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Research

## **Inflation Targeting as a Policy Instrument for Ameliorating the persistent Inflationary Pressures in Nigeria**

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**Abstract:** Hyperinflation has been a perennial and persistent economic challenge in Nigeria, undermining purchasing power and causing hardship for the citizenry, destabilizing financial markets and eroding public confidence in monetary policy regimes. Inflation targeting, a monetary policy framework adopted globally, offers a potential remedy by explicitly focusing on maintaining low and stable inflation through central bank interventions. This paper examines the relevance, applicability, and potential outcomes of inflation targeting in Nigeria. Using historical data, theoretical frameworks, and comparative case studies, the study argues that a structured inflation targeting regime could serve as an effective tool to mitigate hyperinflation and foster economic stability. It also highlights the necessary institutional, fiscal, and communication strategies that are critical for successful implementation.

**Keywords:** Inflation Targeting, Hyperinflation, Monetary Policy, Central Bank Of Nigeria, Economic Stability

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### **Introduction.**

Inflation is more than a macroeconomic indicator; it is a lived reality for millions of Nigerians. When prices rise faster than incomes, households face painful choices between bread and rent, children's schooling and healthcare, transportation and basic utilities. In recent years, Nigeria's inflation trajectory has shifted from chronic price pressures to what many analysts regard as dangerously high rates evocative of hyperinflationary conditions, where money rapidly loses its purchasing power, and economic stability frays at the edges of society. From the late 2010s through the mid-2020s, Nigeria experienced inflation rates that soared into the double digits and into the thirties, eroding purchasing power and

contributing to widespread economic hardship (Dele et al., 2025; Punchng.com, 2025; Reuters, 2025).

Nigeria's inflation has not evolved in a vacuum; it reflects a confluence of structural weaknesses and policy shocks. Reforms under the administration of President Bola Tinubu, including the removal of long-standing fuel subsidies and the unification of multiple foreign exchange markets, were designed to stabilize public finances but also contributed to surging prices in the short term. In 2024, the headline inflation rate peaked at 34.80 percent, far exceeding the Central Bank of Nigeria's (CBN) target of 21.40 percent, and marking one of the highest rates in decades (Punchng.com, 2025). These price increases were evident not only in aggregate indices but in the day-to-day cost of living for ordinary citizens. Food inflation, which directly affects household welfare given that a vast majority of Nigerian income is spent on food, reached upwards of 35 percent during the same period, a level few families could absorb without significant distress (Reuters, 2025; Nationaleconomy.com, 2024).

The social consequences of such rapid price escalation have been profound. In 2024, unionized workers across sectors staged nationwide strikes demanding wage increases as a direct response to what they described as an untenable cost of living crisis. These actions, which disrupted electricity services and closed major airports, underscored the extent to which inflation had seeped into the fabric of everyday life, prompting citizens to demand policy responses that would protect real incomes and restore confidence in the economy (AP News, 2024). Moreover, global institutions like the World Bank have reported that high inflation, when coupled with stagnating wages and slow growth, significantly worsened poverty levels in Nigeria, with hundreds of millions now estimated to live below the national poverty line (Reddit source summarizing World Bank data, 2024). These developments pose a stark reminder that inflation is not an abstract statistic but a force that can deepen inequality, stifle growth, and undermine public trust in institutions.

Inflation targeting has emerged as a central strategy within Nigeria's policy discourse to counteract these inflationary pressures. At its core, inflation targeting is a monetary policy framework in which a central bank publicly announces a target inflation rate and then uses its policy instruments, primarily interest rates, to steer actual inflation toward this target. Proponents argue that clear targets can anchor inflation expectations, improve transparency, and enhance the credibility of monetary authorities; critics caution

about its limitations in emerging markets with structural constraints (Ifeolu & Amali, 2023; Okonta & Nwankwo, 2018). Historically, inflation targeting has been successful in several emerging economies such as Ghana and South Africa, where it helped shift price dynamics from volatile spikes to more stable, predictable trends, albeit with varying costs in terms of output and employment tradeoffs (Businessday NG, 2025).

For Nigeria, the move toward formalizing an inflation-targeting regime represents both a technical shift and a symbolic commitment to price stability. In late 2025, the CBN outlined a phased inflation target of 16.5 percent for 2026, with an allowable band above and below this central point, and a longer-term ambition of achieving around 13 percent by 2027 (Businessday NG, 2025). This shift has been framed as part of a broader macroeconomic stabilization strategy following years of monetary tightening, foreign exchange reform, and efforts to rebuild institutional capacity. The central bank's blueprint reflects an intention to anchor inflation expectations more effectively and improve policy communication with the public and private sectors alike.

The rationale for inflation targeting in the Nigerian context rests on several theoretical and empirical foundations. Studies on Nigeria's macroeconomy suggest that establishing a clear numerical inflation anchor can constrain volatile price movements and serve as a guidepost for both monetary and fiscal actors (Falegan & Amali, 2023). Evidence from threshold regression analyses indicates that inflation levels beyond certain benchmarks can be detrimental to economic growth, implying that anchored inflation could foster stronger growth performance while also preserving macroeconomic stability (study summarizing optimal benchmarks, 2025). This scholarly work provides a quantitative rationale for setting inflation targets that are compatible with growth objectives, an outcome that, if realized, could help reconcile price stability with Nigeria's broader development goals.

Yet, the transition to an inflation-targeting framework in Nigeria is not without challenges. Critics highlight structural factors, such as persistent fiscal deficits, volatile food supply chains, exchange rate volatility, and security-related disruptions, that complicate the transmission of monetary policy and weaken the predictive power of inflation models. These entrenched issues mean that even with a clear target, achieving price stability requires coordination across economic policy spheres, including fiscal discipline, agriculture and production support, and exchange rate management (Dele et al., 2025; Ajoke et al., 2026). In other words, inflation targeting in Nigeria cannot be viewed as

a silver bullet but rather as a central component of a broader strategy to tackle the structural drivers of inflation.

As Nigeria moves forward with this policy shift, understanding its implications becomes critical, not just for economists and policymakers but for the millions of households navigating daily economic uncertainty. This journal explores the potential of inflation targeting not just as an abstract policy instrument but as a real-world remedy to the hyperinflationary pressures that have reshaped the Nigerian economy in recent years. In the following sections, we will evaluate the evolution of Nigeria's inflationary experience, examine the theoretical foundations of inflation targeting, and assess whether this framework is fit for purpose within the Nigerian institutional and structural context.

Inflation represents one of the most pressing macroeconomic challenges, particularly in developing economies like Nigeria. In recent decades, Nigeria has experienced episodes of hyperinflation, with rates occasionally exceeding 20% annually. Hyperinflation destabilizes the economy by eroding purchasing power, discouraging investment, and creating uncertainty in financial planning. It also affects poverty levels, as the cost of essential goods increases disproportionately compared to incomes, leading to social tension and widening income inequality.

Inflation targeting, first implemented successfully in countries like New Zealand and Canada, represents a forward-looking policy approach. It involves setting explicit inflation goals and adjusting monetary instruments to achieve those targets. Unlike conventional monetary policy, which reacts to inflationary shocks, inflation targeting is proactive, aiming to shape expectations and maintain price stability.

This paper explores the viability of inflation targeting as a solution to Nigeria's hyperinflation challenge. It examines historical inflation trends, theoretical frameworks, international experiences, and policy mechanisms to understand how a structured approach could restore economic stability. Further, it analyzes fiscal, structural, and socio-political dimensions that influence the effectiveness of inflation targeting, emphasizing the interplay between monetary policy, public confidence, and macroeconomic stability.

### **Literature Review**

Hyperinflation in Nigeria Hyperinflation occurs when price levels rise uncontrollably over a short period. Nigeria has faced several inflationary shocks driven by external factors, such as oil price volatility, and internal factors, including fiscal deficits, currency depreciation, and supply-side constraints. Studies by Ojo (2017) and Adegbite

(2020) highlight the cyclical nature of inflation in Nigeria and the ineffectiveness of conventional monetary policies. Hyperinflation not only affects households but also reduces business confidence, discouraging investment, and slowing economic growth.

High inflation erodes savings and disrupts financial planning. Households face increased costs of basic goods, education, and healthcare. Businesses struggle with pricing uncertainty, which impacts investment decisions and employment generation. The Nigerian government has attempted multiple strategies, including interest rate adjustments, price controls, and fiscal tightening, but these measures have had limited success due to structural economic weaknesses.

### **Concept of Inflation**

Targeting Inflation targeting is a monetary policy strategy where the central bank announces a publicly stated inflation rate target and uses interest rate policy, open market operations, and communication strategies to achieve it. Bernanke et al. (1999) and Mishkin (2000) emphasize that transparency, credibility, and central bank independence are crucial for the success of this approach. Effective inflation targeting also requires clear mechanisms to adjust policy instruments and feedback systems to assess inflationary pressures in real-time.

The approach relies on several core principles:

- i. Commitment to a publicly announced target
- ii. Central bank independence to prevent political interference
- iii. Use of interest rates and monetary tools to achieve the target
- iv. Transparent communication with the public to anchor inflation expectations

### **Global Experiences**

Countries such as New Zealand, Canada, Brazil, South Africa, and Chile have successfully curbed high inflation through inflation targeting. Key lessons include the importance of central bank credibility, clear communication strategies, institutional independence, and robust macroeconomic data systems. For example, in South Africa, the adoption of inflation targeting led to a gradual reduction in inflation expectations and improved financial market stability. Chile achieved sustained price stability and low inflation through a combination of credible central banking and consistent policy implementation.

### **Theoretical Framework**

The paper relies on two primary economic theories:

*Quantity Theory of Money (QTM)* –This theory posits that inflation is directly related to the growth of money supply relative to output. Excessive money creation, particularly during fiscal deficits, can lead to sustained inflationary pressures.

*Expectations-Augmented Phillips Curve* – On its part, this theory suggests that inflation expectations influence actual inflation, highlighting the role of credible policy in stabilizing prices. Public expectations of future inflation determine wage negotiations, price-setting behaviors, and investment decisions.

These frameworks support the hypothesis that a structured inflation targeting policy could align public expectations and stabilize Nigeria's inflation rates. Additionally, institutional credibility and policy transparency are essential to ensure that these expectations are effectively managed.

### **Methodology**

This study adopts a qualitative research methodology combined with secondary quantitative data analysis. Data on Nigerian inflation rates, monetary policies, and macroeconomic indicators were collected from:

- i. Central Bank of Nigeria (CBN) reports
- ii. National Bureau of Statistics (NBS) data
- iii. World Bank and IMF publications
- iv. Academic journals and policy papers

The research applies comparative analysis by examining the outcomes of inflation targeting in other emerging economies and assessing the conditions necessary for successful implementation in Nigeria. Both historical trends and contemporary economic conditions are considered. Furthermore, interviews and secondary sources provide insights into practical challenges and policy options.

### **Analysis and Discussion**

#### **Inflation Dynamics in Nigeria**

Nigeria's inflation pattern over the last decade reveals persistent upward pressure driven by structural weaknesses, fiscal imbalances, exchange-rate instability, and supply constraints. Although inflation has shown periods of moderation, the overall trend indicates chronic price instability, which supports the argument for adopting a credible inflation-targeting framework.

Recent statistics from the National Bureau of Statistics (NBS) show that inflation rose sharply between 2023 and 2024, reaching about 34.8 % in December 2024, one of the

highest levels recorded in nearly three decades. Following monetary tightening and exchange-rate reforms, inflation declined gradually to 24.48 % in early 2025, and later to 14.45 % in November 2025, although price pressures remained significant (NBS, 2025; Reuters, 2025).

These movements confirm that inflation in Nigeria is not caused by a single factor but by a combination of fiscal, monetary, structural, and external shocks.

*Table 4.1 Nigeria Inflation Rate (Selected Years)*

Year	Inflation Rate (%)	Key Events
<b>2015</b>	<b>9.0</b>	<b>Oil price decline, FX pressure</b>
<b>2018</b>	<b>12.1</b>	<b>Exchange rate instability</b>
<b>2020</b>	<b>13.2.</b>	<b>COVID-19 supply shock</b>
<b>2022</b>	<b>21.1</b>	<b>Food &amp; transport cost surge</b>
<b>2023</b>	<b>28.9</b>	<b>Subsidy removal, FX reform</b>
<b>2024</b>	<b>34.8</b>	<b>Peak inflation level</b>
<b>2025</b>	<b>24.5</b>	<b>CPI rebasing, tightening policy</b>
<b>2025 (Nov)</b>	<b>14.45</b>	<b>Disinflation trend begins</b>
<b>2026 (Feb)</b>	<b>15.06</b>	<b>Slow decline continues</b>

**\*Source: NBS CPI Reports, Reuters Economic Data (2015–2026)**

### **Fiscal Deficits Financed by Money Creation**

One of the major drivers of inflation in Nigeria is the financing of government deficits through borrowing from the Central Bank. When deficits are monetized, money supply increases without a corresponding increase in output, leading to demand-pull inflation.

The World Bank reported that Nigeria’s fiscal deficit was about 5.4 % of GDP in 2023, before falling to about 3 % in 2024 after reforms, including subsidy removal and revenue increases (World Bank, 2025). However, earlier deficit financing contributed significantly to inflationary pressure.

Large government spending combined with weak revenue generation forces reliance on central bank financing, which expands liquidity in the economy and weakens price stability.

### **Exchange Rate Volatility**

Exchange-rate instability has been one of the strongest predictors of inflation in Nigeria because the country depends heavily on imports.

Following the adoption of a floating exchange rate and removal of FX controls in 2023, the naira depreciated sharply, increasing the cost of imported goods, fuel, machinery, and food items. This depreciation contributed to inflation rising above 30 % in 2024 (Reuters, 2025).

Imported inflation affects food prices, transport cost, energy prices and industrial production cost.

Because Nigeria imports a large share of consumer goods, exchange-rate shocks quickly transmit into domestic prices.

### **Supply-Side Shocks in Agriculture, Energy, and Transportation**

Nigeria's inflation is heavily influenced by supply constraints rather than only demand factors.

Food inflation has consistently been the largest contributor to headline inflation. In March 2025, food inflation stood at 21.79 %, driven by higher prices of rice, yam, pepper, and other staples (NBS, 2025).

Supply shocks come from insecurity affecting farming areas, high fuel prices increasing transport cost, poor storage and distribution systems as well as flooding and climate shocks. Energy price increases also played a major role after fuel subsidy removal, which raised transport and production costs across all sectors. Transport and logistics problems increase the final price of goods even when production cost is stable.

### **Structural Inefficiencies in the Economy**

Nigeria's inflation problem is deeply rooted in structural weaknesses, including poor infrastructure, low domestic production capacity, heavy reliance on import and weak industrial base. For example, Nigeria spent over ₦5.27 trillion on food imports in 2025, showing strong dependence on foreign supply (NBS, 2025).

Structural inefficiencies mean that any exchange-rate change raises prices, any fuel price increase affects all goods and any supply disruption causes inflation spike.

Core inflation data also shows persistent pressure in housing, electricity, transportation, and education, which indicates that inflation is embedded in the structure of the economy rather than temporary shocks (NBS, 2025).

*Table 4.2 Contribution to Inflation in Nigeria (Approximate Share)*

Sector	Contribution (%)
Food.	45
Transport	15
Housing & Energy.	14
Imported Goods	13
Others	13

*Source: CPI Composition Analysis (NBS Reports)*

### **Analysis and Discussion**

The analysis shows that Nigeria's inflation is persistent because it is driven by multiple reinforcing factors. Fiscal deficits increase money supply, exchange-rate depreciation raises import prices, supply-side shocks reduce output, and structural weaknesses prevent quick adjustment.

This combination makes inflation difficult to control using conventional monetary policy alone, which explains why inflation remained high even after interest rate increases.

Therefore, inflation targeting can only succeed in Nigeria if it is supported by fiscal discipline, exchange-rate stability, improved agricultural production, and structural reforms.

Without these complementary policies, inflation targeting may remain ineffective, as the root causes of inflation lie beyond monetary policy.

**Inflation Dynamics in Nigeria** Analysis of historical data shows persistent inflationary pressure due to:

- i. Fiscal deficits financed by money creation
- ii. Exchange rate volatility
- iii. Supply-side shocks in agricultural, energy, and transportation sectors
- iv. Structural inefficiencies in the economy, including inadequate infrastructure and reliance on imported goods

### **Potential of Inflation Targeting in Nigeria** Inflation targeting can:

- i. Anchor inflation expectations through clear targets and credible communication
- ii. Enhance monetary policy credibility by linking central bank actions to outcomes
- iii. Encourage investment by providing predictable price levels
- iv. Support long-term economic planning for businesses and households
- v. Mitigate income inequality by stabilizing the purchasing power of wages

## **Challenges to Implementation**

Challenges include:

1. Weak data collection infrastructure leading to delayed or inaccurate inflation measures
2. Political interference and fiscal dominance, where government borrowing pressures the central bank
3. High dependence on oil revenues, which are volatile and subject to global market shocks
4. Limited financial market development, which restricts the central bank's ability to implement effective interest rate policies
5. Public mistrust and lack of awareness about monetary policy, which can weaken the impact of inflation targeting

## **Policy Recommendations**

### **The need to strengthen Central Bank of Nigeria (CBN) Independence through Legal and Institutional Reforms**

A strong institutional framework is essential for effective inflation targeting. Over the past few years, Nigeria has experienced bouts of high inflation partly linked to monetary financing of deficits and policy uncertainty. For example, inflation exceeded CBN's own target of 21.4 % in 2024, reaching 34.8 % by year-end (Abimbola, 2025). The CBN Governor, Olayemi Cardoso, estimated that without decisive policy interventions, inflation could have escalated further, possibly above 42.8 % (Tunji, 2025). These figures highlight the need for the CBN to operate with clear legal autonomy to act decisively without pressure from political actors.

Legal and institutional reforms could include statutory protection for monetary policy committees, removing discretion of executive authority over interest rates, and safeguarding against fiscal dominance of monetary policy, all seen as essential by international bodies like the International Monetary Fund and World Bank in economies attempting inflation-targeting frameworks (IMF, 2023). Ensuring such autonomy allows the CBN to set and adjust policy according to economic conditions, rather than short-term political priorities.

### **An Establishment of a Clear Inflation Target (e.g., 6-8 %) with Monitoring and Adjustment Mechanisms**

Although Nigeria has begun a more structured approach toward inflation management, the existing framework lacks a clearly articulated medium-term numeric target. In 2024–2025, headline inflation fell from extreme highs toward more moderate levels, with reports showing headline inflation easing to 14.45 % by November 2025, its lowest in five years (Ogunwusi, 2025). While this trend indicates a positive trajectory, it remains far above inflation levels common in advanced economies that employ formal inflation targeting (typically 2–4 %).

A defined target range (e.g., 6–8 %) makes policy expectations more predictable and aligns Nigeria with practices in other emerging economies that have successfully anchored inflation expectations (Khan, 2021). Clear mechanisms, including quarterly MPC reviews, public accountability reports, and pre-announced adjustment rules, further enhance credibility. Without such specificity, stakeholders may misinterpret policy intentions, potentially unmooring inflation expectations and weakening monetary control.

### **Improvement in Statistical and Data Collection Systems**

Accurate measurement of inflation and its core drivers is pivotal for policy decisions. The recent rebasing of Nigeria's Consumer Price Index (CPI) altered the reported inflation rate substantially, from 34.8 % to about 24.48 %, indicating how critical data methodologies are for interpretations of inflation dynamics (Olayinka & Oji, 2025). These statistical adjustments, while methodologically valid, also underscore the importance of robust and timely data.

Improving core inflation measures, expanding CPI basket coverage (especially in rural and informal markets), and enhancing data collection timeliness would give the CBN and other policymakers clearer insights into underlying price pressures. Reliable statistics also facilitate better forecasting and public communication, fundamental to functioning inflation-targeting regimes.

### **The Uses Of a Combination of Interest Rate Policies, Reserve Requirements, and Foreign Exchange Interventions**

Monetary policy tools should be used in a complementary, evidence-based manner. In 2024, the CBN tightened policy aggressively by increasing the Monetary Policy Rate (MPR) by 875 basis points and sharply raising the Cash Reserve Ratio (CRR), measures which the CBN attributes to slowing inflation and stabilising the financial system (Tunji,

2025). These orthodox tools proved effective as the headline inflation began to moderate over subsequent months.

For example, Nigeria's headline inflation decelerated through 2025, prompting the CBN to trim interest rates by 50 basis points in September 2025 for the first time since 2020, as disinflation took hold (Reuters, 2025). Combining interest rate adjustments with liquidity controls like reserve requirements and limited foreign exchange interventions allows the CBN to influence both money supply and exchange rate volatility, both critical inflation drivers in Nigeria's open and import-dependent economy.

### **Enhancing Transparency and Communication Strategies to Manage Public Inflation Expectations**

Public expectations about inflation influence pricing and wage setting. In Nigeria's context, where double-digit inflation persisted for extended periods, managing expectations is crucial. Clear and consistent communication from the CBN regarding policy objectives, such as its intention to pursue single-digit inflation in the medium term, can help anchor expectations and reduce speculative price behavior (Aro, 2025). For example, CBN officials publicly stated aspirations toward single-digit inflation, signaling long-term objectives (Aro, 2025).

Regularly published minutes from MPC meetings, inflation outlook reports, and explanations of data revisions (like CPI rebasing) increase transparency and reduce uncertainty. When economic agents trust the central bank's direction and rationale, inflation expectations become more anchored, reinforcing the effects of monetary policy.

### **The Introduction of Fiscal Discipline to Reduce Money Financing of Deficits**

Monetary policy's effectiveness depends on supportive fiscal policy. Nigeria has grappled with fiscal pressures, including deficits that historically tempted monetary accommodation. While the fiscal deficit shrank from about 5.4% in 2023 to around 3% in 2024 following reforms, strong fiscal discipline remains necessary (World Bank, 2025). Lower deficits reduce reliance on central bank financing, a key contributor to inflationary pressure.

Fiscal rules can include ceilings on deficits and public debt, expenditure prioritisation frameworks tied to inflation objectives, and strengthened revenue administration to reduce reliance on debt issuance. These measures ensure that fiscal impulses do not undermine monetary policy efforts.

## **Developing Financial Markets to Support Transmission of Monetary Policy**

Effective inflation targeting requires transmission mechanisms through deep financial markets. Nigeria's financial markets have shown growth in recent years, but credit to the private sector remains constrained, and markets are less liquid than peers. Expanded government securities markets, money markets, and derivatives can enhance policy transmission by ensuring that changes in the MPR quickly affect borrowing costs, savings behavior, and credit flows.

Banking sector reforms, including recapitalisation and enhanced liquidity instruments, also strengthen the flow of monetary impulses into real sectors of the economy, improving the responsiveness of inflation to policy changes.

### **Case Study Comparisons**

#### **Brazil**

Brazil implemented inflation targeting in the 1990s after facing high inflation. The combination of independent central banking, strong legal frameworks, and targeted communication strategies reduced inflation from double digits to single digits within five years. Policy credibility and flexible adjustments to shocks were critical to its success.

#### **New Zealand**

New Zealand pioneered formal inflation targeting in 1990. Transparency, public accountability, and flexible response mechanisms helped achieve stable inflation and positive economic growth. Clear communication of targets to the public reinforced credibility and shaped inflation expectations effectively.

#### **South Africa**

South Africa adopted inflation targeting in 2000, focusing on maintaining inflation within 3-6%. Strong central bank independence and transparent communication facilitated better expectation management, although external shocks occasionally caused deviations.

### **Lessons for Nigeria**

1. Central bank independence is critical to prevent political interference
2. Robust and timely data collection supports informed decision-making
3. Public communication of targets fosters expectations management and policy credibility
4. Flexibility to respond to external shocks ensures resilience in inflation control
5. Combining fiscal and monetary policy is necessary for sustainable inflation control

### **Extended Analysis**

Inflation targeting in Nigeria must also consider sectoral price pressures, including energy, food, and housing. Structural reforms to improve productivity, enhance infrastructure, and stabilize foreign exchange markets complement the monetary policy framework. Coordinated fiscal discipline ensures that excessive government spending does not undermine central bank policies. Public education campaigns on inflation expectations are equally critical, as they reinforce the credibility of the targeting regime.

Detailed review of inflation data from 1990–2024 shows repeated cycles of high inflation associated with exchange rate shocks, fiscal expansion, and supply shortages. During periods of oil boom, government expenditure increased rapidly, leading to excess liquidity in the economy. When oil prices declined, currency depreciation followed, causing imported inflation.

Food inflation has remained one of the strongest drivers of overall inflation in Nigeria. Agricultural inefficiencies, insecurity in farming regions, and transportation costs contribute significantly to price increases. Energy prices also influence inflation due to dependence on imported fuel and unstable electricity supply.

Statistical observations indicate that inflation persistence in Nigeria is high, meaning that once inflation rises, it tends to remain high for a long period. This makes inflation targeting particularly relevant, because it focuses on managing expectations before inflation becomes entrenched.

### **Monetary Policy Transmission in Nigeria**

For inflation targeting to work, the monetary policy transmission mechanism must function effectively. In Nigeria, transmission occurs through interest rates, credit supply, exchange rate, and expectations channel. However, weak financial markets reduce the speed at which policy decisions affect prices.

Interest rate adjustments by the central bank do not always translate into lending rate changes because of structural rigidities in the banking sector. Exchange rate instability also weakens the effectiveness of domestic monetary policy.

Strengthening financial institutions, improving banking competition, and deepening capital markets will improve policy transmission and support inflation targeting.

## **Fiscal Policy and Inflation Control Fiscal discipline is essential for successful inflation targeting.**

When government spending exceeds revenue and deficits are financed by borrowing from the central bank, inflation increases. Nigeria has historically relied on deficit financing during periods of revenue shortfall.

Implementing fiscal responsibility laws, improving tax collection, and reducing wasteful spending will reduce pressure on monetary policy. Coordination between fiscal authorities and the central bank is necessary to ensure consistency in macroeconomic objectives.

### **Institutional Requirements for Inflation Targeting**

Successful inflation targeting requires strong institutions. These include independent central bank, reliable statistical agencies, transparent policy framework and stable political environment. Legal reforms may be necessary to guarantee operational independence of the central bank. Public accountability mechanisms should ensure that the bank explains deviations from inflation targets.

### **Communication Strategy and Public Expectations**

Inflation targeting relies heavily on public confidence. The central bank must communicate clearly through reports, press releases, and policy statements. When people believe the bank will maintain low inflation, wage and price decisions adjust accordingly.

Nigeria needs improved communication channels, regular inflation reports, and clear forward guidance to build credibility.

### **Risks of Inflation Targeting in Nigeria**

Possible risks include external shocks from oil prices, exchange rate crises, political pressure on the central bank and weak data accuracy.

Flexible inflation targeting, rather than strict targeting, may be more suitable for Nigeria because it allows response to shocks while maintaining long-term price stability.

### **Long-Term Outlook**

If properly implemented, inflation targeting can stabilize prices, encourage investment, reduce poverty, and support economic growth. Over time, stable inflation promotes lower interest rates, stronger currency, and higher employment.

Nigeria's transition to inflation targeting should be gradual, starting with clear inflation ranges and improving institutional capacity before adopting full targeting.

## Conclusion

This study examined the effectiveness of inflation targeting as a possible remedy to the persistent and sometimes extreme inflationary pressures experienced in Nigeria. Over the past decade, Nigeria has faced repeated episodes of high inflation driven by a combination of fiscal imbalance, exchange-rate instability, supply-side constraints, and deep structural weaknesses in the economy. The analysis of historical data, supported by regression results, confirms that inflation in Nigeria is not merely a monetary phenomenon but a complex macroeconomic problem influenced by several interrelated factors.

Empirical findings from the regression analysis show that fiscal deficit financing, exchange-rate depreciation, growth in money supply, and food supply shocks have statistically significant positive effects on inflation. The high coefficient of determination obtained from the model indicates that these variables explain a large proportion of the variation in inflation over the study period. This result supports the argument that controlling inflation in Nigeria requires a coordinated policy framework rather than reliance on a single monetary instrument.

The study also finds that the absence of a clearly defined and credible inflation-targeting framework has contributed to weak policy coordination and unstable inflation expectations. In many successful inflation-targeting economies, the central bank operates with strong independence, transparent communication, and clearly defined targets, which help anchor public expectations and improve policy credibility. In contrast, Nigeria's monetary policy has often been influenced by fiscal pressures, exchange-rate management concerns, and structural supply shocks, reducing the effectiveness of traditional interest-rate policies.

Furthermore, the analysis shows that supply-side factors, particularly in agriculture, energy, and transportation, play a dominant role in Nigeria's inflation dynamics. Because food and energy account for a large share of consumer spending, disruptions in these sectors quickly translate into general price increases. This explains why inflation remained high even during periods of monetary tightening. Structural inefficiencies, including inadequate infrastructure, heavy reliance on imported goods, weak industrial capacity, and insecurity affecting agricultural production, continue to limit the effectiveness of macroeconomic policy measures.

Despite these challenges, the study concludes that inflation targeting remains a viable long-term strategy for achieving price stability in Nigeria, provided that certain

institutional and structural conditions are met. A credible inflation-targeting regime can help stabilize expectations, improve policy consistency, and strengthen confidence in the financial system. However, inflation targeting alone cannot eliminate hyperinflationary pressure unless it is supported by fiscal discipline, exchange-rate stability, improved data systems, and structural reforms aimed at increasing domestic production.

The findings therefore suggest that Nigeria should gradually transition to a formal inflation-targeting framework with a clearly defined target range, supported by legal reforms to strengthen the independence of the Central Bank of Nigeria. At the same time, government fiscal operations must be aligned with monetary policy to prevent excessive deficit financing that expands money supply and fuels inflation. Improvements in agricultural productivity, energy supply, transportation infrastructure, and domestic manufacturing are also necessary to reduce supply-side inflationary shocks.

In conclusion, inflation targeting offers a realistic and sustainable pathway toward macroeconomic stability in Nigeria, but its success depends on strong institutions, disciplined fiscal policy, reliable statistical systems, and structural transformation of the economy. Without these supporting conditions, inflation targeting may remain only a policy aspiration rather than an effective remedy to Nigeria's persistent inflation problem. With the appropriate reforms, however, it can become a central pillar for restoring price stability, protecting purchasing power, and promoting long-term economic growth.

Hyperinflation remains a critical impediment to Nigeria's economic stability. Inflation targeting, while not a panacea, offers a structured framework for reducing inflationary pressures and stabilizing the economy. Success hinges on central bank credibility, institutional support, robust data systems, effective communication strategies, and coordinated fiscal policy. By adopting inflation targeting, Nigeria could mitigate hyperinflation, restore investor confidence, encourage sustainable economic growth, and improve overall social welfare.

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