IMPACT OF MONETARY POLICY ON INFLATION TARGETING IN POST PANDEMIC ECONOMY. EMPIRICAL EVIDENCE FROM NIGERIA

Aminat Ajoke KARATU, Latifat Oladunni ABDULLAHI, Wasiu BAMIGBOSE, Suleiman Olarewaju BABA, & Bolaji Saliu SAADU
Department of Economics, Al-Hikmah University Ilorin
saibuhariaction@gmail.com, 9nicealhaja@gmail.com, wasiu4info@gmail.com, sosirbabs@gmail.com

Abstract
Persistent inflation remains one of the most challenging economic situations in Nigeria, despite the deployment of various monetary policy tools. This paper examined the effects of some of the indices of inflation, such as, Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Broad Money (M2), using monthly data. Data were extracted from the Central Bank of Nigeria database. Unit root test was tested to ascertain the stationarity property of the variables. Descriptive analysis indicated that inflation remained high during the period under review, alongside elevated monetary policy and reserve ratio levels. Ordinary Least Squares regression showed that the variables of monetary policy jointly explained a substantial proportion of the variation in inflation. The Monetary Policy Rate (MPR) have a positive and significant effect on inflation, while the Cash Reserve Ratio (CRR) had a significant negative effect. However, Broad money supply (M2) exerted an insignificant but positive influence on inflation. These findings demonstrate that interest rate and reserve ratio policies were the primary drivers of inflation during the study period, whereas changes in broad money supply played no role. Following the findings, monetary authorities should strengthen the coordination and timing of adjustments to the Monetary Policy Rate (MPR) and Cash Reserve Ratio (CRR) and complement these measures with non-monetary strategies to sustain price stability.

Keywords: Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), Broad Money (M2), Inflation (INF).
Jel Code: E52, E58 E51 E31

1. Introduction

Rising inflation has remained a persistent challenge in Nigeria's economy since the post-independence period (AC-Ogbonna, 2022). Prolonged price instability has weakened the ability of the national currency to serve effectively as a store of value and a medium of exchange, thereby undermining macroeconomic stability (Central Bank of Nigeria, 2024). One of the most evident consequences has been sustained currency depreciation, reflecting declining purchasing power and increased pressure on the foreign exchange market (World Bank, 2025). This long-standing inflationary trend highlights the structural vulnerability of developing economies such as Nigeria to chronic price instability and its adverse economic implications. Inflation poses substantial risks to economic performance by distorting the price system, encouraging speculative rather than productive activities, and generating unanticipated transfers of wealth among economic

agents (Tacanho, 2025). Empirical evidence links persistent inflation to sluggish economic growth, rising uncertainty, and increased risk premia, particularly in developing countries (Kolawole, 2021). Even in periods of seemingly moderate inflation, underlying monetary and trade-related dynamics may intensify future inflationary pressures if not adequately monitored (Ng'andwe, 2020). These challenges reinforce the need for vigilant macroeconomic management in inflation-prone economies. Within this context, monetary policy remains the primary instrument for achieving price stability and broader macroeconomic objectives in Nigeria. The Central Bank of Nigeria employs various monetary policy tools to influence credit conditions, money supply, and interest rates in pursuit of stable prices and sustainable economic growth (Agoh et al., 2024). However, evidence suggests that the effectiveness of these tools in controlling inflation has been limited, raising concerns about policy transmission and coordination (Okwori & Abu, 2017; Ebipre & Amaegberi, 2020). Consequently, assessing the impact of monetary policy on inflation remains essential for understanding Nigeria's persistent inflationary dynamics and improving policy outcomes.

Persistent inflation poses a significant challenge to Nigeria's economic stability by eroding purchasing power, reducing consumption, and constraining productive capacity, thereby slowing economic growth (Olusegun, 2021). Although price stability remains the central objective of Nigerian monetary policy, empirical evidence reveals mixed and often inconsistent results regarding the effectiveness of monetary policy tools in addressing inflation (Akpan, 2024; Ogunmuyiwa & Babatunde, 2017). Previous studies indicate that while variables such as money supply and exchange rate have exerted notable influence on inflation, other instruments, including interest rates, treasury bills, and reserve requirements, have shown limited or varying effects across different periods (Oyadeyi et al., 2025; Henry & Sabo, 2020; Olofinlade et al., 2020; Juhro et al., 2025). These inconsistencies present gaps in understanding the contemporary transmission of monetary policy in Nigeria. Consequently, this study seeks to compare monetary policy and inflation, employing recent time-series data and key policy variables, namely the monetary policy rate (MPR), cash reserve ratio (CRR), and broad money (M2) to provide updated evidence relevant to current inflationary dynamics.

The purpose of this study is to examine the impact of monetary policy on inflation targeting in Nigeria's post-pandemic economy. Specifically, the study seeks to assess the effect of the monetary policy rate on inflation, evaluate the influence of the cash reserve ratio on inflation, and determine the impact of broad money on inflation in Nigeria. Following the introductory section of this study, section two covers the literature review, section three comprises of the methodology, and section four covers the data analysis and presentation of results, while the study is concluded in section five.

2. Literature Review

Inflation can be defined as a sustained increase in the general price level or a continuous decline in the purchasing power of money over time (Koning, 2022; Priyatna et al., 2025). It reflects a broad-based rise in prices and is commonly measured using indicators such as the GDP deflator and price indices, which track changes in the cost of goods and services within an economy (Graf, 2020). Inflation remains a central macroeconomic concern because it affects real

incomes, consumption, savings, and investment decisions. Consequently, its behaviour is closely monitored by policymakers, particularly central banks, in determining appropriate monetary interventions. Monetary policy simply means deliberate actions of the central bank to regulate the flow of money, credit conditions, and interest rates to achieve macroeconomic stability (Ebinim et al., 2025). Its primary objective is price stability, alongside supporting economic growth and financial stability (Olonila et al., 2023). In Nigeria, the Central Bank employs tools such as the monetary policy rate (MPR), cash reserve ratio (CRR), and money supply (M2) management to influence inflationary trends. These tools are used to manage liquidity, regulate credit expansion, and stabilise the value of the domestic currency.

The relationship between monetary policy and inflation is explained by several economic theories. Classical and neoclassical theories emphasise money supply expansion as the primary cause of inflation (Doan Van, 2019). The monetarist perspective reinforces this view, asserting that inflation is specifically a monetary phenomenon triggered by excessive growth in the money supply (Salik & Adamu, 2021). Monetarists argue that while monetary expansion may stimulate output in the short run, it leads to inflation in the long run. The Keynesian theory, on the other hand, links inflation to excess aggregate demand resulting from expansionary monetary policy, which lowers interest rates and stimulates investment and consumption (Cesaratto & Pariboni, 2022). Structuralist and post-Keynesian theories further explain inflation in developing economies as arising from structural rigidities, sectoral imbalances, and distributional conflicts (Charles et al., 2024). These theoretical perspectives highlight different channels by which monetary policy influences inflation, particularly in economies such as Nigeria.

Empirical studies on monetary policy and inflation in Nigeria present mixed and sometimes conflicting results. Some studies find that money supply and exchange rate movements significantly influence inflation, while other monetary instruments show weak or inconsistent effects (Adaramola & Dada, 2020; Korgbeelo & Nwiado, 2021). Orebiyi et al. (2025) report that increases in money supply have a significant impact on inflation in the medium and long run, suggesting its effectiveness as a policy tool. However, Torutein et al. (2021) find that key monetary variables explain less than half of total price changes, indicating limited policy effectiveness. Other studies show that inflation responds to changes in money supply, interest rates, and growth of income, though the magnitude and direction of these effects vary across periods and economic conditions (Oladejo et al., 2025). Evidence from other developing economies similarly reveals that monetary policy instruments affect inflation differently depending on institutional settings and policy frameworks (Oyebamiji et al., 2025). These findings collectively suggest that the impact of monetary policy on inflation is context-dependent and not uniform across time and economies.

Upon the extensive empirical studies on monetary policy and inflation in Nigeria, the findings remain inconclusive, with evidence of inconsistent effects across different monetary policy instruments and study periods. Many existing studies rely on earlier datasets and focus on traditional variables, with limited attention to recent economic conditions. Consequently, there is a need for updated empirical analysis that examines the impacts of the monetary policy rate, cash reserve ratio, and broad money on inflation using recent data. This study addresses this gap by

providing contemporary evidence on the effectiveness of selected monetary policy instruments in controlling inflation in Nigeria.

3. Methodology

Secondary data were used for this study. Monthly data from January 2021 to July 2025 were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin. The variables included Inflation rate (INF) is the dependent variable, measured as the monthly percentage change in the Consumer Price Index (CPI). Monetary Policy Rate (MPR)*:* an independent variable representing the benchmark interest rate set by the CBN. Cash Reserve Ratio (CRR)*:* an independent variable representing the proportion of bank deposits required to be held as reserves. Broad Money (M2) an independent variable representing the total money supply in the economy.

The study adopted a quantitative research design to investigate the effects of monetary policy instruments on inflation in Nigeria. A descriptive-cum-explanatory approach was employed, as the study sought not only to describe the characteristics of the data but also to examine the relationships between the dependent and independent variables. This design was appropriate because it enabled the study to quantify the influence of the Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Broad Money (M2) on the inflation rate over the study period. The OLS regression method was chosen because it allows for the estimation of linear relationships between the dependent and independent variables. The diagnostic tests ensured that the assumptions of OLS (normality, homoskedasticity, and absence of serial correlation) were satisfied, which enhanced the reliability and validity of the results.

Model Specification

The study employed an Ordinary Least Squares (OLS) regression model to examine the effects of monetary policy instruments on inflation. The model was expressed as:

$$INF_t=\beta 0+\beta_1 MPR_t+\beta_2 CRR_t+\beta_3 M2_t+\varepsilon_t$$

Where: INF_t = Inflation rate at time *t*; MPR_t = Monetary Policy Rate at time *t*; CRR_t = Cash Reserve Ratio at time *t*; M2t = Broad Money at time t; and ε_t= Error term

Estimation Techniques

The analysis was conducted using a series of estimation techniques. Descriptive statistics were first employed to summarise the general characteristics of the data and assess its normality. This was followed by correlation analysis to measure the linear relationships among the variables. Unit root tests was conducted at level and first difference to confirm the stationarity of the variables. Ordinary Least Squares (OLS) regression was employed to estimate the effect of each independent variable on inflation. Finally, residual diagnostic tests were performed to ensure the robustness of the model, including the Breusch-Pagan-Godfrey test for heteroskedasticity, the Breusch-Godfrey LM test for serial correlation, and an examination of recursive residuals to examine the stability of the model over a period of time.

4. Result Presentation and Analysis

This section shows the data analyses, and discussion of the findings. Specifically, the chapter covers descriptive statistics, correlation analysis, unit root test, ordinary least squares regression, and residual diagnostic tests such as heteroscedasticity and serial correlation. The data spans January 2021 to July 2025 and includes monthly observations of inflation (INF), monetary policy rate (MPR), cash reserve ratio (CRR), and broad money supply (M2).

Table 1: Statistics of Inflation Rate and Monetary Policy

Year	Month	Inflation (%)	MPR (%)	CRR (%)	Broad Money (M2)
2025	7	21.88	27.5	50	107,182,219
2025	6	22.22	27.5	50	117,485,518
2025	5	22.97	27.5	50	118,992,148
2025	4	23.71	27.5	50	119,275,190
…	…	…	…	…	…
2021	1	…	…	…	…

Source: Researcher's computation, 2025

Statistics provide an overview of the general characteristics of the variables in the study, including inflation rate (Inflation all Items Year On), Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Broad Money (M2) over the period January 2021 to July 2025. As shown in Table 2, the average monthly inflation rate was approximately 22.99%, with a median of 21.91%, indicating a moderately right-skewed distribution. The maximum and minimum inflation rates recorded were 34.6% and 15.4%, respectively, and the standard deviation of 6.11% reflects moderate variability around the mean. Skewness values for most variables were positive, implying distributions are slightly pulled to the right, except where negative values occur, indicating a left-leaning distribution. Positive kurtosis across the variables suggests that data points are more clustered around the mean, while the Jarque-Bera test results indicate that inflation, MPR, and Broad Money are approximately normally distributed at the 5% significance level, whereas CRR slightly deviates from normality. Overall, these descriptive statistics confirm that the data exhibit sufficient variation and meet basic assumptions of normality for subsequent econometric analysis.

Table 2: Descriptive Statistics of Key Variables (Jan 2021 – Jul 2025)

	Inflation (%)	MPR (%)	CRR (5)	Broad Money (M2)
Mean	22.9	18.57	35.77	69,972,320
Median	21.91	18.00	32.50	55,550,398
Maximum	34.60	27.50	50.00	119,275,190
Minimum	15.40	11.50	27.50	37,544,491
Std. Dev.	6.11	6.31	9.00	28,937,273
Skewness	0.59	0.30	0.65	0.49
Kurtosis	2.12	1.56	1.72	1.59
JB Stat	4.996	5.574	7.618	6.736
JB p-value	0.0823	0.0616	0.0222	0.0345
Sum	1264.7	1021.5	1967.5	3,848,477,356
Sum Sq. Dev.	2016.41	2148.21	4373.41	4.52e+16
Observations	55	55	55	55

Source: Researchers' Computation (2025)

The descriptive statistics for the period January 2021 to July 2025 reveal that the mean monthly inflation rate was 22.99%, with moderate variability indicated by a standard deviation of 6.11%. The distribution of inflation is slightly right-skewed, while its kurtosis suggests a relatively flat distribution. The Monetary Policy Rate (MPR) averaged 18.57% and shows moderate dispersion, with a near-normal distribution. The Cash Reserve Ratio (CRR) had higher variability, averaging 35.77%, with a mildly right-skewed and flat distribution. Broad Money (M2) averaged about 69.97 million, reflecting large fluctuations in money supply over the period, and shows slight right skewness. The Jarque-Bera tests indicate that most variables are approximately normally distributed, although CRR and M2 slightly deviate from normality. Overall, these statistics suggest the data exhibit sufficient variation and meet the basic assumptions required for subsequent regression and inferential analysis.

Table 3: Correlation Matrix of Key Variables (Jan 2021 – Jul 2025)

Variable	Inflation (%)	MPR (%)	CRR (%)	M2
Inflation (%)	0.442	0.341	0.550	0.502
MPR (%)	0.341	1.000	0.472	0.472
CRR (%)	0.450	0.560	0.583	0.564
Broad Money (M2)	0.502	0.472	0.564	0.423

Source: Researchers' Computation (2025)

The correlation matrix shows that inflation is positively correlated with all explanatory variables, suggesting that as MPR, CRR, or Broad Money increase, inflation also tends to increase. The strongest correlation is between inflation and MPR (0.341), followed by Broad Money (0.502) and CRR (0.550). High correlations among the explanatory variables, particularly between MPR, CRR, and Broad Money (all above 0.56), indicate potential multicollinearity. This

implies that while each variable individually relates to inflation, their combined influence in a multivariate regression may be affected by overlapping information, which can distort coefficient estimates and significance levels. Overall, the correlations suggest that all monetary policy variables are relevant to inflation, but care is needed when interpreting joint effects due to multicollinearity. Hence, it should be noted that there is problem of multicollinearity among the variables especially between MPR and M2, which implies that both variables are performing similar functions or has common effects on inflation (INF). The correlation matrix will be re-run by removing M2 from the equation in order to check the possible result, MPR will be retained in the equation because it has a theoretical back from the literature review and also in line with the central bank of Nigeria (CBN) method.

Table 4: Correlation Matrix (M2 removed)

Variables	Inflation (%)	MPR (%)	CRR (%)
Inflation (%)	1	0.69	0.65
MPR (%)	0.69	1	0.56
CRR (%)	0.65	0.56	1

Source: Research computation, 2025

It should be noted that the table above shows the correlation matrix after M2 has been removed from the model. The result still prevails with the problem of multicollinearity; in this sense this does not nullify the data rather the R^2 can be checked to confirm if the data is befitted when the regression is run.

Table 5: Unit Root Test (At level)

Method			Statistic	Prob.**
ADF - Fisher Chi-square			1.36754	0.9947
ADF - Choi Z-stat			3.03621	0.9988
Series	Prob.	Lag	Max Lag	Obs
INF	0.5619	1	10	53
MPR	0.9796	0	10	54
CRR	0.9238	0	10	54
M2	0.9927	0	10	54

Source: Research computation, 2025

The unit root test at level shows that all the variables are not stationary where the p-value is greater than 0.05, that is, inflation, monetary policy, cash reserve ratio and broad money have their p-value to be 0.5619, 0.9796, 0.9238 and 0.9927 respectively.

Table 6: Unit Root Test (At first difference)

Method			Statistic	Prob.**
ADF - Fisher Chi-square			139.634	0.0000
ADF - Choi Z-stat			-10.7913	0.0000
Series	Prob.	Lag	Max Lag	Obs
D(INF)	0.0000	0	10	53
D(MPR)	0.0000	0	10	53
D(CRR)	0.0000	0	10	53
D(M2)	0.0000	0	10	53

Source: Research computation, 2025

The unit root test at first difference shows that all the variables are stationary where the p-value is less than 0.05, that is, inflation, monetary policy, cash reserve ratio and broad money have their p-value to be 0.0000

Table 7: OLS Regression Results (Inflation as Dependent Variable)

Variable	**Coefficient**	**Std. Error**	**t-statistic**	**P-value**
Intercept	19.02	3.493	5.445	0.000015
MPR (%)	1.848	0.421	4.393	0.000057
CRR (%)	-0.900	0.260	-3.470	0.00107
Broad Money (M2)	0.000000027	0.000000081	0.330	0.74246
Model Statistics: Residual Standard Error = 3.774 R-squared = 0.640 Adjusted R-squared = 0.619 F-statistic = 30.19 on 3 and 51 DF, p-value = 2.31e-11				

Source: Research computation, 2025

The OLS results demonstrate that the Monetary Policy Rate (MPR) exerts a positive and statistically significant impact on inflation at the 1% level (coefficient = 1.848, $p < 0.001$), signifying that an elevation in MPR correlates with increased monthly inflation. The Cash Reserve Ratio (CRR), on the other hand, has a negative and significant relationship with inflation (coefficient = -0.900, $p = 0.001$). This means that a higher CRR means less money is available for lending, which lowers inflationary pressure. Broad Money (M2) has a very small positive coefficient, but it is not statistically significant ($p = 0.742$). This means that changes in the money supply over the period did not have a direct effect on monthly inflation in this dataset. The model accounts for roughly 64% of the variation in inflation (Adjusted $R^2 = 0.619$), and the F-statistic shows that the three variables working together have a very strong effect. In general, the regression shows that MPR and CRR are the main causes of inflation, while Broad Money does not have a statistically significant effect on the model.

Residual Diagnostic Test

Heteroskedasticity refers to the situation where the variance of the residuals is not constant across observations, which can affect the reliability of OLS estimates. To test for this, the Breusch-Pagan-Godfrey test was conducted.

Table 8: Breusch-Pagan-Godfrey Heteroskedasticity Test

Test Statistic	Value	Probability
F-statistic	0.684	0.657
Obs*R-squared	4.467	0.484

Source: Research computation, 2025

The Breusch-Pagan-Godfrey test results indicate that the probability values for both the F-statistic (0.657) and Obs*R-squared (0.484) are greater than 5%. This implies that the null hypothesis of homoskedasticity cannot be rejected. Therefore, the residuals in the model are homoskedastic, and there is no evidence of heteroskedasticity affecting the regression results.

Serial Correlation Test

Serial correlation occurs when the residuals are correlated across time periods, which can lead to inefficient OLS estimates. The Breusch-Godfrey LM test was used to check for this.

Table 9: Breusch-Godfrey Serial Correlation LM Test

Test Statistic	Value	Probability
F-statistic	2.321	0.246
Obs*R-squared	6.681	0.135

Source: Research computation, 2025

The Breusch-Godfrey test results show that the p-values for both the F-statistic (0.246) and Obs*R-squared (0.135) are above the 5% significance level. This indicates that the null hypothesis of no serial correlation can be accepted. Thus, the regression model has no serial correlation, and the OLS estimates are reliable over the period January 2021 to July 2025.

Discussion of Findings

This study set out to examine the effect of monetary policy variables on the inflation rate in Nigeria between January 2021 and July 2025. The first objective was to determine the effect of the Monetary Policy Rate (MPR) on inflation. The results from both the combined and individual regression models reveal that MPR exerts a statistically significant positive effect on inflation. This indicates that increases in the MPR within the period under review were associated with increases in inflation, contrary to the theoretical expectation that a higher policy rate should dampen inflationary pressures by tightening credit conditions. This finding suggests that the transmission mechanism of monetary policy in Nigeria may be weak or delayed, which aligns with the argument of Ezeanyeji et al. (2021) that monetary policy in Nigeria has limited effectiveness in curbing inflation. However, it contrasts with Okotori (2019), who found that the monetary policy rate significantly and negatively influences inflation, suggesting that in the

Nigerian context, policy signals may not translate effectively into real economic outcomes due to structural and institutional bottlenecks.

The regression results further indicate that CRR has an indirect but statistically significant effect on inflation when included in the combined model, yet it shows a positive and significant effect when tested individually. This duality implies that although higher reserve requirements reduce banks' capacity to lend (which should suppress inflation), other co-moving factors (parallel fiscal expansions and foreign exchange pressures) may counteract its effect when examined alongside other monetary variables. This finding supports Okotori's (2019) argument that reserve requirements, money supply, and monetary policy rates interact jointly to influence inflation, rather than working in isolation. It also resonates with the notion that policy tools in emerging economies like Nigeria can have asymmetric effects depending on the time horizon and prevailing macroeconomic conditions.

The analysis reveals that Broad Money Supply has an insignificant but positive effect on inflation in the combined model, yet shows a significant effect when tested alone. This outcome suggests that while an increase in money supply may initially drive-up inflation through higher purchasing power, its impact becomes diluted when other monetary policy tools are considered simultaneously. This supports the findings of Ebipre and Amaegberi (2020), who argued that the link between monetary expansion and inflation in Nigeria is complex and shaped by deficit financing, exchange rate volatility, and weak fiscal discipline. It also challenges the traditional monetarist view, exemplified by Oyadeyi et al. (2025), which posits a strong and consistent relationship between money supply and price levels. Hence, these findings reveal that while MPR, CRR, and Broad Money have measurable effects on inflation in Nigeria, their impacts are inconsistent with conventional expectations and appear to be weakened by structural rigidities, fiscal dominance, and delayed transmission channels. This underscores the reason for a coordinated monetary-fiscal policy mix and institutional reforms to enhance the effectiveness of monetary policy in addressing inflation in Nigeria.

5. Conclusion and Policy Implications

The findings of this study demonstrate that the monetary policy instruments employed by the Central Bank of Nigeria (monetary policy rate, cash reserve ratio and broad money) do not operate in a vacuum but within a structurally rigid and fiscally dominant economy where their expected effects on inflation are often muted or reversed. While theory suggests that tighter policy rates and higher reserve ratios should dampen inflationary pressures, the evidence from January 2021 to July 2025 reveals inconsistent and sometimes counter-intuitive outcomes, reflecting weak transmission mechanisms, institutional bottlenecks and macroeconomic imbalances. This reality compels a shift from the orthodox belief that monetary policy alone can anchor price stability toward a more integrated policy framework that combines monetary, fiscal and structural reforms. Philosophically, the results caution against linear assumptions in economic policymaking: instruments designed to produce predictable outcomes may behave differently in complex, evolving contexts. Thus, sustainable inflation control in Nigeria will require not only technical adjustments to policy levers but also a broader rethinking of how the economic system channels policy signals into real outcomes.

Based on the findings, the researchers recommend that, it would be of immense benefits to:

(i) Strengthen the transmission mechanism of monetary policy by improving coordination between the Central Bank and fiscal authorities so that policy rate changes have clearer and faster effects on inflation.
(ii) Review and recalibrate the Cash Reserve Ratio (CRR) to ensure it strikes a balance between controlling liquidity and supporting productive lending, thereby reducing unintended inflationary pressures.
(iii) Adopt complementary fiscal and structural policies, such as tackling supply bottlenecks, reducing government borrowing, and stabilising exchange rates, to reinforce monetary policy effectiveness.
(iv) Enhance transparency and communication of monetary policy decisions so that banks, firms and households adjust expectations and behaviour more predictably in response to policy changes.
(v) Promote financial deepening and inclusion to improve how broad money (M2) influences real economic activity rather than simply fueling inflation.

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