Policy Reforms and Inflation in Nigeria

Blessing Ukamaka Fidelis

Department of Economics,
University of Ilorin, Kwara State, Nigeria

Abstract

This article provides a concise analysis of the nexus between policy decisions and inflationary issues in Nigeria. Inflation has persisted as a significant problem in the history of the Nigerian economy. However, understanding the causes, trends, and historical policies is crucial for effective future policy formation and implementation, ensuring economic stability. The article examines the relationship between various policy reforms and critical drivers in Nigeria across different periods, providing recommendations for managing inflation.

1. Introduction

The Nigerian economy is one of Africa's largest, with approximately 260 million people, a wealth of human capital, vast agrarian zones, and natural resources such as coal, crude oil, and natural gas (World Bank, 2024). Despite these potentials, Nigeria is still described as a developing economy with several macroeconomic issues, ranging from unemployment, poverty, inflation, and low productivity, among others. Thus, inflation remains one of the most pressing and sometimes contentious issues in the economy.

Inflation is explained as a general increase in the price of goods and services over time. It is an economic phenomenon that has a significant impact on general economic growth and development. The effect of inflation on the economy can be positive or negative, depending on the targeted macroeconomic objective. For instance, according to Naz et al. (2012), "the pace of inflation has a significant impact on the poor and makes their lives extremely difficult." This explains the inability of the poor and vulnerable populations to meet their basic needs. Another negative impact of inflation is its effect on the economy, as it erodes the value of the country's currency, reduces economic stability, worsens wealth inequality, and reduces competitiveness, among other effects, as posited by the Cost-Push and Demand-Pull Inflation Theories. Nigeria's heavy reliance on imports has placed pressure on the naira, thereby causing an immediate and direct impact on inflation.

Regarding the positive outcome, a moderate level of inflation is necessary for economic growth. This can be further understood in the Phillips curve theory of inflation and unemployment, where higher inflation reduces unemployment and scales up growth. However, it can be said that in Nigeria, inflation has done more harm than good, and deliberate actions by the government and monetary authorities have been implemented to help mitigate its effects on all agents in the country.

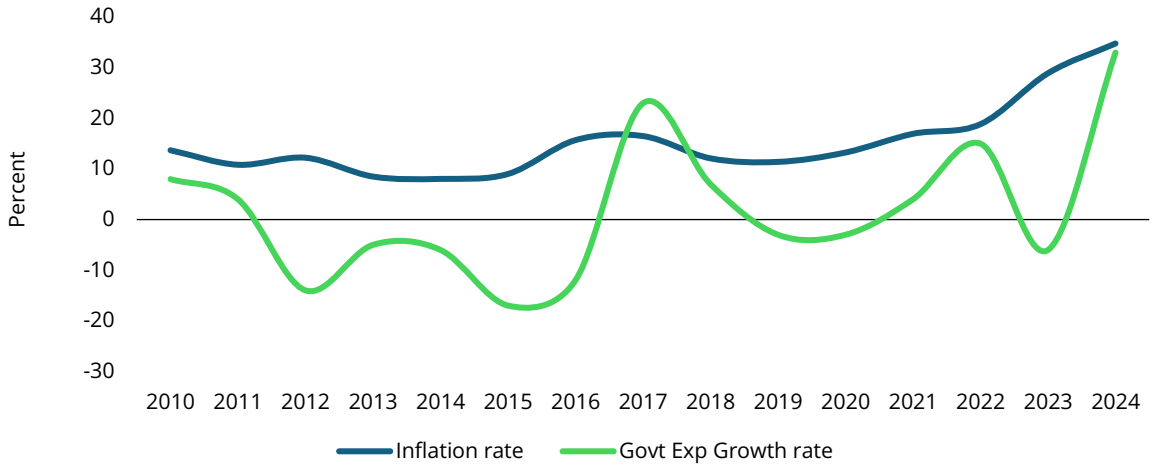
Now, the big question is: How effective were past policies in achieving price stabilisation? What policy reform can be best used to curb the effects of inflation in Nigeria? There are varied opinions regarding the effectiveness of policymaking in Nigeria, as well as the most appropriate policy to adopt for long-term stabilisation. As a complex topic, inflation is viewed from different perspectives. A school of thought views it as the result of an increase in the money supply and attributes it to monetary policy. Another theory views inflation as the result of a higher level of aggregate demand than aggregate supply, which is caused by an increase in government expenditure and can be attributed to fiscal policy. A contrasting view sees inflation as the result of under-productivity in response to growing demand, which can be attributed to supply-side policy.

2. Fiscal Policy and Inflation in Nigeria

One critical lesson learned from the great depression of the 1930s was the importance of government intervention in achieving economic stability. To that end, fiscal policy plays a reactive role in the stabilisation objective, especially when the interest rate approaches zero. However, in Nigeria, it is not farfetched that the Nigerian government's fiscal policy reform mainly focuses on addressing urgent national needs rather than regulating prices. Facts can be gathered from the recent 2025 budget proposed by President Bola Tinubu, which revealed a 9.77 percent increase from the preceding year in the fiscal plan. This illustrates an expansionary fiscal policy implemented by the government to address pressing economic issues, excluding the impact of currency fluctuations. However, this policy can lead to more inflation and

instability if not managed with precision and restraint, as per the Keynesian Fiscal Policy Theory.

Figure 1: Relationship between Government Expenditure and Inflation Rate in Nigeria



Data Source: CBN Statistical Bulletin and International Monetary Fund.

For an evidence-based report, the government expenditure was utilised as a fiscal tool to show the effectiveness of fiscal policy on inflation. **Figure 1** reveals a complex relationship between the growth rate of government expenditure from 2010 to 2024. In brief, the graph shows no consistent relationship between government expenditure growth and inflation. Sometimes, they move together, as in 2023-2024, when both sharply increased; however, at other times, they move in opposite directions, as in 2017, when government spending spiked while inflation remained stable. This suggests that government spending does not directly control inflation in this economy, and other factors likely play a significant role in determining inflation rates. However, the chart shows that government expenditures and inflation co-moved in some years, indicating a potentially positive relationship, as higher government expenditures are likely to lead to increased inflation. This generally suggests the effectiveness of fiscal policy transmission.

2.1 Fuel subsidy reforms

The 2023 removal of fuel subsidies has also contributed to the rate of inflation, which reached over 28 percent in early 2024. This policy, initiated by the government, led to a rise in fuel prices and general transportation costs, thereby increasing the cost of producing and transporting goods. The price of petrol skyrocketed from N185 per litre to over N1000 per litre, and in some locations, it exceeded N1000 per litre, thereby increasing transportation costs by more than 100 percent. However, according to Onyeiwu (2024), Fuel subsidies were detrimental to the Nigerian economy. They worsened budget deficits, encouraged corruption, and diverted resources away from critical sectors. This explains the justification for the government's implementation of the policy. The subsidies were also considered to be a drain on fiscal management, costing the government over N4.39 trillion in 2022. These resources would have been allocated toward infrastructural, healthcare, and educational development. The policy has also served as an incentive for private individuals and businesses to contribute to the energy sector of the economy. For instance, the Dangote refinery's $19 billion project aims to refine 650,000 barrels per day, thereby contributing to Nigeria's efforts to reduce its reliance on imported refined crude oil.

2.2 Energy sector reforms

With the removal of the subsidy policy, solar adoption has increased, with many homes and businesses installing solar panels. On the other hand, the persistent lack of a stable power supply has crippled small-scale industries and artisans, forcing many out of business (Lucas, 2025). The power sector is facing

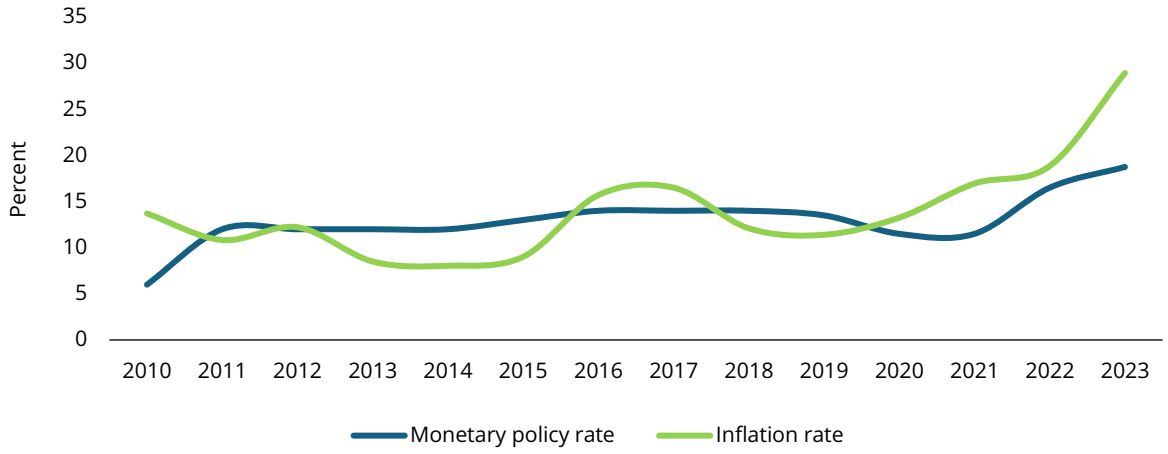
financial distress, with approximately N4 trillion in debt threatening its stability. However, the Electricity Act 2024 reform aims to address the liquidity challenges faced in the power sector, as well as attract new private-sector investments (Deekor, 2025). Examining the fiscal reforms in Nigeria, these strategies have mixed effects on the economy. To achieve general economic stability, the fiscal authorities must strike a balance between their policy and other sectors.

3. Monetary Policy and Inflation in Nigeria.

The growth of the money supply is linked to the high inflation rate because excessive money in circulation will increase the cash balances of all economic agents, leading to higher prices for goods and services. This brief analysis highlights the importance of monetary authorities adopting a resolute strategy that aligns with the macroeconomic objective of price stability. However, reducing inflation in Nigeria needs a complex strategy that surpasses the Central Bank of Nigeria's inflation targeting, as it cannot do it alone.

To control inflation in the economy, the central bank implemented measures to reduce excess liquidity by raising the monetary policy rate (MPR) from 18.75 percent in January 2024 to 27.5 percent in November 2024 (see **Figure 2**). This strategy, however, is unfolding conflicting views of the policy, leading to high borrowing costs and reduced investment and economic growth. Given this information, the governor of CBN, Olayemi Cardoso, explained that the MPR is not intended to be permanent, as reforms can be made, taking the inflation rate into account. He further explained that as inflation pressure begins to ease, the central bank may gradually reduce the interest rate to minimise the effect of the MPR policy. However, it is essential to examine historical trends in monetary policy rates and their impact on inflation to determine how effectively future policies will stabilise the economy.

Figure 2: Relationship between the Monetary Policy Rate and Inflation Rate in Nigeria



Data Source: CBN Statistical Bulletin

To achieve policy-relevant outcomes using the monetary policy rate, a graphical analysis was employed. Based on the graph, monetary policy has been ineffective in controlling inflation in recent years due to the influence of other economic factors. This suggests that the central bank has been chasing inflation with its policy rate but has struggled to keep pace with it, particularly in recent years. Fisher's equation underpins this, indicating that the persistent and growing positive gap between inflation and the monetary policy rate indicates negative real interest rates, which typically stimulate rather than constrain economic activity and inflation.

3.1 Exchange rate reforms

Further investigating the reforms made by the monetary authorities using the exchange rates as an indicator. The Nigerian economy recorded its fastest growth in about a decade in the fourth quarter of 2024, driven by key reforms, particularly the exchange rate reforms implemented by the Central Bank of Nigeria (Alli, 2025). The structuring, driven by the CBN governor, Olayemi Cardoso, consolidates all exchange rates into the Investors and Exporters (I&E) forex window, allowing the central bank to rebuild official reserves, now exceeding US$37 billion. The World Bank's lead economist for Nigeria, Alex Sienaert. Pointed out that more efforts are needed to ensure that this growth is inclusive, particularly through expanding cash transfer programmes for the vulnerable populations in the country

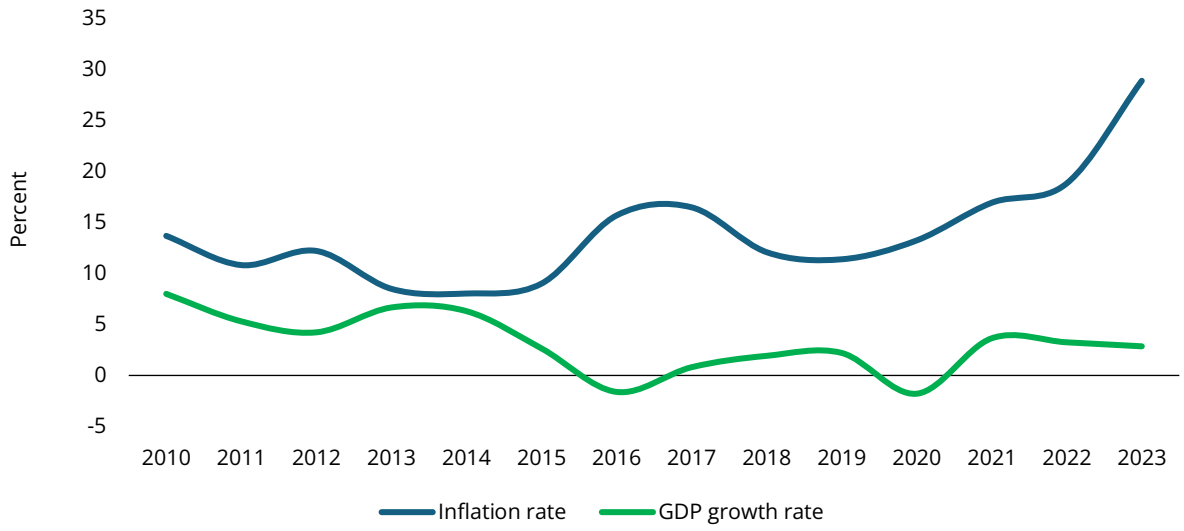
4. Supply-Side Policy and Inflation

The shift in Nigeria's economy from being primarily dependent on agriculture to being heavily reliant on oil has been a concern among policymakers, economists, and industrialists. It is not far-fetched to suggest that this revolution has limited the economy's industrial diversification, making it vulnerable to price fluctuations and hindering economic growth. To illustrate, Nigeria's current inflation is heavily characterised by global oil fluctuations and under-productivity in meeting the demands of the people. As such, the country relies heavily on the importation of goods, including refined petroleum, food items, machinery and equipment, vehicles, pharmaceuticals, textiles, chemicals, and more, from other countries.

Diversification is one of many ways to create a more resilient and stable economy. It entails strategies that include growing and developing different sectors beyond a country's traditional or dominant industries. This policy is linked to diversification, as it aims to encourage entrepreneurship, investment in human capital, infrastructure improvement, competitiveness enhancement, reduced reliance on a single industry, and the implementation of an appropriate plan, all of which contribute to price stability and reduced inflation.

Diversification can enhance the effectiveness of supply-side policies in the economy by improving output and specifically enhancing competitiveness, which will stabilise the economy. It is essential to acknowledge that supply-side policies have their drawbacks, just as fiscal and monetary policies do, and with a well-designed plan, can contribute to long-term economic development without exacerbating inflation.

Figure 3: Relationship between the GDP growth rate and Inflation rate in Nigeria



Data Source: World Bank

Figure 3 shows that the GDP growth rate in Nigeria for the period of 2010 to 2023 did not correlate with stable prices. This graph shows that the GDP growth rate in Nigeria from 2010 to 2023 did not correlate with stable prices. The lack of correlation between GDP growth and inflation in Nigeria from 2010-2023 can be justified by several structural and economic factors unique to Nigeria's economy, such as poor infrastructure, oil dependency, and external shocks, Nigeria's heavy reliance on imports for consumer goods, intermediate inputs, and capital goods, agricultural and food price volatility, as well as weak institutions resulting in policy inconsistencies. In reference to the data, GDP growth remained stagnant, while inflation rates increased significantly, especially after 2017. This indicates that, despite the country's efforts to maintain price stability, inflation reached its peak.

5. Insecurity and food insecurity reforms

Supply-side policy can also be viewed through the lenses of addressing insecurity and food insecurity, as a stable and productive economy can help reduce vulnerabilities and improve access to food and other resources. The recent devaluation of the national currency has led to skyrocketing food prices, and as such, black markets have flourished, exacerbating the challenges faced by ordinary citizens seeking food (NESG, 2024). Food crisis in Nigeria has reached unprecedented levels (Taiwo & Adekunle, 2024). Statistically, food inflation rose to 35.41 percent in January 2024, whereas the overall inflation rate was 28.9 percent in December 2023, increasing the number of Nigerians falling into poverty. A lack of productivity initially causes food inflation, and then inflation amplifies its effects. To reduce the rate of insecurity in the country, the government has implemented various policies such as the July 13, 2023 state of emergency on food security, the 200 billion for the cultivation of hectares of farmland, and as well as the Niger state Government's exemplary sub-national response underscores the importance of local cooperation and support for smallholder farmers but has not yield visible results.

6. Comparative Insights

Like Nigeria, Ghana has also faced challenges related to inflation. Specifically, Ghana experienced inflation exceeding 50 percent as of 2022-2023, primarily due to debt distress, high energy prices, and food insecurity. However, Ghana's collaboration with the International Monetary Fund (IMF) for a US$3 billion financial aid focused on restoring economic stability, reducing debt, and boosting public financial management. Additionally, drawing insights from Indonesia, a resource-rich developing country like Nigeria, prioritises slow subsidy reforms and agricultural restructuring, which has helped the country mitigate the inflationary impact of external shocks and currency volatility. For instance, despite the COVID-19 pandemic, Indonesia's inflation rate remained below 6 percent in 2022-2023.

7. Recommendations and Conclusion

Numerous factors influence inflation and can be described as a complex and persistent issue that requires comprehensive solutions. The following strategies are recommended for addressing this challenge.

- Policymakers and stakeholders from various sectors should collaborate to develop a comprehensive strategy for managing inflation. This explicitly suggests that all bodies responsible for policy making (economic and financial, fiscal, monetary, trade, and commerce authorities, and others), as well as the private sector and other stakeholders, should collaborate to measure prospective solutions using cost benefit analysis when making decisions.

- All sectors of the economy, encompassing agriculture, manufacturing, education, oil and gas, services, and others, should work in tandem to provide goods and services that meet the demand of the people rather than relying on imported items.

- Nigeria is blessed with lots of resources that are sufficient for the country. On that note, the government should prioritise investment of these resources to improve efficient utilisation. This

suggestion encompasses human capital development, the exploration and extraction of natural resources, investment in renewable energy, and other related areas.

• Building on Ghana's reforms, Nigeria should prioritise fiscal consolidation, debt restructuring, and external anchor reform programs that can help recover investors' confidence and stabilise the currency and inflation.

Nigeria's economy is complex, and the country's condition and basic theories do not correlate. For this reason, reforms should be implemented independently of what works for other economies. The country's inflation crisis requires a comprehensive approach that encompasses commonly suggested solutions.

References

NESG (2024). Policy Brief on the Status of Food Security: Dimensioning the Crisis, Policy Options and Strategic Responses. Nigerian Economic Summit Group. https://www.nesgroup.org

Taiwo, S. & Adekunle, W. (2024). Nigerian households faced acute food shortages amid high prices. Nigerian Economic Summit Group Living Conditions Monitor, retrieved from: https://nesgroup.org/index.php/researchdocument/nesg-living-condition-monitor--nigerian-households-faced-acute-food-shortages-amid-high-prices

Alli, T. (2025). *Exchange rate reforms and Nigeria's economic growth*, Businessday Newspaper, retrieved from: https://businessday.ng/companies/article/fx-reforms-hold-ace-for-nigerias-economic-rebound-growth-prospects/

Deekor, N. (2025). *Electricity Act 2024 and energy sector investment outlook*, retrieved from: https://www.linkedin.com/pulse/energy-reforms-policies-under-current-administration-lucky-deekor-fseue/

Egieya, O., Ajala, A., & Others. (2024). *Food inflation and poverty levels in Nigeria*.

Ezeanyeji, C. I., Obi, C. O., Imoagwu, C. P., & Ejefobihi, U. F. (2021). Monetary Policy and Inflation Control: The Case of Nigeria. *European Journal of Management and Marketing Studies*, *6*(2). https://doi.org/10.46827/ejmms.v6i2.1017

Lucas, B. (2025). *Impact of unstable electricity on small businesses in Nigeria*. Retrieved from: https://thenationonlineng.net/power-sector-reforms-raise-hopes-yet-challenges-linger/

Naz, A., Chaudhry, H. U. R., Hussain, M., Daraz, U., & Khan, W. (2012). Inflation: the social monster, socio-economic and psychological impacts of inflation and price hike on poor families of district Malakand, Khyber Pakhtunkhwa, Pakistan. International Journal of Business and Social Science, 2(14).

Odojoma Park IDISI, Prekeme Philip OJOKOJO, & Emeka Solomon FIDELIS. (2023). Causes and drivers of inflation in Nigeria: A comprehensive review. *World Journal of Advanced Research and Reviews*, *19*(1), 779–788. https://doi.org/10.30574/wjarr.2023.19.1.1376

Onyeiwu, C. (2024). *Economic rationale for subsidy removal in Nigeria.* Retrieved from: https://theconversation.com/nigerias-fuel-subsidy-removal-was-too-sudden-why-a-gradual-approach-would-have-been-better-222224

Samson, B., Peter, F., & Cynthia, D. (2023). Fiscal Policy and Inflation in Nigeria. *Journal of Sustainable Business and Economics*, *6*(2): 1–11. https://doi.org/10.30564/jsbe.v6i2.5739

World Bank. (2024). *Nigeria: Economic overview and development outlook*. https://www.worldbank.org/