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INFLATION, ECONOMIC STABILITY AND THE MONETARY POLICY: THE NIGERIA EXPERIENCE

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Abstract: *We examined analyzed how monetary policy and economic stability affects inflation in Nigeria from 1981-2020. The secondary series came from the Central Bank of Nigeria's statistical bulletin. We specifically looked at how the monetary policy rate (MPR), treasury bill rate (TBR), exchange rate (EXR), GDP growth rate (GDPGR), and broad money supply growth rate (GDPGR) affect inflation (INF). We used descriptive statistics, unit root, Granger Causality, the Autoregressive Distributed Lag (ARDL) framework, and ECM tests at the 5% level to do this. The unit root revealed that all variables were integrated at the level and first difference, necessitating the employment of the ARDL Bound test, which revealed evidence of long-run. GDPGR and MSGR granger cause INF in terms of Granger Causality, but INF does not granger cause GDPGR and MSGR. There was also no causation between MPR, TBR, and EXR and INF. MPR and EXR are negative but negligible to INF in the ARDL long-run test; GDPGR and MSGR are positive and significant to INF; and TBR is positive but insignificant to INF. Finally, GDPGR and MSGR are the primary predictors of inflation in Nigeria. As a result, we recommended that the CBN first narrow the asymmetric corridor around the MPR in order to check deposit money banks' excess reserves and expand their coverage in order to reduce the number of un-banked and under-banked people in the economy and thus reduce the informal sector's dominance.*

Keywords: *ARDL, CPI, Income, Unbanked, Nigeria*

1.0 Introduction

In curbing inflation, central banks adopt the monetary policy tools as a way of establishing and pushing a targeted inflation rate and then steers inflation using macroeconomic variables like changes in interest rate and other monetary instruments (CBN, 2011). These instruments according to CBN (2011) includes liquidity ratio, cash reserve ratio, discount window operations, exchange rate, open market operations, and monetary policy rate which are used to guarantee price stability overtime. In doing this, central banks are keen towards targeting a certain percentage of inflation in order to still allow for some magnitude of economic growth.

This means that inflation targeting could benefit countries immensely when duly implemented and can lead to low inflation, stable financial system, reduced output wastage, and fewer target miss (CBN, 2011). In order to fully take advantage of these benefits, central banks must have a concrete targeted inflation level. To do this, Masson et al. (2007) alienated two core prerequisites which are the ability of a country's central bank to conduct monetary policy using high level of instrument independently, and the freedom of the country to use different normal indices. Monetary policy in Nigeria is a decisive component for both the formulation and implementation of economic policy. Soludo (2003) asserts it as instrument that ensures the stabilizing, regulating and managing the cost, volume, and other terms on which advances and money are offered to the economy as a means of achieving a set objective by monetary authorities. There has been series of evolvement of monetary policy in Nigeria but all aimed at lessening unemployment and inflation, strengthening the economy's BOP and exchange rate, and furthering national growth.

The question then pose here is how can this be done in the light of maintaining and sustaining a healthy inflation rate? First, it is generally acknowledged that inflation rate should be a single digit and as such maintaining and sustaining it involves the control of the volume, cost and speed of money in circulation. Notwithstanding the issues of highly fragmented markets, market flaws, factor immobility, wage rigidities, disguised unemployment and underemployment, low equilibrium trap, and sectoral imbalances with surplus in some and scarcity in others (Myrdal, 1968) that are peculiar to the Nigerian economy. The average annual inflation rate in Nigeria was 14.28%, 12.70%, 15.27%, 28.57%, 30.7%, and 12.41% in 1970, 1981, 1997, 1993, 1999 and 2005, respectively (CBN, 2006). Given that inflation has averaged 18.99 percent over the past 36 years while broad supply growth has averaged 19.0 percent, this is an unexpected finding. Intriguingly, this case demonstrates that the rise in inflation was equal to the rise in the total money supply, proving that the unstable money demand makes money supply targeting an unreliable method of controlling inflation. As a result, it is still unclear whether monetary policy has been successful in reducing inflation in Nigeria. The fact that this study uses the growth rates for the GDP and the broad money supply distinguishes it from those of Salunkhe and Patnaik (2017), Okwori and Abu (2017), Gbadebo and Mohammed (2015), Okonta and Nwankwo (2018), Islam, Ghani, Mahyudin, and Manickam (2017), and Ahiabor (2013). This study also fills a gap in the literature by using a larger sample size, specifically from 1981 to 2020 for a thorough analysis of the subject. Thus, this study explores the relationship between monetary policy, economic stability, and inflation in Nigeria from 1981 to 2020.

2.0 Literature Review

The application of the inflation structural theory to the Nigerian economy is not heavily stressed. Both inflation and the theories that attempt to explain its causes have a long history. The causes of inflation were looked into by classical economists using the quantity theory of money. They contend that while real output is constant, the general level of prices increases in direct proportion to the expansion of the money supply. The classical theory is therefore viewed as biassed and incomplete because it emphasises the role of money while ignoring the real or non-monetary factors that cause inflation (Friedman, 1968). According to Keynes, the inflationary gap or excessive aggregate demand or potential output at full employment is what drives inflation. Keynes ignored the effect of monetary expansion on the price level and focused instead on the importance of a non-monetary factor, namely real aggregate demand. Like many other theories, his does not entirely account for the inflation phenomenon. The goal of modern monetarists was to revive classical monetarism in a modified form, with an emphasis on the relationship between money and inflation (Dornbusch & Fischer, 1994).

Contrarywise, current theories of inflation recognise the importance of both supply and demand factors in determining the level of prices (explaining its causation in the general equilibrium framework). These theories about inflation are based on the traits and circumstances of Western industrialised nations. It is frequently argued that theories of inflation based on the economic characteristics of developed countries cannot be used to explain the nature of inflation in developing countries and, as a result, are not very significant when developing anti-inflationary policies in LDCs (Dwivedi, 2008). The reason for this is that LDCs lack the traits and institutional framework found in developed nations. LDCs stand out in terms of institutional characteristics due to their highly fragmented markets, market flaws, factor immobility, wage rigidities, disguised unemployment and underemployment, low equilibrium trap, and sectoral imbalances with surplus in some and scarcity in others (Myrdal, 1968). The structuralist inflation theory has emerged as a result of efforts to find a suitable explanation for inflation in LDCs (Kirkpatrick &

Nixon, 1976). Because of their aggressive development plans, structuralists contend that inflation in LDCs is inevitable and is primarily brought on by structural imbalances in these economies. Food scarcity, input imbalance, foreign exchange bottlenecks, infrastructure bottlenecks, and social and political constraints are among the structural imbalances in LDCs.

In terms of empirical literature, Ekong and Effiong (2020) studied how the coordinated effect of fiscal-monetary policies affects inflation from 1985-2019 in Nigeria. Adopting the ARDL framework, the authors affirms the working of fiscal-monetary policy framework in Nigeria. In a similar study in Cameroun, Oumbe (2018) adopted the same techniques and found that money supply significantly promotes inflation over the period 1980-2016. Between 1985-2015 in Nigeria, Okonta and Nwankwo (2018) upheld that monetary policy elements are good determinants of changes in inflation. For Malaysia, Islam et al (2017) publicized that exchange and unemployment rates affects inflation negatively; while money supply affects it positively. In determining how monetary policy can curb inflation, Okwori and Abu (2017) adopted the VECM technique and showed that monetary policy is not substantial enough to solve inflationary difficulties in Nigeria due to the growth of the informal sector. Salunkhe and Patnaik (2017) collected monthly data from 2002:M01-2015M12 to test whether monetary policy decisions as regards output affects inflation using SVAR technique. The authors ascertained that inflation control is grossly affected by output in India. Using annual data for Nigeria over the period 1985-2012, Imoughele and Ismaila (2016) adopted the VECM and Granger Causality techniques and discovered that inflation and monetary policy are key aspect of sustainable growth. The study of Riti and Kamah (2015) on how sustainable growth can be achieved through inflation targeting between 1981-2010 in Nigeria concluded that exchange rate is centre in the inflationary pressure of Nigeria. In trying to assessed how effective monetary policy can be as regards anti-inflationary degree in Nigeria between 1980:Q1-2012:Q4, Gbadebo and Mohammed (2015) adopted the VECM technique. Their study discovered that interest rate, oil-price, exchange rate and money supply are the causes of inflation. In a separate study in Nigeria by Okwori and Abu (2015) between 1986-2013 using OLS method, the authors affirmed that monetary policy does not determine liquidity management. Similarly, Ahiabor (2013) study in Ghana on how monetary policy affects inflation during the period 1985-2009 affirmed the combined used of fiscal-monetary policy tools. Also, for Maku and Adelowokan (2013) fiscal policy and output growth in real terms are effective tools in solving inflationary problems in Nigeria. Opposingly, Danjuma et al (2012), Odior (2012) and Chinaemerem and Akujuobi (2012) all concluded for the potency of monetary policies in controlling inflation in Nigeria.

3.0 Methodology

The ex-post facto research design is used in this work. The rationale for its use is that the study obtained statistical data from previously completed events (i.e. from the Central Bank of Nigeria), and thus the researcher has no room to manipulate the data collected for this purpose. For a detailed analysis, this study used data from the Central Bank of Nigeria (CBN) statistical bulletin from 1981 to 2020. As a result, the data is secondary in nature. To examine the data collected, the study used unit root, ARDL framework, Granger causality, and error correction model testing. To carry out this investigation in a concise manner, the model specification of Okwori and Abu (2017) was modified.

$$INF = f(M2, CR, LR, MRR, INT, TBR) \qquad 3.1$$

Where, INF = Inflation rate, CR = Cash ratio, LR = Liquidity ratio, MRR = Minimum rediscount ratio, INT = Interest rate, TBR = Treasury bill rate.

Therefore, the model is modified as thus:

INF = f(MPR, TBR, EXR, MSGR, GDPGR) 3.2

The mathematical form of the model is stated below;

$INF_t = \beta_o + \beta_1 MPR_t + \beta_2 TBR_t + \beta_3 EXR_t + \beta_4 MSGR_t + \beta_5 GDPGR_t$ 3.3

Therefore, the econometric form of this model is stated below:

$INF_t = \beta_o + \beta_1 MPR_t + \beta_2 TBR_t + \beta_3 EXR_t + \beta_4 MSGR_t + \beta_5 GDPGR_t + \varepsilon_t$ 3.4

β_1, β_3, and $\beta_5 < 0$; β_2, and $\beta_4 > 0$

Where, INF = Inflation rate, MPR = Monetary policy rate, TBR = Treasury bill rate, EXR = Exchange rate, MSGR = Money supply growth rate, GDPGR = Gross domestic product growth rate, β_o = Intercept, β_1, β_2, β_3, β_4, and β_5 = Constant parameters, ε_t = Error term

The ARDL long run model specification is presented below

$\Delta Y_t = \beta_0 + \beta_1 \Delta Y_{t-i} + \beta_2 \Delta X_{t-i} + U_t$ 3.5

The structures of ECM;

$\Delta Y_t = \beta_1 + \sum_{i=1}^{p} \beta_2 \Delta Y_{t-i} + \sum_{i=1}^{q} \beta_3 \Delta X_{t-i} + \alpha ECT_{t-i} + e_t$ 3.6

The Granger Causality model is given as;

$Y_t = \alpha + \sum_{k=1}^{k} \beta_k Y_{t-1} + \sum_{k=1}^{i} \delta_k X_{t-1} + \epsilon_t \ldots$ 3.7

$X_t = \alpha + \sum_{k=1}^{k} \beta_k X_{t-1} + \sum_{k=1}^{k} \delta_k Y_{t-1} + \epsilon_t$ 3.8

4.0 Data Analysis and Discussion of Findings

4.1 Data Analysis

Table 4.1: Summary of Descriptive Statistics

	INF	MPR	TBR	EXR	MSGR	GDPGR
Mean	19.80450	13.77500	12.72892	100.1127	0.227613	0.220098
Median	13.68500	13.25000	12.50000	92.51000	0.183791	0.158981
Maximum	76.76000	26.00000	26.90000	380.7500	0.589961	0.787329
Minimum	3.610000	6.000000	1.300000	0.610000	0.033122	-0.120901
Std. Dev.	17.15666	4.518495	4.968027	105.7109	0.149381	0.179819
Skewness	0.425962	0.355093	0.327303	0.982671	0.865190	0.267699
Kurtosis	2.708695	2.873055	3.414656	3.109981	2.707542	2.030922
Jarque-Bera	0.795723	0.867465	1.000746	6.457776	5.132916	0.214271
Probability	0.548340	0.648086	0.606304	0.039602	0.076807	0.718185

Source: E-views Output

The average value of INF is 19.80450 percent, the highest and minimum values are 76.76000 and 3.610000 percent, respectively, and the amount of variability from the mean is 17.15666 percent, according to Table 4.1. MPR has a mean of 4.518495 percent, a maximum of 26.0 percent, a minimum of 6.0 percent, and a level of deviation from its mean of 13.77500 percent. TBR has a mean of 12.72892 percent, a maximum of 26.9 percent, a minimum of 1.3 percent, and a level of variation from its mean of 4.968027 percent. EXR has an average value of 100.1127 USD, a maximum value of 380.75 USD, a lowest value of 0.61 USD, and a level of variability from its mean of 105.7109 percent. MSGR has a mean of 0.149381 percent, a maximum of 0.589961 percent, a minimum of 0.033122 percent, and a level of deviation from its mean of 0.227613 percent. GDPGR is 0.220098 percent on average, with maximum and minimum values of 0.787329 and -0.120901 percent, respectively. It has a standard deviation of 0.179819 percent from the mean. Kurtosis describes the distribution's apex. GDPGR is platykurtic since its value is less than 3, whereas INF, MPR, EXR, and MSGR are mesokurtic because their values are close to 3. Skewness reflects the asymmetry of the distribution. Because of their positive values, all of the variables are skewed to the right. The p-value from Jarque-Bera statistics was used to determine the normality of the distribution. The p-value must be larger than the 5% significant threshold specified as the deciding criterion for this investigation. As can be observed, the p-values for INF, MPR, TBR, MSGR, and GDPGR were all larger than 5% (0.548340, 0.648086, 0.606304, 0.076807, and 0.718185, respectively), showing that they are normally distributed, however EXR is not because its p-value of 0.039602 is less than 5%.

Table 4.2: Unit Root Test

Variables	ADF T-Stat @ Level	T-Critical @ level	P-value @ level	ADF T-Stat @ 1st Diff.	T-Critical @ 1st Diff.	P-value @ 1st Diff.	Order of Integration
INF	-2.618747	-2.943427	0.0983	-6.191575	-2.941145	0.0000	I(1)
MPR	-3.013172	-2.938987	0.0424	-	-	-	I(0)
TBR	-3.599940	-2.938987	0.0103	-	-	-	I(0)
EXR	2.047787	-2.938987	0.9998	-4.583325	-2.941145	0.0007	I(1)
MSGR	-3.847825	-2.938987	0.0054	-	-	-	I(0)
GDPGR	-4.613361	-2.938987	0.0006	-	-	-	I(0)

Source: E-views Output

Table 4.2 reveals that at the 5% level of significance, four variables (MPR, TBR, MSGR, and GDPGR) are stationary at the level, while two are stationary at the first difference (INF and EXR). The ADF test statistics had more negative than critical values at the 5% level of significance for each variable, and their corresponding p-values were less than 5%, which is the accepted and rejected zone. Based on this result, Pesaran, Shin, and Smith (2001) recommended using the ARDL Bound test to see if there is any co-integration among the variables. As a result, this is used here.

Table 4.3: ARDL Bound Co-integration Test

ARDL Long Run Form and Bounds Test
Dependent Variable: D(INF)

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	5.576626	10%	2.26	3.35
k	5	5%	2.62	3.79
		2.5%	2.96	4.18
		1%	3.41	4.68

t-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)

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t-statistic	-4.904841	10%	-2.57	-3.86
		5%	-2.86	-4.19
		2.5%	-3.13	-4.46
		1%	-3.43	-4.79

Source: E-views Output

At the 5% significant level, the F-statistic value is 5.576626, which is bigger than the I(0) and I(1) bound values of 2.62 and 3.79, respectively. The T-statistic has a value of -4.904841, which is bigger in absolute terms than the I(0) and I(1) values of -2.86 and -4.19, respectively, at the 5% significant level. Thus, for both the F-statistic and the T-statistic, the alternate hypothesis of a co-integrating connection between the variables is accepted, whereas the null hypothesis is rejected.

4.1.1 ARDL Model Estimation

Table 4.4: ARDL Model (Long-run Form)

Regressors	Coefficient	Standard Error	T-statistics	P-value
MPR	-0.506564	0.735897	-0.688362	0.4965
TBR	0.359564	0.687163	0.523258	0.6046
EXR	-0.020782	0.018928	-1.097969	0.2810
GDPGR	29.57796	11.33207	2.610110	0.0140
MSGR	48.15731	14.28215	-3.371853	0.0021
C	-6.413614	6.968430	-0.920381	0.3647
R-squared 0.720150 Adjusted R-squared 0.645523		F-statistic 9.650037 Prob(F-statistic) 0.000002		D-W Stat. 1.617034

Source: E-view 10.0 Output

The result of the error correction mechanism (ECM) test, as shown in the table above, is that the Adjusted R-squared is 0.6455. This implies that MPR, TBR, EXR, MSGR, and GDPGR account for 64.55 percent of the variation in INF, with the remaining 35.45 percent accounted for by factors not included in the model but reflected by the error term. TBR has a positive (0.359564) and insignificant (0.6046) impact on INF. This means that every unit rise in TBR tends to raise INF by 0.359564 units. The long-run behaviour of MPR and EXR revealed a substantial negative (-0.506564 and -0.020782) and negligible association with inflation rate, with p-values (0.4965 and 0.2810) less than 5% significant. Thus, a unit increase in MPR and EXR results in a 0.506564 and 0.020782 unit drop in INF, respectively. GDPGR, on the other hand, was found to have a positive (29.57796) and significant (0.0140) effect on INF. This means that a unit rise in GDPGR will result in an increase in INF of approximately 29.57796 units. For the time period studied, MSGR is positive (48.15731) and significant (0.0021) to INF in Nigeria. This means that a unit increase in MSGR will result in an increase in INF of approximately 48.15731 units. The F-statistics p-value of 0.000002 demonstrated that the explanatory variables are jointly substantial in determining long run variation or fluctuations in INF, and the model is correctly defined and substantial at the 5% level. Further examination of the table 4.4 result revealed that there is free first order serial correlation, as indicated by the Durbin Watson statistic value of 1.617034.

Table 4.5: Error Correction Model

ARDL Error Correction Regression
Dependent Variable: D(INF)

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ECM Regression
Case 3: Unrestricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.413614	1.866013	-3.437067	0.0017
D(GDPGR)	-11.88594	7.422840	-1.601265	0.1198
D(MSGR)	-48.15731	10.10438	-4.765981	0.0000
CointEq(-1)*	-0.509393	0.081530	-6.247910	0.0000

Source: E-view 10.0 Output

Table 4.5 demonstrates that any short-run disequilibrium is addressed at a pace of adjustment to long-run equilibrium of -0.509393. As a result, 50.9393 percent of the disequilibrium that occurred the previous year is corrected in the current year. Furthermore, the p-value of 0.0000 indicates that it is statistically significant at the 5% level.

Table 4.6: Granger Casualty Test

Pairwise Granger Causality Tests
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
MPR does not Granger Cause INF	38	1.94589	0.1589
INF does not Granger Cause MPR		0.35289	0.7053
TBR does not Granger Cause INF	38	2.49601	0.0978
INF does not Granger Cause TBR		0.57043	0.5708
EXR does not Granger Cause INF	38	1.01186	0.3745
INF does not Granger Cause EXR		0.32816	0.7226
MSGR does not Granger Cause INF	38	9.00892	0.0008
INF does not Granger Cause MSGR		1.10324	0.3437
GDPGR does not Granger Cause INF	38	6.87338	0.0032
INF does not Granger Cause GDPGR		1.14111	0.3317

Source: E-views Output

Table 4.6 displays the Granger causality test result at the 5% levelThe F-statistic p-value should be little below 5% level set for this study in order for the null hypothesis to be rejected. The findings revealed that MPR, TBR, and EXR do not cause INF and vice versa. This confirms the absence of a causal relationship between any of the factors and the Nigerian inflation rate; reversal is possible. During the study period, however, there is a unidirectional relationship from MSGR and GDPGR to INF, but not vice versa.

4.1.2 Post Estimation Test

Table 4.7: Serial Correlation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.094194	Prob. F(2,28)	0.3487
Obs*R-squared	2.827152	Prob. Chi-Square(2)	0.2433

Source: E-views Output

The residual serial correlation LM test has a p-value of 0.3487, which is greater than the 5% level of significance, as shown in Table 4.7. As a result, the null hypothesis that there is no autocorrelation in the residual is accepted.

Table 4.8: Heteroskedasticity Test

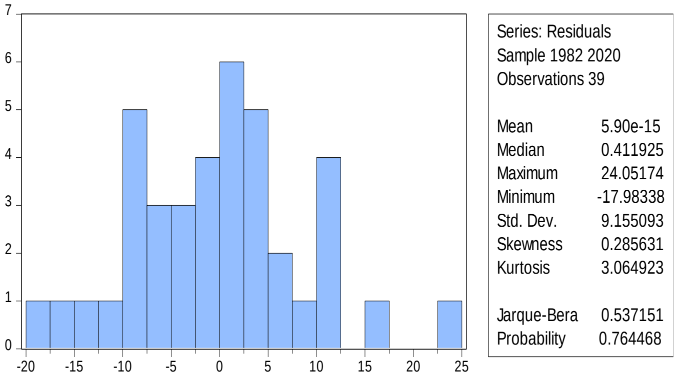
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.134814	Prob. F(8,30)	0.3694
Obs*R-squared	9.060273	Prob. Chi-Square(8)	0.3372
Scaled explained SS	5.535139	Prob. Chi-Square(8)	0.6991

Source: E-views Output

The joint p-value of the heteroscedasticity statistics is 0.3694 in Table 4.8, which is greater than the 5% level of significance. As a result, the null hypothesis that the residual is homoscedastic is accepted.

Figure 4.1: Histogram Normality Test



Source: E-views Output

The p-value of the Jarque-Bera statistics is 0.764468, which is above 5% and is bell-shaped. As a result, the null hypothesis that the residual is normally distributed is accepted.

4.2 Discussion of Findings

In Nigeria, the monetary policy rate is negative and significant to the inflation rate. This accords with theoretical postulations that lowering the monetary policy rate has the propensity to raise the inflation rate. This is due to deposit money banks' surplus reserves, which reduce the MPR's effectiveness in influencing interest rates and money supply. Furthermore, this reduction is not yet noteworthy because it is little in comparison to the existing inflationary pressures on the Nigerian economy. Furthermore, the issue of informal sectors that are not subject to CBN control and their large monetary impact on the nation's economy, which has the potential to stimulate inflation. Okwori and Abu (2017), Gbadebo and Mohammed (2015), and Okwori and Abu (2015) all agree that the monetary policy rate is negatively associated to the inflation rate. It does not, however, agree with Ekong and Effiong (2020); Salunkhe and Patnaik (2017) that the monetary policy rate is positively associated to the inflation rate.

With Nigeria's inflation rate, the Treasury bill rate is positive but negligible. This is consistent with theoretical postulation regarding the direction of movement of the two variables. However, it is minimal because the majority of treasury bill investors are institutional, which limits the capacity of treasury bill rates to effect inflation significantly because they represent just a small portion of the total population. This is consistent with the findings of Salunkhe and Patnaik (2017) and Okwori and Abu (2015), who found that treasury bill rates have a negative impact on inflation. However, Ekong and Effiong (2020) and Ahiabor (2013) disagree that treasury bill rates have a detrimental impact on inflation.

The depreciation of the Nigerian naira in relation to the US dollar has no effect on the inflation rate. In terms of its directional movement, this supports theoretical presumption. A plausible explanation for this is that a decrease in the real worth of money affects its purchasing power, causing a large amount of money ostensibly to chase fewer goods and services. This contradicts the findings of Okonta and Nwankwo (2018), Islam et al. (2017), and Riti and Kamah (2015), who found that currency rate depreciation has no effect on inflation.

Nigeria's GDP growth rate significantly drives inflation. This is due to the insufficient number of goods and services produced, as well as the high level of insecurity that affects farmers in rural areas across Nigeria in terms of access to farmland for the production of products and services. Another problem could be overdependence on foreign goods and services, which affects the ability of local industries to produce since there is no easily available market for their products. This backs with Riti and Kamah's (2015) claim that GDP is positively related to inflation.

In Nigeria, the broad money supply growth rate is positive and relevant to inflation. This is due to an excess of money in circulation chasing fewer products and services. This is consistent with the findings of Oumbe (2018), Okonta and Nwankwo (2018), Islam et al. (2017), Gbadebo and Mohammed (2015), Okwori and Abu (2015), and Ahiabor (2013) that a large money supply has a beneficial effect on the inflation rate. However, Salunkhe and Patnaik (2017) do not agree that a large money supply has a detrimental impact on the inflation rate.

5.0 Conclusion and Recommendations

5.1 Conclusions

The paper examines how monetary policy and economic stability effect inflation in Nigeria from 1981 to 20120, a span of 40 years. The variables considered in the analysis are the inflation rate, the monetary policy rate, the treasury bill rate, the exchange rate, the GDP growth rate, and the broad money supply growth rate. The descriptive analysis, Granger Causality, ARDL framework, and ECM test were used in the study to assess estimation robustness. The study revealed substantial support for GDP growth rate and broad money supply growth rate as major predictors of Nigerian inflation. This is supported by Riti and Kamah (2015), Oumbe (2018), Okonta and Nwankwo (2018), Islam et al. (2017), Gbadebo and Mohammed (2015), Okwori and Abu (2015), and Ahiabor (2015). (2013). This is ascribed to an insufficient supply of products and services created, as well as an excess of money in circulation chasing fewer commodities and services. However, the monetary policy rate, treasury bill rate, and exchange rate have little influence on inflation in Nigeria. Salunkhe and Patnaik (2017), Okwori and Abu (2017), Gbadebo and Mohammed (2015), and Okwori and Abu (2017) all support this (2015). This is due to deposit money banks' excess reserves, which reduce the MPR's effectiveness in influencing interest rates and money supply; and most treasury bill investors are institutional, which limits the ability of treasury bill rates to affect inflation significantly because they represent only a small portion of the total population.

5.2 Recommendations

According to the report, the CBN should first shorten the asymmetric corridor surrounding the MPR to check deposit money banks' surplus reserves and increase their coverage to lower the number of un-banked and under-banked people in the economy in order to lessen the informal sector's dominance. Second, the federal government should allow the general people to subscribe to Treasury bills through the CBN. Third, the CBN should allow for flexible exchange rates, function as a monitor against currency hoarders, and sanction them appropriately. Fourth, there is a need to raise the volume of final production of goods and services by encouraging the use of made-in-Nigeria goods and services, employing an import-substitution plan for highly technical products from abroad, and providing security. Furthermore, the CBN should employ all of its monetary policy tools to limit the amount of money in circulation in order to mitigate the negative effects of inflation in Nigeria.

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