

# Nigeria | Macroeconomics

# Post MPC Report



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## Balancing Growth Support with Stability

At its 302nd Monetary Policy Committee (MPC) meeting held on September 22nd and 23rd, 2025, the Committee voted to cut the Monetary Policy Rate (MPR) by 50bps to 27.00% (the first rate cut since September 2020). Other key decisions include reducing the Cash Reserve Ratio (CRR) for Deposit Money Banks by 500bps to 45.00%, while keeping the CRR for Merchant Banks at 16.00%. The MPC also retained the Liquidity Ratio at 30.00% and adjusted the Asymmetric Corridor to +250/-250bps around the MPR. Additionally, a 75.00% CRR on Non-TSA public sector deposits was introduced.

On the global front, the MPC assessed the outlook for output recovery, noting that growth is expected to improve on the back of favorable trade negotiations and continued monetary easing in advanced economies. However, persistent geopolitical tensions and lingering trade uncertainties could still disrupt global supply chains.

Domestically, the Committee expressed satisfaction with the prevailing macroeconomic stability, reflected in several indicators: sustained disinflation, stronger output growth, a stable exchange rate, and robust external reserves. Members also noted the persistence of excess liquidity in the banking system, driven by fiscal injections supported by higher revenues, and highlighted its potential risks to financial stability. The adjustment in the width of the standing facilities corridor was therefore aimed at boosting interbank transactions and strengthening monetary policy transmission. The Committee further acknowledged the progress of the ongoing bank recapitalization exercise, with fourteen banks having fully met the new capital requirements. In addition, the marked improvement in oil sector performance is expected to bolster foreign exchange reserves and support continued stability in the FX market. Overall, the Committee concluded that the combination of improving domestic fundamentals and global dynamics justified the decision to ease policy at this meeting.

The MPC's recent policy decision is expected to ease pressure on the real sector while reinforcing stability in the FX market. In the fixed-income space, yields are likely to trend lower, reducing its attractiveness. Conversely, we anticipate a positive bias in the equities market as investors reprice assets in line with the prospects of a more stable macroeconomic environment.

## Committee's Decisions

- In summary, the Monetary Policy Committee (MPC) opted to adopt a dovish stance by:
- Reduced the benchmark rate (MPR) by 50bps to 27.00%.
  - Reduced the Cash Reserve Ratio (CRR) of Commercial Banks by 500bps to 45.00%.
  - Retaining the Cash Reserve Ratio (CRR) of Merchant Banks at 16.00%.
  - Retaining Liquidity Ratio at 30.00%.
  - Adjusted the Asymmetric Corridor to +250bps/-250bps around the MPR.
  - Introduced a 75% CRR on Non-TSA Public Sector Deposits.

# Anticipated Impacts

## The Banking Sector

### Policy Relief Lands, Loan Books to Hold Fort

The MPC’s decision to lower the MPR by 50bps to 27.00% is the first rate cut since 2020. It is accompanied by a reduction in the CRR for commercial banks from 50.00% to 45.00%. With industry deposits of about NGN149.85trn (listed banks, Q1:2025), the lower CRR translates to roughly NGN7.49trn in additional funds that can be deployed toward credit expansion. At the same time, the introduction of a 75.00% CRR on non-TSA deposits effectively sterilises idle public sector balances, helping contain the liquidity build-up that has previously complicated monetary control. The measure also reduces reliance on frequent OMO issuances to absorb excess cash. Altogether, these steps are indicative of a better liquidity condition independent of short-term price pressures, while still sustaining credit transmission. Importantly, with 14 banks having already met the recapitalisation target, the system has stronger balance sheet capacity to intermediate this liquidity into productive lending.

Net interest margins should see some support from lower funding costs, though the extent of the gain will depend on how effectively banks can grow their loan books. With the corridor narrowed to +250/-250bps, interbank rates should align more closely with the MPR, reducing funding costs. Banks (e.g. **UBA & STANBIC**) with low-cost retail deposits stand to capture the most upside, while others (e.g. **FIRSTHOLDCO & WEMABANK**) more reliant on expensive term deposits may struggle to reprice liabilities quickly.

Lending rates are expected to edge lower, though the adjustment typically lags funding costs, offering only temporary margin support. Over the medium term, interest income growth will hinge on balance sheet expansion. While yields on loans and advances will soften, we believe that expanding loan portfolios should more than compensate, especially given the relatively lower risk in the real sector. For banks unable to grow lending at scale, the erosion of asset yields relative to funding costs will translate into weaker income performance.

Asset quality may improve modestly as funding conditions ease. Lower borrowing costs should strengthen repayment capacity in the real sector, reducing stress on loan books. With system NPLs around 5%, a decline is possible if macro gains hold.

## The Real Sector

### A Gentle Pivot: Measured Relief for the Real Sector

The Monetary Policy Committee (MPC)'s move to reduce the Monetary Policy Rate (MPR) by 50bps to 27.00% (the first rate cut in five years) reflects the sustained disinflationary trend observed over the past five months, supported by exchange rate stability and stronger foreign reserves. While the adjustment is relatively modest, it signals a clear pivot from the hawkish monetary stance maintained since May 2022.

Given the limited scale of the reduction, we do not expect a significant decline in borrowing costs in the short term, as the scope for downward loan repricing remains minimal. However, the accompanying measures: the 500bps reduction in the Cash Reserve Ratio (CRR) for commercial banks and the narrowing of the asymmetric corridor to +250/-250bps around the MPR, are expansionary actions that are expected to ease liquidity pressures and improve credit supply to the real sector. This could stimulate business investment and household spending, providing additional support to economic growth, particularly in the non-oil sector. On the other hand, the newly introduced 75% CRR on Non-TSA Public Sector deposits serves as a liquidity management tool, which could partially offset these expansionary measures by limiting the banks’ lending capacity to the real sector.

*Overall, we view the reduction in the MPR as an important first step toward easing financing conditions for the real sector, as it signals scope for further downward pressure on borrowing costs for businesses. Also, the 500bps cut in the CRR for commercial banks and the adjustment of the asymmetric corridor, are expected to improve credit access, support business investment, and ultimately strengthen economic output. While the newly introduced 75.00% CRR on Non-TSA Public Sector deposits may temper the extent of credit expansion, we expect a net positive impact on the real sector. This outlook is further underpinned by steady interest rates and easing cost pressures, which together create a supportive environment for a sustained rebound in real sector activity over the near to medium term.*

# Anticipated Impacts

## The Fixed Income Market

### Policy Adjustments Signal Softer Yields Ahead

Liquidity conditions in the fixed income market are set to change following the MPC’s latest policy adjustments. The cut in the CRR for commercial banks frees up a sizeable pool of funds that will naturally seek deployment in short-term government securities. Against this backdrop, yesterday alone, the Jan-26 and Jul-26 instruments declined by 60bps and 66bps, respectively, bringing average yield down to 18.36% (vs 18.41% previously). Additionally, we observed strong demand on short and mid-term bond instruments. We believe that with additional liquidity, appetite for bills is expected to remain strong, sustaining downward pressure on yields at the front end. Interbank and repo rates should also align more closely with the MPR corridor, lowering funding costs and reinforcing the bid for money market instruments. For context, interbank rates moderated, with the OPR easing to 25.50% (from 26.50%) and the OVN declining to 25.92% (from 26.96%).

We expect the pace of OMO issuances to slow, given the recent 75% CRR policy which already tightens system liquidity. With NGN7.56trn in OMO maturities and NGN1.02trn in bond maturities scheduled for Q4:2024, reinvestment flows should keep demand for fixed income instruments elevated.

On the corporate side, demand for debt instruments is expected to remain strong, though pricing dynamics may vary across issuers. High-grade corporates are likely to benefit from lower borrowing costs, as investors maintain a focus on credit quality and risk-adjusted returns. While overall yields may remain elevated in the near term, the trend points toward gradual moderation, especially if inflation continues to ease and policy support remains consistent.

## The Equities Market

### Balancing Optimism with Caution

Following the MPC’s decision to cut the policy rate by 50bps, we anticipate a positive impact on the Nigerian equity market, with robust bullish sentiment and increased appetite for real-sector tickers.

This optimism is underpinned by improving macroeconomic fundamentals: headline inflation recorded a fifth consecutive month of disinflation, easing to 20.12% YoY in August; GDP expanded by a healthy 4.23% in Q2:2025; and foreign portfolio inflows remain resilient. The disinflationary trend also strengthens the case for further monetary easing in subsequent meetings.

Additionally, the recent decline in yields at the NTB auctions signals the waning attractiveness of the fixed income space, which could further redirect liquidity into equities. In this context, we expect investors to begin positioning in interest-rate and FX-sensitive sectors, anticipating revived earnings growth on the back of lower financing costs, easing input cost pressures, and stronger consumer demand.

*While we remain constructive on near-term equity market participation, we acknowledge the likelihood of intermittent pullbacks as investors weigh corporate actions alongside evolving domestic and external macroeconomic conditions.*



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