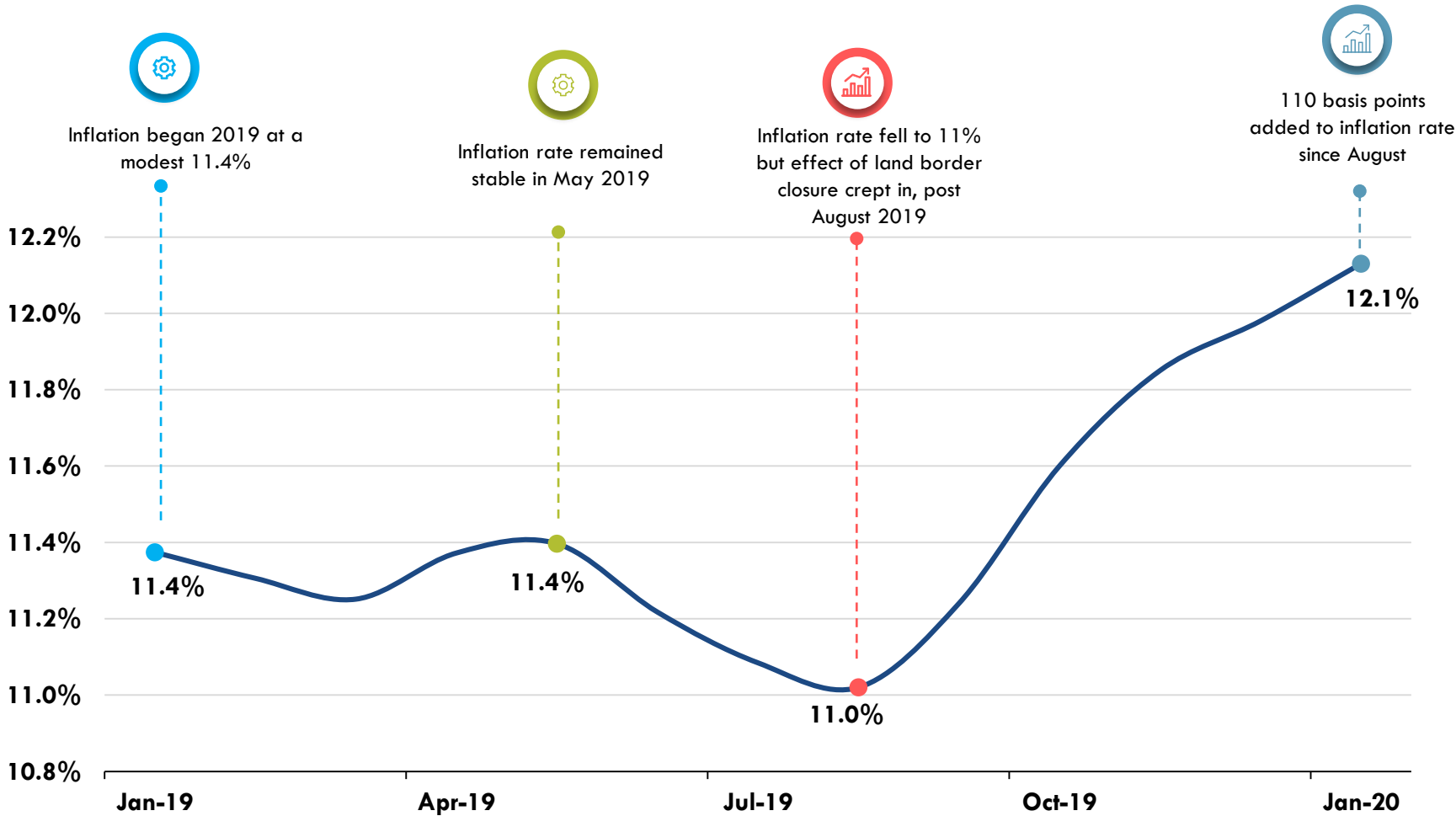


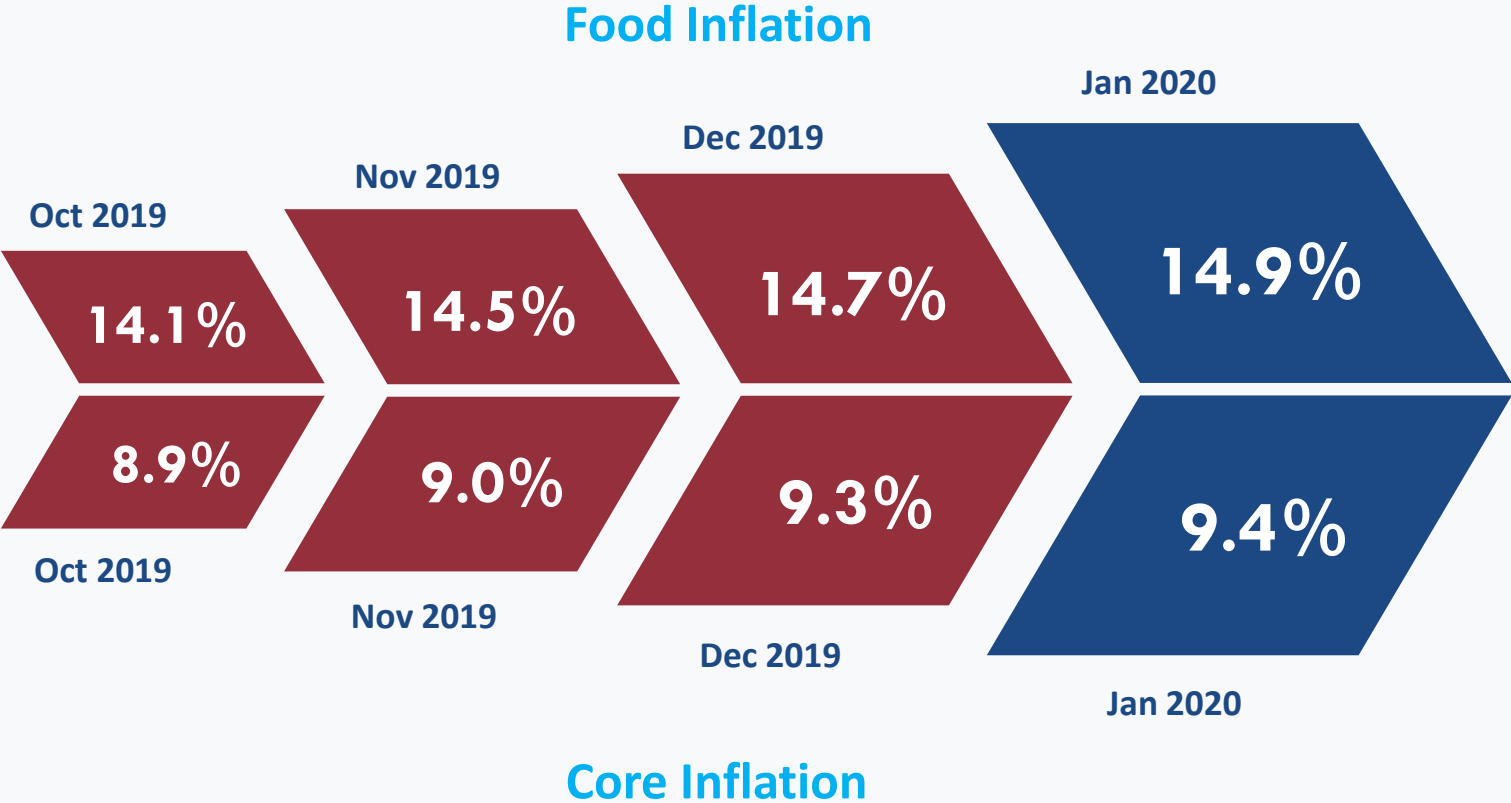
Inflation rate opens 2020 at 12.1% in January

Nigeria's Inflation Rate



- Nigeria's year-on-year inflation rate rose to 12.1% in January 2020 from 12% in December 2019 and 11.4% in January 2019.
- On a month-on-month basis, average prices grew by 0.87% in January, a marginal increase from 0.85% recorded in December.
- Some major factors responsible for the increase in average price level include:
 - High cost of doing business
 - Continued closure of the land borders
 - Higher consumer demand
 - Imported food inflation
- Inflation for 2020 is expected to average 11.9%.

Food prices were largely responsible for the rise in inflation rate



- Food inflation rate reached a 22-month high of 14.9% in January. Higher food prices were triggered by imported food inflation, which was 16.1% in the month. Increases were also observed in the prices of Bread and Cereals, Meat, Oils and fats, Potatoes, Yam and other tubers and Fish.
- Core inflation rate increased to 9.4% in January 2020. According to the NBS, the highest increases were recorded in the prices of Hospital services, Vehicle spare parts, Cleaning, Repair and hire of clothing, etc.

Major Inflation triggers to watch out for in 2020



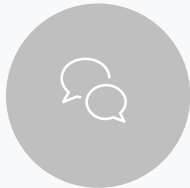
VAT increase will be reflected in Inflation figures for February 2020

The VAT increase from 5% to 7.5% came into effect in February 2020. The increase resulted in higher prices of major goods and services produced in Nigeria. This will be reflected in Inflation rate for February.



High cost of doing business persists

Traditional causes of inflation in Nigeria include poor power supply, infrastructure deficit, harsh operating environment and charges from non-state actors. These factors continue to influence cost of doing business and the overall price level.



Continued closure of land borders

Uncertainties surrounding the re-opening of land borders will continue to influence movements of prices of both food and non-food items. The effect of this is expected to be marginal as producers, traders and consumers adjust overtime.

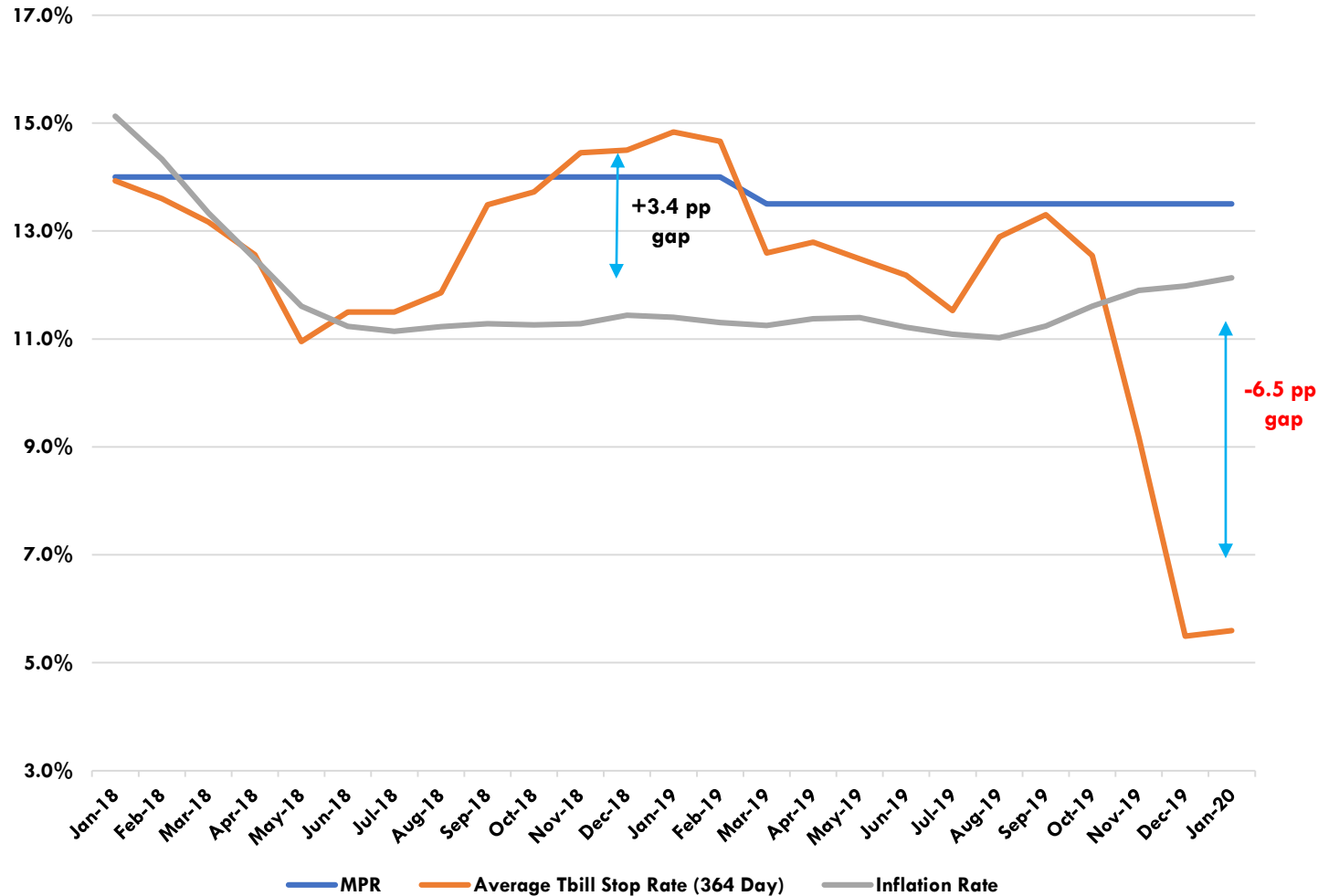


Demand pressures from higher minimum wage

Payments of the new minimum wage by the federal government and some state governments will have an upward impact on prices of goods and services going forward.

Real interest rate gap remained at -6.5pp in January 2020

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



*pp - percentage points

- Real interest rate gap remained at -6.5 percentage points in January 2020 (December 2019: -6.5pp).
- CBN OMO policies resulted in excess system liquidity which has led to declining rates on government securities since September 2019.
- It is expected that the lower interest rate environment will translate into lower lending rates and increased lending to the private sector.
- This factor, coupled with CBN policy on LDR which has boosted lending to the real sector, could slow down price increase in the year.

Expectation from next MPC in 2020

- The CBN is expected to continue in its effort to mop up the excess liquidity in the market to curtail inflation and attract FX inflows.
- Further, the CBN will intensify its heterodox policies outside the MPC; continuing to adopt tools such as LDR, OMO, FX restrictions and interventions to stimulate lending to the real sector and propel economic growth.

Key Considerations for 2020

- High inflation expectation and market liquidity
- Declining external reserves
- Slower than expected GDP growth
- Slowing Foreign investment flows
- Crude oil output and revenue
- Quality of banking assets in the face of LDR
- Fiscal policy and increasing public debt concern