



## Institutional Factors and Headline Inflation in Nigeria

Lucky Okofu<sup>1</sup>, Prof. Austin Ayodele Momodu<sup>2</sup>

<sup>1,2</sup>Department of Economics, Rivers State University, Port Harcourt, Nigeria

**KEYWORDS:** Headline inflation, institutional factors, monetary autonomy, regulatory quality, money supply and government expenditure

### ABSTRACT

This study examined how institutional factors affect headline inflation in Nigeria between 1997 and 2023. The CBN's monetary autonomy index and regulatory quality were used as institutional factors alongside the monetary policy rate, the broad money supply, and total government expenditure. The datasets for the variables were gathered from the CBN Statistical Bulletin, the National Bureau of Statistics, the World Bank, and the Chinn-Ito index, and analysed using descriptive statistics, pre-estimation tests (unit root and cointegration tests), and the least-squares estimation method. The findings indicate that the CBN's monetary autonomy has a positive effect on headline inflation. Although this finding is not significant at the 5% level, it highlights the CBN's weak institutional position as Nigeria's apex monetary authority, given the prevalence of political interference in its operations. There is evidence that regulatory quality adversely affects headline inflation. This finding suggests that improvements in regulatory quality could reduce inflation in Nigeria. Similarly, the results indicate that the monetary policy rate has a negative and significant effect on headline inflation at the 5% level. As evidenced in the estimated parameter, a percentage increase in the monetary policy rate is associated with a 0.653% decrease in headline inflation. This finding aligns with theoretical expectations, highlighting the effectiveness of monetary policy in mitigating price instability in Nigeria. The results further showed that broad money supply and total government expenditure have a positive effect on headline inflation. Although these findings are not significant at the 5% level, they suggest that expansionary monetary and fiscal policies, as measured by the growth of monetary aggregates and government spending, tend to be inflationary. The error correction coefficient (-0.789) is negative and significant at the 5% level, indicating that distortions from the long-run equilibrium position are corrected at a speed of 78.9% per annum. Given the findings, this study recommends that policymakers should reinforce the CBN's independence in practice and strengthen the bank's inflation-targeting regime by explicitly defining its inflation goals, improving the precision of inflation forecasts, and enhancing the transmission of monetary policy.

**Corresponding Author:**  
Lucky Okofu

**Publication Date:** 13 June-2026  
**DOI:** [10.55677/GJEFR/05-2026-Vol03E6](https://doi.org/10.55677/GJEFR/05-2026-Vol03E6)

**License:**  
This is an open access article under the CC BY 4.0 license:  
<https://creativecommons.org/licenses/by/4.0/>

*Cite the Article:* Okofu, L., Momodu, A. A. (2026). Institutional Factors and Headline Inflation in Nigeria. *Global Journal of Economic and Finance Research*, 3(6), 387–394. <https://doi.org/10.55677/GJEFR/05-2026-Vol03E6>

### 1. INTRODUCTION

The trajectory of inflation in Nigeria reflects the interplay of monetary policy, fiscal dynamics, exchange rate volatility, external shocks, and, more recently, institutional quality frameworks. In the 1960s and early 1970s, Nigerian inflation was relatively tolerable, with a rate averaging below 10%. This was mainly due to an agriculturally driven economy with very little pressure from industrial demand, alongside conservative fiscal policies. However, the situation changed with the oil boom of the 1970s, which ushered in an era of fiscal expansion, import dependence, and public-sector dominance. The surge in oil revenues during this period

triggered a sharp increase in government spending, creating demand-pull inflation [Central Bank of Nigeria (CBN), 2022]. The structural adjustment programme (SAP) introduced in 1986 following the policy advice of the International Monetary Fund (IMF) and the World Bank, marked a turning point in the Nigerian inflationary trend. The liberalisation of the foreign exchange market and the elimination of subsidies played a significant role in driving cost-push inflation. By the late 1980s, inflation had skyrocketed, peaking at over 72.8% in 1995, largely due to a steep currency devaluation, fiscal deficits, and an increase in the money supply (Akinbobola, 2021; IMF, 2023).

In the 2000s, despite improvements in oil revenues and debt relief under the Paris Club agreement in 2005, inflation remained in double digits, commonly ranging between 11% and 16%, largely due to sectoral price shocks, exchange rate volatility, and supply-side rigidities (World Bank, 2023). The Central Bank of Nigeria (CBN) tried different monetary policy regimes, from monetary targeting to inflation targeting, with minimal success due to institutional and structural bottlenecks. The economic recession in 2016, triggered by a drop in global oil prices, reignited inflationary pressures, pushing inflation up to 18.6% in 2017, due to currency depreciation, energy shortages, and rising food costs. Although inflation eased slightly in subsequent years, it surged again between 2020 and 2022 due to the COVID-19 pandemic, disruptions in global supply chains, and expansive fiscal measures [National Bureau of Statistics (NBS), 2023; Ezeaku et al., 2022].

In recent years, attention has shifted from the traditional explanation, which centred on monetary and fiscal factors, such as excessive money supply growth, exchange rate fluctuations, and deficit financing, to the role of institutional factors in shaping economic outcomes, including inflation. The institutional structure can affect inflation through various channels, including property rights, the rule of law, the enforceability of contracts, and political stability (Knack & Keefer, 1995). In Nigeria, several institutional challenges, including corruption, inadequate regulatory enforcement, political meddling in monetary policies, and a fragile rule of law, have been well documented as major impediments to successful macroeconomic management (World Bank, 2023; Ezeaku et al., 2022). These issues often result in inconsistent policies, ineffective monetary transmission mechanisms, and fiscal dominance, all of which worsen inflationary pressures. The erosion of central bank independence in Nigeria, exemplified by political appointments, various fiscal operations, and the monetisation of deficits, threatens credibility and raises inflation expectations (CBN, 2022; Udeh & Chukwuma, 2023). In addition, the poor quality of regulation and law enforcement discourages productive investment, distorts price mechanisms, and encourages rent-seeking behaviour that further destabilises price levels. In Nigeria, these institutional shortcomings have been found to coincide with rising inflation; however, evidence-based work on this relationship has been limited. This study seeks to bridge this research gap by examining whether and how institutional frameworks, alongside monetary aggregates, affect headline inflation in Nigeria.

## 2. LITERATURE REVIEW

### 2.1 Theoretical Literature

The institutional quality theory, formally introduced by Acemoglu, Johnson, Robinson, & Thaicharoen (2003), posits that the quality of institutions, especially those that protect property rights, enforce contracts, and ensure political accountability, is crucial to a country's macroeconomic stability and inflation outcomes. The core idea is that weak institutions cause policy uncertainty, fiscal mismanagement, and monetary instability, which lead to higher and more volatile inflation rates. Strong institutions limit discretionary power and promote credible commitments to stable macroeconomic policies, helping to anchor inflation expectations. Acemoglu et al. (2003) identify two main institutional dimensions: "institutions of private property," which defend individual and business rights, and "institutions of state centralisation," which guarantee effective and predictable governance. Their research indicates that inflation is notably higher in countries with poor institutional quality, even after accounting for factors such as GDP per capita, openness, and political regime. Specifically, countries without proper institutional checks and balances tend to monetise fiscal deficits, resulting in inflationary financing. This institutional weakness leads to low central bank independence, elevated risk premiums, and diminished currency credibility—all of which sustain inflation (Albagli & Schmidt-Hebbel, 2004).

Supporting this framework, Cukierman, Webb, & Neyapti (1992) demonstrated that central bank independence has a strong inverse link with inflation, especially in developing nations. Their findings confirm that when institutions are politically shielded and operate under transparent rules, inflation tends to be lower and more stable. Similarly, Bittencourt (2012) highlighted the importance of institutional credibility in post-transition economies, arguing that weakening institutional constraints often results in inflationary populism. Additionally, the institutional quality theory aligns with the new institutional economics, which posits that economic performance is fundamentally rooted in the institutional environment. North (1990) posits that institutions are the rules of the game, and in inflation contexts, these rules influence whether fiscal and monetary authorities can credibly commit to long-term price stability.

### 2.2 Empirical Literature

Das & Mandal (2022) reinvestigated whether corruption and inflation maintained long-run relationships and short-run dynamics in a panel of 30 countries, categorised by their Corruption Perceptions Index, for the period 1996–2017. Utilising panel cointegration, VECM, and causality tests, the study concluded that corruption control and the inflation rate shared a long-run equilibrium relationship. Furthermore, both long- and short-run causality were observed from corruption to inflation. The study therefore

recommended implementing stricter anti-corruption regulations to mitigate social unsustainability. Similarly, Ozili (2025) examines how country policy and institutional frameworks (CPIFs) influence global inflation, while accounting for unemployment and economic growth from 2005 to 2023. The study focuses on policies related to economic management, social inclusion/equity, structural reforms, and public sector management and institutions. Results show that effective public-sector management and social inclusion/equity policies significantly affect global inflation. Specifically, strong public sector management and institutions tend to lower inflation, whereas social inclusion and equity policies are associated with higher inflation.

Anwer (2022) examined the relationship between central bank independence (CBI) and inflation across 37 developing countries from 1972 to 2019. Given the widespread high inflation in the sample, many countries pursued CBI reforms in hopes of achieving price stability. Using pooled least squares under the assumption of coefficient homogeneity, the study initially found no significant relationship between CBI and inflation. After testing for panel homogeneity using the Chow and Roy–Zellner tests, the model was found to be heterogeneous. Consequently, the study employed a panel heterogeneity model using the pooled mean group estimator, which revealed a significant inverse relationship between CBI and inflation. This negative relationship remained consistent when the sample was split into moderate- and high-inflation subgroups, reinforcing the robustness of the findings. In a related study, Bogari (2020) evaluated the effectiveness of CBI as an anti-inflationary policy mechanism to reduce political interference in monetary decisions. Using panel data from 20 developed and 37 developing countries across two periods (1997–2006 and 2007–2016), the study found that inflation outcomes, in terms of both level and variability, were biased by high inflation and atypical countries. The findings reinforced the view that central bank autonomy served as a necessary institutional safeguard against inflation, particularly in politically unstable environments.

Using the Fourier KPSS stationarity test and the Fourier Shin cointegration test, Çiçen (2024) determined whether institutional quality affected inflation in Türkiye between 2005 and 2019. The results indicated that inflation was co-integrated with institutional quality. The deterioration in institutional quality during this period was associated with rising inflation. While the implicit inflation-targeting period after 2002 was relatively successful, the explicit inflation-targeting period failed to reduce inflation. The results further showed that central bank independence was susceptible to political influence and remained a critical factor in determining inflation outcomes. Furthermore, Adamgbe, Damak & Ado (2025) used quarterly data spanning 2001Q2-2024Q4 and a blend of Structural Vector Autoregressive (SVAR) and Structural Vector Error Correction (SVEC) frameworks to analyse inflation dynamics in Nigeria, with a particular focus on the structural, fiscal, and monetary drivers that shape its persistence and volatility. The results indicate that fiscal shocks, especially the buildup of new debt, have a strong and lasting upward impact on prices. Structural issues, including insecurity and the effects of climate change, further boost inflation by disrupting supply chains and external balances. Monetary policy tools, such as interest rate changes and money supply growth, have weaker and delayed effects, highlighting the difficulties in policy transmission within Nigeria's financial system. Overall, the findings emphasise the combined influence of fiscal dominance, structural vulnerabilities, and limited monetary transmission in maintaining Nigeria's inflationary trend.

### 3. METHODOLOGY

#### 3.1 Data Collection Methods and Sources

This study relied on secondary data, particularly time-series data. The time series data covered observations for each variable from 1981 to 2023. In particular, data on headline inflation, the CBN monetary autonomy index, regulatory quality, the monetary policy rate, broad money supply, and total government expenditure were obtained from various sources, as summarised in Table 1.

**Table 1: Summary of variable sources**

Variables	Sources
Headline Inflation	CBN Statistical Bulletin and National Bureau of Statistics (NBS)
Monetary policy rate	CBN Statistical Bulletin
Regulatory quality index	World Bank World Governance Indicators (WGI)
Broad money supply	CBN Statistical Bulletin
CBI monetary independence	Chinn-Ito index
Total government expenditure	CBN Statistical Bulletin

**Source: Authors' compilation (2026)**

#### 3.2 Model Specification

Based on the institutional theory and previous studies, the functional form of the model is specified as follows.

$$HINF = f(CBMA, REGT, MPR, BRM, TGE) \tag{1}$$

Where: HINF = Headline inflation, CBMA = central bank monetary autonomy, REGT = regulatory quality, MPR = monetary policy rate, BRM = broad money supply, TGE = total government expenditure

The linear regression equations are specified as:

$$HINF_t = \phi_0 + \phi_1CBMA_t + \phi_2REGT_t + \phi_3MPR_t + \phi_4BRM_t + \phi_5TGE_t + U_t \tag{2}$$

Where:  $\phi_0$  = constant parameter,  $\phi_1 - \phi_5$  = slope parameters,  $U_t$  = error (disturbance) term

The specifications of the error correction models (ECM) are provided as follows:

$$\Delta HINF_t = \alpha_0 + \sum_{i=1}^p \psi_1 \Delta HINF_{t-1} + \sum_{i=1}^q \psi_2 \Delta CBMA_{t-1} + \sum_{i=1}^q \psi_3 \Delta REGT_{t-1} + \sum_{i=1}^q \psi_4 \Delta MPR_{t-1} + \sum_{i=1}^q \psi_5 \Delta BRM_{t-1} + \sum_{i=1}^q \psi_4 \Delta TGE_{t-1} + \beta ECT_{t-1} + e_t \quad (3)$$

Where:  $\alpha_0$  = intercept,  $\psi_1 - \psi_6$  = short-run coefficients,  $e_t$  = error term,  $\Delta$  = First-difference notation: p and q = optimum lag orders for the dynamic regressors, and  $\beta$  = error-correction coefficient.

### 3.3 Method of Data Analysis

In this study, the least-squares method was employed to estimate the general-to-specific error-correction model (ECM). The ECM has desirable statistical properties compared to standard linear regression. Effectively, the ECM model, unlike a static model that accounts only for static effects, captures the dynamic effects of the independent variables on the dependent variable. Furthermore, the ECM is best suited for models with first-difference [I(1)] integrated series. Additionally, descriptive statistics, unit root and cointegration tests were applied in this study.

## 4. RESULTS AND DISCUSSION

### 4.1 Descriptive Statistics

The descriptive statistics for each variable are summarised in Table 2.

**Table 2: Summary of descriptive statistics**

Mean	13.07041	0.511999	-1.005556	13.12037	18.59593	2.444815
Median	12.53783	0.475700	-0.940000	13.50000	21.35000	1.780000
Maximum	24.65955	0.790900	-0.680000	20.50000	27.09000	9.080000
Minimum	5.388008	0.296800	-1.750000	6.000000	9.350000	0.640000
Std. Dev.	4.218862	0.151864	0.264376	3.334241	5.503051	2.005125
Jarque-Bera	1.477831	1.605372	5.733718	0.076370	2.865343	28.05785
Probability	0.477632	0.448124	0.056877	0.962535	0.238670	0.000001
Observations	27	27	27	27	27	27

Source: E-views output (2026)

The descriptive statistics for headline inflation showed an average of 13.07%. This translates into a fairly elevated average inflation rate. The CBN Monetary Autonomy (CBMA) was examined across 27 observations, with an average level of 0.511999. Higher autonomy levels might have been less common, as indicated by a median of 0.475700, slightly below the mean. The policy independence values ranged from 0.296800 to 0.790900, indicating that CBMA varied considerably in response to institutional and economic conditions. A standard deviation of 0.152 suggests modest fluctuations around the mean. The Jarque-Bera statistic and the probability value (1.605372, p = 0.448124) confirm that the distribution was approximately normal with symmetrical variations and no severe outliers. Additionally, Nigeria's regulatory quality index was generally poor during the study period, according to the descriptive statistics for regulatory quality (REGT) based on 27 observations, which reveal a mean value of -1.005556. The median value of -0.940000, which is somewhat higher than the mean, indicates that there were few cases of deeper institutional inefficiency and that most observations clustered around relatively low levels of regulatory quality. The period with the most effective regulation is represented by the highest value of -0.680000, while the period with the least effective regulation is defined by the lowest value of -1.750000. The moderate variability around the mean, as indicated by the standard deviation of 0.264376, suggests that changes in regulatory quality occur within a narrow negative range rather than being highly volatile. The Jarque-Bera statistic of 5.733718 with an associated p-value of 0.056877 is slightly above the 5% significance level, indicating that the data are approximately normally distributed. The descriptive statistics for the monetary policy rate (MPR) across 27 observations show a mean of 13.12% and a median of 13.50%. The statistics for broad money supply (27 observations) reveal an average of 18.59% and a median of 21.35%, indicating moderate liquidity with occasional spikes. The minimum of 9.35% reflects limited liquidity, while the maximum of 27.09% shows periods of monetary expansion. The Jarque-Bera test (2.865343, p = 0.238670) supports normality, and the standard deviation (5.503051) indicates moderate fluctuations. Government total expenditure (TGE) across 27 observations has a mean of 2.44% and a median of 1.78%, with a difference of 0.66%. The total range of 8.44% spans from 9.08 to 0.640, highlighting significant differences in government spending.

### 4.2 Unit Root Test

The Phillips-Perron method formed the basis for the unit root test. The results are summarised in Table 3.

**Table 3: PP unit root test results**

Variable	Adj. t-stat at levels	Adj. t-stat at 1 <sup>st</sup> difference	5% critical value	Order of Integration
HINF	-2.211	-5.510	-2.981	I(1)
FOIN	-2.866	-9.148	-2.981	I(1)
CBMA	-2.175	-4.972	-2.981	I(1)
REGT	-2.160	-11.88	-2.981	I(1)
MPR	-1.906	-6.233	-2.981	I(1)
BMR	-1.056	-4.244	-2.981	I(1)
TGE	-2.454	-9.104	-2.981	I(1)

Source: E-views output (2026)

The unit root test results showed that all the variables are non-stationary. This is because the adjusted t-statistics for all variables are less than the 5% critical value. Consequently, the null hypothesis of a unit root cannot be rejected. However, the first-difference test results showed that all variables are first-difference stationary, indicating that they are all integrated of order one, I(1). Evidence of first-difference stationarity across all variables necessitated a cointegration test to determine whether the variables have a long-run relationship.

### 4.3 Cointegration Test

Given evidence of first-difference stationarity across all variables, the Johansen cointegration test was used to determine whether the variables have a long-run relationship. The results are presented in Table 4.

**Table 4: Johansen cointegration test results 1**

Series: HINF CBMA REGT MPR BRM TGE				
Lags interval (in first differences): 1 to 1				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.829226	156.9652	95.75366	0.0000
At most 1 *	0.793761	112.7799	69.81889	0.0000
At most 2 *	0.643789	73.31198	47.85613	0.0000
At most 3 *	0.616478	47.50618	29.79707	0.0002
At most 4 *	0.484186	23.54723	15.49471	0.0025
At most 5 *	0.244126	6.996998	3.841466	0.0082
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.829226	44.18529	40.07757	0.0163
At most 1 *	0.793761	39.46795	33.87687	0.0097
At most 2	0.643789	25.80580	27.58434	0.0830
At most 3 *	0.616478	23.95894	21.13162	0.0194
At most 4 *	0.484186	16.55024	14.26460	0.0214
At most 5 *	0.244126	6.996998	3.841466	0.0082

Source: E-views output (2026)

Note: \* denotes rejection of the hypothesis at the 0.05 level

The Trace test results indicated six (6) cointegrating equations. This is because all trace statistics for each cointegrating equation exceed their corresponding critical values at the 5% significance level. Similarly, the maximum eigenvalue test results indicate five (5) cointegrating equations. Given the findings, the null hypothesis of no cointegration is rejected at the 5% level. This implies that the headline inflation has a long-run relationship with the institutional factors. The evidence of a long-run relationship among the variables is impressive, as it provides a basis for representing this relationship as an error correction model (ECM).

### 4.4 Model Estimation

Given the evidence of cointegration among the nonstationary variables in each model, the ECM is estimated to capture the dynamic effects of institutional factors on the domestic inflation measures. The results of the parsimonious ECM are presented in Table 5:

**Table 5: Parsimonious ECM results**

Dependent Variable: D(HINF)				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(HINF(-1))	0.396610	0.177689	2.232044	0.0394
D(CBMA)	9.299934	4.981932	1.866733	0.0793
D(REGT(-1))	-1.910803	3.127371	-0.610993	0.5493
D(MPR)	-0.652990	0.312738	-2.087978	0.0522
D(BRM)	0.297368	0.318991	0.932214	0.3643
D(TGE(-1))	0.769572	0.503635	1.528037	0.1449
ECT(-1)	-0.789370	0.263485	-2.995888	0.0081
C	0.039884	0.648564	0.061496	0.9517
R-squared	0.531860	Mean dependent var		0.661982
Adjusted R-squared	0.339096	S.D. dependent var		3.674206
S.E. of regression	2.986982	Akaike info criterion		5.280742
Sum squared resid	151.6751	Schwarz criterion		5.670782
Log likelihood	-58.00927	Hannan-Quinn criter.		5.388922
F-statistic	2.759129	Durbin-Watson stat		1.847178
Prob(F-statistic)	0.041367			

Source: E-views output (2026)

As observed from the results, a one-period lag of headline inflation has a positive and significant effect on its current value. This finding indicates that inflation tends to persist, meaning that past inflation rates continue to affect current inflation. In essence, inflationary pressures do not fade rapidly; instead, they carry over from one period to the next. It also shows that economic agents, such as households, firms, and workers, form expectations about future inflation based on past inflation trends. This aligns with the adaptive expectations hypothesis, which suggests that past inflation influences wage negotiations, price-setting, and consumption choices, thereby contributing to ongoing inflation. The results also showed that the CBN's monetary independence has a positive effect on headline inflation. Although this result is not statistically significant at the 5% level, it suggests that greater monetary autonomy, rather than reducing inflation as theory predicts, is associated with higher inflation in Nigeria. This indicates that the CBN's independence is not effectively translated into credible anti-inflationary policies. The positive contribution of CBN's independence to headline inflation corroborates the finding of Lim (2021), who found a causal effect of central bank independence on inflation. However, the result contrasts with the findings of Kokoszczynski & Mackiewicz-Łyziak (2019), who reported that central bank independence had a significant negative impact on inflation in non-advanced economies.

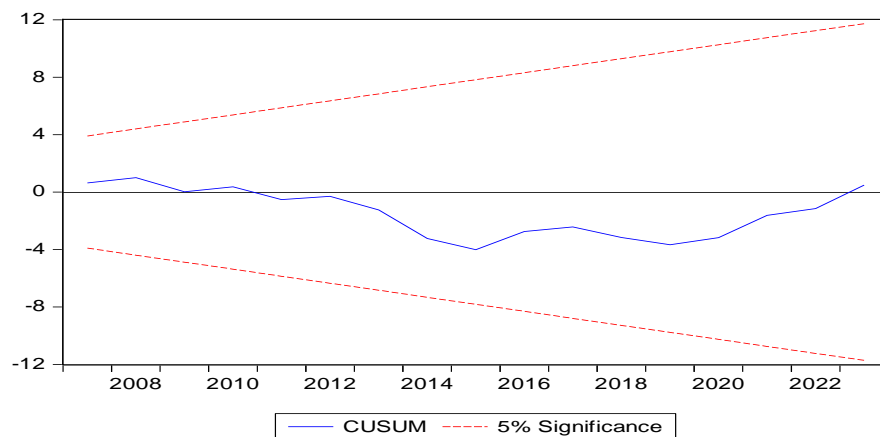
Furthermore, evidence indicates that regulatory quality adversely affects headline inflation. This finding is consistent with the theoretical expectations, suggesting that improvements in regulatory quality could reduce inflation in Nigeria. This finding also suggests that strong, effective regulatory institutions are essential for maintaining macroeconomic stability. This is because improved regulation improves the efficiency and transparency of both financial and product markets, curtails exploitative pricing, and alleviates cost-push inflation pressures on goods and services. It shows that good regulation serves as a stabilising force against inflationary trends, promoting competition and minimising monopolistic or rent-seeking practices. Similarly, the results indicate that the monetary policy rate has a negative and significant effect on headline inflation at the 5% level. This result is consistent with traditional monetary theory, which suggests that tightening monetary policy can effectively lower inflation in Nigeria. It underscores the role of better transmission mechanisms, credible policy signals, and monetary discipline. Additionally, it emphasises the need for a stable, transparent, and well-coordinated monetary framework to preserve price stability and strengthen public trust in the CBN's inflation management efforts. This finding aligns with the results of Akande, Dandaura & Akanni (2024), Henry & Sabo, (2020), who found that the monetary policy rate is effective in reducing inflationary pressures. Additionally, the results further showed that broad money supply and total government expenditure have a positive effect on headline inflation. The positive impact of the broad money supply and total government expenditure is consistent with the theoretical expectations. The observation that broad money supply and overall government spending positively influence headline inflation suggests that both monetary easing and fiscal expansion significantly contribute to inflationary pressures. This finding supports both monetarist and Keynesian theories, which hold that rapid growth in the money supply and expansionary fiscal policies can lead to demand-pull inflation. The positive effect of broad money supply on headline inflation is consistent with the findings of Alfa, Sa'ad & Abdulrasheed (2021), Charles, Gilbert and Emerenini (2022), who reported that monetary expansion is inflationary. At the same time, the evidence of a positive contribution of government expenditure on headline inflation aligns with the findings of Bazzaoui & Nagayasu (2019) and Cevik & Miryugin (2023), who reported that expansionary fiscal policy is associated with an increase in the general price level.

**Table 6: Post-estimation test results**

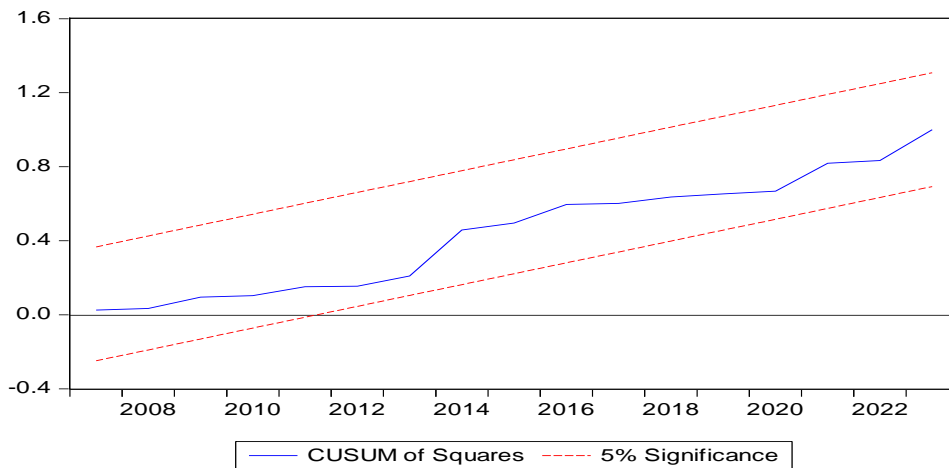
Test type	Test Statistic	Prob. Value	Inference
Breusch-Godfrey Serial Correlation LM Test	0.8498	0.6538	No serial correlation
White Heteroskedasticity Test	4.441	0.7278	Homoscedastic
Normality	0.779	0.6771	Normally distributed
Ramsey RESET	0.0539	0.9476	No misspecification

Source: E-views software output (2026)

The Breusch-Godfrey serial correlation LM test result showed that the probability value (0.6538) of the test statistic (0.8498) is greater than 0.05. This implies that there is no serial correlation in the residuals at the 5% level. Similarly, the residual is homoscedastic at the 5% level, given that the probability value (0.7278) of the test statistic (4.441) for the White heteroskedasticity test is greater than 0.05. This finding validates the reliability of the estimated model. Additionally, the residuals are normally distributed at the 5% level. This is based on the fact that the probability value (0.6771) of the Jarque-Bera statistic (0.779) is greater than 0.05. It is also evident from the model diagnostics test result that there is an absence of functional misspecification in the model at the 5% level, given that the probability value (0.9476) of the F-statistic (0.0539) is greater than 0.05. Overall, the outcomes of the post-estimation tests provide a basis for the model's reliability.



**Figure 1: Cumulative sum (CUSUM) graph**



**Figure 2: CUSUM of squares graph**

As observed from Figures 1 and 2, the CUSUM plots are within the 5% critical bounds, indicating that the estimated parameters are stable. The stability of the estimated parameters is impressive, underscoring the reliability of the parsimonious ECM.

**5. CONCLUSION AND RECOMMENDATIONS**

This study examines how institutional factors impact Nigeria's headline inflation. Despite efforts through monetary and fiscal policies, inflation persists, prompting a focus on institutional aspects. The findings show the central bank's monetary independence positively influences both headlines, highlighting its limited effectiveness due to political interference. Regulatory quality was found to reduce headline inflation. Similarly, a decrease in the monetary policy rate reduces headline inflation, aligning with the monetary view that contractionary policies curb inflation. Growth in the broad money supply and government expenditure also fuels inflation

by stimulating demand. Given the findings, this study concludes that institutional factors, especially CBN's monetary autonomy and regulatory quality, are key drivers of domestic inflation in Nigeria. Thus, policymakers should reinforce the CBN's independence in practice and strengthen the bank's inflation-targeting regime by explicitly defining its inflation goals, improving the precision of inflation forecasts, and enhancing the transmission of monetary policy. The government should focus on strengthening the overall regulatory framework by promoting rule-based policy enforcement, maintaining consistency in economic regulations, and reducing arbitrary policy reversals to foster greater price stability in Nigeria.

## REFERENCES

1. Acemoglu, D., Johnson, S., Robinson, J. A., & Thaicharoen, Y. (2003). *Institutional causes, macroeconomic symptoms: volatility, crises and growth*. *Journal of Monetary Economics*, 50(1), 49–123.
2. Adamgbe, E., Damak, S., & Ado, N. (2025). Inflation Dynamics in Nigeria: An Empirical Assessment of Monetary, Fiscal, and Structural Drivers. *Fiscal, and Structural Drivers* (November 22, 2025).
3. Akande, E. O., Dandaura, J. D., & Akanni, E. (2024). Monetary policy instruments and inflation in Nigeria: a revisit of FAVAR. *International Journal of Economic Policy Studies*, 18(1), 1-36.
4. Akinbobola, T. O. (2021). Historical trends and determinants of inflation in Nigeria. *Nigerian Journal of Economic and Social Studies*, 63(2), 45–65
5. Albagli, E., & Schmidt-Hebbel, K. (2004). *By how much and why do inflation targeters miss their targets*.
6. Alfa, Y., Sa'ad, S., & Abdulrasheed, Z. (2021). Length of transmission lag from monetary policy rate (MPR) and broad money supply (M2) to inflation in Nigeria. *West African Journal of Monetary and Economic Integration*, 21(1), 79-109.
7. Anwer, C. (2022). Heterogeneity effect of central bank independence on inflation in developing countries. *Journal of Emerging Market Finance*, 21(2), 187-213.
8. Bazzaoui, L., & Nagayasu, J. (2021). Is inflation fiscally determined? *Sustainability*, 13(20), 67-81.
9. Bittencourt, M. (2012), Democracy, populism and hyperinflation: some evidence from Latin America. <https://doi.org/10.1007/s10101-012-0117-7>
10. Bogari, A. (2020). Central bank independence, economic growth and inflation: Theories and empirical validations. *International Journal of Advances in Economics and Finance*, 6(1), 11-21.
11. Central Bank of Nigeria (CBN). (2022). *Monetary Policy Review: Achievements and Challenges*. Abuja: CBN Publications.
12. Cevik, S., & Miryugin, F. (2023). *It's never different: Fiscal policy shocks and inflation*. IMF Working Paper No. 2023/098
13. Charles, O. C., Gilbert, O. C., & Emerenini, F. (2022). The determinants of inflation in Nigeria. *Development*, 5(3), 54-72.
14. Çiçen, Y. B. (2024). Decoding inflation: Role of institutional quality in Türkiye using advanced econometric techniques. *Istanbul Journal of Economics*, 73(1), 1-35.
15. Cukierman, A., Webb, S. B., & Neyapti, B. (1992). Measuring the independence of central banks and its effect on policy outcomes. *The World Bank Economic Review*, 6(3), 353–398
16. Das, R., & Mandal, J. (2022). *Long-run associations and short-run dynamics between corruption and inflation*. <https://doi.org/10.4018/ijsesd.315303>
17. Ezeaku, H. C., Ugochukwu, I. E., & Aguegboh, E. C. (2022). *Institutional quality and macroeconomic stability in Africa: Empirical evidence using dynamic panel data*. *Journal of African Business*, 23(2), 187–205.
18. Henry, E. A., & Sabo, A. M. (2020). Impact of monetary policy on inflation rate in Nigeria: Vector autoregressive analysis. *Bullion*, 44(4), 6.
19. International Monetary Fund (IMF). (2023). *Inflation measurement overview*. Retrieved from: <https://www.imf.org>
20. Knack, S., & Keefer, P. (1995). Institutions and economic performance: cross-country tests using alternative institutional measures. *Economics & politics*, 7(3), 207-227.
21. Kokoszcyński, R., & Mackiewicz-Łyziak, J. (2019). Central bank independence and inflation—Old story told anew. *International Journal of Finance & Economics*, 26(4), 5019-5034.
22. Lim, J. J. (2021). The limits of central bank independence for inflation performance. *Public Choice*, 186(3), 309-335.
23. National Bureau of Statistics (NBS). (2023). *Consumer Price Index Report – December 2023*. <https://www.nigerianstat.gov.ng>
24. Ozili, P. K. (2025). Can country policy and institutional frameworks reduce global inflation? *Global Economy Journal*, 25(03), 1-16.
25. Udeh, S. N., & Chukwuma, O. S. (2023). Institutional quality, central bank independence, and inflation targeting in Nigeria. *Central Bank of Nigeria Economic and Financial Review*, 61(1), 34–56.