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CBN Holds MPR at 27.5% Amid Rebasing, Inflation at 24.48%

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) has voted to hold the benchmark interest rate steady at 27.5%, following the release of the rebased headline inflation, which stood at 24.48% for the month of January 2025, substantially lower than the 34.8% recorded in the previous month.

The CBN Governor, Mr. Yemi Cardoso announced this at the end of the first MPC meeting for the year, on Thursday, 20th February 2025. According to the Governor, decision to hold the MPR and other parameters was unanimous amongst the twelve members of the committee, citing the need to maintain current monetary stance in reigning on inflation as well as ensuring the stability of the local currency.

MPR

Retain the MPR at 27.5%.

ASYMMETRIC CORRIDOR

Retained the asymmetric corridor around the MPR at +500/-100 basis points.

CASH RESERVE RATIO

Retained the CRR of Deposit Money Banks at 50% and Merchant Banks at 16%.

LIQUIDITY RATIO

Retained the liquidity ratio at 30%

MPC Considerations

- The MPC noted the relative appreciation of the naira against the USD at the official market, following several reforms by the apex bank. Data tracked by Norrenberger Research showed that the naira has appreciated by 1.8% year-to-date at the official market, averaging N1,523.8/$.
- In the same vein, Yemi Cardoso highlighted the notable decline in the price of premium motor spirit, popularly referred to as petrol, which had been a major driver of local inflation in the last two years. Notably, average cost of petrol dropped from N1,025 last year to N920 per litre.
- Considerations were also given to the continuous convergence between the official rate and the Bureau De Change. As of the beginning of the year, the differential between both markets was stated at N119.2, which has now dropped significantly to N31.
- Meanwhile, the CBN noted with worry the risk of persisting inflation, which is largely driven by the food sub-index. The bank however reiterated with optimism that the continuous collaboration between the fiscal and monetary authorities will drive the price of food downwards in the short to medium term.

Despite Tight Liquidity, Money Supply Still at Record High

Data from the CBN showed that money supply in Nigeria rose to a new record high in January 2025, reaching N110.9 trillion. This represents 17.3% increase compared to the corresponding period of 2024 (N94.6 trillion). In the same period, currency in circulation surged by 43.4% to N5.2 trillion, while currency outside the banking sector stood at N4.7 trillion, representing 91% of the total circulating currency.

On the other hand, private sector credit declined slightly by 2% to N74.9 trillion in January 2025, reflecting the impact of previous interest rate hikes. Credit to government although increased year-on-year by a marginal 4%, it had reversed from a record high of N39.6 trillion in November 2024 to N24.5 trillion.

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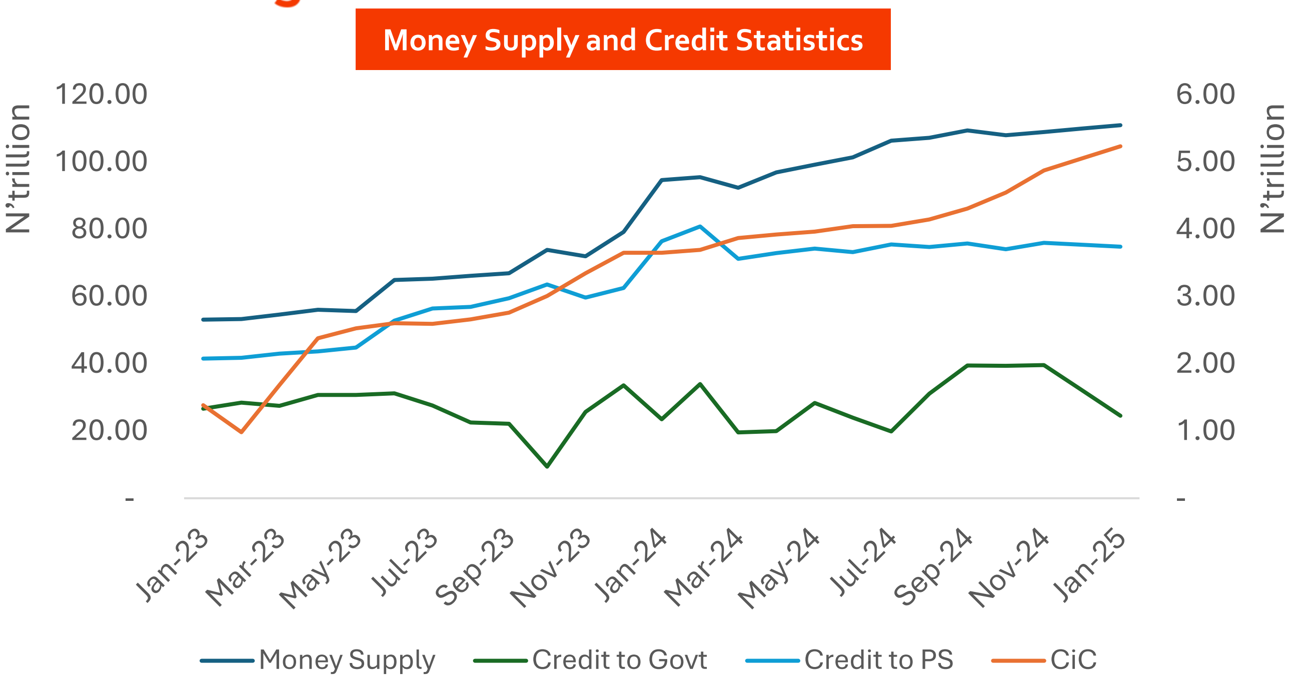
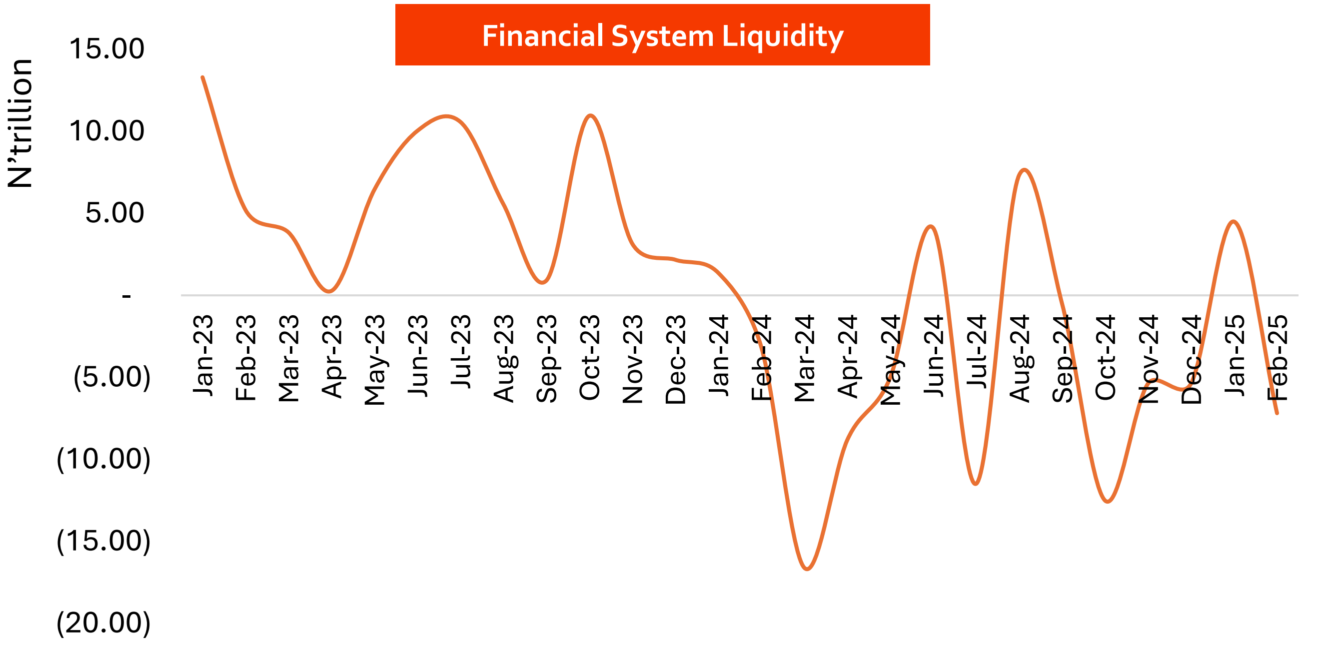


Source: CBN, Norrenberger Research



Source: CBN, Norrenberger Research

Have Fixed-Income Yields Peaked?

Yields on fixed-income instruments appear to have peaked, as recent market trends indicate a persistent decline in Treasury Bills (T-bills) stop rates. This downward trajectory is evident in the latest auction by the Central Bank of Nigeria (CBN), where the 364-day T-bill stop rate fell to 18.43%, down from 20.32% in the previous auction.

A similar trend was observed in the Open Market Operations (OMO) segment, where stop rates on long-term instruments declined. The 355-day and 362-day OMO bills recorded stop rates of 21.32% and 21.45%, respectively, reflecting reduced yield expectations among investors.

The decline in rates has fueled bullish movements in the secondary market, with investors actively locking-in on current yields in anticipation of lower yield environment in the near future. The continued moderation in inflation and relative stability in the foreign exchange market further support expectations of declining interest rates, reinforcing the attractiveness of fixed-income instruments in the near term.

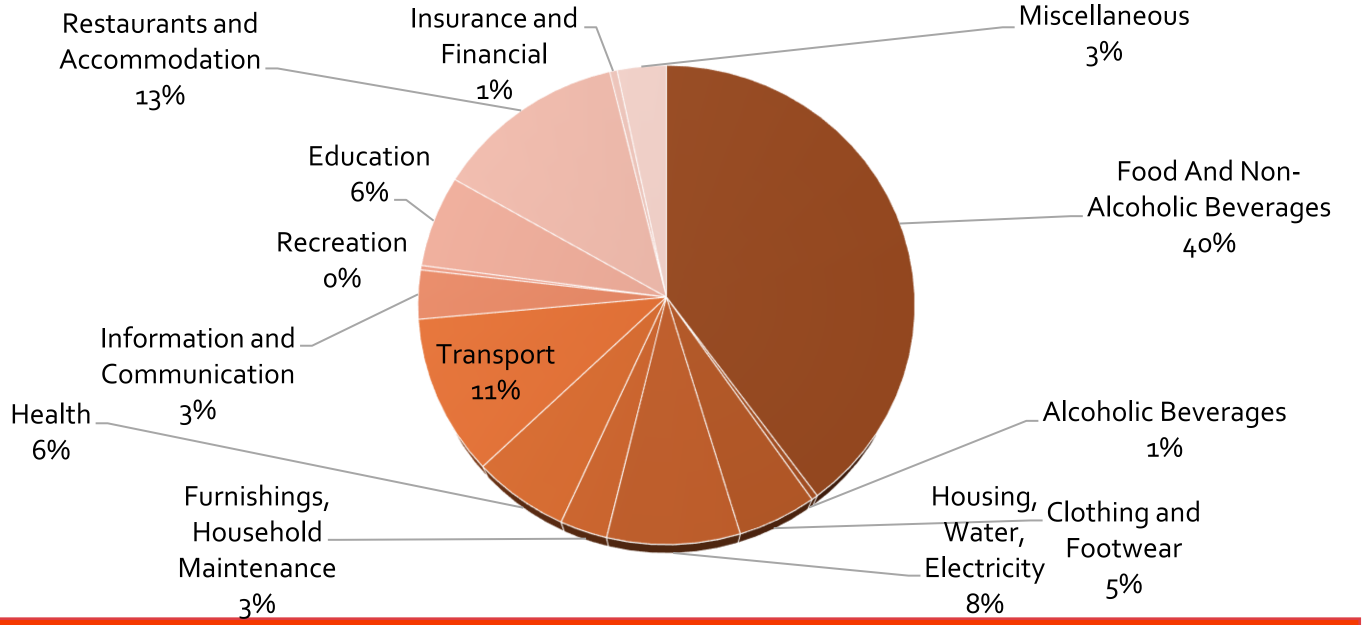
On Rebased Inflation Rate

The National Bureau of Statistics (NBS) has released the rebased inflation figures for January 2025, reporting a headline inflation rate of 24.48%. Inflation rebasing involves updating the weight and price reference periods to ensure a more accurate and representative Consumer Price Index (CPI).

As part of this exercise, the NBS revised the price reference period from 2009 to 2024, effectively smoothing out the impact of significant economic events such as the COVID-19 pandemic, exchange rate unification, and petrol subsidy removal. Additionally, the number of items in the inflation basket was expanded to 934, with an updated weighting structure to better reflect the current consumption patterns of Nigerians.

Actions	Old	New
Number of products in the basket	740	934
Number of Division	12	13
Price Reference Period	2009	2024

New Divisional Weighting



Outlook

The CBN has opted to maintain the current interest rate, signaling a cautious approach to balancing inflation management with economic growth. Looking ahead, we anticipate a continued but gradual easing of inflation throughout the year, driven by base effects, relative stability in the FX market, and expected moderation in food prices.

With inflationary pressures softening, we foresee a decline in yields on fixed-income instruments in line with movements in the primary market. Additionally, we expect at least two interest rate cuts this year—one likely in May and another in the second half of the year—as monetary authorities shift towards a more accommodative stance. Given current market conditions, this remains an opportune time to lock in high-yielding fixed-income instruments before rates decline further. Investors should position strategically as the market continues to adjust to the evolving interest rate environment.