

Economic Bulletin

JUNE 08 2023



Headline Inflation

Will climb to 22.7% in the month of May

Over the past 12 months, the Central Bank of Nigeria(CBN) has adopted orthodox and unorthodox measures to cool inflation in Nigeria, but to no avail. While the monetary policy rate (MPR) has increased by a total of 700bps to a 20-year-high of 18.5%pa from 11.5%pa in April 2022, inflation has maintained its upward trend to 22.22% (April 2023) from 16.45%, when the CBN began its tightening cycle.

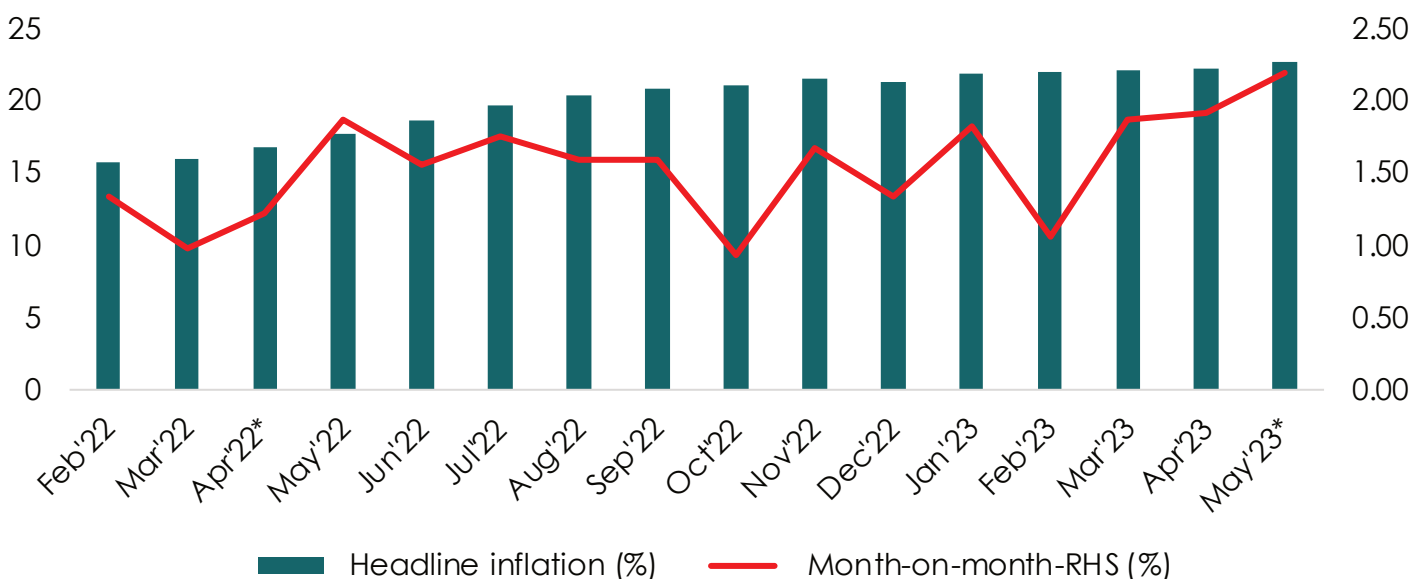
Based on our econometric analysis, we are projecting another increase in the headline inflation rate to a fresh 17-year high of 22.7% when the NBS publishes the CPI report for the month of May next week (June 15). Aside from the sustained upward trajectory, the rate of increase in the level of inflation has become more rapid than in earlier months this year.

The major drivers of inflation during the month of May remain money supply growth (up 18.87% y-o-y), supply shortages (planting season effect) and exchange rate pass-through (down 3.3% to N765/\$).

22.70%

Projected headline inflation rate for Nigeria

HEADLINE INFLATION (%)



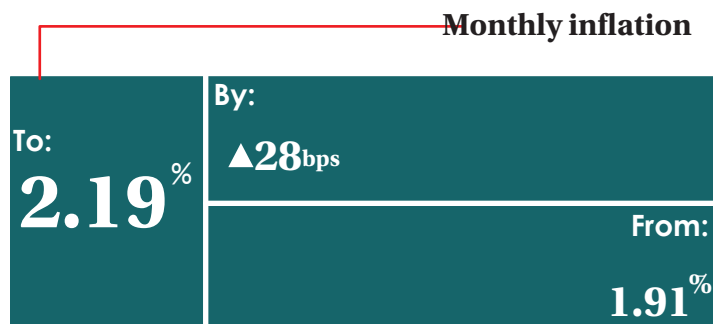
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Notably, the inflation data this time is not reflective of the effect of the 150% jump in the price of petrol resulting from the reduction in the PMS subsidy. The full impact of the petrol price adjustment will be felt in the inflation numbers for June, which initial estimate is put at 25.2%. However, price of diesel, which is the major fuel used by trucks for logistics declined by 12.70% to ₦660/ltr in June from its peak of ₦756/ltr in May. This is expected to mildly ease inflation pressures.

All sub-indices will move in tandem with headline inflation

From our econometric model, all inflation sub-indices will move in the same direction as the headline inflation. The month-on-month sub-index, reflecting current price movements, is expected to rise by 0.28% to 2.19% (29.57% annualized) in May from 1.91% (25.55% annualized) in April.

More so, food inflation will increase to 24.86% from 24.61% in April, despite the reduction in the global



COMMODITY PRICES

Commodities	April (N)	May (N)	% Change
Bean	30,000	35,000	16.67 ▲
Yam Tuber	2,000	3,500	75.00 ▲
Tomatoes	40,000	55,000	37.50 ▲
Rice	35,000	33,000	-5.71 ▼
Garri	28,000	19,000	-32.14 ▼

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food price index to 124.3 points. Higher food prices stem from supply shortages due to the planting season (April-June). Our recent market survey in the Lagos Metropolis showed that commodity prices jumped by an average of 14.3% compared to April.

Additionally, the core sub-index, which is inflation-less seasonalities, will inch up by 0.17% to 20.31% in May from 20.14% in April, driven by Naira depreciation and high diesel prices. In May, the naira depreciated by 3.4% at the parallel market to ₦765/\$ from April's close of ₦740/\$. In the interim, diesel prices soared to ₦757/ltr before declining towards ₦650/ltr at the commencement of June.

Fuel subsidy is gone but its inflationary impact will linger

Removing fuel subsidies was a difficult sell, but it had to be done. The once temporary measure that began in the 1970s to shield Nigerians from higher petrol prices has now cut a big hole in government revenue today. As of 2022, the government spent

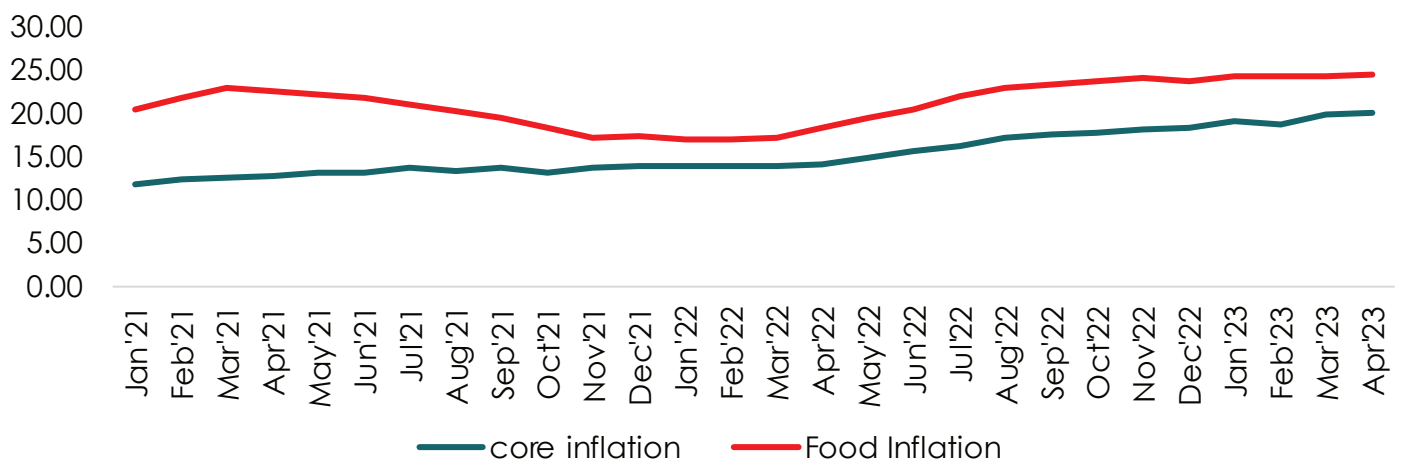
₦4.39 trillion subsidizing fuel, higher than the ₦2.45 trillion spent between 2018 and 2021.

Worse, the NNPC, paying these subsidies on behalf of the government has been unable to remit a dime to the federation account for the past 10 months, leading to a decline in FAAC disbursements to state governments. FAAC allocations fell by 33.7% to ₦656 billion in May from ₦990 billion in January 2023.

Importantly, we expect the petrol subsidy removal to add 3% to headline inflation, pushing it to 25.2% in June before tapering towards the end of the year due to the positive multiplier effects of policy reforms.

However, ripping the Band-Aid off has immediate and far-reaching implications, on the cost of living for consumers as food and transport costs skyrocket. As a result, many more Nigerians will slip below the poverty line of \$1.20 per day. Already, 133 million Nigerians are considered multidimensional poor, incapable of adequately meeting the basic needs of life (food, shelter, education, health). The other

CORE VS FOOD INFLATION (%)



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aspect is the increase in operating expenses and possible drop in sales for businesses. The reduction in aggregate demand due to weak consumer purchasing power will impact GDP growth negatively.

Another interest rate hike may be imminent

Policy makers are in a bind as to how to manage the liquidity-induced inflation and the cost push effect of petrol pricing. Initial thoughts are that the MPC will tighten some more and allow the effective rates of interest, which are presently very low to rise in the direction of inflation.

Inflation is slowing across Sub-Saharan Africa, Nigeria excluded

Across Sub-Saharan Africa, inflation appears to be moderating as currencies strengthened against the dollar and energy prices softened.

All six countries under our review reported lower inflation rates. Ghana's annual inflation rate fell by 4.9% to 41.2% in April, the fourth consecutive monthly decline. This was partly due to the relative stability of the Cedi as the Ghanaian \$3 billion bailout deal with the International Monetary Fund was finalized. Kenya, South Africa, and Angola also enjoyed relatively stable exchange rates.

Country	Inflation (%)		Most Recent Policy rate (%)	
Nigeria	22.67*	▲	18	▲
Angola	10.59	▼	17	↔
Kenya	7.9	▼	9.5	▲
South Africa	6.8	▼	7.75	▲
Ghana	41.2	▼	29.5	↔
Uganda	8	▼	10	↔
Zambia	9.9	▼	9.5	▲

FDC Forecast

Outlook for Q3'23

Contrary to earlier projections of a drop in inflation in Q3 due to the harvest season, commodity prices are likely to remain elevated due to the hike in PMS prices. Headline inflation could spike to 25.2% in June before gradually tapering towards the end of the year.

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