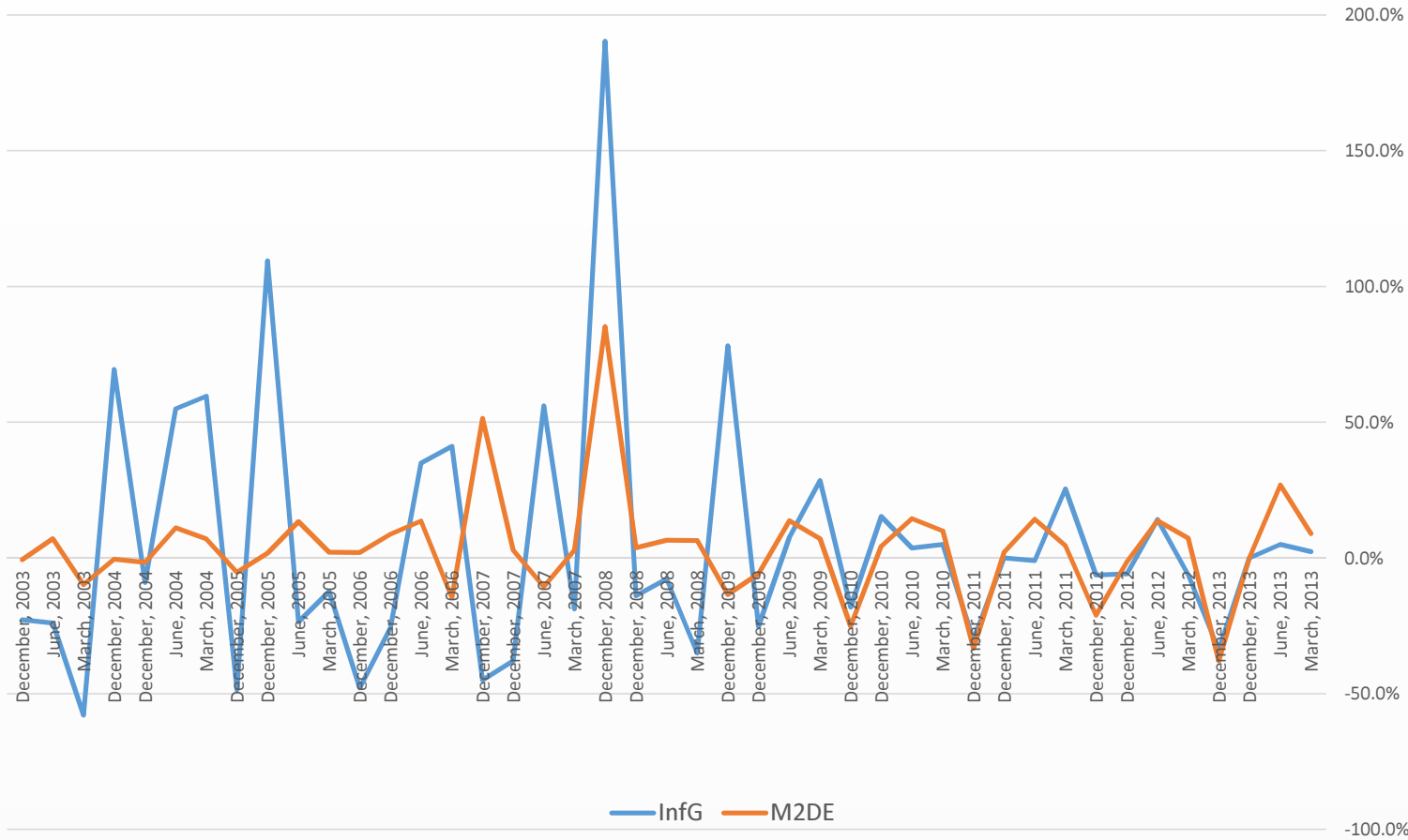


## What Is Responsible for Inflation in Nigeria?



The two quarterly series in the chart by the left are (a) the growth of inflation (InfG) and (b) the difference between money supply growth and GDP growth (M2DE). M2DE measures the expansion of money supply beyond the expansion rate of real activity/output in the economy.

As the chart tells us, quarterly changes in inflation rates follow very closely the same pattern as the changes in unproductive monetary expansion. It is also known that the CBN has a monopoly for expanding the quantity of money available.

What does this tell us? That we should always look beyond the non-monetary expansion reasons always adduced for inflation by the Central Bank as they are not always true. Secondly, if you really want to predict likely future inflation rate simply find out how your CBN is expanding money above the capacity of the real economy to absorb it. All of this are consistent with theory.

- Martin Oluba, PhD