United Capital

Post-MPC Note

# Policy Rates Maintained Across the Board

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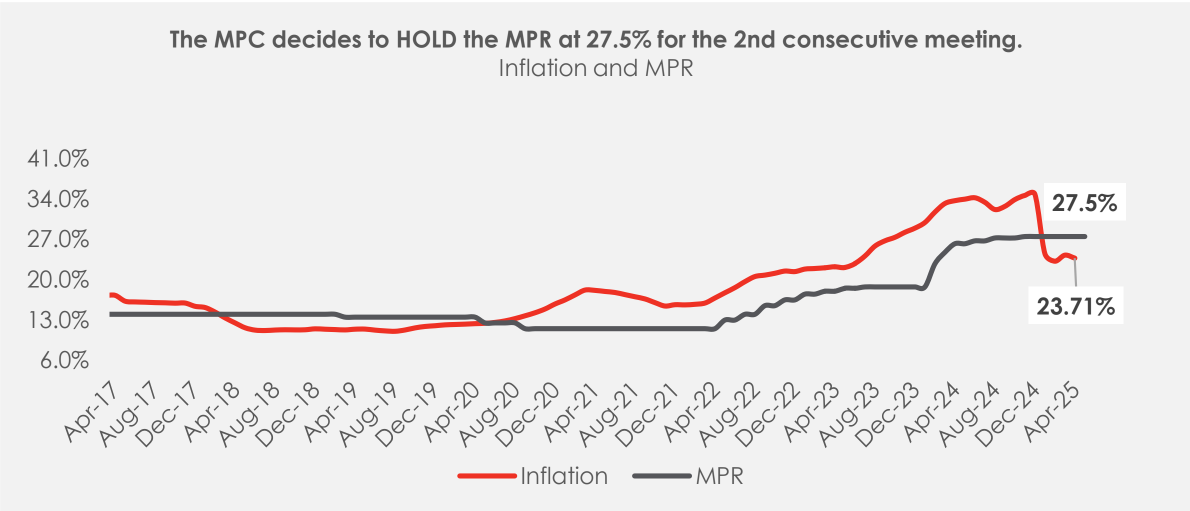
At the 300th Monetary Policy Meeting held on the 19th and 20th of May 2025, the Monetary Policy Committee (MPC, or the Committee) decided to HOLD the Monetary Policy Rate (MPR) at 27.50%. Meanwhile, the policymakers maintained the Cash Reserve Ratio (CRR) at 50.00% and retained the liquidity ratio at 30.00%. Additionally, the Committee maintained the asymmetric corridor at +500/-100bps around the MPR.

| Parameters | Rate (%) | Status |
|---|---|---|
| Monetary Policy Rate (MPR) | 27.50 | Retained |
| Commercial Banks: Cash Reserve Ratio (CRR) | 50.00 | Retained |
| | | |
| Merchant Banks: Cash Reserve Ratio (CRR) | 16.00 | Retained |
| | | |
| Liquidity Ratio (LR) | 30.00 | Retained |
| Asymmetric Corridor (AC) | +500/-100 around the MPR | Retained |

The Committee opted for a "wait-and-see" approach following several months of monetary tightening, giving credence to the notion that 27.50% is the Terminal Rate. For context, the MPC hiked the benchmark rate 6 consecutive times in 2024 from 18.5% to 27.5%.




Source: CBN, NBS, United Capital Research.

**Key Considerations at the MPC Meeting:**

The Committee thoroughly deliberated on the inflation trajectory, noting that inflation remains persistently high despite the moderation in headline, food, and core inflation rates in April. Their decision to unanimously hold the monetary policy rate stable at 27.50% also factored in an assessment of the volatile crude oil prices amid Nigeria's falling oil production, exchange rate, tariff wars and other macroeconomic factors.

**Implication of MPC's Decision to the Economy:**

- By holding rates steady, especially amid ongoing FX volatility, the MPC risks weakening the Naira if real interest rates remain negative. However, if inflation moderates further and foreign inflows improve, it could support FX stability.
- The MPC's emphasis on coordinated efforts between fiscal and monetary authorities suggests a recognition that monetary policy alone cannot solve all economic challenges. Fiscal policies aimed at addressing structural issues (e.g., infrastructure, energy, agricultural productivity) are crucial for sustainable growth.
- By maintaining rates, the MPC is giving existing policies more time to fully transmit through the economy and for their effects to solidify. Monetary policy typically operates with a lag, so a pause allows the full impact of past hikes to be felt without introducing new shocks.

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- The retained high MPR means that borrowing costs for businesses and individuals remain elevated. This can constrain private sector credit expansion, making it more expensive for businesses to invest and expand, and for consumers to borrow for purchases. This could potentially temper economic growth.
- Sectors heavily reliant on borrowing, such as manufacturing and agriculture, may continue to face challenges due to the high cost of credit.
- The equities market will continue in its current sentiments as investors might adopt a "wait-and-see" approach, closely observing inflation trends and exchange rate stability before committing to major investments.

## Outlook

We anticipate headline inflation to ease in May and continue its downward trend. This moderation is largely due to the high base effect, the rebasing of the CPI, and the reinstatement of the naira for crude initiative, which could lead to a decline in PMS (petrol) pump prices.

Despite potential inflation relief, we expect the Naira to remain weak against the US Dollar and other global currencies. This persistent weakness is driven by several factors, including high demand for dollars, low foreign exchange earnings, insufficient remittance inflows, and reduced revenue from crude oil exports due to low production and international prices. Furthermore, corruption and other legacy issues will continue to plague the exchange rate.

The global landscape in the coming months will significantly influence the MPC's next decision. If world leaders successfully negotiate tariffs and avoid trade wars, global inflation may not accelerate sharply. Conversely, failure to do so could lead to a rapid increase in global inflation.

The Committee will continue to monitor all these variables closely to make an informed decision at its next meeting in July. Should these variables improve, the MPC might consider cutting the interest rate marginally; however, if they deteriorate, further action may be necessary.

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