The Analyst™ Note.

Q1 2025 Monetary Policy and Inflation Rebasing, the Central Bank's Next Likely Move.

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At the end of 2024, Nigerian economists had concluded that there was an urgent need for economic rebasing based on best economic governance practices and the delay in what should have been a regular five-year economic recalibration. In January this year, the National Bureau of Statistics (NBS) announced that it would publish the rebased economic numbers for Nigeria's gross domestic product (GDP) and its consumer price index (CPI) by the end of the month.

Unfortunately, this did not happen, the rebased GDP and CPI numbers were not released at the end of the month, leaving stakeholders perplexed. When the Central Bank of Nigeria (CBN) announced a shift in its quarterly monetary policy committee (MPC) meeting to the 19th and 20th of February 2025 from the earlier advertised date of 17th and 18th of February, economic stakeholders were increasingly apprehensive about the rebased CPI and GDP data.

Analysts had noted that the release of the CPI data was needed for the banking sector regulator to take a carefully considered position on monetary policy already anchored on inflation-targeting. The release of the rebased CPI numbers on Tuesday, February 18, 2025, showed that headline inflation had been rebased to 24.48% from 34.80% in December 2024. The new inflation numbers have since stimulated a lively debate over the likely direction of the CBN's monetary policy instruments.

Two schools stand out. The first school, which is in the minority, argues that the CBN would be less aggressive in monetary tightening with lower nominal interest rates and could embark on a slight interest rate easing to support GDP growth. The second school, which has more supporters, argues that markets have already priced in lower nominal inflation rates and that economic agents are not likely to make significant changes to business decisions.

The school believes that the CBN would retain its aggressive monetary policy position but press pause in raising its monetary policy rate (MPR) to relieve businesses of their rising financial burdens as the authorities assess the delayed impact of monetary policy tightening. Headline inflation at 24.48% is still well ahead of the federal government's budget projection of 15% per annum and the CBN's preferred single-digit target of 9%.

Although the CBN did not give reasons for rescheduling the MPC meeting, Proshare analysts suggest that the additional timing would give the monetary policymaker time to adjust key policy levers based on the January 2025 NBS inflation report.

The NBS released the January 2025 inflation report on February 18, showing that core inflation rose by 22.59%, while overall food prices rose by 26.08%. Mr Ichedi Sunday Joel, NBS's Director of Public Relations, described the release of the report as "a crucial milestone in efforts to provide accurate and reliable statistical data" required for policy guidance. *(see table 1)*.

Table 1:

REBASED INFLATION INDICES

	Jan-24 (Rebased CPI)	Jan 25 (Rebased Inflation)	Jan - 25 Inflation Rate (Rebased)	Jan-24 Inflation Rate	Dec- 24 Inflation Rate
Headline Index	88.9	110.68	24.48%	29.90%	34.80%
Food Index	87.5	110.33	26.08%	35.41%	39.84%
Core Index	90.4	110.87	22.59%	23.59%	29.28%
Urban Index	88.2	111.19	26.09%	31.95%	37.29%
Rural Index	89.6	109.47	22.15%	28.10%	32.47%

Note: December 2024 base year index=100

Source: NBS, Proshare Research

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1. Government policies, such as the petrol price subsidy in 2023, greatly impacted households in 2024, driving the cost of housing, water, electricity, gas, and other fuels upwards. It, therefore, seems puzzling that this line item was attributed a lower weight in the national pricing basket.
2. Housing, water, electricity, gas, and other fuels feed into other key sectors; therefore, it was disturbing to observe that the transport sector was reweighted upward while the catalyst to transportation was reweighted downwards.
3. Analysts are equally worried about the distinction between housing for personal family accommodation and accommodation associated with short stays such as hotels, motels, bread and breakfast (B&B) facilities in the NBS classification. Analysts wonder whether the different types of accommodation have a material impact on the CPI calculation.
4. Given that the most considerable rise in weight was observed in the Restaurant and Accommodation sector, does it imply a high preference for restaurant services/meals from outside of homes over home-cooked meals? *(see table 2)*.

Table 2:

DIVISIONS EXPANDED TO 13 AFTER CPI REBASING

Reweighted Upward

Divisional Name	Old CPI Weights 2009 (%)	New CPI Weights 2024 (%)	Inflation Rate (%)
Restaurants and Accommodations services	1.2	12.9	14.14
Transport	6.5	10.7	12.77
Personal care, Social protection and miscellaneous goods and services	1.7	3.3	12.04
Education Services	3.9	6.2	4.88
Health	3	6.1	9.42
Insurance and Financial Services	0	0.5	4.65

Reweighted Downward

Divisional Name	Old CPI Weights 2009 (%)	New CPI Weights 2024 (%)	Inflation Rate (%)
Food And Non-Alcoholic Beverages	51.8	40	10.64
Housing, Water, Electricity, Gas and Other Fuels	16.7	8.4	7.61
Clothing and Footwear	7.7	5	12.73
Furnishings, Household Equipment, and Routine Household Maintenance	5	3	11.48
Alcoholic Beverages, Tobacco, and Narcotics	1.1	0.4	14.8

Note: Divisions expanded to 13 from 12 to include insurance and financial services after reweighting and reclassification

Source: NBS, Proshare Research

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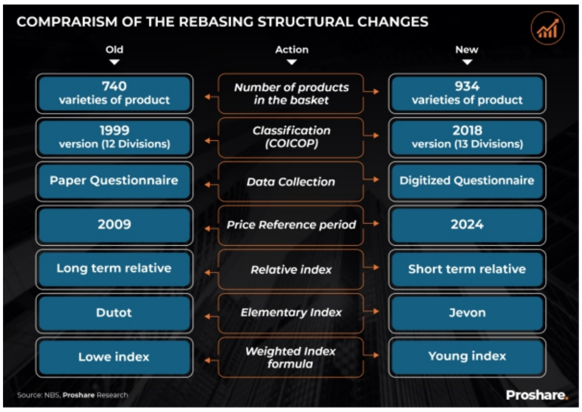
The GDP and CPI rebasing process which commenced in 2019 gained heightened attention in the last quarter of 2024 amidst acceptance, raised expectations and debates majorly around the credence in process, basket/sectoral compositions, and ultimately quality of outcome necessary for policy guidance. "We, nonetheless, continue to analyse the rebasing exercise to allow us to understand its dynamics and ensure it is clear, transparent, predictable and in line with economic realities." Samuel Sule, CEO Rencap Africa observed.

The CPI rebasing process involved some structural changes, notably, the readjustment of the base year from 2009 to 2024, which resulted in a base year effect, a reclassification/reweighting of the composition of items in the Consumer Price Index (CPI) basket, and a shift in methodology. According to the President of Capital Market Academics of Nigeria, Prof. Uche Uwaleke, the methodology adopted "makes our inflation number comparable with the rest of the world..." Other analysts, however, raised concerns about the possibility of the emanation of a 'false reality effect' and the ability of the rebased CPI to enhance policy direction. These analysts noted the need to adopt a stable base year in the rebasing process, questioning whether 2024 was stable as government policies, such as petrol subsidy removal and electricity tariff upward review, were in full effect in 2024 *(see illustration 1)*.

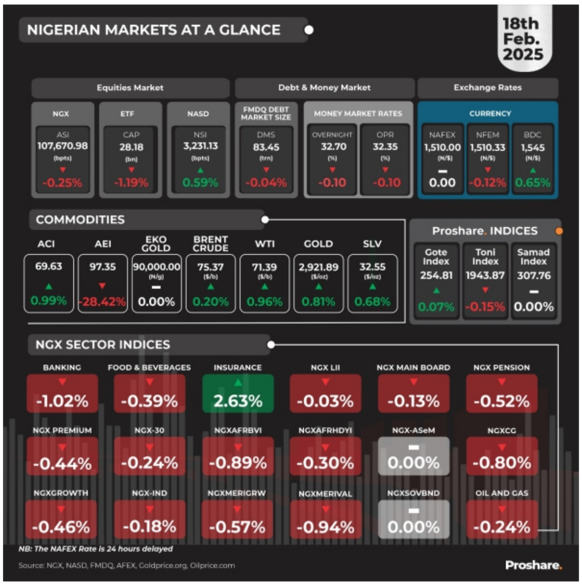
Illustration 1:



Markets Performance Amidst **NBS Rebased CPI Release.**

The Nigerian equities market sustained a roller coaster trend, closing bearish, with ASI falling by -0.25% to 107,670.98 amidst expectations of the rebased CPI. The fixed-income markets seem to have priced in the lower rebased inflation, as yields decline in the secondary market and the stop rate at recent NTB and OMO auctions lower. A series of reforms in the FX market continue to drive stability of the naira between N1,500 and N1,600. However, margins remained wide across the official and parallel markets *(see illustration 2)*.

Illustration 2:

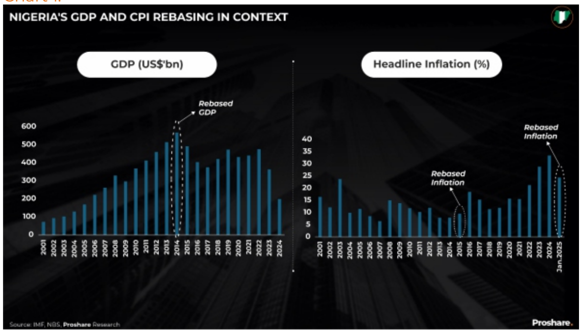


Closing **Thought.**

The lower inflation rate observed in January 2025 aligns with Proshare analysts' expectations of reduced inflation due to the base year effect. Analysts note that the rebasing will provide valuable data to guide future policy decisions. Additionally, it is expected to send positive signals to investors, as it reflects a noticeable decline in country price levels. Furthermore, markets are now witnessing a shift from sustained negative real interest rates to a positive rate of ***3.02%***, the first increase real rates in over two years.

Analysts, however, warn that the lower rebased CPI while crucial for policy guidance may not necessarily imply an improvement in household and business economic conditions. Dr Muda Yusuf, CEO, CPPE, states that lower inflation "...is not tantamount to a reduction in price level. The drastic deceleration in inflation should, therefore, be cautiously celebrated. The reality of high prices has not changed and remains a major factor in the country's cost of doing business, cost of living and poverty equation." Dr Yusuf adds, "Households and firms are still concerned about high energy costs, the strength of the naira, high interest rate, cost of imports, transportation costs and insecurity. It is hoped that the government will recalibrate its strategies to address these major cost drivers." Analysts thus posit that focus should remain on key issues that will sustain a disinflation outlook if concerned authorities seek to avoid the ***disinflation reversal*** observed after the rebasing of 2015..." *(see Chart 1)*.

Chart 1:



The main focus right now should be on ***"how to grow reserves"*** and "***more on investment policies***" Dr Ayo Teriba, CEO, Economic Associates states, while Proshare's Director of Research, Mr Teslim Shitta-Bey, advocated for "***harmonisation of macro and micro policies***" to incentivise businesses as well as drive productivity/value creation through viable options such as "***financialisation of assets***" over the current '***fragmented***' fiscal arrangements in reserve building.

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