CENTRAL BANK OF NIGERIA

MONETARY POLICY REVIEW

July - December 2010

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Central Bank of Nigeria

Mandate

▪Ensure monetary and price stability

▪Issue legal tender currency in Nigeria

▪Promote a sound financial system in Nigeria

▪Maintain external reserves to safeguard the international value of the legal tender currency

▪Act as banker and provide economic and financial advice to the Federal Government

Vision

To be one of the most efficient and effective of the world's central banks in promoting and sustaining economic development.

Mission Statement

To be proactive in providing a stable framework for the economic development of Nigeria through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial system.

Core Values

- Meritocracy
- Leadership
- Learning
- Customer - Focus

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Communiqué of the Monetary Policy Committee (July 2010 - December 2010)

STATEMENT BY THE GOVERNOR

.. Asia recorded appreciable growth… In some countries, monetary policy was tight although real interest rates remained low

The global economy continued to show signs of economic recovery during the last six months of 2010, despite market anxiety over the sovereign debt crises in the euro area and the challenges posed by rising food and energy prices. The pace of recovery and its composition, however, differed across the regions with the smaller export-dependent economies generally experiencing more pronounced growth than the larger economies with sizable domestic demand. Most advanced and a few emerging economies grew at a much slower pace due to concerns of large adjustment costs and high unemployment levels, which posed major social challenges to policy makers during the second half of 2010. In contrast, growth in China and most of East Asia (except Japan), including India, as well as sub-Saharan Africa, remained strong for most part of the second half of 2010.

Monetary policy was largely expansionary across the regions, with interest rates down to record lows in most advanced and emerging market economies, while central bank balance sheets expanded to unprecedented levels in key advanced economies. In order to curb rising inflationary threat, the authorities began the process of tightening monetary policy, although interest rates still remained generally low. Despite these challenges, the short-term baseline outlook for world output remained positive, with global growth expected to settle at high but more sustainable levels over the medium to longer term.

While monetary policy was expansionary, interest rates were generally low

The Nigerian economy witnessed strong economic growth performance during the last half of 2010, supported mainly by strong macroeconomic management and reforms, despite the lingering effects of the global financial crisis. In response to the rise in domestic inflationary pressures towards the end of the year, the monetary authorities raised the monetary policy rate by 25 basis points to 6.25 per cent. The Asset Management Corporation of Nigeria (AMCON) commenced operations in the last quarter of 2010. In December 2010, AMCON purchased the non-performing loans of 21 DMBs valued at ₦2.165 trillion and issued 3-year zero coupon bonds valued at

₦1.036 trillion. It is expected that, with the commencement of operations by AMCON, the balance sheets of the Deposit Money Banks (DMBs) would be substantially cleaned up of non-performing loans in their portfolios.

The overall economic outlook suggests that the current global economic recovery would continue through 2011. While domestic economic activity is expected to be bolstered by the global recovery, the lingering sovereign debt crisis in a number of Euro Area countries poses serious challenges to global economic recovery, which might negatively affect the prospects for Nigeria's increased oil exports. The outlook suggests that the stance of domestic monetary policy in 2011 would be largely non-accommodating, to forestall the risk of inflation. Generally, the Central Bank of Nigeria would remain committed to ensuring the attainment of the single digit inflation objective in 2011.

Sanusi Lamido Sanusi *(CON)*
Governor

CHAPTER 1

OVERVIEW

CHAPTER 1

OVERVIEW

...during the second half of 2010, the threat of inflation shifted the stance of policy…

The primary focus of monetary policy in the second half of 2010 was to maintain price stability and provide adequate liquidity in the banking system. Thus, while the stability of the banking system was paramount during the second half of 2009 and the first half of 2010, this emphasis was moderated when rising inflationary pressures threatened price stability in the second half of 2010. To complement the Federal Government's efforts at stimulating economic growth, the CBN provided support to agriculture, small scale industries, power, aviation and the development of other critical infrastructure.

The Bank continued to use the Monetary Policy Rate (MPR) to anchor short term interest rates. The major instrument of monetary policy was open market operations (OMO) in Treasury Bills complemented by discount window operations (including CBN standing facilities, repo and reverse repo transactions) and cash reserve requirement (CRR). Primary market transactions in government securities, sales/purchases of CBN bills, and foreign exchange were also used to manage liquidity in the system.

MPC held 3 regular statutory meetings in the second half of 2010

In the second half of 2010, the Monetary Policy Committee (MPC) held 3 regular meetings, an interactive retreat and a Monetary Policy Workshop. The MPR which was maintained at 6.00 per cent since the beginning of the year was adjusted to 6.25 per cent in September and remained at that level for the rest of the year. Also, the asymmetric interest rate corridor of standing facilities which was introduced in the first half of the year was maintained at 200 basis points above the MPR for the lending facility and 500 basis points below the MPR for the deposit facility, in July. The corridor was adjusted in September 2010 to 200 basis points above the MPR for lending and 300 basis points below the MPR for the deposit facility.

The major challenge of monetary policy was the persistently low growth of credit to the private sector in the face of rising credit to government. Sustained shortage of banking system liquidity from the first half of 2010 resulted to increase in short

..major challenge to monetary policy was the persistently low level of domestic banking sector credit...

term interest rates. This discouraged interbank placements by DMBs and lending/credit to private sector, prompting the monetary authorities to de-risk the market by guaranteeing placements in the interbank market. Consequently, short term interest rates fell remarkably to historically low levels in the second half of 2010. In response to anticipated inflationary pressures towards the end of the year, the regime of monetary easing was gradually reversed by the Bank in September. In the end, headline inflation fluctuated to 11.8 per cent at end-December 2010 from the 13.9 per cent recorded a year earlier. The combined effect of the monetary and fiscal stimulus packages, reform of the banking system and favourable weather conditions for agricultural output contributed to a robust real GDP growth of 7.85 per cent at the end of the second half of 2010, up from 7.69 per cent in the first half.

Short term interest rates fell continually as the credit crunch became sustained..

The economic environment in the second half of 2010 presented significant challenges to the attainment of domestic price stability objective and recovery of the banking system. The stance of fiscal policy during the period was largely expansionary. The continued divestment of portfolio investment by foreign investors in the first half negatively impacted on the capital market. Although the global economy showed signs of recovery, the demand pressure in the foreign exchange market which was building up in the first half intensified in the review period leading to substantial drawdown of the stock of external reserves. While the exchange rate depreciated early in the year, it stabilized at around ₦150.56/US$ at the end of the year. The stock of external reserves fell from US$37.40 billion at end-June 2010 to US$32.34 billion at end-December, 2010.

..stance of fiscal policy was largely supportive of monetary expansion.

The task of addressing the problem of illiquidity in some DMBs, which continued throughout the first half of 2010, was sustained in the second half. To clean up the balance sheets of the Deposit Money Banks (DMBs), the Asset Management Corporation of Nigeria (AMCON) which was established in the third quarter of 2010, acquired non-performing loans from 21 DMBs valued at ₦2.165 trillion in the last quarter of the year. In exchange, it issued 3-year zero coupon bonds valued at ₦1.036 trillion. In addition, a ₦500 billion infrastructure

AMCON was created to buy up the bad debts and non-performing loans of the DMBs development fund (manufacturing, power and aviation), introduced by the CBN in the first half of 2010, also commenced operations in the second half of the year.

.while domestic economic activity is expected to be bolstered by the global recovery, the debt crisis in the Euro Area poses serious concerns to growth in the European economies....

The overall economic outlook suggested that the current global recovery from the abating financial and economic crises would stimulate aggregate demand in the domestic economy and sustain output growth in 2011. While domestic economic activity is expected to be bolstered by global recovery, the debt crisis in the Euro Area poses serious challenges to economic growth with the possibility of austerity measures in the affected Euro Area countries, including: Greece, Spain, Italy and Portugal. The outlook suggests that the stance of monetary policy in 2011 would largely be non-accommodating, to forestall the risk of inflation.

CHAPTER 2

INTERNATIONAL ECONOMIC DEVELOPMENTS

CHAPTER 2
INTERNATIONAL ECONOMIC DEVELOPMENTS

2.1 The Global Economy

… rising food and energy prices did not dampen growth evenly across regions… Growth in emerging and developing countries was high…

The global economy, which witnessed low output growth in the wake of the recent financial and economic crises, regained momentum in the second half of 2010. High increases in food and energy prices as well as the debt crises in the Euro area did not dampen output evenly across the regions. Thus, while output growth was suppressed in the industrial countries, the emerging and developing economies were compensated with higher output which sustained the tempo of global recovery. The growth in the emerging and developing countries was driven by high aggregate domestic demand in the presence of weak external demand.

Driving growth was the huge liquidity injections into national economies

Driving the global rebound was the extraordinary amount of liquidity injected into the national economies through monetary and fiscal stimuli in the heat of the crises. At 5.0 per cent, growth rate in Sub-Saharan Africa was higher than in most regions except Developing Asia and Latin America/Caribbeans, with most of that growth coming from Nigeria, South Africa and Kenya. Nigeria's growth was particularly traceable to high domestic aggregate demand.

During the review period, monetary policy was largely expansionary, and interest rates were generally low

Monetary policy was largely expansionary across the regions, with interest rates down to record lows in most advanced and emerging market economies, while central banks' balance sheets expanded to unprecedented levels in key advanced economies (Table 2.1). In Nigeria, short term interest rates dropped to a record low in August 2010 when the interbank interest rate was 1.26 per cent. The global financial and economic crises led to large scale divestment of foreign portfolio investment from the Nigerian Stock Market, leading to substantial demand pressure in the foreign exchange market and the resultant reserve drawdown.

The recent growth in global demand and industrial production, together with weather-related disruptions to supply (like the flood in some countries) and the emerging political crisis in

Higher growth, weather disruptions and emerging MENA crisis increased commodity prices

Middle-East and North Africa countries (MENA), led to general rise in commodity prices during recent months. The rising trend in commodity prices led to a further upward revision of the near-term economic outlook for most countries' terms of trade. While core inflation remained low in most advanced economies, the increase in commodity prices resulted in a rise in headline inflation. Consequently, headline inflation was expected to pick-up in 2011 across the regions, especially if the high and rising food and energy prices and large scale natural disasters continued.

Table 2.1
Monetary Policy Rates of Selected Central Banks

Central Bank	Current Rate	Reference Rate	Date and Rate of last Change
People's Bank of China	5.81%	Reserve Requirement Ratio	5.56% (Nov 2010)
Central Bank of Egypt	8.26%	Overnight Deposit Rate	8.27% (Jun 2010)
European Central Bank	1.00%	Overnight Rate	1.23% (Dec 2009)
Reserve Bank of India	6.25%	Repo Rate	6.00% (Oct 2010)
Reserve Bank of South Africa	5.50%	Repurchase Rate	6.00% (Oct 2010)
Bank of England	0.50%	Base Rate	0.63% (Dec 2009)
Bank of Canada	1.00%	Overnight Rate	0.75% (Aug 2010)
Bank of Japan	0.10%	Overnight Call Rate	0.50% (Dec 2007)
Federal Reserve USA	0.25%	Federal Funds Rate	1.00% (Dec 2008)
Central Bank of Nigeria	6.25%	Monetary Policy Rate	6.25% (Aug 2010)

Source: World Economic Outlook, IMF, BoJ, January 2011
* As at end-December 2010

Sovereign debt crises and poor current Account positions in the Euro area may negatively impact trade leading to currency valuation concerns

The Euro area public debt crisis and growth divergences were of serious concerns across the group of industrial countries and the rest of the global economy. The disarray in the fiscal positions of some Euro area countries and in some cases, the accompanying current account deficits were expected to negatively impact on international trade and currency valuation across the world.

GDP growth in both Asia (excluding Japan) and the United States rose after a slowdown in mid-2010. At end-December 2010, global output growth was estimated at 5.0 per cent and the IMF projected that this growth trend would be sustained in 2011 and 2012, though with moderations across the regions. Output growth in the emerging and developing countries as a group, had been projected to remain robust in 2011. Growth performance in Sub-Saharan Africa was projected to remain high (Table 2.2).

Table 2.2
World GDP

	Year - average percentage change		Projections	Projections	Projections	Q4 over Q4 Projection	
	2008	2009	2010	2011	2012	2011	2012
World	3.0	-0.6	5.0	4.4	4.5	4.5	4.4
Advanced Economies	0.2	-3.4	3.0	2.5	2.5	2.6	2.5
Emerging & Developing Economies	6.0	2.6	7.1	6.5	6.5	7.0	6.8
Sub-Sahara Africa	5.5	2.8	5.0	5.5	5.8	5.9	6.2

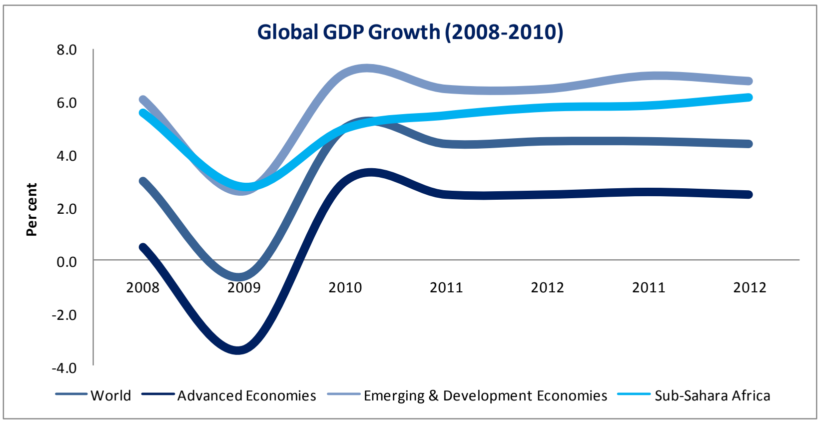
Source: World Economic Outlook (WEO), IMF January 2011

Global unemployment remained generally high

Despite these developments, there were differences in the amount of unused capacity around the world, as most developed countries continued to operate below their potentials. Also, unemployment rate remained high, and output growth in some countries was unlikely to return to the pre-crisis level, in the near term.

In the last two quarters of 2010, bond yields rose significantly in most major economies to their highest levels in a year. While interest rates remained generally low, the upward trend in bond yields, generally reflected the improved economic performance notably in the United States.

Figure 2.1



Source: World Economic Outlook (WEO), IMF January 2011

Conditions in the financial markets improved generally except in the Euro area where public debt sustainability concerns were a threat

Conditions in the major financial markets improved in the last quarter of 2010, with the notable exception of some Euro area countries, where concerns about the sustainability of their public debt exposures had reached a crisis level. This unease led to an extensive purchase of the sovereign debt of these countries by the European Central Bank (ECB). The successful securitization of some public debts and further discussions on the expansion of a Euro area support facility stabilized the Euro area financial markets.

The sovereign bonds of the emerging market economies were marginally affected by the European sovereign debt crisis. The spreads between yields on emerging markets US dollar-denominated sovereign debt and the US Treasury bonds remained largely unchanged in much of the second half of 2010. Corporate bond issuance in the United States remained strong while the spreads declined to about the levels recorded before the emergence of the Greek sovereign debt crisis in May 2010.

..Sovereign bonds of the emerging market economies were not affected much by the European sovereign debt crisis.

The improved performance of the global economy and the renewed risk appetite of financial institutions provided a boost to most equity markets in the last quarter of 2010. However, performance among global equity markets, during 2010, as a whole was mixed. The United States and the emerging Asian economies recorded a strong equities market recovery while a decline in equity prices in China was recorded, a development traced to tight monetary policy in that country. In the Euro area, Japan and Australia, there was little change in overall equity prices in 2010.

2.2 Regional/Country Specific Developments

2.2.1 Economic Community of West African States (ECOWAS), Africa and the Middle East

(i) Economic Community of West African States (ECOWAS)

ECOWAS countries have limited integration to the global economy.. recorded marginal growth as a group… group inflation was on the average under 10.0%

The countries in the Economic Community of West African States had limited integration into the global financial markets. As a result, most ECOWAS countries were less affected by the effects of the global financial and economic crises unlike countries with more integrated financial markets. In the second half of 2010, most ECOWAS countries recorded marginal growth rates, indicating a slowdown of 1.0 per cent in 2010 and an inflation rate of below 10.0 per cent. Most central banks in the sub-region adjusted their monetary policy stance to reflect changes in economic and liquidity conditions once the risks of second-round effects of the global meltdown had crystallized. During the crises, most central banks, including the Central Bank of West Africa (BCEAO) lowered their refinancing rate and provided government with direct credits and refinancing guarantees. The low growth performance in ECOWAS countries in the second half of 2010 however, moderated by Nigeria's remarkable growth performance during the period. The inflation rate of 11.8 per cent for Nigeria as at December 2010 was however, above the targeted single digit rate.

(ii) Sub-Saharan Africa

...SSA countries experienced high growth traced to sound macroeconomic management and sustained increased aggregate demand

Sub-Sahara African countries experienced appreciable growth in the second half of 2010 and the trend was projected to continue in 2011. Overall, output growth was estimated at 5.0 per cent in 2010 and was expected to rise marginally to 5.5 per cent in 2011. Sound macroeconomic management and high domestic aggregate demand provided the key to the resilience of most sub-Sahara African countries during the global financial crisis. Before the 2007–2009 global shocks, most Sub-Sahara African countries experienced steady growth, low inflation, sustainable fiscal balances, rising foreign exchange reserves, and declining government debt. With the shocks, countries were able to use fiscal and monetary policies, to dampen the adverse effects of the sudden shifts in world trade, prices, and financial flows in the short run.

Countries with strong manufacturing sectors had high unemployment rates. Recovery in the industrial countries is still shaky

As a result of the crises, unemployment rose significantly in countries with strong manufacturing sectors while fiscal balances deteriorated, particularly in middle-income countries and oil exporters. While exports remained generally at their pre-crises levels, credit growth remained subdued with risks being weighted on the downside. On a region-wide basis, domestic elections were scheduled in at least 17 countries and these may slow the pace of reforms.

falling aggregate demand in trading partner countries amidst rising oil prices would exert upward pressure on domestic exchange rates in the oil exporting countries to appreciate

Oil exporting countries in the region such as Nigeria, Angola, Gabon and Ghana, stood to benefit from higher oil prices. Rising energy costs could slow the tempo of growth across the region and diminish the 2011 growth prospects for many countries in the sub-region. The problem of high oil prices was expected to worsen if the crisis in the Middle East and North Africa (MENA) countries continues or escalates to more countries in the region. However, falling aggregate demand in trading partner countries amidst rising oil prices would exert upward pressure on domestic exchange rates in the oil exporting countries to appreciate. The high oil earnings in the absence of fiscal restraint may trigger high fiscal expenditure in the oil exporting countries leading to higher inflation.

The five largest economies (South Africa, Nigeria, Angola, Ethiopia, and Kenya) account for two-thirds of Sub-Sahara Africa's output and just under half of its population. Of the five, only South Africa went into recession in 2009. The country had stronger global trade and financial linkages and was already experiencing economic downturn before the commencement of the global crises. Consequently, the economy experienced a loss of about 1 million jobs. In Nigeria and Kenya, real GDP growth actually increased from 5.6 and 2.1 per cent in 2009 to 7.85 and 4.1 per cents at end-December 2010, respectively; whereas in Ethiopia, the marginal fall in output still left growth at about 7.7 per cent.

(iii) Middle East and North Africa

.. the MENA crisis , ..., is likely to impact global energy security and prices, much higher than previously projected,.....

The wave of protests which erupted in some Middle East and North Africa (MENA) countries towards the end of 2010 led to a chain of events which sent strong signals to the international community on the implications of the developments for the international oil market; especially with regards to supply constraints and higher oil prices. Coming just as the global economy was recovering from the effects of the unsettling economic and financial crises, the MENA crisis, which was largely as a result of rising cost of living and high youth unemployment was capable of threatening global energy security. The uncertainties associated with the MENA crisis had strong implications for global oil output and growth expectations. While higher oil prices may imply higher oil export earnings for countries like Nigeria, such developments had potential for constraining aggregate demand and growth prospects in the trading partner countries. Similarly, increased foreign exchange from oil export earnings could cause an appreciation in the external value of the naira, requiring a more careful management of the foreign exchange market to avoid exchange rate volatility.

.. Asia recorded appreciable growth… In some countries, monetary policy was tight although real interest rates remained low

2.2.2 China and the Rest of Asia

During the second half of 2010, economic activities in Asia remained robust, although it moderated towards a more sustainable pace. In the first half of 2010, economic activity continued its rebound from the global financial crisis. The pace of recovery and its composition remained different across the region with the smaller export-dependent economies generally experiencing more pronounced growth than larger economies with sizable domestic demand. In particular, there was moderation in industrial production and export growth reflecting in part, the maturing of the global and regional inventory cycle, particularly in IT related products which were important for production and exports in many Asian economies. The short-term baseline outlook remained generally positive, with growth expected to settle at high but more sustainable levels. Growth was likely to remain particularly strong in the large, domestic-demand-driven economies of China, India, and Indonesia.

The sluggish recovery in the industrial countries was expected to support growth in Asia's exports, although below the very high rates of 2009 and early 2010. A gradual withdrawal of the policy stimulus, sustained improvements in labor market conditions, still accommodative financial conditions were expected to sustain domestic aggregate demand. Rising global liquidity, relatively robust growth and low public debt were expected to fuel capital flows to the region. Reflecting the slowing of export growth and strong domestic demand, Asia's current account surplus was projected to decrease to about 3 per cent of regional GDP in 2011.

The balance of risk was in the external environment where underlying sovereign and banking vulnerabilities in advanced economies remained a significant challenge. Despite Asia's strong growth potentials, trade and financial linkages with the industrial economies suggested that a further deterioration in global financial conditions and a slowing down of the global recovery would have serious implications for Asia. Inflationary pressures were observed in some countries indicating a compelling need to normalize policy stance across the region. With monetary and fiscal policies being largely accommodative, and output gaps closing rapidly, inflation pressures could intensify, resulting in the risk of pro-cyclical policies. Overall, in the medium term, sustaining robust growth in Asia required continued progress with rebalancing growth toward domestic demand.

The Chinese economy continued to record strong growth performance over the rest of Asia, especially in the third quarter of 2010 with GDP growth estimated at 9.7 per cent. The trend continued till the end of the year. However, food prices remained rather high, a phenomenon observed also in other economies in the Asian region. The thrust of Chinese monetary policy was to contain the upward trending inflation rate, which was 3.5 per cent, by December 2010. The Chinese authorities in the second half of 2010, announced a number of monetary policy measures to address mounting inflationary pressures, although monetary conditions appeared to remain upward trending. Consequently, The People's Bank of China raised its policy interest rate by 25 basis points to 5.81 per cent in late December 2010 and also raised the reserve ratios of banks twice over the past two months of 2010 (Table 2.1).

2.2.3 The Euro Area

In the euro area, prospects for strong economic recovery were generally high in the second half of 2010, but with large divergences across countries. For example, economic activities remained depressed in countries where sovereign debt concerns had been elevated. The estimate for GDP growth in the third quarter of 2010 in the United Kingdom for instance, indicated a fall, although this was partly explained by poor weather condition.

In the euro area, prospects for strong economic recovery were high ...., Economic activities remained depressed in countries where sovereign debt concerns had been elevated.

Economic conditions in Portugal, Italy, Greece and Spain (PIGS) remained largely constrained by rising sovereign debt crises and rising domestic unemployment. Inflationary threats and suppressed aggregate demand were also observed in some of the countries. With high public debt being above sustainable levels of GDP, and rising fiscal deficit concerns mounting, most of the PIGS countries struggled to limit government spending. Credit conditions remained generally tight, leading to suppressed output.

Despite concerns about high debt levels in the Euro area, the German economy continued to drive the region's economic recovery through the second half of 2010. Until 2010, Germany's average quarterly GDP growth was 0.29 per cent reaching a historical high of 2.30 per cent in June 2010 after a record contraction of -3.50 per cent in March 2009. Accordingly, the German economy grew by 0.7 per cent between July and September compared with the Euro zone average of 0.4 per cent. In the fourth quarter, the economy grew by 0.40 per cent over the previous quarter. German unemployment, which had been approaching 11.0 per cent in 2005, was below 7.0 per cent at end-December 2010. The average unemployment rate for the Eurozone as a whole in October was close to 10.0 per cent.

Consistent with ensuring compliance and soundness of the financial system, a section of the banking system in Europe was under close surveillance, while a significant portion of its debt was scheduled to be refinanced in 2011. There was evidence of *tiering* in the Euro area interbank market. The stronger banks were able to issue instruments relatively easy, while the weaker ones were required to pay considerably more for funds and, in some cases, were entirely excluded from market funding. Market sentiments were generally in favour of monetary policy tightening by the ECB and the Bank of England in mid-2010. However, the timing of the tightening was earlier than previously anticipated, partly because of the less favourable inflation outlook, particularly in the United Kingdom.

2.2.4 The United States of America

Growth in the United States... was stronger than predicted a few months earlier.......

Output growth in the United States, especially in the third quarter of 2010, was stronger than earlier predicted, with household consumption showing strong signs of recovery and major indicators of investment reflecting overall improvement. Conditions in the labour market, however, improved only modestly. The fall in the unemployment rate, which peaked in 2009, was partly explained by a decline in labour force participation. Conditions in the housing market, however, remained largely weak. Although, monetary policy had been tightened in several other economies, no increase was effected for the federal funds rate in 2010.

The US remained Nigeria's major trading partner, accounting for over 40.0 per cent of Nigeria's foreign trade. While conditions in the US remained promising for sustained recovery and growth, the rising cost of oil could impact negatively on that growth. Rising US employment implies increased home remittances for Nigerians resident there and a rebound of the stock market due to increased foreign portfolio investment flow.

CHAPTER 3

MONETARY POLICY

CHAPTER 3
MONETARY POLICY

3.1 Introduction

The thrust of monetary policy in the second half of 2010 remained that of ensuring price and banking system stability ………

The thrust of monetary policy during the second half of 2010 remained that of promoting price and banking system stability, just as in the first half of the year. The weak growth recovery in the global economy, which commenced in the last quarter of 2009 through the first three quarters of 2010, strengthened in the last quarter of the year despite the sovereign debt crisis in the Euro area. The challenge of monetary management, therefore, was sustaining the stabilization of the banking system, moderating inflationary pressure in the economy and stimulating bank credit growth to the private sector.

3.2 Monetary Policy Measures

persistently low level of credit to the economy emerged as a major issue to contend with.

…aggressive mop up which was suspended ……., was introduced to contain inflationary pressures in the second half of 2010.

The tight liquidity conditions observed in the economy following the global financial and economic crises (from last quarter of 2007 through the first half of 2010) moderated during the second half of 2010. However, the persistently low growth in bank credit to the private sector emerged as a major challenge in the conduct of monetary policy. In addition, the challenge of balancing the inherent conflict between the objectives of promoting price and financial sector stability as well as stimulating output growth became apparent. Consequently, the accommodative monetary policy stance, pursued by the Bank as part of the liquidity enhancing measures to promote economic growth and financial stability was reviewed in the fourth quarter of 2010. The mop-up of excess liquidity in the banking system, which was suspended throughout 2009 and the first half of 2010, was reintroduced in the second half to contain rising inflationary pressure (Table 3.1).

3.2.1 Banking System Stability

A significant milestone achieved in the second half of 2010, towards ensuring the long term stability of the banking system was the signing into law of the Asset Management Corporation of Nigeria (AMCON) Act by the President of the Federal Republic of Nigeria on July 19, 2010. Consequently, the Board of AMCON was inaugurated by the President on August 30, 2010. In order to effectively support AMCON's activities, the CBN agreed to place ₦50 billion annually with the Corporation over the next ten years. In addition, each of the 24 DMBs would contribute an amount equivalent to 30 basis points (0.3 per cent) of its total assets as at the date of its audited financial statement for the immediate preceding year over the next ten years.

A significant milestone in the 2nd half of the year ……was the signing into law of the AMCON Act by the President…..

AMCON was established to buy up the non-performing loans and clean up the balance sheets of the DMBs, in addition to deepening the financial system, through: the provision of liquidity to the banks that had liquidity crisis; provision of capital to banks to shore up their capital base; facilitation of Mergers and Acquisitions transactions and fostering of strategic partnerships, including attracting institutional investors, through increasing access to restructuring/refinancing opportunities for borrowers. The Asset Management Corporation of Nigeria (AMCON) commenced operations in the last quarter of 2010. In December 2010, AMCON purchased the non-performing loans of 21 DMBs valued at ₦2.165 trillion and issued 3-year zero coupon bonds valued at ₦1.036 trillion.

Box 3.1
THE ASSET MANAGEMENT CORPORATION OF NIGERIA (AMCON)

The Asset Management Corporation of Nigeria was jointly established by the Central Bank of Nigeria (CBN) and Federal Ministry of Finance (FMF Inc.) as a distress resolution vehicle to address the challenge of the toxic assets in the banking industry. The Act, establishing the Corporation, was passed into law by the National Assembly during the first half of 2010, while the President gave his assent on July 19, 2010. The authorized share capital of the Corporation is ₦10.0 billion, which was fully subscribed to by the Federal Government and held in trust by the Central Bank of Nigeria and Federal Ministry of Finance (Inc.) in equal proportion of 50.0 per cent.

The objects of the Corporation include: assisting eligible financial institutions to efficiently dispose of eligible bank assets; managing and disposing of eligible financial assets acquired by the Corporation; and obtaining the best achievable financial returns on eligible bank assets or other assets acquired by it pursuant to the provisions of the Act.

AMCON commenced operations in December 2010 with the issuance of consideration bonds (subsequently, tradeble bonds would be issued) worth ₦1,036.3 billion of which ₦740 billion was earmarked for purchase of the non-performing loans in five commercial banks. The breakdown is as follows: Wema Bank ₦15.2 billion; Intercontinental Bank ₦146.0 billion; Bank PHB ₦140.0 billion; Oceanic Bank ₦200.0 billion, Union Bank ₦239.0 billion and others ₦295.8 billion. The rescued banks were expected to enjoy two sets of funds injection: one was to buy up their non-performing loans and the other, to cater for their capital adequacy.

In all, the Corporation has signed a debt purchase agreement with 21 banks in the country, in which over ₦2,000.0 billion worth of non-performing loans would be purchased before the end of the first quarter of 2011.

…another giant stride ……was the implementation of the modified Universal Banking Model,

Another major policy introduced in the review period was the implementation of a new banking model to replace Universal Banking, effective November 15, 2010. The modification became necessary as the DMBs had spread their operations to areas outside the supervisory purview of the CBN and engaged in widespread expansion into a broad range of financial services and other activities, which unduly exposed their balance sheets to risks. These activities also increased their propensity to put depositor funds at risk, thereby heightening financial system risk.

Under the new banking model, banks were licensed as either commercial banks, merchant banks or specialized banks. The import of the new model was that banks were only permitted to operate in core banking activities as defined by Section 66 of the Banks and Other Financial Institutions Act (BOFIA), 2007. Commercial banks were only permitted to carry on banking business on a regional, national or international basis, in accordance with the rules, regulations and guidelines governing the category of their license.

On the other hand, specialized banks such as non-interest banks were authorized to carry on banking business on a regional or national basis in accordance with the terms and conditions of their license or as may be modified by the CBN from time to time. Banks wishing to continue with activities outside core banking were required to divest the businesses to holding companies that would be licensed by the CBN in the category of other financial institutions. The banks were required to submit plans for ensuring compliance with the new regulations, not later than ninety days from October 10, 2010.

…the CBN enforced the 10-year maximum tenure stipulated for bank chief executives

To strengthen the corporate governance structure in the banking system, the CBN enforced the 10-year maximum tenure stipulated for bank chief executives. Consequently, all bank Chief Executive Officers (CEOs) who had served their various banks for 10 years or more by July 31, 2010 were asked to leave.

The CBN extended its guarantee of all foreign credit lines, interbank and pension funds placements with banks, which commenced in July 2009 – June 30th, 2011. The guarantee provided for the repayment of deposit money bank's exposures to foreign banks and inter-bank takings, in the event of a sudden closure of any DMB. The CBN also pledged to continue to take necessary steps to protect creditors in line with its commitment to the safety and soundness of the banking system.

The banking system had received over US$1,800 million foreign direct investments over the last one year from major financial institutions like the International Finance Corporation (IFC) and the African Development Bank (AfDB). However, the funds were largely concentrated in a few big banks, thus leaving a majority of the banks without the needed foreign capital investment.

3.2.2 Price Stability

…the major challenge to price stability in 2010 was moderating the double digit, year-on-year headline inflation....

The major challenge to monetary policy in the second half of 2010 was moderating the double digit, year-on-year headline inflation rate, which stood at 14.1 per cent at the end of the first half, and 11.8 per cent at end-December 2010. To this end, the CBN continued to use the Monetary Policy Rate (MPR) to signal the desired direction of interest rate changes in the economy, while the primary instrument of monetary policy remained Treasury Bills auction through Open Market Operations.

3.3 Activities of the Monetary Policy Committee (MPC)

The MPC held 3 regular meetings, an interactive retreat and a Monetary Policy Workshop in the second half of 2010. The meetings of the Committee and the various fora reviewed trends in domestic and global economic conditions and the challenges facing monetary policy in an ever changing financial environment.

3.3.1 Decisions of the MPC

At its July 5 and 6, 2010 meeting, the MPC noted that the unfolding sovereign debt crisis in the Euro Area posed a threat to the steady recovery of the global economy, especially its contagion effect on global commodity prices and implications for fiscal sustainability and stability. The Committee noted that the growth drivers of the domestic economy remained robust enough to mitigate the likely inflationary risks arising from the rebound of international commodity prices (Table 3.1).

Table 3.1
Decisions of the Monetary Policy Committee
(July - December 2010)

Date of Meeting	Decision	MPR Adjustment	Standing Facility Adjustment
July 5, 2010 (Communiqué No. 71)	- MPR retained at 6%, as well as asymmetric corridor	Retained MPR at 6%	Corridor +200/-500
September 21, 2010 (Communiqué No. 72)	- Approved the resumption of active Open Market Operations for the purpose of targeted liquidity management - Raised MPR by 25 basis points from 6% to 6.25% adjusted the asymmetric corridor to +200/-300, thereby increasing the interest payable on standing deposits with the CBN by 225 basis points from 1% to 3.25%	Raised MPR to 6.25%	Corridor +200/-300
Nov 22nd & 23rd, 2010 (Communiqué No. 73)	- Retained MPR at 6.25% - Reinstated the symmetric corridor of +/- 200 around MPR - Maintained policy stance on stable exchange rate	Retained MPR at 6.25%	Corridor +/- 200

Source: Central Bank of Nigeria

In the light of the above, the MPC retained the subsisting easy monetary policy stance by keeping the MPR at 6.0 per cent and its asymmetric corridor at 200 basis points above and 500 basis points below the policy rate, for lending and deposits, respectively.

At the September 21 and 22 meeting, the MPC observed the slack in global economic growth and recovery underlined by the third quarter decline in the US GDP, incipient property bubble following massive Chinese fiscal stimuli and risk aversion in the Euro area financial markets, arising from sovereign debt concerns. The Committee, however, observed with satisfaction, the sustained stability of domestic macroeconomic variables but cautioned on the likely inflationary impact of the proposed minimum wage policy, spending towards the 2011 general elections, as well as the anticipated cleaning up of the balance sheets of the rescued deposit money banks by AMCON.

In order to address the concerns identified, the MPC re-activated the Open Market Operations to mop-up excess liquidity, raised the MPR from 6.0 to 6.25 per cent and adjusted the asymmetric corridor to 200 basis points above and 300 basis points below the policy rate.

The last meeting of the MPC in 2010 was held on November 22 and 23. The Committee considered the background economic report and expressed concern over the reported huge US trade deficit that clogged the pace of global economic recovery. The MPC emphasised the urgent need for fiscal retrenchment and structural reforms to remove supply-side bottlenecks, as part of the strategy to subdue rising inflationary pressure in the domestic economy.

… at its July 5th and 6th meeting, ...the MPC retained the subsisting monetary policy decisions by keeping the MPR at 6.0 per cent......

In the light of the foregoing, the MPC retained the MPR at 6.25 per cent; adjusted the asymmetric corridor to a symmetric corridor of plus or minus 200 basis points; retained the policy stance of maintaining a stable exchange rate; and reaffirmed its commitment to leverage monetary policy to support existing fiscal mechanisms to bolster domestic output growth (Table 3.2).

Table 3.2
Changes in CBN Key Interest Rates

	MPR (%)	Standing Facility (%)		CRR (%)	Liquidity Ratio (%)
		SDF	SLF		
MPC Communiqué No.71	6.0	1.0	8.0	1.0	25
MPC Communiqué No.72	6.25	3.0	8.0	1.0	25
MPC Communiqué No.73	6.25	4.25	8.25	1.0	25

Source: Central Bank of Nigeria

3.3.2 MPC Retreat and Monetary Policy Workshop

… Economic Policy Directorate organized a retreat for members of the MPC to generate new ideas towards improving the conduct of monetary policy

The MPC held a Retreat in the second half of 2010 to review the conduct of monetary policy for enhanced efficiency and effectiveness, as well as discuss issues relating to its design and implementation. The Retreat identified the obstacles to effective communication of monetary policy and was attended by all members of the Monetary Policy Committee, Departmental Directors and Deputy Directors in the Economic Policy Directorate of the Bank. The Workshop provided a platform for generating ideas to assist the Bank in improving the design, implementation and communication of monetary policy.

3.4 Liquidity Conditions and Management

The major tool of liquidity management in the second half of 2010 remained Open Market Operations...

Banking system liquidity conditions in the second half of 2010 improved significantly compared with the situation in the first half which was characterized by persistently volatile and rising short term interest rates, low DMB balances with the CBN, low level of other reserves of the banking system and increased activity at the CBN lending facility window. Consequently, the Bank introduced series of quantitative easing measures to support existing policy measures. The measures included: the funding of the ₦200 billion Commercial Agricultural Credit Scheme (CACS), ₦200 billion SME Credit Guarantee Scheme (SMECGS), ₦620 billion bailout funds to troubled banks, ₦500 billion Asset Purchase Facility Fund (APFF), and the ₦500 billion Bank of Industry (BOI) debentures in support of investment in power, aviation and manufacturing (a ₦200 billion SME Refinancing and Restructuring Facility was established as part of the ₦500 billion BOI facility), (Table 3.3).

Table 3.3
CBN Liquidity Enhancing Initiatives

Name of Scheme	Size of Intervention	Draw down as at Dec, 2010
Agricultural Credit Guarantee Scheme Fund (ACGSF)	75.0% guarantee of loans granted by DMBs for agricultural purposes	₦ 7.74 billion
Agricultural Credit Support Scheme (ACSS)	₦50.0 billion	₦19.43bilion
Commercial Agricultural Credit Scheme (CACS)	₦200.0 billion	₦96.81 billion
Refinancing/Restructuring Small and Medium Enterprises (SME) Manufacturing Fund	₦200.0 billion	₦197.59 billion
Small and Medium Enterprises (SME) Credit Guarantee Scheme (SMECGS)	₦200.0 billion	₦107.50 million
Power and Aviation Infrastructure Fund (PAIF)	₦300.0 billion	NIL
The Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)	US$500.0 million	NIL

Source: Central Bank of Nigeria

The major tool of liquidity management in the second half of 2010 remained Treasury Bills auction through Open Market Operations, complemented by Discount Window Operations and Statutory Reserve Requirements. Total subscription to Nigerian Treasury Bills (NTBs) in the primary market during the second half of 2010 stood at ₦1,269.49 billion compared with ₦734.46 billion in the first half of 2010 and ₦775.26 billion in the corresponding period of 2009, representing an increase of 72.85 per cent and 63.75 per cent, respectively (Table 3.4).

Table 3.4
Nigerian Treasury Bills Auction (₦ 'million)
(January 2009-December 2010)

Date	2009	2010	% Change
Jan	115,466.62	149,834.17	
Feb	80,106.56	100,217.01	
Mar	80,000.00	65,000.00	
Apr	101,356.24	160,494.88	
May	120,217.01	100,217.01	
Jun	120,000.00	158,700.00	
1st Half	**617,146.43**	**734,463.07**	**19.01**
Jul	125,356.17	250,912.17	
Aug	105,217.01	141,157.45	
Sep	91,648.64	206,567.24	
Oct	170,260.38	167,012.31	
Nov	120,217.01	205,930.87	
Dec	162,557.83	297,909.82	
2nd Half	**775,257.04**	**1,269,489.86**	**72.85**
Total	**1,392,403.47**	**2,003,952.93**	**43.92**

Source: Central Bank of Nigeria

For most part of the 1st half of 2010, there was low level of activities at the CBN lending window compared with the second half of the year.

Other complementary liquidity management tools were also used to maintain the improved liquidity condition in the banking system. Consequently, the MPR, which was 6.0 per cent in the first half of 2010, was raised to 6.25 per cent in the second half of 2010 to contain inflationary pressures and the effect of anticipated high liquidity injections into the system arising from increased spending in the run up to the 2011 general elections and the AMCON activities.

3.5 Standing Lending/ Deposit Facilities

As liquidity conditions in the banking system improved, short term interest rates crashed but banks still adopted a cautious approach to lending. Generally, activities at the CBN lending window increased compared with the level in the first half. Although activities at the CBN deposit window recorded a decline in the second half of the year, but in terms of overall annual performance, there was a considerable improvement over the level of activities in 2009. Total transactions declined from ₦35.29 billion to ₦17.88 billion in the second half, representing a decrease of 49.33 per cent. However, the level of activities in the second half represents an increase of 107.2 per cent over the level of activities in the corresponding period of 2009. In terms of overall annual performance, total amount of transactions at ₦53.17 billion in 2010 represented an increase of 516.22 per cent over total amount of transaction in 2009 (Table 3.5).

Reserve money remained the operating target of monetary policy and the monetary policy rate (MPR) the nominal anchor. The MPR operated within an asymmetric corridor, the Standing Lending Facility (SLF) and Standing Deposit Facility (SDF). The SLF was 200 basis points above the MPR and represented the upper corridor, while the SDF was 500 basis points below the MPR and was the lower corridor. The intention of the wide asymmetric corridor was to encourage the DMBs to lend amongst themselves

Since influencing liquidity conditions to realize the operating target is an important activity of the Bank, access to the Standing Lending Facility (SLF) of the Bank provided avenue for smoothening liquidity conditions during the second half of 2010 (Table 3.5). For most part of the second half of 2010, it was apparent that although the system was awash with liquidity, the DMBs cautiously approached lending both between themselves and the private sector, but rather preferred to deposit their unused funds with the CBN instead of lending or trading in the money market. This trend was further strengthened by the continued existence of non-performing loans on the books of some banks, which remained until

December 2010, when the AMCON began to buy up those category of non-performing loans of the banking system.

Consequently, the volume of transactions at the CBN SLF in the second half of 2010 stood at ₦3,340.6 billion compared with ₦428.2 billion in the first half and ₦13,488.5 billion in the corresponding period of 2009, representing an increase of 680.2 per cent and a decrease of 75.2 per cent over the levels in the first half and corresponding period of 2009, respectively.

Table 3.5
CBN Standing Lending Facility (₦'billion)
(January 2009-December 2010)

Date	2009	2010	% Change
Jan	846.18	135.50	
Feb	3,457.57	-	
Mar	4,592.69	-	
Apr	3,875.48	-	
May	2,581.43	270.97	
Jun	3,691.75	21.70	
1st Half	**19,045.11**	**428.17**	**(97.75)**
Jul	4,675.02	55.76	
Aug	3,733.78	0.00	
Sep	2,287.90	73.10	
Oct	1,231.61	983.44	
Nov	537.58	1,374.80	
Dec	1,022.60	853.50	
2nd Half	**13,488.49**	**3,340.60**	**680.20**
Total	**32,533.60**	**3,768.77**	**(88.42)**

Source: Central Bank of Nigeria

Table 3.6
CBN Standing Deposit Facility (₦'billion)
(January 2009-December 2010)

Date	2009	2010	% Change
Jan	-	5,622.63	
Feb	-	6,101.90	
Mar	-	9,413.45	
Apr	-	6,853.06	
May	-	1,735.45	
Jun	-	5,563.64	
1st Half	**-**	**35,290.13**	**-**
Jul	162.00	4,055.52	
Aug	1,453.38	6,849.71	
Sep	1,058.75	4,224.80	
Oct	3,106.30	1,117.30	
Nov	1,050.59	443.78	
Dec	1,797.92	1,191.78	
2nd Half	**8,628.94**	**17,882.89**	**(49.33)**
Total	**8,628.94**	**53,173.02**	**516.22**

Source: Central Bank of Nigeria

3.6 Performance of the Monetary Aggregates

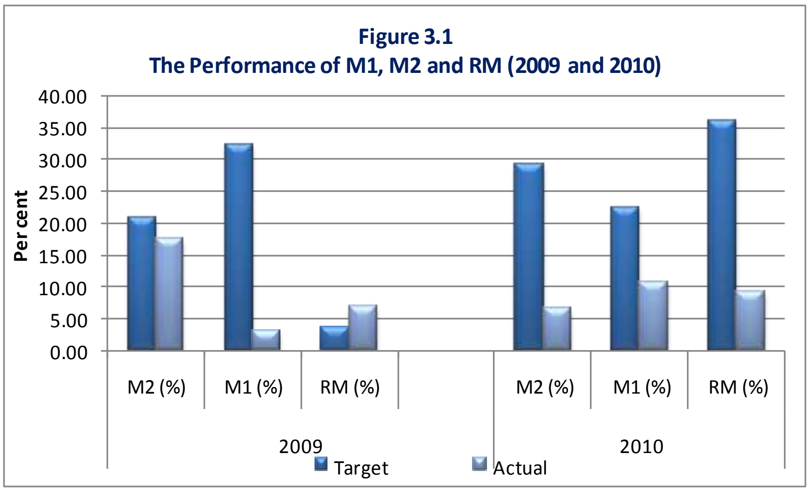
...performance of broad money was fairly better in the second half of the year compared with its level in the first half of 2010

The growth in broad money stock in the second half of 2010 remained below the indicative target. In absolute terms, broad money grew by ₦643.22 billion or 5.93 per cent compared with ₦78.12 billion or 0.73 per cent in the first half of the year. The rates of monetary expansion in both periods, however, fell substantially below the programme targets. Moreover, the reserve money target remained largely unmet throughout 2010 (Table 3.7 and Figure 3.1).

Table 3.7
Monetary Aggregates

	2009			2010			Change in 2010:H1	Change in 2010:H2
	Target	Actual	Deviation	Target	Actual	Deviation	Actual	Actual
M2 (N'b)	11,073.31	10,767.37	305.94	13,916.83	11,488.71	2,428.12	78.12	643.22
M2 (%)	20.8	17.46	3.34	29.25	6.7	22.55	0.72	5.93
M1 (N'b)	6,422.58	5,003.86	1,418.72	6,122.72	5,534.45	588.27	-85.88	616.47
M1 (%)	32.23	3.02	29.21	22.36	10.6	11.76	-1.72	12.53
RM (N'b)	1,604.83	1,653.86	-49.03	2,232.44	1,803.91	428.53	-118.75	268.8
RM (%)	3.58	6.76	-3.18	35.98	9.07	26.91	-7.18	17.51
NDC (N'b)	9,258.54	7,903.79	1,354.75	11,968.71	8,962.97	3,005.74	709.15	350.03
NDC (%)	86.97	59.61	27.36	51.43	13.4	38.03	8.97	4.06
Cg (N'b)	-2,427.08	-2,302.29	-124.79	-1,710.60	-740.72	-969.88	812.42	749.15
Cg (%)	21.9	25.92	-4.02	25.1	67.83	-42.13	35.28	50.28
Cp (N'b)	11,678.29	10,206.08	1,472.21	13,425.08	9,703.70	3,721.38	-103.27	-399.11
Cp (%)	44.9	26.63	18.27	31.54	-4.92	31.54	-1.01	-3.95
NFA (N'b)	9945.01	7,593.32	2351.69	8132.44	6,303.63	2153.81	-1,108.57	-181.12
NFA (%)	16.31	-11.19	27.5	7.01	-16.98	23.99	-14.59	-2.79

Source: Central Bank of Nigeria

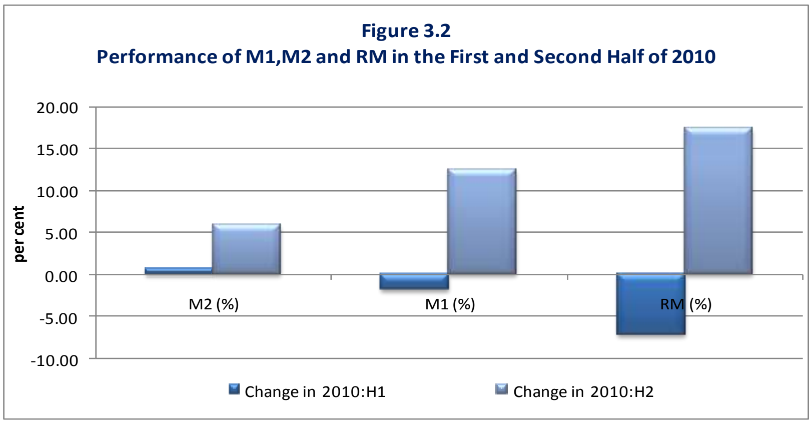


Source: Central Bank of Nigeria

...increased growth in broad money.....notwithstanding, the overall growth for the whole year at 6.70 per cent ....was considerably lower than the 17.46 per cent recorded in fiscal 2009

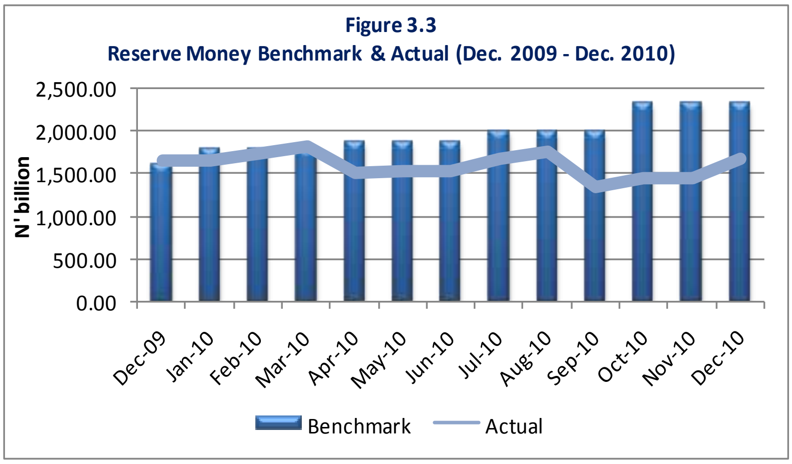
3.7 Movement in Broad and Narrow Money

The overall growth of M2 for the whole year was 6.70 per cent, compared with the 29.25 per cent target for the year. Monetary expansion in the period under review and indeed the whole year 2010, showed considerable moderation, compared with the 17.50 per cent increase recorded in 2009 (Table 3.6 and Figure 3.2).



Source: Central Bank of Nigeria

Similarly, narrow money (M1) grew by ₦616.47 billion during the review period compared with a reduction of ₦85.88 billion in the first half. This translated to a growth of 12.53 per cent in the second half as against the contraction of 1.72 per cent in the first half. Cumulatively, narrow money grew by 10.60 per cent compared with the programme target of 22.36 per cent for the year and the actual growth of 3.02 per cent in 2009 (Figure 3.3).

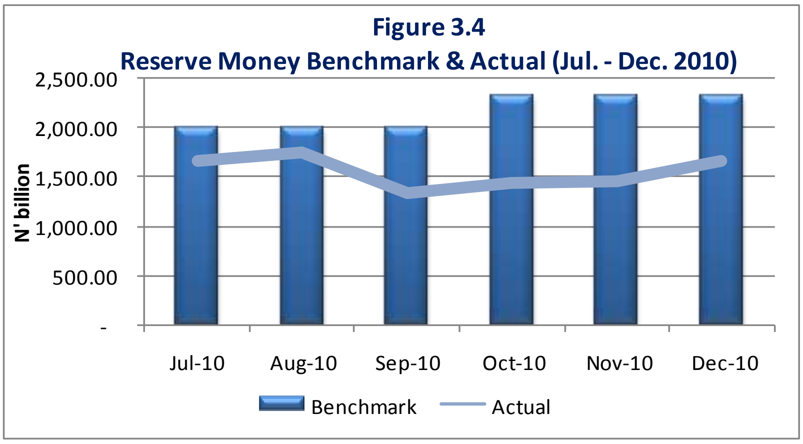


Source: Central Bank of Nigeria

3.8 Reserve Money

reserve money performed better in the second half of 2010 than in the first half of the year

Following the trend in the broad and narrow monetary aggregates, reserve money performed better during the review period, compared with the first half of 2010. Reserve money increased by ₦268.80 billion or 17.51 per cent in the second half, in contrast to the fall of ₦118.75 billion or 7.18 per cent in the first half of 2010. In fiscal 2010, reserve money grew by 9.07 per cent against the indicative benchmark of 34.98 per cent (Figure 3.4).



Source: Central Bank of Nigeria

3.8.1 Aggregate Credit to the Domestic Economy

In the second half of 2010, aggregate bank credit to the domestic economy increased by ₦350.03 billion or 4.06 per cent to ₦8,962.97 billion, compared with the 8.97 per cent growth recorded in the first half. The growth in bank credit considerably moderated to 13.40 per cent in 2010, from the 59.61 per cent, recorded in 2009. The realized growth rate fell substantially below the 51.43 per cent policy prescribed target for the year. The moderation was attributable, largely to the sharp fall in claims on the private sector, as bank credit to Government increased.

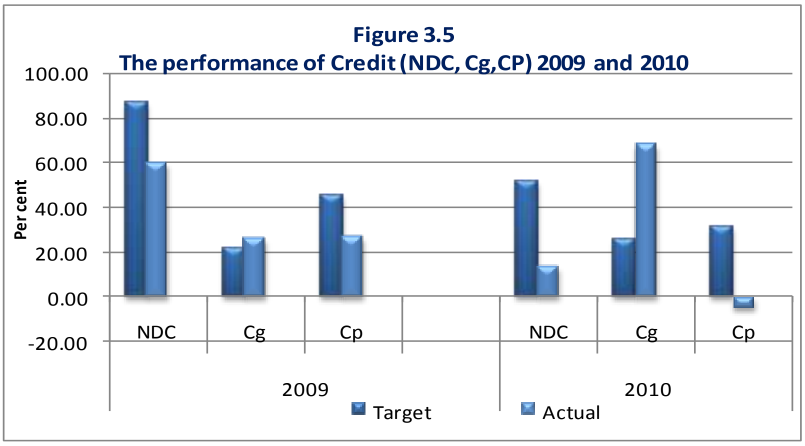
3.8.2 Credit to the Private Sector

Credit to the private sector reduced by N399.11 billion...this translates to a negative growth of 3.95 per cent in the second half

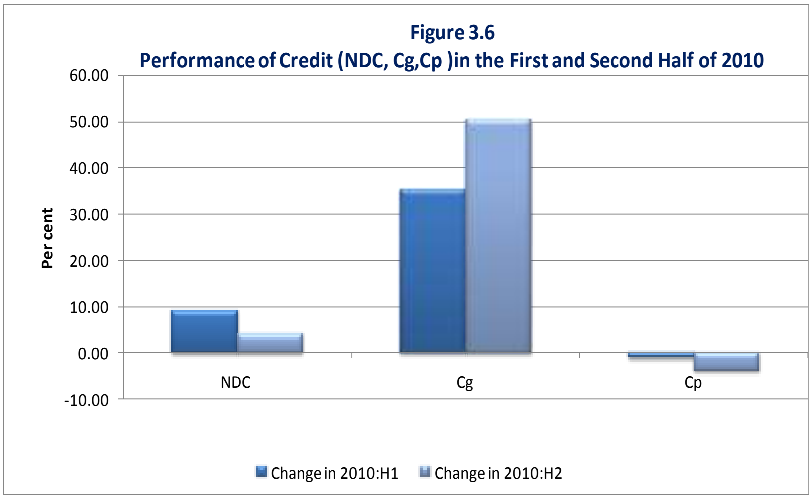
Credit to the private sector fell by ₦399.11 billion or 3.95 per cent in the second half of 2010, compared with the decline of ₦103.26 billion or 1.01 per cent in the first half. In fiscal 2010, bank credit to the private sector declined by 4.10 per cent in contrast to the benchmark growth of 31.54 per cent, and the 26.63 per cent increase recorded in 2009. Overall, low private sector credit was influenced by the liquidity conditions in some of the banks and the general cautious approach to lending in the banking system.

3.8.3 Credit to Government

Bank credit to government witnessed a considerable growth in the second half of 2010, recording a 50.28 per cent increase compared with the 35.28 per cent rise in the first half. In fiscal 2010, credit to government increased by 64.20 per cent, compared with the 25.10 per cent, targeted for the year and the 25.92 per cent increase realized in 2009. The growth in credit reflected Deposit Money Banks' subscription of FGN bonds. This notwithstanding, government remained a net creditor to the system during the period. (Figure 3.5 and 3.6).



Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

3.8.4 Net Foreign Assets

......the sub-optimal performance of M1 and M2 during the period was traceable to the underperformance in credit to the private sector and NFA.

In the period under review, Net Foreign Assets (NFA) of the banking system fell by ₦181.12 billion or 2.79 per cent. The decline during the period was modest, compared with the ₦1, 108.57 billion or 14.59 per cent recorded in the first half. The moderation in the fall in net foreign assets was partly due to improvements in world oil prices and crude oil output. In fiscal 2010, NFA declined by ₦1,289.69 billion or 16.98 per cent compared with the reduction of 11.19 per cent in 2009.

The fall in net foreign assets exerted a moderating effect on monetary expansion during the period under review. Similarly, the fall in bank credit to the private sector had a contractionary effect on money supply but this was substantially offset by the expansionary effect of the growth in bank credit to government.

CHAPTER 4

DOMESTIC FINANCIAL MARKETS

CHAPTER 4
DOMESTIC FINANCIAL MARKETS

4.1 Introduction

Activities in the financial markets during the second half of 2010 were influenced, largely, by the fallout of the global financial and economic crises in the preceding one and half years. In particular, the money market stabilized in the review period as a result of the extension of the CBN guarantee of interbank transactions in January and May 2010. The May 2010 extension of the interbank guarantee was expected to remain till June 2011. The growth of the evolving domestic commodity and derivatives markets was constrained by the poor performance of the stock market, which remained bearish.

… the DMBs still maintained a cautious approach to lending to the private sector.

The impact of the liquidity crunch in the global financial system was disproportionally distributed across regions. Its effect on the Nigerian financial system resulted in sustained bearish trend in the stock market. The CBN intervened boldly with far reaching liquidity measures designed to improve the tight liquidity conditions in the system.

One of the major challenges to monetary policy in the third and fourth quarters of 2010 was the need to facilitate credit flow to the domestic economy. Thus, the Bank sustained policies, such as promoting good corporate governance, enhancing liquidity conditions in the banking system and improving access to bank credit, pursued since 2009, through the second half of 2010. Accordingly, key areas of attention included coordinated regulation of the financial system, capacity building by the regulatory authorities; fast-tracking the implementation of risk-based, consolidated and cross-border supervision; and improving governance structures and practices with a view to bolstering confidence in the system.

Increased political activity in the third and fourth quarters of 2010, preparatory to the 2011 general elections and escalating global food and energy prices, heightened inflationary pressures, leading to a review of the accommodative monetary policy stance pursued since 2009. In line with these developments, the MPC in September 2010 raised the MPR by 25 basis points to 6.25 per cent. The MPR remained at this level till the end of the year.

4.2 The Money Market

The money market remained the most active segment of Nigeria's financial markets. The main instrument in the money market was the Nigerian Treasury Bills (NTBs). Other instruments were Discount Window (DW) operations, Repurchase (repo) transactions, Reverse repo transactions, Pledges and Open Buy Back.

4.2.1 Developments in Short-Term Interest Rates

…containment and stabilization of the upward trending volatile short-term money market interest rates was a major challenge to monetary policy in the first half of 2010

The containment and stabilization of the upward trending and volatile short-term money market interest rates were the challenges facing monetary management in the first half of 2010. The major challenge was the need to address the lingering effects of the global financial crises and manage short term interest rates to levels that would allow for market competitiveness. Consequently, monetary policy actions and signals were designed to influence short-term interbank interest rates. The guaranteeing of interbank transactions by the CBN partly eased the pressure in the money market during the second half of 2010.

Following the liquidity enhancing measures, short term interest rates crashed to record low levels in the third quarter of 2010 while lending rates remained relatively high, due to high cost of funds. The CBN encouraged the banks to share facilities to bring down the cost of operations so that the lending rates could be brought down to efficient economic levels.

Table 4.1
Weighted Average Money Market Interest Rates (%)
(July 2009 – December 2010)

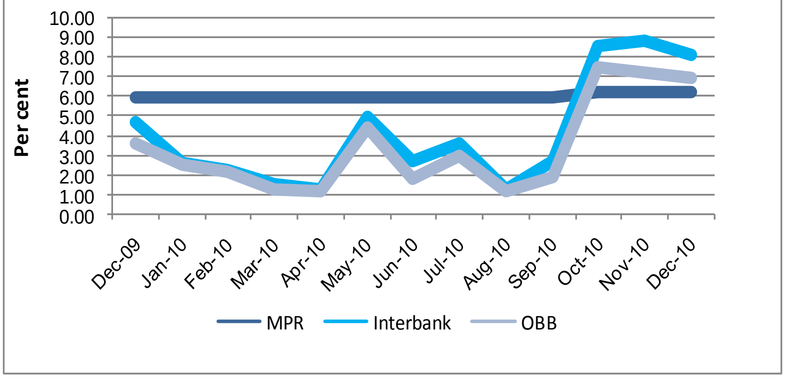
Month	Monetary Policy Rate	Call Rate	Open-Buy-Back	NIBOR 7-Day	NIBOR 30-Day
Jul-09	6.00	18.10	7.52	18.94	19.66
Aug-09	6.00	10.17	6.63	12.27	14.29
Sep-09	6.00	9.76	6.60	11.34	13.78
Oct-09	6.00	8.46	6.12	9.64	13.35
Nov-09	6.00	5.62	4.87	8.60	13.75
Dec-09	6.00	4.68	3.62	7.62	13.18
Jan-10	6.00	2.61	2.59	6.39	12.42
Feb-10	6.00	2.27	2.20	5.11	10.60
Mar-10	6.00	1.50	1.28	2.79	5.74
Apr-10	6.00	1.27	1.24	2.46	5.10
May-10	6.00	4.94	4.39	6.16	8.03
Jun-10	6.00	2.73	1.80	3.35	5.71
Jul-10	6.00	3.59	2.98	4.45	6.57
Aug-10	6.00	1.26	1.20	2.05	4.66
Sep-10	6.25	2.71	1.92	3.81	5.48
Oct-10	6.25	8.50	7.48	9.67	11.10
Nov-10	6.25	8.79	7.19	9.13	11.67
Dec-10	6.25	8.03	6.93	9.31	11.50

Source: Central Bank of Nigeria

(i) Interbank Interest Rate

Following signs of inflation resurgence, the monetary authorities took steps to reverse the regime of monetary easing and embarked on monetary tightening. Towards this end, the MPR was raised by 25 basis points to 6.25 per cent in September 2010. Consequently, the weighted average interbank call rate which was 2.73 per cent at the end of the first half 2010 rose to 8.03 per cent at the end of the second half (Figure 4.1).

Figure 4.1
Weighted Average Money Market Rates (Dec. 2009 - Dec. 2010)



Source: Central Bank of Nigeria

(ii) Open Buy-back Rate

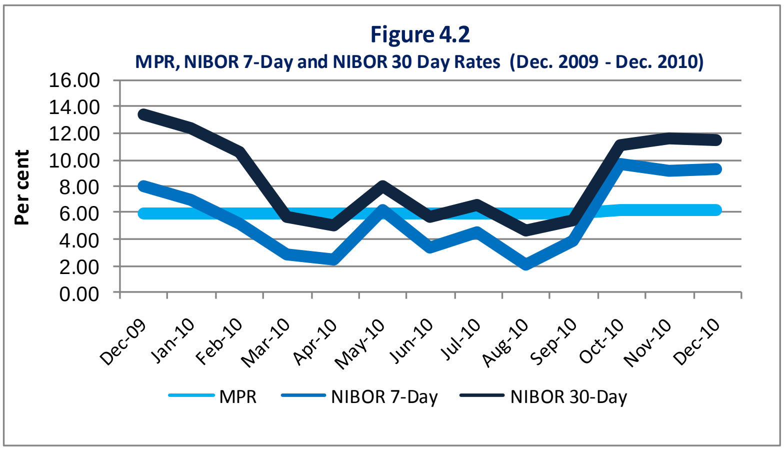
…average weighted OBB rate which was 5. 82 per cent at the end of the first half of 2010 crashed to a historical low of 1.1 per cent in August 2010

The average weighted open buy-back (OBB) interest rate, which was 1.80 per cent at the end of the first half of 2010 crashed to a historical low of 1.2 per cent in August 2010 before rising to 7.48 per cent in October, 2010. At 6.93 per cent by end-December 2010, the upward trend in short term interest rates had been re-established despite the existing CBN guarantee (Figure 4.1). The downward trending OBB rate in August began an upward movement despite the subsisting CBN guarantee when in September 2010 the Bank increased the MPR to address inflationary concerns.

… Other money market interest rates ...moved in tandem with the interbank and OBB interest rates throughout the second half of 2010

Other money market interest rates, such as the Nigeria Interbank Offered Rate (NIBOR) for 7-day and 30-day tenors, moved in tandem with the interbank and OBB interest rates in the second half of 2010 (Figure 4.2). The 7-day and 30-day tenors for Nigeria Interbank Offered Rate (NIBOR), which stood at 3.35 and 5.71 per cent at end-June 2010, moderated to 2.05 per cent and 4.66 per cent, respectively, by end- August, 2010, but closed at 9.31 per cent and 11.50 per cent at end-December, 2010 (Figure 4.2). There were no transactions under the NIBOR because it remained a reference rate as in other jurisdictions.

Overall, while the short term interest rates started an upward trend by September, the DMBs maintained a cautious approach to lending such that the low interbank rates did not translate to low lending rates nor in higher credit to the real sector. Indeed, lending rates remained relatively high throughout the review period despite these developments. The underlying basis for the upward trending short term interest rates was the more stringent regulatory framework in which risk management principles were strongly embedded.



Source: Central Bank of Nigeria

4.3 Capital Market

Improved liquidity conditions in the banking system, especially at the beginning of the second half of 2010, positively impacted on activities in the capital market. The adjustment in the MPR affected the prices of equities and bonds traded in the capital market. Thus, developments in the banking system during the second half of 2010 had substantial impact on activities in the capital market.

4.3.1 Equities Market

Trading activities on the floor of the Nigerian Stock Exchange (NSE) in the second half of 2010 was largely bearish, relative to the first half of the year and the corresponding period of 2009. Overall, the All-Share Index (ASI) declined by 2.4 per cent to 24,770.52 at end-December, 2010, from 25,384.14 at end-June, compared with the 21.9 per cent increase in the first half of the

… Trading activities on the floor of the NSE in the second half of 2010 was largely bullish, relative to the 1st half

year. On a year-on-year basis, however, it increased by 18.9 per cent over the level at end-December, 2009 (Figure 4.3). Market Capitalization (MC) increased by 28.2 per cent to ₦7.91 trillion at end-December, 2010 from ₦6.17 trillion at end-June, compared with the increase of 23.9 per cent in the first half of the year and 58.5 per cent, over the end-December, 2009 level (Table 4.2). The rise in market capitalization resulted mainly from new listings and price appreciation of quoted equities.

Table 4.2
NSE All Share Index (ASI) and Market Capitalization (MC)
(December 2009 – December 2010)

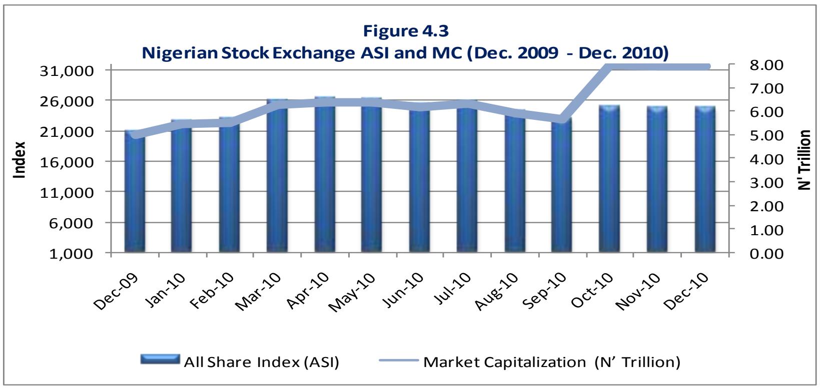
Date	All Share Index (ASI)	Market Capitalization (₦' Trillion)*
Dec-09	20,827.17	4.99
Jan-10	22,594.90	5.44
Feb-10	22,985.00	5.53
Mar-10	25,966.25	6.28
Apr-10	26,453.20	6.39
May-10	26,183.21	6.36
Jun-10	25,384.14	6.17
Jul-10	25,844.18	6.32
Aug-10	24,268.24	5.94
Sep-10	23,050.59	5.65
Oct-10	25,042.16	7.98
Nov-10	24,764.65	7.91
Dec-10	24,770.52	7.91

Source: Central Bank of Nigeria

**Note: Market Capitalization reported in Table 4.2 is for the equities market alone and does not include other securities listed on the Nigerian Stock Exchange*

The total market capitalisation (equities and securities) listed on the NSE increased by 41.10 per cent from ₦7.03 trillion in

December 2009 to ₦9.92 trillion in December 2010. The rise in market capitalization resulted mainly from listings of 7 new equities and State Government bonds coupled with price appreciation.



Source: Central Bank of Nigeria

improved performance of the market was attributable to the new code of corporate governance for quoted companies

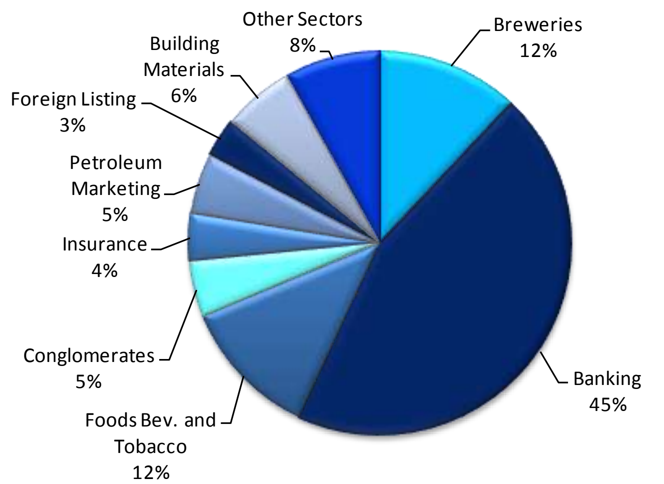
The general increase in activities on the stock exchange was apparently traceable to technical correction in stock prices from overvaluations associated with the boom era. In addition, policy initiatives such as the new code of corporate governance for quoted companies which came into effect in the first half of 2010, sustained the survival of the stock market during the period. Also, the commencement of operations by AMCON and the change in top management staff in both the Nigerian Stock Exchange and three DMBs, enhanced investor confidence in the market and the rebound of activities.

4.3.2 Sectoral Contribution to Market Capitalization

Banking sector continued to dominate activities on the floor of the Nigerian Stock Exchange during the review period. The sector's share of the overall market capitalization was 34 per cent as at end-December, 2010, down from 38.0 and 45 per cent at end-June, 2010 and end-December of 2009, respectively. The drop in the dominance of banking sector shares is attributable to portfolio switching, especially given that the sector was more severely affected during the burst era. The share of all other sectors dropped, except that of Building Materials, whose percentage share rose from 6.0 to 26.0 per cent, from their levels at the end of December, 2009.

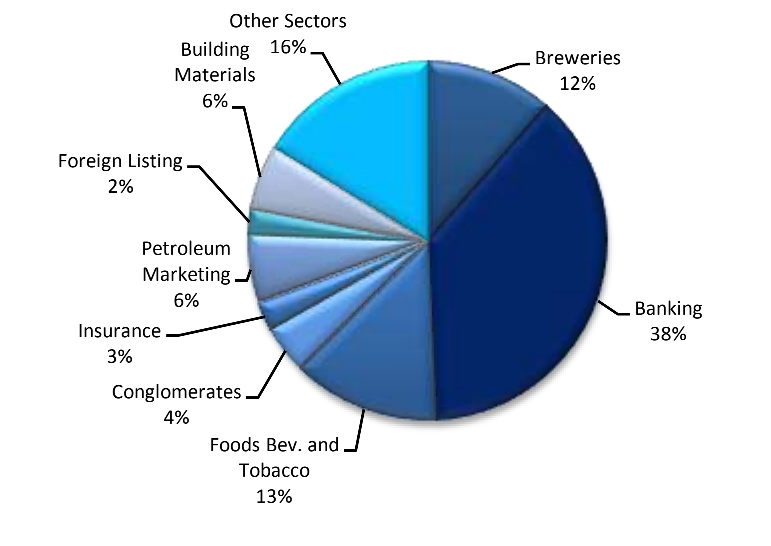
The exceptional performance of the Building Materials sub-sector was attributable to the listing of 15.5 billion shares of Dangote Cement at ₦135 per share, on the floor of the Nigerian Stock Exchange in October, 2010 (Figures 4.4, 4.5 and 4.6).

Figure 4.4
NSE Market Capitalisation by Sector as at end-December, 2009



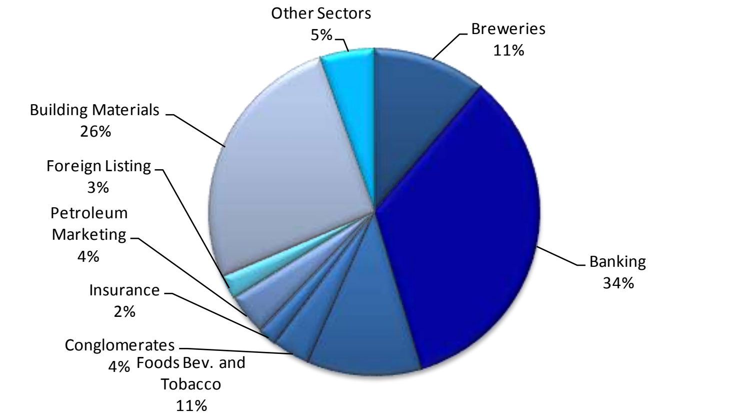
Source: Nigerian Stock Exchange

Figure 4.5
NSE Market Capitalization by Sector as at end-June, 2010



Source: Nigerian Stock Exchange

Figure 4.6
NSE Market Capitalisation by Sector as at End-December, 2010



Source: Nigerian Stock Exchange

4.4 Market Turnover

4.4.1 Equities

.. bulk of the transaction were in equities which accounted for 99.99 per cent of the market turnover

In the second half of 2010, the stock market recorded a turnover of 38.550 billion shares valued at ₦360,600.0 million, in contrast to a total of 54.785 billion shares valued at ₦436,951 million in the first half. The value and volume of stocks traded declined by 17.47 and 29.63 per cent, respectively, over the first half of 2010. Overall, market turnover in the Nigerian Stock Exchange (NSE) closed the year at 93.335 billion shares valued at ₦797,551.0 million (or 3.22 per cent of GDP). While the value of stocks traded showed an increase of 16.31 per cent, the volume dropped by 9.25 per cent from the 102.85 billion shares valued at ₦685,720.0 million (2.9 per cent of GDP) recorded in 2009. Average daily transactions dropped from 414.73 million shares valued at ₦2,800.0 million traded in 2009 to 377.9 million shares valued at ₦3,200.0 million in 2010. The bulk of the transactions were in equities, which accounted for ₦797,540.0 million or 99.99 per cent of the market turnover compared with ₦685,300.0 million or 99.94 per cent recorded in 2009. The dominance of equity trading on the NSE was due to the underdeveloped nature of the bonds market.

4.4.2 Government Debt Instruments

.. Trading in Federal Government bonds on the floor of the NSE was generally inactive.

Trading in Federal Government of Nigeria (FGN) bonds in the Over-the-Counter (OTC) or secondary market was generally sluggish in the second half of 2010. Thus, a turnover of 5.6 billion units worth ₦5, 636.4 billion in 48,682 deals was recorded, in contrast to the 8.2 billion units worth ₦9,703.6 billion in 88,398.0 deals recorded in the first half. However, a turnover of 13.8 billion units valued at ₦15,340.0 billion in 137,080 deals was recorded in the Over-the-Counter (OTC) market for FGN bonds in 2010, as against 17.1 billion units valued at ₦10,440.0 million in 78,248 deals in 2009.

Transactions in State Government bonds were minimal, accounting for only 13,000 units, valued at ₦141,500.0 million in 2010. On the other hand, trading in Industrial Bonds and Preference Stocks in the secondary market in 2010 were inactive compared with the ₦412.8 million traded in 2009.

4.5 Market Dominance

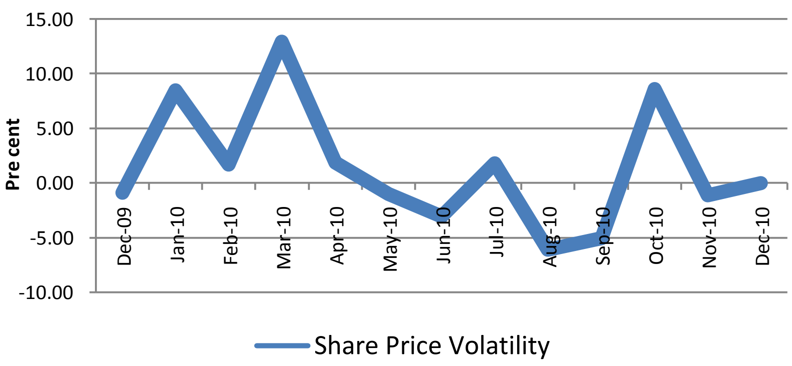
In the second half of 2010, the banking sector, with trading valued at ₦432,100.0 million, was the most active of all the sectors, accounting for 49.52 billion shares or 53.1 per cent of the total volume of shares traded. This was followed by the insurance subsector with 14.84 billion shares or 15.9 per cent volume of traded securities valued at ₦15,100.0 million.

4.6 Share Price Volatility

.. Despite developments in the Euro area, global financial markets picked up in the second half ..

In the first half of 2010, share prices trended upwards and were volatile, due largely to market apprehension arising from uncertainties about the direction of global economic recovery and domestic economic prospects (Figure 4.7). The global financial and economic crises of 2008-2010 had significant negative impact on equity prices worldwide. The modest global economic recovery, which commenced in the last quarter of 2009 and sustained through the first half of 2010, equally reflected in recovery in equity prices. However, the economic recovery became threatened by the sovereign debt crisis in the Euro area during the second half of 2010. In Nigeria, commitment to domestic structural and institutional reforms led to high growth but equity prices remained dampened despite the enhanced investor confidence promoted by sound macroeconomic management.

Figure 4.7
Share Price Volatility (Jan. 2009 - Dec. 2010)



Source: Nigerian Stock Exchange

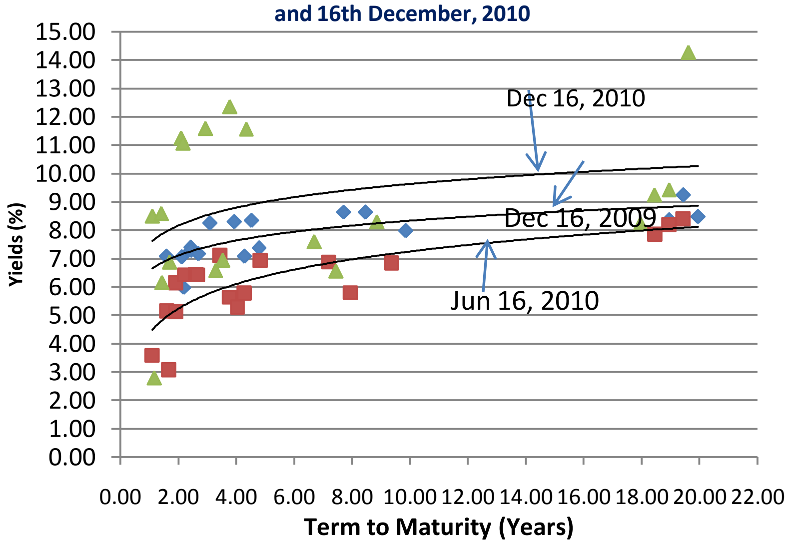
.. yields on long long-tenored FGN bonds remained below the end-December 2010 inflation level of 11.8 per cent....

4.7 Yields on Federal Government Securities

The yield curve of FGN bonds on December 16, 2010 increased by approximately 200 basis points over the level on June 16, 2010. Overall, yields on long-tenored FGN bonds remained below the end-December 2010 inflation rate of 11.8 per cent, except the 7th FGN Bond 2030 Series 3, which closed at 14.03 per cent on December 16, 2010 (Figure 4.8). Yields on FGN securities were largely affected by the effect of structural rigidities in the bonds market.

The pricing of FGN bonds relative to inflation expectations in Nigeria was consistent with conventional yield curve theory. Thus, inflation expectations influenced key portfolio adjustments as these played a critical role in yield formations that underlie the yield curve.

Figure 4.8
FGN Bonds Yield Curves 16th December, 2009 , 16th June 2010 and 16th December, 2010



Source: Data obtained from Financial Markets Dealers Association

.. Nigerian Stock Exchange considered and approved 31 applications for new issues valued at N2,440.0 billion or 9.83 per cent.

4.8 New Issues Market

The Nigerian Stock Exchange considered and approved 31 applications for new issues, valued at ₦2,440.0 billion or 9.83 per cent of GDP in 2010, as against 30 applications for new issues valued at ₦279,250.0 million or 1.2 per cent of GDP in 2009. Of the total amount approved in 2010, the non-bank corporate issues of eighteen (18) applications valued at ₦1,420.0 billion accounted for 58.2 per cent, while the banking sector accounted for 36.1 per cent with seven (7) applications valued at ₦88,000.0 million. State Government bonds applications were six, valued at ₦14,000.0 million or 19.3 per cent.

Of the non-bank applications, the building materials sub-sector, with one application accounted for ₦2,100.0 billion in value or 86.0 per cent of the total approved new issues in 2010. Similarly, the insurance sub-sector with four applications accounted for only ₦6,320.0 million or 0.3 per cent of the total applications considered. Unlike in 2009, a total of ₦5,200.0 million was raised through initial public offers while a total of ₦46,600.0 million was raised through 'rights issues' and ₦193,700.0 million in bonds, including four State Government bonds. Listings by introduction accounted for ₦17,700.0 million, while shares placing, with ten applications, accounted for ₦92,800.0 million and mergers with two applications accounted for ₦2,091.8 billion.

4.9 New Listings and De-listings

The NSE listed 4 new equities in the second half of 2010 compared with 1 in the first half. In addition, 1 FGN bond each was issued in the first and second half of the year. Similarly, 5 State government bonds, and 4 industrial loans/bonds were listed in 2010. Conversely, 16 matured securities were delisted during the year compared with 65 in 2009. The delisted securities which matured and were redeemed included: 12 fixed income securities viz. 9 FGN Development Stocks; 1 State government bond (Lagos State ₦15,000.0 million Fixed Rate Bond); and 2 industrial loans.

4.9.1 Federal Government of Nigeria (FGN) Bonds

In 2010, the following FGN bonds were listed: the 5.5 per cent FGN, Feb 2013 (formerly 7th FGN Bond 2013 Series 1), listed in the first half; the 10.0 per cent FGN July 2030 (formerly 7th FGN Bond 2030 Series 3), listed in the second half. Overall, Federal Government borrowing through securities issued by the Debt Management Office (DMO) to finance budget deficit amounted to ₦1,104.30 billion in 2010.

4.9.2 State Government Bonds

The following State bonds were listed in 2010: Bayelsa State Fixed Rate Development Bond (₦50,000.0 million); Ebonyi State Fixed Rate Development Bond (₦16,500.0 million); Kaduna State Fixed Rate Bond (₦8,500.0 million); Niger State Fixed Rate Redeemable Bond (₦9,000.0 million); and Lagos State Fixed Rate Bond (₦57,500.0 million).

4.10 The Foreign Exchange Market

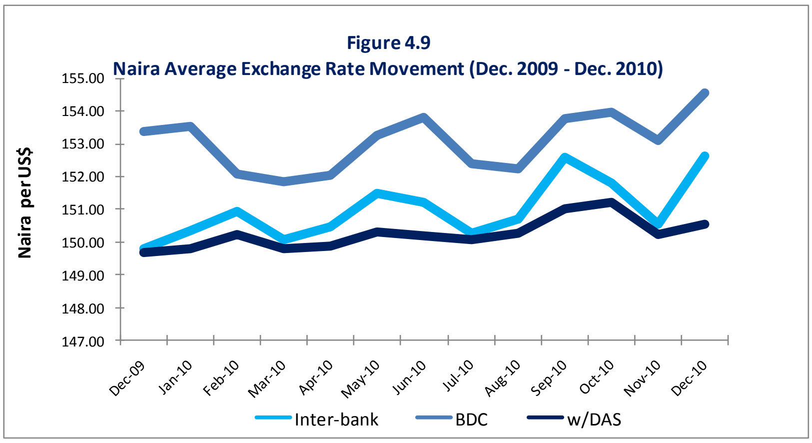
4.10.1 Average Naira Exchange Rate

.. average exchange rate of the naira at the official window depreciated by 0.35 per cent ....in the second half...

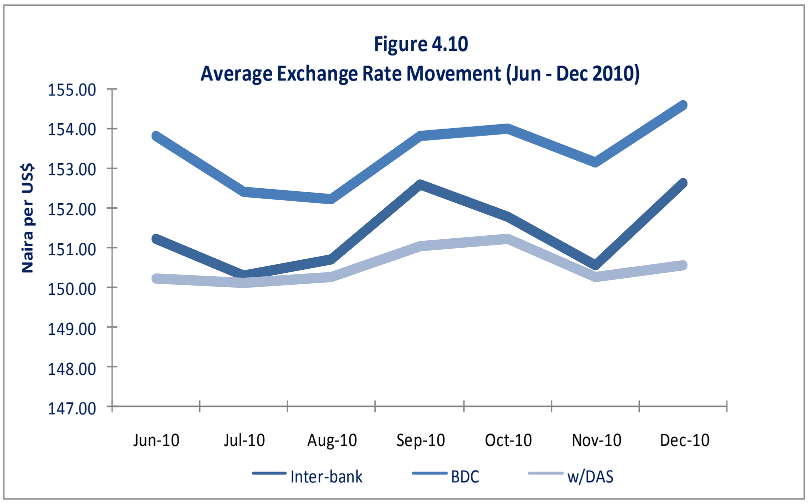
The naira exchange rate remained relatively stable in the period under review. The average exchange rate of the naira, at the official window (wDAS) depreciated by 0.35 per cent, from ₦150.04/US$ in the first half of 2010 to ₦150.57/US$ in the second half. The naira depreciated by 0.08 per cent in the corresponding period of 2009.

At the bureaux-de-change (BDC) and interbank segments of the market, the naira depreciated marginally by 0.38 and 0.45 per cent from ₦152.77/US$ and ₦150.75/US$ in the first half 2010 to ₦153.35/US$ and ₦151.43/US$, respectively, in the second half.

Rates at the BDC appreciated by a substantial 5.63 per cent in 2010, while the interbank market rate depreciated by 0.36 per cent over the same period (Table 4.3; Figures 4.9 and 4.10). The naira depreciated largely at the wDAS and interbank segments of the foreign exchange market during the second half of 2010, due largely to arbitrage opportunities in other markets.



Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

Table 4.3
Monthly Average Exchange Rate at Various Segments of the Market (₦/US$) (January – December 2010)

	CBN		BDC		IFEM	
	2009	2010	2009	2010	2009	2010
January	144.85	149.81	150.15	153.55	147.93	150.33
February	147.14	150.22	156.98	152.08	149.12	150.96
March	147.76	149.83	174.32	151.85	NA	150.07
April	147.23	149.88	180.27	152.05	NA	150.45
May	147.84	150.30	180.63	153.26	NA	151.48
June	148.20	150.21	166.14	153.82	148.54	151.22
H1 Average	147.17	150.04	168.08	152.77	148.53	150.75
July	148.61	150.10	155.13	152.41	149.88	150.28
August	151.83	150.26	158.95	152.23	155.23	150.70
September	152.67	151.03	158.00	153.80	153.25	152.61
October	149.33	151.22	153.14	153.98	150.21	151.78
November	150.57	150.23	152.95	153.13	151.03	150.55
December	149.69	150.55	153.38	154.57	149.80	152.63
H2 Average	150.45	150.57	155.26	153.35	151.57	151.43
Annual Average	148.81	150.30	161.67	153.06	150.55	151.09

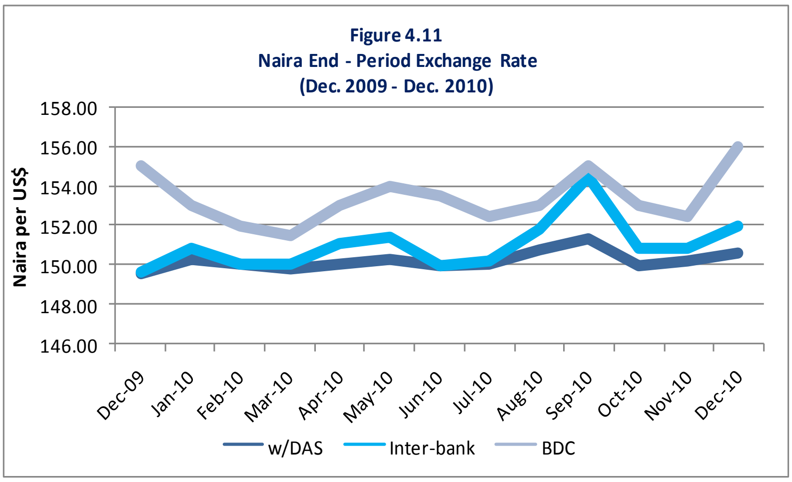
Source: Central Bank of Nigeria

4.10.2 End-Period Exchange Rate

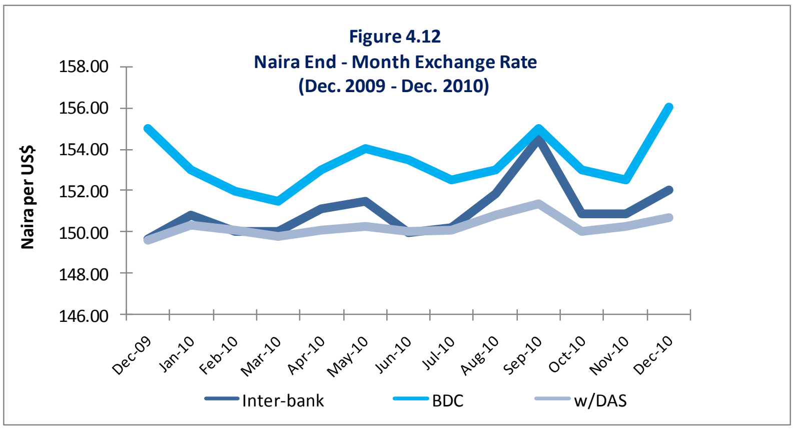
.. end-period exchange rate of the naira in the second half of 2010 at the official window of the foreign exchange market depreciated by 0.45 per cent....

The end-period exchange rate of the naira at the wDAS depreciated by 0.45 per cent, from ₦149.99/US$ as at end-June, 2010 to ₦150.66/US$ as at end-December, 2010. Over the one year period, the naira depreciated from ₦149.58/US$ as at end-December, 2009 to ₦150.66/US$ as at end-December, 2010 (Table 4.4).

At the BDC and interbank segments of the market, the naira depreciated by 0.64 and 1.53 per cent, respectively, or from ₦155.00/US$ to ₦156.00/US$ and from ₦149.67 to ₦152.00 between end-December 2009 and end–December 2010 (Table 4.4 and Figures 4.11 and 4.12). The naira depreciated in all segments of the market due largely to increased demand pressure fueled by the slugish activities in the stock exchange and low interest rate regime in the money market. The supply of foreign exchange to the interbank market was affected by increased sales from oil companies.



Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

Table 4.4
End-Month Exchange Rate at Various Segments of the Market (₦/US$) (January – December 2010)

MONTH	CBN		BDC		IFEM	
	2009	2010	2009	2010	2009	2010
January	145.95	150.32	152.00	153.00	148.95	150.84
February	147.31	150.10	167.00	152.00	NA	150.05
March	147.16	149.78	170.00	151.50	NA	150.05
April	147.36	150.10	182.00	153.00	NA	151.09
May	148.17	150.27	170.00	154.00	NA	151.47
June	148.22	149.99	158.00	153.50	148.35	150.00
July	151.25	150.09	154.00	152.50	156.70	150.20
August	152.42	150.78	159.00	153.00	154.24	151.85
September	148.79	151.35	156.00	155.00	150.04	154.50
October	150.63	149.99	152.00	153.00	151.05	150.85
November	149.79	150.24	152.00	152.50	148.25	150.90
December	149.58	150.66	155.00	156.00	149.67	152.00

Source: Central Bank of Nigeria

.. end-period exchange rate of the naira in the second half of 2010 at the official window of the foreign exchange market depreciated by 0.45 per cent....

4.10.3 Nominal and Real Effective Exchange Rate (NEER) Indices

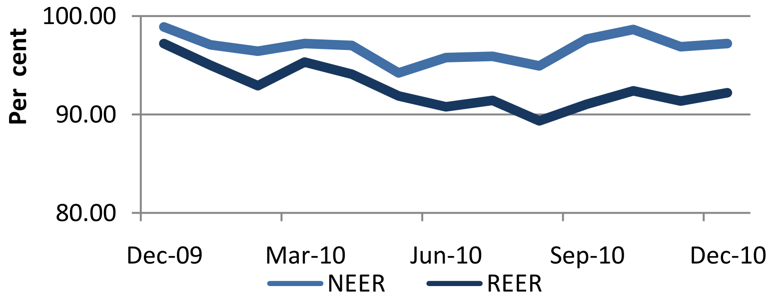
The NEER index increased by 1.84 to 97.20 as at end-December 2010 from the level of 95.76 as at end-June 2010. Similarly, the Real Effective Exchange Rate (REER) index, increased by 1.58 to 92.21 in December 2010 from 90.78 in June 2010. On annual basis, the NEER and REER decreased by 1.71 and 4.98, respectively, over their levels in 2009 (Table 4.5; Figures 4.13 and 4.14).

Table 4.5
Nominal and Real Effective Exchange Rate Indices
(January 2009 - December 2010) (November 2009 = 100)

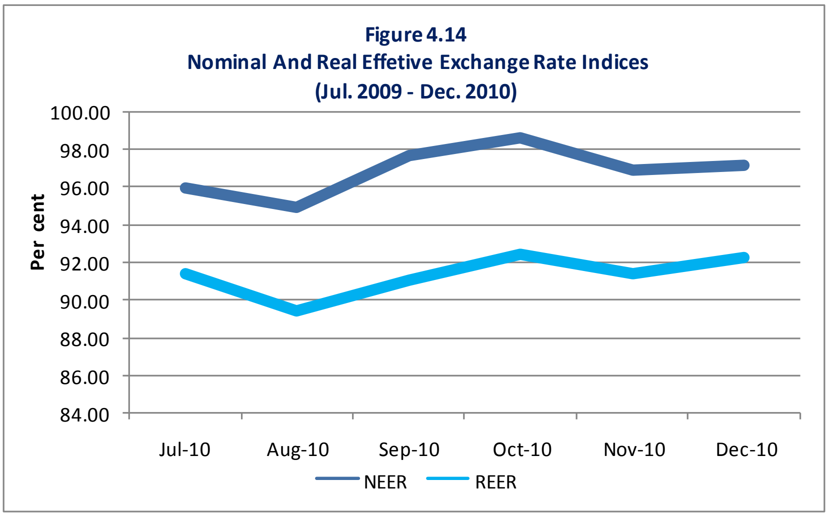
MONTHS	NEER	REER
Jul-09	97.70	99.51
Aug-09	98.59	98.79
Sep-09	97.47	98.01
Oct-09	98.41	98.60
Nov-09	100.00	100.00
Dec-09	98.91	97.19
Jan-10	97.05	94.97
Feb-10	96.41	92.89
Mar-10	97.18	95.28
Apr-10	97.03	94.07
May-10	94.21	91.89
Jun-10	95.76	90.78
Jul-10	95.93	91.40
Aug-10	94.94	89.36
Sep-10	97.65	91.06
Oct-10	98.62	92.42
Nov-10	96.89	91.35
Dec-10	97.20	92.21

Source: Central Bank of Nigeria

Figure 4.13
Nominal and Real Effective Exchange Rate Indices
(Dec. 2009 - Dec. 2010) (Nov. 2009 = 100)



Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

4.11 Demand and Supply of Foreign Exchange

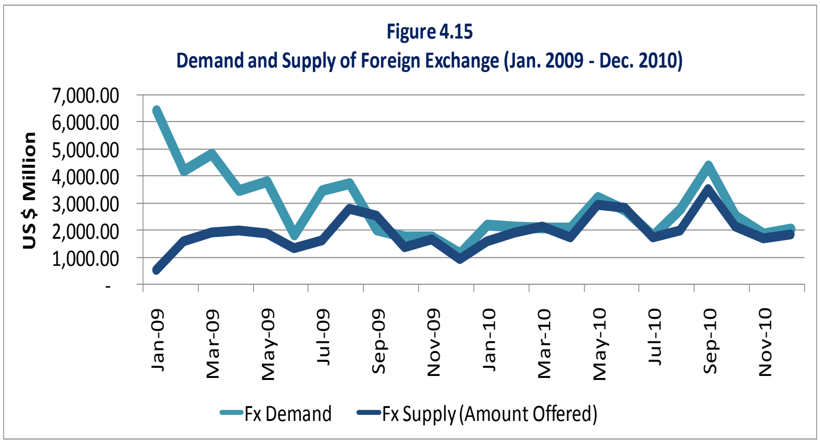
In the second half of 2010, the demand for foreign exchange at the wDAS increased by 6.61 per cent to US$15,369.5 million from US$14,416.42 million demanded in the first half. By end December 2010, the demand for foreign exchange declined by 22.27 per cent to US$29,785.76 million compared to the US$38,318.90 million demanded by end December 2009. Total foreign exchange offered for sale by the CBN at the wDAS and BDC windows declined by 1.79 per cent from the US$13,250.00 million recorded in the first half of 2010 to US$13,012.57 million supplied in the second half. Total volume of foreign exchange offered for sale amounted to US$26,262.57 million in 2010, up from US$20,390.00 million offered in the preceding year, representing a 28.80 per cent increase (Table 4.6 and Figure 4.15).

Actual amount of foreign exchange sold by the CBN at the wDAS increased by 6.67 per cent, from US$12,177.66 million in the first half of 2010 to US$12,990.23 million in the second half. Total sales of foreign exchange amounted to US$25,167.89 million in 2010, compared with US$23,272.50 million in the preceding year, representing an increase of 8.14 per cent.

Table 4.6
Total Foreign Exchange Demand and Supply
(US$ 'Million) (December 2009 – December 2010)

	Demand	Supply (Amount Offered)	Supply (Actual Sales at rDAS/wDAS)
Dec-09	**1,128.54**	**950.00**	**837.08**
2009: H2	**13,823.70**	**11,040.00**	**9,662.76**
2009 Total	**38,318.90**	**20,390.00**	**23,272.50**
Jan-10	2,199.15	1,600.00	1,522.05
Feb-10	2,110.77	1,950.00	1,874.35
Mar-10	2,081.23	2,150.00	1,742.79
Apr-10	2,068.61	1,750.00	1,693.52
May-10	3,214.82	2,950.00	2,761.13
Jun-10	2,741.85	2,850.00	2,583.82
2010: H1	**14,416.42**	**13,250.00**	**12,177.66**
Jul-10	1,795.82	1,750.00	1,612.49
Aug-10	2,789.10	2,000.00	1,948.52
Sep-10	4,392.27	3,542.57	3,626.87
Oct-10	2,503.67	2,150.00	2,375.75
Nov-10	1,853.37	1,720.00	1,576.60
Dec-10	2,035.12	1,850.00	1,850.00
2010: H2	**15,369.34**	**13,012.57**	**12,990.23**
2010 Total	**29,785.76**	**26,262.57**	**25,167.89**

Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

4.12 Foreign Exchange Inflow and Outflow

4.12.1 Inflow

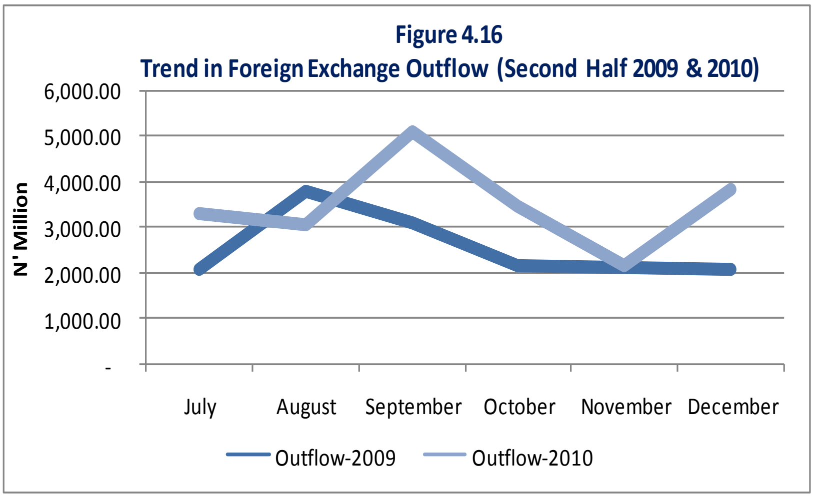
.. increase in inflows was accounted for by the rise in oil prices coupled with increased domestic oil output

Gross foreign exchange inflow of US$14,865.04 million was recorded in the second half of 2010, compared with the US$13,966.39 million realized in the corresponding period of 2009, representing an increase of 6.43 per cent. When compared with the US$12,982.08 million recorded in the first half of 2010, foreign exchange inflow in the second half increased by US$1,882.96 million or 14.5 per cent. The increased inflow was accounted for by the rise in world oil prices, coupled with increased domestic oil production as a result of the Federal Government's policy measures to resolve the Niger Delta crisis (Figure 4.16).

4.12.2 Outflows

.. change in the level of outflow over the level in the 1st half of 2010 represents an increase of about US$3,083.27 or 17.31 per cent

During the second half of 2010, total foreign exchange outflow through the CBN, which was mainly for financing imports of goods and services, amounted to US$20,891.28 million, compared with US$17,027.91 million in the first half of 2010, representing an increase of US$3,863.37 million or 22.69 per cent. Compared with the outflow of US$15,411.19 million in the corresponding period of 2009, an increase of 35.56 per cent was recorded over the one year period (Figure 4.16 and 4.17).



Source: Central Bank of Nigeria

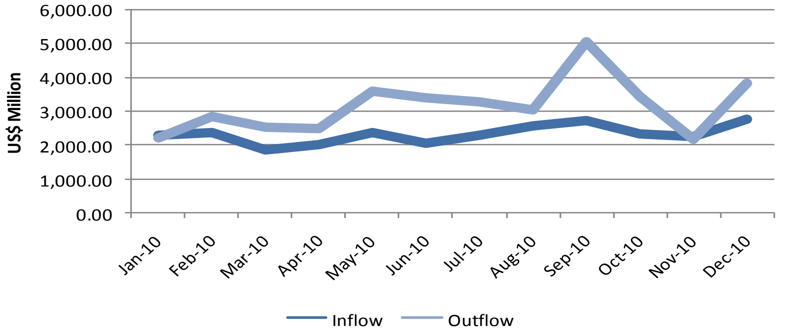
On a year-on-year basis, total outflow in 2010 was US$37,919.19 million compared with US$35,885.62 million as at end-December 2009, representing an increase of 5.36 per cent above the level in the preceding year. The increased outflow in 2010 was accounted for by huge investment in infrastructure, especially power, road construction and the remittance of dividend payments by some multinational companies (Table 4.7)

Table 4.7
CBN Monthly Foreign Exchange Flows
(US$ 'Million) (July 2009 – December 2010)

	INFLOW	OUTFLOW	NET FLOW
2009:H1 Sub-Total	**11,128.79**	**20,474.63**	**-9,345.80**
Jul	1,690.36	2,111.26	-420.9
Aug	1,879.48	3,797.02	-1,917.54
Sep	4,513.12	3,106.61	1,406.51
Oct	1,701.76	2,161.31	-459.55
Nov	2,082.78	2,138.82	-56.04
Dec	2,098.89	2,096.17	2.72
2009:H2 Sub-Total	**13,966.39**	**15,411.19**	**-1,444.80**
2009 Total	**25,095.18**	**35,885.82**	**-10,790.60**
Jan	2,302.51	2,197.05	105.46
Feb	2,369.22	2,860.35	-491.13
Mar	1,849.40	2,512.78	-663.38
Apr	2,016.92	2,481.53	-464.61
May	2,381.63	3,590.39	-1,208.76
Jun	2,062.40	3,385.81	-1,323.41
2010:H1 Sub-Total	**12,982.08**	**17,027.91**	**-4,045.83**
Jul	2,289.00	3,282.56	-993.56
Aug	2,564.49	3,061.05	-496.56
Sep	2,701.52	5,078.74	-2,377.22
Oct	2,339.28	3,463.47	-1,124.19
Nov	2,209.35	2,169.84	39.51
Dec	2,761.40	3,835.62	-1,074.22
2010:H2 Sub-Total	**14,865.04**	**20,891.28**	**-6,026.24**
2010 Total	**27,847.12**	**37,919.19**	**-10,072.07**

Source: Central Bank of Nigeria

Figure 4.17
Foreign Exchange Inflow and Outflow (Dec. 2009 - Dec. 2010)



Source: Central Bank of Nigeria

4.13. Exchange Rate and Demand for Foreign Exchange

The movement in the exchange rate of the naira at the official window of the foreign exchange market has implications for both the demand and supply of foreign exchange as well as the stock of external reserves. The principle underlying foreign exchange management was to limit offical exchange rate variations around an established band of +/-3 per cent of the prevailing exchange rate of the naira. The intervention policies of the Bank led to drawdown in external reserves to fund the market.

The persistent demand pressure in the foreign exchange market was traceable to the activities of speculators and arbitraguers as well as high domestic aggregate demand. Specifically, high import demand partly fostered by deliberate policy to promote long term infrastructure investment to anchor economic developemnt was a major reason explaining the high demand for foreign exchange.

CHAPTER 5

DOMESTIC PRICE DEVELOPMENTS AND THE REAL ECONOMY

CHAPTER 5

DOMESTIC PRICE DEVELOPMENTS AND THE REAL ECONOMY

5.1 Introduction

Inflationary pressures were sustained during the review period. In this chapter, we review domestic price developments and the measures taken to contain inflationary pressure. Against the backdrop of the high level of political activities in the second half of 2010 and rising government spending toward the general elections in April 2011, the CBN implicitly targeted the achievement of single digit year-on-year headline inflation during the review period.

5.2 Domestic Economic Activity

..GDP grew at an average of 8.53 per cent in the second half of 2010.

Despite the global financial and economic crises, domestic output was generally satisfactory in 2010. Growth in real GDP in the second half of 2010 was estimated at an average of 8.53 per cent. In the second quarter, GDP grew by 7.69 per cent compared with 7.45 per cent in the corresponding period of 2009. In the first quarter, estimated GDP growth was 7.36 per cent while it was 5.01 per cent in the corresponding period of 2009. In the third quarter, real GDP grew by 7.86 per cent and was estimated at 8.29 per cent for the fourth quarter. The annual rate of real GDP growth was projected at 7.85 per cent in 2010, which was significantly higher than the 6.96 per cent recorded in 2009.

..non-oil sector remained the major driver of growth.

The non-oil sector remained the major driver of growth. This was complemented by the sharp increase in oil sector production following the relative peace in the Niger Delta during the second half of the year and general world oil price increases. The major challenges to output growth in 2010 were the deficiencies in electricity generation and distribution, especially during the first three quarters of the year.

The index of manufacturing production, estimated at 93.7 (1990=100) rose by 0.3 per cent and 0.2 per cent over the levels in the preceding quarter and the corresponding period of 2009, respectively. The improved performance of the manufacturing sub-sector was largely attributable to improved investor confidence resulting from policy actions to unlock credit to the real sector. The poor state of electricity generation and distribution adversely affected activities in the manufacturing sub-sector, particularly the small and medium scale sub-sector. Thus, average manufacturing capacity utilization estimated at 54.90 per cent rose by 1.1 percentage points, compared with the corresponding period of 2009.

..food constitutes at least 51.80 per cent of the weights of items in the CPI basket

Nigerian agriculture which is still largely rain fed was exposed to the dictates of climatic conditions which played a key role in determining the level of agricultural output. Since food constitutes at least 51.80 per cent of the weight of items in the CPI basket, favourable weather conditions impacted positively on price developments in the country. In the second half of 2010, adequate and timely rainfall in most parts of the country aided good agricultural harvests of food crops, notwithstanding the severe flooding experienced in some food producing areas, especially the northern parts of the country.

..non-oil sector remained the major driver of growth.

The aggregate index of industrial output, however, improved during the fourth quarter of 2010 relative to the preceding quarters. Consequently, the index of industrial production rose by 0.9 and 2.0 per cent, over the level attained in the preceding quarter and corresponding period of 2009, respectively. The improvement was traced largely to manufacturing and mining production, which rose by 0.3 and 0.4 per cent, respectively. Similarly, the index of mining production rose by 0.4 and 0.5 per cent over the levels attained in the preceding quarter and the corresponding period of 2009, respectively. The rise was accounted for by the increase in crude oil and gas production.

.. year-on-year headline inflation rate remained at double digit throughout the second half of 2010......

5.3 Inflationary Trends in the Second Half of 2010

The year-on-year headline inflation rate remained at double digits throughout the second half of 2010. It closed at 11.8 per cent at end-December 2010, compared with 14.1 per cent in June 2010 and 13.9 per cent in the corresponding period of 2009.

Similarly, the year-on-year core inflation rate trended downwards at end-December 2010; the rate was 10.9 per cent, against the 12.7 per cent recorded in June 2010 and 11.2 per cent in December 2009. The high inflation rates during the review period were partly attributed to structural factors and the rebased and enlarged index of consumer prices in November 2010 to reflect current consumption patterns in the economy.

Generally, the 12-month moving average inflation rate persistently trended upwards during the review period. Thus, the 12-month moving average headline inflation rose from 12.5 per cent in December 2009 to 13.1 per cent in June 2010 and 13.7 per cent at end-December 2010. Also, the 12-month moving average core inflation rate trended upward, from 9.2 per cent in December 2009 to 10.9 per cent in June 2010 and accelerated to 12.4 per cent at end-December 2010 (Table 5.1, 5.2 and 5.3, Figures 5.1 and 5.2).

Table 5.1
Measures of Consumer Prices
(July 2008 – December 2010)

	Headline Inflation		Core Inflation		Food Inflation	
Date	Y- Y	12-MMA	Y- Y	12-MMA	Y- Y	12-MMA
Jul-08	14.00	7.80	4.80	5.40	20.90	9.00
Dec-08	15.10	11.60	10.40	5.10	18.00	16.10
Jul-09	11.10	13.40	8.30	8.60	12.90	16.80
Dec-09	13.90	12.50	11.20	9.20	15.50	14.80
Jul-10	13.00	13.30	11.30	11.20	14.00	14.50
Dec-10	11.80	13.70	10.90	12.40	12.70	14.70

Source: National Bureau of Statistics (NBS)

Table 5.2
Inflation Rate
(December 2009 – December 2010)

Date	Headline Inflation			Core Inflation			Food Inflation		
	CPI	Y-Y	12-MMA	CPI	Y-Y	12-MMA	CPI	Y-Y	12-MMA
Dec-09	102.2	13.90	12.50	101.9	11.20	9.20	102.7	15.50	14.80
Jan-10	103.1	14.40	12.60	102.6	12.10	9.60	103.9	15.90	14.70
Feb-10	105.0	15.60	12.70	105.0	14.00	10.10	105.4	16.20	14.40
Mar-10	104.9	14.80	12.80	104.6	13.20	10.30	105.3	15.80	14.40
Apr-10	105.7	15.00	12.90	105.1	12.80	10.40	106.7	16.30	14.50
May10	105.7	12.90	12.90	106.5	11.70	10.60	106.2	13.00	14.30
Jun-10	108.8	14.10	13.10	108.6	12.70	10.90	110.2	15.10	14.40
Jul-10	109.9	13.00	13.30	108.8	11.30	11.20	112.0	14.00	14.50
Aug-10	111.9	13.70	13.50	110.4	12.40	11.50	114.1	15.10	14.70
Sep-10	112.4	13.60	13.80	111.7	12.80	12.00	113.5	14.60	14.90
Oct-10	112.7	13.40	13.90	112.0	13.20	12.30	114.1	14.10	14.90
Nov-10	112.8	12.80	13.90	111.3	11.70	12.40	114.3	14.40	15.00
Dec-10	114.2	11.80	13.70	112.5	10.90	12.40	115.5	12.70	14.70

Source: National Bureau of Statistics

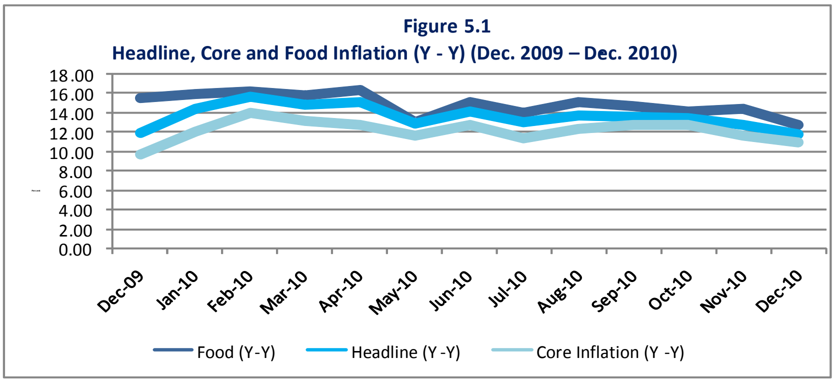
The CPI maintained an upward trend throughout the second half of 2010. Thus, in December, the all-items CPI rose by 6.8 per cent to 114.2, (November 2009=100) over the level in June 2009. The all items CPI was 108.8 (November 2009=100) in the preceding period, compared with 102.2 in December 2009.

The Bank's price stability objective implicitly targeted single digit inflation in fiscal 2010. However, headline inflation remained generally above that target due mainly to structural factors as growth in money supply remained below its long term trend.

Table 5.3
Quarterly Consumer Price Developments in 2010
(November 2009=100)

	March		June		September		December	
	Y-on-Y (% Change)	12 Mths (Avg. % Change)	Y-on-Y (% Change)	12 Mths (Avg. % Change)	Y-on-Y (% Change)	12 Mths (Avg. % Change)	Y-on-Y (% Change)	12 Mths (Avg. % Change)
HEADLINE	14.8	12.8	14.1	13.1	13.6	13.8	11.8	13.7
CORE	13.2	10.3	12.7	10.9	12.8	12	10.9	12.4
FOOD	15.8	14.4	15.1	14.4	14.6	14.9	12.7	14.7

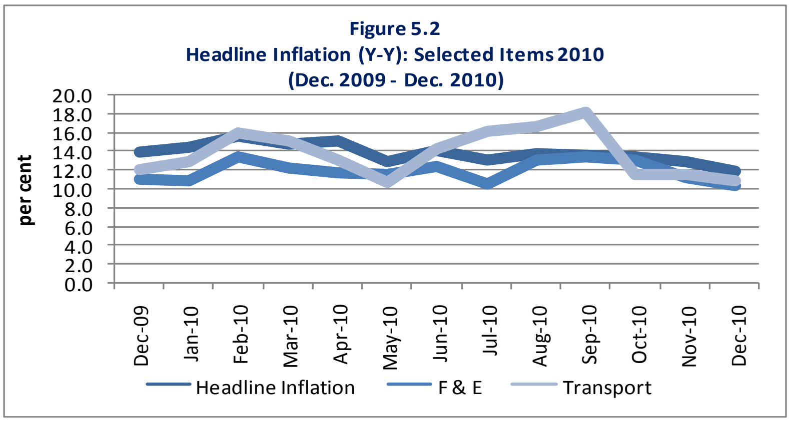
Source: National Bureau of Statistics (NBS)



Source: National Bureau of Statistics

The breakdown of CPI index indicates that food and non-alcoholic beverages, housing, water, electricity/gas and other fuel, contributed most to the overall change in prices. Specifically, the index for food and non-alcoholic beverages rose by 9.06 percentage points in July 2010 compared with 4.8 per cent in December 2010 and the 97.8 per cent in December 2009.

The composite price index for utilities (which ranks next to food in the CPI basket), rose from 104.8 in June 2010 to 113.2 in December 2010, compared with 96.3 and 100.2 in June and December 2009, respectively (Figure 5.2). Overall, the all items CPI grew by 5.0 per cent in the second half of 2010. The increase was a reflection of the impact of the generally weak infrastructure base of the economy, the effect of which was transmitted to production.



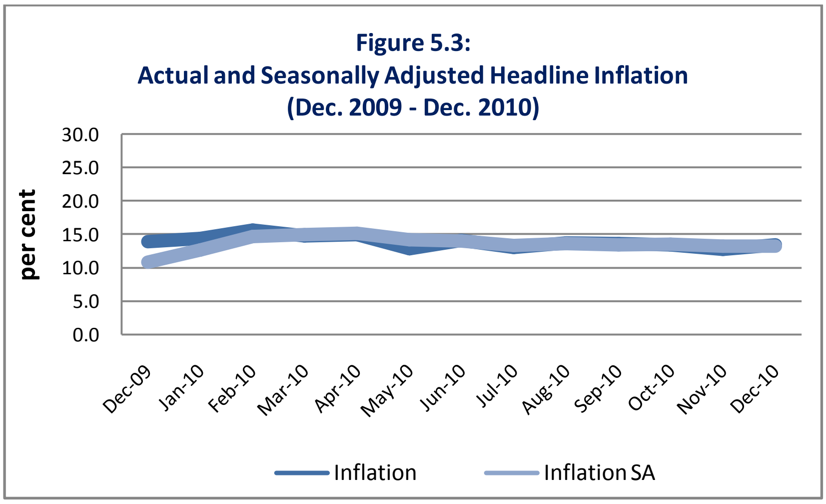
Source: National Bureau of Statistics

5.4 Actual and Seasonally Adjusted Headline Inflation

Analysis of inflation developments in the second half of 2010 indicated evidence of seasonality during the period. Seasonality played a key role in dampening the headline inflationary pressures in the second half of 2010; implying that holding seasonal factors constant (or in their absence), would result in higher headline inflation.

Notwithstanding the effects of seasonal factors, inflation remained at double digit throughout 2010

The low inflation outcome in some months was influenced in part by the bumper harvest of food items, such as yam and maize, which had a dampening effect on the food index (food items are a component of the CPI most susceptible to seasonality). Notwithstanding the effects of seasonal factors (particularly off-farm produce supply period and year-end festivities), inflation remained at double digits throughout 2010 (Figure 5.3).



Source: National Bureau of Statistics

5.5 Factors Responsible for Inflationary Pressures

Inflationary pressure in 2010 was heightened by the global food and energy crises, adverse weather conditions in some parts of the country, increased spending on political activities preparatory to the 2011 general elections and poor infrastructure.

The focus of the 2010 budget was spending on key infrastructure in the areas of works, power, education and health. Although, expenditure on infrastructure was expected to have major foreign components, the domestic components of infrastructure financing generated substantial domestic demand pressures capable of fuelling inflationary tendencies.

5.5.1 Domestic Aggregate Demand

Growth in aggregate demand was a major factor that fuelled upward price movements in the review period. Although broad money supply grew by ₦643.22 billion or 5.93 per cent in the second half, it was below the target growth level for the period and lower than the level in the preceding period. Accordingly, rising global energy and commodity prices reflected in high domestic import bills which impacted on prices. Although credit to the private sector was phenomenally low, credit to government grew. Thus, government expenditure on settling local contractor bills, funding preparations for the

April 2011 general elections and paying the increase in new salaries may have fuelled further inflationary pressures in the economy.

The Federal Government embarked on stimulus package, financed mainly by borrowing through the issuance of sovereign bonds, resulting in a provisional deficit of about ₦1,105.43 billion or 3.7 per cent of GDP. This phenomenon might have played a key role in the deterioration of inflation outcome in 2010. In the first and second halves of the year, fiscal policy continued to be largely expansionary, (Box 5.1 and Table 5.4).

Box 5.1
CORE INFLATION IN NIGERIA

Core inflation measures the general level of prices in the economy excluding certain items that face volatile price movement, like energy and food from headline inflation. More commonly, core inflation is the structural or underlying inflation in the economy. Like in most other countries, food and energy are more sensitive to price changes than other components of inflation in Nigeria. Natural and environmental factors such as tsunami, earthquake, floods, landslides, drought, and oil spills, often ravage large expanse of cropped land and distort the economic landscape in the country. This creates substantial supply bottlenecks with negative impact on the general price level. In addition, fluctuations in oil prices may create supply shocks which may affect prices of certain commodities or the general price level in the economy. Food and energy prices are often more readily related to temporary shocks which may reverse later when the situation stabilizes. Thus, rising food and energy prices are not necessarily indications of mounting inflationary trend as including them could be distortionary to the trend in the general price levels.

The National Bureau of Statistics has indicated that Nigeria's food and energy supply is often affected by a number of seasonal factors. While agriculture is largely rain-fed, the mostly hydro based electricity supply network depends on large harvests of rainfall to operate optimally. A large portion of the country's fuel consumption is dependent on international oil price movements. However, an existing fuel subsidy absorbs the shocks associated with the vagaries of the international oil price movements from impacting optimally on domestic prices. Thus, while prices of the affected goods may change rapidly, the price distortions may not be related to a trend change in the overall price level in the economy.

By measuring core inflation in Nigeria, we attempt to isolate what is happening to general prices without distractions arising from spikes in volatile food and energy prices. To alter the base of core inflation in the economy requires a substantial transformation of the underlying foundation of economic activity in the country, which will reduce structural bottlenecks to production. Nigeria is in that transformative stage as it tackles its dilapidated power infrastructure through massive investment to improve power generation, storage, distribution and sales.

Box 5.2
Federal Government of Nigeria (FGN) 2010 Amended and Supplementary Budgets (I and II)

Introduction

The 2010 FGN Stimulus Budget was prepared against the background of the global economic and financial crisis. The thrust of the budget was to stabilize the financial system, increase the liquidity of the banking system with a view to stimulating aggregate demand which had been severely constrained by the impact of the crises. Thus, the overall objective of the 2010 budget was to accelerate the pace of economic recovery through targeted fiscal interventions intended to stimulate the economy and support private sector growth. Accordingly, improving critical infrastructure such as power was a key priority of the budget.

The key macroeconomic assumptions of the budget were summarized as follows: Oil production of 2.088mb/d; benchmark oil price of US$60/barrel; joint venture cash calls of US$5.0 billion; average exchange rate of ₦150/US$1; targeted GDP growth rate of 6.1 per cent; and target inflation rate of 11.2 per cent by Government. Based on the stated assumptions, a total retained revenue of ₦3,179.87 billion was projected, of which oil revenue accounted for almost 80.0 per cent. Total spending was estimated at ₦5,159.66 billion of which ₦2,669.01 billion was earmarked as recurrent non-debt expenditure (51.33%), ₦1,764.69 billion for capital expenditure (34.20%) while ₦542.38 billion was earmarked for debt service (10.51%). Consequently, an initial overall budget deficit of 5.32 per cent of GDP was estimated for fiscal 2010 but this was to change after the supplementary I and II budgets were consolidated into the revised budget.

With the two supplementary budgets, the budget deficit increased from ₦1,550.8 billion to ₦2,725.827 billion or 9.37 per cent of GDP. The deficit was to be financed largely by domestic borrowing from the market, amounting to ₦1,346.55 billion, Net FGN Consolidated share of proposed ECA of 2010 (US$2.1 billion), privitization proceeds worth ₦107.21 billion and international bond issuance of ₦75.00 billion. Actual domestic borrowing for deficit financing was ₦1,647.86 billion.

This highly expansionary budget had far reaching implications on monetary management as the borrowing activities of government exerted pressure on domestic interest rates as well as crowd-out private sector borrowing. This precipitated high inflationary tendencies in the economy and constrained the attainment of the single digit inflation objective of the CBN, at end-December 2010.

Fiscal Operations of the FGN in 2010

The review of the 2010 budget and the approval of two supplementary budgets were motivated by the following reasons: The proposed salary increase for civil servants; Nigeria's 50th Anniversary Celebrations; Funds for the Independent National Electoral Commission (INEC) to conduct the 2011 general elections; Government programme for infrastructure provision; and Capital expenditure bunching.

Table 5.4
Fiscal Operations of the FGN in 2010

S/No	2010 Approved Budget	2010 Appropriation (₦'billion)	Approved Amendment (₦'billion)
1	Federally Collected Revenue	₦8,061,352 .0	₦6,999.149
2	FGN Retained Revenue	₦3,086,706.0	₦3,187.7105
3	Total expenditure of the FGN	₦4,637,597.0	₦4,427.185
4	1st Suppl. Appropriation Act 2010		₦644.752
5	2nd Suppl. Appropriation Act 2010		₦87,723
6	Total FGN Budget 2010	₦4,637,507.0	₦5,159.659
7	Primary Deficit/Surplus	(₦1,550,800.0)	(₦1,972.1833)
8	Domestic Borrowing by DMO to finance 2010 deficit	₦917.591	₦1,647.864
10	Deficit Financed by FGN Bonds in 2010		₦1104.2955
11	Other Deficit Financing Sources		₦88.8917

Source: Federal Ministry of Finance (Budget Office of the Federation)

5.5.2 Aggregate Supply Constraints

Supply constraints may also have played a critical role in the upward trend in domestic prices during the review period. Thus, supply gap issues associated with agricultural output; which became apparent due to inclement weather conditions in some parts of the country, may have explained high headline inflation in some months during the review period. In addition, raw material constraints reflected in demand pressure in the foreign exchange market, which impacted negatively on the naira exchange rate. The pass through effect from the exchange rate to inflation had already been empirically determined to be significant for Nigeria. Thus, supply constraints, high imported inflation from rising global food, energy and commodity prices may have combined to increase the upward pressure on domestic prices.

5.5.3 Exchange Rate Developments

.naira/dollar exchange rate remained relatively stable around N150.52/US$, especially in the second half of 2010.

The naira/dollar exchange rate remained relatively stable around ₦150.52/US$, especially in the second half of 2010. The premium between the official and the BDC rates narrowed by ₦3.68 or 2.45 per cent compared with ₦17.94 or 12.11 per cent in the second half of 2009. However, with effect from November 8, 2010, the CBN withdrew the licenses of all Class 'A' BDCs. This withdrawer was designed to enhance the prudent utilization of officially sourced foreign exchange in order to foster growth in the real sector and also to eradicate money laundering, curtail speculative activities and stem gross abuses which characterized the activities of the Class 'A' BDCs. The stable exchange rate of the naira in 2010 impacted positively on the CBN anti-inflation efforts by helping to lock-in exchange rate-induced inflation expectations.

5.6 Rebasing the Consumer Price Index (CPI)

The National Bureau of Statistics (NBS) rebased the CPI from May 2003 to November 2009. The newly rebased CPI was released by the NBS in November 2010. The exercise involved a re-classification and re-assignment of weights to major items in the CPI basket. Consequently, items which had been understated in explaining the domestic consumption pattern in Nigeria but which had over time constituted major recurrent expenditure items were included in the new CPI basket. For instance, food which had been assigned very high weight (637.6) in the basket was assigned new weight (507.03), implying that Nigerians now spend less on food and more on other items like education (39.4 instead of 2.1 in the old), telecommunications (6.8 instead of 1.1 in the old), health (30.0 instead of 13.6 in the old), transport (65.08 instead of 42.4 in the old), energy (167.3 instead of 181.0 in the old), etc (Box 5.5).

The exercise produced a CPI Index that was fundamentally higher in magnitude than the old series. However, the lower weights assigned to the more volatile food and energy items indicated that a smoother inflation rate would emerge over time and that higher food and energy prices may not necessarily result in very high price levels as previously experienced (Box 5.3).

Table 5.5
Revised Weights of the Composite Consumer Price Index

Commodity Group	Composite Weight (Old CPI)	Composite Weight (New CPI)	Difference (New -Old)
Food & non Alcoholic Beverages	644.1	518	-126.1
of which Food	-637.6	-507.03	(-130.57)
Alcoholic Beverages, tobacco & Kola	20.6	10.87	-9.73
Clothing and Footwear	32.1	76.5	44.4
Housing Water, Electricity, Gas & Other fuel	181	167.34	-13.66
Furnishings, Household Equipment & Maintenance	38.2	50.26	12.06
Health	13.6	30.04	16.44
Transport	42.4	65.08	22.68
Communication	1.1	6.8	5.7
Recreation & Culture	8.9	6.91	-1.99
Education	2.1	39.44	37.34
Restaurant & Hotels	12.9	12.12	-0.78
Miscellaneous goods & Service	3	16.63	13.63
Total	1000	1000	-

Source: National Bureau of Statistics (NBS)

Box 5.3
The New Consumer Price Index
(November 2009 = 100)

The National Bureau of Statistics (NBS) in November 2009 rebased the Consumer Price Index (CPI) base year from May 2003 to November 2009. The NBS indicated that the change in base year became necessary in order to adjust the composite weights of the major commodity groups. The new basket contained new products of growing importance in the expenditure profile in line with the changing consumption pattern of Nigerians. Consequently, while hitherto under-valued items such non-food items such as clothing and footwear, furnishings, household equipment and household maintenance, health, transport, communications, and education were assigned new weights commensurate with their degree of importance in the expenditure basket a few items which had ceased to be of strategic importance in the basket were removed.

CHAPTER 6

ECONOMIC OUTLOOK

CHAPTER 6
ECONOMIC OUTLOOK

6.1 Introduction

..pace of recovery in global output in the second half of 2010 was generally slow.....

The pace of recovery in global output growth during the second half of 2010 accelerated though constrained by the knock-on effects of the crisis in the Euro Area sovereign debt markets and problems with bank balance sheets in most industrial countries[1]. The speed of recovery differed across regions, due to differences in initial economic conditions and the policy response by countries. These developments further weakened the recovery and increased the risks in the global financial system.

On the domestic front, the positive effects of the various reforms in the financial sector complemented by supportive fiscal stance evidenced in substantial government expenditure on power sector, enhanced growth prospects at comparatively high levels. Consequently, the economy was expected to sustain the trend and consolidate the gains realized in the near to medium term.

6.2 Global Output

Growth in global output in the second half of 2010 dipped to 4.7 per cent from the 5.0 per cent level in the first half of 2010.

Growth in global output in the second half of 2010 declined to 4.7 per cent from 5.0 per cent recorded in the first half and by 4.5 per cent in the corresponding period of 2009. Following the dominance of risks associated with the sustained sovereign debt crisis in the Euro area, rising food and energy prices and the unstable political environment in the Middle East and North Africa, the global output growth was expected to weaken further to about 4.4 per cent in 2011 (Table 6.1).

Growth in the industrial economies was steady at 2.7 per cent in the second half of 2010 but was expected to decline to about 2.5 per cent in 2011. The projected deceleration in growth was premised on expected continuous adjustments and winding down in some countries of the fiscal and monetary stimuli introduced to contain macroeconomic

[1] *IMF World Economic Outlook (WEO), January 2011*

imbalances arising from the global financial and economic crises.

In the US, real GDP grew at an average of 2.5 per cent in the second half of 2010 and was expected to improve to 3.0 per cent in 2011, buoyed by strong growth in household domestic demand and declining unemployment rate traced to the effect of the fiscal stimulus.

Growth in the emerging and developing economies averaged 7.0 per cent in the second half of 2010 but was projected to decline to an average of 6.5 per cent in 2011, due largely to slack in demand for primary commodities by the emerging market economies in Asia.

During the second half of 2010, growth in the Middle East and North Africa (MENA) as well as Sub-Saharan Africa averaged 3.9 per cent and 5.0 per cent, respectively. However, while growth may dip in the former, if the political tensions arising from high unemployment persisted, in Sub-Saharan Africa, growth was expected to improve to about 5.5 per cent in 2011. Growth in the MENA and the sub-Sahara African countries was expected generally to be influenced by rising commodity prices. For sub-Saharan Africa, an additional pro-growth factor was the sustained rise in domestic demand, especially in Nigeria, Kenya and South Africa.

...outlook for 2011 is that advanced economies, emerging and developing economies.......would move from recovery to sustained growth....

Growth in developing Asia as well as Latin American and Caribbean countries was 9.3 per cent and 5.9 per cent, respectively, during the second half of 2010, but was projected to slow down in 2011 to 8.4 per cent and 4.3 per cent, respectively (Table 6.1). This was attributable to inflationary concerns, withdrawal of stimulus packages and the tightening of fiscal policies.

Overall, the outlook for 2011 suggested that the economies of the industrial, emerging and developing as well as those of sub-Sahara African countries would move from recovery to sustained growth, while the developing Asia and Latin America and Caribbean countries would witness a slowdown in growth.

Global consumer prices moderated significantly in the second half of 2010

6.3 Global Inflation

Global inflation moderated significantly in the second half of 2010, as the risk to inflation was largely subdued. This was attributed to the generally weak consumer demand. For example, inflation in the advanced economies averaged 1.4 per cent in the second half of 2010, and was projected to improve marginally to 1.3 per cent in 2011. Similarly, the US inflation rate of 1.9 per cent in second half of 2010 was projected to decline to 1.6 per cent in 2011. Inflationary pressure in the sub-Sahara African countries was likely to persist, owing to strong domestic demand and exchange rate misalignment.

Table 6.1
World Economic Outlook

	2008	2009	2010	2011
A. World Output				
World Output	2.8	-0.6	5.0	4.4
Advanced Economies	0.2	-3.4	3.0	2.5
USA	0.0	-2.6	2.8	3.0
Euro Area	0.5	-4.1	1.8	1.5
Japan	-1.2	-6.3	4.3	1.6
UK	-0.1	-4.9	1.7	2.0
Canada	0.5	-2.5	2.9	2.3
Other Advanced Economies	1.7	-1.2	5.6	3.8
Emerging & Developing Economies	6.0	2.6	7.1	6.5
Central and Eastern Europe	3.0	-3.6	4.2	3.6
Commonwealth of Independent States	5.3	-6.5	4.2	4.7
Developing Asia	7.7	7.0	9.3	8.4
Latin America and the Caribbean	4.3	-1.8	5.9	4.3
Middle East and North Africa	5.0	1.8	3.9	4.6
Sub-Saharan Africa	5.5	2.8	5.0	5.5
B. Commodity Prices (US' Dollars)				
Oil	36.4	-36.3	27.8	13.4
Non-fuel	7.5	-18.7	23.0	11.0
C. Consumer Prices				
Advanced Economies	3.4	0.1	1.5	1.6
Emerging & Developing Economies	9.2	5.2	6.3	6.0

Sources: World Economic Outlook: Jan. 2011

6.4 Global Commodity and Energy Prices

World crude oil prices averaged US$79.80 per barrel in the second half of 2010, representing a price increase of 4.19 per cent over the average price of US$76.59 per barrel observed in the first half of the year. Oil prices were projected to rise above US$90 in 2011, due largely to strong global demand, sluggish supply response and political crises in the MENA countries.

6.5 Outlook for the Domestic Economy

..outlook for the domestic economy for 2011 looks fairly optimistic ...

The growth outlook for the domestic economy in 2011 was fairly optimistic. The resumption of oil production activities in the Niger Delta, following the successful implementation of the Federal Government Amnesty Programme, the adoption of the Road-map on Power Reforms by the Federal Government and the commencement of operations by the AMCON in 2010 were expected to impact positively on output growth, which according to staff estimates, was projected at 7.4 per cent in 2011. Reforms in the Nigerian Stock Exchange by the Securities and Exchange Commission (SEC), the directive to banks by the CBN to recapitalize by end-2011 and the withdrawal of the universal banking licenses in 2010 were also expected to positively impact on output.

Table 6.2
Outlook for Key Macroeconomic/Monetary Indicators

	2010*	2011**
Inflation	11.8	**12.0**
Real GDP	7.84	**7.40**
M2 Growth (%)	6.70	**13.75**
Income Velocity	2.6	**2.8**
Reserve Money (₦'billion)	1,803.92	**1,936.0**
Credit to Govt. (%)	67.83	**29.29**
Credit to Private Sector (%)	-4.92	**23.34**

2010* Actual, 2011CBN Staff Estimates**
Source: Central Bank of Nigeria

6.5.1 Domestic Output Growth

Data from the National Bureau of Statistics (NBS) indicated that real Gross Domestic Product (GDP) grew by 8.01 per cent in the second half of 2010, up from the 7.55 per cent in the first half of 2010. Overall, GDP grew by 7.85 per cent in 2010 up from 6.96 per cent achieved in 2009. The non-oil sector was expected to remain the main driver of growth in 2011. The implication of slow growth in the US and Euro area economies (due to protracted sovereign debt crisis) and falling domestic aggregate demand in those countries may affect Nigeria's export of crude oil.

6.5.2 Inflation

Inflationary pressures persisted throughout 2010 and the trend would remain within the lower end of double digit in 2011.

Inflationary pressures persisted throughout 2010 and the current forecast suggested that the trend would continue but, remain within the lower double digits in 2011. Liquidity management was expected to be challenging to the monetary authorities, reflecting the impact of election-related expenditure for the April 2011 general elections, the upward review of worker's salary/new minimum wage and the crystallization of the quantitative easing initiatives introduced since 2009. Consequently, monetary policy was expected to be contractionary in order to reign in inflation expectations.

Although rising oil prices may be accompanied by higher oil exports (especially if the crises in the MENA countries persist), high global food, energy and commodity prices may increase the level of imported inflation in the economy. Non-oil exports are generally expected to resume their upward trend beyond the April general elections, leading to higher capital inflows. The rising oil receipts and increased non-oil capital inflows may translate into higher reserve buildup leading to an appreciation of the naira. The appreciation of the exchange rate may tamper the upward trend in domestic prices.

6.6 Lagged Impact of Policy Initiatives

Growth in aggregate demand observed in 2010 was expected to strengthen in 2011 as the impact of the policy initiatives of the previous period fully crystallized. The cleaning of the balance sheets of the DMBs through AMCON operations as well as the expected mergers and acquisitions of some banks would engender the emergence of stronger and more competitive financial institutions with capacity to extend more credit to the private sector. In addition, improvement in power delivery, increased access to finance by the deprived segment of society and the interventions in aviation and manufacturing were expected to further stimulate domestic economic activity. The level of foreign exchange earnings from oil exports may stimulate higher growth than projected for 2011.

6.7 The Financial Markets

6.7.1 The Capital Market

The capital market witnessed increased activities in second half of 2010......

The capital market witnessed increased activities in the second half of 2010, with the listing of Dangote Cement Company and Unity Bank shares on the floor of the Nigerian Stock Exchange. This resulted in disproportionate movements in Market Capitalization and All Share Index when compared with the performance in the first half of the year. With the reform measures introduced by the SEC and the purchase of the non-performing loans of the DMBs by AMCON, the upward movement in major market indices was expected to accelerate in 2011.

With the expected improvement in power supply in 2011, a number of companies were likely to resort to the capital market to raise funds through the issuance of corporate bonds. These actions were expected to deepen the market and heighten the tempo of activities in both the capital market and the banking sector.

6.7.2 The Foreign Exchange Market

The foreign exchange market witnessed sustained pressure especially towards the end of the second half of 2010

The foreign exchange market witnessed sustained demand pressure, especially towards the end of the second half of 2010, resulting in the depreciation of the naira in all segments of the market. The surge in demand experienced in the market was related to the financing of the importation of petroleum products and other consumables in preparation for the Christmas and New Year festivities. It was projected that sustained high international oil prices would result in external reserves buildup in 2011.

6.7.3 The Money Market

Money market interest rate stabilized at the low end throughout the second half of 2010

Money market interest rates crashed and stabilized at the low end up to the third quarter of 2010 before assuming a modest upward movement in the fourth quarter. The relative interest rate stability was attributable to the de-risking of the market through the CBN guarantee of interbank placements, and the injection of liquidity by the Bank to support selected sectors of the economy.

The various reforms by the CBN to make the banking sector more resilient and promote good corporate governance in the industry as well as the take-off of AMCON in the last quarter of 2010 would sustain lending to the real sector and stabilize short term interest rates in 2011.

However, the expected withdrawal of CBN guarantee of foreign credit lines and interbank money market transactions in June 2011 was expected to raise short term interest rates, at least in the short to medium term. It was however, reassuring that the successful issuance and oversubscription of the US$500.0 million FGN Euro bond facility represented a strong indication of the confidence of international investors in Nigeria's macroeconomic management.

6.8 The Monetary Sector

The primary goal of monetary policy in 2011 would remain the maintenance of price and financial sector stability. Bank lending to the real sector was expected to rebound, leading to increased production activity while growth of major monetary aggregates would exceed their levels in 2010. The actions of the monetary authorities in 2010 were to ensure a balance between the goals of banking system liquidity and maintenance of price stability. However, Monetary policy would focus on curbing inflationary threats in 2011, arising from expected high aggregate demand.

Lending to the real sector is expected to rebound, leading to increase in economic activities.......

In general, credit to government was estimated to drop by 38.54 percentage points in 2011 from its level of 67.83 per cent in 2010. On the other hand, credit to the private sector was expected to increase by 28.26 percentage points from -4.92 per cent in 2010. Thus, broad money (M2) was estimated to grow by about 13.75 per cent over its level in 2010. Income velocity is expected to rise by 0.2 percentage point over its level in 2010 to 2.8 per cent. Overall, outlook for the domestic economy looked largely optimistic and growth prospect for 2011 was high.

APPENDICES

Communiqué of the Monetary Policy Committee (July – December 2010)

Appendix 1

COMMUNIQUE OF THE MONETARY POLICY COMMITTEE MEETING NO. 71, 5TH July 2010

The Monetary Policy Committee (MPC) met on 5th July, 2010 to review domestic economic conditions during the first half of 2010 and the challenges facing the Nigerian economy against the backdrop of developments in the international economic and financial environments in order to reassess the options for monetary policy for the remainder of the year.

On the global scene, the Committee noted that market anxiety over the fiscal positions of several Euro Area countries was posing new challenges for the world economy even as global economic recovery remained fragile. In order to address the weak fiscal position, governments in these countries have started unwinding the fiscal stimuli by cutting government spending. Such cuts in public spending may have serious implications for growth and employment and may lead to a double dip recession with possible contagion effects on the global economy. If this were to happen, there may be an impact on global commodity prices, including prices of oil, with knock-on effects on the government's fiscal position and the foreign sector.

However, recovery remained robust in most developing and developed countries, with the exception of high-income European countries where it stagnated. In this regard, the Committee commended the recent commitment of the G-20 Summit in Toronto, Canada, which agreed to safeguard and strengthen the recovery process to lay the foundation for strong, sustainable and balanced growth, as well as strengthen the financial systems against risks. The G-20 leaders of the world's major industrialized and emerging market economies welcomed measures so far taken to sustain global recovery and strengthen the financial systems, while agreeing to work together to curb public deficits, enhance economic growth and job creation as well as global prosperity. The Committee believes that the decision of the G-20 Summit would refocus and galvanize global strategies towards the recovery process.

On the domestic scene, the MPC observed that financial markets, though still fragile, have recovered faster than expected, urging greater efforts in accelerating reforms in the other sectors of the economy. This is critical for economic growth. The MPC also noted the sustained rebound in commodity prices which is helping to support growth in commodity producing regions, including Nigeria. However, it underscored the need to diversify the economy to protect the country from the vagaries of oil price volatility. The Committee believes that the inflation risk of the rebound in energy prices appears mitigated by the continuing low levels of capacity utilization, weak private demand, good harvest, and well-anchored inflation expectations. In addition, as mentioned above, the European fiscal crisis and the recent slowdown in manufacturing output in China and other Asian countries may moderate the robustness of the markets.

Key Domestic Macroeconomic and Financial Developments

Output and Prices:

The Committee observed that the impressive output growth recorded in 2009 continued in 2010. Provisional data from the National Bureau of Statistics (NBS) indicates that real Gross Domestic Product (GDP) grew by 7.23 per cent in the first quarter of 2010 up from 4.50 per cent recorded in the first quarter of 2009. GDP was projected to grow by 7.68, 7.76 and 8.13 per cent in the second, third and fourth quarters of 2010, respectively. Overall GDP growth for 2010 is projected at 7.74 per cent which is higher than the revised figure of 6.66 per cent recorded in 2009. The non-oil sector is expected to remain the main driver of overall growth, with agriculture, wholesale and retail trade, and services contributing 2.49, 2.03 and 2.11 per cent, respectively. The Committee believes that the impressive growth forecasts reflected prospects for moderate rainfall in 2010, which is expected to support the production of major crops across the country, coupled with the current peace in the Niger-Delta, which has led to an increase in crude oil and natural gas production. It, however, cautioned that there is a thick cloud hanging over commodity producing countries because of the current crisis facing the Euro Area and emerging slowdown in manufacturing in major Asian countries and the US as indicated above.

In addition, the Committee highlighted the binding constraints on the domestic economy namely; infrastructure inadequacy, lack of access to finance, lack of requisite skills, unfavourable trade policy and a poor investment climate all of which have the potential to constrain economic growth. The MPC, therefore, stressed the need for government to pursue macroeconomic, structural and institutional reforms that appear to have slowed down in the past few years.

The year-on-year headline inflation declined to 11.0 per cent in May 2010 from 12.5 per cent in April and 11.8 per cent in March. Similarly, core inflation fell to 8.8

per cent in May 2010 from 9.8 per cent in April and 9.5 per cent in March. The downward trend in the domestic price level could be attributed to a number of factors, including the continuing underperformance of monetary aggregates, with the associated constrained demand, adequate food supply, stable exchange rates and improvement in the availability of petroleum products, amongst others. Notwithstanding these developments, the MPC reiterated its earlier position on the threat of inflationary pressure arising from several factors including the announcement effect of salary increase in the civil service and the rising food prices against the backdrop of the famine in neighboring Niger Republic. The Committee restated its commitment to continue to monitor price developments with a view to taking appropriate measures to stem any inflationary threat and ensure that the downside risk of inflation to growth is minimized.

Monetary, Credit and Financial Market Developments: Provisional data showed that relative to end-December 2009, broad money (M2) declined by 0.2 per cent in May 2010, which, when annualized represented a contraction of 0.48 per cent, compared with the indicative growth target of 29.26 per cent for 2010. Reserve money (RM), which stood at 1,668.50 billion at end-December 2009, declined to ₦1,516.55 billion at end-April and ₦1,534.79 billion at end-May 2010. As at June 23, 2010, the RM level of ₦1,618.02 billion was below the provisional 2010 second quarter indicative benchmark of ₦1,872.80 billion by 13.6 per cent.

Available data showed that in May 2010, aggregate domestic credit (net) grew by 12.38 per cent over the December 2009 level, and by 29.72 per cent when annualized, which was still below the 2010 indicative target of 55.54 per cent. Credit to government (net), which grew substantially by 50.87 per cent over end-December 2009 (or 122.1 per cent on annualized basis), was the major contributor. Credit to the private sector declined by 1.88 per cent (or 4.51 per cent on annualized basis), in contrast to the growth benchmark of 31.54 per cent for 2010. The substantial growth of credit to government (net) against the backdrop of declining private sector credit reflected the risk aversion of the DMBs to lending to non-government borrowers.

The Committee believes that in order to provide the private sector with the necessary credit to grow the economy, further efforts are needed to unlock the credit market in order to enhance the flow of credit to the real economy. The rates at the inter-bank segments of the money market were much higher than what obtained in the preceding period owing to the short-lived tight liquidity conditions in May 2010. Consequently, in May 2010, the average inter-bank call and Open-Buy-Back (OBB) rates rose significantly to 5.97 and 4.92 per cent, respectively, representing increases of 470 and 381 basis points above the 1.27 and 1.11 per cent recorded in the preceding month. In line with the increase in rates at the inter-bank call and OBB segments, the 7- and 30- day NIBOR rates increased by 397 and 311 basis points to 6.43 and 8.24 per cent, respectively, from 2.46 and 5.13 per cent in April. However, with the release of statutory revenue in the last week of May, the banking system became liquid.

As a result, the average inter-bank call and OBB rates declined from 7.71 and 7.07 per cent, respectively on May 25, 2010 to 1.17 and 1.10 per cent on June 1, 2010. Thereafter, rates remained stable and low, hovering around an average of 1.20 per cent. Developments in interest rates structure indicated that the retail lending rates were still relatively high even though they were declining. The average maximum lending rate dropped to 22.56 per cent in May 2010, from 23.45 percent in December, 2009. Also, the average prime lending rate dropped to 18.77 per cent in May 2010, from 19.03 per cent in December 2009.

Similarly, the weighted average savings rate dropped marginally to 2.92 per cent in May 2010 from 3.36 per cent in December 2009. The consolidated deposit rates declined to 3.30 per cent in May 2010 from 6.13 per cent in December 2009. Thus, the spread between the average maximum lending rate and the consolidated deposit rate widened to 19.27 per cent in May 2010 from 17.34 per cent in December, 2009. The Committee noted that the key policy challenges remained the negative growth in money supply and private sector credit as well as the subsisting high lending rates in the face of declining inter-bank rates.

The Nigerian capital market is still showing some signs of recovery. The All-Share Index (ASI) increased from 20,827.17 at end-December 2009 to 25,554.35 as at 23rd June, 2010, or by 20.70 per cent. Market capitalization (MC)—equities only, increased by 24.9 per cent from ₦4.98 trillion to ₦6.28 trillion over the same period. The number of deals, volume and value of shares traded increased by 16.34, 19.23 and 100.00 per cent, respectively. The increase in ASI and MC was principally due to share price increases in the Banking, Food & Beverage and Oil/Gas sectors. The Committee welcomed the continuing improvement in the stock market, and noted the potentials for further recovery given the passage of the harmonized Asset Management Corporation (AMCON) Bill by both chambers of the National Assembly.

External Sector Developments:

The foreign exchange market remained relatively stable in the first half the year. During the period- January 01 - June 16, 2010, total sales at 45 bi-weekly wDAS auctions amounted to US$11,155.10 million, equivalent to an average of

US$247.89 million per auction. In the corresponding period of 2009, the sum of US$12,995.48 million was sold at 70 daily and bi-weekly RDAS auctions, equivalent to an average of US$185.65 million per auction. In May 2010, the average foreign exchange demand of US$459.26 million per auction was recorded against the average sales of US$394.45 million, representing sales as a 6 percentage of demand of 85.89.

As at June 23, 2010 average demand for the month dropped to US$315.73 million and, correspondingly, the average sales also declined, to US$297.69 million, representing sales as a percentage of demand of 94.29 In June 2010, the wDAS rate opened at ₦150.27US$1 (inclusive of 1% commission) and closed at ₦150.09/US$1, at an average exchange rate of ₦150.24/US$1 for the month. This represented an appreciation of 6 kobo (0.04 per cent) compared with the average closing rate of ₦150.30/US$1 recorded in May 2010. The BDC segment of the market recorded average selling rates of ₦153.26/US$1 and ₦153.86/US$1 in the months of May and June 2010 respectively, representing a depreciation of 0.4 per cent. At the inter-bank market, the average selling rates for May and June 2010 were ₦151.48/US$ and ₦151.35 respectively, representing a 0.09 per cent appreciation.

The wDAS and interbank segments of the foreign exchange market witnessed mild naira exchange rate appreciation while the BDC segment experienced mild depreciation. Thus, the stability of the naira exchange rate attained in the foreign exchange market since the first half of 2009 continued in the first half of 2010. The Committee observed that the naira exchange rate has remained stable in all segments of the market during the review period, reflecting increased confidence in the Naira and the efficacy of the current exchange rate policy stance. It believes that the relative stability in the foreign exchange market is likely to be sustained in the near term. The Committee will, however, continue to monitor developments in the market to ensure that measures are taken to eliminate speculative demand and volatility in the market. The Gross external reserves stood at US$37.63 billion on 23rd June, 2010 representing a decrease of US$1.19 billion or 3.06 per cent when compared with the level of US$38.82 billion as at 31st May 2010. The Committee, however, noted that the current external reserves level is still adequate as it would finance 16 months of import, compared to the internationally recommended benchmark of 3 months of import cover for a country's external reserves.

The Committee's Considerations Against the backdrop of the foregoing, the MPC noted with satisfaction the continued macroeconomic stability. It, however, stressed the need to grow the real sector on a sustainable basis. It also reiterated the possible inflation risks highlighted at the last MPC meeting, in the light of the anticipated budget deficit and the operationalisation of the proposed Asset Management Corporation. However, monetary aggregates are still underperforming and the Asset Management Corporation is yet to take-off. On balance, therefore, the inflation threat remained subdued in the short to medium term. In addition, some of the approved quantitative easing measures are yet to be completely implemented.

The Committee, therefore, considered it appropriate to continue to monitor developments with a view to intervening as the need arises. Decisions In the light of the above, the Committee decided that: No changes are made to the current policy stance viz: the MPR should remain unchanged at 6.0 per cent; and
2. The asymmetric corridor of 200 basis points above and 500 basis points below the MPR, respectively, are to be retained.

Sanusi Lamido Sanusi *(CON)*
Governor, Central Bank of Nigeria
Abuja
July 5, 2010

Appendix 2
COMMUNIQUE OF THE MONETARY POLICY COMMITTEE MEETING NO. 72, 21ST September 2010

The Monetary Policy Committee (MPC) met on 21st September, 2010 to review domestic economic conditions during the first eight months of 2010 and the challenges facing the Nigerian economy against the backdrop of developments in the international economic and financial environments in order to reassess the options for monetary policy for the rest of the year.

On the global scene, the Committee noted that there had been a marked softening of the global economic recovery, with developments in the US and China giving cause for concern. While the US economy declined in the third quarter, reflecting the renewed deterioration in the housing market and the lackluster labor market performance with private sector job creation still weak, China's massive official stimulus packages, estimated at 14 per cent of GDP and focused on infrastructure and housing, did not only boost aggregate demand but also fed into a property bubble which the government is battling to contain. As a result, growth in China, which overtook that of Japan in the second quarter of 2010 to making the former, the world's second-largest economy, is now declining. In the Euro Zone, a degree of calmness had returned to the debt market following the approval of a €750 billion (US$925 billion) European Financial Stability Facility (EFSF).

However, fresh concerns have emerged regarding the high risk aversion in the market, as reflected in the widening of spreads between German bonds and those of weaker peripheral countries, such as Greece, Ireland and Portugal. In addition, many of the region's banks remained fragile and vulnerable to funding constraints due to their dependence on the wholesale markets. However, Greece whose fiscal problems ignited the Eurozone crisis continues to make better than expected progress in fiscal reforms. Notwithstanding the recent weakening of growth globally, the possibility of a double-dip recession is not very likely. The softening of growth could be seen as a natural adjustment from a period of unsustainably rapid stimulus-driven activity from mid-2009, to a slowing phase of consolidation.

On the domestic front, the MPC noted the relative stability achieved in the financial markets, while urging greater efforts in accelerating reforms in the other sectors of the economy, to attain self-sustaining growth. The MPC welcomed the continuing rebound in commodity prices which is helping to support growth in commodity producing regions, including Nigeria, but reiterated the need to diversify the economy to protect the country from the vagaries of oil price volatility. The Committee believes that the inflation risk of the rebound in energy prices appears mitigated by the continuing weak private demand, good harvest, and well-anchored inflation expectations.

Key Domestic Macroeconomic and Financial Developments

Output and Prices

The Committee observed that the impressive output growth recorded in 2009 continued in 2010. Provisional data from the National Bureau of Statistics (NBS) indicates that real Gross Domestic Product (GDP) grew by 7.69 per cent in the second quarter of 2010 up from 7.36 per cent recorded in the first quarter. GDP has been projected to grow by 7.72 and 8.19 per cent in the third and fourth quarters of 2010, respectively. Overall GDP growth for 2010 is projected at 7.78 per cent which is higher than the 6.96 per cent recorded in 2009.

The non-oil sector is expected to remain the main driver of overall growth, with agriculture, wholesale and retail trade, and services contributing 2.40, 2.04 and 2.08 per cent, respectively. The Committee believes that the impressive growth forecasts reflect prospects for continuing favourable rainfall in the remaining months of the rainy season to support the production of major crops across the country, coupled with the current peace in the Niger-Delta, which has boosted crude oil and natural gas production. Crude oil prices are expected to remain fairly stable at their current levels in the international market following the slow but steady economic recovery being recorded in most advanced economies.

The MPC, however, cautioned that the projected slowdown in economic activity in some major advanced economies, including the US and emerging Asia poses a clear threat to the economies of commodity-producing countries like Nigeria. While urging greater efforts at diversifying the economy, the Committee stressed the need for policy reforms to address the binding growth constraints on the domestic economy, especially, infrastructural inadequacy. The MPC welcomes the recent revision and rebasing of the Consumer Price Index (CPI) by the National Bureau of Statistics (NBS) to reflect the current structure of consumption in the economy.

Based on the revised and rebased CPI, the year-on-year headline inflation rose to 13.7 per cent in August 2010 from 13.0 per cent in July 2010. Similarly, core inflation increased to 12.4 per cent in August from 11.3 per cent in July 2010. Food inflation also trended upward tom15.1 per cent from 14.0 per cent in July 2010. The upward trend in the domestic price level could be attributed to the late commencement of rains in some food producing regions in the northern part of the country, which may have affected the production/supply of some staple food items, while some non-food components of the new CPI basket also recorded price increases.

The MPC reiterated its earlier position on the threat of inflationary pressure arising from several other factors including implementation of the new salary structure in the civil service, expected fiscal injections arising from electioneering expenses and the injections relating to AMCON purchase of non-performing loans of DMBs, spillover effects of the rising food prices from famine in neighboring Niger Republic and floods in Asia, deregulation of energy prices as well as the expected increase in household-spending toward year-end festivities.

The Committee supports the deregulation policy of the Federal Government but would, continue to monitor price developments with a view to taking appropriate policy measures to stem any inflationary threat and ensure that the upside risk of inflation to growth is minimized. Monetary, Credit and Financial Market Developments: Provisional data showed that relative to end-December 2009, broad money (M2) grew by 7.0 per cent in August 2010, which, when annualized represented a growth of 10.50 per cent. Reserve money (RM), which stood at ₦1,653.86 billion at end-December 2009, fluctuated downward and by September 13, 2010, stood at ₦1,407.51 billion.

Available data showed that in August 2010, aggregate domestic credit (net) grew by 18.0 per cent over the December 2009 level, and by 27.0 per cent when annualized. Credit to government (net), which grew substantially by 65.81 per cent over end-December 2009 (or 98.72 per cent on annualized basis), was the major contributor. Credit to the private sector, on the other hand, declined by 0.91 per cent (or 1.37 per cent on an annualized basis). The Committee believes that in order to provide the private sector with the necessary credit to grow the economy, further efforts were needed to restore confidence to the credit market and to unlock the flow of credit to the real economy.

In general, monetary aggregates are growing but remain below indicative benchmarks for the year. The rates at the interbank segment of the money market remained stable and low, owing to the prevailing banking system liquidity and the de-risking of the market through the CBN guarantee of the interbank transactions. Consequently, in August 2010, the average inter-bank call and open-buy-back (OBB) rates fell significantly to 1.26 and 1.25 per cent, respectively, representing decreases of 233 and 195 basis points from the 3.59 and 3.20 per cent recorded in the preceding month. In line with the decrease in rates at the inter-bank call and OBB segments, the 7- and 30- day NIBOR rates decreased by 62 and 196 basis points to 3.85 and 4.55 per cent, respectively, from 4.47 and 6.51 per cent in July.

As at September, 17, 2010, inter-bank call and OBB rates increased averaging 3.56 and 2.91 per cent, respectively. Developments in retail market interest rates indicated that the retail lending rates were still relatively high. The average maximum lending rate rose to 22.31 per cent in August 2010 from 22.27 per cent in July. However, the average prime lending rate declined to 16.89 per cent in August 2010, from 17.40 per cent in July. The weighted average savings rate dropped to 1.41 per cent in August 2010 from 1.62 per cent in July. The consolidated deposit rates declined to 2.27 per cent in August 2010 from 2.40 per cent in July. Thus, the spread between the average maximum lending rate and the consolidated deposit rate rose marginally to 20.04 per cent in August 2010 from 19.87 per cent in July.

The Committee noted that the key policy challenges remained the continuing sub-optimal growth in money supply coupled with the negative growth in private sector credit as well as the subsisting high retail lending rates in the face of substantially low wholesale inter-bank and retail deposit rates. The Nigerian capital market, which was showing signs of recovery, recently turned bearish. The All-Share Index (ASI) decreased from 25,384.14 at end-June 2010 to 22,993.77 as at 17th September, 2010, or by 9.4 per cent. Market capitalization (MC) - equities only, decreased by 8.7 per cent from ₦6.17 trillion to ₦5.63 trillion over the same period. The number of deals, volume and value of shares traded decreased by 4.6, 14.8 and 6.1 per cent, respectively.

The decrease in ASI and MC was principally due to the share price decreases in the Banking, Food & Beverage, insurance and Oil/Gas sectors. The Committee believes that an early resolution of the leadership impasse at the NSE and effective take-off of the Asset Management Corporation (AMCON) would facilitate the return of the stock market to the path of recovery.

External Sector Developments

The foreign exchange market remained relatively stable over the review period. The total foreign exchange inflow in July 2010 was US$2.25 billion, representing an increase of US$0.19 billion or 9.22 per cent over the US$2.06 billion recorded in the preceding month. Of this inflow, crude oil/gas revenue was US$2.16 billion or 93.97 per cent while other inflows represented the balance of US$0.09 billion or 6.03 per cent. Total outflows or payment in July 2010 amounted to US$4.03 billion, representing an increase of US$0.15 billion or 3.78 per cent above the US$3.88

billion recorded in the preceding month. Consequently, the net outflow during the review period was US$1.78 billion.

Inflows from autonomous sources for the months of July and August 2010 were US$5.3 billion and US$4.7 billion, respectively. Over the period January to August 2010, total foreign exchange inflows to the market amounted to US$ 52.00 billion comprising funds from the CBN amounting to US$14.09 billion or 27.1 percent, while the balance of US$37.91 billion (or 72.91 percent) came from autonomous foreign exchange sources such as oil companies, international institutions and home remittances.

The Committee noted with satisfaction that the autonomous inflows had helped in moderating demand pressure for foreign exchange in the wDAS segment of the foreign exchange market. Thus, the autonomous inflows continue to augment the official inflow to ensure steady supply of foreign exchange to the market. In August 2010, the wDAS rate opened at ₦150.01/US$1 (inclusive of 1% commission) and closed at ₦150.78/US$1, at an average exchange rate of ₦150.27/US$1 for the month. This represented a depreciation of 17 kobo (0.11 per cent) when compared with the average closing rate of ₦150.10/US$1 recorded in July 2010. As at 17th September, 2010 the exchange rate depreciated by 18k to ₦150.96/US$1 (plus 1% commission) from ₦150.78/US$1 recorded on August 31, 2010.

The BDC segment of the market recorded average selling rates of ₦152.23/US$1 and ₦152.41/US$1 in the months of August and July 2010 respectively, representing an appreciation of 0.11 per cent. At the inter-bank market, the average selling rates for August and July 2010 were ₦150.70/US$ and ₦150.27/US$ respectively, and represented a 0.3 per cent depreciation. As at September 17, 2010 the interbank and BDC rates were ₦152.05/US$1 and ₦153.50/US$1 respectively.

The wDAS, interbank and BDC segments of the foreign exchange market witnessed mild naira exchange rate depreciation. Thus, the stability of the naira exchange rate attained in the foreign exchange market since the first half of 2009 continued into the third quarter of 2010. The Committee observed that the naira exchange rate had remained stable in all segments of the market during the review period, reflecting increased confidence and the efficacy of the current exchange rate policy stance. The MPC believes that the relative stability in the foreign exchange market was likely to be sustained in the near term. The Committee would continue to monitor developments in the market to ensure that measures are taken to eliminate speculative demand and exchange rate volatility.

The gross external reserves stood at US$36.636 billion on 13th September, 2010 and represented a decrease of US$0.50 billion or 1.3 per cent when compared with the level of US$37.16 billion as at end-July 2010. The Committee, however, noted that the current external reserves level is still adequate and is expected to remain robust in view of the favorable outlook for oil price and output. Consequently, there is no compelling reason to alter the existing exchange rate regime stability will remain a priority.

The Committee's Considerations

The Committee, after a review of the domestic and international financial and economic developments, noted with satisfaction the sustained macroeconomic stability and welcomed the explicit commitment of the federal government to resume implementation of power sector reforms in line with the committee's recommendations at prior meeting. The Committee, however, sounded a note of caution on the possibility of inflationary build up arising from several other sources as has been highlighted earlier.

The Committee noted that the resumption of growth in M2 is a welcome development, as it has reversed the stagnation recorded from January through June 2010. The Committee also observed the gradual restoration of financial stability and anticipated repair of banks' balance sheets when the Asset Management Corporation of Nigeria becomes operational. In view of the foregoing the MPC underscored the importance of balancing the inflation risk with financial sector stability objective.

The MPC observed that the large demand for foreign exchange noticed during the review period resulted from among others, remittance of dividends by some companies and enhanced importation of refined petroleum products due to the Federal Government sovereign debt instruments. Thus there was no evidence of speculative demand or capital flight observed in the foreign exchange market. The Committee noted the federal government's efforts to raise funds from the domestic capital market to execute vital infrastructural projects and urged for continuous coordination of monetary and fiscal policy as well as underscored the need for fiscal consolidation so as to ensure macroeconomic stability.

The Committee commended the commitment of the Federal Ministry of Finance/Securities and Exchange Commission to the reforms in the capital market and efforts to get the oil/gas and telecommunication companies listed on the Exchange. The MPC further observed that the declining share of the banking sector in market capitalization is a positive development, which is good for rebalancing the market to reduce the overwhelming influence of the banking sub-sector. The MPC commended the government for resuming the power sector reforms and its decision to fast track them, which it believes will impact positively on the cost structure of the economy.

Furthermore, the MPC commended and endorsed the CBN discussion with PENCOM aimed at realizing part of the accumulated pension funds to finance power sector projects on a long term basis. It noted that this initiative will assist in shielding the power sector funding from the vagaries of the volatility of the international capital market, and exchange and interest rate risks.

Conclusion

Having considered the above factors, the Committee considered it imperative to commence policy actions aimed at moderating the inflationary pressures in the economy, particularly given the outlook for government spending in an election year and the liquidity implications of the purchase of non-performing loans (NPLs) by AMCON. The Committee is satisfied that sufficient progress has been made in banking sector reforms to mitigate the risk of moderate tightening in financial institutions.

Decisions

In the light of the above, the MPC took the following decisions:

1. The Resumption of active Open Market Operations for the purpose of targeted liquidity management;
2. An increase in MPR by 25 basis points from 6.0 to 6.25 per cent ; and
3. Adjustment of asymmetric corridor to 200 basis points above and 300 basis points below the MPR for the Standing Lending Facility and Standing Deposit, respectively. This effectively increases interest payable on standing deposits with the CBN by 225 basis points forthwith.

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September 21, 2010

Appendix 3
COMMUNIQUE OF THE MONETARY POLICY COMMITTEE MEETING NO. 73, 23rd November 2010

The Monetary Policy Committee (MPC) met on 22nd and 23rd November, 2010 to review domestic and international economic and financial conditions in order to reassess the options for monetary policy for the rest of the year and beyond.

On the global scene, the Committee noted with concern the continued slowdown in global economic recovery, especially in the US against the backdrop of the huge US trade deficit, requiring both domestic and external rebalancing of demand.

On the domestic front, the MPC noted the high economic growth rate and the progress made towards restoring stability in the banking sector. It, however, observed with concern the continued high inflation rate and reiterated the urgent need for fiscal consolidation and the continuation of comprehensive economic and structural reforms to remove supply-side bottlenecks.

Key Domestic Macroeconomic and Financial Developments
Output and Prices:

The Committee observed the sustained impressive output growth recorded thus far in 2010. Provisional data from the National Bureau of Statistics (NBS) indicates that real Gross Domestic Product (GDP) is estimated to grow by 8.29 per cent in the fourth quarter of 2010, up from 7.86 per cent recorded in the third quarter. Overall GDP growth for 2010 is projected at 7.85 per cent compared with 6.96 per cent recorded in 2009. The non-oil sector remained the main driver of overall growth. The Committee, however, cautioned that the recent slowdown in economic activity in some major advanced economies could have adverse effects on commodity-producing economies like Nigeria, notwithstanding the expected high crude oil prices in the international markets.

While urging greater efforts at diversifying the economy, the Committee stressed the need for policy reforms to address the binding growth constraints on the domestic economy, especially, infrastructural inadequacy. The Committee noted with satisfaction the progress made thus far on the power sector front, but stressed the need for renewed focus on the petroleum and agricultural policy sectors. The continued dependence of the country on imported food and energy, which is totally avoidable, is one of the main sources of erosion of our foreign reserves. The year-on-year headline inflation (rebased) stood at 13.4 per cent in October 2010 relative to 13.6 per cent in September 2010. Food inflation was 14.1 per cent in October, down from 14.6 per cent in September. However, core inflation rose to 13.2 per cent in October from 12.8 per cent in September.

The persistence of high inflation remains a major challenge, when viewed against the relatively good harvests, improved supply of petroleum products and weak expansion of credit to the private sector. This reality further underscored the need for addressing supply-side constraints in the medium to long term, and the urgent need to restrain debt-financed government spending in the short term. The MPC reiterated its earlier position on the threat of inflationary pressure arising from high inflation expectations, calling for stronger fiscal prudence to support the monetary policy stance. This is particularly critical for improving the dynamics of policy coordination. Nevertheless, the Committee would continue to monitor price developments with a view to taking appropriate policy measures to stem any inflation threat and ensure that the upside risk to growth is minimized.

Monetary, Credit and Financial Market Developments:
Provisional data showed that relative to end-December 2009, broad money (M2) grew by 4.25 per cent in October 2010, which, when annualized represented a growth of 5.10 per cent. Reserve money (RM), which stood at ₦1,653.86 billion at end-December 2009, fluctuated downward and by November 15, 2010, stood at ₦1,4449.95 billion. Available data showed that in October 2010, aggregate domestic credit (net) grew by 19.69 per cent over the December 2009 level, and by 23.63 per cent when annualized. Credit to government (net), which grew substantially by 53.35 percent over end-December 2009 (or 64.02 per cent on annualized basis), was the major source of expansion in aggregate credit.

Credit to the private sector, grew marginally by 3.22 per cent (or 3.86 per cent on an annualized basis). In general, the growth in monetary and credit aggregates remained below the long term trends. The interest rates at the interbank segment of the money market responded to the increase in the Monetary Policy Rate (MPR) effected at the last meeting of the MPC in September in line with policy expectation. Consequently, in October 2010, the average inter-bank call and open-buy-back (OBB) rates rose significantly to 8.45 and 7.53 per cent, respectively, representing increases of 526 and 461 basis points from the 3.19 and 2.92 per cent recorded in the preceding month.

Developments in market interest rates indicated that the retail lending rates were still relatively high. The average maximum lending rate moderated slightly to 21.85 per cent in October from 22.20 per cent in September while the average prime lending rate stabilized at 16.66 per cent. The weighted average savings deposit rate remained relatively stable while the consolidated deposit rates increased to

2.31 per cent in October from 2.07 per cent in September. Thus, the spread between the maximum lending rate and the consolidated deposit rate narrowed marginally to 19.54 per cent in October from 20.14 per cent in September. The domestic capital market continued to show some signs of recovery.

The All- Share Index (ASI) increased from 23,050.59 at end-September to 25,301.34 as at 15th November, 2010, or by 9.8 per cent. Market capitalization (MC) - equities only, increased by 43.1 per cent from ₦5.65 trillion to N8.08 trillion over the same period. The number of deals increased by 21.6 per cent, while the volume and value of shares traded decreased by 38.5 and 62.7 per cent, respectively. The increase in ASI and MC was principally due to the share price increases in the Banking, Food & Beverage, insurance and Oil/Gas sectors, and new and supplementary listings of shares on the exchange. The Committee believes that the effective take-off of the Asset Management Corporation (AMCON) and progress made on resolution of the banking system crisis have been major contributions to this improvement in sentiment.

External Sector Developments

The foreign exchange market remained relatively stable. The total foreignexchange inflow in October was US$2.38 billion, representing a decrease of US$0.32 billion or 11.85 per cent below the US$2.70 billion recorded in the preceding month. Total outflows or payments in October amounted to US$3.46 billion, a decrease of US$1.62 billion or 31.89 per cent compared with US$5.08 billion recorded in the preceding month. Consequently, the net outflow during this period was US$1.09 billion. Inflows from autonomous sources in October were US$10.43 billion compared with US$7.55 billion in September. Cumulatively from January-October 2010, total foreign exchange inflows to the market amounted to US$ 88.32 billion comprising funds from the CBN (US$21.15 billion) and from autonomous sources such as oil companies, international institutions and home remittances (US$67.17 billion).

The Committee noted with satisfaction the complementary role of autonomous inflows in moderating demand pressure in the foreign exchange market. In October, the wDAS average closing rate was ₦151.25/US$ compared with ₦151.07/US$ recorded in September, representing a depreciation of 18 Kobo (0.12 per cent). On November 15, 2010, the wDAS exchange rate was ₦150.29/US$ compared with ₦151.25/US$ for October, representing an appreciation of 96 kobo (0.64 per cent).

At the interbank segment, the average buying and selling rates for October, were ₦151.68/US$ and ₦151.78/US$, compared with ₦152.51/US$ and ₦152.61/US$

respectively recorded in September, representing an appreciation of 83 kobo (or 0.54 percent). On November 15, 2010 the corresponding rates were ₦150.65/US$ and ₦150.75/US$ as against ₦151.68/US$ and ₦151.78/US$, in October, registering an appreciation of 103 kobo (or 0.68 per cent) At the BDC segment, the average buying and selling rates in October were ₦151.98/US$ and ₦153.98/US$ respectively, compared with ₦152.30/US$ and ₦153.80/US$ in September. The buying rate represented an appreciation of 32 kobo (0.21per cent) while selling rate represented a depreciation of 18 kobo (or 0.12 percent). The buying and selling rates on November 15 were ₦151.50/ US $ and ₦153.50/ US$ compared with ₦151.98/US$ and ₦153.98/US$ for October, represented an appreciation of 48 kobo (or 0.31 per cent). Thus, the stability of the naira exchange rate since the first half of 2009 continued into 2010.

The MPC believes that the relative stability in the foreign exchange market is likely to be sustained in the near term. The Committee would continue to monitor developments in the market to ensure that measures are taken to eliminate speculative demand and exchange rate volatility. The gross external reserves stood at US$34.27 billion on 15th November, 2010 compared with US$33.597 billion as at end-October and US$34.59 billion as at end-September. The committee noted the elevated demand for foreign exchange at the wDAS which led to an increase in reserve utilization to defend the currency. It also noted recent moderation of demand pressure following Central Bank's interventions to curtail speculative demand. It, however, stressed that the solution to reserve accretion have to be in implementation of appropriate reforms to industrial and trade policy aimed at reducing import-dependence, and these are beyond the scope of monetary policy.

The Committee's Considerations

The key concerns noted by the Committee were:

1. The elevated inflation levels;
2. Rising government expenditure and borrowings with the possible crowding out effects on the private sector; and
3. Demand pressure in the foreign exchange market, leading to reduction in external reserves.

The view of the Committee is that the solution requires both fiscal and monetary measures, and reiterated the need to eliminate unnecessary subsidies that add to government expenditure and debt. There is need also for continuing reforms in the economy particularly in the energy and agricultural sectors to curb high import bills through appropriate fiscal policies. The Committee remains conscious of its core mandate and reaffirms its commitment to price stability to engender sustainable economic growth.

The MPC remained committed to exchange rate stability in order to attract foreign direct investment and anchor expectations. The MPC emphasized greater communications with stakeholders to remove speculative demand in the foreign exchange market. It also held that, in view of the low price elasticity of demand for imported necessities, depreciation of the currency would not in itself address the structural problem of import-dependence. The Committee continued to urge greater fiscal responsibility and commitment to reforms that will enhance the effectiveness of monetary policy.

Overall, members agreed that there is need for tightening, but the discussions centered on the form and the timing of the tightening. After due consideration of the pros and cons of various policy options, the Committee agreed on a majority decision of 6 to 4 members to retain the current policy rate, given the need to retain flexibility and allow the effect of the previous rate increase to work through the system, against the argument for immediate increase in view of the elevated inflation risk. Also, the Committee agreed by a majority of 9 to 1 members to narrow the corridor around the MPR by reintroducing the symmetry of +/- 200 basis points.

Decisions

The MPC's decisions were therefore:

1. To Retain the Monetary policy Rate (MPR) at 6.25 per cent.
2. To adjust the corridor to +/- 200 basis points, implying Standing Lending Facility (SLF) rate of 8.25 per cent, and Standing Deposit Facility (SDF) rate of 4.25 per cent.
3. Maintain the policy stance of a stable exchange rate.
4. Continue to monitor inflationary trends with a view to taking appropriate steps as and when necessary.
5. On the stance of monetary policy in the year ahead, the Committee reaffirmed that monetary policy would seek to exert pressure on aggregate demand, thereby helping to lower inflation expectations. In addition, monetary policy would stand ready to provide adequate and timely liquidity to support credit dynamics that would sustain fiscal mechanisms to bolster growth.

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November 23, 2010