

MONETARY POLICY WATCH

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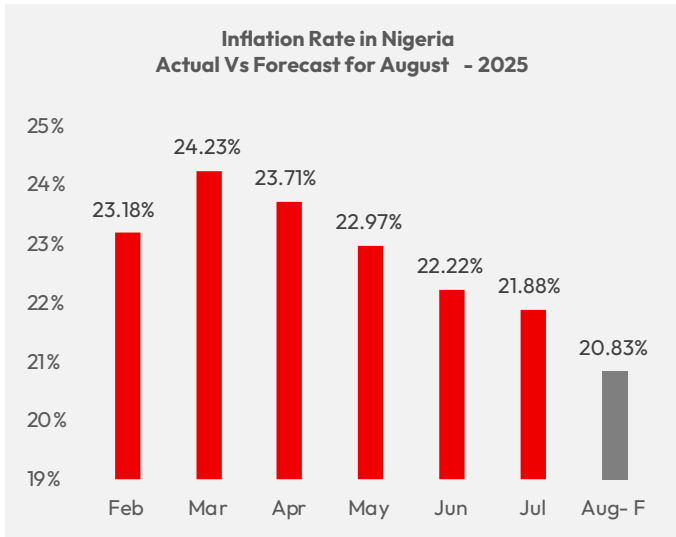
Countdown to Rate Cut Begins: 0.25% or 0.50%?

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) is scheduled to hold its 4th meeting of 2025 from Monday, 22 September to Tuesday, 23 September 2025. The recent improvements and short-to-medium term outlook of inflation rate and exchange rate in Nigeria support monetary policy easing at this meeting. Consequently, United Capital Research expects the MPC to cut Monetary Policy Rate (MPR) between 0.25% and 0.5% while leaving other policy rates constant.

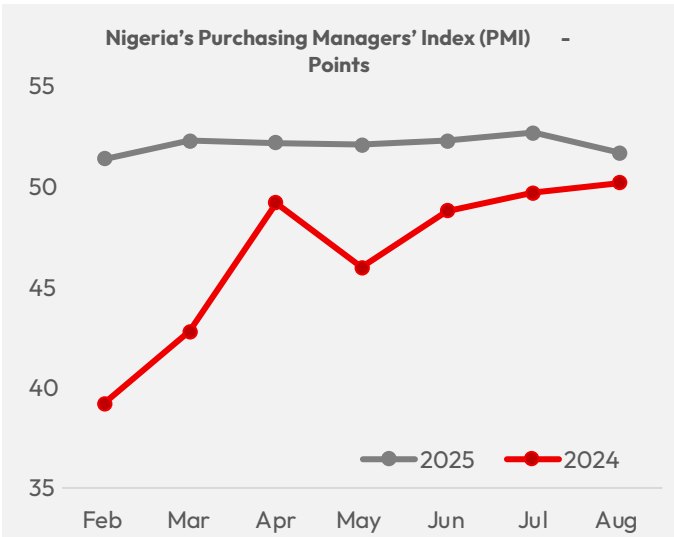
Domestic Macroeconomic Developments: Emerging Growth Trends

Recent economic activity shows strong signs of growth, however more policy measures are required to stimulate the economy to its full potential. The Gross Domestic Product (GDP) growth rate for Q1 2025 rose to 3.13% year-on-year from 2.27% recorded in Q1 2024. Although the Q2 GDP has not been released at the time of writing this report, our analysis of the Purchasing Managers' Index (PMI), a key leading indicator of economic activity, shows that Q2 GDP in 2025 will be stronger than Q2 2024. The PMI in 2025 remained consistently in expansion mode of over 50 points and higher than the 2024 figures.

Headline inflation rate has been dropping in recent months, and we expect this trend to continue, supported by stable exchange rate and increase in food production. The latest inflation rate, as of July, stood at 21.88% and United Capital Research forecasts inflation rate of 20.83% in August. This combination of moderating inflation and solid economic activity supports monetary policy easing.



Sources: NBS, CBN and United Capital Research



Exchange Rate and External Sector: Signs of Renewed Confidence

The value of Naira has shown modest appreciation, gaining 1.51% between July 01 and September 08, 2025, moving from ₦1,529.58/US\$ to ₦1,506.84/US\$. This strengthening is attributed to growing investor confidence, increased foreign exchange supply, and a positive trade balance with declining imports and rising exports. Nigeria's crude oil production has reached 1.51 million barrels per day (mbpd), slightly above Organization of the Petroleum Exporting Countries' quota of 1.5mbpd. However, the yearly average crude oil price (bonny light) of US\$73.08/barrel is below the 2025 budget benchmark of US\$75/barrel.

Capital inflows showed marked improvement in H1 2025, with total cumulative importation rising 80% year-on-year to US\$10.76 billion. This growth was primarily fueled by a sharp increase in portfolio investments, particularly in money market instruments, which rose to US\$7.80 billion from US\$2.68 billion in H1 2024, constituting 72% of total inflows. The Central Bank Governor also noted the increase in the diaspora remittance to Nigeria currently at about US\$600 million above the target of US\$500 million. He noted that the target for next year is US\$1billion monthly. This should support exchange rate stability and sustained equity price movement. Similarly, Nigeria recorded a stronger external position, as the cumulative trade surplus widened by 53% to US\$7.01 billion in H1 2025, compared to US\$4.59 billion a year earlier. Exports rose by 3% to US\$27.93 billion in H1 2025, while imports declined by 7% to US\$20.92 billion. These favourable dynamics supported the exchange rate stability and supports easing monetary policy.

Monetary Policy Outlook: Is It Finally Time to Ease?

There are strong indications that the Federal Open Market Committee (FOMC) of the US Federal Reserve will lower the policy rate next week when it meets. The inflation rate in the US has not increased in line with earlier expectations and the Fed Chair has given an indication of a possible monetary policy easing at the meeting. There is no immediate plan from major central banks in Europe, United Kingdon and Asia to increase policy rate. Consequently, the risk of capital flights from Nigeria is muted.

On the domestic front, broad money supply (M3) expanded by 15.81% year-on-year, rising to ₦117.4 trillion in June 2025 from ₦101.4 trillion in June 2024. However, M3 in June 2025 is lower than the figure recorded in May 2025 and April 2025 at ₦119.0trillion and ₦119.3trillion respectively. The recent moderation in liquidity conditions suggests that CBN's sterilisation efforts using Open Market Operations (OMO) are helping to reinforce price stability.

Conclusion and Policy Call: A Cautious First Step Toward Easing

United Capital Research expects the MPC to implement a modest rate cut of between 0.25% to 0.50% at its September 2025 meeting, while keeping other policy parameters unchanged. Such a move would signal confidence in the ongoing disinflation trend and stronger external buffers, without undermining policy credibility. It will also stimulate GDP growth in a manner that will be inclusive. By easing cautiously, the MPC can support growth without compromising its commitment to fighting inflation.

We expect the MPC to:

- Cut the MPR by between 0.25% to 0.50%.
- Maintain the asymmetric corridor around the MPR at +5%/-1%.
- Hold the Cash Reserve Requirement (CRR) for Commercial Banks at 50%.
- Retain the CRR for Merchant Banks at 16%.
- Keep the Liquidity Ratio at 30%.

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