CENTRAL BANK OF NIGERIA COMMUNIQUE No. 59 OF THE MONETARY POLICY COMMITTEE, DECEMBER 11, 2008

The Monetary Policy Committee (MPC) held its 206th meeting today, December 11, 2008 and reviewed the economic and financial developments in the international scene and the domestic economy. The Committee noted the continued weakening of the global economy despite the coordinated response by the fiscal authorities and central banks to the global financial crisis and the ensuing economic downturn. Specifically, global unemployment has been on the rise, shortage of liquidity and acute scarcity of credit have remained visible in the financial institutions, while stock market developments have been marked by a high degree of fluctuation and corporations have continued to post financial losses. With falling demand by developed economies, the international crude oil and other commodity prices have declined sharply during the preceding three months. Inflation, however, appeared to have moderated slightly in most developed economies and some emerging market economies.

The Committee also evaluated the outcomes of the policy decisions taken at its Special Meeting on September 18, 2008 and noted that the desired macroeconomic outcomes were largely achieved. Inflation rose further in October contrary to the seasonal pattern, while the naira exchange rate depreciated in all segments of the foreign exchange market since November. In addition, key interest rates rose during the review period after some moderation in September through October following the implementation of the decisions taken at the Special Meeting of the Committee. The MPC also expressed concern on the potential negative impact of the rapidly declining oil prices on the fiscal operations of the three tiers of Government and the overall economy. Against this background, therefore, the overall macroeconomic outlook remains challenging.

KEY MACROECONOMIC DEVELOPMENTS

Inflation

The Committee noted the sharp rise in headline year-on-year inflation in October to 14.7 per cent from 13.0 per cent in September 2008, which is counter seasonal and driven by both food and non-food components. Similarly, core inflation rose to 7.9 per cent in October from 6.9 per cent in September. Staff projections indicate that the year-on-year headline inflation is not likely to moderate significantly in the remaining months of 2008.

Output

Aggregate output growth in the third quarter was estimated at 6.83 per cent compared with 5.23 per cent in the second quarter. The growth was driven largely by the non-oil sector, which grew by an estimated 9.16 per cent. However, output of the oil sector declined by 0.81 per cent. Current NBS estimate of real GDP growth for the fourth quarter of 2008 is 8.69 per cent, while the overall output growth for 2008 is estimated at 6.77 per cent compared with 6.40 per cent in 2007.

Money and Credit

Provisional data showed that growth in broad money (M2) moderated in October 2008. M2, which grew by 43.5 per cent, as at end-October, 2008 which when annualized translates to 52.2 per cent. The growth in M2 has continued to be driven mainly by credit to the core private sector, which grew by 52.5 per cent (or 63.0 per cent annualized) as at end-October, 2008.

Interest Rates

Key interest rates moderated in late September through October following the implementation of the decisions of the Special MPC meeting held on September 18, 2008. The rates rose in early November but have since moderated.

Exchange Rate

The sustained stability that has characterized the foreign exchange market in the last 24 months appeared to have come under threat since November 2008 largely due to the global economic and financial developments. The demand for foreign exchange at the WDAS has risen sharply since October as private inflows have shrunk and oil prices softened at the international market.

Banking Sector Performance

The Committee noted with satisfaction that Nigerian banks were largely robust enough to withstand the effects of the financial turmoil. Whereas many banks abroad have been making loses and faced with potential bankruptcies, Nigerian banks have in fact been posting profits. Nonetheless, there is in general a welcome recognition of the need to enhance regulatory and supervisory efforts to set up appropriate information profiles and risk management strategies in the banks. The industry liquidity ratio declined from 52.95 per cent in September to 49.22 per cent in October 2008 but rose to 51.55 per cent in November. The Capital adequacy ratio continued to be robust at 22.25 per cent in November, 2008.

External Reserves

The MPC noted with satisfaction the level of external reserves at US$58.11 billion as at December 10, 2008. The Committee also expressed concern about the effect of the continuing slide in oil prices on the domestic economy and assured that appropriate policy measures would be adopted to minimize the overall impact on the wider economy.

ECONOMIC OUTLOOK

The general expectation is that in 2009 highly developed economies would post negative growth rates while emerging market economies are likely to register sharp slowdown as a consequence. Other developing countries are also expected to decelerate. In the circumstance, the policy responses of most developed and emerging economies have tended to focus on growth and financial stability.

Overall, the challenges facing the Nigerian economy are in respect of developments in the international oil market encompassing both slack demand from advanced economies and declining oil prices. If the current trend continues, Nigeria's fiscal and external payments positions are likely to be further weakened in 2009. It is, however, expected that the domestic non-oil sector will rise to the challenge to offset to some extent the slack from the external sector. The optimism stems from the expected buoyant agricultural output, improvement in infrastructure as financial resources flow to the sector, and other development-enhancing activities of the government.

In the light of the above, the Monetary Policy Committee decided as follows:

1. Leave the MPR unchanged at 9.75 per cent;
2. Reduce banks' foreign exchange net open position from 20.0 to 10.0 per cent of shareholders' funds with effect from Monday December 15, 2008; and

3. CBN to participate actively in the daily inter-bank foreign exchange market by buying and selling through the two-way quotes.

In conclusion, the Committee noted the anxiety of participants in the foreign exchange market and will like to assure the public that the CBN remains committed to a stable exchange rate regime and will continue to meet demand for foreign exchange at market determined rates.

Professor Chukwuma C. Soludo, CFR
Governor,
Central Bank of Nigeria
Abuja
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