FUNDAMENTALS

# NIGERIA MPC UPDATE:
## STANDING STILL TO MOVE AHEAD

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# IN BRIEF

- **The CBN opts for continued caution over rate calibration.** As anticipated in our May 2025 MPC update, Nigeria's Central Bank held the policy rate steady at 27.5% during its July 2025 MPC meeting, aligning with market expectations. The Committee also left all other monetary parameters unchanged in a cautious resolve to anchor the emerging disinflation.

- **Staying the policy stance will ensure progress on emerging disinflation.** In our view, the inter-meeting inflation data ahead of the July MPC meeting delivered mixed signals. Annual inflation fell for two consecutive months to 22.2% in June while core inflation went up to 22.76% during the June print. We believe the mixed inflation signal reinforced the case for holding the policy stance to consolidate the disinflation trend.

- **Authorities are bullish on continued disinflation but signalled caution ahead.** Without providing specific rate guidance, the MPC noted that its latest projections indicate further disinflation in the months ahead, supported by current tight monetary stance, stable FX, declining petrol prices and moderation in food prices. We view the decision by Dangote refinery to cut petrol prices for the domestic market and the recent Naira rally over the past 3-months as favourable for the disinflation outlook. Nonetheless, we think the rise in core inflation highlights lingering underlying pressures, which will reinforce the MPC's cautious stance until inflation risks abate and the real policy rate rises meaningfully above the current level of 5.3%.

# Eyes on the trend, feet on the brake

As expected in our May 2025 MPC update and in line with market expectation, the Monetary Policy Committee (MPC) of Nigeria's Central Bank unanimously voted to keep the monetary policy rate unchanged at 27.5% at its July 2025 MPC meeting. In addition to staying still on the monetary policy rate, the MPC retained all other parameters of monetary policy at their previous levels, stressing the need to sustain the emerging disinflation trend.

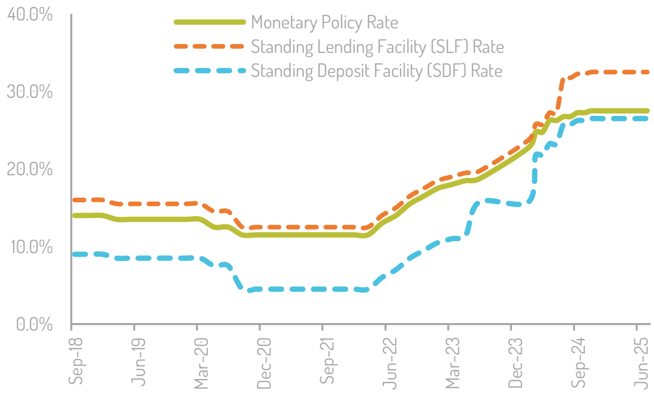
The summarized decision of the MPC includes:

- 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%.

**Staying the policy stance will ensure progress on emerging disinflation.** In our May 2025 MPC Note, we flagged the volatile post-CPI rebasing outturn in annual inflation from January – April as reflecting persistent inflation risk. While we expected the MPC to be data-dependent, we opined that the incoming data ahead of the July 2025 MPC would be insufficient to support a rate cut.

In our view, the two data points on annual inflation pre-July MPC meeting provided mixed signals and strengthened the case for retaining the tight monetary stance in order to consolidate the steady progress on annual inflation. On a positive note, the inter-meeting outturn in annual inflation showed a 149bps decline to 22.2% in June 2025 with the consecutive declines in annual inflation boosting the prospect of re-anchoring inflation expectations. However, the sequential rate reversed the two consecutive months of decline in June 2025 as the month-on-month rate edged up to 1.68% (vs 1.53% in May). This uptick did not go unnoticed by the MPC, and likely tempered any dovish sentiments at the Committee's deliberations. With the Governor citing the structurally high Naira liquidity from legacy financing of Federal Government deficit via the CBN's "Ways & Means" advances in the past, the MPC seems ready to sustain the tight stance until durable progress is observed on disinflation.

POLICY RATE PATH WITH ASYMMETRIC CORRIDOR




SOURCE: CBN, IC INSIGHTS,

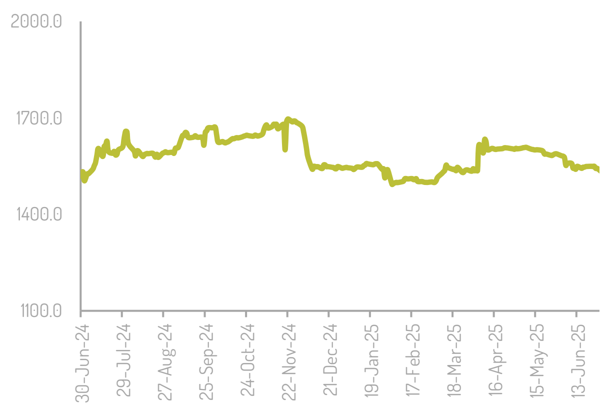
**Authorities are bullish on continued disinflation but signalled caution ahead.** Without providing specific rate guidance, the MPC noted that its latest projections indicate further disinflation in the months ahead. The continued disinflation will be anchored by the current tight monetary stance, stable exchange rate, declining petrol prices, and moderation in food prices as the harvest season approaches.

There are emerging disinflation tailwinds that could potentially curb price pressures in the months ahead. We view the decision by Dangote refinery to cut petrol prices for the domestic market by 2.4% in early July to NGN 820/litre, after a 4.5% reduction on 30 June, as favourable for disinflation. Furthermore, the Naira has witnessed a sustained streak of modest appreciation since May 2025 with a cumulative appreciation of 4.6% against the US Dollar in the past three months.

We continue to observe strong commitment from the Central Bank on FX market reforms and orthodox monetary policy. This has steadily rebuilt forex reserve buffer to USD 40.1bn (9.5 months of import cover) as of 18 July 2025 and will anchor Naira stability against external shocks. Although current crude oil output remains below target of 2.06mbpd, the ongoing recovery to 1.7mbpd in June 2025 (0.4% above Nigeria's OPEC quota and +14.7% in 6M2025) bodes well for FX earnings and Naira stability.

Despite the perceived disinflation tailwinds, we remain highly cautious about the persistence of underlying price pressures as reflected in the 48bps uptick in core inflation to 22.76% in June 2025. This will keep the MPC steady at the current policy stance until inflation risks sufficiently recede and the real policy rate rises markedly from the current level of 5.3%.

USDNGN EXCHANGE RATE (1-YEAR TREND)




SOURCE: BLOOMBERG, IC INSIGHTS

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