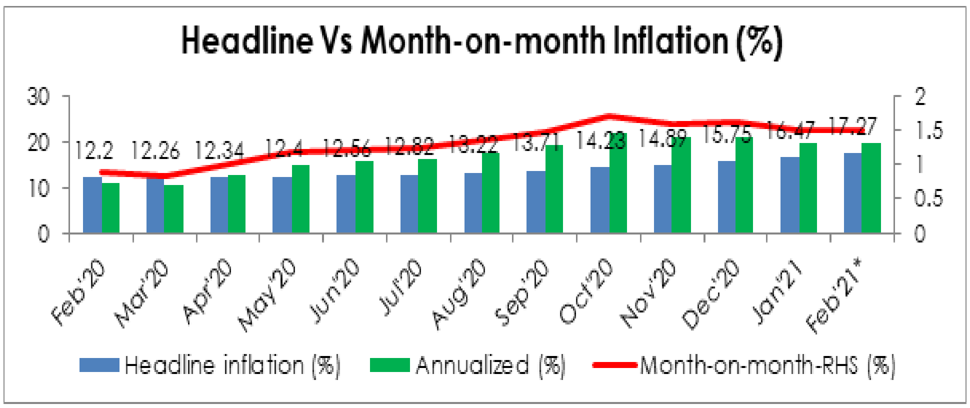
FDC Economic Bulletin

March 03, 2021

Headline inflation may be getting out of control at 17.27%

We are estimating a sharper increase in headline inflation to 17.27% for February 2021 up from 16.47% in January. If this happens, it will be the 18th consecutive monthly increase in Nigeria's inflation rate. It will also be the highest level in 46-months. Inflation is moving further away from the upper band of the CBN's 6-9% target. It is likely to impede output growth. Real GDP growth increased marginally by 0.11% in Q4'20 after two consecutive quarters of negative growth.



[1]

In the last two months, we have seen a divergence between the direction of month-on-month and annual inflation due to the base year effects and supply shocks. The month-on-month inflation is estimated to remain relatively flat at 1.49% (19.47% annualized) in February. We have also seen the impact of high-powered money and the massive borrowing of the FGN via the CBN. The impact of the crowding out of private investors from the public debt market by the CBN printing money is now playing out in higher price inflation.

Food and core sub-indices to increase

We expect the food and core sub-indices to move in tandem with the headline inflation. Food price pressures will remain the primary driver of inflation, rising to 21.98% in February. The impact of the recent blockade of food supply from the Northern states to the south-west is unlikely to reflect in the February inflation numbers. However, the impact will be felt in the month of March. Core inflation (inflation less seasonalities) is also projected to cross the 12% threshold to 12.02% in February due to exchange rate

[1] NBS, FDC Think Tank

Fidelity

Need To Open A Business Account With Ease?

Fidelity's SME Online Account Opening Portal Has Got You Covered

Log on to **www.fidelitybank.ng** or **sme.fidelitybank.ng** to get your business account in 5 minutes!

pressures and higher logistics costs. The impact of higher transport fares will be more potent in March.

Inflation expectations more to the upside: Tighter monetary policy stance likely in H2'21

Inflation expectations, which is the basis for policy formulation is more to the upside due to supply shocks emanating from the food blockade and heightened insecurity, exchange rate pass through effect and higher energy and logistics costs. Recently, the naira has been allowed to crawl up to N411.63/$ at the I&E window, whilst hovering around N480- N482/$ at the parallel market. This coupled with the periodic dilemma on the adjustment of PMS price will continue to increase production costs and push up commodity prices.

The persistent rise in inflation increases the chances of a tighter monetary policy stance albeit in H2'21. The CBN has indicated that it is unlikely to change its accommodative stance in the near term. The MPC committee will continue to monitor the impact of recent policies and stimulus on economic growth while using orthodox tools to mop up liquidity and contain inflationary pressures.

Sub-Saharan Africa: Heightened inflationary pressures

Average inflation in the SSA region is currently at 8.6%, up from 8.1% in 2020. The major driver being the recent increase in oil prices and the import costs of refined petroleum. Three of the Sub-Saharan African (SSA) countries under our review have released their inflation numbers for February, all recording increases. This was largely driven by food price pressures and higher energy costs. Year-to-date, the price of oil rose by 21.35% to $62.9pb due to reduced global oil supply and increased vaccine rollouts. With the exception of Zambia, all the SSA countries under our review left their benchmark interest rate unchanged. For the first time since November 2019, the Central Bank of Zambia increased its monetary policy rate by 50bps to 8.5% pa at its February meeting to anchor inflation expectations and restore macroeconomic stability. The country's inflation rate climbed to a near 5-year high of 22.2% in February.

Country	FebruaryInflation (%)		FebruaryPolicy rate (%)	
Nigeria	17.20 (forecast)	↑	11.50 (Jan)	↔
Angola	24.41 (Jan)	↓	15.50 (Jan)	↔
Kenya	5.78	↑	7.00 (Jan)	↔
South Africa	3.20 (Jan)	↑	3.50 (Jan)	↔
Ghana	9.90 (Jan)	↓	14.50 (Jan)	↔
Uganda	3.80	↑	7.00 (Jan)	↔
Zambia	22.2	↑	8.50[2]	↑

[2] Trading Economics, FDC Think Tank

Nigeria at policy crossroads

This is crunch time for Nigerian policy makers as they attempt to make the pricing of financial instruments consistent with the monetary policy framework of inflation targeting. The CBN has moved reluctantly but expectedly in allowing the exchange rate move at the I & E window to N411/$. This is designed to bring about some level of general equilibrium in the markets, but is still far away from achieving what is considered an efficient formula for maintaining exchange rate flexibility and achieving fiscal neutrality.