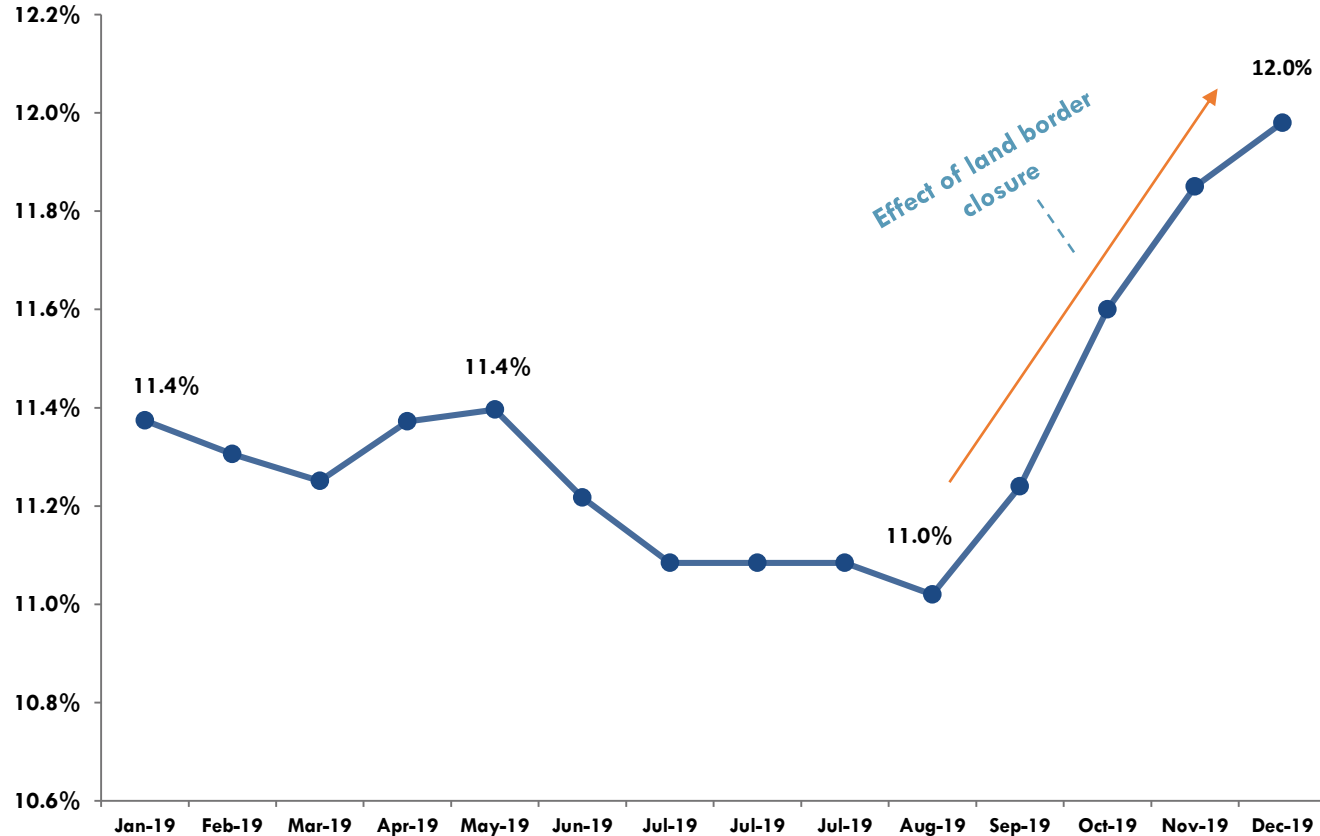


# INFLATION NOTE

# Inflation rate rose to 12% in December 2019....







Nigeria's Inflation Rate



- Year-on-year Inflation rate increased to 12% in December 2019 from 11.9% in November. This is the highest figure since April 2018.
- Prices increased by 0.85% on a month-on-month basis, lower than 1.02% in November.
- Factors responsible for the increase in inflation in December include: continued closure of land borders and high demand for goods and services in the festive month.
- In December, food inflation rate increased marginally to 14.7% from 14.5% in the previous month. In the same period, non-food inflation rate increased to 9.3% from 9%.
- The NBS revealed that food inflation was triggered by “increases in prices of Bread and cereals, Meat, Fish, Oils and fats, Potatoes, yam and other tubers”.
- For full-year 2019, Inflation rate averaged 11.4%. Inflation for 2020 is expected to average 11.9%.

# ...but annual average Inflation rate remained lower than 2018...

*Rising prices in the later part of 2019 was not enough to trigger a higher annual average inflation rate when compared with that of 2018*

	2017	2018	2019	
 <b>Overall Inflation</b>	16.6%	12.2%	11.4%	
 <b>Core Inflation</b>	13.5%	10.5%	9.2%	
 <b>Food Inflation</b>	19.5%	14.4%	13.7%	

- Average inflation rate in 2019 was lower when compared with 2018 figures. We expect an increase in inflation rate in 2020 but the pace of increase will be reduced as the effect of the border closure wanes out.
- Core inflation averaged 9.2% in 2019, lower than 10.5% achieved in 2018. Core inflation was highest in January at 9.9% during the year.
- Food prices faced significant pressure towards the end of 2019, to average 13.7%. Food inflation peaked at 14.7% in December having started the year at 13.5%.

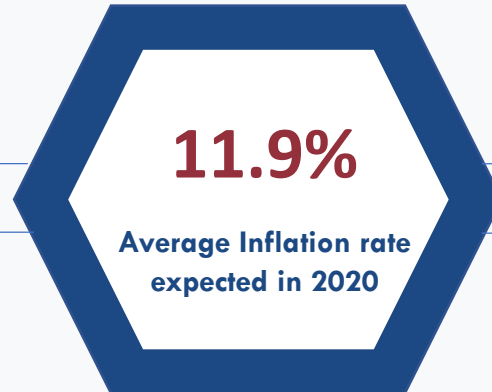
# ...however, Inflation pressures exist in 2020...

*Pressures on inflation are, in most cases, cost-push in nature. Efforts to improve the business environment are crucial in ensuring price stability*

FGN spending plan of N10.6 trl  
With the early passage of the 2020 budget, spending on both capital and recurrent expenditure will increase and trigger a rise in overall aggregate demand.



Cost of Doing Business  
Poor power supply, infrastructure deficit, harsh operating environment, charges from non-state actors continue to influence cost of doing business and the price level.



VAT comes into Effect  
With the passage of the Finance Bill into law in January 2020, the VAT increase from 5% to 7.5% will come into effect in February 2020.

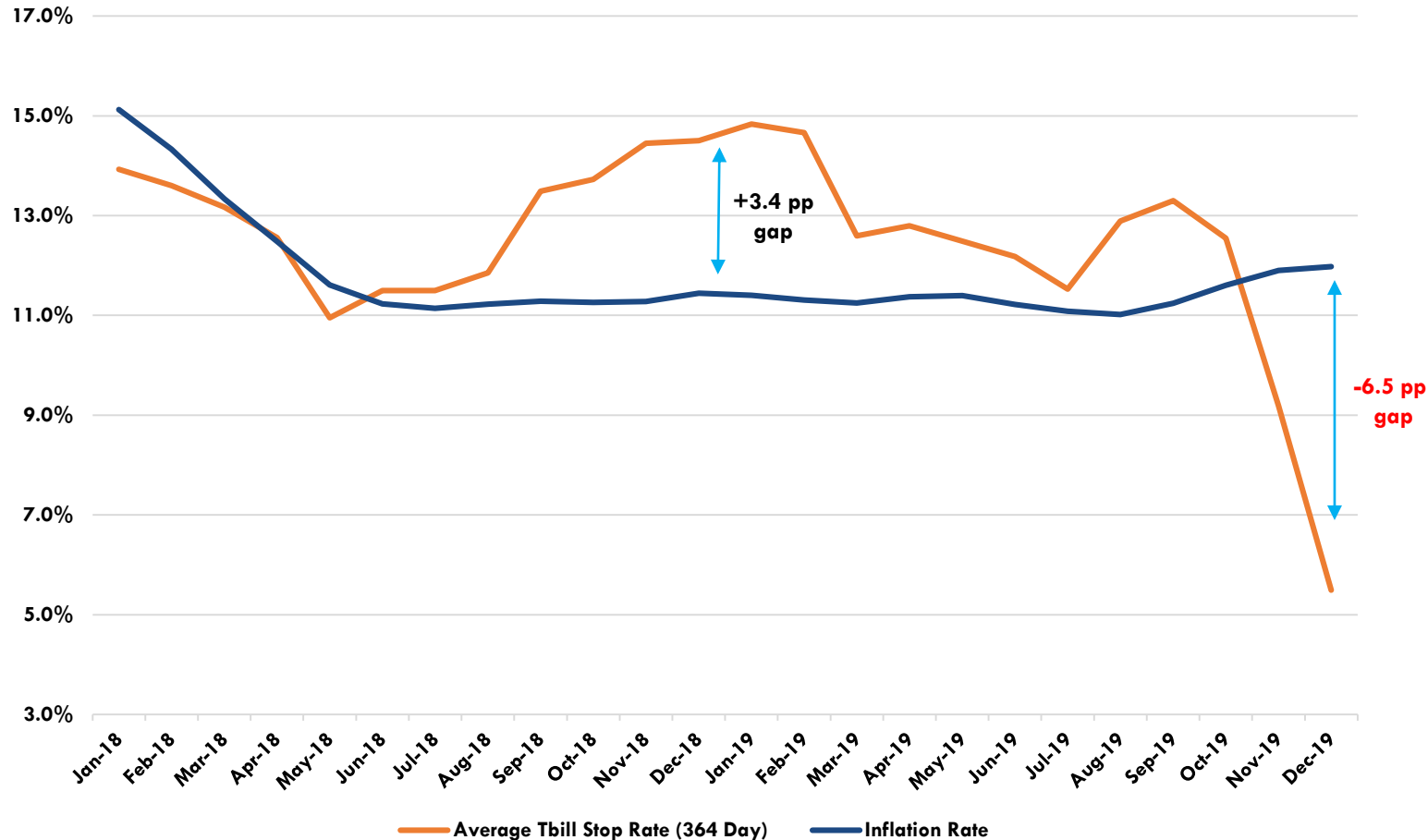
The increase is expected to result in price increase of certain goods that are affected.



Closure of Land Border  
Continued closure of land borders and uncertainty surrounding re-opening of the borders will continue to influence movements in food prices, though marginally.

# ...falling interest rate could slow growth in inflation in coming months

Real Interest Rate: 364-Day Treasury Bill Average Rate vs Inflation



\*pp - percentage points

- The rise in Inflation rate in the later part of the year was also accompanied by significant fall in interest rates on government securities due to CBN OMO policy.
- Real interest rate was negative in November and declined further to -6.5% in December.
- The excess liquidity in the system has resulted in lower lending rates, which could reduce costs for businesses, boost investment spending and output.
- In addition, CBN policy on LDR is also expected to boost lending to the real sector and enhance output.
- These measures could slow down increase in prices of some goods in the year.