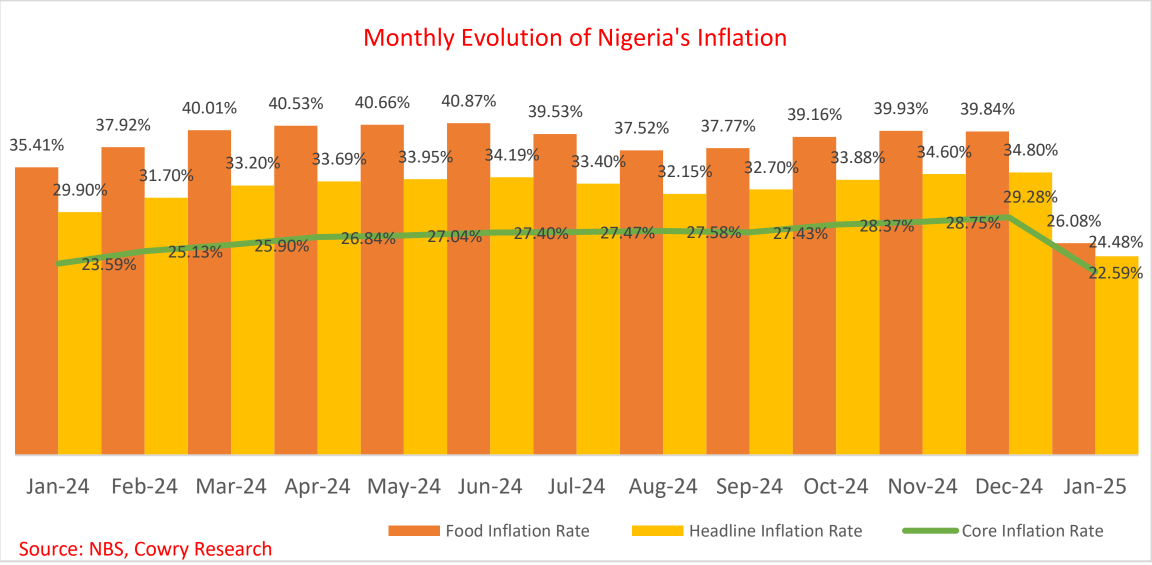
February 19, 2025

Analyst's Note on: Nigeria's Inflation Report – January 2025

Nigeria's Inflation Skids Sharply to 24.48% in January; but Price Pressures Persist……

Nigeria's inflationary outlook has undergone a significant shift following the rebasing of the Consumer Price Index (CPI) by the National Bureau of Statistics (NBS). The latest data for January 2025 shows headline inflation at 24.48%, a sharp decline from December 2024's 34.80%. However, this decline does not signify a reduction in actual price levels but rather stems from the statistical realignment of the inflation basket to better reflect current consumption patterns.

The rebasing exercise involved updating the base year to 2024 and expanding the number of tracked product varieties from 740 to 934, in accordance with the COICOP 2018 classification. The NBS has emphasised that the adjustment improves the accuracy of inflation measurement, but it does not change the reality of rising costs faced by consumers and businesses.



A closer analysis of the new CPI components reveals notable shifts across key inflationary drivers. Rebased food inflation, which previously accounted for over 50% of the old inflation basket, was reported at 26.08% year-on-year in January 2025, down from 39.84% in December 2024 under the old methodology. This change is attributed to price increases in key categories, including alcoholic and non-alcoholic beverages, tobacco, and accommodation services, such as student housing and internet services.

Meanwhile, the rebased core inflation—which excludes volatile agricultural and energy prices—stood at 22.59% in January, compared to 29.28% in December. This reflects the continued impact of rising costs in essential sectors, including housing, water supply, electricity, healthcare, household maintenance, and personal care services.

While the rebasing exercise offers a statistical reprieve, inflationary pressures remain elevated due to persistent structural challenges and policy-driven cost adjustments. Notably, throughout 2024, Nigeria experienced consistent inflationary acceleration, driven by President Bola Tinubu's economic reforms, including the removal of fuel subsidies and the managed depreciation of the naira. These measures, while intended to improve fiscal sustainability and foreign exchange liquidity, significantly heightened production and transportation costs, fuelling broad-based inflation across sectors.

From a policy standpoint, the rebased inflation figures present a new challenge for Nigeria's monetary authorities. Cowry Research observes that the adjusted CPI framework has had a marked impact on real rates of return, potentially improving market sentiment in the short term. However, the sustainability of this inflation trajectory remains uncertain, particularly as upcoming policy shifts, such as the recently approved 50% increase in telecom tariffs, could exert renewed price pressures.

The Monetary Policy Committee (MPC) is now faced with a delicate balancing act—whether to hold interest rates steady to assess the true inflationary trend under the rebased CPI or implement a marginal hike of 15–25 basis points to keep inflationary expectations anchored. Moving forward, the effectiveness of Nigeria's inflation management will depend on a combination of fiscal discipline, exchange rate stability, and structural reforms aimed at improving domestic production and easing supply-side constraints. Markets and policymakers alike will be closely monitoring inflation trends in the coming months to gauge the true impact of the rebased CPI and the broader economic implications for Nigeria.