Analyst's Note on: Outcome of Latest MPC Meeting – February 2025

CBN Pauses Rate Hikes with Cautious Approach as Inflation Declines to 24.48%......

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) concluded its first meeting of 2025 with a unanimous decision to hold the Monetary Policy Rate (MPR) steady at 27.50%, following the aggressive 875 basis points hike implemented in 2024. The committee also retained the asymmetric corridor at +500/-100 basis points, while the Cash Reserve Ratio (CRR) and liquidity ratio remained unchanged at 50% and 30%, respectively.

This decision aligns with expectations of a policy pause amid a sharp decline in inflation following the rebasing of the Consumer Price Index (CPI) by the National Bureau of Statistics (NBS). The rebased CPI indicated that headline inflation fell sharply to 24.48% in January 2025, down from 34.80% in December 2024. However, this decline does not suggest an actual reduction in price levels but rather reflects a statistical realignment of the inflation basket to better capture current consumption patterns.

A closer analysis of the inflation basket shows notable changes in key components. The rebased food inflation rate stood at 26.08% year-on-year in January 2025, a significant drop from the 39.84% recorded in December 2024 under the previous methodology. This shift is attributed to price increases in categories such as alcoholic and non-alcoholic beverages, tobacco, and accommodation services, including student housing and internet services. Meanwhile, the rebased core inflation, which excludes volatile agricultural and energy prices, was recorded at 22.59% in January, compared to 29.28% in December. The decline in core inflation highlights the lingering impact of rising costs in essential sectors such as housing, water supply, electricity, healthcare, household maintenance, and personal care services.

Beyond inflation dynamics, the MPC acknowledged stability in the foreign exchange market, with the naira appreciating and official and parallel market rates converging. This improvement is supported by recent interventions from the CBN, including the launch of the Electronic Foreign Exchange Matching System (B-Match) and the Nigeria Foreign Exchange Code, both designed to enhance market transparency and liquidity. Additionally, there has been a notable improvement in oil production, which rose to 1.54 million barrels per day (mbpd) as of January 2025. This increase is expected to strengthen Nigeria's Balance of Payments (BoP) position and boost external reserves. The committee remains optimistic that investor confidence will improve, leading to a rise in foreign direct investment (FDI), portfolio inflows, and diaspora remittances.

Cowry Research notes that while the sharp decline in the rebased CPI figures might have warranted a rate cut, the MPC opted for a cautious hold to fully assess the trajectory of inflationary pressures, particularly from food prices. Given that global inflation remains a key concern for central banks, the committee highlighted the importance of fiscal discipline, exchange rate stability, and structural reforms to boost domestic production and address supply-side constraints.

In terms of implications, the pause in rate hikes is expected to result in lower yields in the fixed-income market, driven by market expectations of possible rate cuts in the upcoming MPC meeting. Post-MPC decision, the secondary market was predominantly bullish, with the average yields of treasury bills and bonds declining to 20.21% and 19.79%, respectively, from pre-meeting yields of 21.96% and 19.92%.

Going forward, sustained exchange rate stability, improved oil production, and ongoing economic reforms will be key factors influencing the CBN's monetary policy stance. Investors and market participants will be closely monitoring developments to see how the central bank balances its inflation-fighting mandate with the need to support economic growth in 2025.