MPR RETAINED AT 27.50%

... Rates Remained Unchanged for the Second Consecutive Time

May 21, 2025 *Economic Report*

Against the backdrop of moderating inflation and relative stability in the foreign exchange market, the MPC maintained its cautious stance, voting to keep the monetary policy rate and other key parameters unchanged for the second consecutive time, as it continues to monitor emerging trends and challenges closely.

Summary:

---> Monetary Policy Rate: 27.50%.

---> Asymmetric Corridor: +500/-100 basis points around the MPR.

---> CRR of Deposit Money Banks: 50.00%.

---> CRR of Merchant Banks: 16.00%.

---> Liquidity Ratio: 30.00%.

Committee Considerations

The Monetary Policy Committee (MPC) acknowledged the relative improvements in some key macroeconomic indicators including the narrowing gap between the Nigeria Foreign Exchange Market (NFEM) and Bureau De Change (BDC) windows, the positive balance of payments position and easing PMS price, all of which are expected to support price moderation in near to medium term.

The recent report from NBS also showed a decline in year-on-year Headline Inflation to 23.71% in April 2025 (March 2025: 24.23%), and month-on-month to 1.86% (March 2024: 3.90%), driven by moderation in both the food and core components. While the Committee noted with satisfaction the progressive moderation in food inflation, it however acknowledged underlying inflationary pressures driven largely by high electricity prices, persistent foreign exchange demand pressure and other legacy structural factors.

Highlighting the relative stability observed in the foreign exchange market, members urged the Bank to sustain the implementation of the ongoing reforms to further boost market confidence. The Committee also called on the fiscal authority to strengthen current efforts at enhancing foreign exchange earnings.

Another point of consideration for the Committee was the recent decline in crude oil prices, attributable to increased production by non-OPEC members as well as uncertainties associated with U.S trade policy, which present new challenges for fiscal receipts and budget implementation.

On external reserve, the Committee gave an update that the gross external reserve increased by 2.85% to US$38.90 billion as at 16th May 2025, from US$37.82 billion at end-March 2025. This represents an import cover of 7.6 months for goods and services. The balance of payments (BOP) recorded a surplus of US$1.10 billion in the fourth quarter of

2024, compared with US$4.21 billion in the preceding quarter, on account of a moderation in the current account surplus.

Outlook

Following the global uncertainty and lower oil prices that intensified in Q2 2025, we had expected the MPC to hold rates in its meeting for the quarter. While a rate cut could ease borrowing costs for businesses, thereby providing some relief to the private sector, the potential adverse impact of these external factors on foreign portfolio inflows (FPI) and FX inflows from oil receipts poses a significant risk to the recent moderation observed in inflationary pressures. A depreciating Naira would likely exert renewed cost-push inflationary pressures on imported raw materials and finished goods.

Hence, we expect the Committee to maintain a cautious stance in the near term, barring any positive shift in global market conditions that could potentially alleviate these pressures. The MPC's priority will likely remain prioritising FX stability and curbing inflationary pressures, rather than stimulating economic growth through rate cuts.

Market Implication

Fixed Income

Yields may experience minor fluctuation following the MPC decision, however, we opine that the overall trajectory of government securities will be largely influenced by FX liquidity conditions and government borrowing needs. In terms of investors' appetite, we expect sustained demand for fixed income instruments due to upcoming treasury bill and OMO bill maturities, which are expected to boost system liquidity.

Equities Market

The MPC's decision is expected to have a muted impact on the equities market, with investor sentiment likely to remain fueled by expectations of strong Q2 2025 earnings. With major companies reporting a rebound from 2024 FX losses in their Q1 2025 results, the stage is set for sustained momentum. Currency stability and also the recent moderation reported in inflation numbers could further lift investor sentiment, potentially outweighing concerns about the elevated finance cost.

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- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is ≤ -10% of current market price.

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