World Journal of Advanced Research and Reviews

eISSN: 2581-9615 CODEN (USA): WJARAI

Cross Ref DOI: 10.30574/wjarr

Journal homepage: https://wjarr.com/

(Review Article)

Causes and drivers of inflation in Nigeria: A comprehensive review

Odojoma Park IDISI, Prekeme Philip OJOKOJO and Emeka Solomon FIDELIS *

Department of Agricultural Economics, Faculty of Agriculture, University of Abuja, PMB 117, Abuja, Federal Capital Territory, Nigeria.

World Journal of Advanced Research and Reviews, 2023, 19(01), 779–788

Publication history: Received on 31 May 2023; revised on 11 July 2023; accepted on 13 July 2023

Article DOI: https://doi.org/10.30574/wjarr.2023.19.1.1376

Abstract

This review article provides a comprehensive analysis of the causes and drivers of inflation in Nigeria. Inflation is still a chronic problem for the Nigerian economy, and understanding the fundamental causes is critical for successful policy formation and economic stability. The review investigates macroeconomic issues such as monetary policy, fiscal policy, exchange rates, and international trade dynamics in order to determine their influence on Nigerian inflation. It also investigates the link between these variables and inflation expectations and persistence. The evaluation looks at structural variables that contribute to inflation, such as supply-side shocks like food and energy price variations. Institutional problems such as corruption, poor governance, and policy implementation difficulties are investigated for their impact on inflationary pressures. The efficacy of regulatory frameworks, the stability of the financial industry, and the actions of central banks are all assessed. The assessment underlines the interaction and complexity of these elements, emphasizing the importance of a comprehensive strategy for addressing inflation in Nigeria.

Keywords: Inflation; Monetary Policy; Fiscal Policy; Exchange Policy; International Trade Dynamics

1. Introduction

Nigeria is known as the "Giant of Africa" since it is the world's seventh most populous country, with around 206 million inhabitants; one in every four people in West Africa is a Nigerian [1]. Aside from a wealth of human resources, the country is endowed with vast arable areas and natural riches. Among these resources are coal, tin ore, crude oil, and gas. Yet, it is an undeveloped economy with high unemployment, inflation, poverty, and low capacity utilization, among other reasons [2]. However, inflation is the most hotly debated issue among the macroeconomic variables of the economy, as an increase in the quantity of money has occurred in different societies at different times in history.

Inflation is defined as a consistent and persistent rise in the general price levels of goods and services. Inflation can be slow, fast, or very fast. According to Naz et al. [3], the pace of inflation has a significant impact on the poor and makes their lives extremely difficult. It redistributes money and wealth in favour of some while harming others, which is why it is labelled anti-poor. Affandi [4] saw it as an economic disease that has eaten deep into the country's economic fabric. Its economic impact is so severe that the country's real GDP has been stunted over time.

Inflation is a common occurrence in an economy. According to an opinion poll performed in Asia and North America, people are most concerned about inflation since it lowers their level of living [5]. Many political leaders' fortunes in Nigeria and overseas have been decided by how far they have succeeded in addressing the problem of inflation, so much so that some scholars dubbed inflation "enemy number one." One of the tasks of contemporary government is to manage inflation and maintain economic price stability [6]. The finance minister, in collaboration with the Central Bank of Nigeria (CBN), has ensured and managed the budget proposal and growth of the economy's money supply in such a way

* Corresponding author: Emeka Solomon FIDELIS

Copyright © 2023 Author(s) retain the copyright of this article. This article is published under the terms of the Creative Commons Attribution Liscense 4.0.

that it does not cause inflation, as inflation occurs when there is an excess demand for goods and services relative to their supply of output at current prices.

In May 2023, Nigeria's annual inflation rate jumped for the fourth month in a row to a near 18-year high of 22.41%, up from 22.22% the previous month and matching market expectations [7]. Food prices, the most important component of the Consumer Price Index (CPI), increased by 24.82% in May after increasing by 24.61% in April, owing mostly to increases in vegetables, oils, bread, fruits, meat, and tubers. Transportation costs have also risen dramatically as a result of gasoline shortages caused by the withdrawal of a government fuel subsidy by Nigeria's new President, Bola Tinubu. In May, the annual core inflation rate, which excludes farm products, was 20.06%, down from a record high of 20.14% the previous month. Consumer prices grew by 1.94% on a monthly basis in the second quarter, the greatest in seven years, following a 1.91% increase in April [7].

Furthermore, the decline in oil exports between 2010 and 2023, as well as the monetary authority's decision to abandon the previous regime policies, caused the Naira to plummet from around Naira 150 per USD 1 in the aftermath of 2017 to around Naira 775 per USD 1 in the parallel market [8]. The recent Nigerian financial difficulties have demonstrated how some elements may quickly disrupt the internal balance.

The impact of exchange rate misalignment was visible in the path of inflation from the crises that began in the United States in late 2007 and spread across various economies by the end of 2009, conveying inflationary pressures, among other things, in their wake [9]. It rose by 105.0% between 2013 and 2018, despite the Naira depreciating by 92.9% over the same period. Such an event resulted from the Nigerian government's inability to continuously defend the Naira, the decline in oil prices, declining quantities due to unrest in the Niger Delta region, and excessive pressure on the relatively scarce foreign exchange (forex) to finance consumer food imports bill, all of which meant bleak economic forecasts [10], [11]. All of this, along with the Nigerian central bank's emphasis on growth-promoting policies rather than targeting the monster, inflation.

According to Ominyi et al. [11], in recent decades, the CBN has been struggling to achieve a constantly stable monetary policy rate. There is an urgent need to invigorate the economy through expanding credit. At the same time, care must be taken not to put too many cheap funds at the disposal of importers; this is necessary to relieve undue pressure on the dollar. Because the flow of too many free funds jeopardizes naira-stabilization measures, it transfers inflationary pressures and intensifies the crisis. Inflation may be managed in oil-producing nations like Nigeria if crude oil could be processed in the country in the short run and the economy could be restructured into a more organized system in the long run [12].

Previous research has identified the following causes and drivers of inflation in Nigeria: unemployment [13], broad money supply ([14], [15], [16], [17], [18] and [19]), interest rate ([20], [21]), GDP growth ([14]), Oil prices ([18], [22], [23]), foreign borrowings ([13]), and trade imbalance ([13]; [23]).

This analysis concentrated solely on four drivers: fiscal policy, monetary policy, currency exchange rates, and international trade dynamics. Considering fiscal policy, monetary policy, exchange rates, and international trade dynamics as causes and drivers of inflation in Nigeria provides for a thorough examination of the key elements impacting inflationary pressures. Fiscal policy measures such as government spending, taxes, and budget deficits may all have a direct influence on the money supply and aggregate demand, hence influencing inflation. Monetary policy, which includes interest rate changes, money supply management, and reserve requirements, is critical in managing inflation. Nordstrom et al. [24] noted that the exchange rate variations have an impact on the pricing of imported products and services, hence influencing total price levels. Furthermore, international trade dynamics such as global commodity prices, trade imbalances, and trade policy all have a considerable impact on inflation. Focusing on these major components gives policymakers and academics a concentrated and in-depth understanding of the causes of inflation in Nigeria, allowing them to build tailored methods for successful inflation management.

1.1. Impact of Fiscal Policy on Inflation in Nigeria

Fiscal policy is the administration of the economy by the government through the manipulation of its revenue and spending power in order to achieve some desired macroeconomic objectives, such as price stability and economic development [25]. It is also a purposeful change in government spending and taxes to aid in the achievement of targeted macroeconomic goals by modifying the amount and composition of aggregate demand. This simply implies that fiscal policy is implemented through the manipulation of subsidies, currency rates, external reserve checks, and borrowing, which may be used to cover deficits if expected expenditure exceeds receipts. The Nigerian government has implemented several fiscal policy measures to combat this scourge known as inflation, but the problem has persisted,

implying that despite the government's position of having minimal single-digit inflation, it appears that nothing has been done [26].

Various scholars have written on various areas of fiscal policies, particularly as they relate to and impact the Nigerian economy's macroeconomics. According to Reem [27], fiscal policy is the process through which a government modifies its level of expenditure in order to monitor and impact a country's economy. According to Reem [27], fiscal policy is founded on the views of British economist John Maynard Keynes, who essentially asserts that governments may affect macroeconomic productivity levels by raising or lowering tax rates and public expenditure. This impact, in turn, reduces inflation, increases employment, and keeps the value of money stable. Several scholars have written on various elements of fiscal policy, particularly as they pertain to price stability. Various empirical studies in Nigeria on the link between fiscal policy measures and inflation have produced conflicting conclusions.

Ozurumba [25] investigated the causal link between inflation and fiscal deficits in Nigeria from 1970 to 2009, demonstrating a substantial negative association between fiscal deficit increase (% of GDP) and inflation. Olayungbo [28] investigates the asymmetric causal link between government expenditure and inflation in Nigeria between 1970 and 2010. The asymmetry causality test demonstrates that uni-directional causation exists in the Vector Autoregression (VAR) model from negative government expenditure changes (low or contractionary government spending) to positive inflation changes (high inflation). According to the findings, inflationary pressure in Nigeria is state-dependent, implying that high inflation is driven by low or contractionary government expenditure.

Nwaoha [29] used an econometric methodology anchored in the error correction method to study the influence of public expenditure (recurrent and capital) on inflation in Nigeria from 1980 to 2006. He discovered that recurring expenditure had a favourable and considerable impact on inflation. This means that when recurrent expenditure increases, so does inflation. Ezeabasilli et al. [30] used data from 1970 to 2006, a period of persistent inflationary tendencies, to re-examine the influence of budget deficit on inflation in the context of a developing nation, Nigeria. They used a modelling method that included cointegration techniques as well as structural analysis. The findings show a positive but minor link between Nigerian inflation and budget deficits.

Egbulonu and Wobilor [31] discovered a statistically significant association between the model's fiscal policy instruments (government expenditure, government tax income, and government debt stock) and the Nigerian inflation rate. This demonstrates that an increase in government spending, tax income, and government debt stock causes price increases (inflation). Their findings also show that in Nigeria, there is a long-run equilibrium link between inflation and fiscal policy.

Because of the high rate of tax evasion and avoidance among Nigerians. It is important to know that the tax system in Nigeria is very weak, with serious loopholes in tax administration. As a result, revenue that is accruable by direct and indirect taxes to the Nigerian government usually does not meet theoretical expectations.

1.2. Impact of Monetary Policy on Inflation in Nigeria

The influence of monetary policy on inflation in Nigeria has been a hotly debated topic among economists and policymakers. Monetary policy refers to acts done by a country's central bank to regulate the money supply and interest rates in order to accomplish specified economic goals. One of the fundamental goals of monetary policy is to keep inflation under control. In Nigeria, inflation has been a continuous problem for many years, with periods of high inflation rates harming the economy and the population's standard of living [32]. The Central Bank of Nigeria (CBN) is critical in enacting monetary policy measures to combat inflationary pressures.

In Nigeria, monetary policy influences inflation in a variety of ways. The manipulation of interest rates is a crucial tool of monetary policy. Borrowing money becomes more expensive for people and businesses when the CBN raises interest rates. This affects consumer spending and company investment, which can lead to lower aggregate demand and lower prices [33]. When interest rates are dropped, borrowing becomes more affordable, resulting in higher expenditure and economic activity. Another goal of the central bank is to preserve price stability by managing the amount of money in circulation. When the money supply expands fast, it can exceed the expansion of goods and services in the economy, resulting in excess demand and price inflation.

The CBN also employs reserve requirements and open market operations to impact lending and liquidity availability in the banking sector. The central bank can control the amount of money that banks can lend by altering reserve requirements [34]. Similarly, open market operations entail the purchase and sale of government assets in order to impact the money supply. These policies affect total liquidity in the economy and have the potential to influence

inflation. These instruments are so volatile that their regulation/management has a direct impact on macroeconomic authorities' price stability aims [35]. Of course, it is essential to note that pricing typically encompasses the values for which commodities and services, as well as foreign currencies, are traded. Although little focus is placed on deflation, regulatory bodies' primary concern has always been inflation.

The debate over the role of money supply in inflation control continues among classical, Keynesian, monetary, and neoclassical economists; managers and policymakers in emerging economies are leaning toward a combination of the various postulates in managing inflation, with the main focus on inflation targeting as the guiding framework of monetary policy actions [36], [37]. Inflation is an economic phenomenon in which more money is needed during periods of declining currency value as a result of continuous, persistent, and prolonged price rises in goods and services. It is the economic phenomenon that defines the decrease in buying power per unit of money, implying a loss of real value in the economy's medium of exchange and unit of account.

According to Badreldin [38], inflation indicates a decrease in buying power per unit of money, as well as a loss of real value in the economy's medium of exchange and unit of account. According to Rutasitara [39], authorities must keep a watch on the various elements that might quickly spark an increase in inflation at all times, even when the rate of inflation appears to be low because it can undermine the value of money holdings, trade flows, investor confidence, and so on. According to Omotosho and Doguwa [40], inflation raises risk premia, increases hedging costs, produces unanticipated income redistribution, and eventually reduces overall economic growth. Inflation is certainly not a new occurrence. The objective of the government has always been to maintain a steady domestic pricing level [6]. This aim is sought in order to reduce the costs of inflation or deflation, as well as the uncertainty that results from price instability [41].

However, policymakers in most emerging economies have been unable to manage inflation at targeted levels due to an inability to identify the predictors of inflation and its nature. As a result of the incorrect identification of the disease, policy prescriptions that have been delivered as an antidote have been unsuccessful. However, policymakers have attempted to implement suitable measures to combat inflation and maintain price stability [42]. In general, the amount of money supply and the stock of goods and services are two critical components that define an economy's level of inflation. When inflation becomes persistent, the pair becomes the primary policy goal.

A surplus or scarcity of money can have contrasting effects on the economy. An excess aggregate demand resulting from a surplus can lead to higher inflation rates, while scarcity can lead to stagnation, impeding economic growth and progress. While fiscal policy can assist in counteract inflationary pressures, monetary policy is the primary weapon used by central banks to maintain price stability. While it is undeniable that monetary authorities have devised various policy measures in an attempt to combat inflationary threats, the effectiveness of policy pursuit to combat inflationary environments is questionable, as most economies, particularly developing ones, continue to face inflationary challenges [43]

The Central Bank of Nigeria has continuously enacted tough measures that it claims are aimed at reducing inflation in Nigeria. For example, on Tuesday, January 25, 2011, the Central Bank raised the Monetary Policy Rate (MPR) by 25 basis points from 6.25 to 6.5 per cent in order to lower the economy's money supply, and a year later, the MPR was raised to around 12.5 per cent. These increases have an influence on banks' prime lending rates, affecting the cost of borrowing and, eventually, the cost of producing products or services in the country.

In 2012, the Central Bank announced plans to produce N5,000 bills, which was popularly opposed since the policy promotes inflation. Furthermore, Nigeria's monetary policy affects the exchange rate of the country's currency, the Naira. Exchange rate fluctuations can have influence on inflation by altering the pricing of imported products [44]. If the Naira falls in value versus other currencies, the cost of imported products and raw materials rises, potentially leading to increased consumer prices.

To limit inflationary pressures, the Central Bank of Nigeria employs a variety of methods, including modifying interest rates, regulating the money supply, and influencing the currency rate. It is crucial to emphasize, however, that the success of monetary policy in managing inflation is dependent on a variety of factors, including the central bank's credibility, fiscal policy coordination, structural factors, and external shocks. Infrastructure shortcomings, supply chain bottlenecks, and reliance on imports might hinder the efficacy of monetary policy in managing inflation in Nigeria [45]. A coordinated strategy encompassing monetary and fiscal policy, as well as structural changes, is critical for attaining long-term price stability in Nigeria.

1.3. Impact of Exchange Rates on Inflation in Nigeria

In Nigeria, the effect of currency rates on inflation is a crucial part of the country's monetary and economic dynamics [46], [47]. The exchange rate is the value of one currency with respect to another, and it has the capacity to impact inflation through a variety of mechanisms. In Nigeria, where the economy is strongly reliant on imports, exchange rate swings can have a major influence on the total price level and inflationary pressures. Nigeria is an importer, which means that it relies on imported commodities and raw resources to fulfil domestic demand. When the value of the indigenous currency, the Naira, falls against major international currencies such as the US dollar, it raises the cost of imported products [47]. This rise in the cost of imported items may contribute to higher consumer prices, resulting in inflationary pressures. As a result, changes in currency rates can have a direct impact on Nigeria's inflation rate.

Exchange rate fluctuations can also have an impact on the prices of domestically manufactured items. The cost of imported inputs such as machinery, equipment, and raw materials for indigenous companies might rise when the Naira falls in value. Increased production costs can be passed on to consumers in the form of increased prices, contributing to cost-push inflation. Manufacturing and agriculture, which rely significantly on imported inputs, are particularly sensitive to exchange rate swings. Basselier et al. [49] noted that exchange rate changes can influence consumer, company, and investor inflation expectations. If individuals expect the home currency to depreciate more, they may expect higher prices in the future and modify their behaviour accordingly. Similarly, based on their exchange rate assumptions, corporations may adapt their pricing tactics or investment decisions.

Furthermore, the Central Bank of Nigeria (CBN) plays an important role in controlling currency rates through foreign exchange market interventions [50]. To impact the value of the Naira, the CBN may choose to sell or acquire foreign currency. The central bank's intervention in the exchange rate tries to stabilize the currency and moderate inflationary pressures. However, depending on market conditions, capital flows, and external variables, the efficacy of these interventions in reaching the targeted exchange rate and inflation results might vary. Changes in global commodity prices, fiscal policy measures, and domestic supply-side variables can all interact with currency rates to determine the inflationary environment.

The negative consequences of the rate of exchange placement are well established in the literature, and policymakers are often hesitant to control exchange rates due to the perceived detrimental effect on the economy, mostly due to pass-through effects.

According to Mehdi [51], the effect of the exchange rate on the inflation rate varies by country, with one of the factors determining how the exchange rate affects the inflation rate being the level of development of each country's financial markets, revealing that new theories emphasize the high correlation between economic growth and innovation. Several experts have ascribed it to the increase in government spending caused by the increase in oil money, which resulted in a massive expansion of aggregate demand and an inelastic supply of domestic output. This set off a chain of events in the economy [52]. The ongoing fiscal crisis, as indicated in the continuous budget imbalance in Nigeria, is one example of such an event.

Ogundipe and Egbetokun [53] investigated the influence of exchange rate shocks on consumer prices in Nigeria using empirical research. Structural Vector Autoregression was used to determine the response of the consumer price index to a one-standard-deviation shock to the nominal effective exchange rate, the real official exchange rate, the money supply, and the consumer price index after collecting data on the nominal effective exchange rate, the real official exchange rate, the money supply, and the consumer price index. The findings revealed that the country's exchange rate pass-through is quite high. From 1970 to 2012, Audu and Amaegberi [54] examined the impact of exchange rate fluctuations on inflation targeting in the Nigerian economy. They demonstrated, using an error correction model, that interest rates and exchange rates explained inflation in the nation.

Akinbobola [55] studied whether there were long-run links between monetary growth, exchange rate, and inflation in Nigeria from 1986 to 2008. He used a Vector Error Correction Mechanism model to show that inflationary pressure in Nigeria is caused by the exchange rate and monetary policy, even though actual output has some long-run beneficial influence. Boamah [56] investigated the degree and speed of currency rate pass-through to inflation in the planned West African Monetary Zone (WAMZ) nations. Monthly data on average bilateral exchange rates against the US dollar, as well as the consumer price index as a proxy for import costs, were gathered [56].

Given Nigeria's import-dependent economy, currency rates have a considerable influence on inflation. Exchange rate variations can have a direct influence on imported product prices and an indirect impact on domestic manufacturing costs, impacting inflationary pressures. Furthermore, changes in the currency rate can affect inflation expectations and

impact consumer behaviour and company actions. The central bank's regulation of exchange rates, as well as cooperation with other monetary and fiscal policies, is critical in preserving price stability and regulating inflation in Nigeria.

1.4. Impact of International Trade Dynamics in Nigeria

International trade dynamics have a significant influence on the Nigerian economy, impacting different factors such as economic growth, employment, foreign exchange reserves, and industrial development. Nigeria, being a developing country, engages in global commerce by importing and exporting commodities and services. Understanding the ramifications of global trade dynamics is critical for evaluating Nigeria's economic performance and developing a successful trade policy. International commerce refers to economic activities that entail the cross-border exchange of goods and services. According to Ehikioy & Mohammed [57] international commerce can considerably contribute to the expansion of Nigeria's economy. Nigeria may get access to a larger market for its products by engaging in trade, resulting in higher production, employment, and money generation. Similarly, imports might give access to goods and services that are not readily available or inexpensive in the home market, so increasing economic efficiency and raising living standards.

Nigeria's foreign exchange reserves and balance of payments are influenced by international commerce. Nigeria may earn foreign currency through exporting products and services, which helps to increase foreign exchange reserves [58]. These reserves are critical for preserving currency rate stability, paying foreign obligations, and financing imports. Trade imbalances, in which imports exceed exports, might, on the other hand, put pressure on foreign exchange reserves and the balance of payments, potentially leading to currency depreciation and macroeconomic issues. International commerce may also affect employment and industrial growth in Nigeria. Export-oriented businesses, such as oil and gas, agriculture, and manufacturing, may both create jobs and progress technology. As a result, finding a balance between boosting home businesses and taking advantage of global trade possibilities is critical for long-term employment and economic growth.

International commerce allows Nigeria to get access to modern technology, information, and managerial competence from more developed countries [59]. Nteegah & Okpoi [60] suggested that Nigeria may boost productivity and industrial capacity by importing capital goods and technology-intensive items. Participation in global supply chains also facilitates information transfer, innovation, and the learning of new skills, all of which may contribute to long-term economic development. Nigeria's economy is susceptible to external shocks via international trade routes. Changes in global commodity prices, changes in export demand, and trade restrictions imposed by other nations may all have a substantial influence on Nigeria's trade balance, foreign currency revenues, and general economic stability. Such vulnerabilities can be mitigated by diversifying the export base, lowering reliance on a few goods, and developing regional trade agreements.

Exports, which make up a large amount of Nigeria's GDP, should be considered as a driving force crucial to the country's economic goals. Multiplier effects include factors such as employment creation, market development, improved GDP, and knowledge dissemination[61]. However, while international commerce between governments can help a country's economy, it does not necessarily have the same benefits and impacts on its trading partners. Countries can profit from comparative and absolute advantage advantages in addition to their inherent dispositions and resources. According to Eravwoke and Oyovwi [62], a variety of economic variables, including the foreign currency rate, influence the amount which a nation earns from a commercial partnership.

However, some argue that commerce alone cannot lead to economic growth and development and that other critical factors, such as good government, the extent to which the rule of law is implemented, population growth rate, and secondary and university enrolment, are as significant. Kehinde et al. [63] used rank correlation analysis to explore the influence of international trade on economic development in developed countries. This study revealed a link between international trade and the GDP of these countries. Awe [64] established that economic growth occurs when a country's real per-capita income progressively rises over time. Foreign Direct Investment (FDI) cannot be regarded as a significant driver of observable growth until this occurs.

Adeleye, Adeteye, and Adewuyi [65] examine the influence of international trade on Nigerian economic growth, using net export and the Balance of Payments as surrogates for international trade and GDP as a measure of economic growth. primary Total Export (TEX) is positive and significant, while the rest are modest, showing that Nigeria has a monocultural economy in which oil is the primary source of money and other sectors like industry and agriculture contribute little tangible support.

Oladipupo and Onotaniyoluwo [66] looked at the impact of the exchange rate on Nigeria's balance of payments. He applies the Ordinary Least Square (OLS) approach to assess the impact of the exchange rate on Nigeria's external sector (balance of payments position) using data from 1970 to 2008. The author observed that the exchange rate has a major impact on the balance of payments position and that exchange rate depreciation can lead to an improvement in the balance of payments position if budgetary discipline is implemented.

The dynamics of international commerce have an impact on the creation of trade policies and development plans in Nigeria. Tariffs, non-tariff obstacles, and trade agreements all impact the country's trading environment. Nigeria can improve export diversification, attract foreign direct investment, boost competitiveness, and integrate into global value chains by enacting suitable trade policies. Aligning trade policies with larger development plans is critical for harnessing international trade gains for long-term economic growth and poverty reduction. Trade has an impact on economic growth, employment, foreign exchange reserves, industrial development, and the country's overall macroeconomic stability. Nigeria can harness its potential for economic development and enhance the well-being of its people by embracing the possibilities given by international commerce while resolving the related obstacles.

2. Conclusion

This review presents an in-depth examination of the causes and drivers of inflation in Nigeria. It underscores the fact that inflation is a continuous concern for the Nigerian economy and emphasizes the significance of understanding the underlying reasons to design effective policies and maintain economic stability. The review examines several macroeconomic factors, such as monetary policy, fiscal policy, currency rates, and international trade dynamics in order to determine their influence on Nigerian inflation. It also investigates the link between these variables and inflation expectations and persistence, offering light on their interdependence.

Overall, the assessment highlights the interaction and complexities of these numerous causes, emphasizing the necessity for a comprehensive strategy to address inflation in Nigeria. The findings of this study may be used by policymakers, central banks, and researchers to establish evidence-based solutions for reducing inflationary pressures and fostering long-term economic growth. The findings add to the current literature and provide insights for parties involved in the fight against inflation in Nigeria. By leveraging a thorough understanding of the causes and drivers of inflation, policymakers can develop targeted policies and implement effective measures to promote price stability and ensure a favourable economic environment.

Recommendation

This review recommends that the central bank should continue to pursue a proactive and cautious monetary policy stance, while the Nigerian government should prioritize fiscal discipline, improve budget implementation, and enhance transparency in public financial management. This will enhance the competitiveness of the Nigerian economy, reduce currency speculation, contribute to price stability, reduce fiscal deficits, curb excessive government spending, and mitigate inflationary pressures stemming from fiscal imbalances. By implementing these recommendations, Nigeria can work towards mitigating inflationary pressures, promoting sustainable economic growth, and improving the overall well-being of its citizens.

Compliance with ethical standards

Disclosure of conflict of interest

There is no conflict of interest.

References

[1] Neszmélyi GI. Nigeria at the crossroads - Can the “Giant of Africa” overcome her social, political and economic challenges? Reg Ekonom Yug Rossii. 2020; 2(1). Available from: https://doi.org/10.15688/re.volsu.2020.2.1

[2] Osinubi TS. Macroeconometric analysis of growth, unemployment and poverty in Nigeria. Available from: https://www.semanticscholar.org/paper/MACROECONOMETRIC-ANALYSIS-OF-GROWTH-%2C-UNEMPLOYMENT-Osinubi/8b8e46a33c50d728656fd4ae1a51a8c94956594c

[3] Naz A, Chaudhry H, Hussain M, Daraz U, Khan W. Inflation: The social monster socio-economic and psychological impacts of inflation and price hike on poor families of District Malakand, Khyber Pakhtunkhwa, Pakistan. Political

Economy: Development eJournal. 2012. Available from: https://www.semanticscholar.org/paper/Inflation%3A-The-Social-Monster-Socio-Economic-and-of-Naz-Chaudhry/c6f4db6b0b35a628a0c1ec89e9b149e49 4ab082e

[4] Affandi Y. Unveiling stubborn inflation in Indonesia. Econ Finance Indonesia. 2015; 59:47-70. Available from: https://doi.org/10.7454/EFI.V59I1.57

[5] Ahuja HL. Macroeconomics Theory and Policy. 19th Revised Edition. S. Chand and Company PVT. LTD; 2013.

[6] Sugema I, Bakhtiar T. Inflation targeting in Indonesia: Trade-off and strategy. Eur J Econ Finance Adm Sci. 2010; 26:33-43.

[7] National Bureau of Statistics [NBS]. CPI and inflation report March 2023. Available from:https://nigerianstat.gov.ng/elibrary/read/1241309#:~:text=Executive%20Summary,%20inflation%20rate%20which%20was%2021.91%25

[8] Exchange Rate UK. US Dollar (USD) to Nigerian Naira (NGN) exchange rate history 2023. Available from: https://www.exchangerates.org.uk/USD-NGN-exchange-rate-history .ht ml

[9] Naseem NAM, Hamizah MS. Exchange rate misalignment and economic growth: Recent evidence in Malaysia. 2013. Available from: https://www.semanticscholar.org/paper/Ex change-Rate-Misalignment-and-Economic-Growth%3A-in-N.A.m-M.s/6a33fb08ea7f433 ea55aa70e9214b065d0b95dea

[10] Emerald Expert Briefings. Lower Naira will not offset Nigerian recession risks 2020. Available from: https://doi.org/10.1108/oxan-db251558

[11] Ominyi SO, Akighir DT, Abayol-Ikwue R. Foreign exchange market demand pressure and economic growth in Nigeria. J Econ Sustain Dev. 2020. Available from: https://doi.org/10.7176/jesd%2F11-4-22

[12] Apere TO. Crude oil price fluctuation and inflation in Nigeria. Adv Soc Sci Res J. 2017; 4. Available from: https://doi.org/10.14738/ASSRJ.43.2757

[13] Nguyen ADM, Dridi J, Unsal FD, Williams OH. On the drivers of inflation in Sub-Saharan Africa (IMF Working Paper No. WP/15/189). 2015. Available from: https://www.imf.org /en/Publications/WP/Issues/2016/12/31/On-the-Drivers-of-Inflation-inSub-Saharan-Afric a-43181

[14] Lim YC, Sek SK. An examination on the determinants of inflation. J Econ Bus Manag. 2015; 3(7):678-682. Available from: http://dx.doi.org/10.7763/joebm.2015.v3.265

[15] Nguyen VB. Effects of fiscal deficit and money M2 supply on inflation: Evidence from selected economies of Asia. J Econ Finance Adm Sci. 2015; 20(38):49-53. Available from: http://dx.doi.org/10.1016/j.jefas.2015.01.00

[16] Alam Q, Alam S. The determinants of inflation in India: The bounds test analysis. Int J Econ Financ Issues. 2016; 6(2):544-550. Available from: https://ideas.repec.org/a /eco/journ1/2016-02-26.html

[17] Khandan A, Hosseini SM. Determinants of inflation: A case study of Iran. Appl Econ Financ. 2016; 3(4):95-102. Available from: http://dx.doi.org/10.11114/aef.v3i4.1760

[18] Dahiru H, Sulong Z. The determinants of inflation in Nigeria from 1970–2014. World Appl Sci J. 2017; 35(10):2202-2214. Available from: https://www.idosi.org/ wasj/wasj35(10)17/20.pdf

[19] Mutwiri NM. Monetary policy tools and inflation in Kenya. Int J Acad Res Acc Finance Manag Sci. 2017; 7(1):86-97. Available from: http://dx.doi.org/10.6007/IJARAFMS/v 7i1/2542

[20] Kundu A. Determinants of inflation: Evidence from Bangladesh. Daffodil Int Univ J Bus Econ. 2016; 10(2):135-146. Available from: http://dspace.library.daffodilvarsity.edu. bd:8080/bitstream/handle/20.500.11948/1559/13.pdf

[21] Nagy É, Tengely V. External and domestic drivers of inflation: The case study of Hungary. Russ J Money Finance. 2018; 77(3):49-64. Available from: http://dx.doi.org/10.3147 7/rjmf.201803.49

[22] Hemmati A, Niakan L, Varahrami V. The external determinants of inflation: The case of Iran. Iran Econ Rev. 2017; 22(3):741-752. Available from: https://doi.org/10.22059/ IER.2018.66641

[23] Osei V. Inflation dynamics in Ghana. Int Finance Bank. 2017; 2(1):38-59. Available from: http://dx.doi.org/10.5296/ifb.v2i1.7913

[24] Nordstrom A, Roger S, Stone MR, Shimizu S, Kisinbay T, Restrepo JE. The role of the exchange rate in inflation-targeting emerging economies. Available from: https://doi.org/10.5089/9781589067967.084

[25] Ozurumba BA. Fiscal deficits and inflation in Nigeria: The causality approach. Int J Sci Technol Res. 2012; (1):8.

[26] Godslove K, Wobilor AK. Impact of fiscal policy on inflation in Nigerian economy 2016. Available from: https://www.semanticscholar.org/paper/Impact-of-Fiscal-Policy-on-Infl ation-in-Nigerian-Godslove-Wobilor/d773e3e3efbe926dbd44035954453d40b5558106

[27] Reem H. What is "Fiscal Policy." Bond International Monetary Fund. Available from: www.imf.org

[28] Olayungbo DO. Government spending and inflation in Nigeria: An asymmetry causality test. Int J Humanit Manag Sci. 2013; 1(4).

[29] Nwaoha WC. An econometric analysis of the effect of public spending (recurrent and capital) on inflation in Nigeria. 2012. Available from: Academia Edu.

[30] Ezeabasili VN, Mojekwu JN, Herbert WE. An empirical analysis of fiscal deficits and inflation in Nigeria. Can Res Dev Center Sci Cult Int Bus Manage. 2012; 4(1):105-120.

[31] Egbulonu KG, Wobilor AK. Impact of fiscal policy on inflation in Nigerian economy. Int J Innov Dev Policy Stud. 2016;4(3):53-60.

[32] Olu JF, Idih EO. Inflation and economic growth in Nigeria. 2015. Available from: https://www.semanticscholar.org/paper/Inflation-and-economic-growth-in-Nigeria-Olu-Idih/cd9a56ee8b948269f0f41a74ae37f77e50fa00d2

[33] Itodo IA, Akadiri SS, Ekundayo RM. Monetary policy and price stability in Nigeria. Acad J Econ Stud. 2017; 3:68-75. Available from: https://www.semanticscholar.org/paper/Monetary-Policy-and-Price-Stability-in-Nigeria-Itodo-Akadiri/03c876710b55effba40aa5773fe4fd60d3bb3603

[34] Fungáčová Z, Nuutilainen R, Weill L. Reserve requirements and the bank lending channel in China. ERN: Government Owned Firms. 2015. Available from: https://doi.org/10.2139/ssrn.2668105

[35] Ponomarenko OO, Lisna IF, Lesnaya O. Assessing the impact of anti-inflationary instruments on price stability. Bus Inform. 2022; 1:323-330. Available from: https://doi.org/10.32983/2222-4459-2022-1-323-330

[36] Demchuk O, Łyziak T. Monetary policy transmission mechanism. What do we know in 2012?. NBP Working Papers. 2012; 116. National Bank of Poland.

[37] Mukherjee, S. & Bhattacharya, R. (2011). Inflation targeting and monetary policy transmission mechanisms in emerging market economies. IMF Working paper 229.

[38] Badreldin MA. Inflation and economic performance in Sudan: An analysis study. Resjournali's J Econ. 2014; 2(3):1-8 [36] Mukherjee S, Bhattacharya R. Inflation targeting and monetary policy transmission mechanisms in emerging market economies. IMF Working paper 229.

[39] Rutasitara L. Exchange rate regimes and inflation in Tanzania. Afr Econ Res Consort (AERC) Res Pap. 2004; (138):1-34.

[40] Omotosho BS, Doguwa SI. Understanding the dynamics of inflation volatility in Nigeria: A GARCH perspective. CBN J Appl Stat. 2013; 3(2):51-74.

[41] Salam MA, Salam S, Feridun M. Forecasting inflation in developing nations: The case of Pakistan. Int Res J Finance Econ. 2006; 3:138-159.

[42] Adedeji A, Nuhu N. Monetary policy and inflation control in Nigeria. J Bus Sustain Dev. 2015; 6(8):108-115.

[43] Onodugo VA, Anowor OF, Ofoegbu GN. The effectiveness of monetary policy in tackling infation in emerging economy. Available from: https://www.semanticscholar.org/paper/ The-effectiveness-of-monetary-policy-in-tackling-in-Onodugo-Anowor/3df800f5500fc7e 718f8a26201007bcc3caaf51f

[44] Gbadebo AD, Mohammed N. Monetary policy and inflation control in Nigeria. J Econ Sustain Dev. 2015; 6:108-115. Available from: https://www.semanticscholar.org/paper/ Monetary-Policy-and-Inflation-Control-in-Nigeria-Gbadebo-Mohammed/d16e6b21e9c4 195091f25bce93bf02e44ddab944

[45] Ekong CN, Effiong UE. Monetary policy and inflation targeting in Nigeria: The need for monetary-fiscal coordination 2020. Available from: https://doi.org/10.11648/J.AJT AB.20200603.14

[46] Adeyemi O, Samuel E. Exchange rate pass-through to consumer prices in Nigeria. Eur Sci J. 2013; 9. Available from: https://doi.org/10.19044/ESJ.2013.V9N25P%25P

[47] Adeniji SO. Exchange rate volatility and inflation upturn in Nigeria: Testing for vector error correction model. 2013. Available from: https://www.semanticscholar.org/paper/ Exchange-Rate-Volatility-and-Inflation-Upturn-in-Adeniji/723071acc4fd351c37681628c ed5058f39ed9302

[48] Fasan O. Nigeria's import restrictions: A bad policy that harms trade relations 2015. Available from: https://www.semanticscholar.org/paper/Nigeria%E2%80%99s-import-restrictions%3A-A-bad-policy-that-Fasan/fb4b9c60b714f2fe4d2363ef20bba1f4be5485e7

[49] Basselier R, Liedo DD, Jonckheere J, Langenus G. Can inflation expectations in business or consumer surveys improve inflation forecasts? 2018. Available from: https://www.semanticscholar.org/paper/Can-inflation-expectations-in-business-or-consumer-Basselier-Liedo/70b05ed72fcc24078d7291347bd2e2eabc0e4b53

[50] Ahmad AU, Ismail SB, Dayyabu S, Adnan AA, Farouq I, Jakada AH, et al. Non-linear causal link between central bank intervention and exchange rate volatility in Nigeria 2020. Available from: https://www.semanticscholar.org/paper/Non-Linear-Causal-Link-betw een-Central-Bank-and-in-Ahmad-Ismail/edb3827681233ee40672c6f12da1573580ed18

[51] Mehdi B. The effect of exchange rate fluctuations on economic growth considering the level of development of financial markets in selected developing countries. Asian Econ Financ Rev. 2014; 4(4):517-528

[52] Oleh U. Battered Naira to exchange economic experts on implications of high exchange rate, Encomium, 2 February, 2015. Encomium.com. Web. 4 March, 2015.

[53] Ogundipe AA, Egbetokun S. Exchange rate pass-through to consumer prices in Nigeria. Eur Sci J. 2013; 9(25):110-123.

[54] Audu NP, Amaegberi M. Exchange rate fluctuations and inflation targeting in an open economy: Econometrics approach. Eur J Account Audit Financ Res. 2013; 1(3):24-42.

[55] Akinbobola TO. The dynamics of money supply, exchange rate and inflation in Nigeria. J Appl Finance Bank. 2012; 2(4):117-141.

[56] Boamah MI. Exchange rate pass-through in countries of the proposed West African Monetary Zone (WAMZ). Rev Econ Financ. 2013; 74-82. Available from: www.bapress.ca/ref/v3-i/2013 107

[57] Ehikioy IL, Mohammed IZ. The nexus between international trade and economic growth: The Nigerian experience. Global J Manage Bus Res. 2016; 4:246-253. Available from: https://www.semanticscholar.org/paper/THE-NEXUS-BETWEEN-INTERNATIONAL-TRADE-AND-ECONOMIC-Ehikioy-Mohammed/d05a637da1756c34faff76aae752bc6 3345e563e

[58] Ogbodo CE. Impact of international trade on economic growth of Nigeria. Available from: https://www.semanticscholar.org/paper/Impact-of-International-Trade-on-Economic-Growth-of-Ogbodo/e7815dd7612b5c4b416d57dc057fb98d6e0001ff

[59] Yusuff SA, Adekanye T, Babalola O. International trade and its effect on economic growth in Nigeria (1986-2017). Am J Econ.2020. Available from: https://doi.org/10.4767 2/AJE.621

[60] Nteegah A, Okpoi GE. External trade and its implications on foreign exchange reserves in Nigeria. West Afr J Ind Acad Res. 2017; 17:108-119. Available from: https://www. semanticscholar.org/paper/External-trade-and-its-implications-on-foreign-in-Nteegah-Okpoi/5a13f6fd514f774ae8c9a3bccca4116b04a260f2

[61] Ogbaj UA, Ebebe GC. Nigeria Trade Policy and Development at Crossroads: An Empirical Assessment of Nigeria Trade Policy. Slide Share. [Internet]. [place unknown]: Slide Share; 2013. p. 1-17. Available from: https://www.slideshare.net/Udojoel/article-on-nigeria-trade-policy

[62] Eravwoke KE, Oyovwi DO. Growth perspective via trade in Nigeria: A co-integration approach. An Int Multidiscip J Ethiopia. 2012; 6(1):Serial No. 24, January, 18-26. Available from: http://dx.doi.org/10.4314/afrrev.v6i1.2

[63] Kehinde A, Jubril A, Felix A, Edun F. Foreign trade and economic growth in Nigeria: An empirical analysis. Am Acad Scholar Res J. 2012; 4.

[64] Awe AA. The impact of foreign direct investment on economic growth in Nigeria. J Econ Sustain Dev. 2013; 4(2):122.

[65] Adeleye JO, Adeteye OS, Adewuyi MO. Impact of international trade on economic growth in Nigeria. Int J Financ Res. 2015; 6:163-172. Available from: https://doi.org/10.5430/ijfr.v6n3p163

[66] Oladipupo A, Onotaniyohowo F. Impact of exchange rate on balance of payment in Nigeria. African Research Review Journal. 2011; 5(4):73-88.