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Inflation Report:
February 2025

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Nigeria's Inflation Drops to 23.18% in February as New CPI Framework Takes Shape

A Rebased Perspective and Investment Implications

Key Takeaways:

Inflation Deceleration: Nigeria's February 2025 inflation rate registered at 23.18%, a decrease from January's 24.48%, as reported by the National Bureau of Statistics (NBS).

CPI Rebasing Impact: This decline coincides with a significant Consumer Price Index (CPI) rebasing, updating the base year to 2024 and reflecting a 16-year recalibration of sectoral weights.

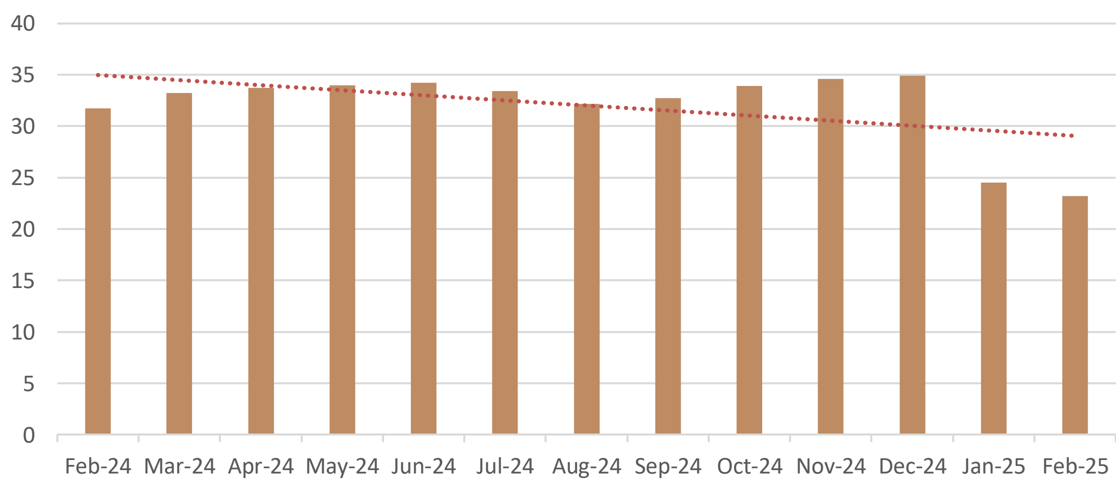
Sectoral Weight Adjustments:
Reduced Food Inflation Weight: The food inflation component's weight was substantially reduced from 51.8% to 40.1% due to the reclassification of "meals purchased outside the home."

Increased Services Weight: The "Restaurants and Accommodation Services" category saw a significant surge from 1.2% to 12.9%, reflecting the reclassification.

Decreased Housing and Maintenance Weights: Housing, Water, Electricity, Gas, and Other Fuels declined from 16.7% to 8.4%, and Household Maintenance fell from 5.0% to 3.0%.

Increased Essential Services Weights: Education Services (3.9% to 6.2%), Health (3.0% to 6.1%), and Transport (6.5% to 10.7%) received increased weightings, aligning with their impact on household income

Figure 1: YOY Inflation Rate



Source: NBS, Certari Research

Implications:

- The rebasing facilitates a more nuanced understanding of inflation drivers, enabling targeted policy interventions.

- The shift in sectorial weights in key sectors such as Education Services, Health, and Transport which received increased weightings, reflecting their growing significance in household expenditure.

Nigeria’s Food Inflation Drops to 23.51% in February, Extending Pre-Rebasing Decline

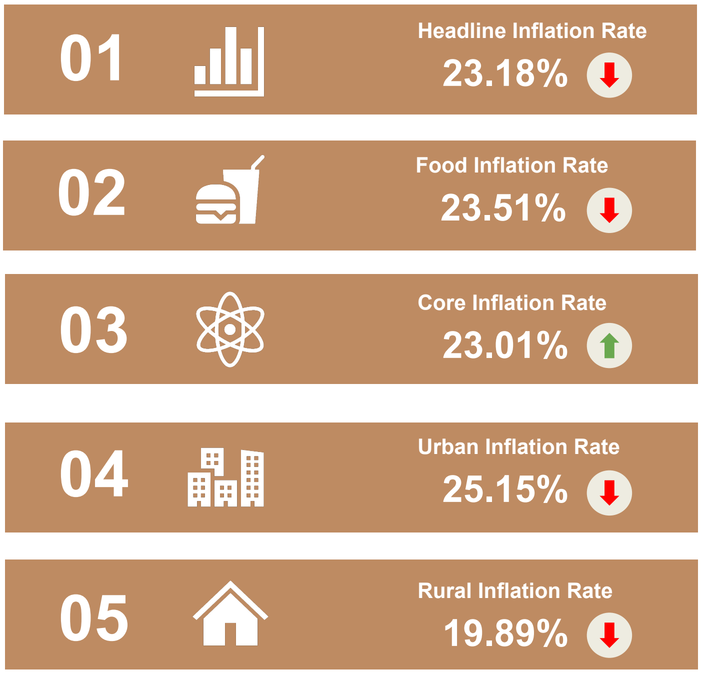
Disinflationary Trend with Key Policy Drivers

- Nigeria's food inflation has significantly decreased to 23.51% in February 2025, down from 37.92% in February 2024, as per the NBS. This is partially due to the CPI rebasing, which reduced food's weighting from 51.8% to 40.1%.

- The CBN's consistent MPR of 27.50% and FX reforms, including resuming BDC forex sales, are actively supporting this trend.

- Month on month food inflation is 1.67%, showing price increases continue, but at a slower rate.

CPI February 2025



Source: NBS, Certari Research

CBN’s Policy Actions and Forex Reforms Strengthen Nigeria’s Disinflation Momentum

Nigeria's disinflationary trend is supported by several factors: exchange rate stability, currency appreciation, and reduced Premium Motor Spirit (PMS) prices. In February, the Central Bank of Nigeria (CBN) maintained its Monetary Policy Rate (MPR) at 27.50%, indicating confidence in this trend.

The CBN has also implemented foreign exchange (FX) reforms, including the resumption of forex sales to Bureau de Change (BDC) operators and waiving annual license renewal fees, to enhance FX liquidity and reduce reliance on the parallel market. These actions aim to narrow the exchange rate gap and stabilize the currency market, particularly benefiting Small and Medium-sized Enterprises (SMEs) by improving access to forex for imports and reducing business costs. The expected outcome is a reduction in inflationary pressures, lower import costs, and stabilized consumer prices.

Investor Sentiment Shifts Toward Longer-Term Instruments Amid Easing Inflation

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Shifting Investor Preferences:

- Strong demand for long-term fixed-income instruments (364-day T-bills: 632% subscription rate; 362-day OMO bills: dominant preference).
- Reduced interest in short-term instruments (91-day and 182-day T-bills: low subscription rates).
- Overall high subscription rates indicate investor confidence (T-bills: N3.22 trillion; OMO bills: N1.915 trillion).

Drivers and Strategic Implications:

- Improving inflation outlook due to CPI rebasing, lower fuel prices (Dangote Refinery), and moderated food inflation.
- Expectations of a potential CBN rate cut, leading to anticipated yield declines in fixed-income instruments.

This market movement suggests a strategic opportunity to optimize capital allocation, anticipating potential yield declines in fixed-income instruments and reinforcing confidence in Nigeria's economic stability throughout 2025.