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PRICE INDICES AS AN INDICATOR OF INFLATION IN NIGERIA

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Inflation is considered in the scientific literature as a general increase in the price level. In terms of the purchasing power of money, inflation is an indicator of how much a consumer can buy with his available income. When measuring inflation, it is advisable to take into account changes in price indices; we can also calculate inflation using the gross national product (GNP) deflector; consumer price index (CPI); and producer price index (WPI or PPI) [4].

Inasmuch as is consider, its risk permeates into the nation's life, Inflation has become a paramount discussion of argument in Nigeria. There has been ongoing increment in prices which has affect the citizen, devaluation, increment of money supply and high wages, this has course Nigeria a serious economic difficulty an Africa generally; the purchasing power of the currency has rapidly declined, and the Nigerian Government's efforts to monitor and address trends and deviations in gross domestic product (GDP) have not yielded the expected results. In this regard, the main objective of the Central Bank of Nigeria (CBN) is to ensure a sustainable level of inflation, which corresponds to the so-called "natural" rate necessary to maintain the volume of aggregate supply in the country [1].

This a popular topic of discussion among central banks, governments, economists, and other stakeholders. Policy choices in Nigeria have been greatly impacted by the direction of inflation rates, especially in 2023. The approval of a low and steady inflation rate is because it authorize faster in labor market trade during downturns and lowers the cost of lending for manufacturers because of the majority of economist and monetary lawgiver make a decision, which increases growth and curativeness. In turn, this increases investments, lowers unemployment, and raises economic production.[2] Refinancing transformed short-term debts into long-term ones, while rescheduling renegotiated terms for outstanding debts. However, these practices contributed to fiscal irresponsibility and inflationary pressures, contrary to the intended goal of reducing external debt. The acquisition of new loans further fueled inflation and perpetuated a cycle of indebtedness, leading to a significant escalation of Nigeria's external debt.

These external debt strategies also increased the domestic money supply, directly contributing to inflationary pressures in the economy, the implementation of the SAP in Nigeria led to chronic inflation due to external debt management strategies. The practices of refinancing, rescheduling, and new loans increased Nigeria's debt burden, perpetuated the cycle of indebtedness, and raised the domestic money supply, all contributing to inflationary pressures in the economy.[3]

The persistent depreciation of the naira against the US dollar has been a result of this exchange rate regime, declining from $1 = N7.39 in 1989 to $1 = 131N in 2003, currently the value of Naira to dollar has moved to N975/Dollar. This continuous depreciation has been reluctantly accepted by Nigeria's creditors, as the country has been compelled to adopt a policy of appeasement to achieve a supposedly realistic rate for the naira, However, this ongoing depreciation of the Naira through the SFEM/FEM/IFEM has exacerbated the inflationary situation in Nigeria, the depreciation has a profound impact on domestic industries, which heavily rely on imported inputs whose costs have risen due to the weakened naira.[7] As a result, production costs increase, which leads to an inflationary spiral - the prices of goods and services in the economy also rise. In addition, the devaluation of the naira stimulates the development of smuggling, especially of essential goods, in particular food, which further leads to rising prices and maintaining a shortage of necessary goods in the economy. In 2023, Nigeria reduced subsidies on petroleum products including gas, petrol, kerosene, diesel and fuel oil. However, these subsidy withdrawals had unintended consequences, leading to an inflationary spiral in the country, The removal of subsidies on petroleum products resulted in significant and incessant the growth of the prices of goods. This, in turn, led to skyrocketing transport fares, adversely impacting the living standards of the population and causing considerable hardship for commuters. Families, struggling to make ends meet, were forced to allocate approximately 50% of their meager incomes (where employed at all) to fuel or alternative energy sources like wood and charcoal.[5]

The Nigerian inflation rate has consistently been on the rise, the nations' inflation rate increased to 26.3% in October 2023, the highest since August 2005, up from 25.7% in the prior month. Inflationary pressures have intensified over the recent months due to the government's elimination of fuel subsidies in May and the naira currency's weakness, the Central Bank made a policy in June to subside their interventions in the Nigerian foreign exchange markets. Prices of goods services (food), which is the most important in the CPI basket, picked up to 35.5% in October, the highest since August 2005, from 33.69% in the prior month, amid security issues in goods and services (food-producing regions). Other CPI items including clothing, foot wear, housing & utilities, and transportation also exerted upward pressure. [7]

The annual core inflation rate, which excludes farm produce, rose further to a record 22.7% in October, accelerating from September's reading of 22.1%. On a monthly basis, consumer prices rose by 1.8% in October, following a 2.6% surge in the prior month (Figure 1).

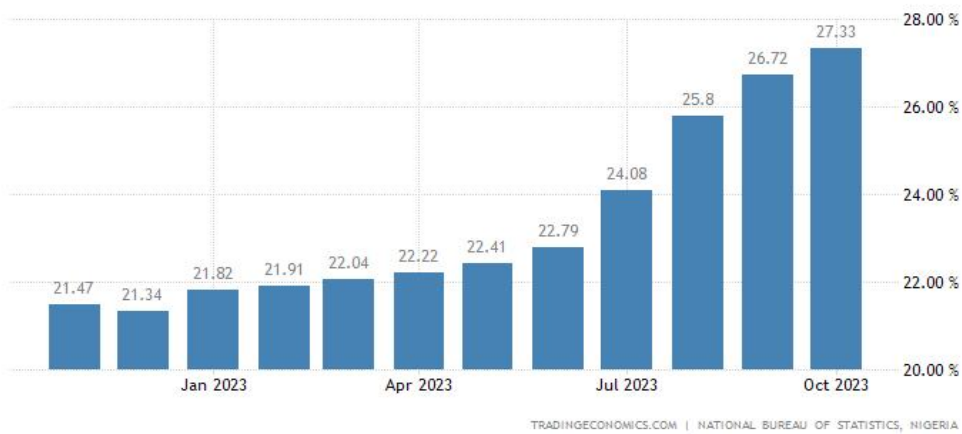

Figure 1 - Inflationary rate chart of Nigeria

The derive struggling and the Trade free enterprise IS to get bigger in imports of process. Feed in and have a good combination of items, its has put down consequential pressure on Nigeria's scarce in terms of external exchange reserves, which is most significant to higher costs of raw materials, and manufactured goods. The increased costs of importation have also resulted in higher service charges and a decline in service quality. Shortages of crucial inputs, such as spare parts for vehicles, chemicals in water schemes, drugs in hospitals, and educational materials in schools, have contributed to deteriorating services and increased charges in the service sector (Figure 2) [1].

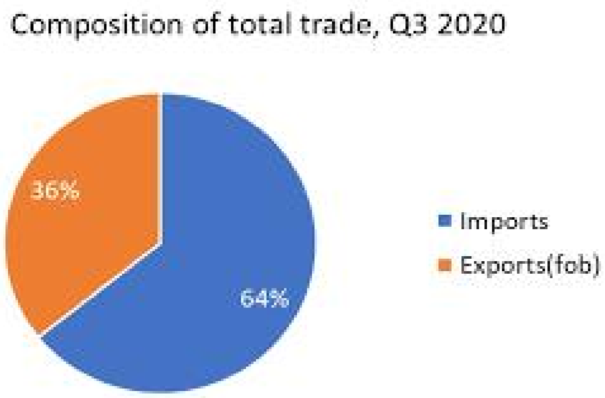

Figure 2 - Import and Export Pie Chart

Conclusion

Managing inflation volatility is crucial for achieving sustained economic growth and stability in Nigeria. Specialist in economists and monetary policymakers favor a low and steady inflation rate encouraging the use of notable policies such as;

Monetary policies, Fiscal policies, By implementing the above policy recommendations and closely monitoring economic conditions, policymakers can work towards achieving a more stable and predictable inflation environment in the country, thereby improving the standard and quality of living.

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