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Inflation in Nigeria: A Descriptive Analysis of Recent Developments

Reginald Darius, Cecilia Melo Fernandes, Chris Stumphius

SIP/2026/044

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ABSTRACT: As a result of recent reforms, inflation persistence in Nigeria has declined and the economy's responsiveness to monetary policy actions is improving. Historically, inflation in Nigeria was driven by food prices, supply-side shocks, deficit financing, and episodes of pronounced exchange rate depreciation, especially in 2016 and after the 2023 unification of foreign exchange windows. These reforms are breaking the entrenched patterns of inflation, reducing the impact of past drivers and helping to stabilize price dynamics. What we're seeing now is a gradual easing in the breadth of inflationary pressures, with diffusion indicators and survey-based measures suggesting initial signs of a tentative re-anchoring of expectations and a moderation in headline inflation—particularly as tighter monetary policy and greater exchange rate stability take hold. This paper documents the dominant contribution of food to headline inflation, the rising importance of transport, housing, and exchange rate-sensitive components, and the effects of the 2025 rebasing exercise. It also analyzes how inflation persistence has declined since the 2023 exchange rate reform and discusses the policy implications for sustaining durable disinflation, especially amid recent global commodity price shocks.

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SELECTED ISSUES PAPERS

Inflation in Nigeria: A Descriptive Analysis of Recent Developments

Nigeria

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¹ The authors would like to thank seminar participants at the Central Bank of Nigeria for their comments and suggestions.



NIGERIA

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Chris Stumphius.

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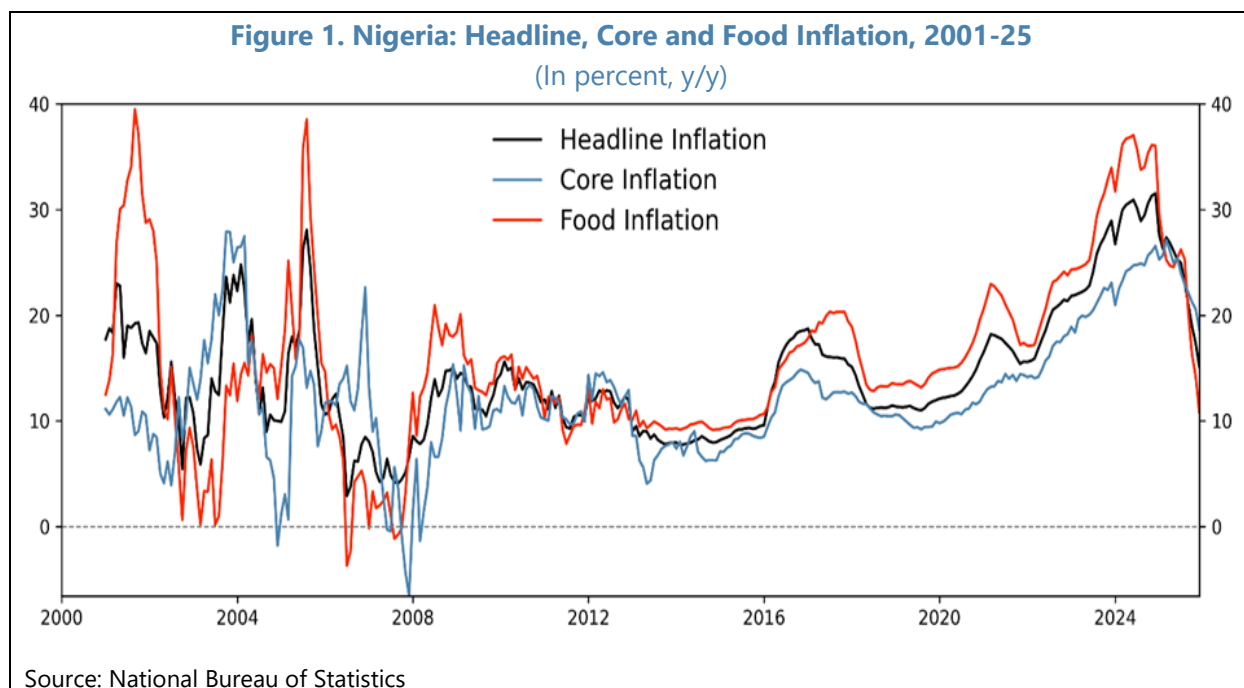
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INFLATION IN NIGERIA: A DESCRIPTIVE ANALYSIS OF RECENT DEVELOPMENTS¹

A. Nigeria's Inflation Over Time

1. Historically, inflation in Nigeria has been persistently high due to supply side shocks, deficit financing and large exchange rate depreciation. The early 2000s saw volatile, double-digit inflation due to food price shocks, exchange rate pressure, and fiscal dominance. From 2010–2016, inflation stabilized near 10 percent thanks to managed exchange rates and periods of improved macroeconomic stability. This phase ended with the 2016 oil price shock and associated exchange rate adjustment, which triggered a renewed rise in inflation and a shift towards higher persistence. Inflation further accelerated during 2020–22 amid the COVID pandemic disruptions and loose policies with significant levels of monetary financing. In 2023 inflation rose sharply following the unification of the exchange rate windows, with substantial exchange rate depreciation and the removal of fuel subsidies which resulted in higher domestic prices. In part the increase in inflation reflected the lag between exchange reforms which resulted in large depreciation, and tightening monetary policy which occurred six months later. In 2024–25, inflation peaked with strong exchange rate pass-through and high fuel and food prices. Recently, tighter monetary policy and greater exchange rate stability helped to moderate inflation, though it remains high.



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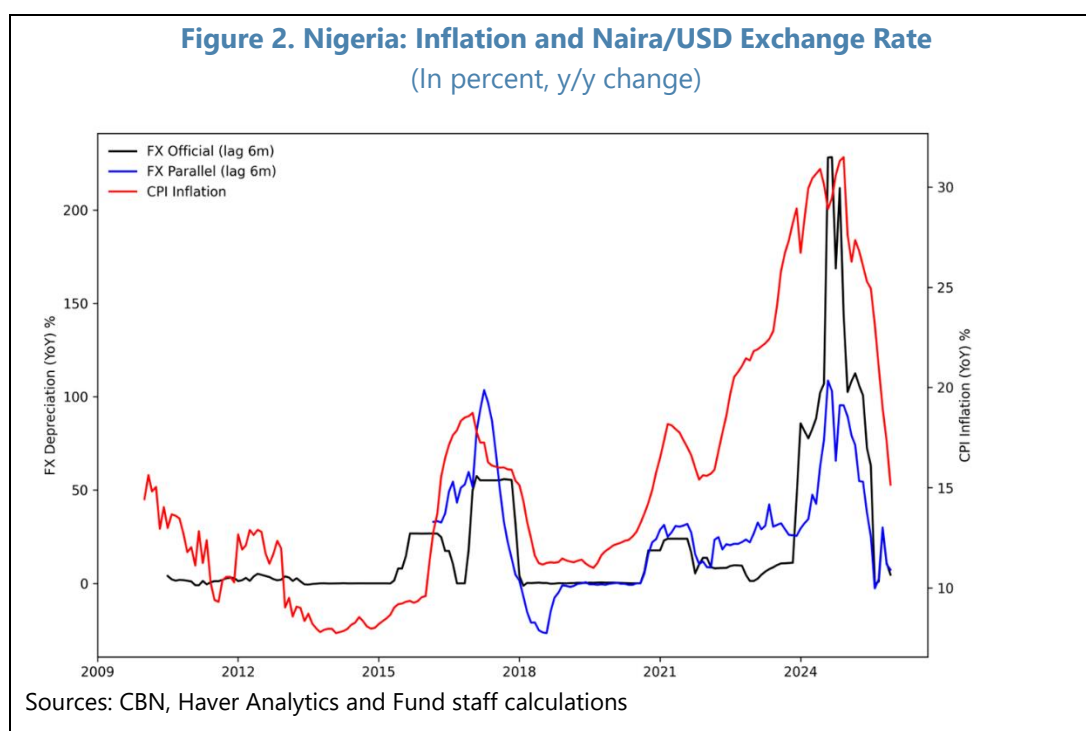
2. In 2025, Nigeria rebased its consumer price index (CPI) to reflect updated household consumption patterns. This resulted in significant changes to the composition and weights of the inflation basket. Most notably, the weight of food declined sharply—from over 50 percent prior to the rebasing to about 28 percent—while the weights of non-food components such as housing, transport, and other services increased. The rebasing had a mechanical effect on measured inflation, contributing to a downward shift in headline inflation in 2025, particularly through lower measured food inflation and reduced contribution of food to headline inflation. While the rebasing improves the representativeness of the CPI and aligns it more closely with current consumption patterns, it complicates comparisons with historical inflation outcomes and contribution analyses based on the pre-rebasing basket. As a result, changes in inflation levels around the rebasing period should be interpreted with caution. With greater emphasis placed on underlying trends, inflation persistence, diffusion measures, and sub-component dynamics when assessing inflation developments and the effectiveness of macroeconomic policies.

3. The Central Bank of Nigeria (CBN) has taken decisive steps to tame inflation, contributing to a decline in average headline inflation to 23.3 percent from 29.9 percent in 2024. Following the exchange rate adjustment in 2023, the CBN significantly tightened the monetary policy stance. The monetary policy committee of the CBN increased the monetary policy rate (MPR) cumulatively by over 800 basis points, from 18.5 percent in February of 2024 to a high of 26.75 percent in July 2024, and the CBN indicated that the goal was to move real policy rates into positive territory. Monetary tightening was reinforced through a range of liquidity management tools. The cash reserve ratio (CRR) was raised sharply to 50 percent, absorbing excess liquidity in the banking system. The CBN also relied on open market operations (OMOs) to manage liquidity conditions and support short-term interest rates. At the same time, the asymmetric corridor around the MPR was adjusted by widening the lending leg, raising the cost of access to the standing lending facility and strengthening the signaling role of the policy rate in money markets. Importantly, the discontinuation of central bank financing of the fiscal deficit reduced a key source of structural liquidity injections that had previously weakened monetary transmission. Taken together, these measures tightened domestic financial conditions and contributed to a decline in inflation persistence.

4. The CBN also took steps to strengthen the functioning of the foreign exchange market and move to a market-determined exchange rate. The effectiveness of monetary tightening was reinforced by a sequence of foreign exchange market reforms aimed at improving market functioning, enhancing transparency, and supporting foreign exchange supply. A key step was the move to unified foreign exchange windows, which eliminated market segmentation and improved price discovery by eliminating the multiple official rates and having only one official market rate. This was complemented by the introduction of a B-Match trading platform, allowing foreign exchange transactions to be matched bilaterally within a rules-based framework, eliminating administrative allocation and strengthening market discipline. Additional reforms focused on improving transparency and reporting in the official window, alongside efforts to address legacy foreign exchange backlogs, which helped restore confidence among market participants. The authorities also eased operational constraints to encourage greater participation by exporters and

other suppliers of foreign exchange in the official market. CBN also moved aggressively to rebuild international reserves, with high rates attracting significant portfolio flows into OMOs. Together, these actions supported improved liquidity and turnover in the official foreign exchange market, contributing to greater exchange rate stability.

5. Achieving equilibrium in the fx market was important to taming inflation, which closely tracks both the official and parallel exchange rate. Periods of sharp naira depreciation, most notably in 2016 and again around the 2023 reform episode, are followed by pronounced increases in inflation with a six month lag, reflecting evidence of strong exchange rate pass through to domestic prices.² This relationship is evident in the synchronized peaks and troughs of the official and parallel market exchange rates with the lagged CPI series, underscoring the importance of imported inflation and cost push pressures through tradable goods, transport, and housing components.



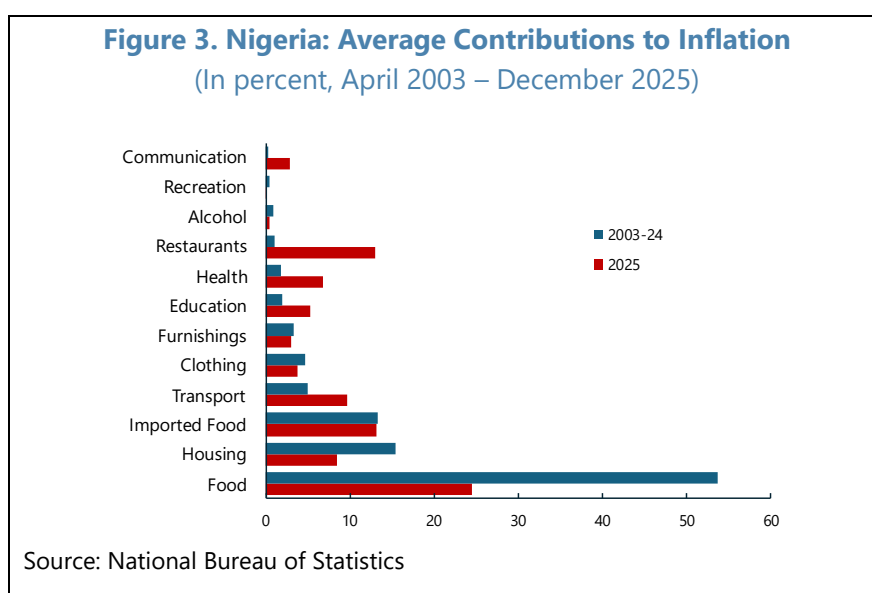
B. Composition of Inflation

6. Historically, food has been the main contributing component to inflation. Between April 2003 and December 2024 food inflation contributed 53.6 percent to the average headline inflation rate of 14.4 percent (Figure 3). After food, housing, imported food and transport are the largest contributors historically. The weights of components have also varied over time in line with

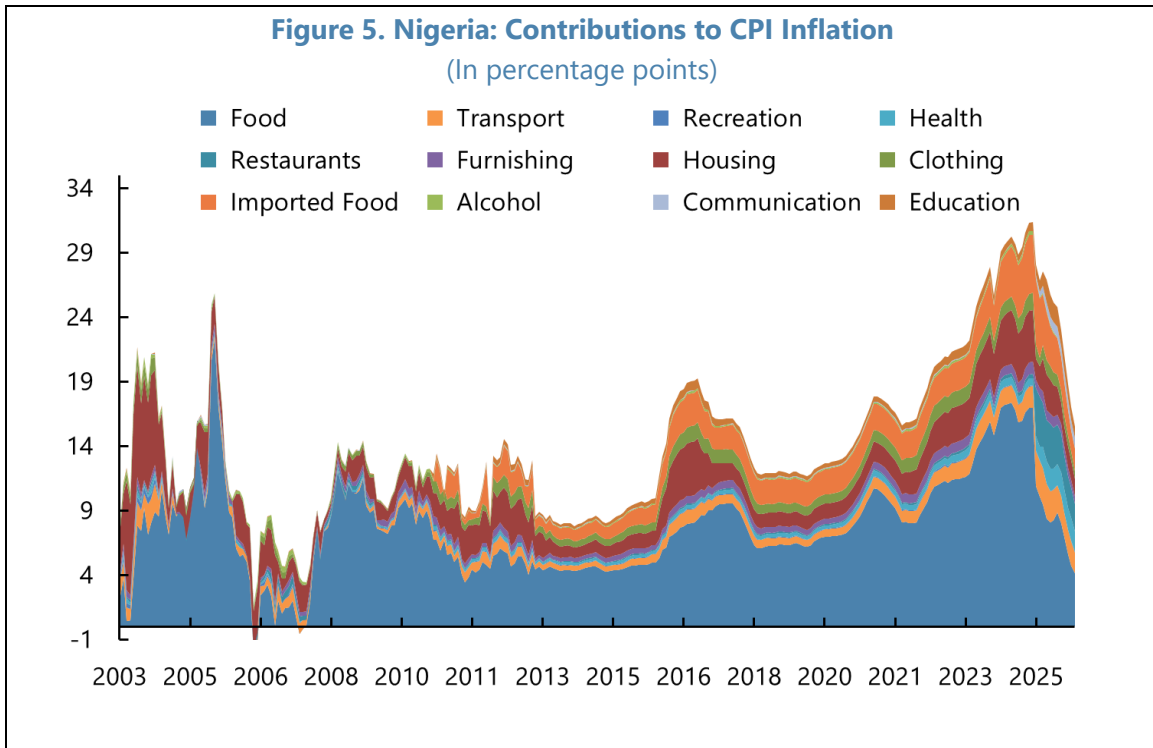
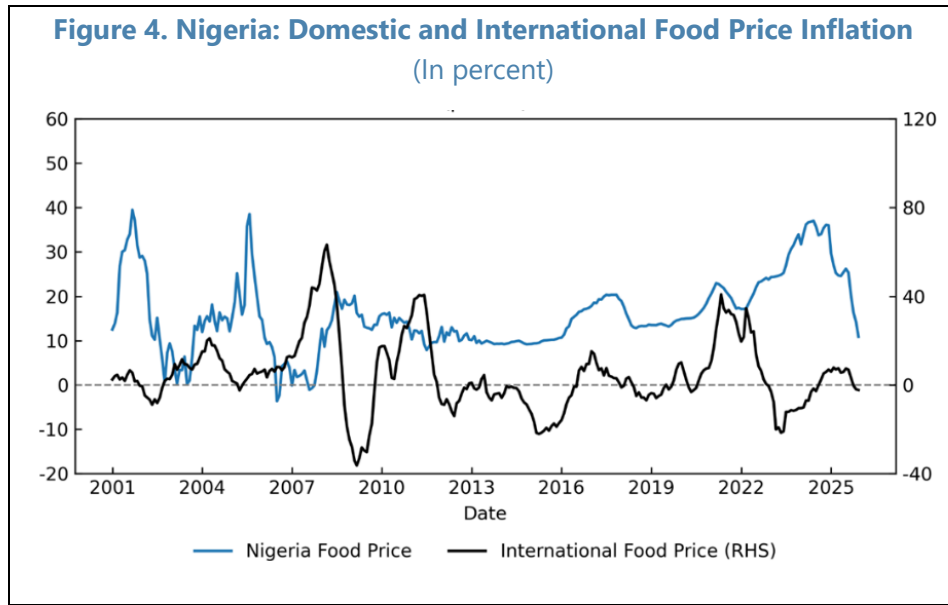
² See SIP Nigeria's Shift to a Floating Regime: Exchange rate Pass-Through and Policy Effectiveness for further analysis (2026)

changes in consumption patterns, for example the weight of food inflation was 63.7 percent up to 2010, and 50.7 percent until the rebasing of 2025 which further reduced it to 28.0 percent. Due to a lower weight and the lower inflation rate for food, the contribution of food stood at 24.5 percent of the 23.3 percent headline inflation in 2025, about half the historical average contribution to headline inflation.

7. Domestic food prices often diverge from international food price developments (Figure 4). Nigeria relies on imported food, which accounts for about 30 percent of consumed food. Spikes in international prices do not consistently coincide with upswings in Nigeria’s domestic food inflation and move in the opposite direction in many episodes. Domestic food price inflation remains persistently high even after international food prices have moderated, reflecting other factors, including frequent climate related events. For example, the severe drought of 2022/23 and widespread flooding in 2024 impacted agriculture, pushing up the price of food. In addition, food prices are also impacted by changes in fuel prices given that one quarter of retail food prices reflect on transport cost.



8. Although food is a key driver, other components have been important particularly following recent exchange rate depreciations. The large depreciation episodes (notably in 2016 and again around the 2023 reform period) raised the local-currency cost of imported inputs and tradables, feeding into transport, housing-related items (including energy and utilities), and other market-based services. The contribution decomposition (Figure 5) confirms that food has historically accounted for the bulk of headline inflation, but the recent inflation surge was also accompanied by a material increase in contributions from transport and housing. These patterns are consistent with higher energy and logistics costs and with broader pricing spillovers.

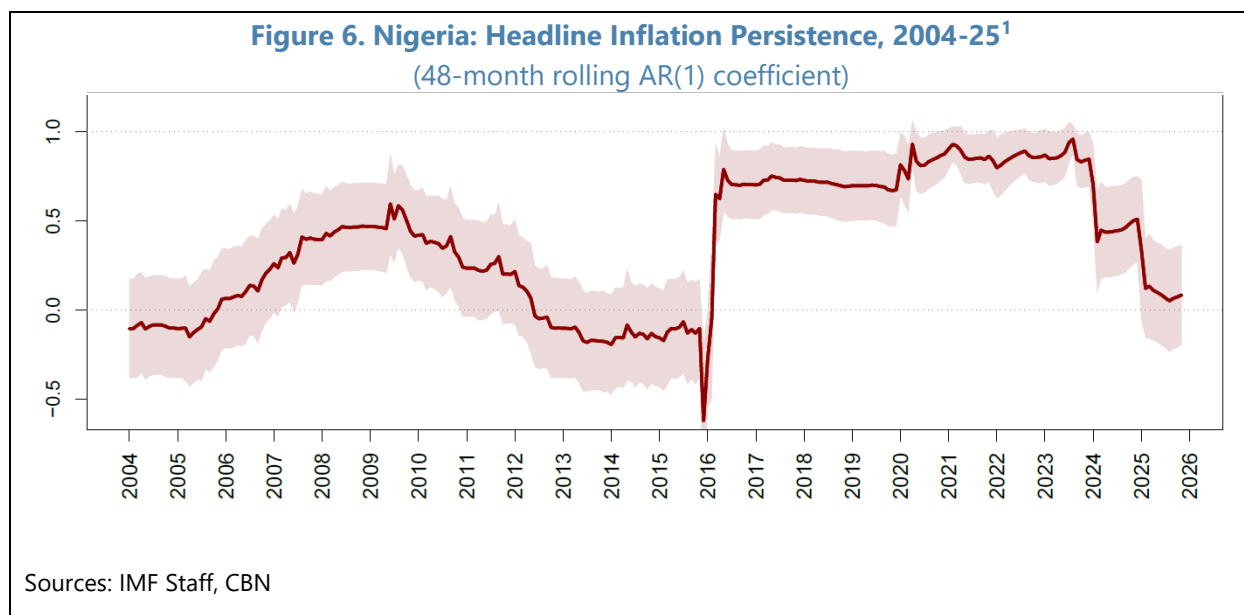


C. Persistence

9. Inflation persistence is an important gauge of price dynamics.³ Nigeria's pre-unification inflation persistence prior to the exchange rate reforms of 2023 — hovering near 1.0 following the June 2016 depreciation — reflected an entrenched, near-unit-root inflation process, in which shocks became increasingly permanent rather than transitory (see Figure 6). Cross-country evidence from comparable African monetary contexts provides useful benchmarks. In the WAEMU — a currency union with a hard peg to the euro — the persistence index averaged 0.2 historically, rising only temporarily to 0.55 at the height of the 2021–22 global commodity price shock before reverting (Melo Fernandes, 2023). In the CEMAC region, another African fixed-rate monetary union, the implied persistence coefficient from a hybrid Phillips curve estimated over 2001–2022 ranges between 0.87 and 0.92, with a baseline of 0.868 (Tiedemann et al., 2024), consistent with a higher-persistence environment despite the nominal anchor.

10. Since the exchange rate unification of June 2023, inflation persistence in Nigeria has edged downwards. Prior to the reform, the parallel market premium had severed the link between the official exchange rate and actual price formation, generating a self-reinforcing inflation dynamic. Following unification, persistence declined steadily, falling from about 1.0 to 0.1 by early 2026 (Figure 6). Several reinforcing factors contributed to this decline, with the primary driver being the exchange rate unification itself, complemented by global moderation in food and energy commodity prices from their 2022 peaks. In addition, the 2025 CPI rebasing contributed to a downward shift in the measured inflation intercept, which could mechanically reduce the estimated AR (1) persistence coefficient. However, it is important to note that the decline in persistence begins in mid-2023, well before the rebasing, suggesting that the rebasing reinforced but did not drive the structural change. Taken together, these developments suggest a nascent shift in the inflation process with shocks being less entrenched, and price dynamics becoming more responsive to market adjustments and monetary policy tightening. From a monetary policy perspective, this evolution is encouraging, as it indicates that inflation may become increasingly manageable under the floating regime, supporting the transition toward a more forward-looking, inflation-targeting framework.

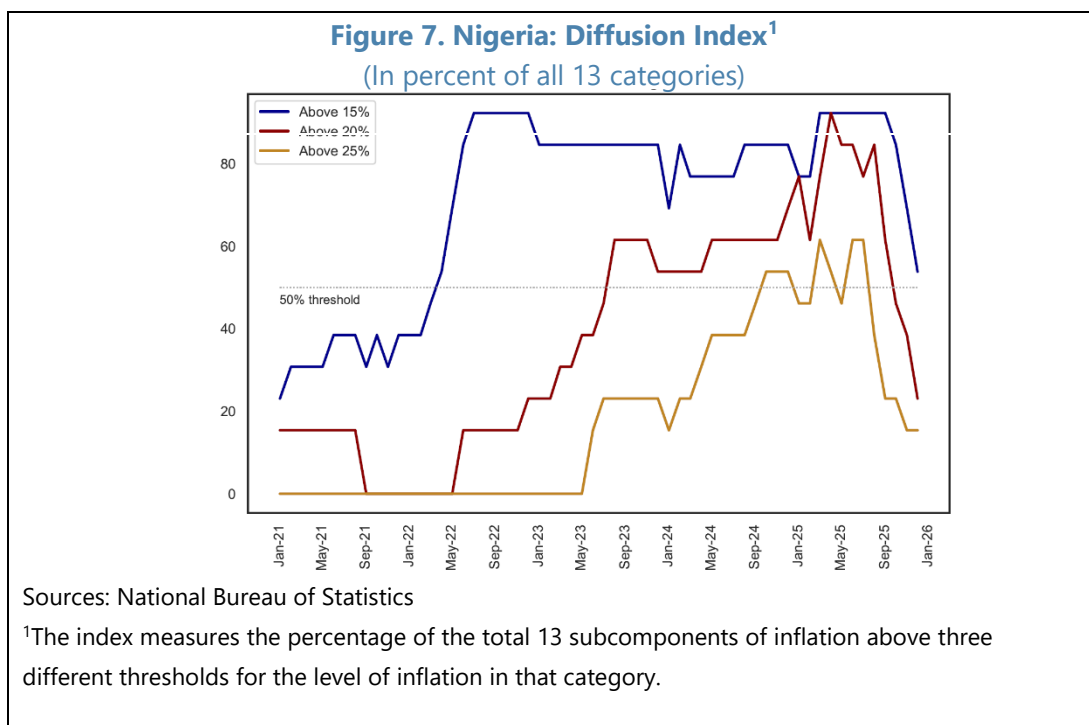
³ The persistence index is obtained by estimating an AR(1) process and averaging the estimated coefficient with a 48-months rolling window. The persistence index captures the degree to which past inflation shapes current and future price formation. A high index implies greater entrenchment of inflation shocks and a more challenging environment for the central bank to control inflation (Melo Fernandes, 2023).



D. Diffusion

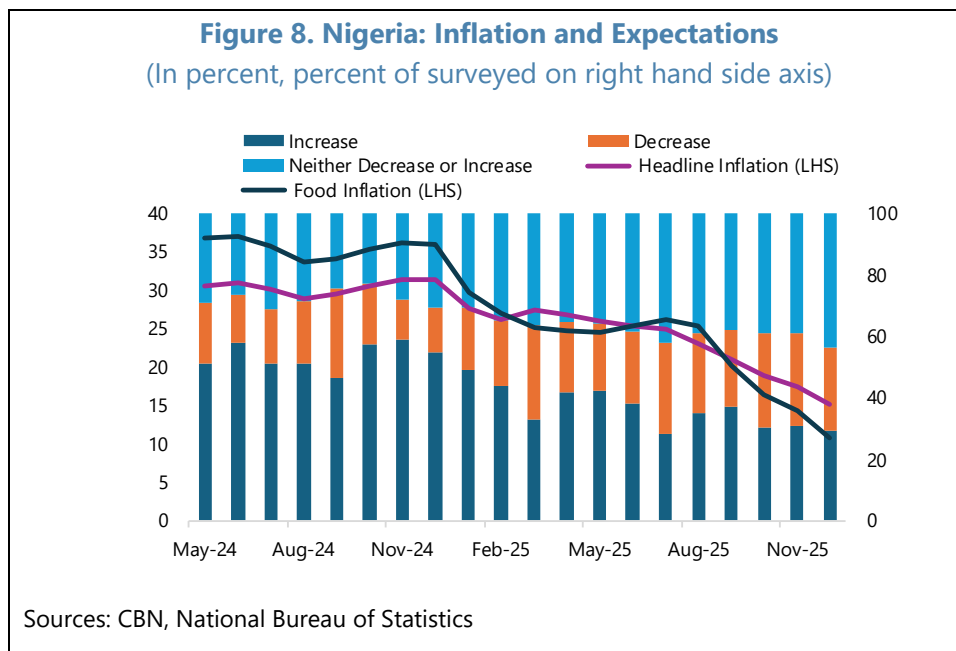
11. Recent developments suggest that the breadth and propagation of inflationary pressures have been declining since end-2024. Diffusion of price pressures typically adjusts gradually, reflecting the sequential nature of repricing across sectors.⁴ Since end-2025, diffusion measures have eased, with more than half of CPI components falling below the 20 and 25 percent inflation thresholds. Nevertheless, a substantial share of items—still more than half—remain above 15 percent inflation, indicating that price pressures, though moderating, remain broad-based. Together, the persistence profile and diffusion indicators suggest that securing durable disinflation will require sustained policy credibility and continued macroeconomic discipline.

⁴ The diffusion index—measured as the share of CPI items exceeding a specified inflation threshold—provides a practical gauge of the breadth and spread of inflationary pressures, reflecting how widely price increases are distributed across the components of headline inflation



E. Expectations

12. Inflation expectations survey recently restarted by CBN shows a downward trend from December 2024 (Figure 8). The share of survey participants expecting higher inflation declined to 28 percent at end 2025, from an average of 54 percent in the second half of 2024. While the share of survey participants expecting lower inflation has remained broadly stable the percentage of respondents who were not sure increased from 27 percent in the second half of 2024 to 42 percent in December 2025. This suggests that high inflation is no longer seen as the norm, reducing the risk that shocks become self-perpetuating. Which alludes to greater sensitivity to policy credibility and provides a path for policy to play a greater role in shaping expectations. While this is encouraging given that the CBN has not set an official inflation target to guide expectations, these developments should be interpreted with caution as they could also reflect backward-looking expectations.



F. Conclusion

13. As a result of reforms, inflation in Nigeria is becoming less persistent and more responsive to monetary policy action. This shift reflects the impact of exchange rate unification, improved market mechanisms, and a tighter monetary stance, all of which have contributed to a notable decline in inflation persistence and a narrowing of price pressures since mid-2023. Looking ahead, these positive trends provide an opportunity for monetary policy to play a greater role in anchoring expectations and promoting price stability. However, achieving durable disinflation will require sustained macroeconomic discipline, enhanced policy credibility, and strong coordination between fiscal and monetary authorities. Maintaining a credible and tight monetary policy stance, supported by clear communication, will be critical to safeguard disinflation gains and support Nigeria’s transition toward a forward-looking, inflation-targeting framework.