

# Economic Bulletin

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**MONEY** IS  
WHAT **MONEY**  
CAN BUY





# Headline Inflation

## To slow to 20.96% in February

The FDC econometric model indicates that February headline inflation could decline by 0.86% to 20.96% from 21.82% in January due to the base effects. Last year, inflation climbed in February to 15.7% from 15.50% in January as commodity prices spiked on the back of Russia's invasion of Ukraine.

Another reason for the expected slowdown in inflation is the exchange rate. In February, the parallel market rate was relatively stable at N752/\$, while the IEFX rate was flat at N462/\$. The exchange rate pass-through to commodity prices currently contributes 65% to inflation.

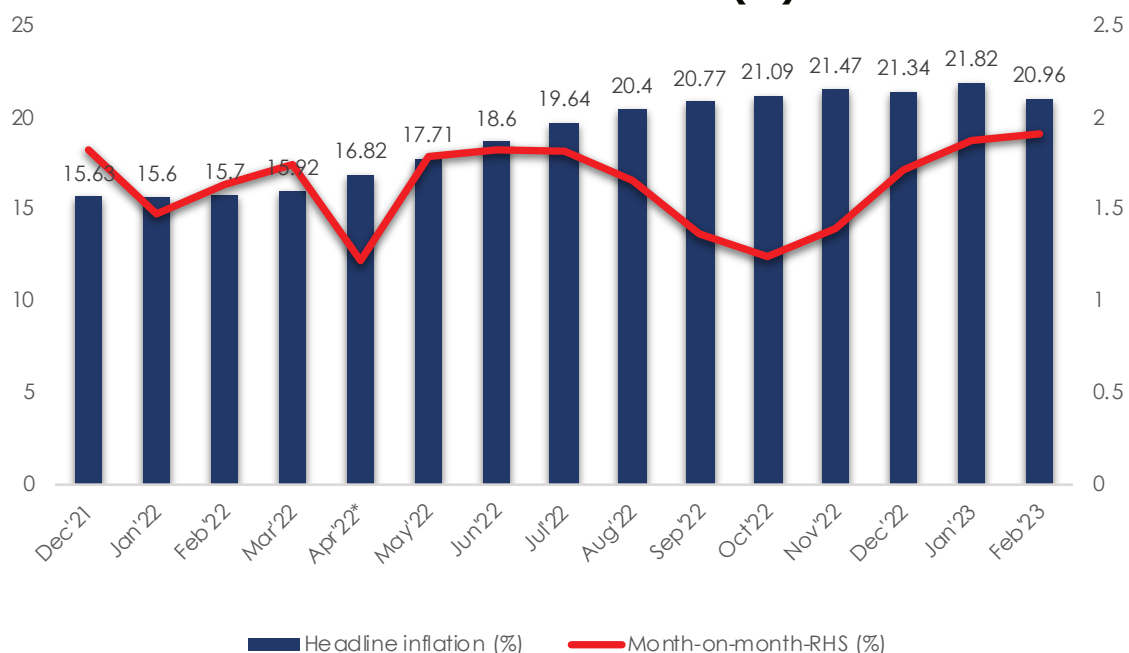
Other factors likely to accentuate disinflation in February are the price of fuel, which declined by 58.3% in January as supply picked up gradually and the naira crunch.

The scarcity of naira notes stalled cash transactions, tapering consumer demand and inventory build-up by manufacturers. As such, retailers cut prices to meet slowing demand.

# 20.96%

**Projected headline inflation  
rate for Nigeria**

## HEADLINE INFLATION (%)



NBS, FDC Think Tank

In addition, the model shows that food inflation will decelerate significantly by 1.1% to 23.22% from 24.32%, while core inflation will fall marginally by 0.08% to 19.08% from 19.16% in January.

However, month-on-month inflation could inch up by 0.08% to 1.91% from 1.87% in January on seasonality, which has led to higher prices of commodities like Beans and Garri. The uptick in monthly inflation indicates that domestic price pressures are still very high, and inflation could resume the upward trend soon.

### Will the CBN maintain the rate hikes?

Price stability is the CBN's core mandate, and to make this happen, the apex bank resorts to its monetary policy toolbox to raise interest rates. In principle, higher interest rates should mop up excess liquidity and, in turn, taper inflation. Take the US, for instance. Since March 2022, when the US Fed started raising interest rates, the money supply in the US has declined by 11.5%, from \$61trn to \$54trn in December 2022. It also led to a decline in inflation for the seventh consecutive month to 6.4% (January).

### Monthly inflation

To:	By:
<b>1.91%</b>	<b>▲8bps</b>
	From:
	<b>1.80%</b>

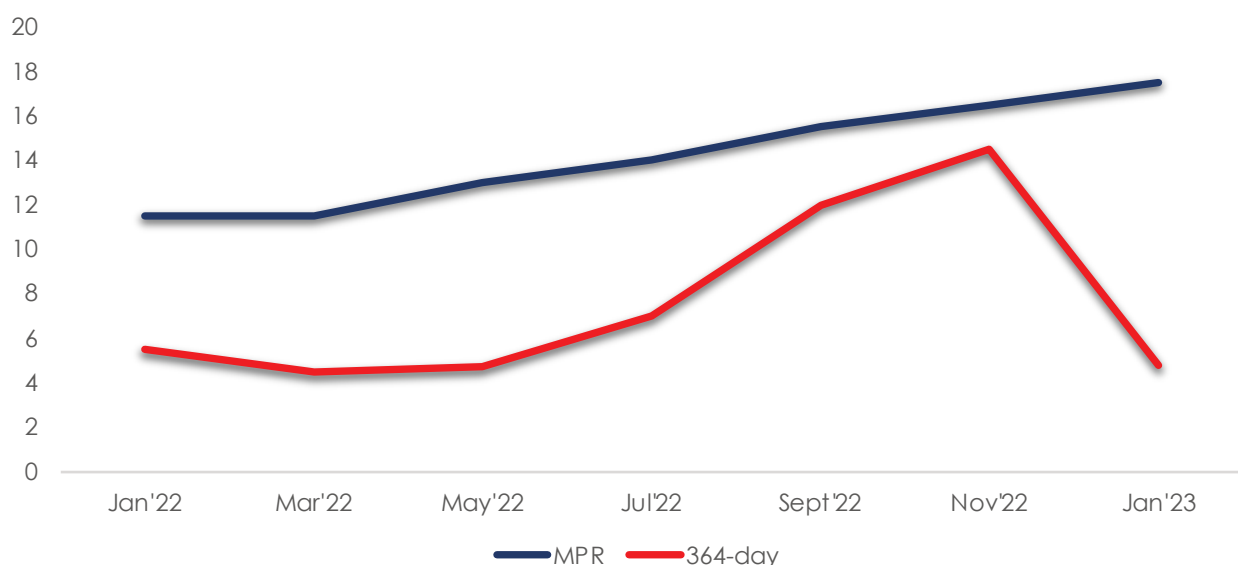
### Food Inflation

To:	By:
<b>23.22%</b>	<b>▼110bps</b>
To:	By:
<b>19.08%</b>	<b>▼8bps</b>

### Core Inflation

However, Nigeria's monetary policy transmission mechanism is weak, undermining the impact of continuous rate hikes. For example, although the CBN has raised its monetary policy rate by 600 basis points in the last eight months, inflation remains at a 17-year high (21.8%). And the average inflation (18.75%) in 2022 is the highest in the last 26 years. In addition, the money supply (M3) has also increased to ₦53.3 trillion from ₦48.5 trillion.

## MPR VS 364 DAY T/BILL RATE (%)





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Moreso, Nigeria's economy is fragile. And excessive rate hikes will raise borrowing costs and possibly stifle output growth in the near term.

However, the CBN has limited tools to deliver price stability. The intention is to keep raising rates to catch up with the rest of the world so the economy remains attractive to foreign investors. The rationale is valid in that if Nigeria's rates are competitive with the rest of the world, investors are incentivized to remain in Nigeria, especially as the negative rates of return narrow. This is important because Nigeria needs all the investment it can get as capital inflows are down 77.2% to \$353.2mn from \$1.54bn in the last three years.

As such, the apex bank is stuck between a rock and a hard place—continue to raise rates and crowd out credit to the private sector or maintain the status quo and risk losing investments.

Ultimately, the monetary policy authorities must remember that inflation in Nigeria is beyond monetary issues. There are underlying structural problems like insecurity that interest rate hikes cannot solve. As it is, Nigeria's price stability (inflation) requires a proper mix of fiscal and monetary tools.

### Inflation trend in sub-Saharan Africa

As global commodity and energy prices soften, inflation in several African countries is subsiding. Of the six countries tracked by FDC, four experienced disinflations. For the first time since May 2021, Ghana's inflation declined in January to 53.6% as the cedi gained against the US dollar. Meanwhile, inflation increased marginally in Kenya and Zambia due to the planting season effects.

Country	Inflation (%)		Most Recent Policy rate (%)	
Nigeria	20.96*	▼	17.5	▲
Angola	12.55(Jan'23)	▼	18	▼
Kenya	9.2	▲	8.75	↔
South Africa	6.9 (Jan'23)	▼	7.25	▲
Ghana	53.6 (Jan'23)	▼	28	↔
Uganda	9.2	▼	10	↔
Zambia	9.6	▲	9.25	▲

FDC Forecast

### Outlook

On the expectation that inflation could fall in February, combined with the positive growth performance in Q4'22 (3.56%), we expect the CBN to keep rates unchanged in its next meeting on March 22.

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