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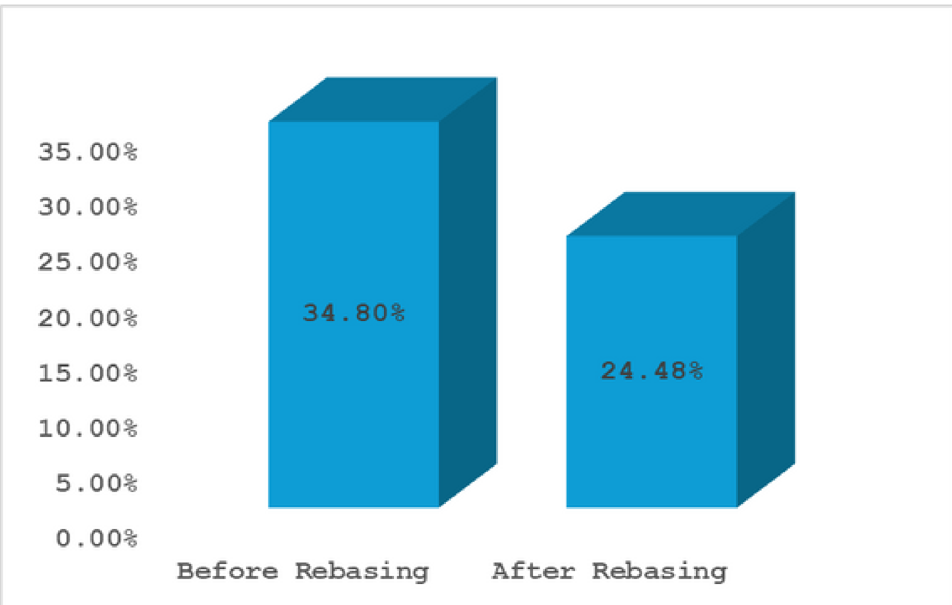
Nigeria's CPI Rebasing: Implication for Trade and Investment

At the beginning of 2025, the Nigerian Bureau of Statistics announced its plan to rebase the country's Consumer Price Index (CPI) mainly to ensure inflation figures accurately reflect the current structure of the economy. Prior to this, the last CPI rebasing reference was 2009, making the exercise long overdue. According to the International Monetary Fund (IMF), CPI rebasing is typically conducted within every 5 to 10 years. Nigeria's case far exceeds these bounds, reinforcing the necessity of the exercise. However, the key questions are: What does this rebasing hold for the economy, especially in the international arena? What implications does it hold for monetary policy? Are there possibilities of getting attracted to foreign investors and boosting trades? These questions and more are examined in this piece.

CPI Rebasing

Before 2009, Nigeria's CPI was calculated using 1999 as the base year. However, to improve accuracy, the base year was changed to November 2009. In February 2025, the base year was further updated to December 2024. This rebasing led to a decline in the reported inflation rate, from 34.8% to 24.48% (See figure 1).

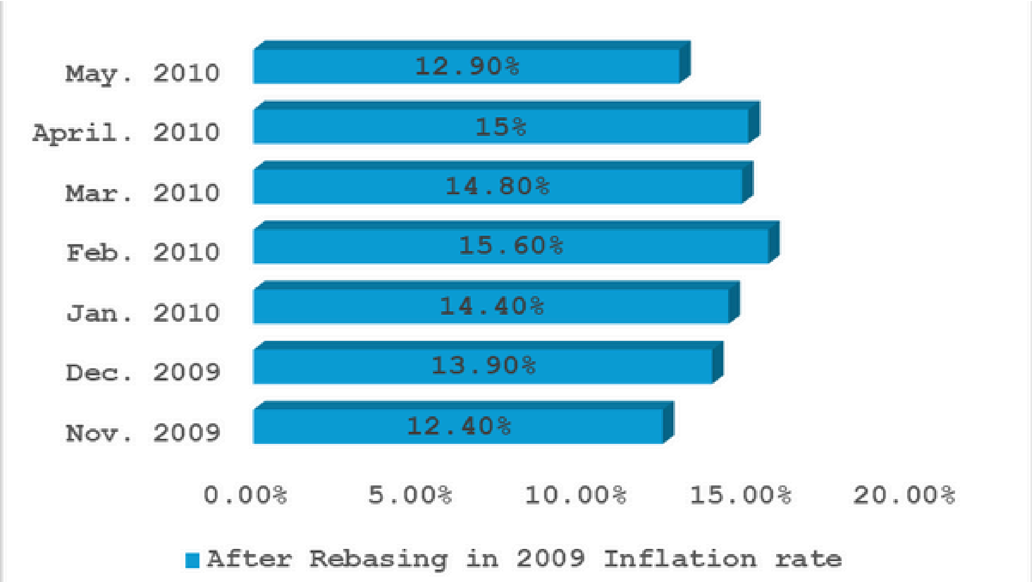
Fig. 1: Consumer Price Index (CPI) Before and After Rebasing



What does this mean?

It is important to note that CPI rebasing is purely a methodological adjustment for measuring inflation. It does not automatically change the price trends of goods and services. Food prices and other essential items will continue to fluctuate based on market forces. A similar exercise in November 2009 saw inflation at 12.4%, which increased to 13.9% in December and further rose to 15% by April 2010. It took about five months before inflation began to decline. This suggests that the current inflation rate may continue rising in the coming months unless structural economic issues that often raises price are properly addressed.

Fig. 2: Inflation rate after Rebasing in 2009

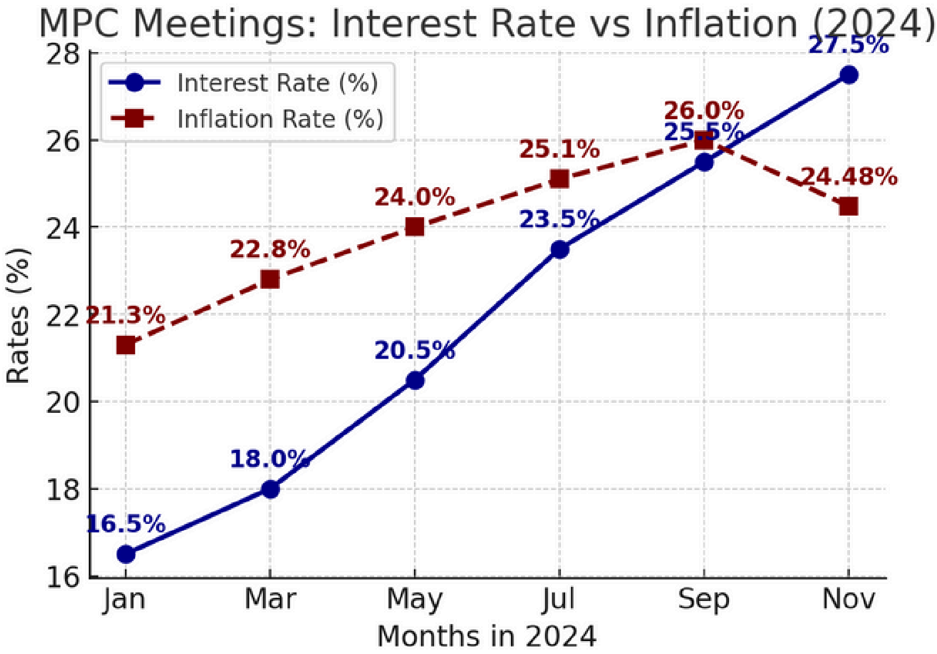


- After the 2009 rebasing, inflation initially rose before stabilizing.
- This suggests that rebasing alone does not curb inflation—it requires coordinated fiscal and monetary policies to maintain price stability.

Implication for Monetary Policy Authority

A key objective of monetary policy authority is price stability. To achieve this, monetary authorities often adjust interest rates as a tool for controlling inflation. In 2024, Nigeria's Monetary Policy Committee (MPC) met six times, raising interest rates by over 800 basis points to curb inflation by reducing household purchasing power. However, while higher interest rates help control inflation, they also increase the cost of borrowing and investment, which can negatively impact economic growth. Now that inflation figures have been adjusted to reflect the current economic structure, the MPC's upcoming 299th meeting is expected to review its policy stance. It is worthy to note that any decision taken will have wide-ranging effects on the economy.

Figure 3: MPC meeting in 2024



In figure 3, the MPC aggressively raised interest rates to curb inflation, yet inflation remained persistent. This indicates that monetary tightening alone may not be enough. Other factors—such as exchange rate volatility, food supply shocks, and external economic pressures—must also be addressed

Implication for Trade and Investment

Investors carefully assess an economy before making investment decisions. A stable economic environment increases confidence and encourages both new investments and expansion of existing businesses. Price stability reduces market volatility, which is essential for attracting investments and strengthening trade relations. With the current inflation rate at 24.48% and the interest rate at 27.5%, the MPC is expected to either maintain or lower interest rates.
Either scenario could lead to:

1. Lower investment costs, making it cheaper for businesses to access credit.
2. Appreciation of the local currency, as the real interest rate (interest rate minus inflation) remains positive which ultimately raise investor confidence.

These factors present a positive outlook for trade and investment in Nigeria

Conclusion

While Nigeria's CPI rebasing is a significant step, it remains uncertain whether inflation will continue declining or revert to previous trends. The Monetary Policy Committee (MPC), in its upcoming 299th meeting, is expected to adjust interest rates cautiously, ensuring they remain above the inflation rate to sustain economic stability. Also, achieving long-term inflation control requires coordinated policies between the monetary and fiscal authorities, alongside other key stakeholders. A well-implemented strategy in this case will help Nigeria attract investment, improve trade relations, and foster economic growth.

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