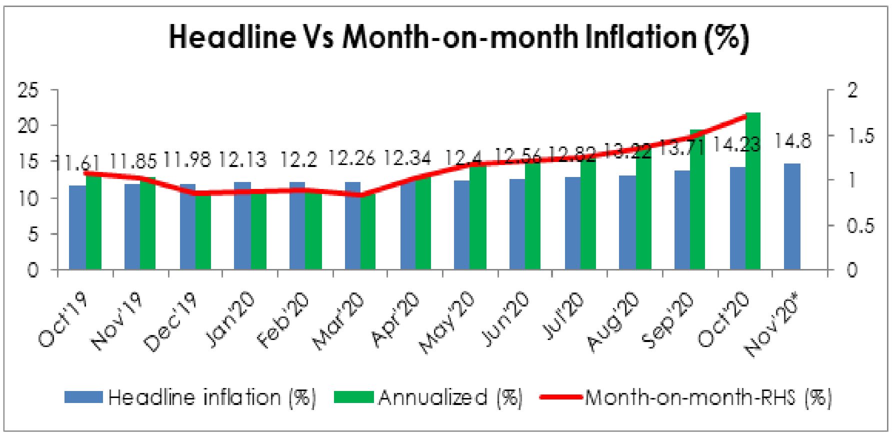
FDC Economic Bulletin

December 10, 2020

Nigeria's inflation—galloping towards 15%

Based on our market survey and regression analysis, headline inflation is estimated to increase by 0.57% to 14.8% in November. If this happens, it means that inflation will rise for the 15th consecutive month. Our analysis also points to an increase in all the inflation sub-indices. Food inflation is projected to rise to 17.5%, core to 11.3% and month-on-month to 1.5%.



[1]

The consumer price index (CPI) has steadily increased since September 2019, largely due to money supply saturation, supply-side challenges and cost push factors. The closure of the land borders, heightened insecurity in the food producing states and more importantly slow disbursement of forex and rationing limited commodities supply. This combined with money supply growth (3.53%), supply chain disruptions, higher logistics costs and electricity tariff hike exacerbated inflationary pressures. More so, November is the first month in which the impact of the increase in the price of PMS and a partial rise in electricity tariffs will feed into the inflation basket.

The Federal Government has announced a N5 per litre reduction in the pump price of Premium Motor Spirit (PMS) effective December 14. Although, this could slightly ease pressures on consumers' disposable income, it is highly unlikely that transporters will reduce their fares as a result of the price fall. It also raises fundamental concerns about the deregulation of the downstream petroleum industry especially at a time when global oil prices are rising.

Since the liberalization of the downstream oil & gas sector, petrol price has increased by over 30% to N170/ litre.

[1] NBS, FDC Think Tank

The CBN has intensified efforts towards achieving price and exchange rate stability through increased forex supply and introduction of special bills. An increase in forex supply will have a positive impact on output. The special bills, which qualify as liquid assets on banks' balance sheets, will serve as a ***'replacement for cash'*** for 90-days. This will help mop up market liquidity, push up interest rates and taper inflationary pressures.

SSA Regional Trend – Mixed movement in inflation

Inflation trend across Sub-Saharan Africa was mixed. Three of the countries under our review recorded lower inflation rates while the other three posted increases. The inflation trajectory was largely determined by food price movement, transport costs and exchange rate value. The monetary authorities left their monetary policy rate unchanged at their respective meetings. This is aimed at moderating risks to financial stability while supporting output growth. At the same time, it will allow the impact of the previous policy measures to be fully transmitted.

Country	November Inflation (%)		November Policy rate (%)	
Nigeria	14.8 (forecast)	↑	11.50	⟺
Angola	24.34 (Oct)	↑	15.50	⟺
Kenya	5.46	↑	7.00	⟺
South Africa	3.2	↓	3.50	⟺
Ghana	9.8	↓	14.50	⟺
Uganda	3.7	↓	7.00 (Oct)	⟺
Zambia	17.4	↑	8.00[2]	⟺

[2]

Concluding Thoughts

Inflation will continue its upward trend in December due to supply chain disruptions, exchange rate devaluation, forex restrictions and increased festive demand. The continued rise in inflation will be a major consideration at the MPC meeting in January 2021. The committee may be forced to change its current policy stance and adopt a tighter monetary policy.

[2] Trading Economics, FDC Think Tank