



**THE CAUSES, EFFECTS AND PROSPECTS OF INFLATION  
IN NIGERIA: A PARADIGM SHIFT**

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**Abstract**

In recent times in Nigeria, the cost of goods and services have sky rocked and begging for attention. The naira seem so devaluated that any right thinking person will be forced to conclude that it is the currency with the least exchange rate in the country. But this was not so before. The naira was well appreciated and exchanged favourably with other country's currencies. But surprisingly, the currency came crashing like a wrongly parked cards. This leaves much to be desired as the inflationary rate has continued to be on the increase every now and then that no one can actually predict what may happen economically in the country in the nearest future. Evidence on ground show astronomical increase in the cost of both goods and services, leave much to be desired. The All Progressives Congress, the party in power at the Federal level and in control of power at various state level have left a bitter taste on people's mouth with all its lofty dreams and promises made during her campaign which left the previous administration parking. The state of affairs in the country does not give the people below the poverty line any dot of hope and the ruling party seem to be lost of ideas of what needs to be done to right the wrong. In their sheer carelessness they started with blame game of putting forward how the displaced People's Democratic Party(PDP) crumbled the economy of the country. The above state formed the gamut of the study as we made concerted efforts to finding out what must be done. Several data collection techniques as interviews, use of questionnaire, textbooks, journals and the internet were used to garner data for analysis. The Endogenous Growth theory was used as theoretical framework, there after, conclusion was drawn.

**Keywords:** Causes, Effects, Prospects, Inflation, Nigeria.

## **DEFINITION OF KEY CONCEPTS**

There are certain concepts making up this question that needs to be explained no matter how concise. Such words include:

### **CAUSES**

A person or thing that gives rise to an action, phenomenon or condition.

### **EFFECTS**

A change which is a result or consequence of an action or other cause.

### **PROSPECTS**

The possibility or likelihood of some future event occurring

### **INFLATION**

The cause of inflating something or the condition of being inflated.

## **INTRODUCTION**

Many scholars from different works of life have attempted a definition and explanation of the concept of inflation. And this definitely could be seen as from different nomenclature. Whichever one is the case, there is no known explanation of inflation that seem favourable. This has been viewed as a situation of continuous rise in the cost of goods and services in a country. For the past few years, Nigeria has represented a country with constant increase in the cost of goods and services without a step backward. Many scholars have adduced the main causes from different indices and factors. Above all the mountainous postulations, presentations and models, no one has authoritatively come out from the clouds to say, this is what could be done to remedy the ugly situation. The question that we all need to answer religiously and carefully is this, is the present situation benefitting some group of people? If yes, what percentage of persons are favoured or benefitting as against the percentage that is affected negatively. The survival rate of people in Nigeria is becoming more difficult and the situation unbearable. The worsening situation is that civil servant, public servants and other government workers are not receiving increased pay packs. But still are forced to live by the lean resources they receive as salaries. What must be stated and categorically too is that man is a lower animal, how can a group of people subject the rest others to such unholy suffering and treatment. This in fact can be said to be responsible for increase in death toll, sicknesses and diseases to mention

just a few. The problem with the country is hydra-headed that nobody can explain how we got here and what we must do right. If this situation is not urgently checked as it stands, things will definitely get worse, so to speak.

## **CAUSES OF INFLATION IN NIGERIA**

It must be said that the rise in food index was caused by increases in the prices of bread and cereals, food products, potatoes, yams and other tubers, wine, fish, meat and oils according to Business Day Newspapers, October 2022.

Last year, the world Bank said that the country's high inflation rate has pushed more people into poverty. In the year, 2020, the number of poor persons increased to 90.1 million, in the year 2021, from 82.9 million. And it is projected to hit 95.1 million in 2022. And this actually been.

On why inflation rate has surged over the past couple of years, Business Day analysed a recent Article by the International Monetary Fund(IMF) titled 'The future of Inflation part 1 that explains some of the causes of high Inflation world wide. Why inflation is high and whether it will persist is a topic of active debate' Ruchir Agarwal, a senior economist at IMF's Research Department stated in the Article. Here are some known causes of Inflation in Nigeria

### **1) SUPPLY CHAIN DISRUPTIONS**

The food chain in Nigeria involves farming, transportation, processing and retailing. However, this food chain gets disrupted due to various factors which include insecurity, bad roads and obsolete facilities amongst others. The worsening state of insecurity in the country continued to obstruct farming activities and deter agricultural investments in key crop-growing states, while putting existing agribusiness in constant peril.

Africa's largest economy food security crisis, which was worsened by the COVID-19 pandemic and its effect on the country's food value chain is now being compounded by the Russia-Ukraine war that affects the availability of grains such as wheat and even inputs required for producing fertiliser.

Further more, transportation of some food items which is supposed to take a few days, takes longer than expected due to the bad roads. The food items spoil before they even get to the retailer and the lack of modern storage facilities doesn't help matters too. Supply shocks to energy and food caused by the Ukraine-Russian crisis.

It is necessary to state that both Russia and Ukraine are major commodity exporters and the disruptions caused by the war and restrictions have caused higher inflation

globally. Global prices of oil, natural gas and food prices have risen making it harder for middle and low income earners to afford basic needs. These effects will lead inflation to persist longer than previously expected. The impact will likely be bigger for low income countries and emerging markets where food and energy are a larger share of consumption ( as high as 50 percent in Africa) ‘ Agarwal said.

A major area of impact in Nigeria has been food prices, since both countries at war are major producers and exporters of agricultural commodities , particularly grains and countries like Nigeria, depend heavily on them for inputs in direct human consumption and industrial processing.

## **2) GOVERNMENT SPENDING**

When the government increases its spending, more money goes into circulation in an economy. This leads to an increase in consumer spending and with no increase in the production of goods and services, it can lead to inflation. The government took some measures to cushion the impact the COVID-19 pandemic had on households and businesses in the year 2020 and these included the 50billion naira targeted credit facility rate it gave among others.

Equally, the GDP by expenditure report by NBS also shows that government spending increased the most in 2020 to 13.43 trillion naira and although it declined to 9 trillion naira in 2021, this is still more than the pre-pandemic levels.

## **3) SHOCK TO LABOUR SUPPLY.**

The labour shock due to the pandemic in the US had a big impact on Nigeria because it affects the exchange rate and import price index. In advanced countries, labour is a cost of input in production meaning that cost of production will be higher if labour is scarce and it then increases the price of goods. This means that the tighter the labour market in these countries perpetuates the impact of exchange rate pressure on the part of imported inflation in Nigeria.

## **EFFECTS OF INFLATION ON NIGERIA**

Inflation has been observed to be an ill wind that blows no one any good. Here are some its effects on the country and her citizens.

### **1) GROUNDING THE ECONOMY**

It must be established that inflation as various experts and authorities have rightly said, has the ability and capability of bringing any country down on its knees, the case of Nigeria is a typical example,

The cost of goods and commodities are out of the reach of the common people and the rate of exchange with the country's country is relatively low that even nothing

tangible seen to materialise or be realized from international trades and relationship ( The emphasis is mine) One thing that the country is associated with is borrowing from day to day without having any tangible glimpse or idea on when such debts will be paid. Debt burden continue to pile up from time to time, what more is remaining other than to say that the economy is simply grounded.

## **2) DISCOURAGEMENT OF INVESTMENT**

One other fact that we must mention is the fact that foreign and local(indigenous) investment will be discouraged to invest their resources simply because they know that they will be ending up wasting their resources should they dare. Who will like to invest to waste resources other than making profits. Everyone knows that investments are made in other to make profits and eve when the economic life or viability of a country is not guaranteed, chances are that the investors will be discouraged from investing. Then the question every right thinking person will ask is, how will a country without investments grow or develop.

## **3) EXPERIENCE OF UNTOLD HARDSHIP.**

No matter that angle from which any one looks at it, when two Elephants fight, the grass suffer. The case of Nigeria and Nigerians has left a bitter taste on the mouth of virtually every body. The cost of edibles in the open market has gone so high that the average Nigerians are almost reduced to beggers because no matter how much they have they cannot buy reasonable items. The worse of it all is that everything has been affected and the aged and that indigents have almost no hope of survival. One can easily ask, where is the country truly driving to? No body seem to have the answers to this question. The country is like a ship without a captain and without even a destination. The matter has not ended there, accommodation and other basic necessities of life are exceedingly exorbitant.

## **4) NEGATIVE IMPLICATION FOR THE IMAGE OF THE COUNTRY.**

One point that must be made is that when a country is passing through hard times, inflation or any other type of problem economic, political or otherwise, it paints that country in black. Usually the country will simply become a bad point of reference. That implies that any bad example or reference that must be made will be made using such country and it will definitely not be in that country's favour so to speak.

## **THEORETICAL FRAMEWORK.**

### **Endogenous Growth Theory**

Endogenous growth theories describe economic growth which is generated by factors within the production process such as economies of scale, increasing return or

induced technological changes as opposed to exogenous factors such as increase in population . When endogenous growth models are set within a monetary exchange framework of Lucas (1988). Lucas and Stokey (2018) ,MC Callum and Goodfriend (2017) , the inflation rate (tax) lowers both the return on all capital and growth rate. According to Gokal and Hamif (2004), a rise in inflation reduces the marginal values of today : last want of consumption equals marginal product of cost of last unit of work. This is simply the typical scenario or case acting itself out in Nigeria, therefore, the endogenous growth theory suffices as theoretical framework for analysis in this work.

### **CONCLUSION AND RECOMMENDATIONS.**

This study examines the causes, effects and prospects of inflation in Nigeria The literature available for the study shows that inflation has not been a favourable wind at all. Based on the results obtained, the following policy recommendations were made.

- 1) The positive impact of inflation on economic growth equally calls for the implementation of policies which will enhance invisible hands in the Country . This can be done through implementation of minimum wage, tax holding and ease of doing business.
- 2) The negative relationship between interest rate and economic growth calls for efficient interest rate regime / policy to be formulated and implemented .
- 3) Urgent and proactive measures should be applied to manage inflation. This will ensure improved standard of lives of the people.
- 4) People should be intimated and made to understand where the country is heading to to help remedy the situation urgently.

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