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Summary of
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"The Main Determinants of Inflation in Nigeria" by Gary G. Moser

The inflation rate in Nigeria has increased steadily and markedly since independence. By the end of 1993, inflation had reached 60 percent (on an end-period basis), and real per capita income growth had stalled. This paper reviews previous empirical studies on the determinants of inflation in Nigeria, analyzes the dominant factors influencing inflation, presents the empirical results of a reduced-form elasticities model, and discusses the policy implications of those empirical results.

The rate of inflation in Nigeria is based on a composite urban and rural consumer price index (CPI), with food items representing almost 70 percent of the CPI market basket. Consequently, factors affecting food prices dominate movements in the CPI, including agroclimatic conditions, wages, domestic inputs, and import prices. In reviewing episodes of inflation during 1985-93, this paper finds that money growth, resulting largely from expansionary fiscal policies, combined with agroclimatic conditions, significantly influenced movements in the rate of inflation. The devaluation of the naira, as expected, also affected inflation during the period.

The relative weights of the key factors influencing the rate of inflation (money, income, and exchange rates) are tested empirically using a semi-reduced form model. Given the apparent central role of expansionary fiscal and monetary policies in the inflation process, an expanded monetary model of inflation is employed. The results of the analysis confirm the basic findings of earlier studies, namely, that monetary expansion, driven mainly by expansionary fiscal policies, explains to a large degree the inflationary process in Nigeria. Regarding the exchange rate, the impact of a depreciation of the naira on the rate of inflation was found to be significant, but that impact could be moderated with appropriately tight fiscal and monetary policies. Given the considerable role of food commodities in the CPI, agroclimatic conditions (rainfall) were also found to influence overall movements in prices significantly.