NIGERIA'S HISTORY OF INFLATION

A TALE OF THE DESTRUCTION OF VALUE

JUNE 2022

DISCLAIMER

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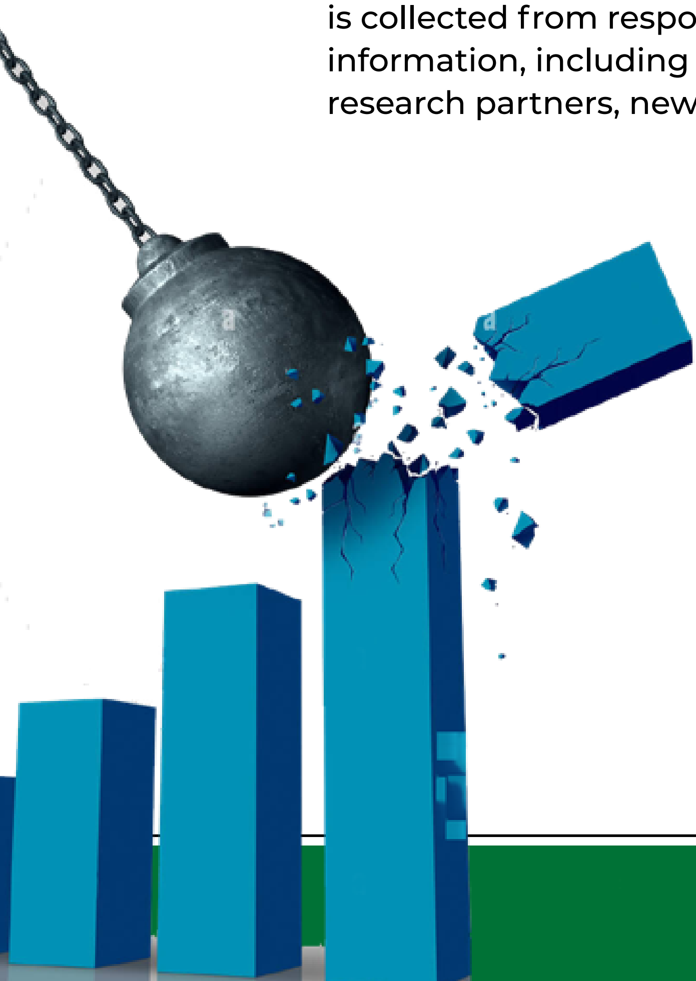
Our researchers employed methods such as one-on-one interviews and desk research to collate the available data. Our editors sifted through the data and prepared the report, using various proprietary tools to fact-check and copy-edit the information gathered.

Our publicly released reports are formatted for easy and quick reading, and may not necessarily contain all the data that SB Morgen gathered during a given survey. Complete datasets can be made available on request.

All forecasts were built using data from a variety of sources. A baseline of accurate and comprehensive historic data is collected from respondents and publicly-available information, including from regulators, trade associations, research partners, newspapers and government agencies.



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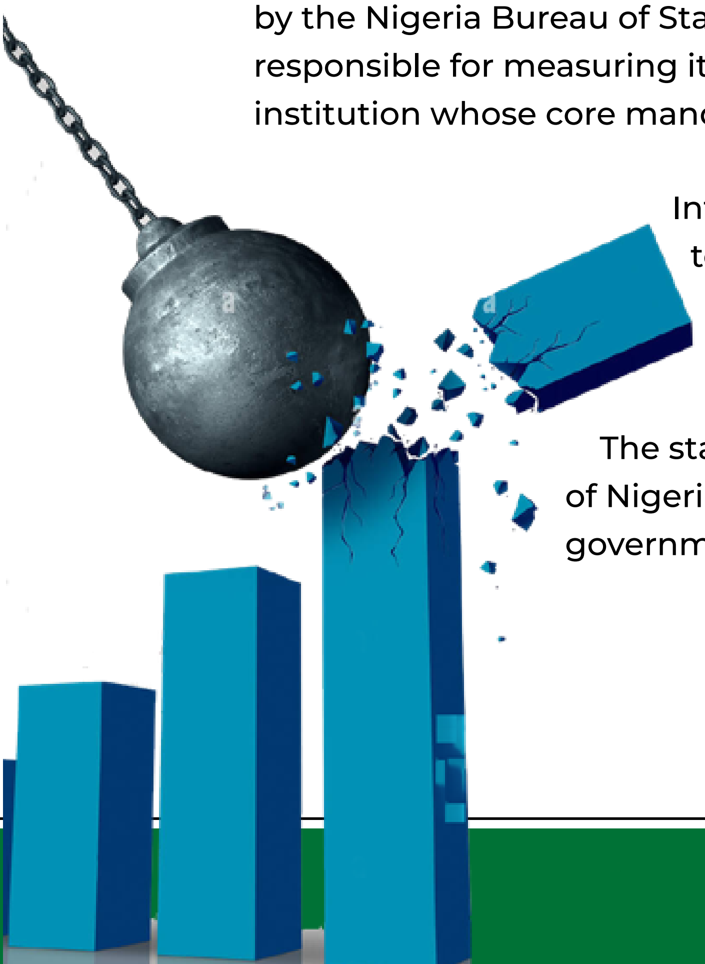
INTRODUCTION

One of the fundamental goals of a modern economic system is to keep prices of goods and services stable at rates that would not be detrimental to the population. It thus follows that the number one item on the list of the five core mandates of the Central Bank of Nigeria (CBN) is as follows:[1]

- To ensure monetary and price stability.

This is listed first, even above the regulator's responsibility to issue the legal tender currency, maintain the country's external reserves and act as the banker of the Federal Government of Nigeria. The attainment of this goal is very crucial as its non-attainment may carry with it dire micro and macroeconomic consequences. As people's purchasing power is eroded, and they are unable to buy what they need, the fabric of social cohesion begins to tear at the seams.

The key metric used to measure price stability in the economy is the inflation rate. This is measured and released on a quarterly basis by the Nigeria Bureau of Statistics, to ensure that the institution responsible for measuring it is distinct and independent of the institution whose core mandate is to ensure price stability.



Inflation, one of the most researched topics in economics, is the continuous and persistent increase in the general price level of goods and services.

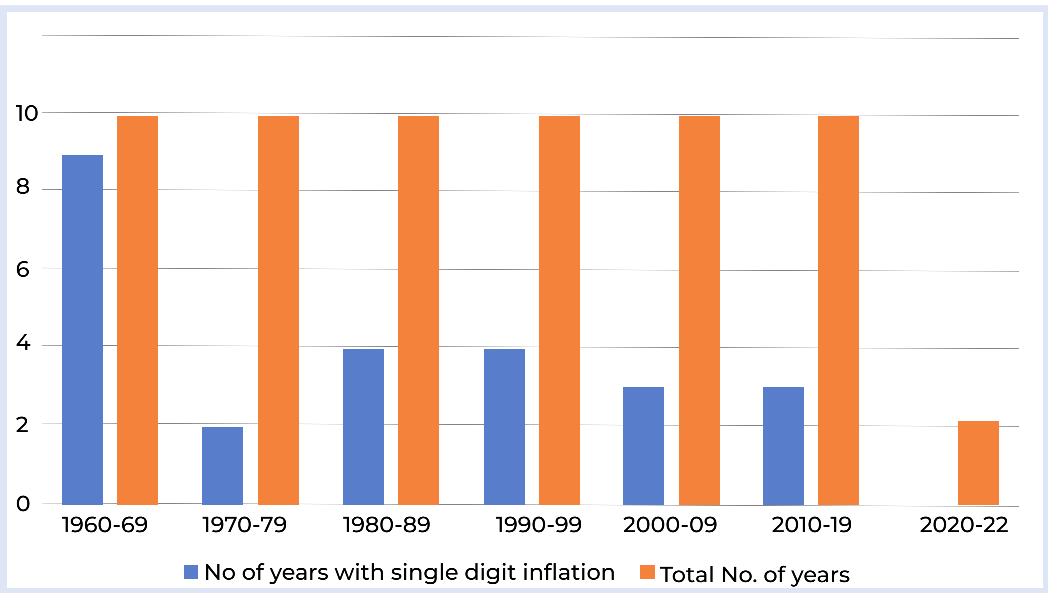
The stated target of the Central Bank of Nigeria and by extension, the Nigerian government is to achieve and maintain a single-

[1] Central Bank of Nigeria. About CBN. Available online: https://bit.ly/3b8kS6D [Accessed 17/06/2022].

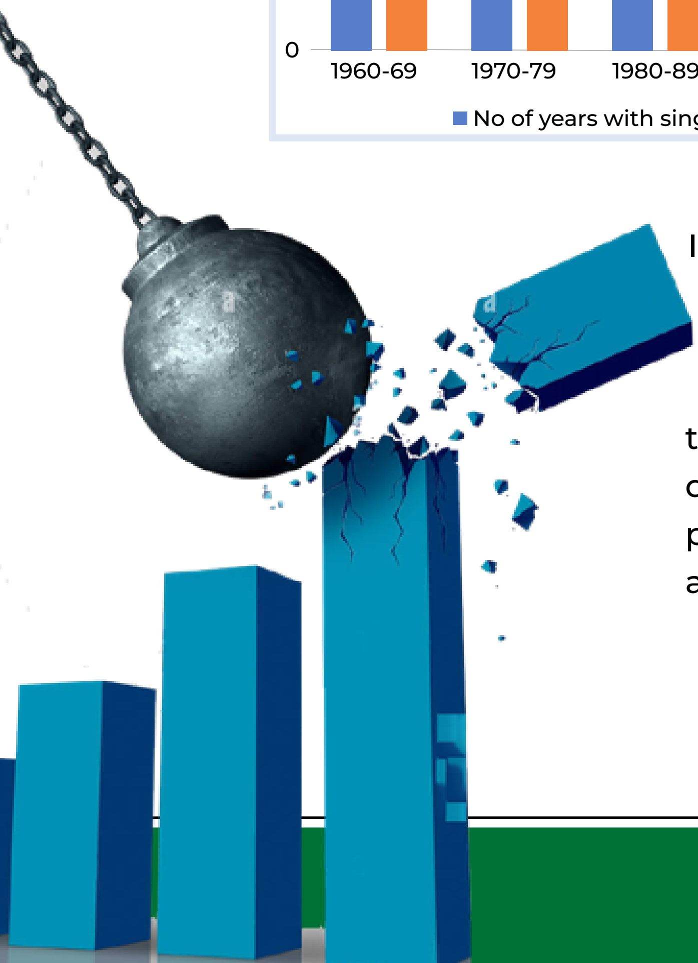
digit inflation rate, meaning that the maximum it hopes to sustain is a 9.9% inflation rate. This target has been met in only 25 of Nigeria's 62 post-independence years or 40% of the time. On a decade-by-decade basis, it is clear that our ability to achieve this has declined since independence.

> ***Nigeria has had single-digit inflation in only 25 of the country's 62 years post-independence.***

Achievement of Single Digit Inflation by Decade



Source: SBM Intelligence



It is important to note that even at the targeted single inflation rate of 9.9%, Nigeria's currency, the Naira, loses half of its purchasing power every six years[2]. In the reality where inflation has been double-digit 60% of the time, this purchasing power is eroded, on the basis of inflation alone, even much faster.

[2] Olanrewaju, S. (2021) Naira Depreciates By 209% In Six Years •CBN Defends Currency With $130bn, Rolls Out Tens Of Policies. Available online: https://bit.ly/3O2HfsF [Accessed 17/06/2022].

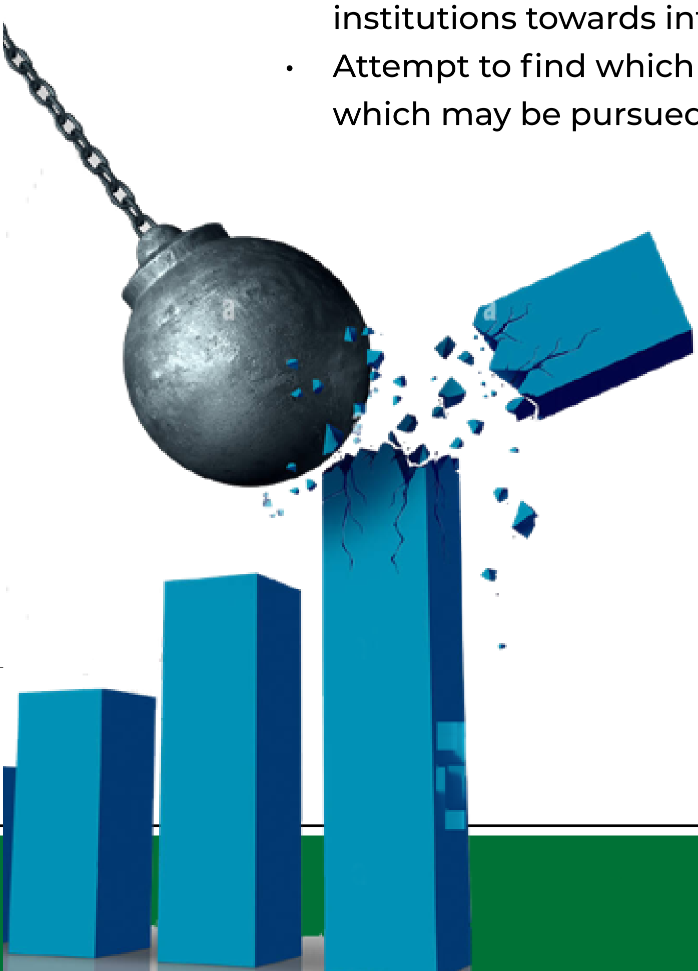
In addition, there have been only three years of deflation in the Nigerian economy since 1960. All of these occurred in the first decade between 1960 – 1969[3].

- -2.7% in 1963
- -3.7% in 1967
- -0.47% in 1968

The last two occurred during the first two years of the Nigerian Civil War while the first occurred in the crisis-ridden year before the first post-independence general elections in Nigeria.

Most scholars hold the view that excess inflation is very harmful. This by implication means that a little bit of inflation has a positive effect on growth and encourages producers to make necessary investments when properly managed. Over the years, Nigeria's policymakers have employed different options in their attempts to control inflation.
This report will do the following:

- Trace the inflationary trend since independence to date;
- Itemise and analyse the policy choices taken including their first and second-order effects;
- Distil the overarching philosophy of Nigeria's policymaking institutions towards inflationary control;
- Attempt to find which of the policy measures have worked, which may be pursued for future interventions.



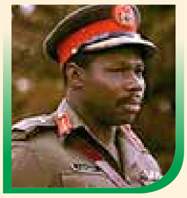
[3] Moser, G.G. (1995) The Main Determinants of Inflation in Nigeria. Staff Papers (International Monetary Fund) Vol. 42, No. 2 (Jun. 1995), pp. 270-289.

A SUMMARY OF NIGERIAN INFLATION FROM INDEPENDENCE TO DATE

TAFAWA BALEWA

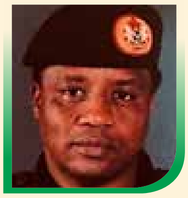
YEAR	INFLATION RATE %
1960	5.44
1961	6.28
1962	5.27
1963	-2.69
1964	0.86
1965	4.10

OBASANJO



YEAR	INFLATION RATE %
1977	15.09
1978	21.71

BABANGIDA



YEAR	INFLATION RATE %
1986	5.72
1987	11.29
1988	54.51
1989	50.47
1990	7.36
1991	13.01
1992	44.59

BALEWA; IRONSI; GOWON

YEAR	INFLATION RATE %
1966	9.69

OBASANJO; SHAGARI

YEAR	INFLATION RATE %
1979	11.71

BABANGIDA; SHONEKAN; ABACHA

YEAR	INFLATION RATE %
1993	57.17

YAKUBU GOWON

YEAR	INFLATION RATE %
1967	-3.73
1968	-0.48
1969	10.16
1970	13.76
1971	16.00
1972	3.46
1973	5.40
1974	12.67

SHAGARI

YEAR	INFLATION RATE %
1980	9.97
1981	20.81
1982	7.70
1983	23.21

SANI ABACHA

YEAR	INFLATION RATE %
1994	57.03
1995	72.84
1996	29.27
1997	8.53

GOWON; MURTALA

YEAR	INFLATION RATE %
1975	33.96

BUHARI

YEAR	INFLATION RATE %
1984	17.82

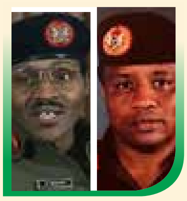
ABACHA; ABDULSALAM

YEAR	INFLATION RATE %
1998	10.00

MURTALA; OBASANJO

YEAR	INFLATION RATE %
1976	24.3

BUHARI; BABANGIDA



YEAR	INFLATION RATE %
1985	7.44

ABDULSALAM; OBASANJO

YEAR	INFLATION RATE %
1999	6.62

A SUMMARY OF NIGERIAN INFLATION FROM INDEPENDENCE TO DATE

OLUSEGUN OBASANJO

YEAR	INFLATION RATE %
2000	6.93
2001	18.87
2002	12.88
2003	14.03
2004	15.00
2005	17.86
2006	8.23

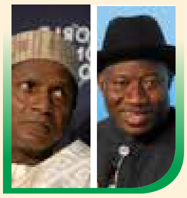
OBASANJO; YAR'ADUA

YEAR	INFLATION RATE %
2007	5.39

YAR'ADUA

YEAR	INFLATION RATE %
2008	11.58
2009	12.56

YAR'ADUA; JONATHAN



YEAR	INFLATION RATE %
2010	13.72

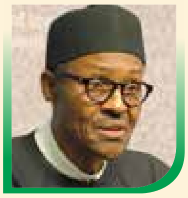
GOODLUCK JONATHAN

YEAR	INFLATION RATE %
2011	10.84
2012	12.22
2013	8.48
2014	8.06

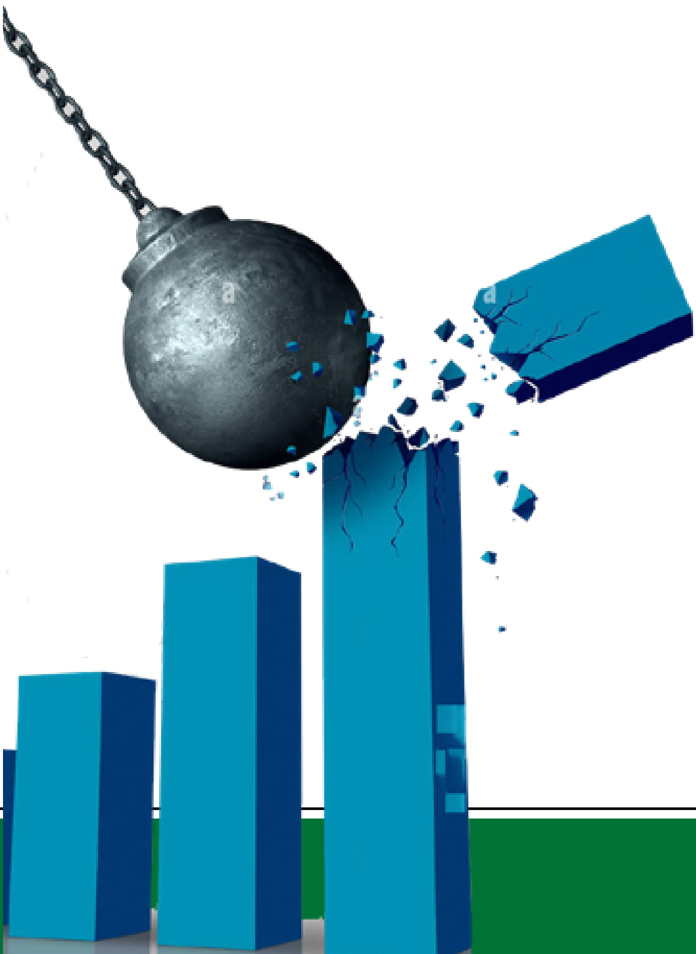
JONATHAN; BUHARI

YEAR	INFLATION RATE %
2015	9.01

MUHAMMADU BUHARI



YEAR	INFLATION RATE %
2016	15.68
2017	16.52
2018	12.09
2019	11.40
2020	15.75
2021	15.63

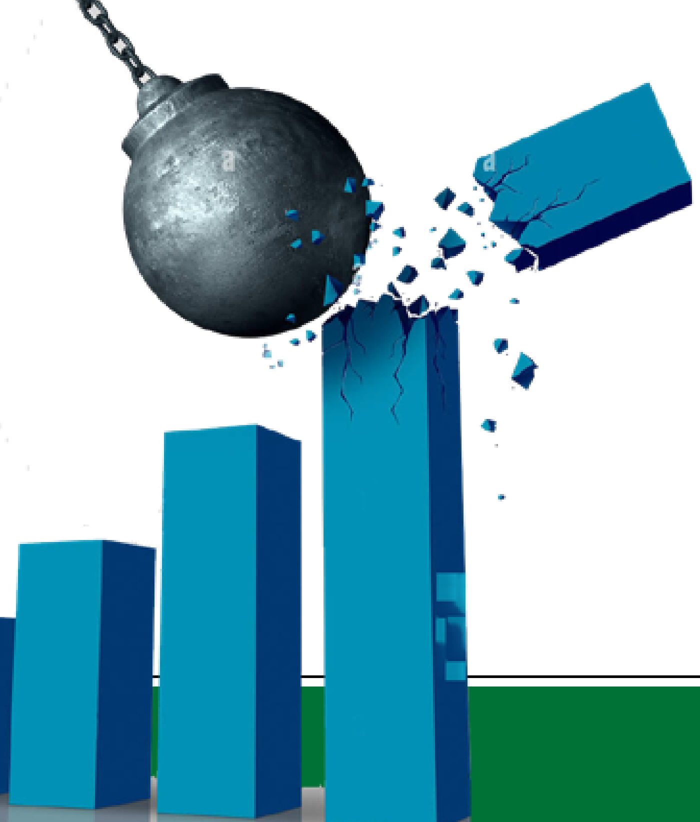


FROM PROMISE TO WAR

THE INDEPENDENCE DECADE

When Nigeria got independence in 1960, it was hailed as the key to black greatness in the world. Economically, the country created its first National Development Plan (NDP) which was to run from 1962 to 1968. Two core pillars of this plan were to reduce interest rates to enable producers of the key agricultural products of the country. In addition, the price controls through the Marketing Boards inherited from the colonial regime meant that the government used this mechanism to moderate prices, at great cost to the state purse. This led to consistently low inflation in this period, with three years of deflation occurring during this first decade.

The inflation rate in the independence year was 5.44% and it rose to 6.27% in 1961, the year before the NDP began to run. Once the plan kicked in in 1962, the inflation rate began to drop consistently, with a year of deflation in 1963 primarily due to disruptions caused by the political unrest in the build-up to the 1964 elections. Inflation remained low in the election year of 1964 at 0.86%.[3] After the political situation appeared to stabilise in 1965, government spending could be diverted back to the boards and inflation returned to an upward trajectory, reaching 4.95% in that year.
1966 was a watershed year. Two coups within six months of each other, the pogroms in the North and the mass migration of Igbo workers from the North to the East fleeing the killings caused a collapse in both demand and supply[4]. Oil production had also become a factor in government revenues. During the first two years of the Civil War that followed (1967 and 1968) Nigeria's oil production reduced massively as about 60% of the oil

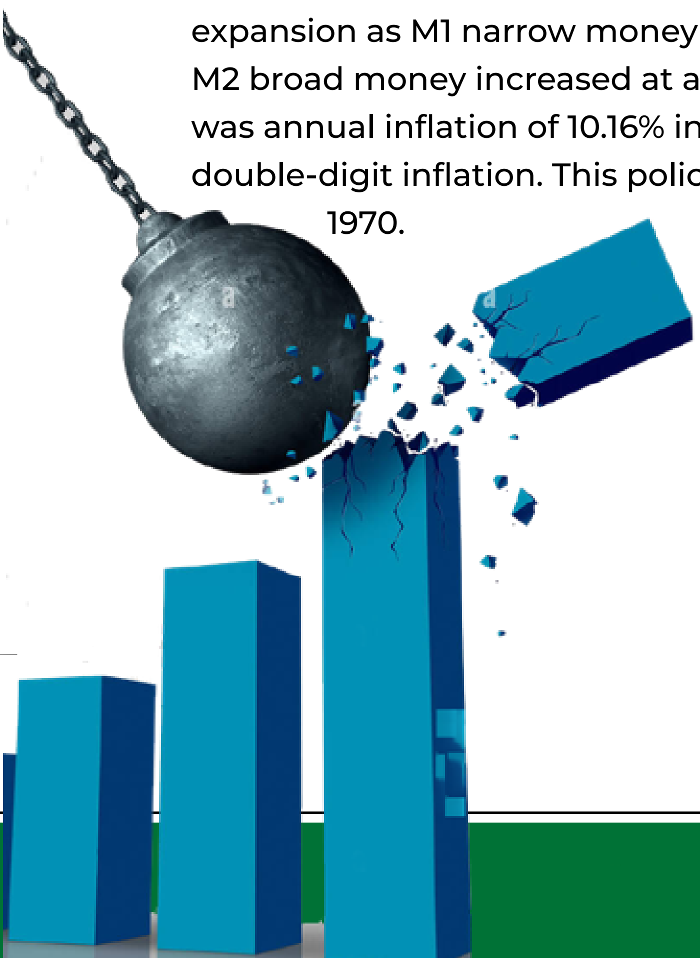


[4] Nafziger, E.W. (1972) The Economic Impact of the Nigerian Civil War. The Journal of Modern African Studies. Vol. 10, No. 2 (Jul., 1972), pp. 223-245.

produced in the country came from the Eastern Region and nearly 90% of the production was exported through the East's export terminal at Bonny. This terminal was shut down due to the war.[4] The result of this was a massive rise in inflation, more than doubling to 9.69% in 1966, as both government and people went on a spending spree to stock up for the impending war. Subsequently, as the government's revenue and foreign reserves fell sharply and the country's debt profile shot up[5], government spending was reduced and there was less money in circulation leading to a collapse to deflation in the first two years of the war.

"The troubles of 1966 which led to mass migration of Igbos from the North to the East led to a collapse in demand and supply, and ultimately to a massive rise in inflation."

The federal government then decided to adopt an aggressive policy intervention in order to reverse the deflationary trends of the early years of the war. As the Civil War continued, the policy was for rapid monetary expansion as M1 narrow money increased at an annual rate of 29.7% while M2 broad money increased at an annual rate of 44% in 1969[6]. The result was annual inflation of 10.16% in that year, the first time Nigeria went into double-digit inflation. This policy continued after the end of the war in 1970.

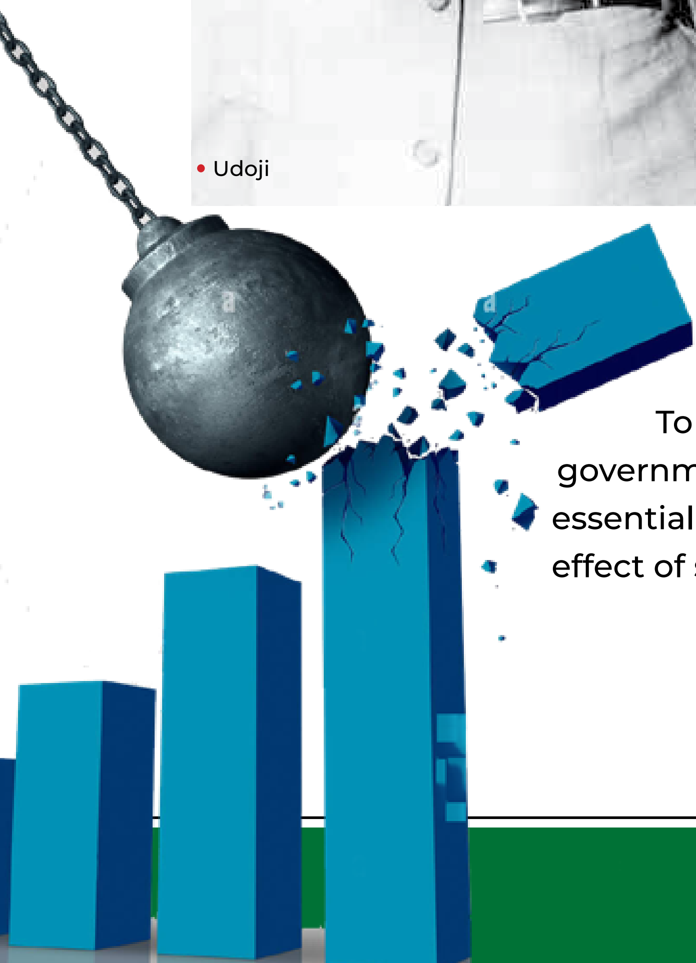


[5] Ademola, D. (2018) Nigerian Civil War effects on the economy of Nigeria. Available online: https://bit.ly/3n3aJKR. [Accessed 17/06/2022].
[6] Onumonu, U.P., Anutanwa, P.O. (2017). Rethinking The Impact of Nigerian Civil War: Commerce In The Post Civil War Nnewi And Its Challenges, 1970-2000. Mgbakoigba, Journal of African Studies. Vol.6 No.2. February 2017. pp - 154 - 165.

THE ROARING 70S

• Udoji

The first half of the 1970s were heady days for Nigeria. The Civil War ended in early 1970, and with the No Victor, No Vanquished mantra of the Gowon-led government, there was massive spending on post-war reconstruction. This expanded government spending was funded by the second most important factor in this period – oil revenues. Nigeria's Civil War ended just in time for the country to restart and expand its oil production at the beginning of a global oil boom. For the first time in the country's history, oil revenues accounted for the majority of the total government revenue by the mid-1970s[7]. This, combined with a continuation of the aggressive money supply from the final days of the war, led to inflation reaching 15.99% in 1971.



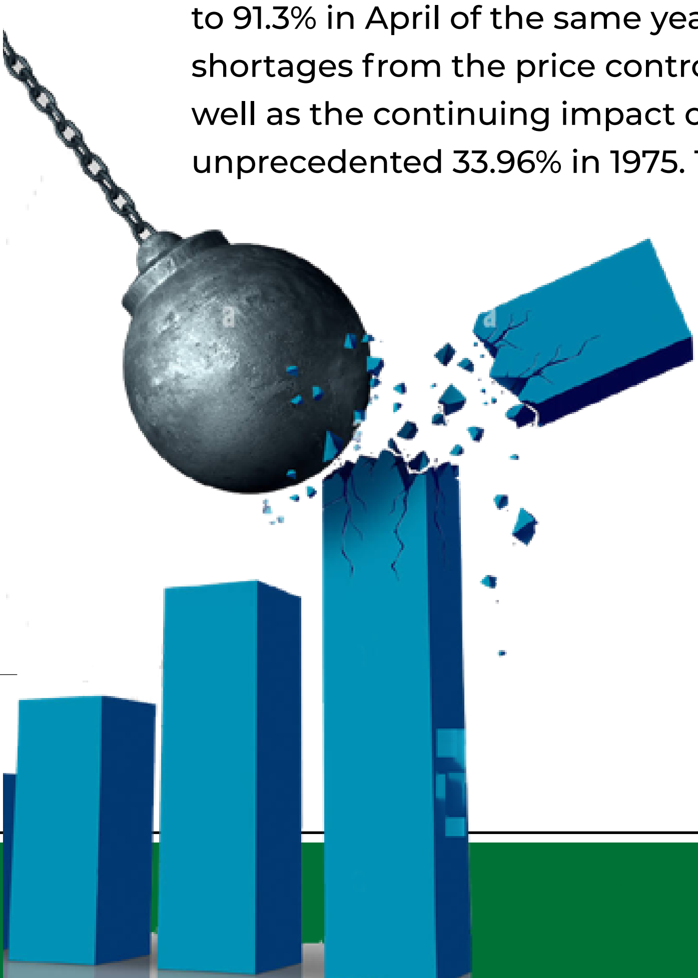
To control the soaring inflation, the government introduced a price control policy for essential goods in 1971 and it had the immediate effect of slowing down inflation, driving it back to

[7] Suleiman, B.S. (1998). Inflationary effects of the petroleum industry on the Nigerian economy. Jos journal of economics, vol.1 No 1.
[8] Johnson, T.A. (1974) Nigerians Awaiting a Pay-Rise Decision. Available online: https://nyti.ms/3b8qxJV. [Accessed 17/06/2022].

single digits in 1972 and 1973.

But oil money had introduced a new paradigm into the Nigerian public psyche, one of an endless supply of money in a boom period. In 1974, the Udoji Award[8] where the government essentially distributed money to civil servants led to a sudden increase in spending power. Unfortunately, there was no commensurate push to increase productivity in the economy, and the private sector that was the driver of production was unable to rise to meet the demand that the public servants flush with cash now provided. In addition to this, the price controls instituted in 1971 were beginning to lead to severe shortages in essential goods[9] as traders struggled to replace their goods at the prices these controls required them to sell at. Demand-pull and cost-push immediately drove inflation into the double-digit territory in response to this in 1974, reaching 12.67% and a black market began to thrive.

Whether planned or as a response, in 1975, the federal government began to implement the third National Development Plan that was to last until 1980. While it retained the price controls (which would remain until 1980), the plan increased the money supply even more rapidly than was done in the 60s, leading to an increase from 56% in January 1975 to 91.3% in April of the same year. The combination of the continuing shortages from the price controls, plus this increase in money supply as well as the continuing impact of the Udoji Awards drove inflation to an unprecedented 33.96% in 1975. This increase in aggregate demand was not met by a corresponding increase in aggregate supply as private-sector workers who did not benefit from the Udoji award went on widespread industrial actions which eventually led to low productivity. The economic situation made General Gowon's

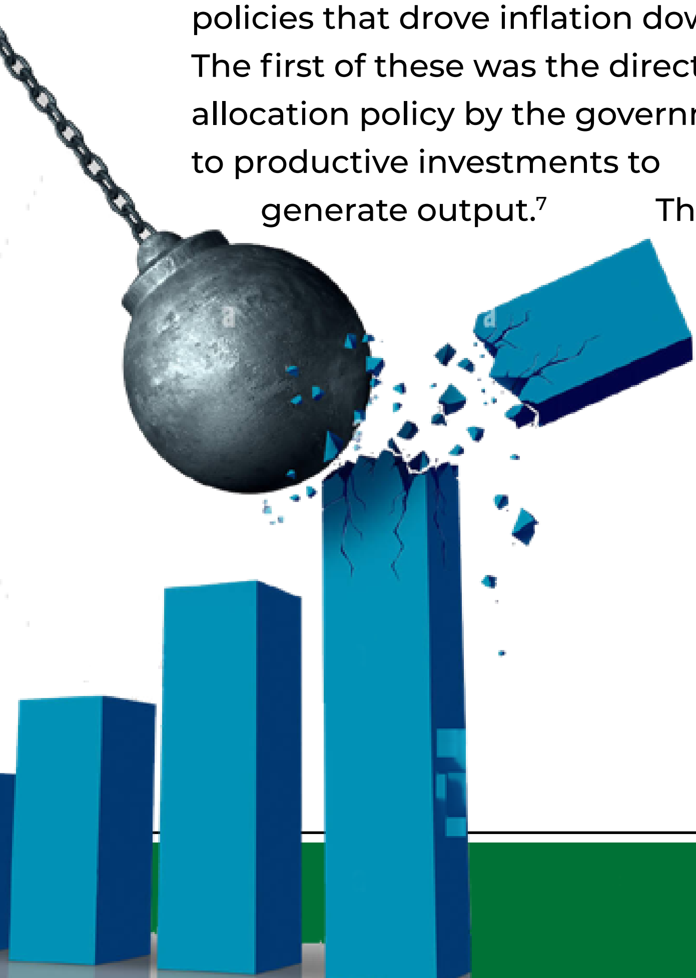


[10]Fatukasi, B. (2011). Determinants of inflation in Nigeria: An Empirical Analysis (International Journal of Humanities and Social Sciences Vol1 (18).

position untenable. In July of 1975, he was ousted in a coup while away in Addis Ababa, Ethiopia, and General Murtala Muhammed succeeded him. After the regime change, an Anti-inflation Taskforce was set up in 1975 to curb inflation. The task force recommended the liberalisation of imports in order to allow for the free flow of food, raw materials and other consumer goods[10]. In response to these measures, inflation, while still high, began to drop. In 1976, it dropped to 24.3%. General Muhammed was assassinated in 1976 and his deputy, General Olusegun Obasanjo took over the reins of government. Inflation dropped further, reaching 15.08% in 1977. Inflation may have fallen faster in this period but there was an increase in credit to the government by banks that began when the oil boom of the early 1970s began to ease out from 1975, leading to a drop in government revenues. However, as the government was unwilling to adjust its spending to reflect the new realities in the oil markets, it resorted to borrowing, which the banks were only too happy to oblige.

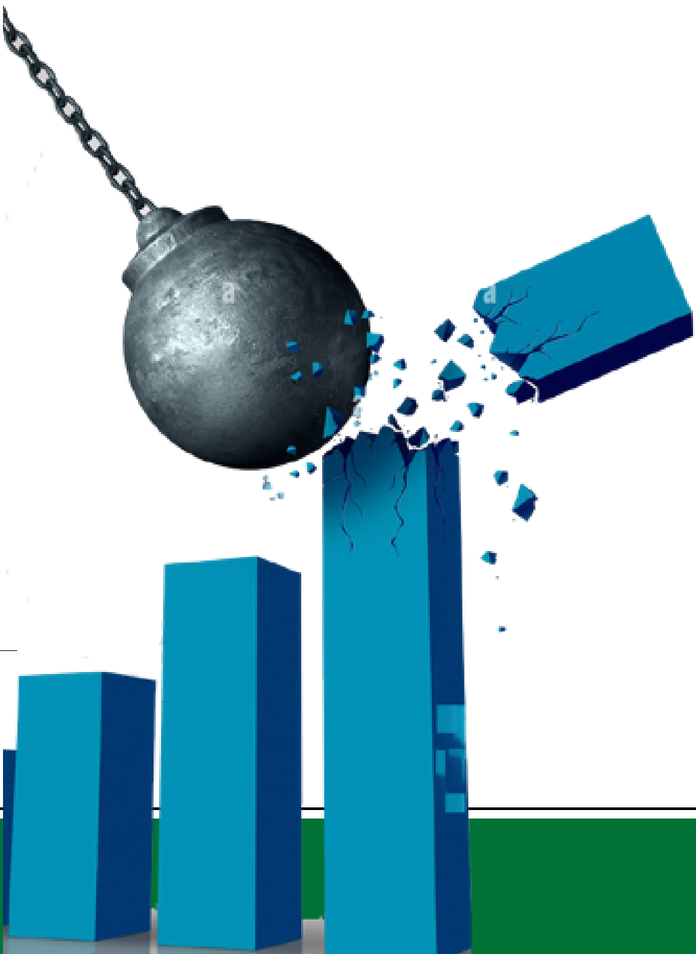
In 1979, General Obasanjo handed power over to the democratically elected government of Mr Shehu Shagari, marking the first time a government in Nigeria voluntarily relinquished power. In the same year, the government adopted two policies that drove inflation down. The first of these was the direct credit allocation policy by the government to productive investments to generate output.[7] The

Oil money introduced a new paradigm into the public psyche in Nigeria, one of an endless supply of money in a boom period. An unwillingness to adjust spending to reflect the new realities after the oil boom ended meant that the country resorted to borrowing, which the banks were only too happy to oblige.



[11] Saadu, I. (2017) The Indigenization Policy in Nigeria. Available online: https://bit.ly/3OkfUlf. [Accessed 17/06/2022].

government also drove a strong employment policy that led to a growth in employment. Secondly, aggregate demand was put in check by the imposition of special deposits on import demand.[7] Inflation fell to 11.7% in 1979 and to 9.97% in 1980, reaching a single digit for the first time in seven years.



THE 80S.

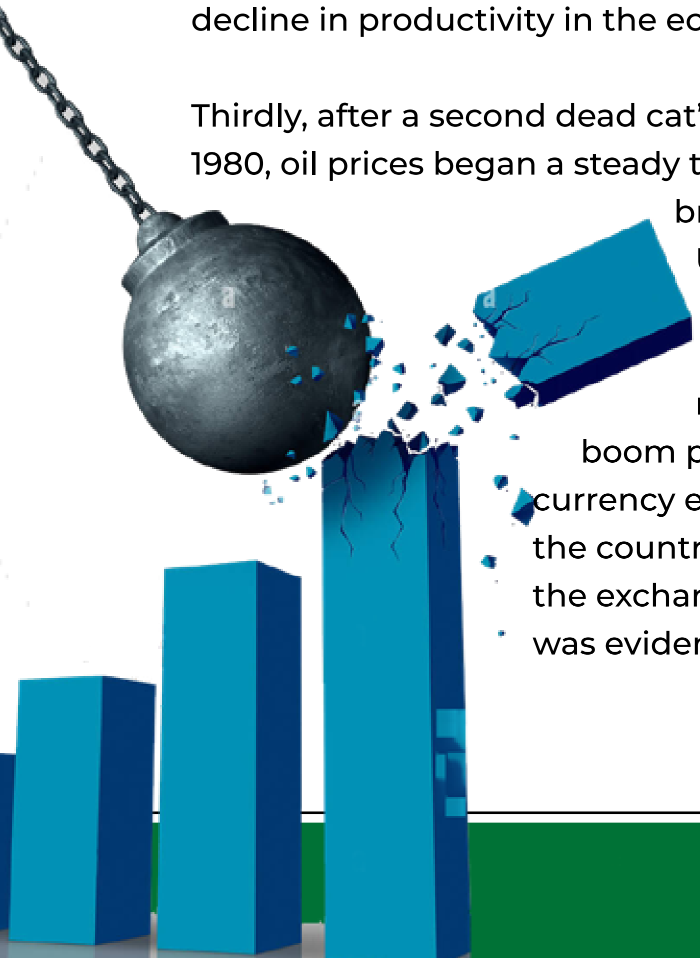
REALITY BEGINS TO BITE

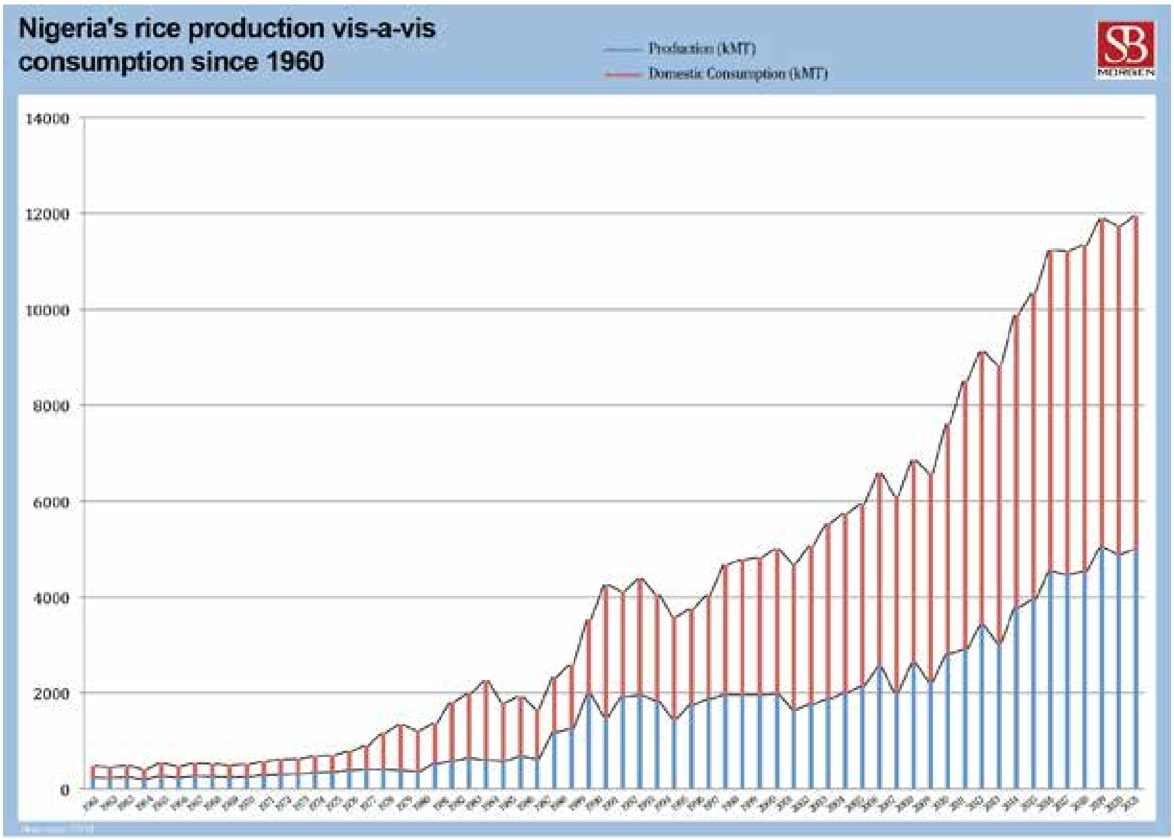
The 80s opened on a good note for Nigeria. It was again being run by a democratically elected government and inflation in 1980 was single-digit. But this was only so on the surface. A combination of factors, some of Nigeria's making and others beyond it were coming together to begin a period of long decline and damaging inflation on Nigerians.

The first was a policy which began in 1973 but was strengthened in 1977 – The Indigenisation Policy.[11] This saw what was essentially the forcible transfer of ownership in various enterprises from foreign investors to Nigerians. While it was hailed at first, over the years, productivity declined in all of these industries.

Secondly, the 1979 constitution introduced the Land Use Act into Nigeria. This was a way for the government to ensure they controlled mineral rights, specifically oil. However, it had the effect of disenfranchising landowners of their land, one of the four factors of production. This removed a key incentive from these landowners too and led to a further decline in productivity in the economy.

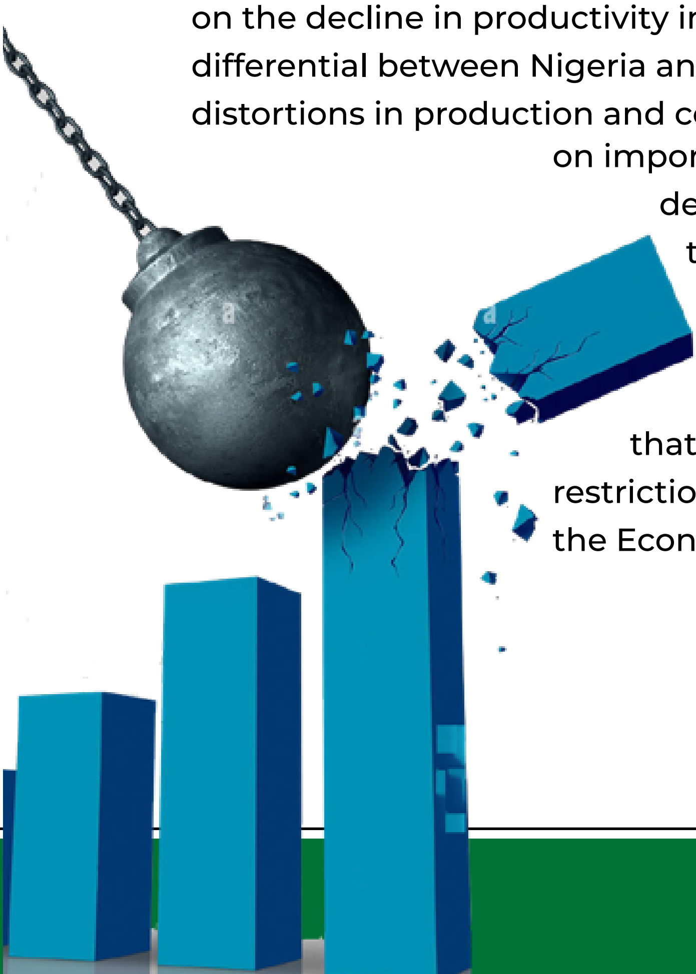
Thirdly, after a second dead cat's bounce mini-oil boom of 1979, from 1980, oil prices began a steady two-decade decline, only broken by a brief reversal during the First Gulf War. Unfortunately, by this time, Nigeria was already dependent on oil revenues for its foreign exchange, and for government revenues. Concurrently, during the oil boom period of the 1970s, a belief that a strong currency equals a strong economy had taken root in the country. This led to Nigeria stubbornly pegging the exchange rate at N1 to $1 in 1981, even when it was evident that the Naira was overvalued based





Using rice production as an example, after the Land Use Act was introduced, the demand for rice grew along with Nigeria's population, but there was no incentive for landowners to turn over land to the production of rice, leading to supply failing to meet demand, and prices rising.

on the decline in productivity in the Nigerian economy and the inflation differential between Nigeria and the United States[12]. This resulted in distortions in production and consumption as the economy relied heavily on importation which caused a balance of payment deficit which the government had to borrow to finance.



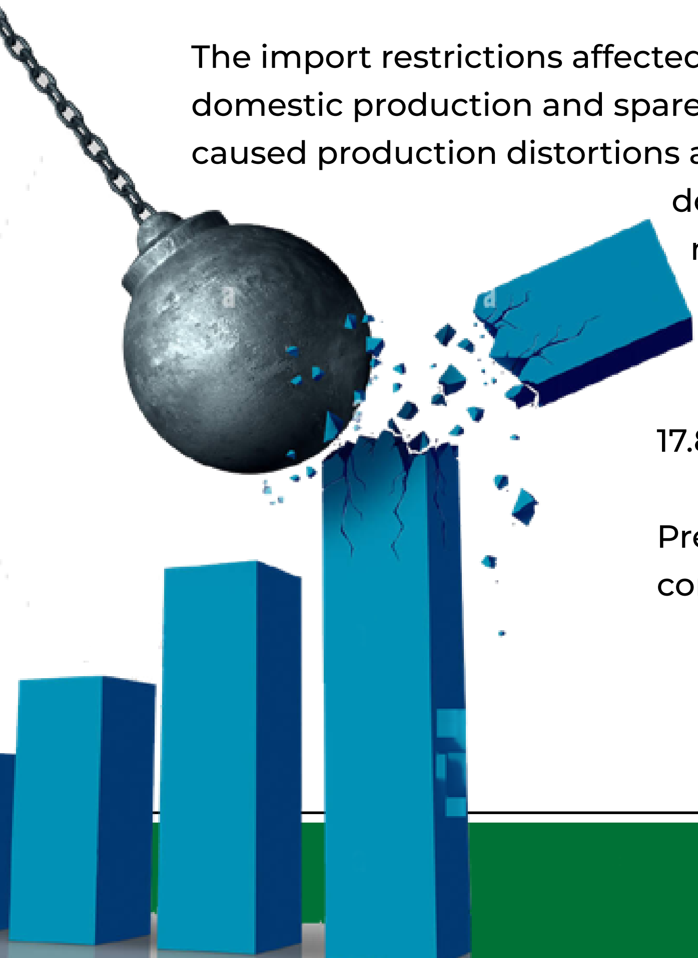
In 1981, inflation skyrocketed back to 20.8% in response. To curb inflation that year, the government employed import restrictions and exchange rate control through the Economic Stabilisation Act of April 1982[13]. The

[12] Kramer, L. (2022) How the Great Inflation of the 1970s Happened. Available online: https://bit.ly/3HvfRRw. [Accessed 17/06/2022].
[13] Owosekun, A.A. (1985) A case study of stabilization measures in Nigeria. Africa Development. Vol. 10, No. 1/2 (January - June 1985), pp. 208-216.

Shagari

move enjoyed temporary success as inflation reduced to 7.69% in 1982. This reprieve was however short-lived and in 1983, inflation climbed back to 23.21%. This began a long cycle of the Nigerian government enacting policies to combat the effect of its economic choices plus its responses to global economic challenges, instead of changing its said economic choices and responses.

The import restrictions affected the importation of raw materials for domestic production and spare parts for machinery operation. This caused production distortions and consequently, a shortage of goods for domestic consumption[14]. An overvalued naira meant that purchasing power was mismatched to the productivity of the Nigerian economy, hence inflation remained high. In 1984, it stayed at 17.82%.



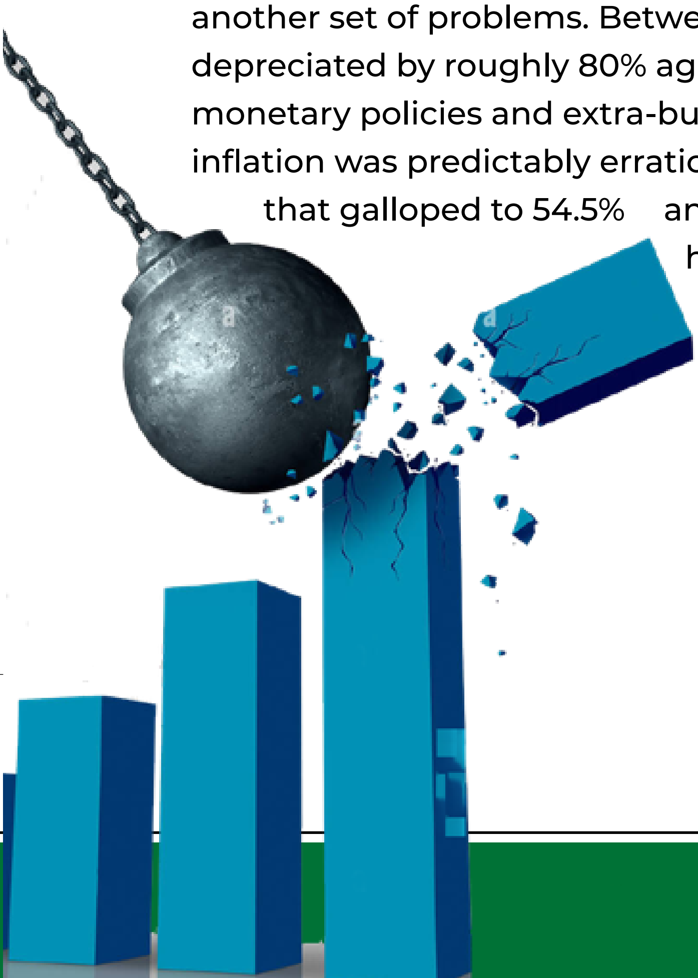
President Shagari would go on to win a controversial election for a second term

[14] Itua, G. (2000) "Structural Determinants of Inflation in Nigeria (1981 – 1998)". Unpublished work, ABU, Zaria.

in 1985, but his government would not survive. The military intervened, and General Muhammadu Buhari took over as Head of State. A 15-month economic emergency period was declared in October 1985[15] and this led to more controls, where personal and company incomes were reduced. General Buhari also instituted stringent price controls, restricting how much of Essential Commodities people could buy. His soldiers entered the markets to attempt to use force to ensure compliance with price controls. The outcome was a collapse in both demand and supply. While inflation reduced drastically to 7.43%, it was primarily because people did not have the means to buy, and suppliers lacked the goods to sell. General Buhari's government became unpopular, and an ambitious general, Ibrahim Babangida, seized the opportunity to execute a coup and took over the government in 1985.

The Babangida government pushed through the Structural Adjustment Programme (SAP) in 1986. This brought about a reduction in fiscal deficits and removal of subsidies as there was liberalisation in the economy, allowing the market forces to control the economy. In effect, the inflation rate declined to 5.72% in 1986.

The implementation of the SAP policies, however, brought with them another set of problems. Between 1986 and 1992, (the SAP era) the naira depreciated by roughly 80% against the dollar in real terms. Flip-flopping monetary policies and extra-budgetary spending became the norm, and inflation was predictably erratic. This was evidenced by the inflation rates that galloped to 54.5% and 50.4% in 1988 and 1989 respectively, the highest ever at that time.



[15] Ojo, M.O. (1992) Monetary Policy in Nigeria in the 1980s and prospects in the 1990s. CBN Economic and Financial Review. 30(1), 1-31.

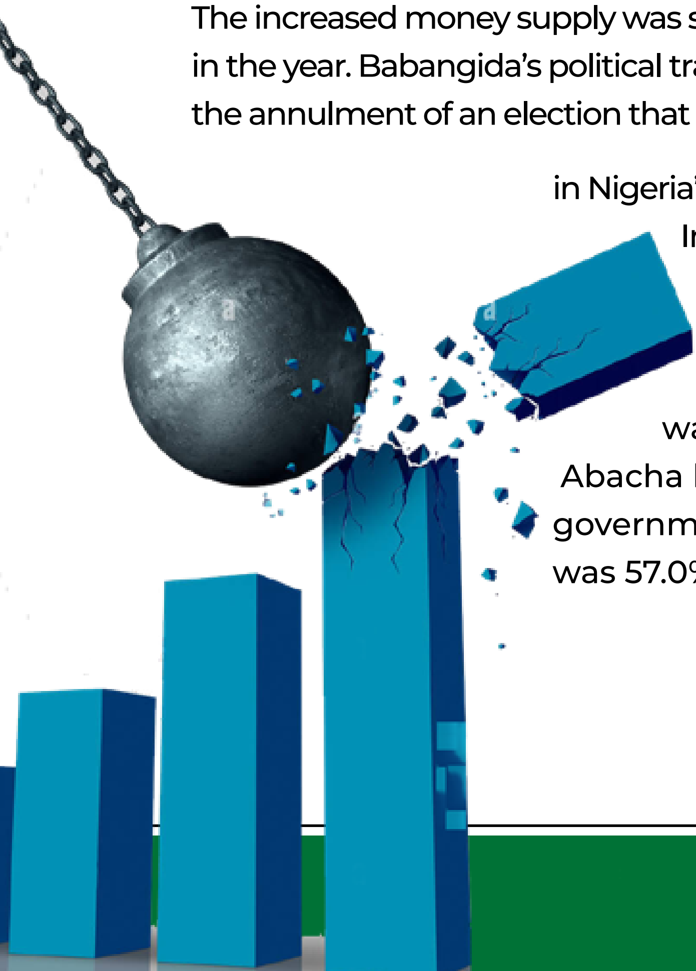
THE 1990S

FROM IMPOVERISHING DICTATORS TO DEMOCRACY

In order to deal with these record inflation numbers, the Babangida regime introduced the Second Tier Foreign Exchange Market (SFEM) in 1990. It would be the first time there were multiple foreign exchange rates in the Nigerian economy. This led to a reduction in agricultural output and production output as machines and imported raw materials were unattainable except by a select few.

Goods that needed imported raw materials for production also increased in price. National income dropped and consumers revolted against the increase in prices which led to an accumulation of unsold inventories[16]. The outcome was predictable and by 1992, inflation stood at 44.59%. Babangida's combination of policies had essentially impoverished Nigerians and wiped out their purchasing power.

During the 1993 elections, there was a massive injection of money into circulation. The increased money supply was seen in the inflation rate which stood at 57.16% in the year. Babangida's political transition programme ended in chaos with the annulment of an election that is still regarded as the freest and fairest held in Nigeria's history. Power was hastily transferred to an Interim National Government (ING) led by the pre-eminent industrialist, Ernest Shonekan.



The ING would not last, however, and it was ousted in a palace coup by General Sani Abacha before the year ran out. The changes in government did not dent the inflation rate and it was 57.0% in 1994. By 1995, inflation hit the all-time

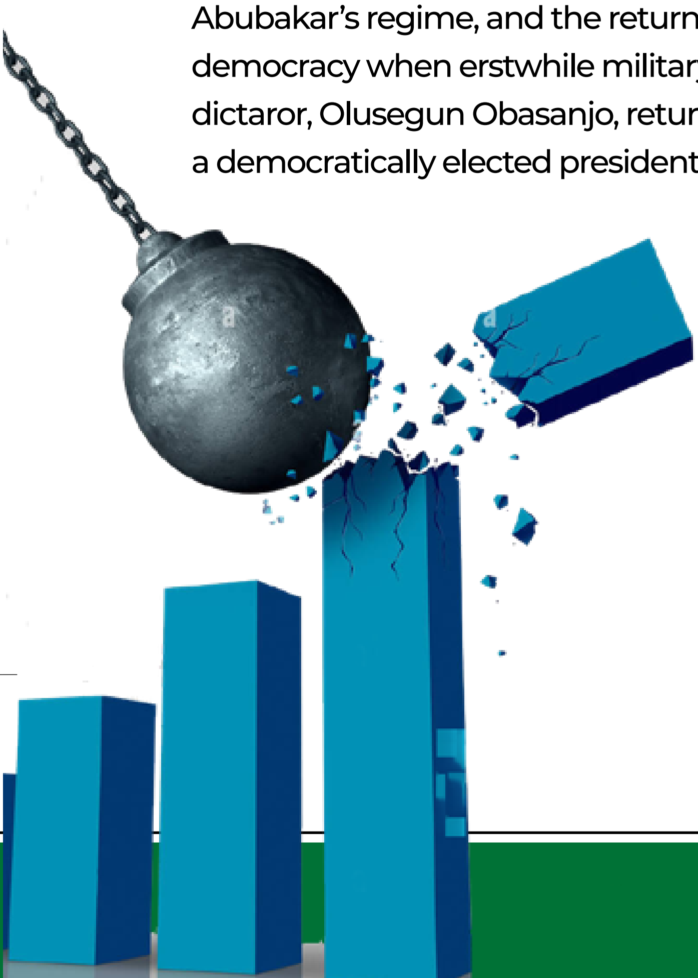
[16] Osagie E (1988) The Relevance of Income Policy in a Free Market Economy. A paper presented at the workshop on Income Policy and Structural Adjusted Economy, Lagos.

record-high of 72.8%.[7] In these early years of Abacha, continued union and civil society unrest to protest the annulment of the June 12, 1993, mandate of the popular politician and businessman, M.K.O Abiola, saw a decimation of productivity across the country[17]. In addition, there was an increase in lending rates as well as the introduction of guided deregulation of the economy that culminated in these record levels of inflation. General Abacha also continued the multiple exchange rate policies, further exacerbating the issues. Finally, the lagging impact of the fiscal indiscipline under General Babangida began to make its way into the country's economy in this period.

By 1997, national income had been so thoroughly decimated that aggregate demand was at an all-time low. Inflation returned to single-digit figures between 1997 and 1998, driven mainly by the lack of purchasing power in this period. For example, the demand for kerosene collapsed because people were simply too poor to buy it at sky-high prices, and Nigerians resorted to the use of firewood and sawdust to cook.

This state of low inflation in a poor economy continued even past Abacha's death in 1998, through Abdulsalami Abubakar's regime, and the return of democracy when erstwhile military dictaror, Olusegun Obasanjo, returned as a democratically elected president.

A lagging indicator is a signal that usually changes after the index being watched (such as the economy) as a whole does. In an economy the lag is usually a few quarters after the fundamentals have changed. A good example of a lagging indicator is the unemployment rate as it tends to change at least two quarters after the policy that brought it about. Not all components of inflation are lagging indicators.

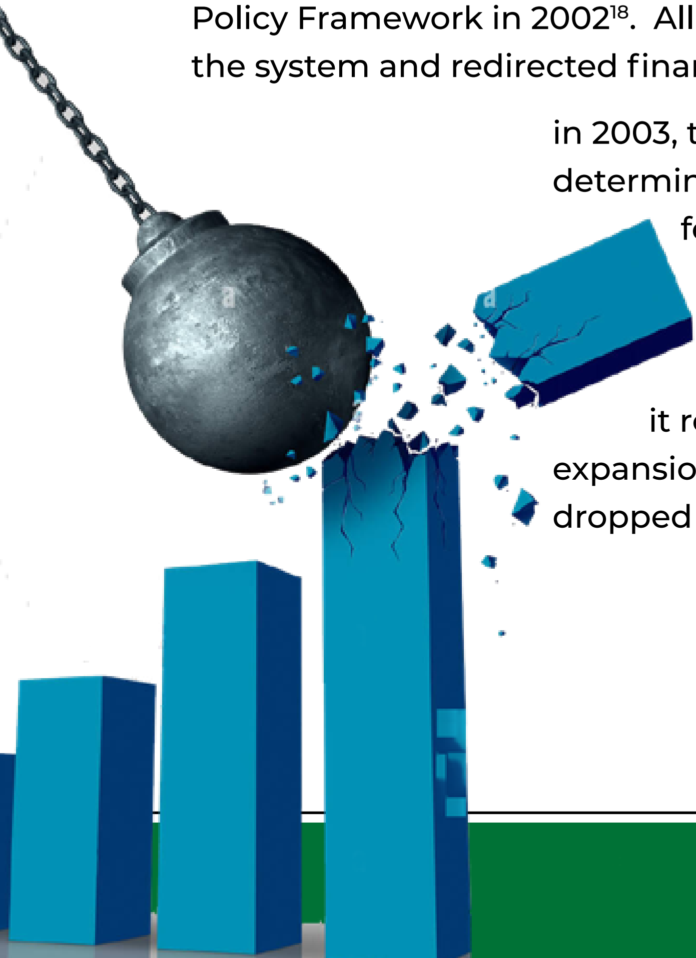


[17] Mordi, C. N. O., E. A. Essien, A. O. Adenuga, P. N. Omanukwue, M. C. Ononugbo, A. A. Oguntade, M. O. Abeng, O. M. Ajao (2007): "The Dynamics of Inflation in Nigeria", CBN Occasional Paper 32, August.

NASCENT DEMOCRACY

Under Mr Obasanjo, a broad swathe of reforms was introduced. Key amongst all of these were the economic reforms that opened up the economy and increased productivity by privatising and deregulating key sectors such as Telecoms. In 2001, the CBN reviewed the Minimum Rediscount Rate and the Cash Reserves Requirements (CRR) of commercial banks upwards to manage liquidity. The banking reforms that started in the same year into 2002 also ensured that Nigerian banks were able to finance much of this growth. Mr Obasanjo's team also introduced a more structured approach to monetary policy with a Medium-Term Monetary Policy Framework in 2002[18]. All these measures reduced excess liquidity in the system and redirected financing towards productivity. The next year in 2003, the Central Bank allowed the market to determine the liquidity and exchange rate markets for the first time in 23 years, crashing the black market. As the economy expanded, purchasing power as well as productivity rose from the lows of the 1990s, and with it rose inflation. However, this inflation was expansionary, and stayed at 18.8% in 2001 and then dropped to 14.4% by 2003.

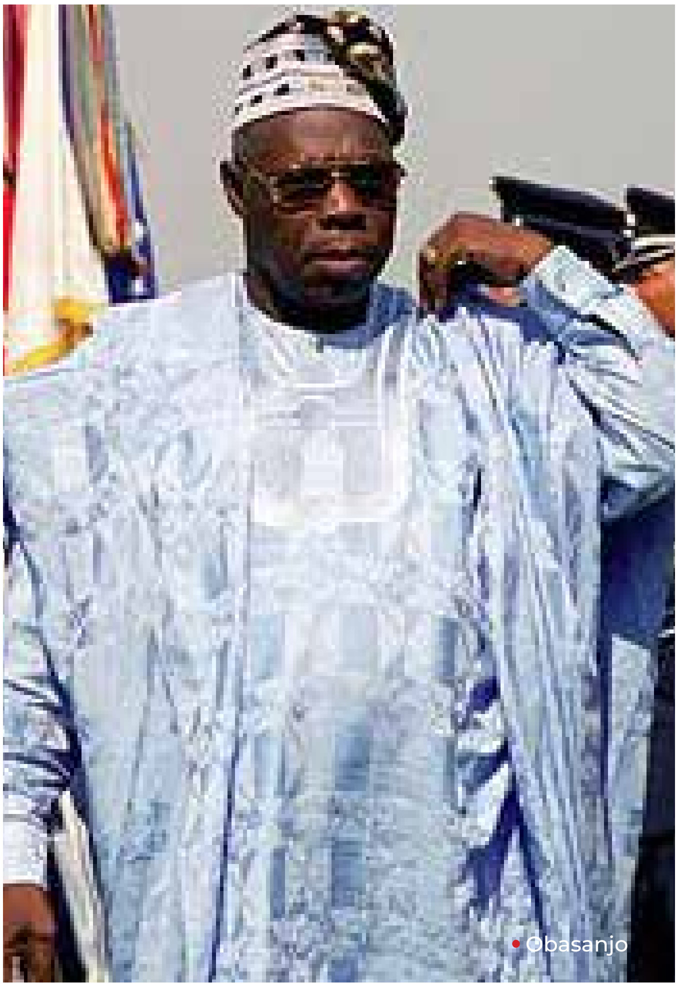
> ***"Among other reforms instituted by the Obasanjo government, in 2003, the CBN allowed the market to determine the liquidity and exchange rate markets for the first time in 23 years. The result of this was to crash the black market, and gradually curb inflation."***



[18] Okonjo-Iweala, N., Osafo-Kwaako, P. (2007). Nigeria's Economic Reforms, Progress and Challenges. Available online: https://brook.gs/3O0Ts12. [Accessed 17/06/2022].

The biggest carryover from the military era in terms of government finances was the untenable debt burden. In 2005, Obasanjo's government secured debt forgiveness for Nigeria, removing this burden and freeing up the government to redirect resources from unproductive debt servicing. Unfortunately, his government did not resolve the structural dependence on oil revenues, the high energy costs and the infrastructure problems that made production uncompetitive in Nigeria's economy. These structural problems meant that inflation stayed at double-digit figures until 2005. The introduction of the Monetary Policy Rate in 2006 helped stabilise prices, and inflation dropped to single digits again, while the economy kept growing. By 2007, inflation dropped to 5.4%, the lowest it had been since 1972.

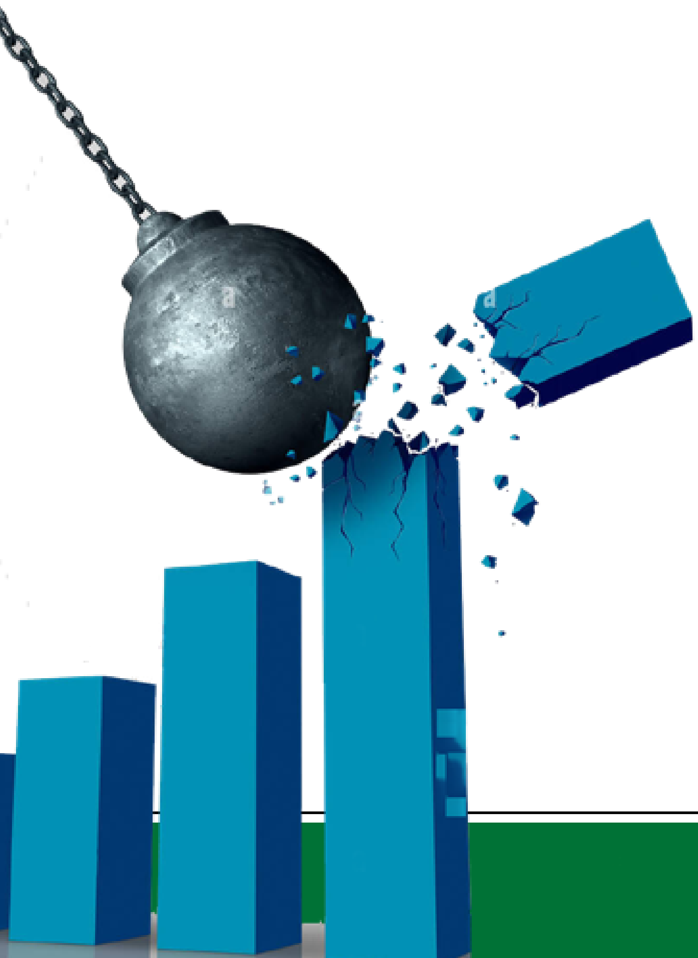
Mr Obasanjo also introduced two key pieces of legislation in 2007. The first was the new CBN Act which made price stability the number one priority of the CBN.[19] The Act also provided for the constitution of a Monetary Policy Committee (MPC) to strengthen the monetary policy decision-making of the CBN institutionally.


Obasanjo

[19] CBN: The conduct of Monetary Policy 1986-2020

Second was the Fiscal Responsibility Act, in order to safeguard Nigeria from irresponsible fiscal policies and excessive borrowing that would return to the pre-debt forgiveness days. From this period, and for the next decade, it was these tools that would be used as policy levers to tackle inflation in the Nigerian economy.

In 2007, Nigeria saw its first civilian-to-civilian presidential succession when Umaru Musa Yar'Adua succeeded Mr Obasanjo. A reversal of some of Obasanjo's privatisation exercises and a slowdown on others by Mr Yar'Adua as well as an easing of the monetary policy saw inflation creep into double-digit territory from 2008. In 2010, Goodluck Jonathan, Mr Yar'adua's Vice President took over as President after his principal passed away.

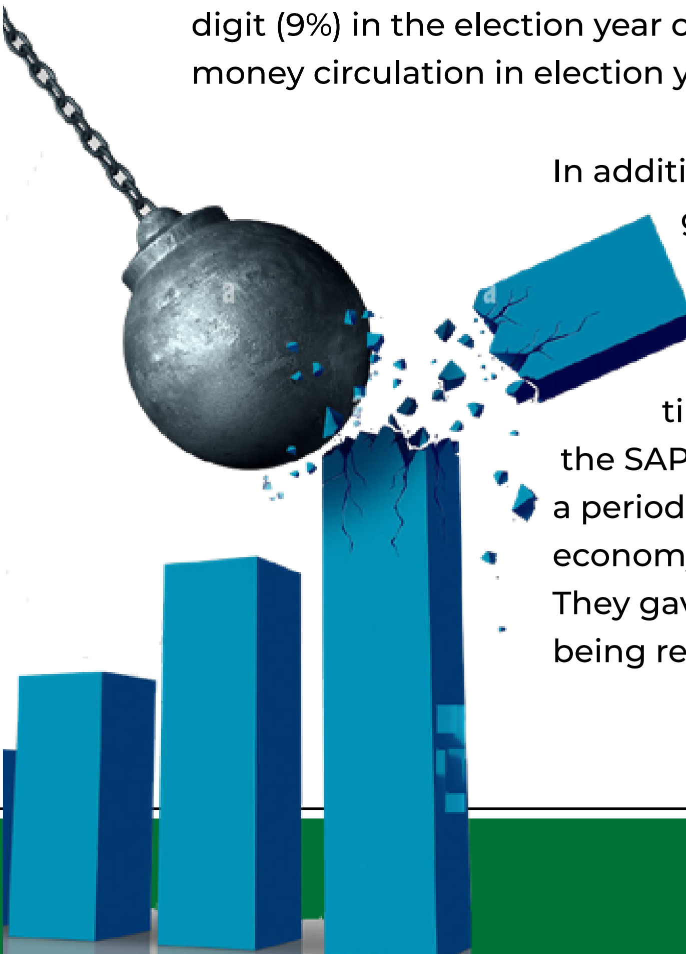


THE LAST DECADE

GLOBAL AND LOCAL RECESSIONS

In order to tackle the double-digit inflation he inherited, Dr Jonathan adopted a series of policy measures. The government adopted a tight monetary stance from 2010-2011[12] in order to reduce the inflation brought about by the previous fiscal expansion and easing of monetary policy. The MPR was increased from 6% to 12% while CRR was increased from 1% to 2%, then to 4% and later to 8%.[12]

In 2012, the same monetary policy stance continued with the CRR being raised from 8% in 2011 to 12%. All these measures tightened the money supply and drove inflation back down to a single digit by 2013 at 8.47%. In 2014, the CBN continued to maintain tight monetary policies in order to ensure that increase in government spending as a result of the forthcoming 2015 general elections did not increase the inflation rate. The MPR was increased from 12% to 13% in 2014 while the CRR on private deposits was increased from 15% to 20%, and CRR on public deposits was increased from 50% to 75%.12 This ensured that inflation stayed at a single digit (9%) in the election year of 2015 in spite of the typical increase in money circulation in election years.



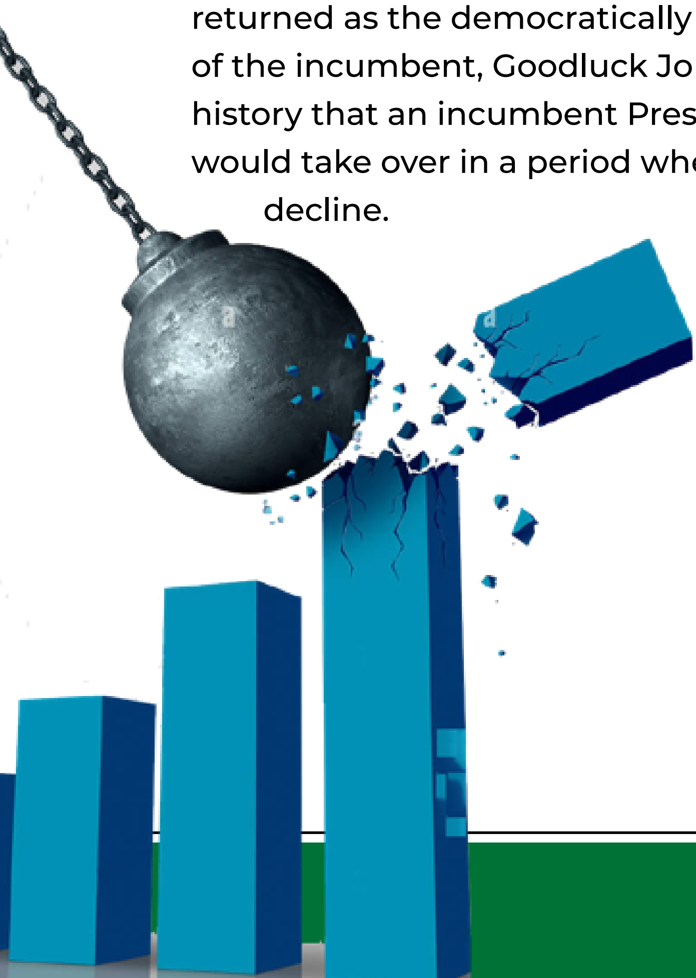
In addition to these monetary policy efforts, the global economic crisis of 2008 saw a massive return of Nigerians from the diaspora. Many of these highly skilled Nigerians were returning for the first time since leaving during the Civil War or the SAP decimation, and their return ushered in a period of increased productivity in the country's economy and rising middle-class consumption. They gave impetus such that the economy after being rebased became the largest in Africa.

However, two policy choices dogged Nigeria. The first was energy subsidies – petrol and electricity. Both issues had created a fiscal drain and endemic corruption. Unfortunately, the attempts at removal of petrol subsidies precipitated the Occupy Nigeria protests, and the inefficient subsidies remained. These subsidies would continue to be albatrosses around the neck of the Nigerian government.

> ***The Obasanjo reforms and the global economic crisis of 2008 saw a huge return of Nigerians from the diaspora, ushering in a period of increased productivity and rising middle-class consumption.***

A second issue was the return of the government's determination to keep the naira strong. This engendered the same issues it did in the 1980s – skewing consumption that did not match the actual productivity of the Nigerian economy.

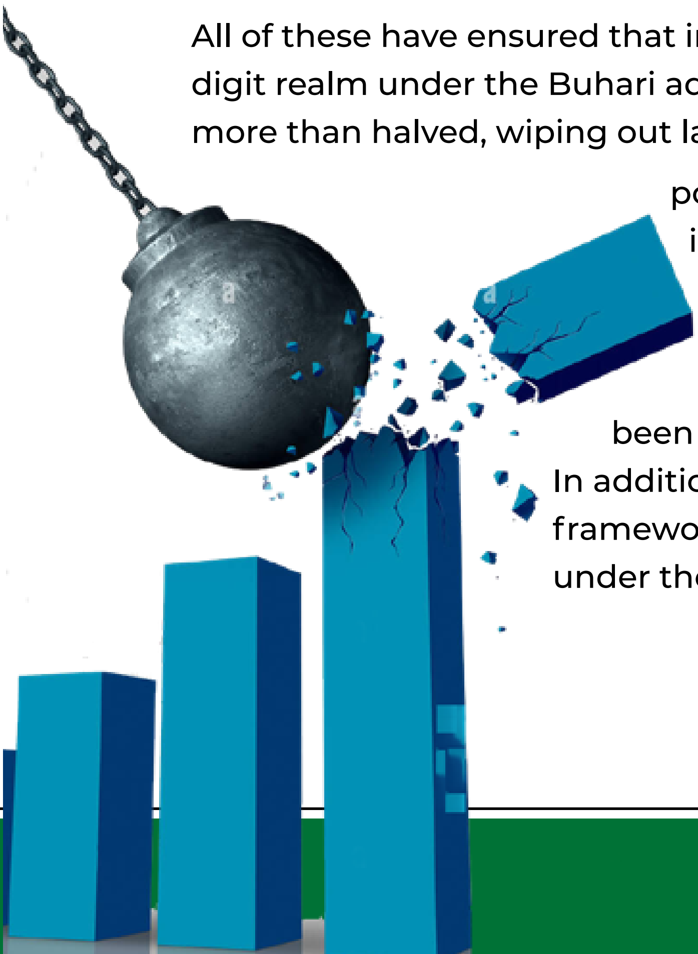
In 2015, Muhammadu Buhari followed the example of Mr Obasanjo and returned as the democratically elected President of Nigeria, his defeat of the incumbent, Goodluck Jonathan, being the first time in Nigeria's history that an incumbent President lost a general election. Mr Buhari would take over in a period when oil prices were beginning to rapidly decline.



THE BUHARI YEARS

Mr Buhari returned to power on the back of a high amount of hope and goodwill. However, a delay in constituting the cabinet saw uncertainty creep into the economy. Two recessions in quick succession hampered economic growth. In response, the Buhari government has expanded government borrowing to the pre-debt forgiveness levels, ignoring the important safeguards put in place by the Obasanjo government in the Fiscal Responsibility Act. As of 2021, debt servicing consumed more than 90% of federal government revenues[20]. In addition, policies such as the border closure of 2019, high import tariffs and restricting foreign exchange for key import items have seen supply stifled while demand continues to increase.

A third issue is the retention of the petrol subsidy which is now ten times what it was annually compared to when Mr Buhari took over. Finally, the exchange rate regime has seen the Central Bank desperately trying to control the exchange rate officially including using a desperate measure like the Open Market Operation (OMO),[12] while only succeeding at fostering a parallel market where the dollar has traded at a rate between a 30% and 70% difference at different times in the last seven years. All of these have ensured that inflation remains firmly in the double-digit realm under the Buhari administration, while purchasing power has more than halved, wiping out large sections of the middle class. These policies have also seen to it that most of the institutional safeguards put in place after the return to democracy in order to foster responsible fiscal and monetary policy as well as put inflation in check have been disregarded and rendered redundant. In addition, there have been no new institutional frameworks or improvements to the existing ones under the Buhari administration.

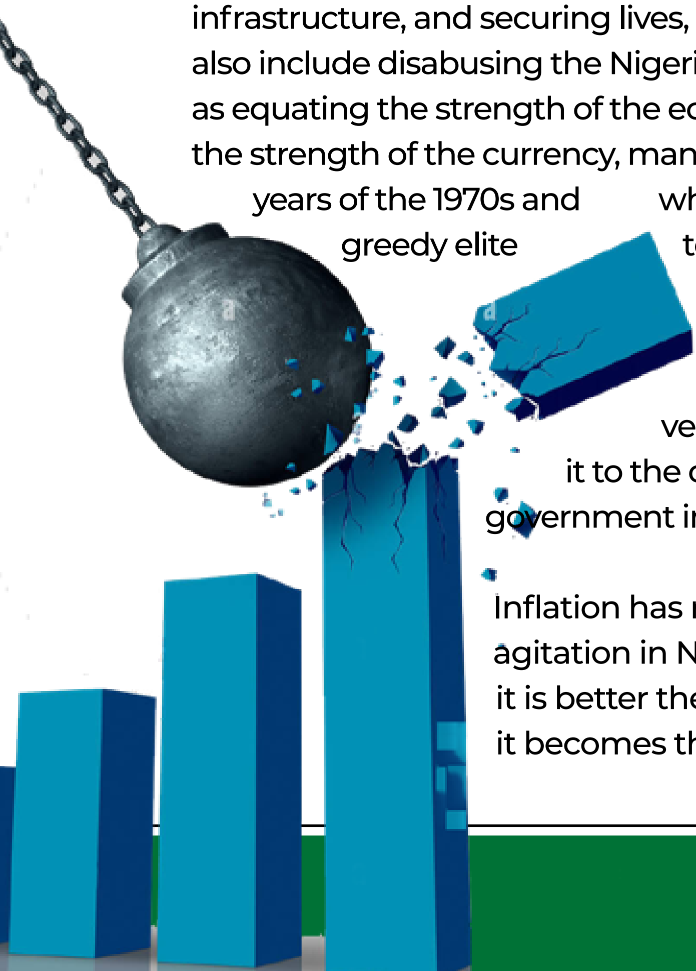


[20] Olawoyin, O. (2021) Nigeria spent 97% of revenue on debt servicing in 2020 – Report. Available online: https://bit.ly/3mZNcKQ. [Accessed 17/06/2022].

CONCLUSION

Now that the political season for the 2023 general elections is in full swing, it is unlikely that any serious policy changes will be made under the Buhari administration. It is, therefore, more important to attempt to set an agenda for whoever will take over in 2023. Inflation management specifically, and the larger monetary policy management, as well as the attendant fiscal policy decisions will be crucial to the wellbeing of the Nigerian people in the coming years. The global context is that many developed economies are experiencing record inflation levels, and the factors driving these are already arriving on Nigeria's shores, to exacerbate our existing inflationary problems. Rolling back destructive fiscal policy choices like the fuel subsidies, restricted import lists and others will be a priority for the post-2023 government. Fixing the exchange rate regime to remove the current arbitrage by allowing a willing buyer, willing seller mechanism to determine the rate thereby freeing up Nigeria's foreign exchange supply and bringing more predictability into the market will be crucial.

Our history also shows that at a fundamental level, Nigeria has had a productivity issue, especially since the 1970s. Drastic measures need to be taken with laser focus to improve the productivity of Nigerians and the Nigerian economy. This will be achieved by improving education, providing tools and infrastructure, and securing lives, property and property rights. Education will also include disabusing the Nigerian psyche from destructive mantra such as equating the strength of the economy not with its productivity but with the strength of the currency, mantras that became entrenched in the book years of the 1970s and which continue to be employed as a tool by a greedy elite to mobilise the people against reforms that would ultimately be better for the country. Structural productivity inhibitors such as the Land Use Act need to be reformed to vest the rights to land and the minerals under it to the owners of the land, and not a distant federal government in Abuja.



Inflation has never been a primary driver in political agitation in Nigeria. But this can change very quickly. And it is better the government manages it responsibly before it becomes the ignition to the tinderbox.

ABOUT SBM

SBM Intelligence is an Africa-focused geopolitical research and strategic communications consulting firm focused on addressing the critical need for political, social, economic and market data, and big data analytics. We employ various methods of data collection. Our Data Collection Methodology team advises on data collection methods for all ONS social and business surveys. With clients both within the business and the wider government community, we aim to provide expert advice on data collection procedures and carry out research leading to improvements in survey quality.

Since 2013, we have provided data analytics and strategic communication solutions to clients across various sectors in Nigeria, Ghana, the Ivory Coast, Kenya, South Africa, the UK, France and the United States.