



**Nigeria** | Macroeconomics

# Ahead Of MPC Report

# Committee Set to Hold its Fourth Meeting in 2025

## Imminent monetary Pivot?

The Monetary Policy Committee (MPC) will convene for its fifth meeting in 2025 on September 22nd and 23rd. Both domestic and international economic developments are expected to shape the Committee's decision.

Since the committee's last meetings, major economies have witnessed easing monetary policy stances due to growth concerns and a weaker labour market, despite lingering inflationary pressure and upside risks. These decisions were influenced by the need to strike a balance between sustaining economic growth and controlling inflation.

In the domestic economy, macro indicators have remained favourable, evidenced by the declining inflation pace (20.12% YoY in August, from 21.88% YoY in July) due to slower upticks in both core and food components, and the relative currency stability during the period. In the same vein, economic growth has proved resilient, supported by higher oil production and a gradual recovery in the real sector.

We expect the inflation trajectory (post rebasing) and relative FX stability to be key considerations in the MPC's deliberation. As such, this presents a compelling case for a dovish pivot from the committee's current stance. Meanwhile, concerns over lower-than-projected crude oil revenue and its potential impact on FX earnings may pose risks to foreign reserves accretion.

**In light of a lower global interest rate environment and improving domestic macroeconomic indicators, we expect the MPC to strongly consider a rate cut. However, we maintain the likelihood of a sustained hold stance, as the committee ultimately evaluates country-specific macro risks.**

We expect the Committee to:

- **Hold MPR steady at 27.50%**
- **Retain Liquidity Ratio at 30.00%**
- **Retain the Asymmetric Corridor at +500bps/-100bps around the MPR.**
- **Maintain the CRR at 50.00%**

# Economies and Developments

## Advanced Economies

### Weighing Policy Decision Against the Macroeconomic Backdrop

On the global stage, major economies have largely held policy rates steady for most of the year, carefully balancing the risk of renewed inflation risks against mounting global uncertainties. Trade tensions, reignited in April by the US alongside other geopolitical strains, have continued to shape policy decisions.

In the US, the Federal Reserve delivered its first rate cut of 2025 in September, lowering the federal funds rate by 25bps to a range of 4.00%–4.25%. This move came despite inflation creeping higher (2.90% in August vs 2.70% in July). The Fed's key motivation was to stimulate economic activity, given signs of a cooling labor market: job gains have been slowing while unemployment edged up slightly to 4.30% (from 4.20%). The growth weakness further underpinned the Fed's action, with the economy contracting in Q1:2025 (-0.50%) before rebounding to +3.30% in Q2:2025.

In the UK, inflation remained elevated at 3.80% in August, unchanged from July and still well above the Bank of England's (BoE) 2.00% target. With medium-term inflationary pressures persisting, the Bank of England (BoE) has taken a cautious stance. The economy has slowed significantly, with GDP growth decelerating to 0.30% in Q2:2025 (from 0.70% in Q1:2025 and 0.50% in the same period last year), while labor market momentum has weakened.

Against this backdrop, the BoE opted to keep its policy rate steady at 4.00% in September, following an earlier cut in August. The central bank has also slowed the pace of its quantitative easing program, signaling that a gradual and measured approach to easing remains the most prudent path forward in an environment of stubborn inflation and softening growth.

The Euro Area, meanwhile, has exhibited comparatively stronger macroeconomic stability. GDP growth has held steady at 1.50% in Q1:2025 and 1.40% in Q2:2025, while inflationary pressures continue to ease, flat at 2.00% for the third consecutive month in August. Labor market conditions have also shown improvement, as unemployment fell to 6.20% in July.

Reflecting this relative resilience, the European Central Bank (ECB) kept rates unchanged at 2.15% in its September meeting. Thus, leaving any potential rate cuts likely deferred until later in the year or further into next year, allowing policymakers to fully assess downside risks before adjusting policy further.

### Uncertainties Still Weigh Heavily on Global Oil Prices

The recently imposed trade tariffs have been a key driver behind the newly established lower crude oil price levels. Brent crude averaged USD74.77 per barrel earlier in the year but slipped to an average of USD64.87 per barrel, bringing the quarter-to-date average to USD69.61 per barrel. The decline was further compounded by OPEC+'s decision to increase production by 137,000 bpd in October 2025, compared to 411,000 bpd in June and July, and 555,000 bpd in August and September. This move was aimed both at disciplining non-compliant members and regaining market share, but it has added downward pressure on prices.

Looking ahead, the global oil market faces a delicate balance. Trade tensions and economic uncertainties continue to cloud the outlook for demand, while increased supply from the OPEC+ alliance keeps the market well-stocked. Consequently, oil prices are expected to remain subdued through the rest of the year. For energy-importing economies, these lower prices provide some relief by helping to ease inflationary pressures. However, for oil-dependent economies like Nigeria, the price weakness represents a significant fiscal challenge.

**Against this backdrop, we expect the monetary authority to continue carefully assess the overhanging inflationary pressures, global monetary policy trends, potential risks to economic growth, weakened global oil prices, and their possible impact on the domestic economy at its upcoming meeting.**

# Economies and Developments

## Domestic Economy

### Economic Momentum To Remain Strong

According to the National Bureau of Statistics (NBS), Nigeria’s economy expanded by 4.23% YoY in Q2:2025 (from 3.48% in Q2:2024), supported by growth in both the oil and non-oil sectors. The oil sector surged 20.46% YoY (vs. 10.08% in Q2:2024), driven by higher crude production (1.68mbpd in Q2:2025 vs. 1.41mbpd in Q1:2024) and a favorable base effect. Likewise, the non-oil sector grew by 3.64% YoY (vs. 3.26% in Q2:2024), led by contributions from Telecommunications, Crop Production, Real Estate and Financial Institutions.

This economic momentum extended into July and August 2025, driven by strong oil and non-oil activity. Oil output hit a six-month high of 1.71mbpd in July (+0.90% MoM), with crude (ex-condensates) rising above Nigeria’s OPEC quota for the second month, to 1.51mbpd. The gains were driven by stronger security measures and operational improvements that boosted terminal receipts while reducing theft and pipeline vandalism. In August, however, production dipped 4.68% MoM to 1.63mbpd as maintenance disruptions cut output, with major terminals posting declines. Crude oil output (excluding condensates) declined by 4.85% MoM to 1.43mbpd, falling below Nigeria’s OPEC quota.

We expect oil production to rise further on the back of improved security, higher rig activity, and stronger local output post-IOC divestments. Additionally, government measures including tax incentives, new licenses, and partnerships with majors like Shell and TotalEnergies should further attract investment, supporting medium- to long-term growth.

Similarly, non-oil activity expanded for the ninth consecutive month, with the Central Bank of Nigeria (CBN)’s Purchasing Managers’ Index (PMI) reading at 51.70pts in August 2025. The sustained growth was supported by easing inflationary pressures and a stable Naira, which lowered input costs and boosted production capacity. Steady interest rates following the MPC’s decision to hold rates since the beginning of the year further buoyed this expansion.

We expect the expansionary trend to continue, hinged on sustained exchange rate stability, moderate prices, and fiscal policy tailwinds. Thus, we expect the MPC to maintain rates, given our projection of sustained growth momentum and resilient economic performance.

### Harvest, Stability and Policy Support to Sustain Disinflation

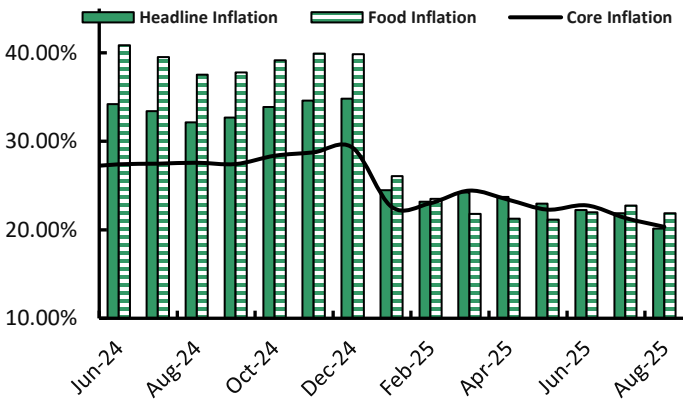
The NBS also reported that Nigeria’s headline inflation eased for the fifth straight month to 20.12% YoY in August 2025 (from 21.88% in July 2025), driven by declines in both food and core inflation. Food inflation slowed to 21.87% from 22.74% in July, reflecting softer average food prices, supported by the ongoing harvest season and relatively stable global commodity prices. Core inflation also eased for the second consecutive month, falling by 100bps to 20.33% YoY from 21.33% in July, aided by a stable Naira.

On a monthly basis, headline and food inflation eased to 0.74% MoM and 1.65% MoM, respectively in August, from July’s 1.99% and 3.12%. However, core inflation ticked higher to 1.43% MoM (vs. 0.97% in July), largely due to higher PMS prices early in the month—given the NBS’s emphasis on the first 14 days in its inflation computation—and the temporary 4.0% FOB import charge (scrapped in September), which likely contributed to the uptick.

We expect food inflation to ease further driven by the ongoing harvest season (which should bolster food supply), stable global commodities prices, and gains from government measures to boost food security. Core inflation should also remain moderate on the back of continued Naira stability, steady fuel prices, and favourable fiscal policies. However, risks from global energy market volatility and supply chain disruptions could temper the disinflationary trend.

Against this backdrop, we expect the MPC to stay cautious and keep the MPR unchanged, prioritising the sustainability of the ongoing disinflation trend.

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



# Fiscal and Monetary Policy

## Fiscal Policy

### Fiscal Burden Deepens

The Debt Management Office (DMO) reported that Nigeria’s total public debt rose by 3.28% QoQ in Q1:2025, reaching NGN149.39trn from NGN144.67trn in Q4:2024. This increase was largely driven by a 5.87% rise in domestic debt to NGN78.75trn, fueled by higher issuances of Federal Government bonds and Treasury bills.

External debt inched up by 0.48% QoQ, tempered by the naira’s appreciation to an average of NGN157.62/USD during the period. Debt servicing costs accelerated significantly. Domestic debt service jumped by 65.19% QoQ to NGN2.61trn, spurred by a 156.45% spike in Treasury bill interest payments. Similarly, external debt service rose by 28.70%, reflecting higher obligations on multilateral loans, Chinese bilateral debt, and Eurobonds.

At the close of September, the Federal Government flagged off the NGN54.99trn 2025 budget, with major allocations to solid minerals, agriculture, transportation, and industry. However, funding needs will outpace revenue inflows in the near term suggesting that additional borrowing will be required to bridge the financing gap in the interim. While reforms and policies may strengthen revenue prospects over time, the near-term outlook points to rising debt levels, elevated borrowing costs, and increased fiscal strain.

*Against this backdrop, we expect the Monetary Policy Committee (MPC) to weigh these dynamics carefully. A rate cut could help ease debt-servicing pressures and support fiscal sustainability, though persistent inflation risks may complicate the policy path.*

## Monetary Policy

### Room for Easing, Caution Still Prevails

Following the last MPC meeting, macroeconomic conditions have continued to shape the policy outlook. Inflation extended its downward path, with headline inflation easing to 20.12% YoY in August, from 21.88% in July. Beyond the rebasing earlier in the year, the moderation shows that food and core price pressures have weakened. Importantly, the recent stability in the exchange rate has helped dampen imported cost pressures, reinforcing the disinflation trend.

The currency stability has been underpinned by stronger external buffers. Gross external reserves rose to USD41.90bn as of September 16, 2024, the highest since the CBN adopted its “wait-and-see” stance in late 2024. The build-up has been driven by higher crude oil production, which recovered to 1.7mb/d from an average of 1.55mb/d, and sustained foreign portfolio inflows encouraged by still-elevated domestic yields. Stronger reserve cover has provided the CBN with greater capacity to manage FX market imbalances, which in turn has supported naira stability and further eased inflationary pressure.

In the FX market, the naira strengthened at the NAFEM window to NGN1,494.01/USD, breaking below the NGN1,500.00/USD mark, while the parallel market held steady at NGN1,520.00/USD as of September 17, 2025. The narrower gap between the two markets points to improved liquidity conditions and more orderly price discovery. On the domestic liquidity front, system liquidity climbed to NGN2.68trn in September, boosted by maturities and inflows that outweighed the CBN’s sterilisation efforts through four OMO issuances since the last MPC meeting. Despite this, broad money supply (M3) declined to NGN117.50trn as of June 2025, underlining the CBN’s resolve to restrain monetary expansion even in the face of temporary liquidity surpluses.

*Looking ahead, recent progress on disinflation, a more stable exchange rate, and the U.S. Fed’s rate cut create some room for policy easing. However, we expect the MPC to leave the policy rate unchanged at this meeting, opting instead to consolidate recent gains, sustain foreign capital inflows, and guard against a premature shift in stance.*

Markets

Fixed Income Market

Macro Stability Opens Window for Curve Realignment

The fixed income market has moved in two directions. In the Treasury bills segment, stop rates declined across all maturities, settling at 15.00%, 15.30% and 16.78% for the 91-day, 182-day and 364-day instruments. Demand was heavily skewed to the long end, with subscriptions for the 364-day paper rising to NGN1.48trn compared with NGN609.32bn at the previous auction. The sharp increase shows investors positioning to lock in current yields at a time when disinflation, improved FX stability and stronger external buffers are beginning to create expectations of lower rates.

The bond market, however, faced upward pressure. At the latest PMA, the stop rate on the 32s climbed to 18.00% from 15.90%, while a new 2030 issuance cleared at 17.95%. Subscriptions fell to NGN268.17bn and allotments to NGN136.16bn, down from NGN300.67bn and NGN185.93bn at the previous auction. Softer demand forced the DMO to adjust clearing levels higher, suggesting that investors remain cautious about duration given fiscal borrowing pressures and uncertainty around government supply.

Secondary market activity has been consistent with these primary outcomes. Average Treasury bill yields rose by 73bps to 18.43%, while bond yields increased by 24bps to 16.60%. The steeper rise at the short end indicates stronger investor preference for liquid, high-yielding assets, while long-term bonds have been weighed down by concerns about issuance volumes and the risk of higher term premia.

*We believe there is a credible case for yields to ease. The improving macro conditions, if sustained, could drive renewed portfolio flows and support lower funding costs, particularly for T-Bills where demand is already strong. Elevated government financing requirements and the potential for additional supply will continue to exert pressure at the long end of the curve. The near-term outlook is therefore for a gradual moderation in yields at the short end, while the bond market may remain more sensitive to supply dynamics.*

Equities Market

Mixed Sentiment Characterise Local Bourse

Since the last MPC meeting, sentiment in the local bourse has been mixed, mainly due to the mild appetite for stocks among investors. A bearish trend chiefly dominated market activities, as profit-taking followed the significant appreciation recorded across tickers. However, renewed interest in insurance stocks, following the enactment of the Nigerian Insurance Industry Reform Act (NIIRA 2025), gave a lift to market momentum. At the same time, investors began repositioning ahead of earnings releases (particularly the H1 :2025 results for banks), which further supported activity.

Sector performance was largely positive, with **NGXCNSMRGDS** (+92.76%), **NGXINS** (+76.21%), **NGXBNK** (+40.22%), **NGXINDUSTR** (+37.99%), **MERI-TELCO** (+32.16%), and **MERI-AGRIC** (+179.30%) all recording strong gains. The only exception was **NGXOILGAS**, which closed lower at -8.19%.

In the same vein, foreign investors’ participation in the Nigerian equity market improved, accounting for 8.04% of total trade value in July. Although this was lower than the 17.89% recorded in June. Meanwhile, block transactions by domestic institutional investors drove 83.92% of the outperformance relative to foreign investors.

*In our view, while the activities of the equities market have not been a strong influence on MPC decisions, the easing inflation and exchange rate stability have continued to strengthen investor confidence and improve appetite towards stocks.*

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