

# The Causal Relationship between Inflation and Economic Growth in Nigeria

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## Abstract

In this paper, analysed that Nigeria is the poor country and facing the problem of inflation from last few years. The prime objective of this paper is to analysis the impact on all the developing and under developing countries. We have applied the regression analysis and taken the tile series data. Our results are showing that there negative relationship between Nigeria stock exchange and rate of inflation from last few years. We are also trying to expose that importance of stock exchange in all over the country and due to high inflation rate there is very worst impact on the progress of the economy. Our study suggested that government should make inflation control policies for the better performance.

**Keywords:** Nigeria; Regression analysis; Time series data; Stock exchange

## Introduction

Nigeria is known as the lower middle income country with the inhabitants about 5.6 million. The phenomenon in inflation in enhancing is due to three factors. 1) Lack of policies of monetary policies. 2) Lack of policies fiscal policies. 3) Weak structure for the Nigeria economy. The objective of this paper is to analysis the impact of inflation on the economy of Nigeria. Nigeria is facing the problem of inflation from last few years and it has become international issues from last few years. We have taken some companies, which are listed in the stock market.

Stock exchange has the crucial role the development of the economy. Stock exchange is the way through which progress of the economy can be increased. According to William stock exchange is bridge between development and underdevelopment. It acts as the backbone of the economy. Stock exchange is the best way to enhance the capital and skills of the any country. Inflation is considered as the barrier for the economic development. Commonly, the inflation is the reason of increase and decrease the unemployment level l, wages level, and level of productivity. Inflation has very worst impact on the facial and monetary policy. It is widely believed that inflation has worst impact on the stock market development. Stock exchange is the way to start new financing progress. According to survey, 2008-09 the rate inflation in Nigeria was 14.3%. According to ESP 2012-13 it is seen that inflation rate was 10.9%. Most of the studies have proved that increase in money supply might be increase the level of inflation. Investment is also way to increase and decrease the inflation level (Figure 1).

## Objectives of the study

- 1) Inflation process in Nigeria.
- 2) Relationship between inflation and stock prices.

## Problem statement

Impact of inflation on the stock exchange of Nigera (Table 1).

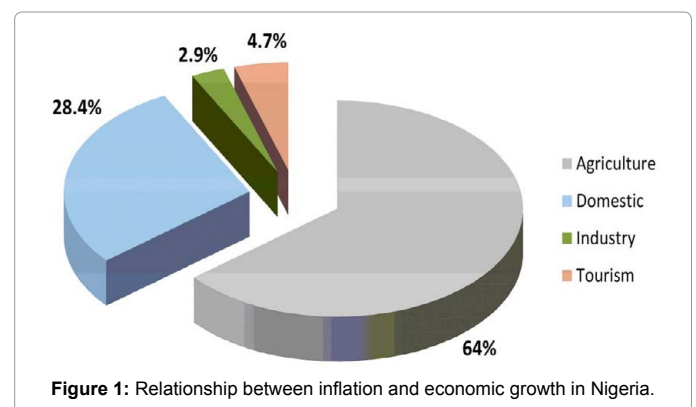
## Literature Review

Analyzed the impact of inflation rate on the stock exchange of USA. For this purpose they had taken the data from 1998-2008 and applied the ADF unit root test. Their results are showing that there is negative association between inflation and stock market. They suggested that government should focus on the polices of about inflation [1].

Examined the impact of inflation rate on the stock exchange of UK. For this purpose they had taken the data from 1991-2001 and applied the multi regression model. Their results are showing that there is significant negative association between inflation and stock market. They suggested that government should focus on the polices of about inflation [2].

Observed the impact of inflation rate on the stock exchange of India. For this purpose they had taken the data from 1994-2005 and applied the OLS model. Their results are showing that there is negative association between inflation and stock market. They suggested that government should focus on the polices of about inflation [3].

Viewed the impact of inflation rate on the stock exchange of china. For this purpose they had taken the data from 1998-2008 and applied the ECM model. Their results are showing that there is negative association between inflation and stock market. They suggested that government should focus on the polices of about inflation [4].



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2016	8	17.86	13.5	16.63	13.24	17.7
2016	9	17.62	12.75	16.44	12.70	17.21
2016	8	17.14	12.05	15.81	12.16	16.93
2016	7	16.49	11.38	15.31	11.67	16.22
2016	6	15.59	10.76	14.87	11.22	15.05
2016	5	13.73	10.19	13.18	10.79	13.35
2016	4	12.78	9.76	12.75	10.47	12.17
2016	3	11.39	9.38	11.36	10.18	11.04
2016	2	9.63	9.14	10.65	10.02	8.84
2015	11	9.56	9.02	10.58	9.9	8.73
2015	12	9.38	8.89	10.33	9.78	8.73
2015	11	9.4	8.77	10.14	9.68	8.74
2015	8	9.5	8.8	10.3	9.6	8.9
2015	9	9.4	8.7	10.2	9.6	9
2015	8	9.3	8.6	11	9.6	8.8
2015	7	9.3	8.5	11	9.5	8.4
2015	6	8	8.4	9.9	9.5	8.3
2015	5	8.8	8.3	9.6	9.5	7.7
2015	4	8.6	8.3	9.5	9.5	7.5
2015	3	8.5	8.2	9.5	9.5	7
2015	2	8.3	8.2	9.3	9.5	6.8
2014	13	9	9	9.3	9.5	6.2
2014	12	7.8	9	9.2	9.5	6.3
2014	11	8.2	9	9.4	9.5	6.3
2014	6	8.4	9	9.8	9.5	6.3
2014	9	8.6	9	11	9.5	6.3
2014	8	8.4	9	9.8	9.5	7.1
2014	7	8.3	9	9.9	9.5	8.1
2014	6	9	9	9.8	9.4	7.7
2014	5	7.8	8.2	9.5	9.4	7.5
2014	4	7.9	8.3	9.4	9.5	6.8
2014	3	7.8	8.4	9.3	9.5	7.2
2014	2	9	8.5	9.4	9.6	6.6
2013	11	9	8.6	9.4	9.7	7.9
2013	12	7.8	8.9	9.4	9.8	7.8
2013	11	7.9	9.3	9.4	10	7.6
2013	8	9	9.6	9.5	10.1	7.4
2013	9	8.3	9.9	9.8	10.2	7.2
2013	8	8.8	11	11	10.2	6.6
2013	9	8.5	10.5	9.7	10.4	5.5
2013	6	8	10.9	9.4	10.5	6.2
2013	5	9.2	11.2	11	10.8	6.9
2013	4	8.7	11.5	9.6	11	7.2
2013	3	9.6	11.8	12	11.2	11.2
2013	2	8	11.8	10.2	11.1	11.3
2012	13	13	12.3	10.4	11.3	13.7
2012	12	12.5	12.2	11.7	11.4	13.1
2012	11	11.8	11.8	11.2	11.2	12.4

Table 1: Rate of inflation in Nigeria from last few years.

Analyzed the impact of inflation rate on the stock exchange of France. For this purpose they had taken the data from 1995-2005 and applied the VAR model. Their results are showing that there is negative association between inflation and stock market. They suggested that government should focus on the polices of about inflation [5].

Examined the impact of inflation rate on the stock exchange of Japan. For this purpose they had taken the data from 1995-2005 and applied the VAR model. Their results are showing that there is negative association between inflation and stock market. They suggested that government should focus on the polices of about inflation [6].

Analyzed the impact of inflation rate on the stock exchange of srilanka. For this purpose they had taken the data from 1990-2010 and applied the ECM. Their results are showing that there is negative association between inflation and stock market. They suggested that government should focus on the polices of about inflation [7].

Examined the impact of inflation rate on the stock exchange of Singapore. For this purpose they had taken the data from 1999-2009 and applied the V ECM. Their results are showing that there is negative association between inflation and stock market. They suggested that government should focus on the polices of about inflation [8].

Years	ARBK	CABK	JOIN	JOEP	NPSC	ZAR	JOPH	ACDT	ELZA	DADI	CPI
1999	0.28	-0.2	-0.045	0.125	-0.257	-0.17	0.192	-0.25	0.033	-0.52	0.024
2000	0.096	-0.089	-0.13	-0.046	-0.367	-0.13	0.039	-0.312	-0.16	-0.366	0.066
2001	0.306	-0.292	0.015	0.18	-0.16	-0.08	0.118	0.012	-0.22	0.148	0.04
2002	-0.336	-0.218	0.035	-0.234	-0.3	-0.15	-0.593	-0.177	-0.13	-0.12	0.032
2003	-0.09	0.067	0.158	0.149	0.126	0.466	0.736	0.122	-0.077	-0.48	0.006
2004	-0.3	-0.162	0.06	-0.088	0.023	-0.06	-0.57	0.08	-0.234	-0.189	-0.03
2005	0.296	-0.123	-0.302	0.247	0.087	0.115	0.289	0.09	-0.044	0.713	0.018
2006	-0.085	-0.273	0.089	-0.063	-0.24	0.97	-0.288	0.236	-0.012	0.457	0.019
2007	0.654	1.376	0.563	0.548	2.102	0.52	0.688	0.093	0.624	-0.019	0.017
2008	-0.228	0.823	0.88	0.34	0.76	-0.18	0.267	0.08	-0.285	0.158	0.034

**Table 2:** Change in CPI and stock prices for the selected companies in the Nigeria stock exchange for the period from (1998-2007).

Observed the impact of inflation rate on the stock exchange of Canada. For this purpose they had taken the data from 1990-2010 and applied the OLS. Their results are showing that there is negative association between inflation and stock market. They suggested that government should focus on the polices of about inflation [9].

Viewed the impact of inflation rate on the stock exchange of Taiwan stock exchange. For this purpose they had taken the data from 1996-2010 and applied the VAR model. Their results are showing that there is negative association between inflation and stock market. They suggested that government should focus on the polices of about inflation [9].

### Gaps in literature

- 1) In the prior studies, nobody had discussed about the impact of inflation on the future development
- 2) In the last studies, nobody had analyzed the inflation impact on the investors
- 3) Last few decades nobody has discussed about inflation on the purchasing power.

### Theoretical Frame Work

Theoretical frame work is shown in Figure 2.

### Methodology

We have used the time series data to collect the impact of inflation on the stock prices of Nigera. For this purpose, we have collected the data from 1999 to 2008 and used the regression analysis to analysis that there is positive impact or negative impact on the stock prices of Nigeria. The changes in the prices can be measured.

$$PC = (P_2 - P_1) / P_1$$

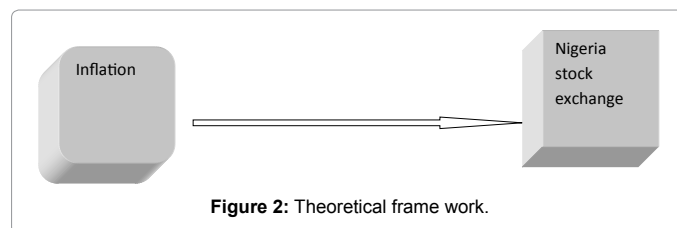
Where  $P_1$  and  $P_2$  represents the stock price or CPI index in time one and two respectively (Table 2).

### Conclusion

Stocks are known as the claim to real assets, in the case of increase the prices of things will affect on the economy of all the emerging and developed countries. Our study is showing that inflation has impact all the companies in the varies sharp. Stocks are negatively related with the inflation. In some conditions, the impact of inflation on the stock prices may be positive may be night.

### Recommendation

- 1) Government should focus regarding polices to how to control the inflation rate.



**Figure 2:** Theoretical frame work.

- 2) State bank should focus on the policies regarding currency.
- 3) Decrease the prices of subsidies inflation rate can be controlled.

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