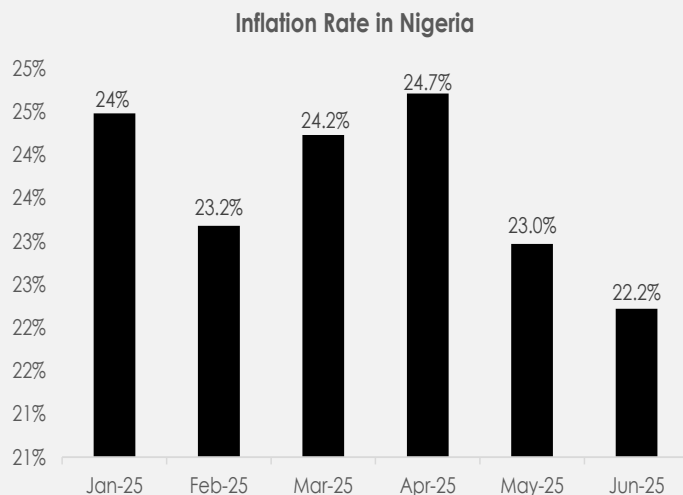


Countdown to a Cut: Will the MPC Pull the 0.5% Trigger?

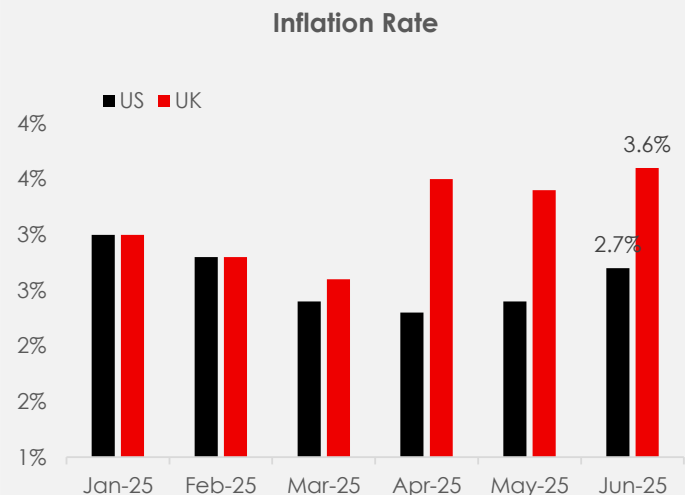
The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) is scheduled to hold its third meeting of 2025 from Monday, 21 July to Tuesday, 22 July 2025. Against the backdrop of improving macroeconomic indicators in the first half of the year, there are growing expectations that the MPC may consider a gradual easing of its tight monetary policy stance. However, two key headwinds may prevent a rate cut at this meeting: the uncertain global economic environment, particularly driven by U.S. trade policy shifts, and the continued growth in domestic money supply (M3).

Domestic Macroeconomic Developments: Signs of Stability

While the National Bureau of Statistics (NBS) has not released rebased Gross Domestic Product (GDP) data for Q1 and Q2 2025, forward-looking indicator, Purchasing Managers' Index (PMI) suggests underlying economic resilience. The PMI published by the CBN remained above the 50-point threshold throughout H1 2025, signaling expansion. In June 2025, the PMI stood at 52.3 points, reflecting sustained business confidence and production activity. Inflation, though still elevated at 22.22% in June 2025, has declined from 24.48% in January 2025. A further reduction in inflation is likely if security in key food-producing regions improves and the exchange rate remains stable.



Source: NBS, United Capital Research



Source: Bloomberg, United Capital Research

Exchange Rate and External Sector: Strengthening Fundamentals

The Naira appreciated modestly in H1 2025, moving from ₦1,535.82/US\$ on 31 December 2024, to ₦1,529.71/US\$ on 30 June 2025, and remained relatively stable at ₦1,533.11/US\$ as of 17 July 2025. The appreciation has been driven by: improved investor confidence in the economy and CBN leadership; increased FX supply for legitimate demand and declining imports alongside growing exports. On the external front, Nigeria's crude oil production rose to 1.51 million barrels per day (mbpd), slightly above The Organization of the Petroleum Exporting Countries (OPEC's) quota, while the average oil price for H1 2025 was US\$73.46/barrel—slightly below the 2025 budget benchmark of US\$75/barrel. Nonetheless, new investments in the energy sector should support increased production capacity in the near term.

Capital importation also recorded a significant improvement. Total inflows rose by 36% year-on-year to US\$8.14 billion as at May 2025. Notably, portfolio investments in money market instruments surged to US\$5.88 billion, constituting 72% of total inflows, compared to US\$2.68 billion (45%) in the same period of 2024. Additionally, Nigeria posted a strong trade surplus, with the balance of trade improving by 87% to US\$5.79 billion as of May 2025, up from US\$3.08 billion in the prior year. Exports rose by 2% to US\$23.32 billion, while imports declined by 11% to US\$17.53 billion. These trends contributed to the relative calm in the FX market. OPEC's recent announcement of a 548,000 bpd production increase for August 2025 among OPEC+ members signals expectations of stronger global oil demand, further supporting Nigeria's external position.

Monetary Policy Outlook: Still Too Soon to Ease?

Despite domestic improvements, there are lingering concerns globally. The U.S. and UK inflation rates for June 2025 climbed to 2.7% and 3.6% respectively—both above their 2% targets—raising questions about the timing of monetary easing in advanced economies. U.S. Bond yields have already begun responding to these inflation surprises. On the domestic side, money supply (M3) in Nigeria grew by 19.9% year-on-year to ₦119.01trillion in May 2025, up from ₦99.24trillion in May 2024. This robust liquidity, coupled with ongoing capital-raising efforts by banks to meet CBN's recapitalisation requirements, raises inflationary concerns. CBN may continue to mop up excess liquidity in the short term to curtain inflationary pressure.

Conclusion and Policy Call: Hold Steady, Adjust Margins

Given the external uncertainties and domestic liquidity risks, the MPC may choose to pause any interest rate cuts at this meeting and instead maintain the current tight monetary stance. This would allow more time to build external buffers and ensure the economy is better positioned to absorb potential shocks, particularly from capital outflows.

We Expect the MPC to:

- Maintain the Monetary Policy Rate (MPR) at 27.5%
- Hold the Cash Reserve Ratio (CRR) for Commercial Banks at 50%
- Retain the CRR for Merchant Banks at 16%
- Keep the Liquidity Ratio at 30%

However, the MPC may consider a technical adjustment to the asymmetric corridor around the MPR to fine-tune market liquidity conditions without sending a strong easing signal.

18th July 2025

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