INFLATION AND COST OF LIVING CRISIS IN NIGERIA.

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ABSTRACT

Inflation is not only peculiar to Nigeria; it is a recurring decimal in the international community. Different countries of the world have been caught in the web of inflation thus having a significant impact on their economy. However, using Nigeria as a microcosm is one of the major challenges that the economy is grappling with today. So many factors account for the rise in the general price level of goods and services, they include; energy and transport-related issues, monetary policy, border closure and insecurity, etc. leading to the increase in the poverty level, crime rate, decrease in purchasing power, etc. This paper employs the structural functionalism theory to explore the nexus that exists between inflation and the cost-of-living crisis in Nigeria. The paper also concludes that there is a relationship between inflation and the cost of living crisis in Nigeria.

Keywords: Inflation, cost of living, structural functionalism, drivers of inflation, impacts of inflation.

INTRODUCTION:

The overall rise in the price level, known as inflation, has re-emerged as a key challenge on a global scale and so many countries around the globe have continued to witness untold hardship due to the continuous rise in the cost of goods and services. Inflation as measured by the Consumer Price Index (CPI) has become a re-occurring decimal in the international community. Inflation reduces the value of Money and savings and therefore decreases purchasing power, affecting the cost of living. (Centre for the Study of Economies of Africa, 2022). Inflation is an unavoidable property of any economy in the world. It impacts every country, undesirably as well as desirably, whether it remains an advanced or under-developed country. Peter, James and Paul (2020) Opined that the Inflation rate can impact the cost of living of the population. When inflation surpasses its required edge, officials deploy policy apparatuses to regulate and pad its effects on the population as part of the extensive macroeconomic stabilization objectives. The prices of goods and services have continued to rise above the cost of living of an average Nigerian. Anyanwu (2011) stated that inflation is a significant factor leading to social and economic instability and disorder. It is one of the most observed and tested economic variables both theoretically and empirically. Its causes, impacts on other economic variables, and cost to the overall economy are well known and understood. Nigeria, being a developing country, could not overcome the continuous year-to-year rise of inflation, and also its causes and consequences. Anyanwu (2011) also pointed out that the role of money supply seems significant in influencing food price inflation in Nigeria, which disturbed the family budget as well as the consumer's purchasing power. Carbaugh, (2011) also opined that inflation can greatly affect a nation’s cost of living. It can also influence economic behaviour and lead to significant impacts on the operation of the economy. Many authors have written on the impacts of inflation and the cost of living on the Nigerian economy, but the authors have different views. Nevertheless, one common thing is that all the authors agree that inflation and cost of living have various impacts on the economy of Nigeria. The problem created by the rising prices of goods and services has led to a higher cost of living. (Peter, et.al, 2020).

Therefore, governments have to do something urgently to ameliorate the situation, as the situation at hand is not child's play. it is clear that rampant inflation now joined by a dangerous recession has already had a dramatic impact on the way of life of many Nigerians. In other words, whether the rampant inflation or widespread unemployment is the major problem at the time the proposed study is carried out remains to be seen. In either event, families in all walks of life will have been touched by these economic conditions and the pressures will be so great that their very survival will be threatened. (Nwaobi, 2009). The crux of this paper is to identify the major drivers of inflation and its impacts on the cost of living crises in Nigeria and recommend some possible solutions to ameliorate the situation.

CONCEPTUALIZATION OF CONCEPTS.

Inflation is a highly controversial term which has undergone modification since it was first defined by neo-classical economists. They meant by it a galloping rise in prices as a result of the excessive increase in the quantity of money. To the neo-classicals and their followers at the University of Chicago, inflation is fundamentally a monetary phenomenon. In the words of Friedman, "Inflation is always and everywhere a monetary phenomenon and can be produced only by a more rapid increase in the quantity of money output." But, economists do not agree that money supply alone is the cause of inflation. As pointed out by Hicks, "Our present troubles are not monetary character." Economists, therefore, define inflation in terms of continuous rise in prices. Johnson defines "inflation as a sustained rise in prices." Brooman defines it as "a continuing increase in the general price level." Shapiro also defines inflation in a similar vein "as a persistent and appreciable rise in the general level of prices." Demberg and McDougall are more explicit when they write that "the term usually refers to a continuing rise in prices as measured by an index such as the consumer price index (CPI) or by the implicit price deflator for gross national product." (Jhingan, 2012)

Carbaugh (2011) defined inflation as a situation or continuous rise in the general price level. We should note several things about this definition. First, inflation refers to the movement in the general level of prices. However, some may fall. In an inflationary period, rising prices outweigh falling prices, causing the average level of prices to increase. Secondly, the rise in the price level must be substantial and continuous over a period longer than a day, week, or month. The cost of living on the other hand is the amount of money required to cover basic expenses such as housing, food, taxes, and healthcare in a certain place and period. The cost of living is often used to compare how expensive it is to live in one city versus another. (Banton, 2021).

TYPES OF INFLATION IN NIGERIA

Generally speaking, inflation can be categorized into four types according to its degree.

1. **Creeping inflation:** This occurs when the price rise is very slow. A sustained annual rise in prices of less than 3 per cent per annum falls under this category. Such an increase in prices is regarded safe and essential for economic growth.

2. **Walking inflation:** This occurs when prices rise moderately and the annual inflation rate is a single digit. This happens when the rate of rise in prices is in the intermediate range of 3 to less than 10 per cent. Inflation of this rate is a warning signal for the government to control it before it turns into running inflation.

3. **Running inflation:** When prices rise rapidly at the rate of 10 to 20 per cent per annum, it is called running inflation. This type of inflation has tremendous adverse effects on the poor and middle class its control requires strong monetary and fiscal measures.

4. **Hyperinflation:** Hyperinflation occurs when prices rise very fast at double- or triple-digit rates. This could get to a situation where the inflation rate can no longer be measurable and uncontrollable prices could rise many times every day. Such a situation brings a total collapse of the monetary system because of the continuous fall in the purchasing power of money.

(Izuchukwu & Chude, 2015).

A country may experience hyperinflation, a swift and uncontrolled inflation that destroys that destroys its economy. For example, hyperinflation caused the ruin of the German economy after World War 1 ended in 1918. The German government printed large amounts of currency to finance itself after the war. Therefore, prices in Germany increased by more than 1 trillion marks! Many Germans took to burning their paper money because it was a cheaper source of fuel than firewood. The hyperinflation left an indelible mark on the German economy. Business owners discovered the impossibility of rational economic planning. Profits weakened as employees demanded frequent increases in wages. Workers were often paid daily and sometimes two and three times a day, so that they could purchase goods in the morning before the unavoidable afternoon increase in prices. Workers became dispirited and were reluctant to work as their money became worthless or almost worthless. Also, customers at restaurants found that they had to pay more for their meals than was listed on the menu when ordered. Also, speculation became extensive, which disrupted production. The result was a 600-percent increase in unemployment between 1 December and 15, 1923. The hyperinflation crumpled the middle class of Germany and left an imprint on Germany that affects its government policy to this day. (Carbaugh, 2011)

Essentially, two causes of inflation have been recognized, which include, demand-up and costs-push inflation.

I. **Demand-pull inflation** is caused by an increase in the conditions of demand; these could either be an increase in the ability to buy goods or an increase in the willingness to do so. It is an upward pressure on the buyer's side of the market. (Izuchkwu & Chude, 2015)

II. **Cost-push inflation** arises from anything that causes the conditions of supply to decrease. Some of these factors include a rise in the cost of production, an increase in government taxation and a decrease in the quantity of foods produced. It is caused by upward pressure on the seller's side of the market. (Izuchkwu & Chude, 2015)

THEORETICAL FRAMEWORK

Structural functionalism as a theory in the social sciences shall be used to explore the nexus between inflation and the cost of living crises in Nigeria. According to the major proponents of this theory, they posit that every political system consists of various parts or structures and these structures or parts perform specific functions that are interdependent and interrelated. They further posit that the dysfunction of one affects the entire system. Key proponents of this theory include Emile Durkheim, Talcott Parson, Gabriel Almond, etc. For this study, the views of Talcott Parson will be employed to exemplify the relationship between inflation and cost of living crises, using Nigeria as a microcosm. Structural functionalism was a typified highly developed work of Talcott Parsons. He is accredited with the contemporary form of this tradition. This was undeniably the reigning sociological archetype during the mid-twentieth century. Even though not all functionalists were equilibrium theorists, Parsons' functionalism implied at least an implicit systems analysis or model (Nolan et al., 2004). Elementary functionalism enabled the analysis of fragment/entire relationships. The whole (the social system) would have certain needs, rudiments, survival requirements, equilibrium requirements, or other requirements that would be generally articulated in terms of the "state" (such as a state of equilibrium or a state of integration) of the system as a whole. The whole was unruffled of internally related subsystems that were (either independently or in concert) fulfilling some survival functions for the whole (social system, or society). If the part (such as an educational institution or economic structure) did not fulfil its function adequately, then the system as a whole would weaken at the very least, and on the worst occasion, would fail to thrive. Thus, in the consensus method of functionalism, the function of the core components is to ensure the preservation of social equilibrium, thus ensuring societal subsistence (Coser, 2010). His focal theoretical explanation is expressed in his social action theory which was to become his general theory of action (Holmwood, 2005). Parsons's AGIL scheme recapitulates four functional prerequisites or imperatives of any system of action: adaptation (A), goal attainment (G), integration (I), and latent pattern maintenance (L). The AGIL scheme specifies for structural-functional theory the needs of any living system and by what means that system maintains order in both its exterior environment and interior organization (Coser, 2010). Parsons argues that the AGIL scheme could be employed in the analysis and study of both abstract systems of action and existing, concrete societies. (Amoah, 2018).

In light of the above, one can easily conclude that the Nigerian political system is in a state of disequilibrium because of economic instability, as the prices of goods and services continue to skyrocket. Economic instability can be said to be the remote cause of the imbalance in the system as other structures and institutions are being affected. To put it more succinctly, we can conclude that, there is a correlation between inflation and the cost-of-living crises in Nigeria today.

RESEARCH QUESTION

i. What are the major drivers of inflation in Nigeria today?
ii. To what extent has inflation affected the cost-of-living crises in Nigeria?
iii. Is there a way forward to ameliorate the situation?

RESEARCH OBJECTIVE

This study aims to achieve the following objectives:

i. To identify the major drivers of inflation in Nigeria today.
ii. Explain the adverse effects of these drivers on the cost of living and;
iii. Proffer possible solutions to alleviate or eradicate the existing situation.

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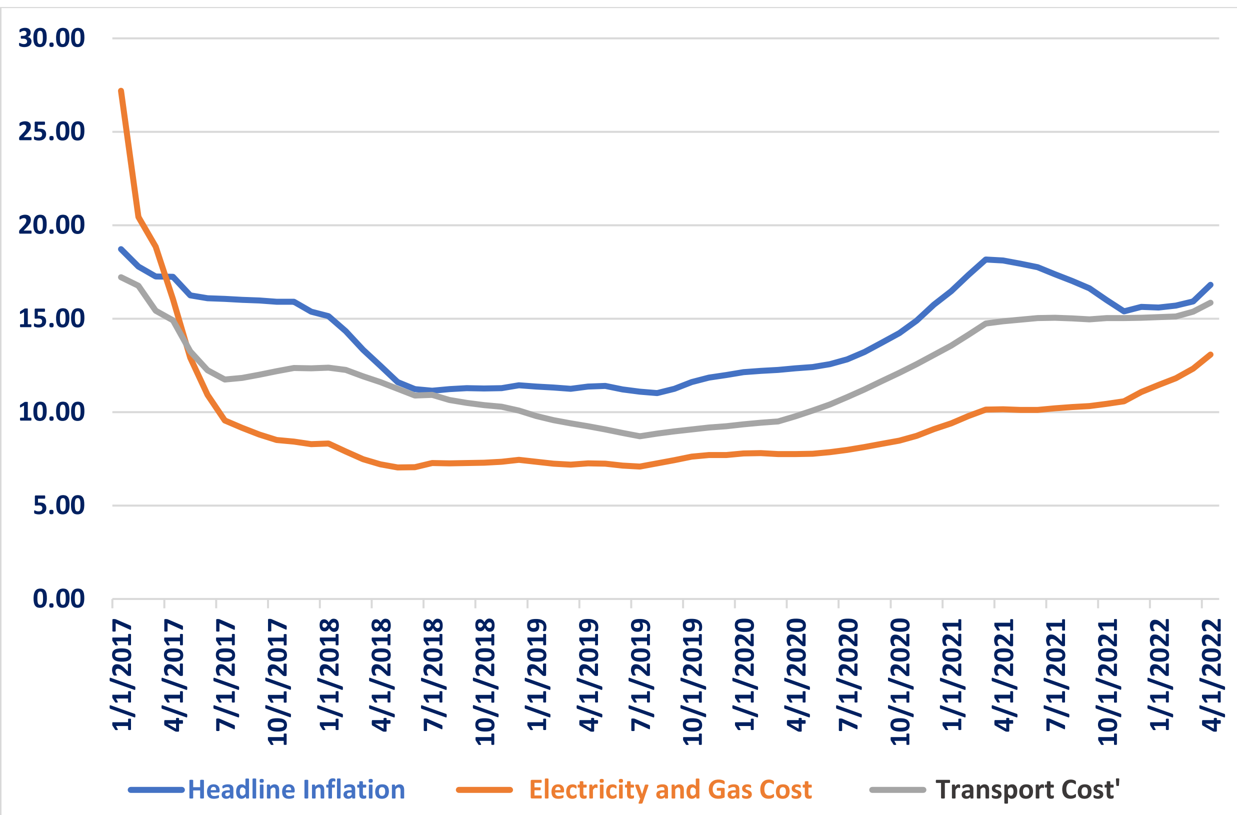
DISCUSSION:

MAJOR DRIVERS OF INFLATION IN NIGERIA EXPLAINED

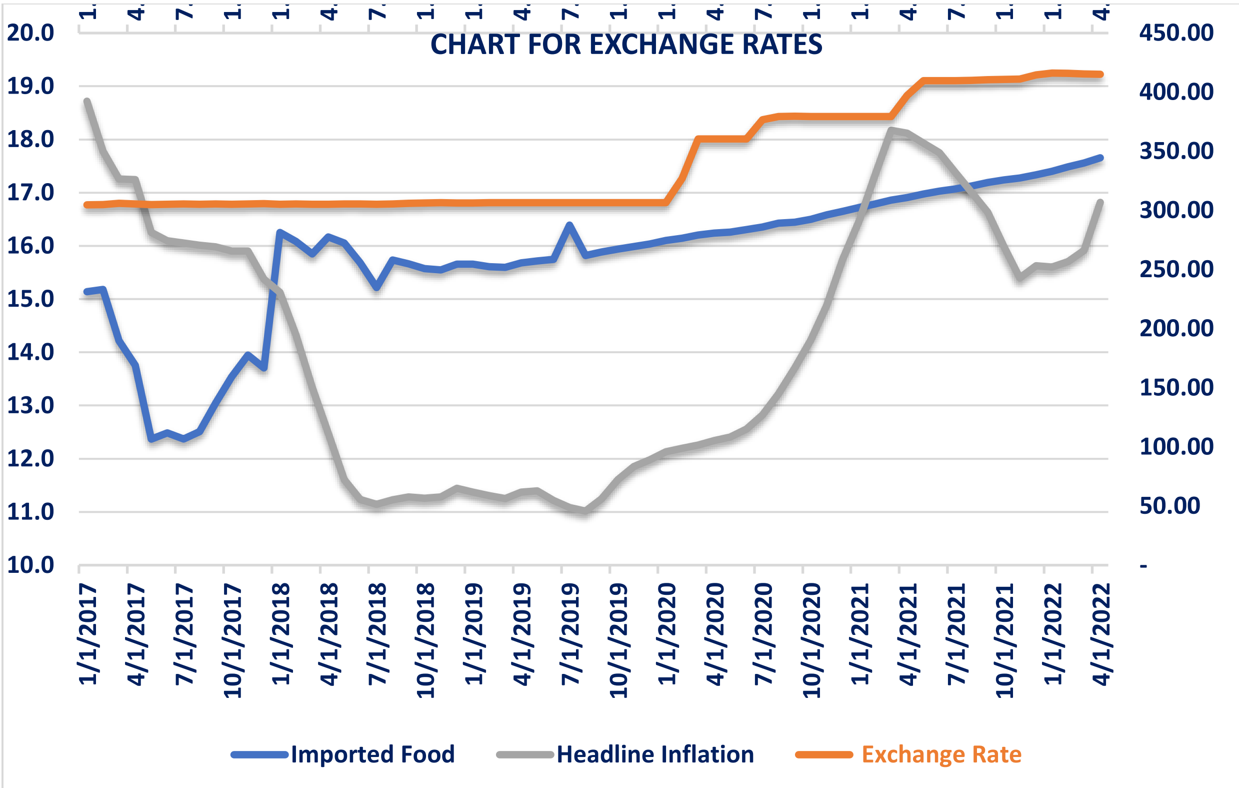
The Centre for the Study of the Economies in Africa identifies four major drivers of inflation in Nigeria, which include:

1. ENERGY AND TRANSPORT: The rising costs of energy (electricity and fuel) and transport are one of the major contributing factors to high inflation in Nigeria. Recent fuel scarcity and poor road infrastructure are the key factors driving energy and transport costs. Goods are transported from one to another. Thus, when there is an increase in the price of fuel, there is also an increase in the prices of things in the market as traders or marketers add the cost of transportation to their expenses and expenditures. The chart below portrays that the cost of energy and transportation proportionately affects the overall inflation rate. (Centre for the study of the economies, 2023)



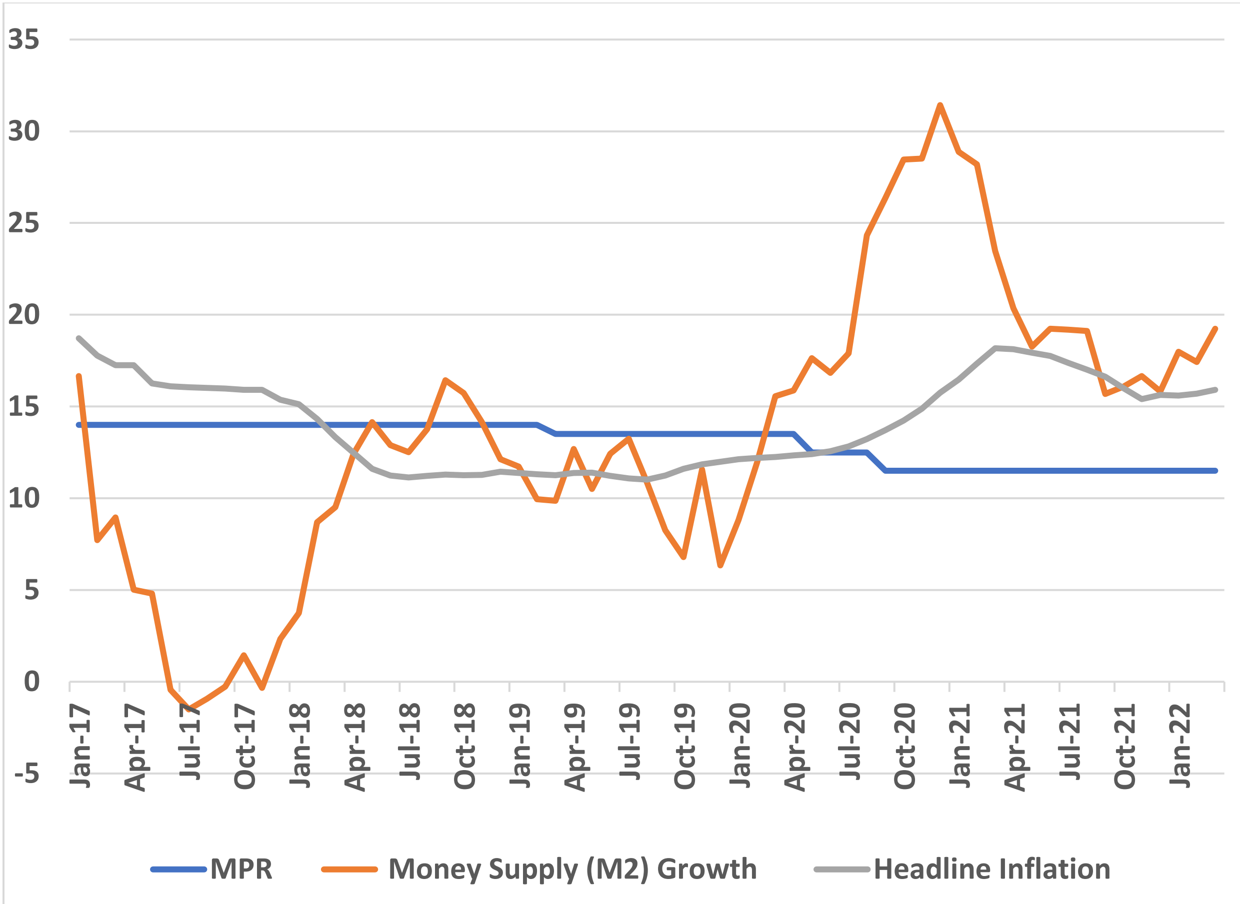
Source: (Centre for the study of the economies, 2023)

2. **BORDER CLOSURE AND INSECURITY:** In August 2019, the Nigerian government closed its land borders. This was a policy aimed at reducing cross-border trade and preventing the smuggling of mainly agricultural products into the country, encouraging domestic production, as well as industrial activities and discouraging the importation of foreign goods. While the policy appeared positive in some ways, the subsequent chain of reaction in the economy was negative. Most farmers were constrained in terms of their productivity and increasing production in the short run was nearly impossible. This led to excess demand, constrained supply and inflationary pressure. The food insecurity that emanated from border closure was further exacerbated by regional insecurity in food-producing areas (Boko Haram, Bandits and Unknown Gunmen attacks). The insecurity situation especially in Northern Nigeria has destroyed crops and forced farmers to abandon their land. Reduced food production exerts a cost-push impact on food prices.
3. **EXCHANGE RATE MANAGEMENT:** The exchange rate mismanagement has contributed to the rise in inflationary pressure in Nigeria. The chart suggests that the exchange rate depreciation is the propeller for the rise in imported food inflation, which is a component of the overall inflation rate. The constant depreciation of Naira contributes to the rise in imported food inflation. Also, the inability of businesses to access foreign exchange through the official exchange-rate window has caused businesses to seek foreign exchange on the parallel market and other alternative sources. The parallel rate influences their business decisions, and fluctuations in the parallel rate pass through to market prices for goods and services.



Source: (Centre for the study of the economies, 2023)

MONETARY POLICY: The chart indicates that the Monetary Policy Rate (MPR) is largely expansionary, which is mostly in response to weak economic growth, and a moderate effect on inflation. However, money supply growth corresponds with changes in inflation indicating the sensitive nature of inflation rate to changes in money supply growth. World Bank (2022) asserted that "Macroeconomic stability has weakened considerably due to multiple FX rates, high and increasing inflation, rising fiscal pressures, and declining forex reserves. Nigeria's fiscal position has deteriorated since 2015 due to declining oil revenues and rising expenditures, resulting in persistently high fiscal deficits. To finance the growing deficit, the government has resorted increasingly to costly financing from the central bank, which in turn has increased interest costs, crowding out private sector credit, and contributing to inflation."

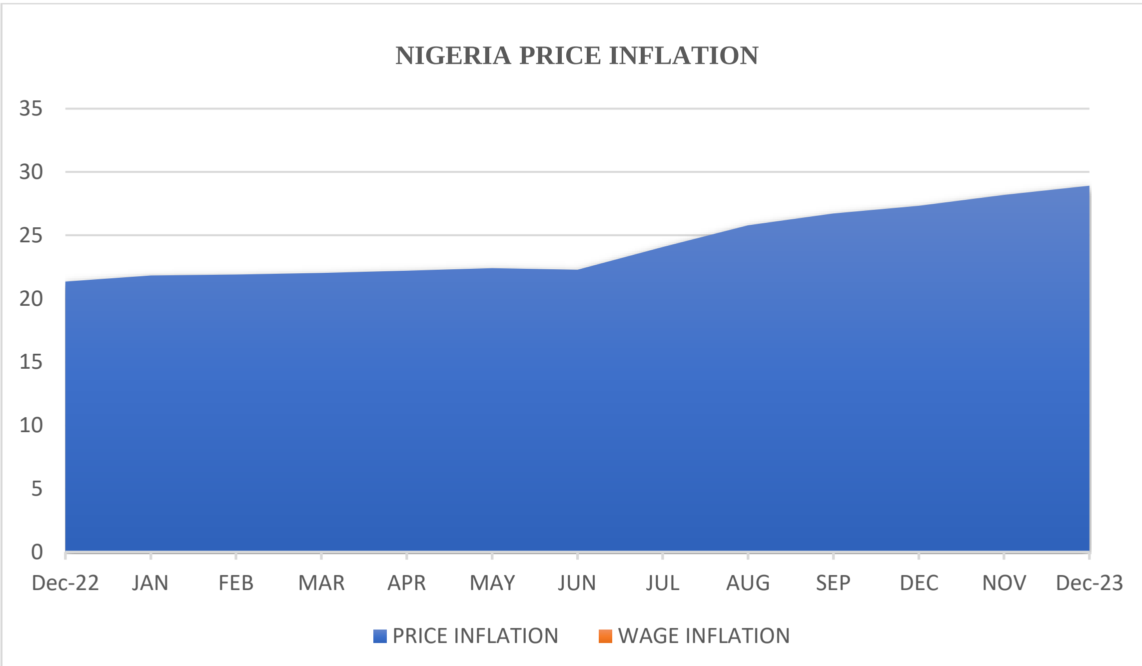


Source: (Centre for the study of the economies, 2023)

Fiscal Policy: The current government's policy of attempting to increase economic growth through subsidy removal poses serious risks embedding inflation, leading to a prolonged period of rising prices. The unplanned removal of subsidy further risks increasing the deficit, exacerbating the pressures on the Niara, and adding to inflation. Targeted action to improve the circumstances of those most vulnerable to cost-of-living pressures should be preferred to general fiscal expansion. Fiscal policy should be aligned with monetary policy, and not go directly against it.

INFLATION AND THE COST OF LIVING CRISIS

Nigeria finds itself in what has been referred to as a "cost of living crisis". In this study, we will review the basics of inflation, analyse the underlying reasons for why we are currently seeing an elevated inflation rate, and discuss how to deal with it. What is inflation and how has it moved? The most basic measure of price inflation is the rate of change in the cost of acquiring the consumption basket of the typical household. A standard measure of this concept is the annual percentage change in the consumer price index, a cost-of-living index which weights together the prices of different goods and services according to their aggregate expenditure shares. Thus, it measures the cost of purchasing the "typical" basket of goods consumed by Nigerian households

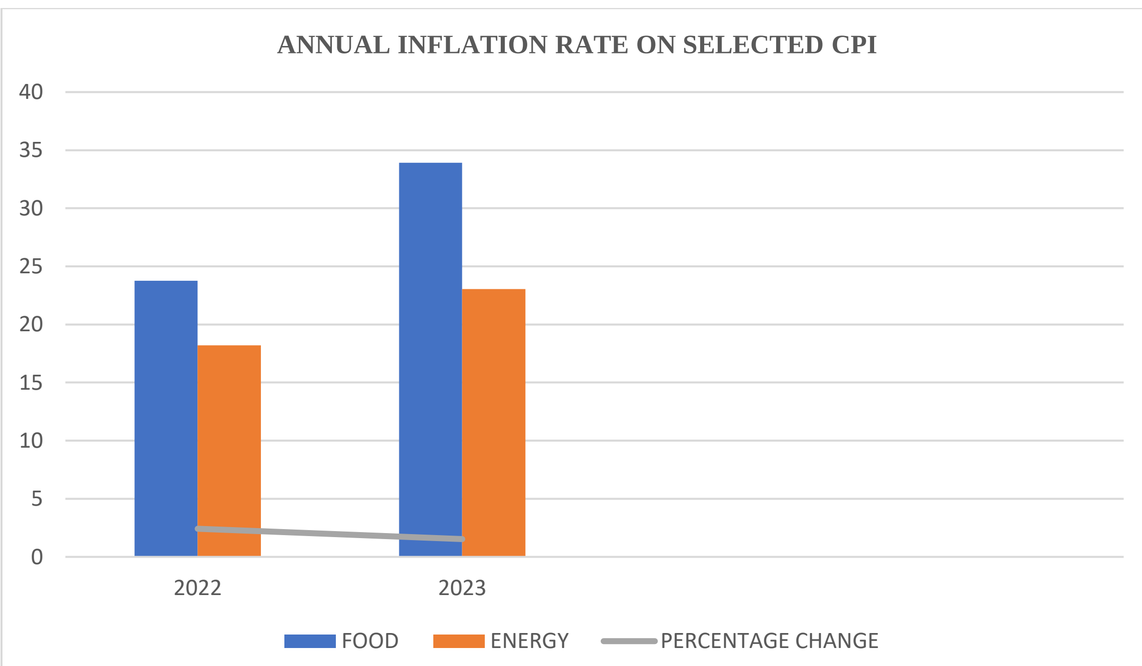


Source: NBS, (2023)

From the above chart it can be deduced that in December 2023, the headline inflation rate increased to 28.92% relative to the November 2023 headline inflation rate which was 28.20%. looking at the movement, the December 2023 headline inflation rate showed an increase of 0.72% points when compared to the November 2023 headline inflation. On a year-on-year basis, the headline inflation rate was 7.58% points higher compared to the rate recorded in December 2022, which was 21.34%. this shows that the headline inflation rate (year-on-year basis) increased in December 2023 when compared to the same month in the preceding year furthermore, on a month-on-month basis, the headline inflation rate in December 2023 was 2.29% which was 0.20% higher than the rate recorded in November 2023 (2.09%). This means that in December 2023, the rate of increase in the average price level is more than the rate of increase in the average price level in November 2023, (NBS,2023). Here are several ways in which high inflation is problematic at a macro level. First, a period of unexpected inflation is a source of significant redistribution (we explain why below), which can be seen as unfair, inefficient and politically destabilizing. Second, when inflation is high, it tends to be more volatile, becoming an additional source of uncertainty for households and firms. Uncertainty is bad in and of itself. Furthermore, an uncertain environment can lead to bad decisions that with time are detrimental to the productive capacity of the economy and thus the standard of living. Relatedly, prices observed by households and firms become less informative when they are highly changeable, making it harder to make the right choices. Third, and perhaps most importantly, high inflation tends to feed off itself and rise over time, essentially because expectations about the future are an important driver of future inflation. Once the inflationary spiral is set in motion, breaking out of it necessitates significant adjustments to the level of activity in the economy, with a period of elevated unemployment and subdued demand. The higher the inflation rate is, the costlier it is to steer it back down. From the perspective of an average household in the economy, price inflation is a problem if it is higher than the growth rate of its nominal income, the chart below clearly indicates the growth rate in Nigerian wages from 2021-2023.

Source: NBS, (2023)

As seen above, the national minimum wage for federal workers in Nigeria reached 30,000 Nigerian nairas in 2023, which equalled about 38 U.S. dollars. On average, the monthly cost of living for an individual in Nigeria amounted to 43,200 nairas in 2020, whereas this figure added up to over 137 thousand nairas for a family in 2019, the minimum wage of 30,000 is not even enough for an average individual in Nigeria when the inflation was approximately 18.7, putting the economic condition side by with the percentage increase in the inflation rate, one will agree that majority of Nigerian are living below poverty level amid the economic crisis, NBS, (2023). It is important to note at this juncture, that in Nigeria low exchange rates have pushed up the cost of imported consumables and raw materials, and have been a significant worry for both consumers and importers. The low exchange rate remains one of the causes of high inflation in Nigeria because the country imports a large volume of consumables and raw materials annually at higher prices. The high youth unemployment experienced today in Nigeria has a direct bearing on the low exchange rate problem prevailing in the country. Manufacturers are struggling to survive the high cost of production. They are producing below optimal levels and reducing the employment of labour. The reduction in employment level has the full potential of affecting the economic growth and worsening poverty in Nigeria, NBS, (2023).



Source: NBS, (2023)

Different households are also affected by inflation in different ways. There are three main dimensions in which this is true. First, households' consumption patterns differ: some eat out more, others spend more money on services such as health care, etc. These patterns to some extent reflect the position of households in the wealth distribution: for instance, poorer households spend a larger fraction of their budget on essentials such as food and energy. This means that commodity-driven inflation is likely to affect poorer households more. By some estimates, these differences in consumption baskets across the wealth distribution imply that the poorest 10 per cent of households currently are experiencing up to 50 per cent higher inflation rates than the richest 10 per cent of households, (Centre for the Study of the economies, 2023). Moreover, poorer households are in a more difficult position to deal with the crisis because they have fewer resources available that they can tap into. These differences are likely to disappear as the economy adjusts to the commodity price shock but may still be a concern in the short to medium term. An equally important issue is that households differ in terms of how their nominal income keeps pace with inflation. Those on fixed nominal salaries renegotiated only sporadically will be worse off; others whose pay is aligned with inflation may be better protected. The third important dimension of heterogeneity is the asset position: some households are net debtors, perhaps with an outstanding mortgage on the home they live in; others are creditors, e.g., with substantial bank deposits. Since such assets/liabilities are nominal contracts, a period of high inflation erodes their real value. This redistributes from creditors who tend to be older and wealthier to debtors, who are younger and tend to be in the middle of the income and wealth distribution.

IMPACTS OF INFLATION ON COST-OF-LIVING CRISIS

1. **DECREASE IN PURCHASING POWER:** The immediate direct effect of high inflation is a reduction in the purchasing power of Nigerians. Given that between 2016 and 2021, the price level has increased by about 126 per cent, it implies that the cost of living had doubled within five years. What is presupposed is that people could no longer afford some basic things in the markets, as the cost of commodities has increased. Due to the security challenges most peasant farmers in northern and southern Nigeria dread going to the farm. Those who do, are in most cases ambushed by bandits or Fulani herdsmen, some farmers are killed, women are rapped and in most cases kidnapped for ransom. This has been the trend from 2015 till date, leading to the shortage of food and other raw materials for production. The scarcity of food commodities necessitated the increase in the price of goods in the market. For instance, the prices of beans, rice, garri, and other commodities in the market have increased drastically leading to an increase in the purchasing power of an average Nigerian. (Centre for the study of the economies, 2022)

2. **INCREASE IN POVERTY RATE:** Without a corresponding increase in income, high inflation forces people slightly above the poverty line into poverty, especially food poverty. While Nigeria has about 80 million poor people, the high inflation is expected to increase the number of poor people. This is a result of the continuous increase in the prices of goods in the market. (Centre for the study of the economies, 2022). In addition, World Bank (2022), reported that "Inflation reached an annual average 18.8 per cent in 2022, a 21-year high. Food inflation in 2022 is estimated to have pushed five million Nigerians into poverty.

"Highlights of the 2023 Multidimensional Poverty Index survey reveal that:

- 63% of persons living in Nigeria (133 million people) are multidimensionally poor.
- The National MPI is 0.257, indicating that poor people in Nigeria experience just over one-quarter of all possible deprivations.
- 65% of the poor (86 million people) live in the North, while 35% (nearly 47 million) live in the South. Poverty levels across States vary significantly, with the incidence of multidimensional poverty ranging from a low of 27% in Ondo to a high of 91% in Sokoto.
- Over half of the population of Nigeria are multidimensionally poor and cook with dung, wood or charcoal, rather than cleaner energy. High deprivations are also apparent nationally in sanitation, time to healthcare, food insecurity, and housing.
- In general, the incidence of monetary poverty is lower than the incidence of multidimensional poverty across most states. In Nigeria, 40.1% of people are poor according to the 2018/19 national monetary poverty line, and 63% are multidimensionally poor according to the National MPI 2023.
- Multidimensional poverty is higher in rural areas, where 72% of people are poor, compared to 42% of people in urban areas." (National Bureau of Statistics, 2023)

In 2023, nearly 12 per cent of the world's population in abject poverty lived in Nigeria, considering the poverty threshold at 1.90 U. S dollars a day. (Sasu, 2023). The rate of poverty in Nigeria continues to increase, due to the level of unemployment and other factors. The microscopic few that are gainfully employed have nothing to write home about as their monthly income is not commensurate with their monthly expenditures. For instance, the minimum wage of a civil servant in Nigeria today is N30,000 which cannot purchase a bag rice in the market. It therefore becomes almost a herculean task to save and invest, which are one of the major indices of wealth creation. This has been the challenge for an average Nigerian who is still struggling to survive, hence poverty rate continues to upsurge.

3. **INCREASE IN CRIME RATE:** Additionally, high inflation through a reduction in purchasing power is likely to contribute to a high youth crime rate, which would further aggravate the insecurity conditions in the country. These crimes include; robbery, theft, housebreaking, grievous harm and wounding, murder, rape, and assault. (Atanu, 2019). Nigeria is currently caught in the web of crime dilemma, manifesting in the convulsive upsurge of both violent and non-violent crimes. Notable in this regard are the rising incidents of armed robbery, assassination and ransom-driven kidnapping, which are now ravaging the polity like a tsunami and spreading a climate of fears and anxieties about public safety (Nwankwo & James, 2016).

The increase in crime has been ongoing as Nigeria has been on the global crime map since the 1980s. These issues of crime for decades are traceable to poverty, poor parental upbringing, inflation, and greed amongst the youth; get rich quick mentality, unsatisfactory crime control model of national security among others. Events of the past few years show that the epidemic of crime has assumed a devastating proportion and involves the intervention of policymakers in this regard. (Nwankwo & James, 2016).

According to Osawe, Cyril & Onyepuemu. (2015). crime portrays the inability of the government to provide a secure and safe environment for lives, properties and the conduct of economic activities considering the alarming increase in criminal activities in Nigeria such as armed robbery, terrorism and other related crimes. Olanrewaju & Nike (1994). posit that crime relates to drug use which has social consequences on students manifesting in various forms including assassination, kidnapping, kidnapping, lack of interest in education, armed robbery and other criminal offences. Although crime is caused by various factors as exemplified above. Notwithstanding, the consistent rise in the price of goods and services has contributed largely to the increase in crime due to the cost of living. Youths tend to resort to robbery, kidnapping, theft, burgling, assassination, etc. for survival.

4. **BRAIN DRAIN:** Brain drain is a large emigration of individuals with technical skills or knowledge from one country to another usually for better working conditions and a good living environment. These factors are pivotal for a man and his family. The former serves as a means of livelihood while the latter makes life comfortable for him and his family. Hence, every professional is interested in both. That is why he subjects himself to the rigour of academic activities in institutions of learning from the elementary stage to the highest level. At the end of his study, he looks for where the best salary and conditions of service can be obtained around the world. The menace of human capital flight seems to be an issue of concern to scholars across the globe; because its occurrence defiles ideological affiliation of countries worldwide as well as their level of development. In a more specific term, it is the movement of professional and skilled individuals from one country to another. In recent years, Nigeria has continued to witness the emigration of skilled and professional individuals from the country to countries like the UK, Canada, USA, among others, where their skills and expertise are recognised and there is a corresponding remuneration for their services. It is now becoming the new normal in Nigeria for professionals such as Nurses, Doctors, Academicians, Engineers, etc. to leave the country to other countries where their skills are in high demand and are being rewarded accordingly. (Stenman 2006). This is a result of the continuous increase in the prices of goods and services without a corresponding income. The sad reality is that, as the cost of living increases, government and private intuitions do not take into consideration the need to increase the wages and salaries of workers.

Conclusion:

In conclusion, inflation is the general increase in the price level which has the propensity of affecting the cost of living. In Nigeria various factors account for the increase in prices of goods and services, such as energy and transportation, border closure and insecurity, exchange rate management, and Monetary policy, to mention a few. As discussed above, there is a nexus between inflation and the cost of living crisis in Nigeria. The salient impacts of inflation on the cost of living include; an increase in poverty, crime rate and decrease in purchasing power, etc. The recent 'Japa' syndrome in Nigeria today is because the cost of living is not commensurate with the income of an average Nigerian, and the cost of goods in the market is always on the increase. People sought to seek greener pastures in other countries of the world. Inflation has therefore become a serious challenge to the economic, political and social structures of Nigeria.

What can be done to solve the issues of heightened inflation in the country?

How should Nigerian policymakers respond to inflation? This question is ultimately value-ridden, and we will here abstain from making any normative judgements apart from commenting on what we see as "obvious" policy recommendations. A key aspect of the current increase in inflation is energy prices. Higher energy prices make Nigerians poorer because it is a net importer of energy and rising prices are driving up inflation. Tackling the core of this problem is outside the set of feasible options in the very short term, but one might consider building some capacity to withstand very short-term supply issues by improving infrastructural facilities that will largely cut down the importation of crude oil finished products. It is likely that energy prices will stabilise and may even decline sharply so that the direct contribution of energy to price inflation falls over time. In and of itself this would not necessarily guarantee the return of inflation to target. The reason is the potential of a wage-price spiral: inflation can become more entrenched as expectations adjust. To tackle this, macroeconomic adjustments will necessarily need to be made.

Another major aspect contributing to the heightened inflation in the country is the price of food, which is the second aspect that the citizens of the country are finding difficult to cope with. This is a result of the fact that Nigeria is a net consumer of foreign products and produces a small quota of what is consumed by its citizens. However, this menace can be cubed by a concerted government policy focusing on the economy and structural transformation. This can be done by granting low-interest loans to domestic firms to produce and expand the production of export-related products and lift trade restrictions on selected goods. Secondly, a large number of the youth should be motivated via agricultural loans to draft them into food production. Mechanized farming should be encouraged in Nigeria to boost food and raw material production for domestic consumption and industrial use respectively.

The primary tool for controlling inflation is monetary policy. In Nigeria, monetary policy is delegated to the Central Bank of Nigeria which was granted independence to set interest rates in 1991 Decree (Now Act) No. 24 of 1991. The Central Bank of Nigeria has responsibility for monetary and financial stability. Monetary stability here means implementing policies aimed at bringing inflation to a minimal point of 5-10%. The Central Bank of Nigeria aims for this through conventional instruments (the short-term interest rate), unconventional instruments (asset purchases), and through its communication strategy including “forward guidance,” i.e., by signalling its future policy intentions. In practice, it is hard, if at all possible, to control inflation in the short run so the instruments are adjusted to target an inflation forecast. Moreover, while the Central Bank of Nigeria's inflation target is the CPI, it has little control over commodity prices which are determined in international markets and, as we showed earlier, display high volatility. Thus, much of the attention relates to the so-called core CPI which excludes the most volatile (but important) components of food and energy. The ideas behind granting the Central Bank of Nigeria independence and imposing an inflation target are that the former gives credibility to pursuing a policy of low and stable inflation regardless of other issues (such as government solvency) while the latter, a simple rule, minimizes issues related to discretionary policies

Given the current inflation situation, the Central Bank of Nigeria therefore has little choice but to tighten monetary policy. This will be implemented through increasing interest rates and by reverting asset purchases. Higher interest rates impact the economy both through a signalling effect and by making it costlier for households to consume beyond their means and for firms to contribute to aggregate demand through investment spending. Higher interest rates will therefore induce a cooling effect on the economy. The signalling effect is that the increase in interest rates, as well as communications about the future interest rate path, will lend credibility to its inflation target and help anchor inflation expectations. In combination, monetary policy is therefore aiming at dampening aggregate demand in the economy and preventing price and wage setters from building in elevated inflation expectations to their current decisions thereby minimizing the risk of wage-price spirals. This stance of monetary policy will necessarily have short-term costs as it will cool off the labour market and income growth, but the costs of doing nothing would be much higher and risk a return of in-built inflation through the loss of the anchoring of inflation expectations. An important question in the current juncture is just how fast monetary conditions should tighten. Should the Central Bank of Nigeria gradually increase interest rates and signal its intention to do so in advance? Gradualism has the potential benefit of reducing the cost of monetary policy tightening, as households and firms have more time to prepare. Also, a gradual approach minimizes the potential of overcooling, in an environment where a high current rate of inflation is driven by temporary factors. monetary policy affects inflation with long and uncertain lags so that actions taken today will show up in the inflation rate in over a year. Moreover, to the extent that communicating the intention of future rate rises influences current inflation expectations, it may imply less need to raise rates ex-post, a sort of double dividend. However, there are also risks.

Most importantly, if expectations fail to adjust to gradual changes in interest rates and signalling about the future path of interest rates, it might become much harder to bring inflation under control as wage and price setters start to factor in future inflation. With too much gradualism, the central bank can quickly find itself “behind the curve”. It is a difficult balancing act in which careful monitoring of the activity and inflation expectations data are crucial.

What about fiscal policy? Two aspects are important. First, it is risky, and most likely a mistake, to enact fiscal stimulus in an economy suffering from high inflation. Expansionary fiscal policies would stimulate demand and inflation thereby making the Central Bank of Nigeria's job much harder, resulting in much higher increases in Bank Rate. Secondly, as we discussed earlier, there are distributional aspects of the current inflation episode. Poorer households are more sensitive to commodity price increases and less able to use savings to limit the loss of their living standards. Thus, targeted policies that redistribute towards lower-income households would help alleviate much of the cost-of-living crisis and would preserve what is left of the social fabric in Nigeria. It is important to note that such interventions can and should be budget-neutral. Our opposition to fiscal stimulus is decisively not an excuse for the government to do nothing. By distributing the costs of this episode fairly, the government can make this shock bearable to all, and help the country emerge stronger and more united once the crisis abates. A shift in government fiscal policy in Nigeria can impact inflation rates by influencing factors such as government spending, taxation, and public debt. One example of a fiscal policy that could contribute to heightened inflation is excessive government spending without corresponding revenue generation. Presently, if the Nigerian government increases spending significantly without implementing effective revenue-generation measures, it can lead to a surge in inflation. This is because the excess money in circulation may outpace the production of goods and services, causing demand to outstrip supply, and thus driving up prices. An example of a past policy contributing to inflation is deficit spending without appropriate measures to cover the deficit. If a government consistently relies on deficit financing without proper management, it can lead to inflationary pressures. For instance, if a government frequently borrows from the central bank to finance its budget deficit without a corresponding increase in production or revenue, it can result in inflationary pressures.

In contrast, a prudent fiscal policy that focuses on measures like efficient revenue collection, controlling public spending, and promoting economic productivity can help reduce inflationary pressures by maintaining a balance between money supply and the production of goods and services. A prudent fiscal policy involves the careful management of government revenue, expenditure, and overall economic activities to promote stability and sustainable growth. Key components of a prudent fiscal policy include:

Balanced Budget: Striving to maintain a balanced budget ensures that government spending does not consistently exceed revenue. This helps prevent excessive borrowing, which can contribute to inflation.

Effective Revenue Collection: Implementing efficient tax policies and improving revenue collection mechanisms are crucial. This ensures that the government has adequate funds without resorting to inflationary measures like excessive money printing.

Public Expenditure Management: Controlling and prioritizing government spending is essential. Prudent fiscal policy involves directing expenditures toward critical areas such as infrastructure, education, and healthcare while avoiding unnecessary or wasteful spending.

Debt Management: Responsible management of public debt is crucial. Governments should avoid unsustainable levels of borrowing that could lead to inflationary pressures. Monitoring and servicing existing debt commitments are also integral to fiscal prudence.

Counter-Cyclical Policies: Implementing counter-cyclical measures involves adjusting fiscal policies in response to economic cycles. During economic downturns, governments may increase spending to stimulate growth, while during periods of economic expansion, they may reduce spending to prevent overheating and inflation.

Structural Reforms: Addressing underlying structural issues in the economy, such as improving the business environment, enhancing productivity, and fostering competitiveness, contributes to long-term economic stability and reduces the likelihood of inflation.

Prudent fiscal policy requires a careful balance between stimulating economic growth and preventing adverse consequences such as inflation. It involves strategic decision-making to ensure fiscal sustainability and macroeconomic stability over the long term.

Another crucial aspect that the government of Nigeria should take away from this study is its debt management. Despite the essential role debt plays in enabling structural transformation and development, the rate at which Nigeria’s debt is rising has constrained the country’s ability to generate sufficient growth, cope with crises, and invest in development. In 2023, Nigeria's debt reached $108.3 billion. This represents an increase of 123% since 2012, a rate roughly six times the country's growth rate of GDP. Nigeria's increased debt is a result of an interplay of factors including the COVID-19 pandemic and the Russia-Ukraine war. Most of the new debt has been externally obtained leading to an increase in the risk of the burden of that debt becoming unsustainable. This is because global financial pressures have weakened local currencies and increased interest rates, thus increasing the cost of servicing that debt in real terms. Nigeria's external debt as a share of total debt has increased from 14% to 40% between 2012 and 2022. There has also been a change in the creditor landscape: Most of the new debt is owed to multilateral and private creditors as opposed to bilateral creditors such as the Paris Club at the start of the new millennium. Whereas multilateral creditors accounted for 13% of total debt in 2005, presently, they account for 48% of total debt. Similarly, private creditor debt as a share of total debt has increased from 10% in 2005 to 38% in 2020. Meanwhile, bilateral debt as a share of total debt has declined significantly from 77% in 2005 to 14% in 2020 This has important implications as private creditors typically offer loans at relatively higher interest rates, with shorter maturity and grace periods. Moreover, coordination among creditors becomes more difficult as there is no formal coordination mechanism to bring together all creditors. The high borrowing cost and rising debt are hindering Nigeria's ability to finance its development agenda. Increasing amounts of public revenue are allocated for debt servicing purposes. In 2022, an estimated 96% of the federal government's revenue was allocated toward interest payments. Understandably, debt servicing dwarfs investments in key sectors. In the 2023 national budget, the budget share for debt servicing is 29% whereas the budget shares for education, health, and infrastructure are 8%, 5%, and 6%, respectively. With interest payments gulping down public revenue, it has become a matter of urgency for policymakers, researchers, and development practitioners to put forward solutions capable of stemming the crisis.

Governments must adopt responsible debt management practices, ensuring that borrowing is sustainable and contributes to long-term economic growth. Monitoring and addressing the impact of increased public debt on inflation, interest rates, and overall economic stability are essential for safeguarding the health of the economy.

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