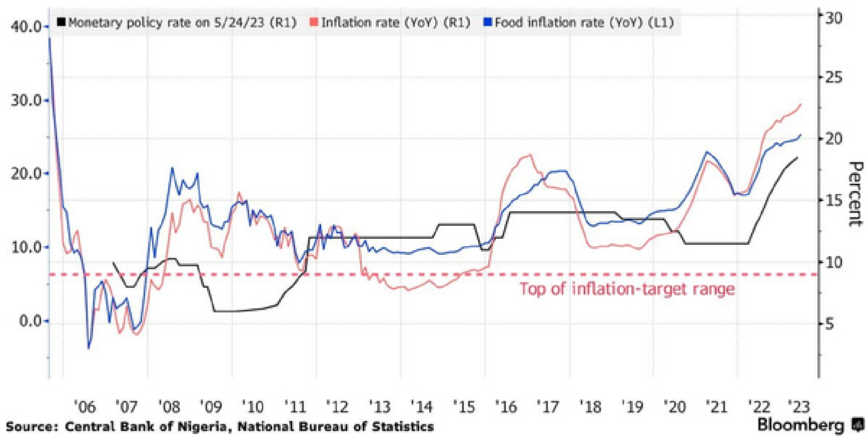
Macroeconomic Update: Post-MPC Review

CBN Raises Monetary Policy Rate to 18.75%

BACKGROUND

After the July's MPC meeting, the Central Bank of Nigeria (CBN) decided to maintain the Cash Reserve Ratio (CRR) at 32.5% and increased the monetary policy rate (MPR) by 25 basis points to 18.75%, attributing the decision to previous rate hikes successfully reducing inflation. Although some may argue that the rate increase is insufficient, the CBN showed courage in its decision, considering the president's intentions and aligning with market trends. Notably, the CBN's voting pattern demonstrated a gradual shift towards a more dovish stance: 6 members voted to raise interest rates by 25 bps, 2 members favored a 50 bps hike, and 5 members supported maintaining the rates.



ECONOMIC IMPLICATIONS

- The impact of the MPR hike on economic growth might be mixed. While it can help in controlling inflation, it might also lead to reduced consumer spending and business investments, which could constrain economic expansion.
- We also note that higher interest rates can lead investors to shift from equities to fixed-income investments, such as bonds, in search of better returns. This could result in a decline in equity prices and overall market sentiment. As the MPR increases, it could lead to higher yields on government bonds. This might attract investors seeking safer assets, potentially boosting demand for bonds.
- In addition, a higher MPR could attract foreign investors seeking higher returns on their investments. However, the CBN may need inflation to start coming down to testify the rationale for the consistent MPR hikes, otherwise, it could also lead to concerns about the country's economic stability, potentially deterring foreign capital inflows whereby both inflation and MPR are rising parallelly.
- Finally, we maintain that to tame the inflation and ensure balanced growth, there should a corresponding response from the fiscal side of the economy to complement the monetary policies.

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