Perchstone & Graeys
SOLICITORS ADVOCATES & ARBITRATORS

UNDERSTANDING THE RECENT MONETARY POLICY COMMITTEE (MPC) DECISION

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INTRODUCTION

On July 21 & 22, 2025, the Central Bank of Nigeria (CBN), through its Monetary Policy Committee (MPC), held its 301st meeting to deliberate on Nigeria's macroeconomic conditions and financial stability. After a thorough review of domestic and global economic indicators, the Committee resolved to maintain the status quo on all key monetary policy parameters as follows:

a) Retain the Monetary Policy Rate (MPR) at 27.50%
b) Maintain the asymmetric corridor around the MPR at +500/-100 basis points.
c) Retain the Cash Reserve Ratio (CRR) for Deposit Money banks at 50.00% and for Merchant Banks at 50.00%
d) Maintain the Liquidity Ratio at 30.00%

This decision reflects a cautious and data-driven approach aimed at consolidating recent gains in inflation control while navigating persistent global and domestic headwinds.

RATIONALE FOR THE DECISION

The MPC's decision to retain the policy stance was underpinned by the following considerations:

1. **Deceleration in Headline Inflation:** Inflation declined for the third consecutive month, settling at 22.22% in June 2025, compared to 22.97% in May, largely due to reduced energy prices and relative foreign exchange stability.
2. **Persistent Underlying Pressures:** Despite this disinflationary trend, the Committee noted an uptick in month-on-month inflation to 1.68%, suggesting lingering price pressures driven by imported food and services.
3. **Stable Financial Sector:** Nigeria's banking system remains stable and resilient. Eight (8) banks have already met recapitalization requirements, while others are progressing towards the 2026 deadline. Financial Soundness Indicators (FSI's) continue to signal robustness.
4. **Macroeconomic Stability:** GDP growth at 3.13% in Q1 2025, compared to 2.27% in Q1 2024. External reserves rose to $40.11 billion, representing 9.5 months of import cover.
5. **Global Uncertainties:** Escalating tariff wars and geopolitical tensions continue to distort global supply chains and inflation patterns, requiring continued vigilance.
6. **Potential Naira Stability:** The high interest rate is intended to attract foreign capital, which can help support the Naira and stabilize the foreign exchange market.
7. **Cautious Approach:** The "hold" decision indicates a desire to assess the full impact of previous aggressive measure and see if the current policy is sufficient to achieve its goals before further adjustments can be made.

EFFECT OF THE DECISION

The decision to retain the MPR at 27.50% implies that the cost of borrowing for commercial banks from the CBN remains very high, consequently, commercial banks will continue to charge high interest rate on loans to businesses and individuals. Similarly, maintaining the Asymmetric Corridor and extremely high Cash Reserve Ratio indicates an aggressive stance by the CBN to control money supply and tackle persistent inflation.

For Companies

- **Access to Credit:** Elevated interest rates will sustain high borrowing costs, especially for SMEs and corporates reliant on debt financing.
- **Cost Management:** Companies may need to refine operational efficiency and supply chain sourcing to manage inflation-related cost pressures.
- **Investment Planning:** Stability in the policy environment provides a measure of predictability for strategic investment decisions, especially in agriculture and manufacturing.

For Investors

- **Fixed Income Opportunities:** Investors in government securities and bonds stand to benefit high yields, as rates remain attractive to inflation.
- **Cautious Equity Investment:** Persistent inflation may limit earning growth for customer-facing firms, encouraging a cautious outlook for equity markets.
- **Exchange Rate Stability:** The sustained FX stability and rising external reserves offer improved confidence for portfolio investors and FDI prospects.

For Customers

- **Price Pressure Remain:** While headline inflation is easing, rising food and service costs continue to squeeze household budgets.
- **Savings & Deposits:** Customers may benefit from better deposit rates on savings and fixed deposits due to high-interest environment.
- **Credit Access:** The high MPR may translate to increased lending rates, making access to credit facilities, especially customer loans, more expensive.

LOOKING FORWARD

The CBN has signaled its commitment to a tight monetary policy regime until inflation risks recede further. While this sustained tight monetary stance is a necessary, albeit painful, strategy to curb persistent price pressures and attract vital foreign exchange, it simultaneously imposes significant costs on credit growth and overall economic expansion. As Nigeria navigates this delicate balancing act, the effectiveness of monetary policy will increasingly depend on complementary fiscal measures to address underlying structural challenges, ultimately charting a sustainable path towards both price stability and robust economic prosperity. The next MPC meeting is scheduled for September 23, 2025.

Ultimately, all economic actors; businesses, investors, and households are advised to adjust their plans in alignment with the prevailing monetary policy direction.

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