CBN holds MPR at 27.5% following inflation decline to 23.71%

At its landmark 300th meeting held on May 19 and 20, 2025, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) unanimously voted to retain the Monetary Policy Rate (MPR) at 27.5%. Other key monetary policy parameters were also maintained - asymmetric corridor around the MPR at +500/-100 basis points, CRR of Deposit Money Banks at 50% and Merchant Banks at 16% and liquidity ratio at 30%.

The decision follows fresh data from the National Bureau of Statistics (NBS), showing that headline inflation eased to 23.71% in April—down 52 basis points (bps) from 24.23% in March. The committee reviewed developments in the global and domestic economy including the risks to the outlook with all twelve members of the committee in attendance.

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%

Source: CBN, Norrenberger Research

Considerations: Relative improvement of key macro-economic indicators

- Nigeria has witnessed a significant convergence between the official exchange rate (NAFEM) and the parallel market rate between January and April 2025 with the average monthly gap shrinking from ₦116.81 in January to ₦9.16 in April 2025. This narrowing gap is a strong indication of improved foreign exchange market stability, reduced arbitrage opportunities, and growing confidence in the CBN's orthodox monetary policies.
- Worthy of note is the reduction in petrol price during the prior month in March, with both the NNPC and Dangote Petroleum Refinery implementing a price cut to approximately ₦860 per litre, aligning with the decline in global crude oil prices. Consequently, inflation in the transport segment eased slightly, with the monthly rate slowing to 1.52% in April from 2.03% in March, reflecting some relief from fuel cost adjustments and improved price stability in transportation services.
- Also, food inflation slowed to 2.06% in April from 2.18% month-on-month. Likewise, inflation on farm produce dropped to 0.9% (from 2.64%), which signals stability in terms of food prices. The committee established that its decision to keep interest rate steady will provide room to monitor and correctly interpret upcoming macro-economic data.

Trends in the global economy

Amidst the global tension, monetary committees have been taken cautious steps in retaining or cutting interest rates to ease pressure and soften domestic demand. In the United States, the Federal Reserve (FED) has adopted a wait-and-see approach, holding rates steady at 4.25% – 4.50% after initiating cuts in late 2024.

The Bank of Japan (BoJ) maintained a neutral stance during its policy meeting on May 1, 2025, holding its benchmark short-term interest rate steady at 0.5%. This marks the second consecutive meeting without a rate change, underscoring the Bank's cautious approach amid persistent global uncertainties.

On the other hand, the Bank of England (BoE) resumed its monetary policy easing, cutting its benchmark rate by 25bps to 4.25%. A move, which reflects efforts to support economic growth in the face of moderating inflation and a slow labour market, as well as ongoing concerns around global trade disruptions and domestic cost-of-living challenges.

Similarly, the People's Bank of China (PBoC) implemented its first rate cut since October 2024, signaling a shift towards more accommodative policy to stimulate growth. In Sub-Saharan Africa, the Bank of Ghana raised its main policy rate by 100bps to 28% in March—the first hike since July 2023—in a bid to contain rising inflationary pressures.

Country	Previous Rate	New Rate (May 2025)	Movement
United Kingdom	4.50%	4.25%	▼
United States	4.25% - 4.50%	4.25% - 4.50%	▬
Japan	0.50%	0.50%	▬
China	1Y LPR: 3.10%/5Y LPR: 3.60%	1Y LPR: 3.00%/5Y LPR: 3.50%	▼

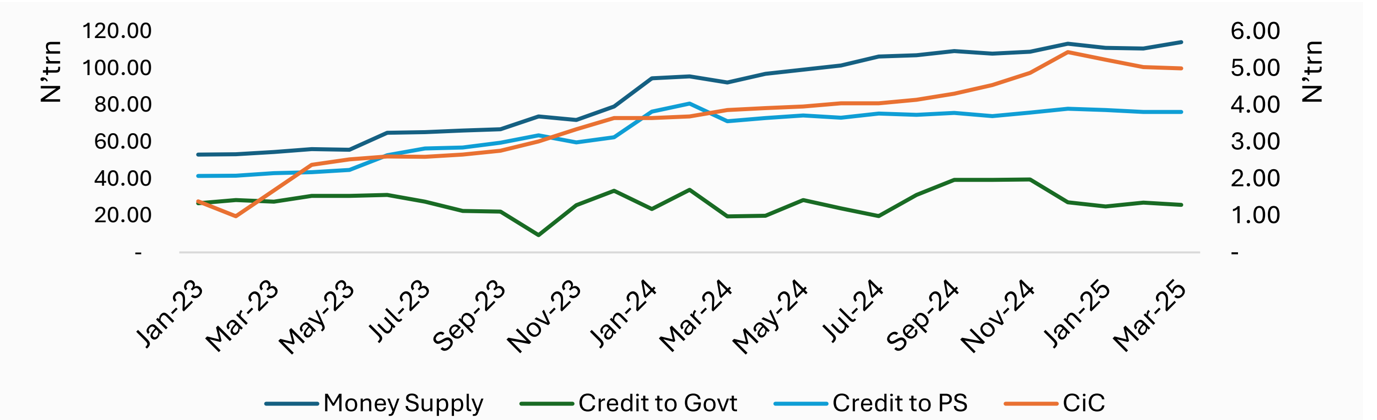
Money Supply still at record high

In March 2025, Nigeria's money supply reached a new record high of ₦114.2 trillion as of March 2025, representing a significant 23.9% increase compared to the ₦92.2 trillion recorded as of the corresponding period of 2024. This substantial growth underscores the continued expansion of liquidity within the economy, partly attributed to the surge in the Net Foreign Assets (NFA).

The currency in circulation also saw a notable rise, increasing by 43.4% YoY to ₦5.0 trillion. Of this amount, ₦4.7 trillion, or 91%, was held outside the formal banking system, highlighting the ongoing reliance on cash transactions despite efforts to promote financial inclusion. On the credit side, private sector lending experienced a slight decline (-2.0%), falling to ₦76.3 trillion.

Meanwhile, the increase in Nigeria's money supply is despite the aggressive monetary policy stance by the CBN, having raised the MPR by over 800bps in the last year, as well as mopping up liquidity through intermittent OMO auctions.

Money Supply and Credit Statistics



Source: CBN, Norrenberger Research

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Bottom line

The CBN's decision to retain the benchmark interest rate at 27.5% underscores the Committee's continued emphasis on price stability as a core policy objective. By maintaining a tight monetary stance, the cost of borrowing is expected to remain elevated, thereby sustaining pressure on funding costs for both individuals and businesses.

Data from the FMDQ highlights this trend, with the average discount rates for quoted non-sovereign securities rising sharply to 23.50% (91–180 days) and 24.27% (181–270 days) as of March 2025, compared to 17.24% and 17.77% respectively in the corresponding period of 2024. This reinforces the high cost of capital environment that firms must navigate.

The MPC also noted its commitment to closely monitor domestic and global developments, particularly the evolving impact of the U.S. trade tensions and associated volatility in global crude oil prices—factors that could have significant spillover effects on Nigeria's macroeconomic environment.

On the equities side, despite the release of generally strong Q1 2025 corporate earnings, investor sentiment has remained tepid. The All-Share Index (ASI) posted a modest 6.6% year-to-date (YTD) gain as of May 20, reflecting the market's cautious posture and the anticipated hold policy, which had largely been priced in. Nonetheless, a more favorable outlook is anticipated in H2 2025, supported by expectations of moderating yields that could spur a reallocation of capital into equities.

Investor confidence may also benefit from recent macroeconomic improvements, including the 52bps decline in headline inflation to 23.71%, and emerging currency stability. These dynamics are particularly relevant for foreign portfolio investors, who accounted for 62.7% of total market activities in March 2025, highlighting their influence on market performance.

In the fixed income market, a downward repricing of yields was observed in the lead-up to the MPC meeting. Average yields in the secondary market stood at 19.07% for bonds and 20.79% for Nigerian Treasury Bills (NTBs). Given the CBN's policy stance, yields are expected to remain relatively stable in the short to medium term, barring any significant macroeconomic shocks.

The next MPC meeting is set to hold on 21st and 22nd of July 2025.

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