

## Achieving and Maintaining Price Stability in Nigeria

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### Abstract

This paper discusses ways to achieve and maintain price stability in Nigeria. To this end, the paper looks at the potential contribution of monetary policy rules, specifically the Taylor rule and variations of it, for the monetary policy process in Nigeria. A historical analysis of monetary policy in Nigeria within this framework reveals that this was exceptionally 'loose' in the 1980s and early 1990s—a direct consequence of the obligation of the Central Bank of Nigeria (CBN) to finance large budget deficits during those years. Since 1998, the CBN has enjoyed more operational autonomy, which was reflected in the fact that, at least until the end of 1999, the actual Minimum Rediscount Rate (MRR) in Nigeria has been 'about right' according to the rule policy prescriptions, even allowing for alternative calibrations. More recently, monetary conditions seem again 'too loose' according to the rule—a consequence of the renewed largesse in Nigeria's fiscal stance and of low administratively-set interest rate ceilings. Overall these findings accord with the conventional wisdom that fiscal discipline is a prerequisite for the successful achievement of price and monetary stability. The experience in Europe in the 1990s indicates that, in turn, fiscal discipline and price stability are a vital precondition to monetary integration—of the kind envisaged in West Africa for 2005. One conclusion is that, going forward, greater institutional CBN autonomy accompanied by greater fiscal prudence than those seen in the 1980s and 1990s may be necessary to achieve and maintain one-digit inflation rates in Nigeria and, thus, allow a successful transition to a West African Monetary Zone.

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