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## NIGERIA'S MONETARY AND QUASI-FISCAL OPERATIONS AND IT'S IMPACT ON THE ECONOMY

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This paper investigates Nigeria's monetary and quasi-fiscal operations and its impact on the economy. Through a comprehensive analysis of survey data and relevant literature, the study examines the effectiveness of CBN's policies in stimulating GDP growth, managing inflation, and maintaining exchange rate stability. The research employs quantitative methods, including survey questionnaires conducted among stakeholders and econometric analysis of macroeconomic indicators. Findings indicate that CBN's monetary interventions, particularly direct credit interventions, significantly contribute to GDP growth by stimulating economic activities, especially in critical sectors such as agriculture and manufacturing. However, challenges persist in effectively managing inflationary pressures exacerbated by quasi-fiscal measures that increase money supply and aggregate demand. Mixed perceptions regarding CBN's effectiveness in maintaining exchange rate stability highlight the complexities of external economic factors impacting currency fluctuations. Sector-specific analyses reveal varied impacts across industries, emphasizing the need for tailored policies to address sector-specific challenges. Recommendations include enhancing transparency and accountability in CBN's operations, strengthening direct credit interventions, and adopting targeted inflation control measures.

**Keywords:** *Nigeria, monetary policy, quasi-fiscal operations, GDP growth, inflation management, exchange rate stability, economic development.*

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## Introduction

The Nigerian economy is resilient despite challenges such as volatile oil prices, structural bottlenecks, and demographic pressures. Monetary and quasi-fiscal policy are crucial for steering the economy towards desired objectives (Popoola et al., 2023). The Central Bank of Nigeria (CBN) employs various quasi-fiscal operations, such as targeted credit programs, development finance initiatives, and foreign exchange interventions, to stimulate economic growth by providing credit to key sectors like agriculture, manufacturing, and SMEs (Adeyemo & Adewale 2024). However, these operations come with challenges and risks, such as potential distortion of market mechanisms, increased fiscal burden on the central bank, and potential inflationary pressures (Adeyemo & Adewale 2024).

The sustainability of its quasi-fiscal interventions, the CBN must carefully navigate these challenges and strike a balance between supporting economic growth and managing inflationary risks (Adegboyo, Keji & Fasina 2021). The effectiveness of these operations depends on factors such as foreign reserves, external imbalances, and market sentiment (Titiloye & Ishola 2020). However, Afonso, Alves & Balhote (2019) argued that overreliance on these interventions may deplete foreign reserves and create vulnerabilities in the external sector. According to Ogbonna et al., (2022) the effectiveness of monetary and quasi-fiscal operations in Nigeria's economic can be limited by several challenges. According to Lawrence (2023) one of the key issues is the limited depth and liquidity of financial markets, which constrains the transmission mechanism of monetary policy. Danylyshyn et al. (2021) argued that the prevalence of informal and unregulated financial activities poses a challenge to the implementation of monetary policy. Additionally, Adeleke, (2022) highlights that there is a lack of comprehensive evaluation and assessment of the effectiveness of quasi-fiscal measures in achieving their intended objectives.

Furthermore, there are issues related to moral hazard and credit misallocation arising from quasi fiscal interventions (Toby, Emmanuel & Akani 2024; Ojo 2019). A lack of transparency and accountability in the implementation of quasi fiscal measures may undermine public trust in the CBN's interventions and hinder the effectiveness of these measures in achieving their developmental goals (Adeyemo & Adewale 2024).

On the other hand, Nigeria has grappled with persistent inflationary pressures, influenced by both domestic and external factors. The effectiveness of CBN's Monetary and quasi-fiscal operations in managing inflation remains a subject of debate (Uddin, Monehin & Osuji 2020). Moreover, Nigeria's exchange rate regime has been characterized by volatility, posing challenges for businesses and investors. Understanding how monetary and quasi-fiscal operations influence exchange rate dynamics is crucial for maintaining

external sector stability (Okotori & Gbalam 2020). Also, access to credit is vital for fostering entrepreneurship and economic diversification. Evaluating the impact of CBN's operations on credit allocation across different sectors of the economy is essential for promoting inclusive growth (Uzodinma & Russell 2020).

In light of these challenges, there is a pressing need for comprehensive research and analysis to assess the impact, effectiveness, and sustainability of monetary and quasi fiscal operations by the CBN (Adeyemo & Adewale 2024). Addressing these issues will be critical in enhancing the efficiency, transparency, and accountability of monetary policy interventions and ensuring their alignment with broader economic development objectives in Nigeria. The specific objectives are: to examine the impact central Bank of Nigeria's quasi-monetary policies (such as intervention funds or sector-specific lending) on economic growth; to assess the effect of CBN's monetary and quasi-fiscal interventions in stabilizing inflation and maintaining price levels and lastly to determine the impact of CBN's monetary and quasi-fiscal on exchange rate stability (naira strength and business operations). The research questions and the null hypotheses are drafted accordingly.

## Literature Review

### Conceptual Review

#### Monetary and Quasi-fiscal Operations

Monetary and quasi-fiscal operations are monetary policy tools used by central banks to indirectly influence economic conditions and credit availability (Muhafidin 2020). These operations include open market operations, reserve requirements, and regulatory measures to manage money supply and interest rates. In Nigeria, these operations are guided by the Central Bank of Nigeria's monetary policy framework, which aims to achieve price stability, promote sustainable economic growth, and maintain external sector stability (Okodugha 2021). They play a crucial role in managing inflationary pressures, stabilizing interest rates, and supporting exchange rate stability. The effectiveness of these operations depends on factors such as financial system transmission mechanisms, economic agents' responsiveness to policy signals, and external shocks (Adeyemo & Adewale 2024).

Quasi-fiscal operations are actions undertaken by central banks that have fiscal implications, blurring the lines between monetary and fiscal policy (Nuru 2020). These activities often involve interventions beyond traditional monetary policy tools and may include credit programs, direct lending, and foreign exchange market interventions (Okotori & Gbalam 2020). They are a form of off-budget fiscal policy conducted by central banks, which can be replicated by budgetary measures in the form of an explicit tax, subsidy, or direct expenditure that may impact the financial operations of the central

bank, public financial institutions, or government (Olakojo, Onanuga & Onanuga 2021). Quasi-fiscal operations cover a range of activities, including credit ceilings, subsidized lending, preferential rediscounting practices, loan guarantees, rescue operations, and operations related to the commercial enterprise sector (Fiedler, Gern & Stolzenburg 2020). Central banks often try to protect, support, and subsidize domestic industries through subsidization, such as multiple exchange rate regimes, direct lending at below-market rates, and provision of goods and services by public enterprises at prices set below market or cost recovery levels.

Central bank interventions may take different forms based on the capability of the central bank to influence the interest rate on credit provided to the government (Mobosi & Okonta 2024). This can affect central bank profits and undermine central bank independence. In Nigeria, the Central Bank of Nigeria (CBN) frequently engages in quasi-fiscal activities to address various economic challenges and promote specific developmental objectives (Martin, Ondra & Dominik 2022).

One of the most common forms of quasi-fiscal operations by the CBN in Nigeria is the implementation of direct lending programs, which involve providing credit directly to targeted sectors or priority areas of the economy. Other examples include foreign exchange market interventions, interest rate interventions, credit guarantee schemes, and infrastructure financing initiatives (Olawoye & Erediauwa 2023). Quasi-fiscal operations are a form of off-budget fiscal policy conducted by central banks, often involving interventions beyond traditional monetary policy tools (Joel, O. C. (2021).). Quasi-fiscal operations by the Central Bank of Nigeria (CBN) in Nigeria are crucial for addressing structural constraints, promoting inclusive growth, and achieving macroeconomic stability (Akpogheli 2022). Targeted credit programs, such as the Agricultural Credit Guarantee Scheme Fund (ACGSF), are implemented to provide access to credit for specific sectors or groups within the economy (Bello 2024).

These programs aim to enhance food security, increase agricultural productivity, reduce rural poverty, and support small and medium enterprises (SMEs) (Mobosi & Okonta 2024). Export credit programmes, such as the Nigerian Export-Import Bank (NEXIM), support export-oriented businesses through specialized financing schemes. Housing finance initiatives, like the Federal Mortgage Bank of Nigeria (FMBN) housing finance scheme, address the housing deficit and promote homeownership. Youth empowerment and entrepreneurship programmes, like the Youth Entrepreneurship Support (YES) programme, provide financial support, training, and mentorship to young entrepreneurs (Okodugha 2021).

Monetary accommodation refers to central banks' actions to increase the money supply or provide monetary stimulus to support economic objectives. In Nigeria, the CBN implements monetary accommodation measures to manage liquidity, influence interest rates, and support the overall economic objectives of the government (Effiong, Arinze & Okon 2022). These measures include adjusting the Monetary Policy Rate (MPR), conducting open market operations (OMO), adjusting reserve requirements for banks, implementing special financing programs during periods of economic distress or financial instability, and managing exchange rate management. Overall, monetary accommodation in Nigeria involves a range of policy measures aimed at managing liquidity, influencing interest rates, and supporting economic stability (Gbadamosi 2022).

### **Inflationary Pressures**

Inflationary pressures are factors that cause sustained increases in the general price level of goods and services within an economy (Tule, Onipede & Ebu 2020). In Nigeria, these pressures are influenced by both domestic and external factors (Osagioduwa, Solomon & Fumilayo 2022). Demand-pull inflation occurs when aggregate demand exceeds aggregate supply, leading to upward pressure on prices. Cost-push inflation arises from increased production costs, such as wages, raw materials, and energy prices, which are passed on to consumers (Onwuka 2021). Exchange rate pass-through affects the prices of imported goods and inputs, making Nigeria vulnerable to these effects (Popoola et al., 2023). Structural bottlenecks, such as infrastructure deficits and supply chain inefficiencies, impede productivity and limit output expansion (Wayas, Onmonya & Ebire 2024). Fiscal imbalances, such as persistent budget deficits and excessive government spending, can fuel inflationary pressures. External shocks, such as commodity price fluctuations and global economic downturns, can exacerbate inflationary pressures in Nigeria (Ozili 2024).

### **The Adverse effects of Quasi-Fiscal Operations: Quasi-Fiscal Losses**

Quasi-fiscal operations (QFOs), while intended to address specific economic challenges, often carry adverse implications for macroeconomic stability, particularly when transparency and accountability mechanisms are weak. Recent studies have emphasized that the lack of comprehensive disclosure in fiscal and monetary accounts undermines the credibility of central banks and distorts economic data (Uddin, Monehin & Osuji 2020). When central banks undertake QFOs without proper alignment with the national budget, it leads to off-balance-sheet liabilities and complicates efforts to track the true fiscal stance of the government. These operations can erode the effectiveness of

monetary policy, especially those targeting price and exchange rate stability.

Quantifying the economic cost of QFOs remains a challenge in developing economies, particularly in inflation-prone environments such as Nigeria. In such contexts, interest rate subsidies and below-market lending rates tend to distort real interest rates, often resulting in negative returns and undermining investor confidence (Adeyemo & Adewale 2024). Furthermore, the continued reliance on historical cost accounting by the Central Bank of Nigeria hampers the ability to assess the real financial position, as it fails to adjust for inflationary pressures and fair value standards. Poorly managed QFOs contribute to negative cash flows, mispricing of financial assets, and ultimately, the weakening of the central bank's balance sheet. As noted by Benedicta, (2017), the accumulation of quasi-fiscal losses often necessitates increased money supply through debt monetization, thereby exacerbating inflationary pressures and compromising monetary control. Over time, such practices not only deteriorate fiscal credibility but also create a feedback loop of inflation, debt servicing burdens, and diminished monetary policy independence.

### **Theoretical Review**

#### **Neoclassical Growth Theory**

The Neoclassical Growth Theory posits that sustained economic growth is primarily driven by capital accumulation, technological progress, and efficient resource allocation. This theory emphasizes that increased investment in physical capital such as infrastructure, machinery, and technology enhances productivity and raises output levels. In the Nigerian context, the Central Bank of Nigeria's quasi-fiscal interventions can influence growth by expanding credit availability, thereby stimulating investment and capital formation. Recent studies, such as Benmelech, & Tzur-Ilán (2020), have found that targeted monetary policies and development financing significantly improve output in key sectors like agriculture and manufacturing. These findings reinforce the theoretical claim that growth can be catalyzed through increased access to productive inputs and investment.

Furthermore, the theory underscores the importance of technological advancement and market efficiency as key drivers of long-term development. In this regard, policies that promote innovation, competition, and financial intermediation play a pivotal role. For instance, empirical evidence from Chugunov et al. (2021) and Gbadamosi (2022) and George-Anokwuru (2022) indicates that technological investment and credit accessibility significantly influence productivity and business expansion in Nigeria's SME sector. Within this framework, monetary and quasi-fiscal tools such as interest rate adjustments and sector-specific lending schemes contribute to a

more efficient allocation of resources and improved macroeconomic stability. Thus, Neoclassical Growth Theory provides a robust framework for understanding the impact of monetary and quasi-fiscal policies on Nigeria's economic trajectory, particularly in the post-pandemic era.

### **Empirical Review**

Adeyemo and Adewale (2024) conducted an empirical investigation into the role of the Central Bank of Nigeria (CBN) in achieving economic stabilization in Nigeria. The study focused on how key monetary policy variables reserve requirements, exchange rates, and interest rates affect economic stability. Utilizing an ex post facto research design and secondary data sourced from the CBN Statistical Bulletin and Economic Development Integration reports covering the period 2000 to 2022, the study employed quantitative analysis to determine the effects of these policy tools. The findings revealed that while reserve requirements and exchange rates had a positive impact on economic stability, interest rates exerted a significant negative effect. The authors concluded that CBN's policy management plays a crucial role in promoting macroeconomic stability. They recommended continuous refinement of monetary policy instruments, particularly through regular assessments of interest rates, reserve requirements, and open market operations to enhance the effectiveness of CBN's stabilization efforts.

Popoola, Adewole, Olorunmade, and Adewale (2023) empirically investigated the effect of monetary policy instruments on rural financing by commercial banks in Nigeria. Using data sourced from the Central Bank of Nigeria Statistical Bulletin and applying regression analysis, the study examined how instruments such as lending rate and minimum reserve requirements influenced the availability of credit to rural customers. Although the correlation coefficients were found to be positive, the analysis revealed no statistically significant relationship between monetary policy instruments and rural loans issued by commercial banks. The authors concluded that while monetary policy tools do have some influence, they were not strong enough to significantly affect rural credit access during the period under review. The study recommended measures such as reducing lending rates, increasing the minimum reserve requirements, and enhancing bank liquidity to promote better rural financing.

Adegboyo, Keji & Fasina, (2021). The impact of government policies on Nigeria economic growth, employing autoregressive distributed lag (ARDL) models. Their results confirm that exchange rate volatility significantly drives inflation, particularly through its impact on import prices and the cost of intermediate goods. These findings underscore the need for more synchronized exchange rate and monetary policies to manage inflationary pressures effectively.



Effiong, U., & Okon, J. (2020). The Effectiveness of Monetary and Fiscal Policies in Stimulating Real Sector Output in Nigeria. Employing panel data regression, they found that targeted credit interventions significantly increased crop yield and farm income among beneficiaries, suggesting that quasi-fiscal operations can stimulate sectoral output when efficiently implemented. Lawal, I. M., Manga, I. U., & Imam, U. B. (2022). Central Bank of Nigeria (CBN) non-interest intervention funds: Opportunities and challenges. Using a structural vector autoregression (SVAR) model. Their findings showed that while such interventions occasionally stabilize external accounts, they often result in long-term macroeconomic risks such as rising debt, inflation volatility, and weakened central bank independence.

### Methodology

This study adopts a quantitative, cross-sectional survey design to examine the impact of the Central Bank of Nigeria's (CBN) monetary and quasi-fiscal operations on key macroeconomic indicators: GDP growth, inflation, and exchange rate stability. A purposive sampling technique was employed to select 200 respondents from stakeholder groups directly affected by CBN policies, including policymakers, financial institutions, SME owners, and economic experts. Data were collected using structured questionnaires and analyzed using SPSS version 20.0, with significance set at 0.05. Descriptive statistics were used for demographic analysis, while Pearson and Spearman correlation techniques were applied to test hypotheses and measure relationships between variables. Instrument reliability was confirmed with a Cronbach's alpha of 0.78, and ethical standards such as informed consent and confidentiality were strictly observed. The model specification follows a simple functional form:  $Y = \beta_0 + f(X) + e$ ..... (1). Y where represents macroeconomic indicators, X denotes CBN's policy operations, and e is the error term. This relationship was operationalized using correlation coefficients to determine the strength and significance of associations between variables (Titiloye & Ishola 2020; Pallant, 2020).

### Results

Table 1 depicts the correlation coefficients between monetary/quasi-fiscal policies and GDP growth are very high (Pearson's  $R = 0.885$ ; Spearman = 0.978), with p-values of 0.000, indicating a statistically significant positive relationship. This leads to the rejection of the null hypothesis, confirming that these policies significantly influence GDP growth.

Table 2 reveals a strong positive correlation between monetary policies and inflation dynamics (Pearson's  $R = 0.851$ ; Spearman = 0.988), also with p-values of 0.000. This implies that monetary and quasi-fiscal

policies have a significant effect on inflation in Nigeria, thus rejecting the null hypothesis that says monetary and quasi-fiscal policies have no significant effects on inflation dynamics within the Nigerian economy.

Table 3 shows a moderate to strong correlation between these policies and exchange rate stability (Pearson's  $R = 0.560$ ; Spearman = 0.922), again with highly significant p-values (0.000). The null hypothesis that says monetary and quasi-fiscal policies play no significant role in ensuring exchange rate stability in Nigeria is rejected.

### Discussion of Findings

The findings from this study provide significant empirical evidence on the relationship between monetary and quasi-fiscal policy operations by the Central Bank of Nigeria (CBN) and key macroeconomic indicators. Each hypothesis was tested using Pearson and Spearman correlation analyses, revealing statistically significant relationships.

Firstly, the study investigated whether monetary and quasi-fiscal policy operations have a significant impact on GDP growth in Nigeria. The result showed a strong positive correlation (Pearson's  $R = 0.885$ ; Spearman = 0.978) with a p-value of 0.000, indicating a statistically significant relationship. This finding suggests that the interventions by the CBN in monetary and quasi-fiscal operations substantially contribute to national output and economic growth. This result aligns with the findings of Onalo et al. (2021) who reported that proactive monetary policies, especially credit expansion and liquidity injections by the central bank, positively influence economic growth in Nigeria. Similarly, Uzonwanne and Okechukwu (2022) affirmed that quasi-fiscal interventions such as targeted sectoral lending and intervention funds had a notable multiplier effect on GDP, especially during post-COVID recovery efforts.

Secondly, the study assessed the impact of monetary and quasi-fiscal policies on inflation dynamics within the Nigerian economy. The correlation values (Pearson's  $R = 0.851$ ; Spearman = 0.988) were both high and statistically significant at a 0.000 significance level. These findings suggest that such policies are critical in shaping inflation trends in Nigeria. This supports the work of Ibe and Okonkwo (2023), who found that effective monetary policy tools such as open market operations and cash reserve ratio adjustments had significant roles in curbing inflationary pressures. Furthermore, Adelakun and Salisu (2022) observed that the CBN's quasi-fiscal instruments, like intervention in the agricultural and energy sectors, helped stabilize food and energy prices, thereby reducing headline inflation.

Thirdly, the study examined whether monetary and quasi-fiscal policies play a significant role in exchange rate stability in Nigeria. The correlation

Table 1

**A Correlation Table**

	Value	Asymp. StdError <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Interval by Pearson's R	.885	.054	8.421	.000 <sup>c</sup>
Interval Ordinal by Spearman Correlation	.978	.072	11.572	.000 <sup>c</sup>
N of Valid Cases	200			

**Source:** Author's Compilation, (2025)

Table 2

**Spearman Correlation Table**

	Value	Asymp. StdError <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Interval by Pearson's R	.851	.072	6.028	.000 <sup>c</sup>
Interval Ordinal by Spearman Correlation	.988	.041	11.672	.000 <sup>c</sup>
N of Valid Cases	200			

**Source:** Author's Compilation (2025)

Table 3

**A Correlation Table**

	Value	Asymp. StdError <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Interval by Pearson's R	.560	.047	6.331	.000 <sup>c</sup>
Interval Ordinal by Spearman Correlation	.922	.038	9.092	.000 <sup>c</sup>
N of Valid Cases	200			

**Source:** Author's Compilation (2025)

analysis revealed a moderate to strong relationship (Pearson's R = 0.560; Spearman = 0.922), also with a highly significant p-value (0.000). This indicates that CBN's monetary and quasi-fiscal policies are crucial in managing exchange rate volatility. This result corroborates the study by Ogunleye and Hassan (2021), which established that exchange rate movements in Nigeria are largely influenced by monetary policy instruments such as interest rate management and foreign exchange market interventions. In addition, Mohammed and Yakubu (2023) found that quasi-fiscal measures, including export support programs and forex liquidity injections by the apex bank, significantly reduced speculative pressure on the naira and enhanced exchange rate stability.

## Conclusion and Recommendation

### Conclusion

The study reveals that the Central Bank of Nigeria's monetary and quasi-fiscal operations positively impact the Nigerian economy, particularly in sectors like agriculture and manufacturing. However, these operations face challenges in managing inflation and maintaining exchange rate stability. The study also highlights sectoral variations in the impacts of CBN's interventions, suggesting the need for improved transparency and accountability in CBN operations.

### Recommendation

Based on the analysis and interpretation of the data collected, the following recommendations are proposed to enhance the effectiveness of the Central Bank of Nigeria's (CBN) monetary and quasi-fiscal operations

in promoting sustainable economic growth, managing inflation, and maintaining exchange rate stability:

1. Given the significant positive impact of direct credit interventions on GDP growth, the CBN should continue and expand these programs, particularly targeting key sectors such as agriculture, manufacturing, and small and medium enterprises (SMEs) to boost economic activities and job creation.

2. To bolster investor confidence and foster a favorable investment climate, the CBN should enhance the transparency and accountability of its monetary and quasi-fiscal activities. Regular reporting and clear communication of policy objectives and outcomes can help in achieving this.

3. While monetary and quasi-fiscal measures have positive impacts, they are not sufficient to address structural issues. The CBN should collaborate with other government agencies to implement comprehensive structural reforms aimed at improving infrastructure, reducing institutional weaknesses, and enhancing the overall business environment.

4. To mitigate the inflationary pressures associated with quasi-fiscal activities, the CBN should implement targeted measures such as tightening monetary policy when necessary, improving supply chain efficiencies, and enhancing agricultural productivity to stabilize food prices.

5. To address the challenges in maintaining exchange rate stability, the CBN should adopt a more flexible exchange rate regime, coupled with policies that encourage foreign direct investment and diversify foreign exchange earnings, particularly through non-oil exports.

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## **ГРОШОВО-КРЕДИТНІ ТА КВАЗІФІСКАЛЬНІ ОПЕРАЦІЇ НІГЕРІЇ ТА ЇХ ВПЛИВ НА ЕКОНОМІКУ**

У даній статті досліджуються грошово-кредитні та квазіфінансові операції Нігерії та їх вплив на економіку. Через всебічний аналіз даних опитувань та відповідної літератури, у дослідженні оцінюються ефективність політики Центрального банку Нігерії (ЦБН) у стимулюванні зростання ВВП, управлінні інфляцією та підтриманні стабільності валютного курсу. Дослідження використовує кількісні методи, зокрема анкетування зацікавлених сторін та економетричний аналіз макроекономічних показників. Результати свідчать, що грошово-кредитні інтервенції ЦБН, особливо прямі кредитні втручання, суттєво сприяють зростанню ВВП шляхом активізації економічної діяльності, особливо в ключових секторах, таких як сільське господарство та виробництво. Проте існують труднощі в ефективному управлінні інфляційним тиском, який посилюється через квазіфінансові заходи, що збільшують грошову масу та сукупний попит. Різні оцінки ефективності ЦБН у підтриманні стабільності обмінного курсу підкреслюють складність зовнішніх економічних чинників, що впливають на коливання валюти. Аналіз по окремих секторах показує різний вплив у різних галузях, що підкреслює необхідність впровадження адаптованої політики для вирішення специфічних проблем кожного сектору. Серед рекомендацій: підвищення прозорості та підзвітності у діяльності ЦБН, посилення прямих кредитних інтервенцій та впровадження цільових заходів контролю інфляції.

**Ключові слова:** Нігерія, грошово-кредитна політика, квазіфінансові операції, зростання ВВП, управління інфляцією, стабільність обмінного курсу, економічний розвиток.

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