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INFLATION PERSISTENCE IN NIGERIA: A MULTI-VARIATE TIME SERIES ANALYSIS FROM 1980 – 2024

Jibo A. U.

Department of Economics, Jigawa State College of Education & Legal Studies Ringim

Corresponding Author: **aliusmanjibo90@gmail.com**

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Abstract

This study examines inflation persistence in Nigeria from 1980 to 2024 using a multivariate time series analysis. It investigates the relationship between inflation and key macroeconomic variables such as exchange rate, money supply, interest rate, fiscal deficit proxied by external debt stock and GDP growth. The analysis reveals that interest rate policy is effective in containing inflation in the short and medium run and exchange rate volatility and external debt are important inflationary channels. Hence, a coordinated policy mix combining prudent fiscal management, active exchange rate stabilization, and targeted monetary policy is necessary to achieve durable price stability.

Keywords: Inflation, Persistence, Multi-variate, Time series, Monetary Policy, Fiscal Policy.

Introduction

Inflation persistence is the tendency of inflation to remain above or below its long-term mean following a shock is crucial in understanding the effectiveness of monetary policy. Persistent inflation complicates inflation targeting frameworks, erodes the credibility of central banks, and necessitates more aggressive policy interventions (Ball & Mazumder, 2011). In Nigeria, inflation appears resistant to policy interventions, despite ongoing efforts by the Central Bank of Nigeria (CBN) to implement inflation-targeting measures and improve policy transparency (CBN, 2023). While many studies have explored the causes of inflation in Nigeria, few have rigorously analyzed its persistence using multivariate time series approaches that account for interactions among key macroeconomic variables such as exchange rates, interest rates, money supply, and fiscal imbalances. This study seeks to fill this critical gap by applying a multivariate time series framework to analyze the persistence of inflation in Nigeria, with the

goal of offering more accurate and actionable insights for policy design.

Despite the Central Bank of Nigeria's continued implementation of contractionary monetary policies including monetary policy rate adjustments, open market operations, and foreign exchange interventions. Nigeria continues to experience sustained high inflation rates. This inflation persistence suggests that conventional policy instruments may not be adequately addressing the underlying causes of price instability (CBN, 2023; IMF, 2024). One fundamental issue is the limited understanding of the structural and dynamic nature of inflation persistence in Nigeria. Most existing empirical studies have relied on univariate models or static regressions, which fail to capture the complex interactions among multiple macroeconomic variables. Consequently, there is an analytical gap that prevents policymakers from identifying whether inflationary pressures are transitory or permanent and which variables drive these outcomes (Umar & Abdulhakeem, 2021). Furthermore, without an empirical grasp of inflation persistence, the risk of applying sub-optimal or mistimed policy responses increases, potentially exacerbating economic volatility. This research, therefore, seeks to bridge this gap by employing a multivariate time series analysis to investigate the persistence of inflation in Nigeria, offering evidence-based insights to improve monetary and fiscal policy credibility and effectiveness.

Literature Review

According to Adedamola (2015), maintaining stable prices is a crucial goal for every nation and has consistently remained the focal point of monetary policy strategies. This emphasis is rooted in the widely held belief that when prices of goods and services remain steady, it fosters overall economic growth. Price stability is defined as the sustained maintenance of low and stable inflation rates (CBN, 2024). The presence of price instability, characterized by escalating inflation, is observed in numerous countries worldwide and represents a significant threat to a nation's economic advancement. Consequently, the pursuit of price stability emerges as a paramount objective for governments across the globe.

According to Mankiw (2019), Inflation is a sustained increase in the general price level of goods and services in an economy over a period, resulting in a decrease in the purchasing power of money. It is typically measured as the annual percentage change in the Consumer Price Index (CPI) or other price indices. Inflation can have various economic effects, including redistributing income, distorting price signals, affecting

savings and investment decisions, and eroding the value of money.

Deflation is the opposite of inflation as defined by Krugman & Wells (2015) and refers to a sustained decrease in the general price level of goods and services in an economy over time. It can occur due to factors such as decreased consumer spending, excess capacity in production, or falling asset prices. Deflationary environments can lead to economic stagnation, as consumers delay purchases in anticipation of lower prices, and businesses cut back on investment and production (Mishkin, 2019).

Inflation persistence means the tendency of inflation to remain above or below a target or mean level following a shock. It signifies the speed at which inflation returns to equilibrium after being disturbed. A highly persistent inflation suggests a slower adjustment process, often requiring stronger and more sustained policy actions (Benati, 2008).

Monetary policy encompasses the actions undertaken by central banks to influence the quantity and accessibility of money and credit within an economy. These actions affect interest rates (the cost of borrowing) and overall economic performance. The primary objectives of monetary policy include promoting maximum employment, stable prices, and moderate long-term interest rates, as highlighted by (Mikloda 2021).

Fiscal policy involves the strategic utilization of tools such as government spending, taxation, and budgetary measures to shape aggregate demand and enhance a country's productivity (Ene and Bushi, 2022).

Empirical Review.

Adesuyi et. al. (2024) examined the effects of inflation on economic growth in Nigeria from 1986 to 2020 using ARDL Bounds Co-integration test and found government revenue has a negative effect on economic growth while expenditure boosts the economy in the short and long run. The study recommends collaborative and more closely policy objectives tackle inflation.

Otor, Henry & Ajekwe (2024) analyzed Nigerian data using OLS regression and found that the cash reserve ratio (CRR) significantly stabilizes prices, making it a potent monetary instrument in the Nigerian setting

Cavalluzzo & Rossi (2023) investigated OECD countries using a panel vector autoregression (PVAR) framework. They found that government spending exerts a negative effect on inflation in the short run but turns positive in the long run, suggesting that persistent fiscal expansions tend to

undermine price stability. Their study highlights the importance of fiscal discipline for sustainable disinflation policies.

Isaac & Akutson (2023) applied a Panel ARDL framework across the West African Monetary Zone and established that the monetary policy rate (MPR), interacting with money supply, is effective in promoting price stability, suggesting regional coordination benefits.

Nguyen and Tran (2022) carried out a study on impact of fiscal and monetary policy on inflation using a time series data set from 1997 to 2020 applying Vector Auto Regression (VAR) model. The findings suggest that Vietnam's inflation is significantly influenced by money supply positively and identified a significant positive relationship between inflation and interest rate. and recommends for a policy that will combine both fiscal and monetary policies for a stable price in the economy.

Bordo et al. (2022) employed a panel GMM estimation for emerging markets and revealed that government spending raises inflation, particularly in countries with weak institutional and policy credibility. This finding is highly relevant to Nigeria, where institutional weaknesses and policy inconsistency often fuel inflationary pressures.

Haruna et al. (2022) employed ARDL and ECM techniques for Nigeria, revealing that exchange rate, money supply, and MPR exert weak or insignificant effects on inflation, whereas the real interest rate remains a significant determinant. This challenges the conventional monetary policy transmission narrative in Nigeria.

Olaniyan & Okunlola (2021) utilized SVAR for Nigeria and demonstrated that coordinated fiscal and monetary policy measures jointly curb inflation, underscoring the importance of policy mix rather than relying on a single tool

Barth et al. (2021) analyzed 137 countries and concluded that the inflationary effect of fiscal policy is stronger under flexible exchange rate regimes. Given that Nigeria operates a managed float, this study provides useful comparative insight into exchange rate–fiscal interactions in shaping inflation dynamics.

Ajide et al. (2020) applied Granger causality tests on Nigerian data and reported a bidirectional causal relationship between government expenditure and inflation, implying that not only does fiscal policy drive inflation, but inflationary pressures also influence expenditure decisions.

Drehmann et al. (2020), using Bayesian VAR on advanced and emerging economies, observed that fiscal expansions raise

inflation expectations, reinforcing the persistence of inflation over time.

Bank-Ola et al. (2020), using ARDL, reported that CRR significantly reduces inflation, while liquidity ratio, exchange rate, and money supply exert negative or weak influences. This further validates CRR as a critical tool for Nigeria's price stability framework.

Ogunmuyiwa & Ekone (2020) applied an ECM to Nigerian data and established that money supply and interest rates significantly affect inflation in the long run, suggesting that tightening monetary policy can be effective against persistent inflation.

Cuong (2019) studied Vietnam through a VAR approach and found that excessive fiscal deficits directly drive inflation, suggesting that developing economies with structural weaknesses are especially vulnerable to fiscal-induced price instability.

Akinbobola and Taiwo (2019) used a Vector Autoregression (VAR) model to analyze the impact of monetary policy shocks on inflation in Nigeria and found that contractionary monetary policy actions led to lower inflation rates in the short run.

Adeniji et al. (2018) employed a structural VAR (SVAR) for Nigeria and demonstrated that expansionary fiscal policy drives short-run inflation, underlining the destabilizing role of unsustainable fiscal expansions in the Nigerian context.

Theoretical Framework

This study employed Expectations-Augmented Phillips Curve (EAPC) within the New Keynesian tradition to underpin the work. The EAPC emphasizes that inflation persistence arises because agents form expectations based on past inflation, making price increases self-sustaining even after initial shocks (Friedman, 1968; Phelps, 1970). New Keynesian theory adds that wage and price rigidities prolong the adjustment process, allowing both monetary and fiscal shocks to have lasting effects (Gali, 2015).

In this view, monetary factors such as money supply, interest rate, and exchange rate affect inflation through demand and cost-push channels, while fiscal deficits financed through debt raise expectations of future monetary expansion, consistent with the Fiscal Theory of the Price Level (Woodford, 2001). Thus, the EAPC provides a coherent framework for analyzing Nigeria's inflation persistence, as it integrates both monetary and fiscal influences while explaining why inflation endures despite stabilization policies.

Methodology

This study adopted a quantitative research design using multivariate time series techniques. The study is secondary research

with time series data covering 1980 to 2024 sourced from World Bank World Development Indicators (WDI) and International Monetary Fund World Economic Outlook (WEF)

The study employed Autoregressive Distributed Lag Model (ARDL) to estimate the result as well as pre-estimation test using Augmented Dickey Fuller (ADF) test and the post-estimation test of the variables for diagnostics. The Model adopted is that of Adesuyi et. al. (2024) which is modified to suit this research work as follows:

$$INF = f(XRT, INT, MSP, EDS, GDPG)$$

This is algebraically transformed as:

$$INF = \alpha_0 + \beta_1 XRT + \beta_2 INT + \beta_3 MSP + \beta_4 EDS + \beta_5 GDPG + \acute{\upsilon}_t$$

The ARDL approach is particularly suited because it accommodates variables integrated of different orders, I(0) and I(1), and provides efficient estimates even with small sample sizes typical of macroeconomic data.

Results and Discussion

Stationarity Test

Table 1: Unit Root Test

	ADF t-Statistic	Prob	Stationarity
INF	-3.140680	0.0370	I (0)
EXR	-5.073835	0.0001	I (0)
MSP	-3.600989	0.0112	I (0)
INR	-13.3092	0.0000	I (1)
EDS	-3.924597	0.0042	I (1)
GDPG	-1.958620	0.0489	I (1)

The Augmented Dickey–Fuller (ADF) test was employed to examine the stationarity properties of the series. The null hypothesis of the test is the presence of a unit root (non-stationarity), while rejection implies stationarity. Inflation (INF), Exchange Rate (EXR) and Money Supply (MSP) are all stationary at level I(0), while Interest Rate (INR), External Debt Stock (EDS) and GDP Growth (GDPG) are stationary at first difference I(1). All their ADF test statistics are significant at the 5% level which implies

that none of the series is characterized by a stochastic trend, and all are mean-reverting in the long run.

Table 2: ARDL Regression (4, 4, 3, 4, 0, 3); Autoregressive Distributed Lag (ARDL)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
INF(-1)	0.043725	0.201186	0.217334	0.8309
INF(-2)	0.019054	0.204318	0.093258	0.9269
INF(-3)	-0.349587	0.194229	-1.799865	0.0920
INF(-4)	0.491427	0.169356	2.901737	0.0110
L_MSP	-1.148122	15.05405	-0.076267	0.9402
L_MSP(-1)	30.88405	22.67920	1.361778	0.1934
L_MSP(-2)	-2.008109	23.14270	-0.086771	0.9320
L_MSP(-3)	-0.439003	21.32060	-0.020591	0.9838
L_MSP(-4)	-13.14923	13.39869	-0.981382	0.3420
INR	-1.088990	0.230390	-4.726720	0.0003
INR(-1)	-0.336514	0.247094	-1.361887	0.1933
INR(-2)	0.063009	0.251279	0.250752	0.8054
INR(-3)	-0.384278	0.175487	-2.189776	0.0448
L_EXR	-20.71942	7.902127	-2.622005	0.0192
L_EXR(-1)	10.47896	8.017365	1.307033	0.2109
L_EXR(-2)	18.15100	7.919251	2.292009	0.0368
L_EXR(-3)	-11.10732	8.521785	-1.303403	0.2121
L_EXR(-4)	-17.14709	6.675545	-2.568643	0.0214
EDS	4.92E-10	1.93E-10	2.550954	0.0222
GDPG	-0.984695	0.527442	-1.866927	0.0816
GDPG(-1)	0.773019	0.539848	1.431921	0.1727
GDPG(-2)	1.066897	0.444139	2.402169	0.0297
GDPG(-3)	0.945510	0.450696	2.097889	0.0533
C	-327.8318	99.41518	-3.297603	0.0049
R-squared	0.938827	Mean dependent var		19.07783

Adjusted R-squared	0.845029	S.D. dependent var	16.97716
S.E. of regression	6.683294	Akaike info criterion	6.912357
Sum squared resid	669.9962	Schwarz criterion	7.936087
Log likelihood	-110.7910	Hannan-Quinn criter.	7.279662
F-statistic	10.00899	Durbin-Watson stat	2.108551
Prob(F-statistic)	0.000017		

The ARDL (4,4,3,4,0,3) model provides robust insights into the determinants of inflation (INF) in Nigeria between 1980 and 2024. The model demonstrates a good fit, with an R-squared of 0.94 and an adjusted R-squared of 0.85, indicating that approximately 85% of the variation in inflation is explained after accounting for degrees of freedom. The F-statistic (10.01, $p < 0.01$) confirms the joint statistical significance of the regressors, while the Durbin–Watson statistic (2.11) suggests the absence of serious autocorrelation.

Inflation Dynamics

The coefficients of lagged inflation highlight a degree of persistence in price levels. Specifically, inflation at lag four (INF(-4)) exerts a positive and statistically significant effect ($\beta = 0.491$, $p < 0.05$), indicating that inflationary shocks persist for up to four years. In contrast, the effect of lag three is negative and only marginally significant ($p \approx 0.09$). This implies that inflationary tendencies in Nigeria are not entirely short-lived but instead exhibit medium-term persistence.

Among the explanatory variables, interest rate emerges as the most effective policy tool, exerting a strong and significant dampening effect on inflation both contemporaneously ($\beta = -1.089$, $p < 0.01$) and at longer lags especially lag three ($\beta = -0.384$, $p < 0.05$). Exchange rate movements exert significant but oscillating effects. While its appreciation initially moderates inflation, its depreciation eventually fuels price pressures, underscoring the vulnerability of Nigeria's inflation to external shocks. This clearly indicates that monetary tightening via higher interest rates is effective in dampening inflationary pressures in both the short and medium run.

Conversely, the interest rate (INR) exerts a strong and statistically significant negative effect on inflation both contemporaneously ($\beta = -1.089$, $p < 0.01$) and at lag three ($\beta = -0.384$, $p < 0.05$). This indicates that monetary tightening via higher interest rates is effective in dampening inflationary pressures

in both the short and medium run. Contrary to monetarist expectations that emphasize money supply as the principal determinant of inflation, money supply changes in the result do not significantly influence inflation.

The exchange rate (EXR) exerts mixed but significant influences on inflation. The effect is negative ($\beta = -20.719$, $p < 0.05$), whereas the two-year lag is positive and significant ($\beta = 18.151$, $p < 0.05$). At lag four, the effect turns negative again ($\beta = -17.147$, $p < 0.05$). These oscillating effects reflect the complex transmission of exchange rate fluctuations into domestic prices. In the short run, appreciation may reduce inflation through import costs, while over time, depreciation fuels imported inflation and erodes purchasing power.

External debt stock (EDS), though small in scale, contributes positively to inflation ($\beta =$ 4.92E-10, $p < 0.05$), reflecting fiscal vulnerabilities. This implies that rising debt burdens may contribute to inflationary pressures through debt servicing and fiscal imbalances. Meanwhile, economic growth exerts lagged inflationary effects, suggesting that expansionary activity often translates into demand-pull inflation in subsequent years.

GDP growth (GDPG) reveals a nuanced effect: the contemporaneous coefficient is negative but marginally insignificant, while the two-year ($\beta = 1.067$, $p < 0.05$) and three-year ($\beta = 0.946$, $p \approx 0.05$) lags are positive and significant. This suggests that economic expansion tends to fuel demand-pull inflation in subsequent years.

ARDL Bound Test for Cointegration

Table 3: Long-Run ARDL Estimates

VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTIC	PROB.
MSP	17.7771	8.2147	2.1641	0.047
INR	-2.1961	0.7397	-2.9690	0.009
EXR	-25.5775	10.9267	-2.3408	0.033
EDS	6.19E-10	2.64E-10	2.3458	0.033
GDPG	2.2640	1.3662	1.6572	0.118
CONSTANT	-412.170	201.084	-2.0497	0.058 *

The long-run estimates in table 3 indicates that money supply (MSP) significantly raises inflation, while interest rate (INR) and exchange rate (EXR) exhibited disinflationary effects. External debt (EDS) also contributes positively to inflation, reflecting fiscal pressures, whereas GDP growth has a positive but statistically weak long-run impact.

Table 4: Short-Run Dynamics (Error Correction Model)

VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTIC	PROB.
ECM(-1)	-0.7954	0.2499	-3.183	0.006
ΔINR	-1.0890	0.2304	-4.727	0.000 *
ΔINR(-2)	0.3843	0.1755	2.190	0.045
ΔEXR	-20.719	7.9021	-2.622	0.019
ΔEXR(-2)	28.254	6.8411	4.130	0.001 *
ΔEXR(-3)	17.147	6.6755	2.569	0.021
ΔGDPG(-1)	-2.012	0.5685	-3.540	0.003 *
ΔGDPG(-2)	-0.946	0.451	-2.098	0.053 *

In the short run as indicated in table 4, the error correction term (ECM = -0.795, $p < 0.01$) is highly significant and negative, confirming a stable long-run equilibrium: approximately 80% of disequilibrium is corrected within a year. Short-run dynamics show that inflation responds immediately and strongly to interest rate adjustments (negative effect), exchange rate shocks (both positive and negative across lags), and lagged GDP growth (negative effect).

Table 5: Bounds Test for Co-integration

Test Statistic	Value	I(0)	I(1)	Decision
F-STATISTIC	4.634	2.39	3.38	Co-integration exists (5% level)

The F-Bounds statistic (4.63) exceeds the upper bound critical value at the 5% level, confirming the existence of a long-run co-integrating relationship among inflation, money supply, interest rate, exchange rate, debt, and growth.

Diagnostic Test

Serial Correlation Test

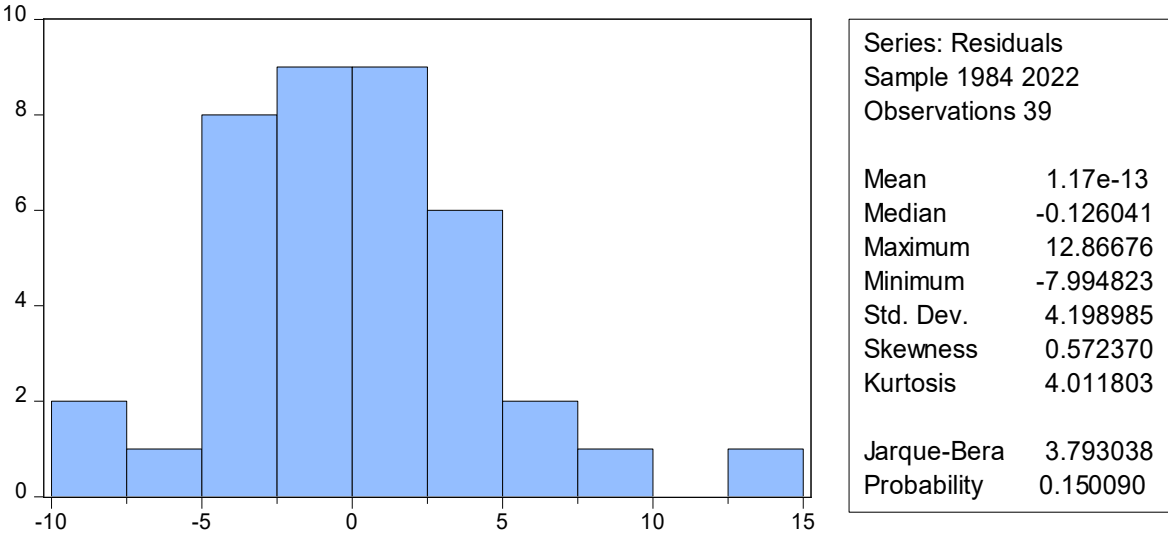
The Breusch–Godfrey Serial Correlation LM test indicates a p-value of 0.6869 which is higher than 0.05 and this failed to reject the null of no serial correlation. Residuals show no evidence of serial correlation up to the tested lags.

Heteroskedasticity test

The Breusch–Pagan–Godfrey Heteroskedasticity test shows a p-value of 0.1678 significantly higher than 0.05 as the result failed to reject the null of homoskedasticity. Therefore, no strong evidence of heteroskedasticity in the residuals.

Normality Test

Figure 1: Jarque-Bera Normality Test



The Jarque–Bera test produced a statistic of 3.79 with a p-value of 0.151. Since the p-value exceeds the 5% significance level, we fail to reject the null hypothesis of normality. The residuals are thus approximately normally distributed, satisfying the assumption of classical regression models.

Research Findings

Short-run results suggests that monetary policy variables (e.g., interest rate, money supply) influence inflation more strongly in the immediate term, but their effects dissipate without fiscal alignment.

The long-run results indicates that fiscal variables (e.g., government spending, public debt) have a persistent impact on inflation

implying that Nigeria's inflationary pressure is not only monetary in nature but also structurally fiscal-driven.

The negative and significant ECT shows that shocks are corrected relatively quickly, confirming price adjustment mechanisms in the Nigerian economy.

These findings emphasize that Nigeria's inflation dynamics are influenced more by interest rate, exchange rate movements, external debt, and growth dynamics than by money supply expansion. While inflation exhibits medium-term persistence, monetary tightening through interest rate adjustments appears effective in controlling inflation. The mixed effects of exchange rate movements highlight the vulnerability of Nigeria's inflationary environment to external shocks.

Conclusion

The findings of this research confirmed the existence of cointegration, indicating that inflation in Nigeria is not only a short-term monetary phenomenon but also influenced by structural and fiscal factors in the long run. The evidence highlights that monetary policy alone has limited effectiveness in curbing persistent inflation unless complemented by prudent fiscal management, exchange rate stability, and measures that strengthen productive capacity. Overall, the results highlight the need for a coordinated policy approach that integrates monetary, fiscal, and structural reforms to ensure sustainable price stability and long-term economic growth.

Policy Recommendations

1. Targeted monetary tightening: use interest-rate policy as the frontline instrument for short-run inflation stabilization, while monitoring growth signals to avoid excessive output costs.
2. Exchange-rate management: since exchange rate dynamics often transmit into inflation in Nigeria, stabilizing the naira through improved FX management and boosting non-oil exports is essential in cushioning imported inflation.
3. Fiscal consolidation & debt management: strengthen fiscal discipline to reduce inflationary financing. Prioritise debt sustainability: limit short-term external borrowing and improve domestic revenue mobilisation.
4. Monetary–fiscal coordination: institutionalise coordination mechanisms so monetary tightening is not offset by expansionary fiscal impulses that reintroduce inflationary pressure.

5. Structural policies to reduce cost-push inflation: invest in power, transport and agricultural productivity to reduce production costs and dependence on imported food/inputs.
6. Communication and expectations management: anchor inflation expectations through clear forward guidance, credible targets, and transparency about policy trade-offs.

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