


# FUNDAMENTALS

## NIGERIA MPC UPDATE: CAUTIOUS PAUSE AMIDST TENTATIVE GAINS



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**Head, Insights**

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## IN BRIEF

- **MPC holds policy rate at 27.5% amidst external uncertainty and inflation volatility.** The Monetary Policy Committee (MPC) of Nigeria's Central Bank retained the Monetary Policy Rate (MPR) at 27.5% at the May 2025 meeting. The Committee's decision aligns with our expectation as we view the uncertain external developments with a resultant downside risk for crude oil price as a threat to Naira stability. Additionally, the post-rebasing inflation dynamics have been less encouraging, with consistent fluctuations in the first four months of the year, emphasizing the need for caution in the policy stance.
- **FX stability returns, but still too early to ease.** The MPC noted improved exchange rate stability, with narrowing of the spread between the official and parallel market rates boosting confidence. Despite the recent foreign portfolio outflows, FX reserves remain strong at USD 38.5bn (7.6 months of import cover), supporting near-term Naira stability around 1,600/USD. However, we believe the fragile external market conditions support continued policy caution.
- **Reform momentum continues, with cautious optimism on diaspora inflows.** The Committee reaffirmed support for sustained FX market reforms, emphasizing the need to boost non-oil FX earnings. We expect the recent launch of the Non-Resident Bank Verification Number (NRBVN) platform to enhance remittance inflows through official channels, although we remain cautious on achieving the authorities' USD 1.0bn/month target. Nonetheless, we think improving non-oil FX inflows support a more stable medium-term outlook for the Naira.
- **Sticky inflation tempers hope for policy shift.** Post-rebasing inflation has remained volatile, hovering around 24.0% and driven by structural issues like food supply constraints, high electricity costs, and FX pressures. With limited disinflation signals and ongoing external uncertainties, we think the MPC is likely to maintain a cautious stance. The back-to-back rate hold suggests an end to the rate hiking cycle, reinforcing expectations for a continued pause in July as the authorities prioritize FX stability and inflation anchoring.

## Holding steady against external headwinds

The Monetary Policy Committee (MPC) of Nigeria's Central Bank unanimously voted to keep all parameters of monetary policy unchanged at its May 2025 meeting. The decision effectively leaves the Monetary Policy Rate (MPR) unchanged at 27.5%, with the asymmetric corridor around the MPR retained at +500/-100 basis points. The MPC's decision aligns with our expectation as we view the uncertain external developments with a resultant downside risk for crude oil price as a threat to Naira stability. Additionally, the post-rebasing inflation dynamics have been less encouraging, with consistent fluctuations in the first four months of the year, emphasizing the need for caution in the policy stance.

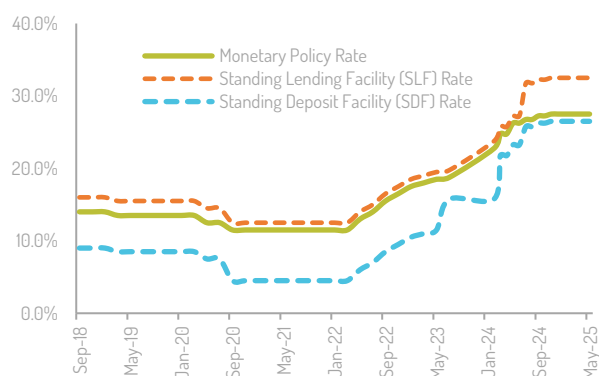
The summarized decision of the MPC is as follows:

- Retained the Monetary policy rate (MPR) at 27.5%
- Retained the asymmetric corridor around the MPR at +500/-100 basis points
- Retained the Cash Reserve Ratio (CRR) of DMBs at 50.0% and Merchant Banks at 16.0%.
- Retained the Liquidity Ratio at 30.0%.

**Signs of exchange rate stability emerge, but too fragile for policy easing.** The MPC acknowledged the progressive narrowing of the spread between the official and parallel market exchange rates with expectation for the resultant improvement in market confidence to support overall moderation in price pressures in the near to medium term.

Our review of the foreign exchange market condition suggests a return to relative stability following geopolitics-induced risk-off sentiments which weighed on the Naira in April 2025. While we are yet to observe indication of sizeable return of foreign portfolio investors, we think the authorities' successful stabilisation of the FX market underscores the resilience of the forex reserves to external shocks. As of 19 May 2025, gross international reserves stood at USD 38.5bn, representing an import cover of 7.6 months. In our view, the strong external account buffer amidst the return to orthodox monetary policy will anchor the Naira around the 1,600/USD levels in the near-term.

POLICY RATE PATH WITH ASYMMETRIC CORRIDOR



SOURCE: CBN, IC INSIGHTS,

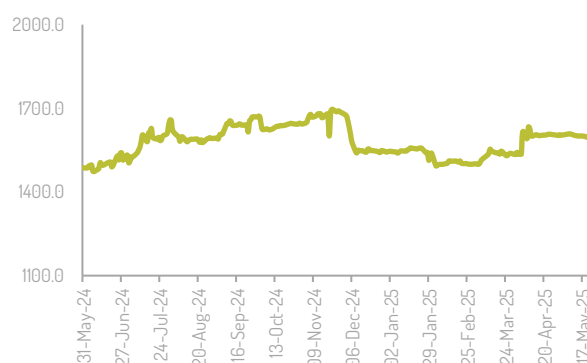
**The commitment to sustained reform is reassuring.** Despite renewed stability in the FX market and the robust forex reserves, the authorities stopped short of declaring victory as the MPC urged the continuation of market reforms amidst the need for stronger non-oil FX earnings.

Within this context, we note the launch of the Non-Resident Bank Verification Number (NRBVN) Platform for Nigerians in the Diaspora as part of the ongoing market reforms to improve non-oil FX reserves. We expect this measure to enhance remittance inflows through official channels as Nigerians in the diaspora gain access to local financial services. Despite our bullish outlook on the potential for enhanced inward remittances in 2025, we are more conservative than the authorities' expected monthly inflow of USD 1.0bn from about USD 394.1mn per month in 2024. However, continued improvement in the non-oil FX inflows bodes well for medium-term outlook on the Naira amidst the volatile global energy prices.

**The fluctuations in the post-rebasing inflation underscores persistent underlying price pressures.** Following the rebasing of Nigeria's consumer price index (CPI) in January 2025, we are yet to observe sustained disinflation trend in the first four months of the new CPI series. Annual inflation continues to oscillate with stickiness around the 24.0% area as structural challenges to food supply are intensified by high electricity tariffs, and persistent FX demand. Given the perennial structural factors, the MPC acknowledged new policies by the fiscal authorities to boost local production, reduce foreign currency demand pressure, and curb the pass-through to domestic prices.

While we expect the Committee's next decision on 22 July 2025 to be influenced by the updated economic data, we think two data points on inflation ahead of the July MPC meeting will offer little confidence in the disinflation path ahead. Additionally, we expect the ongoing external market uncertainty to dominate the near-term policy considerations with sustained FX stability as a priority. However, the decision to retain the MPR at 27.5% for the second consecutive meeting suggests an end to the rate hiking cycle. In view of this, we tentatively maintain our expectation for a continued "Hold" on the monetary policy rate as the authorities seek to ease the FX pressure and anchor inflation expectation

USDNGN EXCHANGE RATE (1-YEAR TREND)



SOURCE: BLOOMBERG, IC INSIGHTS



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