

MPR RETAINED AT 27.50%



... First Pause Since March 2022 as MPC Signals Stability

February 21, 2025

Economic Report

In its first meeting of the year and the first pause since March 2022, the Monetary Policy Committee (MPC) decided to hold rates steady, keeping all policy parameters unchanged. This follows a cumulative 1,600 basis points (16%) increase in the benchmark interest rate since March 2022.

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) assessed recent macroeconomic developments and expressed confidence in improving economic landscape. The Committee emphasized key factors expected to drive price stability in the near to medium term, including:

- Stabilization in the foreign exchange (FX) market, leading to an appreciation of the Naira.
- Gradual moderation in fuel prices (PMS), easing cost pressures on businesses and households.

However, despite these positive trends, inflationary pressures remain elevated, particularly due to rising food prices. In January 2025, Headline Inflation stood at 24.48% year-on-year (December 2024: 34.80%), with Food Inflation at 26.08% (December 2024: 39.84%) and Core Inflation at 22.59% (December 2024: 29.28%). While the decline in inflation reflects the rebasing of the Consumer Price Index (CPI) by the National Bureau of Statistics (NBS), food price pressures persist due to structural challenges in the agricultural sector.

The MPC expects further easing of Food Inflation as the Federal Government enhances security in food-producing regions and implements policies to boost food supply. However, challenges such as transportation bottlenecks, insecurity in key agricultural zones, and global commodity price volatility remain risks to the inflation outlook.

Policy Coordination & FX Market Developments

The Committee emphasized the need for strengthened collaboration between monetary and fiscal authorities to ensure sustained macroeconomic stability. This was a key theme at the recent Monetary Policy Forum, where discussions highlighted the importance of policy synchronization to curb inflation while maintaining economic growth momentum.



On the foreign exchange market, the MPC noted significant improvements in liquidity and exchange rate stability. The convergence of rates between the Nigeria Foreign Exchange Market (NFEM) and the Bureau de Change (BDC) segment is a positive development, and the Committee urged the CBN to sustain this trend by continuing to boost FX supply and implement market-enhancing measures.

The following policy initiatives were highlighted as measures implemented to foster transparency and efficiency in FX market:

- Electronic Foreign Exchange Matching System (B-Match) – A technology-driven platform to enhance price discovery and transaction transparency.
- Nigeria Foreign Exchange Code – A framework designed to enforce ethical trading practices and enhance credibility in the FX market.

These measures are expected to sustain the growth in portfolio inflows, alongside an increase in diaspora remittances, as investor confidence in Nigeria's macroeconomic outlook improves.

Outlook

While the MPC acknowledged recent declines in inflation, it remains cautious about the pace of monetary easing. The Monetary Policy Rate (MPR) remains at 27.50%, with the expectation that future rate adjustments will be data driven. Given the expected decline in inflation and expectations of stable FX conditions, the Committee anticipates a gradual reduction in interest rates over the course of the year.

Market Implications

Fixed Income

- Short-term yields on Treasury Bills and Commercial Papers (CPs) may decline, reflecting improved liquidity and lower inflation expectations.
- Long-term bond yields could remain attractive, offering opportunities for investors seeking real returns above inflation.
- Banks may shift their focus toward expanding loan books, as lower interest rates make lending more attractive than investing in risk-free government securities.

Equities Market: A Positive Outlook

The combination of FX stability and a potential decline in interest rates is beneficial to the stock market. Few of those sectors include:

- Banking Stocks: Lower interest rates could lead to increased lending activity, driving net interest income growth. However, banks with higher exposure to fixed-income securities may face lower investment income.



- Consumer Goods: Inflationary pressures hemorrhage margins in this sector, but a more stable exchange rate and declining fuel prices could ease cost burdens—improving profitability.
- Industrial: Companies with significant FX exposure (such as Dangote Cement, BUA Cement, and Lafarge) could benefit from FX stability, reducing the volatility of imported raw materials.

Foreign Exchange (FX): Stability Expected, but Dollar Liquidity is Key

- Naira appreciation is a key positive signal – The convergence of the official and parallel market rates suggests a more transparent FX system.
- CBN's efforts to improve FX liquidity (via B-Match and the FX Code) should attract more foreign inflows, supporting currency stability.
- Increased remittances and FPI inflows are expected as investor confidence improves.



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- Buy Rating: estimated fair value is $\geq 20\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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