBS and National Orientation Agency are collaborating to mount a public campaign to promote transparency, inclusiveness and better public understanding of the GDP rebasing. It is envisaged that this will help to dispel misconceptions and promote informed public discourse (Lawal 2025).

The agency's move to provide information on the CPI rebasing process is understandable. Lack of transparency and accountability has serious implication for citizens' trust in official economic numbers. In March 2025, the NBS reported a drop in Nigeria's inflation rate to 23.18 percent from 24.48 percent, thereby offering a glimmer of relief to policymakers and the general public. However, this optimism was quickly disrupted when the NBS quietly pulled the report down from its official website. Instead, a revised version of the report was uploaded without historical data. No explanations were given: a silence that has spoken volume (*Businessday* 2025). When official data are retrieved without accountability, citizens confidence in government commitment to economic recovery would wane. Another implication of patterns of redacting, revising and retracting critical economic data pertains to institutional integrity because of the analytical value of the agency's output. Additionally, the NBS silence could be fueling speculations about the political manipulation of data. Ultimately, perceived political manipulation of data would further harm the country's reputation within the global economic community (*Businessday* 2025).

Benchmark interest rate increase

By hiking the MPR or benchmark interest rate, the CBN sought to maintain a stricter monetary control to rein in the stubbornly high inflation. For if too much money is pursuing few goods, the natural response would be to raise interest rates to reduce the money in circulation. Raising interest rates is also a mechanism for reducing frivolous spending, as well as protecting or restoring purchasing power (Alli 2024). In the opinion of the Nigerian monetary policymakers, the interventions have yielded measurable progress, such as relative stability in the foreign exchange market, thereby narrowing exchange rate disparities and raising external reserves to over $40 billion as of December 2024 (Akanbi 2025). In their opinion, the CBN policy interventions prevented inflation from surging to 42.81 percent by December 2024 (Tunji 2025a).

Raising the benchmark interest rates to address inflation pressures is in consonance with global best practices. In October 2023, the Central Bank of Argentina raised the benchmark interest rate to 133 percent from 118 percent to address worsening inflation This followed the

government's near-18% devaluation of the peso in mid-August 2023, coinciding with the prior central bank hike, where it increased the interest rate from 97 percent to 118 percent (Otaola 2023). However, the election of libertarian President Javier Milei was quickly followed by a series of cuts, at least eight times, culminating in 32 percent in December 2024 (*Reuters* 2024). In April 2024, Bank Indonesia (BI) unexpectedly raised its benchmark interest rate in a bid to support the sliding Rupiah, which was trading near four-year lows as currencies across Asia came under pressure from a strong dollar and expectations of a delay in US rate cuts. BI had raised its seven-day reverse repo rate 0.25 percentage points to 6.25 percent, the highest since the bank adopted the instrument as its benchmark rate in 2016. BI governor Perry Warjiyo stated that it was a "strong policy response" to address rising uncertainties around the US Federal Reserve's rate outlook and escalating tensions in the Middle East (Lakshmi 2024). On May 21, 2025, BI's Board of Governors Meeting (RDG) announced a 25-basis point cut to its benchmark interest rate, bringing the BI 7-Day Reverse Repo Rate down to 5.50 percent from 5.75 percent approved in January 2025 (Rinaldi 2025).

In 2023, Turkey's President Erdogan appointed a new economic team, symbolizing a shift away from his unorthodox policies. The economic team implemented a series of interest rate hikes to combat high inflation attributed to a combination of factors, such as the COVID-19 pandemic and rising energy prices. The interest rate was maintained at 50 percent for several months until the bank embarked on a gradual cycle of rate cuts. Thus Turkey's interest rate was hitting a two-year low at 42.5 percent as of March 2025 (Katanich 2025). However, Turkey surprisingly moved to reassure investors after domestic turmoil and US tariff uncertainty triggered a selloff in the lira. This culminated in a one-week repo to 46 percent from 42.5 percent in April 2025 (Akman, & Ozsoy 2025).

Whereas, the benchmark interest rate was intended to curb the soaring inflation, it became more expensive to borrow money; demand for goods and services plummeted, thereby forcing price reduction. Curiously, the NBS inflation rebasing forced the CBN MPC to halt interest rate hikes for the first time in three years (Odugbemi 2025).

The benchmark interest rate increase hinges on the good governance principles of rule of law, consensus oriented, participation and responsiveness. The legal framework for changing the benchmark interest rate in Nigeria is th**e** Central Bank of Nigeria Act, 2007. Therefore, the benchmark interest rate change satisfies the good governance principle of rule of law. The Monetary Policy Committee is a platform for consensus and participation, but there are issues. The Central Bank of Nigeria Act, 2007 does not specifically provide for representation of civil society organizations in the 12-member Monetary Policy Committee, which supports the Federal Government in economic policy making.

More fundamentally, it cannot be said that the benchmark interest rate had produced intended results because of the adverse impacts on the Nigerian economy. Tightening monetary conditions means credit will be accessed at higher rates. Business expansion is discouraged and unemployment rate will soar. The increased cost of borrowing will be pushed down to final consumers in form of higher prices. Higher cost of borrowing implies reduced access to finance for personal demands and projects (Alli 2025). Members of the organized private sector also averred that high benchmark interest rate poses a grave threat to the successful implementation of the Nigeria First Policy, a public procurement policy seeking to strengthen local industry and reduce import dependence. By implication, the monetary stance undermines the manufacturing stance and emboldens speculative foreign portfolio inflows at the expense of long-term industrial growth (Nwafor, & Ogundeji 2025).

Inflation targeting

In dealing with the plague of inflation, governments adopt conservative and sustainable fiscal and monetary policies by setting intermediate targets, such as monetary aggregates or exchange rates. This is a customary anti-inflationary tactic. However, some countries have broken with this tradition, and instead begun to focus on the inflation rate itself. This is a new approach to the age-old problem of controlling inflation through monetary policy. The rationale for choosing inflation targeting over alternative policy frameworks has been well highlighted in the literature (Debelle, Masson, Savastano, & Sharma 1998). For policymakers who prefer inflation targeting, monetary policy majorly supports economic growth through price stability (i.e., a low and steady inflation rate). From practical experience, short-term manipulation of monetary policy to achieve other goals (e.g., "higher employment" or "enhanced output") may conflict with price stability. For some economists, an attempt to achieve several economic goals gives monetary policy an inflationary bias. Additionally, central banks appear to get more public criticism for raising interest rates than for lowering them, and they are subject to constant pressure to stimulate economic activity. In principle, inflation targeting makes inflation the primary goal of monetary policy. In effect, the central bank is compelled to look ahead, giving it the opportunity to tighten policies before inflationary pressures become intense.

Inflation targeting has been adopted by African central banks. For example, the Bank of Ghana transited to inflation targeting in 2007, and has maintained the policy framework since then. In December 2023, The CBN announced a shift from the monetary targeting framework to a full-fledged inflation targeting framework to reduce the soaring inflation to acceptable levels, and to strengthen the monetary policy credibility within the economy (Dalhatu 2024). This is a re-enactment of the inflation-targeting framework designed by the CBN since 2013 (Oluwole 2024). Expectedly, this will strengthen Nigeria's purchasing power and disposable income, drive aggregate demand, and stimulate production. Yet, there are challenges in evaluating the benefits of inflation targeting for developing countries because they represent a mixed group, particularly in their monetary policy and financial markets (Debelle, Masson, Savastano, & Sharma 1998). When considered against good governance as a lens, inflation targeting highlights the principles of accountability, transparency, and inclusiveness.

From the literature (Debelle, Masson, Savastano, & Sharma 1998), inflation targeting provides a yardstick against which the actions of the CBN may be judged, and the Nigerian economic policymakers can be invited to justify their policies and decisions. Thus, the CBN has a responsibility to announce policy changes and publicly explain the reason for such changes. This will help to reduce the potential lag of monetary policy changes on price and wage decisions. Finally, the CBN has promised that the inflation targeting framework will be implemented with the people's backing. This is an element of inclusiveness, which is a core principle of good governance.

Ancillary interventions

Perhaps, the Nigerian policymakers were thinking good governance when it held the 2025 Monetary Policy Forum: Managing the Disinflation Process, drawing participants from fiscal authorities, legislative, private sector, development partners, subject matter experts and scholars. This is because of the purpose: to improve monetary policy communication, foster dialogue, and collaborate on critical issues shaping monetary policy (Akanbi 2025). Another important governance point is the legal framework guiding in the CPI rebasing. The Statistics Act (2007) establishes the National Statistics System comprising data producers, data users, data suppliers,

as well as research and training institutes. Perhaps, the Statistics Act (2007) was thinking the protection of rights of the minorities when it included representatives of the civil society organizations in the National Consultative Committee on Statistics. The Statistics Act (2007) also provides for data confidentiality of the units concerned in the calculation of statistics, and data producers are prohibited from disclosing information of an individual nature obtained in the course of work. The provisions of the Statistics Act (2007) notwithstanding, the inflation rate rebasing does not directly protect the rights of the minorities. Yet, it is envisaged that the accurate reflection of the costs of living would lead to a more equitable distribution of resources, but the high costs of living threaten the rights of the minorities in Nigeria.

To the extent that the NBS structural approach has extended data collection to a broad range of rural communities in subnational and local governments, the 2024 inflation rate rebasing strives to satisfy the good governance principles of equity and inclusion. The informal economy was included because of its contribution to the nation's GDP. However, the mere inclusion of rural communities does not immediately translate to improved wellbeing of the poor and vulnerable households, which is a core component of equity and inclusiveness. The World Bank, in its April 2025 Poverty and Equity Brief for Nigeria, disclosed that rural dwellers overwhelmingly bear the brunt of economic stagnation, inflation, and structural changes that define the country's recent growth trajectory. Accordingly, poverty rate among rural population has reached an alarming 75.5 percent, highlighting deepening inequality and widespread economic hardship across Nigeria (Aliyu, Jimoh, Martins, & Clement 2025).

Expected findings

Based on preliminary literature and Nigeria's inflationary trends, this study anticipates that inflation targeting adoption will exhibit significant explanatory power in relation to economic growth. Specifically, exchange rate, oil and food prices are expected to have a positive and statistically significant impact on inflation, both in the short and long term. Interest rate is likely to display a particularly strong negative relationship with inflation. Broad money supply (M2) is expected to correlate positively with inflation. However, if not properly managed, excessive liquidity may lead to inflationary pressure rather than productive investment, thus moderating its impact. Overall, the study expects to confirm that the metrics of inflation are enablers of inflationary spiral. Nonetheless, its impact may be moderated by structural challenges. Despite the advocacy for "free markets" without state intervention, all real-world market economies demonstrate some level of state involvement (Global Development Policy Center 2021). We envisage that the findings of this paper will be useful to developing country policymakers in addressing elevated inflation.

Expected contributions to knowledge

This study is expected to contribute significantly to the academic literature. The expected contributions are delineated as follows:

a. The study will offer an updated empirical investigation based on annual data from 1986 to 2024, covering key inflation milestones such as:
The 1995 highest inflation rate of 72.84% which was largely driven by economic instability and poor policy decisions,
The 2023 inflation rate of 24.7% indicating ongoing economic challenges,

The January 2024 inflation rate of 32.5% which increased further to 32.70% in September driven by food price hikes and currency volatility,
December 2024 inflation rate of 34.8 fueled by increased demand for goods and services during festive season.

b. The study will anchor its conceptual model on the portfolio theory of inflation. By contextualizing the Nigerian inflation landscape within this framework, the study refines the theory for use in developing economies.

c. The findings of the study are expected to provide evidence-based guidance to the Central Bank of Nigeria. Recommendations will be directed toward reducing the impact of inflation indicators.

d. The study will serve as a reference point for future researchers examining inflation impact on other macroeconomic outcomes, such as employment**,** poverty alleviation.

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