KPMG

Macroeconomic Snapshot

Research & Insights | KPMG in Nigeria

Wednesday, 19th April 2023

Brent Oil Price

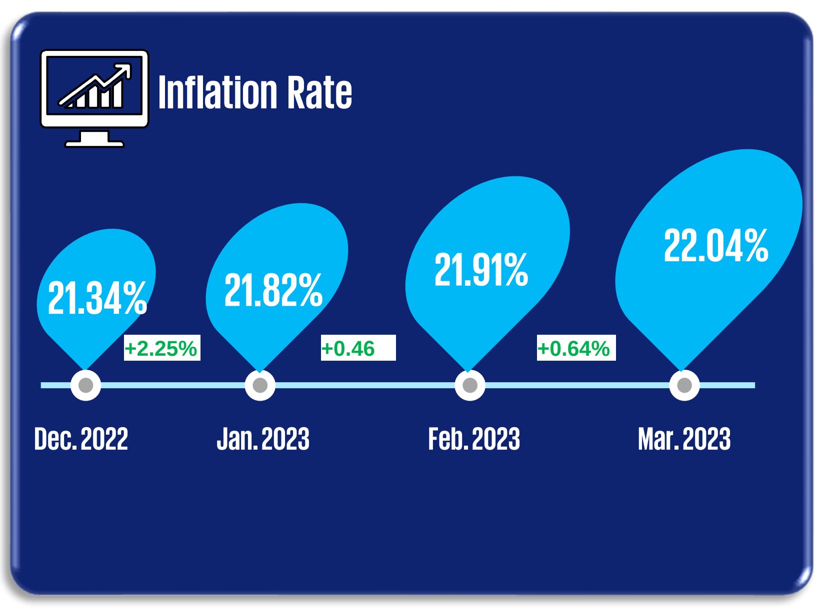
$87.87 0.40%

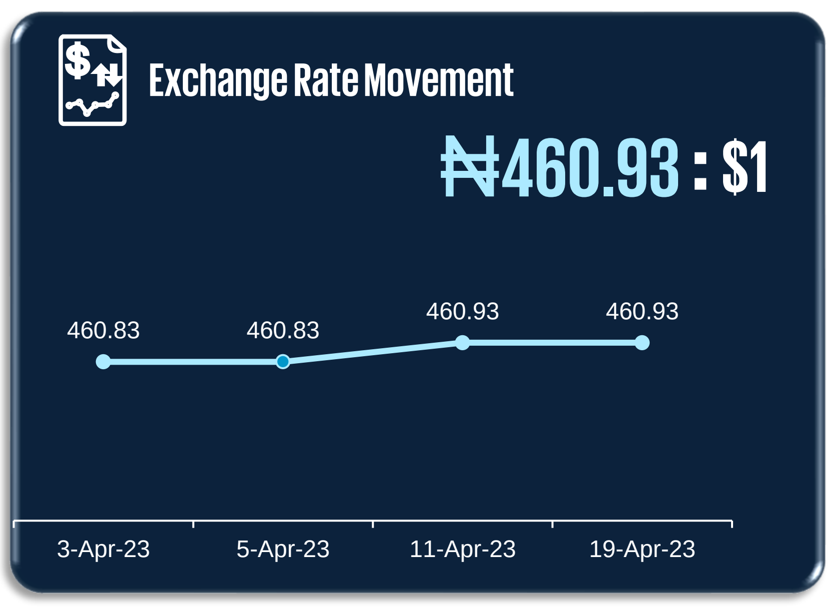
87.52 Previous

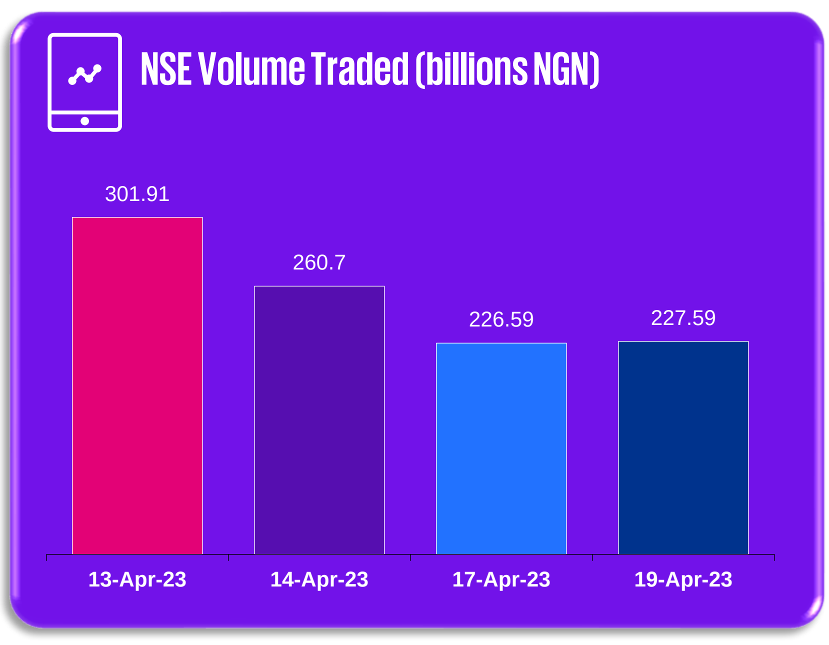
FX Reserve

$35.35b 0.14%

35.40b Previous







Market Capitalization

28.26b 2.07%

28.86b Previous

Currency in circulation

N982.1b 29.16%

1386.4b Previous

KPMG Analysis: Inflation

This week we highlight the reported Consumer Price Index (CPI) for March 2023 which showed consumer prices both on a month on month and year on year basis remained high and rising. On a year-on-year basis, the headline CPI rose to 22.04% in March 2023 compared to 21.91% in February 2023. On a monthly basis, the CPI which had slowed substantially from 1.87% in January to 1.71% in February, surged again to 1.86% in March 2023.

Following the CBN's policy reversal to allow old naira notes to persist alongside the new notes, currency in circulation which had dropped from N3.28 trillion in December 2022 to N982 billion in February 2023, has risen thereby improving the 'cost of cash' and stimulating economic activity, by boosting available cash to purchase inputs, increasing supply, and stimulating demand. At the same time, many economic transactions, gradually shifted to electronic payment channels despite initial challenges due to the sudden substantial pressure the platform and systems had to face with the surge in transactions. Both volume and value of mobile banking transactions more than doubled between the periods before and after the naira design policy, just as the number of payment companies, digital banks and POS terminals deployed have grown to record highs by end of March. It will appear that the gradual improvement in the availability of cash and boost in electronic transactions together with the CBN tightening stance has not yet eased pressure on food and especially energy, transport, and distribution prices. Rising energy, fuel, transport, and related costs were largely responsible for the surge in core inflation in March 2023.

Furthermore, the depreciation of the naira against the dollar during the month in question has also put pressure on domestic prices despite a generally slowdown in international commodity and energy prices. The reversal of inflation in March reinforces our view that the determinants of inflation in Nigeria are largely cost push factors which are out of control of monetary authorities and consequently, further tightening at this point has more of an impact on squeezing economic growth, constraining non-oil export growth, slowing employment creation and consumer demand and worsen poverty, rather than slowing down inflation. At this point, a strategy to cut production costs and boost supply and control conditions stifling distribution and responsible for high and rising energy and transportation costs might be more effective in controlling consumer inflation.

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- Fuel subsidy: IMF reluctant to interfere with Nigeria's decision
- Nigeria's indebtedness to World Bank rises to $13.9 billion
- Nigeria spent 96.3% of 2022 revenue on debt servicing – W'Bank
- CBN to mop up customers' funds in dormant accounts
- NNPC deepens investments in AKK, OB3, others –Kyari
- Aviation unions to picket NCAA, FAAN, NAMA, NiMet offices as strike enters day two
- Nigeria Produces 115m Barrels, 75% of Budget Benchmark in Q1 Amid Struggling Oil Output

Sources: CBN, NBS, NGX & KPMG Research

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