Nigeria | Macroeconomics

Ahead Of MPC Report

February 2025

Committee Set to Hold its First Meeting in 2025

Inflation Decline To Prompt Steady Hands on Policy Decisions

The Monetary Policy Committee (MPC) is set to convene for its first meeting of 2025 on February 19th and 20th. We expect local and international economic developments to shape the Committee's consideration.

Since the last meeting, global inflationary pressures have resurfaced, with advanced economies, particularly the US and Eurozone, experiencing rising consumer spending and persistent increases in energy and food prices. Monetary authorities continue to take a cautious stance to sustain economic growth, with these global dynamics having implications for the domestic economy.

On the domestic scene, the sharp decline in headline inflation for January 2025 to 24.48% YoY following the CPI rebasing will be a key factor in the committee's decision. Additionally, the impact of recent central bank interventions on stabilizing the exchange rate, which appreciated marginally during the period is also expected to influence the MPC's stance. However, heightened fiscal spending that suggests worsening fiscal sustainability, could play a crucial role in shaping policy direction.

We expect MPC to continue to prioritize price stability. In our view, the current macroeconomic environment strongly presents a case for a more accommodative approach, as the committee may choose to pause and evaluate the impact of previous hikes on the broader economy. Moreover, the fiscal authority's pressing need to manage borrowing costs further reinforces this position.

We expect the Committee to:

- **Hold MPR steady at 27.5%**
- **Retain Liquidity Ratio at 30%**
- **Retain the Asymmetric Corridor at +500bps/-100bps around the MPR.**
- **Maintain the CRR at 50.00%**

MERISTEM

Economies and Developments

Advanced Economies

Dovish Stance Amidst Persistent Inflation

Since the November 2024 MPC meeting, price levels have remained elevated, with inflation staying above key Central bank targets in major economies. This persistent inflationary pressure is largely driven by pent-up consumer spending amidst rising housing, energy, and food prices. Notably, US inflation rose to 3.00% from 2.90% in December, while Eurozone inflation climbed to 2.50% from 2.40%. Meanwhile, UK inflation, though still high, eased to 2.50% in December from 2.60% in November.

Despite the ongoing inflationary pressures, global monetary authorities have largely maintained a dovish stance, seeking to balance inflation control with economic growth. At its February meeting, the Bank of England (BoE) cut its key interest rate by 25bps to 4.50% to support economic activity. Similarly, the European Central Bank (ECB) continued its easing cycle, lowering its key rate by 25bps to 2.75%, marking its fifth rate cut since mid-2024. Meanwhile, the US Fed kept rates steady at 4.25% – 4.50%.

Policy Shifts Fuels Sustained Expansion

In the midst of this, global economies exhibited modest growth in Q4:2024, supported by monetary easing. The US economy expanded by 0.80% QoQ, reflecting resilience amid a strong labour market and steady consumer spending. The UK posted modest growth of 0.10% QoQ, narrowly avoiding contraction, supported by increased public spending. Meanwhile, the Eurozone grew by 0.40% QoQ, driven by moderate improvements in domestic demand and industrial output.

Oil Prices Caught Between Supply and Geopolitical Uncertainty

The International Energy Agency (IEA) reported a global oil supply increase of 20,000 barrels per day (bpd) in December 2024, reaching 103.53mbpd, driven by higher output from OPEC's African members. Despite the supply boost, Brent crude prices rose to an average of USD74.64 per barrel (pb) from USD73.83 in November, while West Texas Intermediate (WTI) climbed to USD71.25pb from USD67.72.
In January, Brent surpassed USD80pb, and WTI reached USD77pb, driven by seasonal demand and sanctions on Iran and Russia. However, February saw price declines amid potential peace talks between Ukraine and Russia, easing geopolitical tensions and supply concerns.
We anticipate that these developments are likely to be key considerations in the upcoming committee meeting.

Domestic Economy

Strong Oil Output and a Stable Naira Boost Economic Outlook

The Nigerian economy sustained its positive momentum in Q4:2024. According to the Nigerian Upstream Petroleum Regulatory Commission, oil production, including condensates, averaged 1.55 million barrels per day (mbpd) in Q4:2024 from 1.53mbpd in Q3:2024. This growth reflects the impact of government initiatives aimed at enhancing investment and production efficiency in the sector. Notably, January's production, including condensates, reached 1.74mbpd (+7.80% YoY) and a 4.20 MoM expansion from 1.67mbpd in December 2024. Additionally, crude oil output at 1.54mbpd exceeded the 1.50 mbpd OPEC quota for the first time since its introduction in November 2023. This improvement is largely due to enhanced pipeline surveillance, a key component of the federal government's strategy to curb crude oil theft and improve security, which has led to higher output from major terminals such as Bonny, Forcados, and Escravos.

We expect the positive momentum in the country's oil sector to continue. This outlook is supported by ongoing policy reforms, initiatives to boost participation and production in the sector, drive enhanced efficiency and reduction in output losses.

In contrast, the non-oil sector faced significant challenges in Q4:2024, as macroeconomic headwinds, including high borrowing costs, persistent inflationary pressures, and ongoing Naira depreciation, limited growth. This was evident in the Nigerian Purchasing Managers' Index (PMI), which, according to the Central Bank of Nigeria (CBN), fell to 48.93pts in Q4:2024, down from 49.93ps in Q4:2023 and 50.13pts in Q3:2024.
However, a rebound occurred in January 2025, with the PMI rising to 50.20pts, driven by improvements in output (50.90pts), new orders (50.20pts), and employment levels (50.20pts), largely fueled by the industrial and agricultural sectors. This recovery can be linked to the relative stability of the Naira in January 2025, which lowered import costs and encouraged production activities, particularly in the industrial sector.

We anticipate that the non-oil sector's recovery will persist, contingent on sustained exchange rate stability and robust outputs from the services and industrial sectors.

Economies and Developments

A New Baseline: CPI Rebasing Sparks Sharp Drop in Inflation

The National Bureau of Statistics (NBS) reported that inflation eased to 24.48% YoY in January 2025, down from 34.80% YoY in December 2024. Similarly, both the food and core inflation indexes declined to 26.08% YoY and 22.59% YoY, respectively, from 39.84% and 28.40% in the previous month. This significant drop was primarily driven by the rebasing of the Consumer Price Index (CPI), with December 2024 serving as the new base period.

The updated CPI now tracks 934 product varieties, categorized into 13 divisions under the COICOP 2018 framework. Notably, adjustments were made to category weights to align with evolving consumer spending patterns. The relative weight of food in the inflation basket was reduced from 51.80% to 40.02%, thereby lessening the direct impact of rising food prices on overall inflation. Conversely, the allocation to transportation increased from 6.51% to 10.66%, reflecting the growing influence of transport costs on household expenditures.

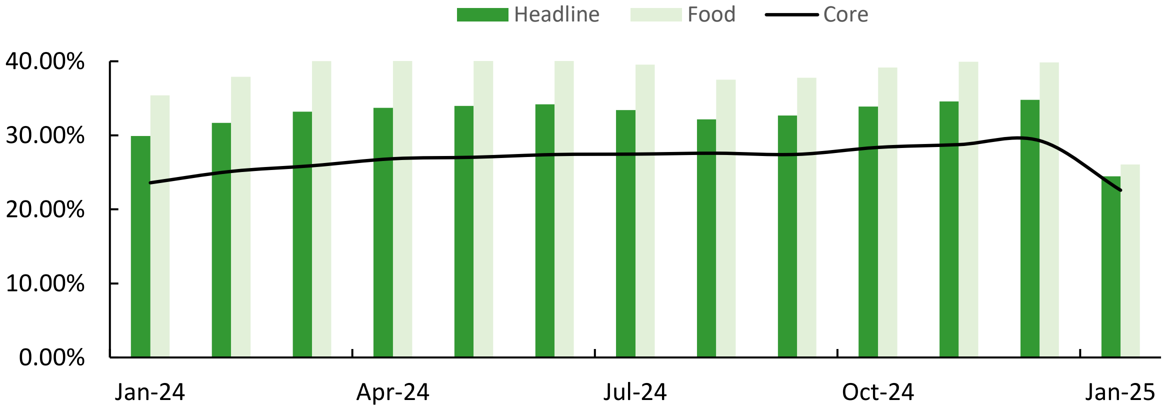
Additionally, the appreciation of the Naira in January 2025 contributed to lower import costs for key commodities such as maize and soybeans, improving supply levels and helping to moderate price pressures. A stronger Naira also reduced import costs for other import-dependent goods, further supporting price stability across the economy. For context, the Naira appreciated by 0.91% MoM in the official window, averaging NGN1,543.29/USD, compared to NGN1,557.33/USD in December 2024.

While the rebased figures do not indicate a decline in overall price levels, we expect inflationary pressures to ease in the near term. This outlook is supported by expectations of relative exchange rate stability, the diminishing impact of previous fuel price hikes, and continued robust supply of key commodities, which could help stabilize prices in the short term.

However, inflationary risks remain in the form of the recently approved telecom tariff hikes, the proposed electricity tariff adjustment, potential supply constraints from lower agricultural productivity during Ramadan and heightened demand leading up to the period. These factors could exert upward pressure on prices in the coming months.

Given the Monetary Policy Committee's (MPC) commitment to inflation targeting, the significant drop in inflation may lead to a more accommodative policy stance, with the committee likely to keep rates unchanged in the near term.

Chart 1: Trend in Headline, Food, and Core Inflation (YoY%)



Source: National Bureau of Statistics (NBS), Meristem Research

MERISTEM

Monetary and Fiscal Policy

Monetary Policy

Domestic Pressures Pivot?

Since the last MPC meeting, several economic indicators have influenced the monetary policy landscape. In December, headline inflation stood at 34.80%, while core inflation reached 29.28% (vs 34.60% and 28.75% in the previous month), highlighting persistent pricing pressures across the economy. Exchange rate has remained relatively stable, with a 10.78% appreciation to NGN1,512.58 as of February 17, driven by CBN interventions and the introduction of the Electronic Foreign Exchange Matching System (EFEMS), easing import-driven inflationary pressures. During the period, the country's foreign reserves declined by 2.88% to USD39.10bn, reflecting the CBN's interventions in the FX market despite a moderate increase in oil prices to USD76.17 per barrel, up from USD74.80/bl at the time of the previous meeting.

Meanwhile, the gap between the official and parallel market exchange rates has narrowed, with the premium in the parallel market decreasing to NGN52.42/USD as of February 17, 2025, compared to NGN57.57/USD at the last meeting. This reduction reflects improved liquidity conditions and market sentiment, partially attributed to the CBN's cautious FX management. Additionally, liquidity conditions fluctuated due to maturing obligations and issuances of OMO bills, which increased excess liquidity absorption. Despite this, the asymmetric corridor remained unchanged (MPR +500/-100), indicating the CBN's cautious approach to maintaining market stability.

The rebasing of inflation to 24.48% presents a more favourable outlook but reflects methodological adjustments rather than a genuine decline in price pressures. This, coupled with the Naira's modest appreciation and narrowing exchange rate premium, could tempt a shift in policy.

The MPC could maintain its current policy stance to sustain exchange rate stability and anchor inflation expectations, allowing time to gauge the true impact of the rebased inflation on the economy.

Fiscal Policy

Budget Deficit likely to Expand

Nigeria's public debt rose to NGN142.30trn in Q3:2024, a 5.97% QoQ increase from NGN134.30trn in Q2:2024, according to the Debt Management Office. This was driven by a 3.10% rise in domestic debt, largely due to increased government borrowings, with Federal Government bonds accounting for 78.95% of the total. External debt jumped 9.22% QoQ, largely due to the Naira's depreciation from NGN1,470.19/USD to NGN1,601.03/USD in Q3:2024. External debt servicing costs surged 29.70% QoQ to NGN2.11trn due to higher payments on multilateral loans, Eurobonds, and Chinese bilateral debt. Meanwhile, domestic debt servicing fell 23.12% to NGN1.43trn, despite a 56.80% spike in treasury bill interest payments.

In the near term, we expect a continuous uptick in the country's debt stock as the projected NGN13.09trn fiscal deficit for 2025 is set to be financed majorly through additional borrowings (70.49% of the funding expected to come from debt issuance). Additionally, the implementation of various tax reforms is likely to weigh on government revenue, further widening the fiscal deficit.

Adjustments to Nigeria's 2025 Budget

Nigeria's 2025 budget increased by 10.64% to NGN54.99trn, up from NGN49.70trn in 2024, driven by higher capital project allocations. Key spending includes NGN1.00trn for the solid minerals sector, NGN1.50trn for Bank of Agriculture recapitalization, and NGN500bn for the Bank of Industry. Infrastructure spending totals NGN1.50trn, with NGN380bn for irrigation and NGN700bn for transportation, split between NGN300bn for roads and NGN400bn for urban light rail.
Debt servicing is revised to NGN14.32trn (down from NGN15.81trn), recurrent spending to NGN13.64trn (from NGN14.21trn), and capital projects to NGN23.96trn (up from NGN16.48trn). With limited revenue growth, the widening fiscal deficit is expected to drive further borrowing.

With the likelihood of increased borrowing volumes and elevated borrowing costs, we expect the MPC to consider these factors in its policy decisions. A hold stance may be preferred to further manage borrowing costs and mitigate fiscal pressures.

Markets

Fixed Income Market

Beyond Liquidity

Activities in the market since the last meeting have been largely driven by liquidity, paper supply, and the government's cautious efforts to manage borrowing costs effectively.

System liquidity has averaged NGN157.79bn since the last meeting, largely due to NGN2.40trn allotment of OMO bills during the period. Additionally, following the 25bps hike in the last meeting (which likely signals the end of the MPC's hiking cycle), rates in the T-bills primary market auction have eased on the 364-day maturity to 20.32% (vs 23.50% during the last meeting), while rates on the 91-day and 182-day maturing remain unchanged at 18.00% and 18.50% respectively. Furthermore, the higher maturity bills compared to the new issuance, signal the government's attention to cost management strategies and effectively smoothening its debt profile.

Rates on the APR-29 and FEB-31 instruments rose by 65bps and 50bps to 21.79% and 22.50% (vs 21.14% and 22.00% in December), while the new issuance JAN-35 printed a higher rate of 22.60%, hinged on paper supply and investors' general expectations.

Overall, performance in the secondary market has been mixed, with average treasury yields declining to 22.08% down from 25.12% in the previous meeting while average bond yields rose to 20.25%, up from 19.45% in the last meeting.

Considering these developments, we expect the MPC to maintain the policy rate at its upcoming meeting. The easing of rates on 364-day treasury bills and the government's focus on borrowing cost management suggest the market is still adjusting to the last 25bps hike. Meanwhile, rising bond yields on longer maturities reflect cautious investor sentiment.

Equities Market

Fundamental Drivers to Sustain Local Bourse

The sentiment in the local bourse has been predominantly positive since the last meeting. Market activities were driven primarily by psychological factors - the December rally witnessed at the end of 2024- and investors' reaction to corporate earnings releases since January 2025. As a result, the NGX-ASI reached a new high of 109,171.82 as of 13th February 2025.

In the same vein, performance across sectors has been mixed, leaning in favour of the bulls. As of February 14, 2025, **NGXBNK** (+14.59% YtD), **NGXINDUSTR** (+3.02% YtD), **NGXINS** (+1.81% YtD), **NGXCNSMRGS** (+0.08% YtD), **MERI-TELCO** (+3.61% YtD) and **MERI-AGRIC** (+1.45% YtD) remained in the green territory, while **NGXOILGAS** (3.33% YtD) closed in the red zone, due to sell-offs on **ARADEL**, **CONOIL**, **MRS**, and **TOTAL** ,overshadowing strong gains in **ETERNA** and **OANDO**. Moreover, our analysis reveals that the significant interest in banking tickers reflects investor interest in fundamentally strong stocks, particularly amidst the ongoing corporate earnings season.

Also, we witnessed a healthy foreign inflow during the period. This trend may reflect global interest rate easing and the resilience of key sectors such as banking and oil and gas, which likely encouraged foreign investors to maintain their positions rather than exit the market. Nonetheless, we reiterate that domestic investors continue to dominate proceedings (86.72% market share as of December 2024).

While we posit that the activities of the equities market may have minimal influence on the MPC's decision, we note that sensitivity to movement in fixed-income yields will remain a downside to market performance in the medium term.

MERISTEM

CONTACT INFORMATION

Brokerage and Retail Services
hnimanagement@meristemng.com (+234 905 569 0627)
crmstocbroking@meristemng.com (+234 808 369 0213)
contact@meristemng.com

Investment Banking/Corporate Finance
rasakisalawu@meristemng.com (+234 806 022 9889)
davidadu@meristemng.com (+234 810 940 4836)

Wealth Management
funmilolaadekola-daramola@meristemng.com (+2348033550008234)
customerrelationshipmanagement@meristemng.com; WealthManagement@meristemng.com
Tel : +234 702 564 0072;
0700-MERISTEM crmwealth@meristemng.com

Registrars
info@meristemregistrars.com (020 128 09251)
www.meristemregistrars.com (+234 80 00 063 74734)

Trust Services
crmtrustees@meristemng.com (+234 702 564 0071)
trustees@meristemng.com

Group Business Development
ifeomaanyanwu@meristemng.com (+234 802 394 2967)
info@meristemng.com

Finance
muboolasuko@meristemfinance.com (+234 803 324 7996)
matthewawotundun@meristemfinance.com (+234 802 390 6249)

Client Services
adefemitaiwo@meristemng.com (+234 803 798 3762)
car@meristemng.com (+234 01-280 9250)

Investment Research
praiseihansekhien@meristemng.com (+234 817 007 1512)
research@meristemng.com

Corporate websites:
www.meristemng.com **www.meristemwealth.com** **www.meristemregistrars.com**

Meristem Research can also be accessed on the following platforms:

Meristem Research Portal: research.meristemng.com
Bloomberg: MERI <GO>
Capital IQ: www.capitaliq.com
ISI Emerging Markets: www.securities.com/ch.html?pc=NG
Reuters: www.thomsonreuters.com
FactSet: www.factset.com