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ANALYZING NIGERIA ECONOMY PERFORMNACE ON EMERGING MARKET: AN ISSUE FOR INFLATION TARGETING

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Abstract

There are diverse opinion among economist and concerned professionals about whether inflation targeting has a favourable or unfavoruable impact on Nigerian economy. The study objective is to analyze the influence of inflation targeting on emerging market for economic performance. Expo Facto research design was adopted using information from CBN and NBS on consumer price index, unemployment rate, exchange rate and Gross Domestic Product. Simple regression analysis was used. The findings reviews that persistence increase in price of commodity and joblessness in a clear indication of deficient macroeconomic performance. The study recommended that attempt should be made to stabilize CPI thereby promoting long term growth of Gross Domestics Product.

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KEYWORDS: *Emerging Market, Inflation Targeting, Consumer Price Index, Unemployment, Interest Rate, Gross Domestic Product.*

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INTRODUCTION

Background of the Study

There is a growing need to emphasize the value of monetary policy inflation projections (Sivak, 2013). Inflation targeting is a monetary policy mechanism set up by central banks to counter long-term inflation in an economy, and the rate is typically lower than the rate of inflation. (Percira da Silva and the Agenor, 2014). The inflation rate thus serves as the nominal anchor on which Central tanks depend on preserving price stability. Inflation targeting also calls for five main elements like Sivak (2013). The elements are: public declaration of medium-term numerical inflation goals, structural commitment to price stability as the main, long-term monetary policy objective and dedication to achieving the inflation target, an information-inclusive framework in which several factors are included in monetary policy decisions, enhanced efficiency of the monetary policy strategy.

The current administration under the leadership of President Muhammadu Buhari recognizing the need to maintain a steady macroeconomic balance in the economy introduced the Economic Recovery and Growth Plan (ERGP), a medium term plan for 2017 – 2020 that is built, on the Strategic Implementation Plan (SIP) framework as its compass for re-directing the economy to a sustainable growth path. It aims at restoring economic growth while leveraging the hard work and resilience of the Nigerian people, the nation’s most priceless assets. The ERGP is consistent with the aspirations of the Sustainable Development Goals (SDGs) and the African Vision 2063.

The achievement of the low inflation target, with low interest rate and low volatility, did not guarantee favourable economic growth and enhanced employment. Economists were worried and began to reason ways of curbing inflation in the country. Hence, inflation targeting framework was considered. Considering this abnormal economic environment, tagged by some economic experts as the new normal. In the new standard, Central Banks have the additional responsibility to preserve stability of the financial system and economic development, in addition to monetary policy's price stability goal. In the specific case of developing economies with major production gap, and this called for questioning the continuing validity of the traditional monetary policy emphasis. Unconventional monetary policy has proven to be more effective in solving global tile imbalances. Many scholars wrote papers about the position of inflation and the monetary theory reaction. Second, developing countries' experiences during the 1970s and 1980s proved that a strong inflation rate would not contribute to fast economic growth and unemployment. Fast and high inflation is detrimental to employment and job growth, which may exacerbate the economic divide between the wealthy and the poor.

Second, the gains of low and steady inflation as well as the drawbacks of fast and rising inflation are widely recognised; to the degree that low inflation has become a public good.

Statement of the Problem

The rising unemployment rate in the land calls for concern and ways of curbing this problem should be checked using the monetary policy instrument of inflation targeting in Nigeria. There are diverse opinion among economists and concern professionals about whether inflation targeting has a favourable or unfavorable impact on economic growth in Nigeria in the case of Nigeria the prices of goods and services are on the increase on daily basis and the certainty for price reduction is near impossible couple with high interest rate offered by banks to investors, soaring unemployment and uncontrollable and unfavorable foreign exchange regime. Money is one factor that can affect many economic variables and it is considered important for economic well-being of Nigeria. The politicians and policy makers throughout the world are concerned about the use of monetary policy to control inflation in the economy and ensure that the management of money, interest rates and inflation arc not out of control. The goal of inflation targeting is to stabilize prices and encourage economic growth, whereas the reverse is the case in Nigeria.

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Objectives of the Study

The broad objective of this research is to analyse the influence of inflation targeting in emerging market on economic performance of Nigeria.

The specific objectives arc to:

i. Ascertain the main element of inflation targeting in Nigeria.
ii. Determine the costs and benefits of inflation targeting on the economic growth of Nigeria.
iii. Find out the significant relationship between inflation targeting and economic growth in Nigeria.

Hypothesis of the Study

For the purpose of achieving the objectives of the study, only one null hypothesis is formulated to guide the study:

H_{O1}: There is no significant relationship between inflation targeting and economic growth in Nigeria.

METHODOLOGY

Research Design

An ex post facto inquiry attempts to expose potential interactions by analyzing a current situation or state of affairs and investigating probable causal causes back in time. The population for this analysis was finite containing composite data from the 2016 statistical bulletin of Nigeria collected from the National Statistics Bureau (NBS) and Central Bank of Nigeria (CBN).

Theoretical Specification of the Model

The theoretical model specification is stated given the functional relationship between the dependent and independent variables thus:

Economic Performance = f(Inflation Targeting) ……………………(1)

GDP = f(CPI, INTR, UNEM, EXCHR) ……………………………………(2)

$GDP\ \Omega_0 + \Omega_1 CPI + \Omega_2 INTR + \Omega_3 UEMP + \Omega_4 EXCHR + e_t$………………. (3)

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Where;

Economic performance	=	is proxy by Gross Domestic Product (GDP).
GDP	=	Gross Domestic Products
Inflation Targeting	=	Consists of (CPI, INTR, UNEM, EXCI-1R)
CPI	=	Consumer Price Index
INTRE	=	Interest Rate
UEMP	=	Unemployment rate
EXCHR	=	Exchange Rate
Q_0	=	Constant terms in the models
$\Omega_{1,}\Omega_4$	=	Estimated Coefficients of independent variables in The models
e_t	=	Stochastic error term

Empirical Specification of Model

For checking how independent variables describe dependent variable (ODP), a multiple regression model would be fit. This is consistent with the Nor (2016) studies in Malaysia, and Razeed (2010) in the United States of America that will be followed in this report. The assumption of apriori is stated on the basis of the relationship between the independent variables (AGo, GoEXP) and the dependent variable (GDP) that have a positive relationship to GDP and thus tabulated:

Identification and Measurement of Variables

S/No	Variable	Type	Measurement of Variable	Apriori Expectations
1	Gross Domestic Product	Dependent	Aggregate of GDP from 1981-2016	-
2	Consumer Price Index	Independent	Aggregate of CPI obtained from CBN Statistical Bulletin	CPI > 0
3	Interest Rate	Independent	Aggregate of CPI obtained from CBN Statistical Bulletin	INTR < 0
4	Unemployment rate	Independent	Aggregate of CPI obtained from National Bureau of Statistics	UEMP < 0
3	Exchange Rate	Independent	Aggregate of Agricultural Output obtained from CBN Statistical Bulletin	ECHR < 0

Source: Researcher's Compilation (2018)

Sources of Data and Nature of Data

The researchers are making use of secondary data sources. These data were historical bulletins from the Central Bank of Nigeria (CBN) time series data which covered the period from 1990 to 2016 of thirty-six years.

Data Presentation and Analysis of Result

The data collected in this chapter are introduced, analyzed, proposed theories are tested and, ultimately, the conclusions discussed.

Sampling Technique

Census sampling technique was adopted in this study

Statistical Analysis of Data

The data were obtained in order to achieve the objectives of this study. It was empirically adopted to investigate the influence of Inflation targeting on economic growth in Nigeria from 1990 to 2016. The explanatory variables are Consumer Price Index (CPI), Exchange Rate (EXR), Unemployment (UEMP) and Interest Rate (INTR) were analysed. The influence and effect of each of these variables were compared to gross domestic product in Nigeria within the period under review.

Hypothesis 3 was formulated in testing the hypothesis of the study, which is stated thus:

H_{01}: There is no significant relationship between inflation targeting and economic growth in Nigeria.

Table 4.1

Dependent Variable: RGDP

Method: Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	354.3829	37.11298	9.548761	0.0000
CPI	17.43104	5.188677	3.359439	0.0028
EXR	-0.667320	0.176400	-3.782990	0.0010
UEMP	0.038568	0.004999	7.714854	0.0000
INTR	-11.96418	3.458677	-3.459178	0.0022

R-squared	0.986451	Mean dependent var	566.9914
Adjusted R-squared	0.983988	S.D. dependent var	219.1440
S.E. of regression	27.73055	Akaike info criterion	9.648523
Sum squared resid	16917.64	Schwarz criterion	9.888492
Log likelihood	-125.2551	Hannan-Quinn criter.	9.719878
F-statistic	400.4342	Durbin-Watson stat	1.208378
Prob(F-statistic)	0.000000		

Source: Researchers Computations (2018)

Interpretation of Result

From the Table 4.1, the estimated model is:

GDP = 354.3829 + 17.43 1O4CPI - 0.667320EXR + 0.038568UEMP - 11.96418INTR

Adjusted R^2 of 0.983988 implies that the independent variables accounted for approximately 98% of the variations in the dependent variable, the remaining 2% can be explained by factors extraneous to this model. However, Exchange Rate (EXR) and Interest Rate (INTR) are negatively related but significantly related to Gross Domestic Product (GDP) while Consumer Price Index (CPI) and Unemployment (UEMP) are positively related to GDP in line with the apriori expectations. The Schwarz criterion, Akaike info criterion and Hannan Quinn criterion of 9.888492, 9.648523 and 9.719878 indicate that the model is statistically significant. Dublin Watson (DW) value of 1.208378 indicates that there is no evidence of autocorrelation among the independent variables. Hence, the estimates are statistically significant.

Research Findings

The study found out that persistence increase in prices of commodities and joblessness is a clear indication deficient macroeconomic performance of the economy of Nigerian. The country-wide joblessness rose from 6% in 1990 to 20% in 2016, 16 years later. During the late 2007-2015 period, the high unemployment price experienced in 1990 was attributed to desperation in the Nigerian economic system. Specifically, the financial downturn of the period culminated in the introduction of stabilization steps that included export limits, precipitating the import reliance of most Nigerian manufacturing agencies, culminating in the failure of several firms operating under their hooked ability.

As the result of the above, many industries that could not meet up with the economic challenges had to be closed down, while the few survivors were made to remove a large proportion of their workforce in order to cope with the provision of staff welfare. As a result, the country's big unemployment rate fluctuated by about 6.0 percent before it rose to 7.1 percent in 1990.

However, the Central Bank of Nigeria (CBN) launches inflation based on coverage in 2007 to curb the effect of high interest rates, high spending of products and services that decrease shoppers' purchasing power within the timeframe under reviewgg. Also the change charge inside the period reveals a poor price of -0.667 indicating that for all of us naira trade with the US dollar, there is a loss of about 67%. This eventuality has significant consequences for Nigeria 's workforce as unemployment plummeted from 7.1 percentage points in 1997 to as low as 1.8 percentage points in 2000, in 2003, it moved to 5.4 percentage and between 3.4 and 4.7 percentage points in 2006 and 2008.

Observation reveals that inflation goes down as unemployment increases, although current analytical projections indicate that the trend will continue to rise up to 2020 (Orji et al 2015). This is especially so because businesses are being forced to move investments away from goods and deals, thus preventing investment and retarding the economic boom. In addition, the high inflation charge in Nigeria has reduced the rate of persistent nominal repayments such as rents, salaries, pensions and taxes (Omojimite and Oriavwote, 2012). High inflation rates in Nigeria have contributed to shortages of commodities and this has precipitated major imports of products into the region. Dwelling conditions have been lowered largely because of the high and unsustainable inflation charge in Nigeria. Additionally , inflation can inhibit the performance of macroeconomic goals such as full employment, quick and sustainable development, and tolerable payment stability. Additionally, it can also minimize money purchasing oil. This illustrates why maintaining charge equilibrium has become one of the crucial priorities of Nigeria's macroeconomic policy (inflation targeting) on a constant basis.

Conclusion and Recommendations

The most important discovering of this paper is that the CPI and unemployment are greater necessary in explaining variant in inflation targeting in Nigeria than different variables such as change rate and interest rate. This learn about is an empirical proof that will help in understanding the relationships among variables used in the model drawing from the Nigerian experience. However, gross domestic product shocks had little implication for inflation targeting. The resurgent rising inflation charge in Nigeria in the past few years is a pointer of the outcomes of at least one of these variables. It is widely seen that volatility creates significant economic fluctuations at the general level of prices, leading to inefficiencies in both aggregate jobs and production. It is also clear that the impact of raising inflation on Nigeria's economic development are comparatively small. There's no evidence that reducing inflation encourages or slows Nigeria's economic growth. A good strategy on inflation targeting would need help from other stakeholders and the government sector to demonstrate trust in CBN's monetary policy pronouncement. In addition, because historical inflation only has short-term impacts on current inflation; attempts should be made to stabilize CPI, thereby promoting long-term growth of gross domestic product. Lastly, coverage measures that are successful of reducing degree of fluctuations in these variables ought to be welcomed by way of the Regulatory body (CBN).

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