**MINUTES OF THE 217TH MEETING OF THE MONETARY POLICY COMMITTEE (MPC) HELD ON MONDAY 22ND AND TUESDAY 23RD NOVEMBER, 2010 IN THE MPC MEETING ROOM, 11TH FLOOR, CBN, ABUJA**

**ATTENDANCE**

1. Sanusi L. Sanusi - Governor, (Chairman)
2. Tunde Lemo - Deputy Governor, Member
3. Sarah O. Alade - Deputy Governor, Member
4. Suleiman Barau - Deputy Governor, Member
5. Kingsley Moghalu - Deputy Governor, Member
6. Sam O. Olofin - Board Director, Member
7. Adedoyin R. Salami - Member
8. Abdul-Ganiyu Garba - Member
9. John Oshilaja - Member
10. Chibuike U. Uche - Member
11. Okorie A. Uchendu - Director, MPD, Secretary
12. Uwatt B. Uwatt - Dep. Director, Deputy Secretary

**OBSERVERS**

1. Sam O. Oni - Director, Banking Supervision
2. Charles N. O. Mordi - Director, Research
3. Batari Musa - Director, Trade and Exchange
4. O. F. Owolabi - Ag. Director, Financial Markets
5. Lamido A. Yuguda - Ag. Director, Reserve Management
6. Folakemi Fatogbe - Ag. Director, Risk Management
7. Musa Amedu - Dep. Director, Development Finance
8. Sunny Essien - Deputy Director, Statistics

**ABSENT WITH APOLOGIES**

1. Shehu Yahaya - Member, MPC

2. Danladi Kifasi - Member, Perm. Sec., Fed. Min. of Fin.

Day 1:

Opening

1.) The meeting commenced at 10.17 a. m. with a prayer by John Oshilaja. The MPC was informed of the absence of two members from the meeting, with apologies. One was the Permanent Secretary, Federal Ministry of Finance, while the other was Dr. Shehu Yahaya, who was bereaved.

**Minutes of the Previous Meeting**

2.) The minutes of the 216th meeting of the MPC held on Monday 21st September, 2010 were read without any error detected by members. Accordingly, based on motions by Sam O. Olofin and Adedoyin Salami, the minutes were adopted.

**Matters Arising from the Minutes of the Last Meeting**

3.) The Chairman advised that the Banking Supervision Department (BSD) should identify the customers with huge non-performing loans, and review the risks posed to banks if monetary policy stance was tightened. Members suggested that a second look be taken at the individual banks with large non-performing loans and proactive action taken so that another banking crisis would not surface. At that point, the Deputy Governor, Financial System Stability informed the Committee that the BSD was working towards solving the problem and would report back to the MPC on the outcome of efforts made towards ensuring efficient supervision of the banks.

**Presentations by the Departments**:

4.0 **Trends In Crude Oil Production, Prices, and Foreign Exchange Reserves**

The presentation by the Research Department indicated that oil production in the country averaged 1.99 mbd in 2008, and fell to 1.82 mbd in 2009 with the lowest level being 1.60 mbd recorded in July 2009. However, oil output rose to an average of 2.13 mbd in the first 10 months of 2010.

Movements in oil prices were mixed. In 2008, prices rose from US$94.25/b in January 2008 to the highest level of US$141/b in July, before falling to US$44.95/b in December 2008. In 2009, prices ranged between US$44.95/b and US$78.46/b. The upward trend was sustained in 2010 with prices ranging from US$76.42/b in July to US$87.45/b in November 2010. The lowest price of US$76.42/b in 2010 was higher than the budget price of US$60.00/b.

The report indicated that oil export volumes had recovered in 2010 relative to 2009 on account of the rebound in both output and prices, but not yet to the level attained in 2008.

External reserves which peaked at US$62.08 billion in September 2008 had since declined steadily to

US$40.23 billion in April 2010 and further to US$33.60 billion by end-October 2010. The major reason for the decline was the near exhaustion of the excess crude oil account from a peak of US$20.44 billion in January 2009 to US$1.99 billion at end-October 2010. The CBN portion of the external reserves had also been falling since August 2008 due to the high demand for foreign exchange.

The report also showed that during the period, payments to the joint venture partners for cash calls and subsidy deductions for the NNPC rose significantly.

Discussion

Members concluded that there was a puzzle to be unravelled to know why foreign exchange reserves had been falling, as oil production and prices were rising.

5.0 **Real Sector, Monetary Developments, Financial Markets, Global Developments and Outlook**

The highlights of the Economic Report presented by the Monetary Policy Department were as follows:

i) Projections by the National Bureau of Statistics indicated that real Gross Domestic Product (GDP) would grow by 8.29 per cent in the fourth quarter of 2010 compared with 7.86 per cent in the third quarter. GDP was projected to grow by 7.85 per cent in 2010, which would be driven by agriculture,

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| | wholesale/retail trade and services sectors with relative contributions of 2.43, 2.23 and 2.07 per cent, respectively. The oil sector was projected to grow with the positive contribution of 0.63 percentage point in the fourth quarter as against 0.62 percentage point in the third quarter and 0.64 percentage point in the second quarter. In 2009, the oil sector contributed 0.14, 0.12 and 0.34 percentage points to GDP in the fourth, third and second quarters, respectively.<br>ii) The National Bureau of Statistics (NBS) data showed that the year-on-year headline inflation decreased marginally to 13.4 per cent in October 2010 from 13.6 per cent in September 2010 and 13.7 per cent in August. However, core inflation rose to 13.2 per cent in October 2010 from 12.8 per cent in September and 12.4 per cent in August, 2010. Food inflation fell to 14.1 per cent in October 2010 from 14.6 per cent in September and 15.1 per cent in August 2010.The report noted that between 2009 and 2010, the volatility in inflation rate had moderated significantly in response to CBN inflation control measures as well as improved macroeconomic management. The report, however, cautioned that factors such as the anticipated injection by the Asset Management Corporation of Nigeria (AMCON), expected fiscal injection for 2011 election expenses | |

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| | as well as rising consumer spending during the end of the year could pose inflationary threats in the medium term.<br>iii) Interest rates in the major segments of the interbank market responded to the increase in monetary policy rate (MPR) and liquidity swings experienced during the review period. As at 15th November, 2010, interbank and OBB rates stood at 10.56 and 8.23 per cent, respectively, trending above the MPR. At the end of October and September 2010, the rates in the interbank market were 8.45 and 3.19 per cent, respectively, while the OBB rates for the same period were 7.53 and 2.92 per cent.<br>The average maximum lending rate fell to 21.85 per cent in October 2010 from 22.20 per cent in September and 22.31 per cent in August 2010. However, the average prime lending rate remained at 16.66 per cent in both October and September 2010, having declined from 16.89 per cent in August 2010.<br>The weighted average savings rate declined marginally to 1.48 per cent in October 2010 from 1.49 per cent in September 2010. The consolidated deposit rate, however, rose to 2.31 per cent in October 2010 from 2.07 per cent in September and 2.27 per cent in August 2010. Thus, the spread between the average maximum lending rate and the consolidated deposit rate narrowed marginally to 19.54 per cent in October | |

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| | 2010 from 20.14 per cent in September, 2010.<br>iv) At the foreign exchange market, the average demand and sales per auction in October 2010 stood at $312.95 million and $262.50 million, respectively, indicating that 83.87 per cent of the demand was met, compared with the average demand and sales of $439.20 million and $358.60 million in September 2010, which indicated that 81.65 per cent of the demand was satisfied. During the period 1st-15th November 2010, five auctions were held at the wDAS with an average demand and sales of US$206.23 million and US$168.25 million, respectively or a sales/demand ratio of 81.58 per cent.<br>On November 15, 2010, the wDAS exchange rate closed at an average of N150.29/US$ compared with N151.25/US$ in October 2010, representing an appreciation of N0.96 or 0.64 per cent. In the interbank segment of the market, the average buying and selling rates on November 15, 2010 were N150.65/US$ and N150.75/US$, respectively, compared with the rates of N151.68/US$ and N151.78/US$ in October 2010. At the BDC segment of the foreign exchange market, the average buying and selling rates recorded on November 15, 2010 were N151.50/US$ and N153.50/US$, respectively, compared with the rates of N151.98/US$ and N153.98/US$ in October 2010. The premium between the average effective wDAS closing | |

rate of N151.25/US$ and the average selling rate of N153.98/US$ also widened at the BDC segment to N2.73/US$ (1.80 per cent) in October 2010 from N1.96/US$ (1.30 per cent) recorded in September 2010.

The report noted that there were active movement of funds between the money and foreign exchange markets, and tight liquidity conditions in the interbank market tended to appreciate the naira exchange rate.

The country's gross external reserves stood at US$34.27 billion on 15th November, 2010, representing a decline of US$0.32 billion or 0.93 per cent compared with US$34.59 billion recorded at end-September 2010. The reserve level fell by US$8.2 billion or 19.31 per cent when compared with US$42.47 billion at end-December 2009.

Total foreign exchange inflows in October 2010 was US$2.38 billion, representing a decline of US$0.32 billion or 11.85 per cent from the US$2.70 billion recorded in September 2010. Of this inflow, crude oil/gas revenue was US$2.22 billion or 93.26 per cent while the other inflows contributed US$0.16 billion or 6.74 per cent. Total outflows/payments during the same period amounted to US$3.46 billion, indicating a decline of US$1.62 billion or 31.89 per cent below the US$5.08 billion recorded in the preceding month. Thus, there was a net outflow of US$1.09 billion during the review period. Inflows from autonomous

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| | sources such as oil companies, international institutions and home remittances in September and October 2010 amounted to US$7.55 billion and US$10.43 billion, respectively. Autonomous inflows from January to October 2010 amounting to US$67.17 billion, helped to augment foreign exchange inflows from official sources and to stabilize the foreign exchange market.<br>v) The retained revenue of the Federal Government in September 2010 was N177.39 billion compared with an expenditure of N162.49 billion, resulting in a budget surplus of N14.90 billion as against the proportionate budget deficit of N222.15 billion for the month. The actual revenue was lower than the proportionate monthly revenue of N207.82 billion by N30.43 billion or 14.64 per cent. Similarly, the actual expenditure was lower than the proportionate monthly expenditure of N429.97 billion by N267.50 billion or 62.21 per cent. The cumulative retained revenue of the Federal Government from January to September 2010 stood at N1,867.39 billion, which was lower than the proportionate budget revenue of N1,870.38 billion for the period by N2.99 billion or 0.16 per cent. The cumulative expenditure of the Federal Government for the same period was estimated at N2,588.55 billion and was lower than the proportionate budget estimate of N3,869.91 billion by | |

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| | N1,281.36 billion or 33.11 per cent. The estimated deficit resulting from the projected expenditure for the period (January to September, 2010) was N721.16 billion.<br>The budget deficit was expected to be financed from international bonds, signature bonus from oil block sales and FGN share of excess crude oil account, among others.<br>vi) The broad measure of money supply (M2) grew by 4.25 per cent in October 2010, which when annualised, represented a growth of 5.10 per cent compared with the indicative benchmark of 29.26 per cent for 2010. The growth in M2 reflected mainly the substantial growth in credit to the Government. Aggregate credit to the economy grew by 19.69 per cent, which annualised to 23.63 per cent as against the target credit growth of 55.54 per cent for 2010. Credit to the private sector grew by 3.22 per cent in October 2010 or 3.86 per cent on annualised basis as against the benchmark of 31.54 per cent for 2010. Credit to the core private sector similarly grew by 2.56 per cent in October 2010, annualizing to 3.07 per cent. Credit to the government grew substantially by 53.35 per cent in October 2010 or 64.02 per cent on annualised basis compared with 51.36 per cent indicative target for 2010.<br>The decline in reserve money (RM) observed in most | |

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| | periods of 2009 continued into the fourth quarter of 2010 and remained below the indicative benchmark. Reserve money rose by 7.85 per cent to N1,449.95 billion on November 15, 2010 from N1,344.41 billion as at end-September 2010, but was below the 2010 provisional indicative benchmark of N2,232.44 billion for the fourth quarter by 39.21 per cent. The reserve money (RM) forecast from end-November, 2010 to April 2011 indicated that the RM would continue to be below the quarterly indicative benchmarks during the forecast period.<br>As at November 15, 2010, the DMBs' requests for access to the CBN's Standing Lending Facility (SLF) totalled N996.65 billion as against N1,094.62 billion in October and N73.10 billion in September, 2010. Patronage of the Standing Deposit Facility (SDF) fell to N146.65 billion on November 15, 2010 from N1,117.30 billion in October and N3,826.60 billion in September 2010, reflecting the tight liquidity conditions in the money market.<br>vii) There was an increase of 9.8 per cent in the All Share Index (ASI) of the Nigerian Stock Exchange (NSE) to 25,301 on November 15, 2010 from 23,050.59 at end-September 2010. Similarly, the market capitalisation increased by 43.1 per cent to N8.08 trillion on November 15, 2010 from N5.65 trillion at end-September 2010. During the same period, the | |

number of deals increased by 21.6 per cent as against the decline in the volume and value of shares traded on the Exchange by 38.5 and 62.7 per cent, respectively. The increase in the ASI and MC followed the listing of 15.5 billion shares of Dangote Cement at N135.00 per share and the supplementary listing of 17.3 billion shares of Unity Bank on the floors of the Exchange on Tuesday 26 October, 2010.

viii) **Developments in the Global Economy**

The performance of the global economy was mixed:

- Mild threats of inflation were observed in most of the countries surveyed;
- Stock prices rose in most countries;
- Exchange rate developments were mixed across countries with appreciation in internationally traded currencies and depreciation in most African currencies;
- All the countries surveyed maintained their policy rates except Chile, China and Nigeria that raised their policy rates in response to threats of inflation;
- Selected indicators for the US economy suggested a slow-down in economic activities; and
- The global commodities market was affected by several natural disasters such as severe flooding in China and Pakistan as well as wild firestorms

in Russia. Consequently, commodity prices, especially food grains, trended upwards with the risk of inflation pass-through from major food exporters to consuming countries including Nigeria.

**ix) <u>Outlook for the Future</u>**

- Money market rates and other interest rates were not expected to moderate in the light of excessive government borrowing and the common year-end for banks.
- Inflation was not expected to moderate, thus making the single digit inflation target by the end of the year unrealisable.
- The growth in M2 would likely improve in the near term as a result of:
    - the sustained implementation of the CBN's quantitative easing measures comprising the N300.0 billion power and aviation sector intervention fund and the N200.0 billion restructuring and refinancing fund through the Bank of Industry (BOI);
    - huge electioneering expenditures;
    - payment of FGN salary arrears following the approved new minimum wage to workers;
    - increased consumer spending during the year-end festivities; and
    - Commencement of operations by the Asset Management Corporation of Nigeria (AMCON).
- Reserve money (RM) forecast for the period between November 2010 and April 2011 indicated that RM would continue to be below the indicative

benchmark.

- With the expected resumption of economic growth in the world's largest and emerging economies, increased oil demand would keep oil prices above the revised budget benchmark of $60 a barrel. Meanwhile, forward oil prices in the New York Mercantile Exchange were projected to range between $85.37 and $87.41 a barrel between end-November and May 2011.
- There was expected marginal increase in non-oil revenue due to the improved efficiency of tax collecting agencies.
- Oil production might fall following renewed hostilities in the Niger Delta area.
- Rising domestic debt of government would likely continue owing to expected shortfall in government revenue and planned issuance of bonds by the DMO.
- The naira exchange rate would remain stable in the near term if the liberalised exchange rate policy was sustained, while foreign exchange inflows from autonomous sources would continue to increase towards the end of the year.
- The capital market was expected to resume its upward trend in the near term following ongoing sanitisation of the market.
- Confidence in the capital market would return with

the commencement of operations of the AMCON.

**Pressure Points and Policy Challenges**

c) The report identified the following pressure points:

- The continued underperformance of monetary aggregates, relative to long – term trends;
- inflation threat resulting from anticipated liquidity injections; and
- rising interbank interest rates as well as high but narrowing interest rate spreads.

The challenges for monetary and credit policy in the near term were identified as:

- providing adequate incentives for banks to lend to the real sector;
- sustaining exchange rate stability in the face of declining external reserves; and
- moderating inflationary threats.

**6.0 Update on the Implementation of Previous MPC Decisions**

The updates were as follows:

- N200.0 Billion Refinancing/Restructuring Facility:

i. Of this amount, the sum of N139.199 billion had already been disbursed through the BOI;
ii. N69.47 billion had been approved for disbursement as second tranche; and
iii. amendments to the guidelines for the scheme had been approved.

- Application for Guarantee Certificate to the tune of N107.5 million, made up of N100.0 million to First Bank of Nigeria and N7.5 million to the National Economic Reconstruction Fund (NERFUND) had been approved under the SME Credit Guarantee Scheme.
- Resumption of liquidity mop-up through OMO in September 2010.

**Discussion of the Report**

The Committee noted that the budget deficit reported arose from huge government expenditure for subsidizing the consumption of petroleum products, and the increased wages to federal civil servants, the loss of revenue through duty waiver on rice imports, and the joint venture cash calls, among others. The Members agreed that fiscal discipline and structural reforms were needed to reduce the huge budget deficit. On money market rates, it was also noted that the spread between the open buy back (OBB) and interbank rates reflected the credit risks in the industry. Members were, however, informed that the spike in interest rates in October 2010 arose from information and communications technology (ICT) challenges in the Bank when the Enterprise Resource Planning (ERP) platform was undergoing upgrades.

Members were informed that preserving the foreign reserves

of the country had implications for the economy, particularly,
as manufacturing inputs, power, food and petroleum products were largely sourced from imports. In that regard, the Committee noted the limits of monetary policy and emphasised the need for reforms in order to reduce pressure on policy. On the underperformance of monetary aggregates, it was agreed that the monetary programme be reviewed, though the reason for the underperformance was attributed to the non-performance of fiscal operations. A member observed that much of the domestic revenue was devoted to recurrent expenditure which left very little room for capital projects. Members also recognised that while Government borrowing would heighten money market rates, AMCON bonds expected to be issued to the banks would moderate the rates.

Members noted that the Committee should be observant of
the development of asset bubbles in the stock market.

The Chairman reminded members of the Bank's commitment to price stability, especially as the numbers that resulted from the revision of the CPI by the NBS, tended to suggest a heightened inflation threat. Members noted that the economy was facing an elevated Government recurrent expenditure as well as an unreasonably high demand for foreign exchange.

They equally observed that the high demand for foreign exchange was being fuelled by fiscal expansion. It was also noted that exchange rate stability encouraged the inflow of domestic and foreign investment.

**Proposals for Monetary Policy Actions**

Scenario 1: **Retention of the MPR at 6.25 per cent and the current interest rate corridor**:

The argument in favour of the proposal was that maintaining the existing monetary policy stance would sustain market expectations with respect to interest and exchange rates, thus allowing uninterrupted implementation of approved policies and the achievement of their objectives.

On the other hand, allowing the existing policy rate to remain would signal insensitivity to the inflation threat arising from the various liquidity injections anticipated towards the end of the year.

Scenario 2: **Raise the MPR by 25 basis points with the current interest rate corridor retained**:

The proposal would signal monetary policy tightening in response to the prospects of heightened inflationary pressures arising from anticipated liquidity injections in the near term. The argument against the policy action was its potential for raising lending rates and frustrating the efforts so

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| | far made towards channelling credit to the real economy. Scenario 3: **The MPR should be raised by 25 basis points and interest rate corridor adjusted to +300/-200 basis points implying SLF rate of 9.5 per cent and SDF rate of 4.5 per cent.**<br>The adoption of the proposal would signal monetary tightening and encourage interbank lending. The downside risk would be that the DMBs might be encouraged to use the SDF instead of making use of excess funds available at the interbank market.<br>The Committee was invited to consider the proposals as presented.<br>**<u>Discussion of the Proposals for Monetary Policy Actions</u>**<br>In considering the proposals, the Chairman reminded members that the Committee could choose to leave the MPR unchanged, provide easy money to the Government and meet the foreign exchange demand. The Committee also could further tighten policy, thereby increasing the cost of Government borrowing, exert pressure on interest rates and reduce borrowing. The Chairman noted that the public debt would have been lower if the public revenue was earned from taxes on components of the GDP such as agriculture, services, manufacturing and value added tax like what obtains in other countries. A question was raised as to whether the shutting down of the Class A BDCs was not | |

a signal of policy inconsistency. The Chairman stated that the Class A BDCs were responsible for creating distortions and speculation in the market giving the impression of money laundering. A member asked whether the Class A BDCs could migrate to Class B BDCs to which the Chairman stated that the more the Class B BDCs the better, so that members of the public could easily access them for their foreign exchange needs.

The meeting ended on Day 1 with a prayer by L.A. Yuguda, Acting Director of Reserve Management.

DAY 2, 23RD November, 2010

The meeting commenced with a prayer by Suleiman Barau, Deputy Governor, Corporate Services.

The Chairman reminded the members that they had agreed that there was need to tighten the monetary policy stance and that the pursuit of exchange rate stability would advance the cause of price stability. He noted that tightening the policy stance without fiscal discipline would not allow monetary policy to be effective. Accordingly, tightening monetary policy could take the form of increasing the MPR or narrowing the interest rate corridor. He called on members to present their views before the voting.

Members generally agreed on the need for tightening monetary policy but were divided on the modalities for achieving the objective. Some argued that an increase in the MPR from the current level would not really tame inflation as no one knew when the 2011 budget would be passed and the size of the expected fiscal injections. Considering the impact lag on inflation of an increase in the MPR, and its likely effect on non-performing loans, it was agreed that the interest rate corridor should be returned to symmetry for the meantime while developments in the economy were watched until the next meeting of the Committee in January 2011. Moreover, leaving the MPR unchanged could make credit accessible to the real sector and allow room for flexibility of action at the January 2011 MPC meeting.

Voting and Decisions of the Meeting

7) After deliberations, the Committee through a majority decision voted to:

i) retain the Monetary Policy Rate (MPR) at 6.25 per cent;

ii) adjust the corridor +/- 200 basis points, implying the Standing Lending Facility (SLF) rate of 8.25 per cent and Standing Deposit Facility (SDF) rate of 4.25 per cent;

iii) maintain the policy stance of a stable exchange rate; and

iv) continue to monitor inflationary trends with a view to taking appropriate steps as and when necessary.

v) 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.

Any Other Business

8) The Deputy Governor (Economic Policy) presented a proposal for the 2011 calendar of MPC meetings. The proposal sought to shift the dates of the meetings from the first week to the second or third week of the odd or even months so that there would be enough time to receive inflation and GDP data from the NBS. The Chairman noted that it would be too far to hold the first meeting of the year in February 2011 and decided that the first meeting should be held in January 2011.

**Date of Next Meeting**

9.) The next meeting was scheduled to hold on January 24 and 25, 2011.

**Closing**

10.) The meeting ended at 12.22 p.m. with a prayer by S.O. Oni, Director, Banking Supervision Department.

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CHAIRMAN

SECRETARY

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DATE