When Policies Hits You: How CBN's Decisions Shape Daily Life in Nigeria

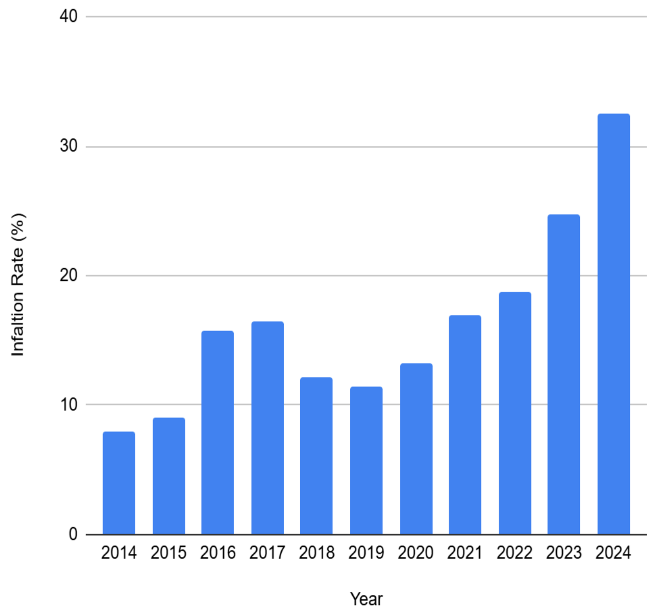
Understanding Monetary Policy

Monetary policy is one of the most important tools available to governments for influencing economic activity, controlling inflation, and creating conditions that support growth. The Guardian Nigeria described Monetary (and fiscal policies) as integral strategic macroeconomic levers that are used to manage, stimulate, and stabilise economic performance globally. In Nigeria, this responsibility rests with the Central Bank of Nigeria (CBN), which uses instruments such as the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), Liquidity Ratio (LR), and Open Market Operations (OMO) to guide liquidity in the banking system and influence interest rates.

Monetary policy aims to maintain economic stability by targeting indicators like money supply, lending rates, and inflation. In practice, it is usually divided into two categories. Expansionary monetary policy reduces interest rates and increases the money supply to stimulate demand during recessions or economic slowdowns. Contractionary monetary policy, on the other hand, raises interest rates and restricts liquidity in order to contain inflation, though it often slows economic growth in the process. The choice between these approaches depends on the prevailing challenges in the economy and the trade-offs policymakers are willing to accept.

Nigeria's Economic Context

Over the past decade, Nigeria's economy has been defined by instability, with persistent inflation, weak growth, and declining productive capacity. In 2024, the inflation rate stood at 32.5%, up from 24.7% in 2023 and a significant jump from 8% in 2014.



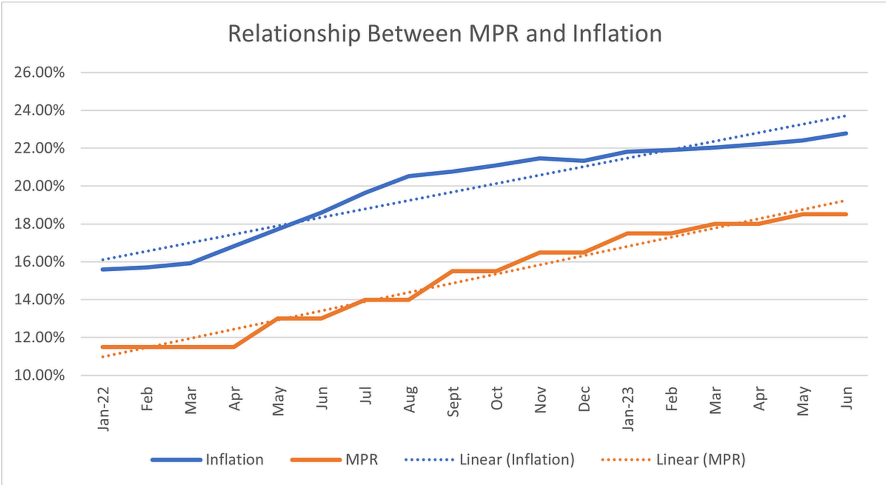
Much of this surge is linked to structural problems, including foreign exchange volatility, heavy reliance on imports, supply disruptions in agriculture, removal of fuel subsidies, and rising energy costs. These pressures have affected household purchasing power and raised operating costs for businesses, making inflation a huge challenge.

At the same time, economic growth has remained sluggish. Over the past several years, Nigeria's GDP growth has averaged between 2–3%, a rate that falls short of the level required to match population growth and reduce poverty. Rising unemployment and underemployment, particularly among young people, have added to the strain. The combination of high inflation, weak growth, and joblessness has created difficult policy trade-offs and placed monetary policy at the center of Nigeria's economic debate.

CBN Policy Action

In response to Nigeria's persistent inflationary pressures, the Central Bank of Nigeria (CBN) has leaned heavily on contractionary measures to stabilize the economy. These actions are designed to restrict liquidity, discourage excessive borrowing, and curb demand-driven inflation.

Under the current CBN governor, Dr. Yemi Cardoso, the Monetary Policy Rate (MPR) has been retained at 27.5% since July 2024.



This high benchmark interest rate signals the CBN's intent to make credit more expensive, thereby slowing down borrowing and overall spending. Supporting this stance, the asymmetric corridor has been maintained at +500/-100 basis points, creating a short-term window for banks to borrow from or deposit funds with the CBN on an overnight basis. This mechanism allows the CBN to better manage short-term liquidity in the financial system and keep money market rates favourable.

Alongside this, the Cash Reserve Ratio has been held at 50% for Deposit Money Banks and 16% for Merchant Banks since July 2025, while the Liquidity Ratio has remained at 30%. By requiring banks to keep such a large share of deposits as reserves or liquid assets, the CBN has restricted the flow of credit in an effort to cool inflationary pressures.

The CBN has also reinforced its tight stance through other liquidity management tools. The Cash Reserve Ratio (CRR) has been held at 50% for Deposit Money Banks and 16% for Merchant Banks since July 2025, requiring banks to lock away a significant share of customer deposits that cannot be used for lending or investment. Likewise, the Liquidity Ratio (LR) has been sustained at 30%, ensuring banks keep a large portion of their assets in highly liquid form. Together, these measures further reduce the availability of funds for credit creation and lending.

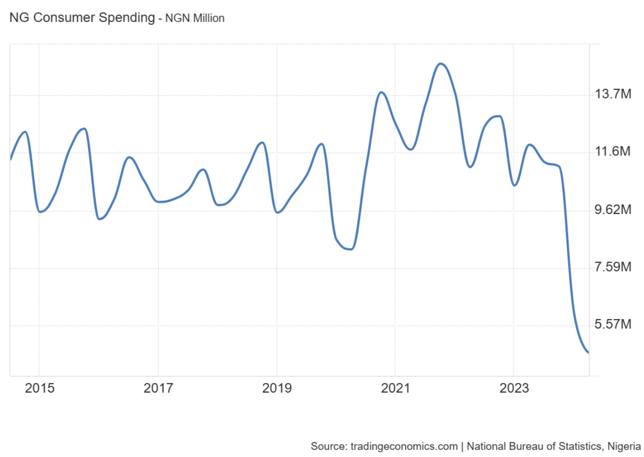
Overall, these policy actions reflect a deliberate effort by the CBN to tighten monetary conditions in order to rein in inflation. While they have succeeded in signaling a strong anti-inflationary stance, they have also placed considerable pressure on banks, businesses, and households by reducing access to affordable credit.

Socio-economic Impact of Contractionary Monetary Policy

Impact on Spending and Consumption

Inflation is a big contributor to the purchasing power of Nigerians. So the recent contractionary policies of the CBN have heavily amplified the impact on the nation. One of the clearest impacts of this contractionary stance is a shift in household spending patterns. Data from the National Bureau of Statistics shows that household consumption expenditure fell by -42.28% in Q1 2024 and -61.18% in Q2 2024 compared to the same periods in 2023. On a quarter-on-quarter basis, the picture was even starker, with real household consumption dropping by 45.71% in Q1 and by an extraordinary 99.24% in Q2 2024.

These declines align with the broader tightening of credit conditions. With the Monetary Policy Rate set at 27.5 and the Liquidity Ratio set at 30%, both consumers and businesses have been deterred from borrowing and subsequently spending. The combined effect of high inflation and restrictive monetary policy has caused consumer spending to reach a record low of 4,623,857.36 NGN Million in Q2 of 2024, according to TradingEconomics.



Together, these figures highlight the severity of the strain on household consumption. The presence of a constrained money supply and higher credit costs has caused households to face higher prices for housing, transport and even basic goods. In response, many have reduced their consumption of non-essential purchases and directed most of their spending toward food, rent, and other necessities, while discretionary spending on goods and services in other sectors has sharply declined. Limited access to affordable credit has also worsened income inequality and poverty, especially in rural areas, as stated by BusinessDay.

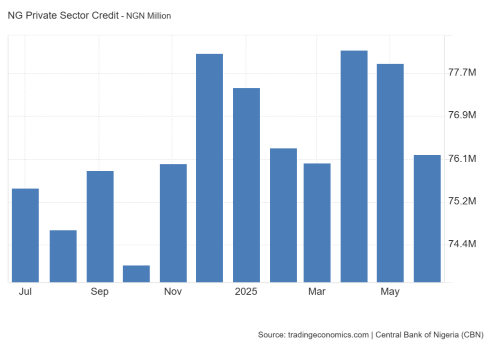
This decline in consumer spending has huge implications for economic growth. Household consumption is one of the largest components of Nigeria's GDP, and reduced activity in this area has contributed to weaker private sector performance. While the CBN's contractionary policies are intended to reduce demand as a means of containing inflation, the trade-off has been a more subdued domestic market, slower business turnover, and a decline in overall economic activity.

Impact on Lending and Credit Creation

The tightening of monetary conditions has reshaped both lending behavior and consumption patterns in Nigeria. By keeping interest rates and liquidity ratios high, the CBN has effectively limited the amount of credit flowing through the economy. On the surface, private sector credit has continued to rise in nominal terms, with CBN data showing double-digit year-on-year growth of N74.31 trillion in May 2024, an increase of 65.94% from the previous year. However, this growth is largely a reflection of inflation and currency depreciation rather than an actual expansion in credit access. In reality, the value of loans has diminished, as businesses and households can do much less with borrowed funds than they could in previous years.

Accessibility has also become a major constraint. With the Cash Reserve Ratio for Deposit Money Banks held at 50% and the Liquidity Ratio fixed at 30%, commercial banks are compelled to keep a large portion of deposits idle rather than channel them into lending. For the available funds, high interest rates, often above 30%, make borrowing too expensive for most firms and households. Enterprises, especially SMEs, that once relied on loans to cover short-term expenses or to expand operations, are now less likely to do so due to high interest rates. This has led many to cut costs or put aside growth plans.

From the perspective of lenders, the CBN's contractionary monetary stance has created a difficult operating environment. Banks face limited capacity because of regulatory requirements, thereby reducing the volume of funds they can channel into the economy. At the same time, the high Monetary Policy Rate means that the loans they do issue must carry steep interest charges in order to cover their costs and risks. While this protects banks from potential losses, it also makes credit less attractive to customers, shrinking demand for formal lending. This, in turn then creates greater losses for the banks. A Renaissance Capital Africa report revealed that Nigeria's top five lenders (Access, Zenith, UBA, GTCO, First Bank) collectively lost $544 million in potential income in 2024, directly attributed to the 50% Cash Reserve Ratio imposed by the CBN.



Ultimately, the restrictions in lending show how monetary policy decisions extend beyond inflation control. While the intent is to cool demand, the reality is a more constrained domestic economy, where businesses operate with tighter resources and households adapt to diminished purchasing power.

Impact on Inflation

The central goal of monetary policy in any country is to control inflation and boost economic stability. In Nigeria, the CBN has especially curated monetary policies to combat the inflationary trend of the country. The CBN's aggressive Monetary Policy Rate of 27.5%, coupled with stringent reserve requirements, are meant to tighten liquidity, reduce borrowing, and ultimately slow demand. In theory, this should ease price pressures. However, despite these aggressive measures, inflation has not been impacted to a desirable extent. This shows that the expected results of these monetary policies have not been fully materialized.

The added burden of a constricted economy results in a painful paradox. Households face rising costs for food, housing, and transportation while also being squeezed by policies that restrict affordable credit creation. According to the World Data, there has been a 376.99% increase in the prices of goods and services in Nigeria over the last 10 years (2015-2025). For many Nigerians, this combination of high inflation and tight monetary conditions means reduced purchasing power, leading to increased spending to achieve the same level of satisfaction, eroded savings, and a widening gap between income and basic living costs. Businesses, especially in sectors like manufacturing and retail, are caught between higher input prices and weaker consumer demand, limiting their ability to expand or even stay profitable. In 2024, the Manufacturers Association of Nigeria reported a rise in the amount of unsold finished goods to N2.14tn. Losses of this degree have devastating effects on future production and prices in general.

While contractionary monetary policy has slowed excessive liquidity in the system, it has not been sufficient to counter the inflationary pressures that are caused by structural inefficiencies. As of June 2025, the inflation rate stood at 22.22%, which is far above the targeted 15% for the year. For ordinary citizens, this dual burden of persistently high inflation and restrictive policies leads to a harsher economic reality, where both consumption and investment are suppressed.

Impact of Wage Policy on Monetary Objectives

Beyond the direct effects of contractionary monetary policy, some of the other policies of the government have also directly or indirectly worked against the CBN's contractionary approach. A recent example is the recent increase in the minimum wage. The minimum wage was increased from N30,000 to N70,000 in 2024 to meet the recent economic conditions.

This call for higher wages stemmed from workers whose purchasing power has diminished under persistent inflation. When prices are high relative to stagnant wages, workers face increased financial strain. This financial strain has made it increasingly difficult for workers to cover basic living costs on their relatively stagnant salaries. While this adjustment was aimed at easing the financial burden on workers, it has produced side effects that complicate the CBN's policy objectives.

For businesses, especially small and medium-sized enterprises already grappling with high borrowing costs and weak consumer demand, the higher wages have become an added burden. Many smaller firms may eventually respond by cutting back on hiring, reducing staff hours, or laying off workers altogether, leading to higher unemployment. Thereby potentially adding to the already high unemployment rate within the country and adding strain to households that were meant to benefit from the wage increase.

At the same time, the increase in minimum wage injects more disposable income into the economy. While this provides temporary relief for workers, it also stimulates demand in a period when the CBN is actively trying to suppress it. By boosting consumption, the wage adjustment risks fueling further inflationary pressure, undermining the core aim of contractionary monetary policy, which is to curb demand and stabilize prices.

The outcome is a policy disconnect; monetary measures designed to slow inflation are being affected by fiscal actions that stimulate demand. This misalignment not only weakens the overall effectiveness of monetary policy but also deepens the economic challenges faced by both households and businesses.

Structural Drivers of Inflation

The persistent rise in inflation, despite contractionary monetary measures, underscores the role of deeper structural issues in Nigeria's economy. While the CBN has focused on curbing excess liquidity and tightening credit, many of the pressures driving prices upward stem from supply-side weaknesses that lie beyond the reach of monetary policy.

Poor infrastructure, unreliable power supply, high transport costs, insecurity, and exchange rate volatility increase production and distribution costs across various industries. According to a report by TheFactDaily, the country has the highest number of people living without electricity in the world. The World Bank in 2021 puts this figure at about 85 million people who do not have access to electricity, resulting in limited productivity and poor economic growth. The presence of bad infrastructure, insecurity and exchange rate volatility has also led to reduced investor confidence and stunted growth.

These structural issues not only worsen inflation but also impede economic growth. Treating these issues as a top priority and addressing them from the root will help the Nigerian government to improve the nation's economic issues.

Suggestions for the Future

For Government and Policymakers

1. Tackling Structural Drivers of Inflation

The government should intensify efforts to prioritize addressing food security, transport costs, and power supply, since these are the main drivers of persistent inflation. Protecting food security means supporting local agriculture through mechanization, affordable inputs, improved storage, and securing farming regions. Most especially in a country like Nigeria, which used to be an agricultural hub and has now been cripple by insecurity in farming regions and farmlands.

The government should also increase efforts in the area of transportation. Tackling high transport costs requires investment in road networks, affordable mass transit, and logistics reforms to lower distribution costs. Expanding reliable electricity access and reducing dependence on costly generators will also cut production expenses and make goods more affordable. Together, these measures would protect household purchasing power, lower inflationary pressure, and make CBN's monetary tools more effective.

Nigeria can take some lessons from Kazakhstan's success with its Nurly Zhol (Bright Path) infrastructure strategy and broader diversification agenda. The program was launched in 2014 with an initial investment of $9 billion. It aimed to modernize and develop roads, railways, ports, utilities, housing, and digital infrastructure. The program generated thousands of jobs; 105,000 jobs were created before 2016, a substantial portion of the 18.36 million population at the time.

Currently, Kazakhstan stands as one of the most prosperous nations in Central Asia due to its vast mineral wealth and sustained infrastructural development. As of 2024, its GDP reached $288 billion. Its economy has also seen rapid growth of about 3.1% yearly, which was fuelled by expansion in industry, construction, transport, and manufacturing sectors through initiatives such as the Nurly Zhol.

The reforms by the Kazakhstan government exemplify how tackling structural roadblocks can limit cost pressures, improve productivity, and strengthen the impact of monetary policy. For Nigeria, emulating similar programs and reforms will aid in easing inflation and boosting economic growth.

2. Encouraging Productive Credit Creation

High reserve requirements and elevated lending rates have restricted credit growth. Instead of maintaining a blanket contraction, the CBN could introduce differentiated credit policies that channel funds into productive sectors. For example, creating lower-cost credit windows for SMEs, agriculture, and manufacturing would enable businesses to access financing for expansion while limiting consumer credit that fuels demand-side inflation. A more flexible approach to the Cash Reserve Ratio could also free up liquidity for banks to lend without destabilizing the system.

Other countries have demonstrated that differentiated credit policies can balance the twin goals of inflation control and growth. India's *Priority Sector Lending* mandates direct banks to extend credit to agriculture and small enterprises, ensuring that productive sectors receive financing even under tight monetary conditions. Similarly, Brazil's development bank (BNDES) has long provided subsidized loans for infrastructure and industry, while South Korea's export-led credit targeting supported its transformation into an advanced industrial economy. These examples show that Nigeria could adapt its monetary framework to channel credit into agriculture, manufacturing, and SMEs—sectors that drive supply and job creation—without loosening monetary policy across the board.

3. Aligning Wage Policy With Monetary Goals

The recent minimum wage increase highlights the risks of uncoordinated fiscal and monetary policies. While higher wages are essential to preserve the purchasing power of workers amid rising prices, sudden large increases can raise business costs, discourage hiring, and fuel inflation. Wage adjustments should be accompanied by productivity improvements, such as workforce training and business support, to prevent higher labor costs from leading to layoffs and inflationary pressure.

Policymakers should also align wage increases to match improvements in fiscal revenue and inflation trends, rather than implementing large jumps that destabilize businesses. This ensures that wage policy supports both worker welfare and macroeconomic stability.

Finally, stronger coordination between the CBN and fiscal authorities is critical. While the CBN pursues contractionary monetary policy to control inflation, uncoordinated wage increases can inject excess liquidity into the economy and undo much of the progress achieved. A joint wage-setting framework that considers both monetary and fiscal goals would reduce these contradictions and create a more stable environment for businesses and households.

A country like Singapore serves as a great example; the *National Wages Council (NWC)* acts as a tripartite body bringing together government, employers, and unions to make annual recommendations on wage adjustments. These recommendations are based on productivity growth, inflation, and overall economic competitiveness, ensuring that wage increases strengthen worker welfare without destabilizing businesses or undermining monetary policy.

For Businesses and Households

1. **Explore Alternative Financing Beyond Banks**
In Nigeria today, with conventional credit constrained by high interest rates, cash reserve requirements, and liquidity ratios, businesses must reduce dependence on commercial bank loans. Alternative channels can provide more flexible liquidity. Equity financing from angel investors or venture capital firms, cooperative credit associations, and trade credit with suppliers are viable ways to raise funds without incurring steep borrowing costs.

Government-backed loan schemes also remain an important option for Nigerian SMEs. Institutions such as the Bank of Industry (BoI), the Development Bank of Nigeria (DBN), and the CBN SME Fund offer targeted, lower-cost financing, sometimes at single-digit interest rates, particularly for micro, small, and medium enterprises in growth-driving industries. While crowdfunding platforms (*NaijaFund*, *StartCrunch*) and diaspora-backed investments can further expand access to capital. Leasing and asset-based financing likewise allow firms to secure equipment and working capital without tying up scarce cash. By diversifying their financing sources and exploring these alternatives, businesses can remain resilient and continue to grow even under contractionary monetary policies.

Recent developments highlight the impact of these efforts. As of October 2024, the Bank of Industry (BOI) reported that it had disbursed about ₦107 billion to over 1.5 million SMEs during the year, exceeding its initial targets. This reflects a growing recognition of the role government-backed institutions can play in easing credit constraints faced by small businesses. By offering single-digit interest loans and targeted support, BOI has become a crucial source of affordable financing for enterprises that might otherwise be excluded from the formal credit system.

The Development Bank of Nigeria (DBN) has also expanded its efforts to close Nigeria's financing gap for MSMEs. In 2025, its Managing Director announced plans to scale up the bank's loan portfolio to ₦1.8 trillion and to mobilize ₦3 trillion in debt and equity to support Micro, Small, and Medium-sized Enterprises. With specific targets for women-owned and disadvantaged businesses, DBN's strategy aims not only to expand credit availability but also to make it more inclusive and growth-oriented.

Together, these initiatives demonstrate that even under contractionary monetary conditions, alternative financing channels can help to sustain enterprise growth, create jobs and drive economic growth.

2. Improve Efficiency and Cost Control
In an environment of high inflation and expensive credit, improving efficiency is just as important as securing financing. Businesses can no longer afford to carry unnecessary costs. Adopting leaner operations not only protects profit margins but also makes firms more competitive despite rising input costs.

One area of focus is energy management. With fuel prices and electricity tariffs rising, reliance on diesel and petrol generators significantly increases production costs. Companies can reduce this burden by gradually shifting to renewable energy sources such as solar or by adopting hybrid systems that lower dependence on the national grid. Although upfront costs can be high, the long-term savings on energy bills and the stability it provides make it a worthwhile investment.

Inflation and high borrowing costs make efficiency of greater importance. Firms can adopt digital tools to streamline operations, reduce waste, and track expenses more effectively. In Nigeria, where petrol prices range stickers N945 and N1190 per litre and diesel averages N1250. These high energy costs alone are a heavy burden on businesses. Transitioning to alternative or renewable energy can reduce dependence on costly diesel and petrol generators, while optimizing supply chains helps cut logistics costs. Together, these measures allow firms to protect margins without passing additional costs on to consumers.

3. Diversify Revenue Sources

In today's inflationary and credit-constrained environment, depending on a single stream of income or one narrow product line exposes businesses to unnecessary risk. Sharp fluctuations in consumer spending, foreign exchange volatility, and supply chain disruptions mean that revenues can dry up quickly if firms are not flexible. Diversifying income streams provides a buffer, enabling businesses to spread risk and remain resilient even during downturns.

A study from 2024 highlights how inflation has choked SMEs' cash flow and investment capacity, showing a direct link between rising costs and reduced ability to maintain operations. In contrast, businesses that diversify their offerings or tap into new markets are better positioned to weather shocks. For small and medium enterprises, diversification could also mean expanding into locally sourced alternatives. For instance, the manufacturing sector in Nigeria has increasingly turned to **localizing supply chains** to mitigate FX risks and rising input costs. One company, Chemical and Allied Products (CAP), bumped its domestic supply of calcium carbonate to 90%, cutting raw material costs by nearly 60%.

Larger firms can also diversify geographically by looking to regional markets in West Africa. By tapping into ECOWAS trade agreements and cross-border opportunities, Nigerian businesses can reduce dependence on the domestic market alone, where inflation and weak purchasing power often suppress demand. Exporting even a small share of production can stabilize revenues and hedge against local shocks.

Household-level diversification is equally critical. Families can build resilience by cultivating multiple income streams—whether through small-scale trading, part-time freelance work, or cooperative ventures. This approach is particularly important in rural areas where inflation and limited access to credit have worsened income inequality.

In practice, diversification is not just about chasing new opportunities, it requires careful planning and incremental scaling to avoid overextension. Firms that take a phased approach, testing new markets or products before committing significant resources, are more likely to succeed. By strategically widening revenue sources, both businesses and households can safeguard against uncertainty and better position themselves for growth in a volatile economy.

Conclusion

Taken together, these findings highlight that monetary policy alone cannot solve Nigeria's economic challenges. The CBN's contractionary stance has been effective in signaling its fight against inflation, but it has also come at the cost of reduced credit, weaker spending, and harsher living conditions for households. To break this cycle, monetary tightening must be paired with structural reforms, smarter fiscal coordination, and adaptive responses from businesses and households. Protecting purchasing power, supporting productive credit creation, aligning wage policy, and improving efficiency across sectors are all essential steps. If such steps are pursued, Nigeria can move from managing crises towards building a more resilient and prosperous economy.