



**Central Bank of Nigeria Communiqué No. 80 of the Monetary Policy  
Committee Meeting, Monday, November 21, 2011**

The Monetary Policy Committee (MPC) met with 11 out of the 12 members present on 21<sup>st</sup> November, 2011 to review domestic economic conditions up to the early part of Q4 2011 and the challenges facing the Nigerian economy against the background of developments in the international economic and financial environment in order to reassess the options for monetary policy for the remaining part of the year and Q1 2012.

The Committee noted that international economic and financial conditions had deteriorated with possible threats of financial shocks from Europe, making it very difficult to correct the serious imbalances that have developed in the international economy since the peak of the global economic and financial crises. Most of the major industrial economies are at present economically weak and are expected to remain in recession with high unemployment rates and large unsustainable fiscal imbalances for an extended period, going by the recent forecasts of most international institutions. Inflation

rates, with the exception of Japan, are expected to be higher than in 2010. It is projected at around 3.0 per cent in 2011 in the US, the Euro-area and the UK compared with 1.9 per cent in 2010. The ratio of government debt to GDP for the European Union remains high and has led to a change of governments in Greece and Italy and a likely election of conservative government in Spain. It has also led to the adoption of tougher austerity measures including staff rationalization and privatization. In the case of some countries of the Euro area, the markets are still not certain that the risk of sovereign default will be addressed expeditiously and in an efficient manner. These concerns have opened up issues relating to financial stability, given the considerable exposures of banks and other financial institutions to government securities across countries. Consequently, financial markets have become nervous with their uncertainties reflected in the volatility of stock, bond and foreign exchange markets. Current account imbalances are also projected to be high in 2011 in both the US and the Euro area.

The Committee noted that, with the limited available fiscal space, the burden of economic adjustment has fallen on central banks in the industrial economies. However, as the policy rates are close to zero, the only recourse available to central banks to promote recovery is through quantitative easing. In resorting to quantitative easing, the Committee is concerned that central banks, particularly, in the US and UK, are failing to recognize the limitations of monetary

policy and delaying the difficult but inevitable structural adjustment required by the developed world to avoid a recession. A significant amount of sovereign debt needs to be written off, systemically important banks need to be recapitalized (and if necessary nationalized) and stronger austerity measures need to be put in place in the US and the Europe. Concerns over elections in 2012 in the US, Germany and France seem to be getting in the way of these tough decisions. Failure to act quickly may lead Europe into a prolonged recession that could lead to a permanent loss of competitiveness and economic vibrancy.

Emerging countries are also projected to record lower growth rates in 2011 than in 2010. Given the high degree of real and financial integration with the industrial economies, a quick rebound in growth in 2012 does not seem to be realistic at this point in time. In many emerging countries, inflation rates are relatively high. There are also concerns about financial asset prices and the growing non-performing loans of banks. In China, early signals of a collapse in property prices have emerged and should the real estate bubble burst, this will have an impact on China's growth prospects. Fiscal imbalances have also been high in many countries.

Growth performance of industrial and emerging economies in 2012 is vital for Nigeria's economic performance. Oil demand, in the Committee's view, would soften as a consequence of slow global growth and would necessitate comprehensive and sound policy

actions to help diversify the domestic economy away from oil. The impact of external developments on the domestic economy working through the channels of trade, finance and confidence has, in the Committee's view, been strong and would need to be addressed efficiently and expeditiously.

On the domestic front, the Committee observed a mild resurgence of inflationary pressures at the end of the third quarter and beginning of the fourth quarter of the year, after they had moderated following a series of monetary policy tightening measures. The inflation outlook, however appears mixed, and is complicated by the fact that the full effects of the recent aggressive monetary tightening measures are yet to be felt. Latest output growth projections remained robust, even though lower than earlier projected. The Committee observed no major threats to financial system stability and welcomed the conclusion of the banking sector recapitalization exercise, which places the banks in a strong position to weather external shocks and also lays the foundation for strong earnings and credit growth.

## **Key Domestic Macroeconomic and Financial Developments**

### **Output and Prices**

The Committee observed that the robust output growth recorded since the beginning of the year has been sustained. Real output growth was estimated at 7.40 per cent in Q III of 2011 as against 7.86 per cent in the corresponding quarter of 2010, according to the latest estimates of the National Bureau of Statistics (NBS). Non-oil GDP was estimated to grow sharply by 8.81 per cent in Q III of the current year as compared with 8.38 per cent recorded in Q III of the previous year. For the year as a whole, real GDP growth was projected at 7.69 per cent, slightly lower than the 7.87 per cent attained in 2010.

The Committee noted with satisfaction that the expected output performance in 2011 was higher than the average growth of 6.63 per cent recorded since 2004. As investments increase and productivity improves, real GDP could double in less than ten years from now if the potential growth is elevated slightly over the average growth recorded in the last seven years.

The year-on-year headline inflation rate rose to 10.5 per cent in October 2011 from 10.3 per cent in September. Similarly, food inflation rose to 9.7 per cent in October 2011 from 9.5 per cent in September. However, core inflation declined marginally to 11.5 from 11.6 per cent in September.

Coming on the heels of a series of monetary policy measures, and at a time of global uncertainty, the numbers send mixed signals for

inflationary expectations in spite of the uptick in year-on-year headline inflation. For instance, all broad measures declined on a month-on-month basis. Headline inflation declined by 0.9 per cent in October compared to an increase of 1.4 per cent in September. This was a result of a month-on-month decline of 0.8 and 0.7 per cent in food and non-food inflation compared to increases of 1.9 and 0.9 per cent, respectively, in the preceding month.

On the fiscal front, the Ministry of Finance continued to stress its commitment to a tighter fiscal stance and has already indicated a reduction in the benchmark price of oil from US\$75.0 per barrel to US\$70.0 per barrel. It has also adopted an exchange rate assumption consistent with the current stance of monetary authorities. Although, the Sovereign Wealth Fund is subject to continuing political negotiations between States and Federal Governments, it would appear from public statements on both sides that a positive resolution would be reached very soon. The risk to inflation from removal of fuel subsidy is ever-present. However, whenever the policy becomes effective, the Central Bank stands ready to react to any second round effects of a price adjustment.

As a matter of policy, the Central Bank will not respond to first-round shocks, as tightening money supply in such a circumstance will be pro-cyclical. Finally, in view of the external developments above, any softening in oil prices will impact negatively on government revenue receipts. Given the concerns over the budget deficit, such

a development would lead to a forced adoption of belt-tightening measures, thus, providing the much-needed fiscal support in the effort to rein in inflation. In such a circumstance, further tightening may also turn out to be pro-cyclical, especially, as the full effects of recent measures are still working their way through the system. Given the cost of borrowing in current tight monetary conditions, the Committee projects that in the face of revenue shocks, the likely reaction of the authorities will be a reduction in non-essential spending, rather than an increase in public debt.

### **Monetary, Credit and Financial Market Developments**

Provisional data indicate that aggregate domestic credit (net) grew by 24.57 per cent in October 2011 over the end-December 2010 level, and by 29.48 per cent when annualized, which was below the indicative benchmark of 32.58 per cent for 2011. The growth in aggregate credit (net) in October 2011 was due to increases in credit to the private sector as well as State and Local governments. Credit to the private sector grew by 24.24 per cent (29.09 per cent on annualized basis) which was higher than the indicative benchmark of 23.34 per cent for 2011. However, credit to the Federal Government which fell by 21.65 per cent (25.98 per cent on annualized basis), was below the indicative benchmark growth rate of 29.29 per cent for 2011. This was due to the fiscal surplus of N307.84

billion in July 2011 following the sharing of the arrears of budget augmentation (January-April, 2011) which reduced the need for government borrowing.

Rates at the interbank money market moved in tandem with the upward reviews of the MPR at the MPC meetings during the period. The average interbank call and Open buy back (OBB) rates rose from 11.38 and 11.16 per cent before the extra-ordinary MPC meeting, held in October 2011, to 15.00 and 13.70 per cent, respectively, after the meeting, reflecting the spike in the MPR. In addition, the upward review of the CRR and the sterilization of the funds helped to push up inter-bank rates to a high of 18.06 per cent on October 14, 2011. The Interbank and OBB rates, which opened at 10.74 and 10.63 per cent on September 19, 2011 rose to 17.09 and 14.00 per cent on October 31, and closed at 14.30 and 13.26 per cent, respectively, on November 15, 2011. Other factors responsible for the upward movement in rates included the various OMO auctions conducted to mop-up excess liquidity, as well as the low level of liquidity in the banking system following the deadlock at the Federation Accounts Allocation Committee meeting which culminated in the late release of statutory revenue to the three tiers of government. However, the purchase of AMCON bonds by the Bank and the injection of funds, moderated rates in the market.

The Committee also noted that deposit money banks have improved the rates on fixed-term deposits. Thus, the average



weighted three-month deposit rate has gone up to 7.06 per cent in October from 5.49 per cent in September. Also, the rates on deposits for 12 months increased from 4.47 per cent in September to 4.90 per cent in October, 2011. The average weighted interest bearing deposit rate stood at 4.93 per cent in October compared with 4.02 per cent in September. This increase in rates had been anticipated by the Committee and is likely to continue especially as we approach the December 31, 2011 deadline for the removal of the CBN guarantee on the interbank market. Lending rates have also gone up in response to tighter conditions in the money market.

The Committee observed that the bearish performance of the Nigerian capital market continued for most of the year. The All-Share Index (ASI) decreased by 18.0 per cent on a year-to-date basis from 24,770.52 at end-December 2010 to 20,311.51 on November 18, 2011. Market Capitalization (MC) also declined, by 19.2 per cent, from N7.91 trillion to N6.39 trillion over the same period due partly to the delisting of acquired banks. The bearish market is consistent with the trends globally in a very uncertain world where fund managers have resorted to a flight to safety. High yields on fixed income securities and subdued activity from investors in the wake of the Euro Zone crisis should advise against undue optimism for a rally in stocks in the short-term. However, strong earnings and fundamentals mean that the market is at present very attractive to long-term investors but not speculators.

## **External Sector Developments**

The Committee observed some restoration of stability in the Foreign exchange market since the last MPC meeting. The average exchange rate appreciated at all three segments of the market during the period. At the wDAS market, the exchange rate opened at N158.48/US\$ (including 1% commission) on October 11, 2011 and closed at N156.05/US\$ on November 18, 2011, representing an appreciation of N2.43k or 1.53 per cent within the period. At the inter-bank segment, the selling rate opened at N158.90/US\$ and closed at N158.62/US\$, representing an appreciation of N 0.28k or 0.17 per cent. At the BDC segment, the selling rate opened at N165.00/US\$ and closed at N160.00/US\$, representing an appreciation of N5.00k or 3.03 per cent for the period. The external reserves position has continued to improve, closing at US\$34.38 billion of international reserves as at November 17, 2011.

The Committee felt that external developments have in general responded favorably to monetary policy stance adopted in the last MPC meeting in October. It urged the Central Bank to be vigilant with respect to the developments in the foreign exchange market and maintain its stance in favour of stable exchange rates, and send

clear signals that will help anchor the expectations of investors, manufacturers, and policy makers in the short-to-medium term.

### **The Committee's Considerations**

The Committee reviewed its decisions over the course of 2011 and their impact on the Bank's core mandate of maintaining price stability. It noted that Nigeria had been ahead of all other African countries in anticipating the impending danger of inflation and started its monetary tightening cycle at a time other African Central Banks were still holding or reducing policy rates. It noted that these decisions have helped in controlling pressures on the general price level and in maintaining a relatively stable equilibrium in the foreign exchange markets. Where this equilibrium is disturbed by external factors, the ability to respond rapidly has succeeded in quickly restoring stability. The Committee also noted the mixed signals sent by inflation numbers for October 2011. The slight uptick in headline inflation year-on-year represents only a 20 basis-point increase from a high base of 10.3 per cent, and it is important not to exaggerate its significance. The index of all items except food declined marginally year-on-year, and all three broad indices (headline, food and core) showed a month-on-month decline in October, against month-on-month increases in the previous month.

On the fiscal side, a moderated oil benchmark price coupled with very strong public statements of commitment to fiscal consolidation by the fiscal authorities, give rise to optimism about long-awaited support on the fiscal side. Global headwinds may lead to a softening of commodity markets, thus reducing the resources available to fiscal authorities and contributing to a disinflationary process.

The Committee noted the continuing demand pressures in the foreign exchange market and the slow rate of reserve accretion as indicators that liquidity conditions may still need further tightening. On the other hand, lending rates are already high and having impact on the real sector, and global headwinds may make further tightening counter-productive and pro-cyclical should oil price fall significantly. Also, a combination of small fiscal adjustments and moderate depreciation in the exchange rate of the naira should compensate for maintaining current interest rate stance. Finally, the Committee noted that December is usually a period of muted economic activity, and an appropriate time to pause and assess the full impact of the recent tightening decisions after a lag.

### **Decision**

The Committee decided as follows:

1. By a unanimous vote to retain the MPR at 12.0 per cent and the symmetric band at +/-200 basis points.
2. To retain the CRR at 8.0 per cent.

3. To adjust the mid-point of target official exchange rate from N150.00/US\$1.00 to N155.00/US\$1.00 and maintain the band of +/-3.0 per cent. This means that the naira should float roughly within a range of N150.00/US\$1.00–N160.00/US\$1.00, unless extraordinary shocks necessitate a change in stance.
4. To encourage the CBN to continue to seek convergence between wDAS and interbank rates to reduce arbitrage opportunities, avoid speculative attacks, and the emergence of a multiple-exchange rate environment.

**Sanusi Lamido Sanusi, CON**  
Governor  
Central Bank of Nigeria

**November 21, 2011**

## PERSONAL STATEMENTS BY MPC MEMBERS:

### 1.0 ALADE, SARAH

*This Committee meeting is coming on the heels of October meeting which saw policy rate increased by 275 basis points and Cash Reverse Requirement (CRR) doubled. Although headline inflation remain elevated at 10.5 percent in October from 10.3 recorded in September, 2011, there is need to allow the impact of the last policy decisions in October to work its way into the economy. Since monetary policy operates with a lag, the cumulative impact of the policy actions in October is yet to be fully transmitted into the economy. Based on this, I am inclined to support a **no change** in monetary policy rate and CRR to help address the growth concerns in the economy.*

**Headline inflation increased moderately to 10.5 percent in October, reflecting global economic environment and commodity price volatility.** Both headline and food inflation increased moderately in October. While headline inflation increased from 10.3 percent in September to 10.5percent in October, food inflation increased from 9.5 percent to 9.7 percent. The impact of sustained monetary tightening by the Central Bank is helping to contain inflationary pressure, however seasonal spending during the Christian and Muslim holiday season may have been

responsible for the elevated inflationary pressure in October. The outlook going forward is that this temporary pressure will be contained as the full effect of the last monetary policy is transmitted into the economy. Available forecast points to continued decline in both food and headline inflation through the first quarter of 2012.

**Global growth prospect has become more uncertain with high unemployment and elevated inflationary pressure.** Developments in the global economy over the past few weeks are a matter of serious concern. Growth momentum is weakening in the advanced economies amidst heightened concerns that recovery may take longer than earlier expected. Most major industrial economies are experiencing high inflation and high unemployment rates making recovery harder to achieve. Additionally, the Euro zone countries are grappling with the sovereign debt crisis which has resulted in the change of government in two countries (Greece and Italy). Most analysts are uncertain that the risk of sovereign default will be addressed expeditiously and this loss of confidence is reflecting in market transactions. Although Nigeria's exports have performed well in the recent period, this trend is unlikely to be sustained in the face of weakening global demand. This suggests that risks to the growth projection for the next few months are on the downside and further tightening could dry up domestic economic activities.

**While there are still pockets of downside risks in the domestic banking sector, the resolution action taken by the Central Bank is helping to restore confidence in the banking sector.** The return in confidence needs to be enhanced by giving the banks some space to consolidate their position

and cater to the needs of their customers. Another policy hike could further tighten liquidity conditions in the market with adverse impact on economic activities.

**Based on the above**, I will recommend a “no change” in monetary policy rate and Cash Reserve Requirement (CRR). Furthermore, the deceleration in global growth and increased volatility in commodity prices all call for prudent monetary policy stance to maneuver the fragile economic environment.

## **2.0 BARAU, SULEIMAN**

### **A. Developments since the last MPC meeting**

- A.1 I entered the Monetary Policy Committee meeting today convinced that having recently “front loaded” policy actions to contain the possible impact of excess liquidity and speculative attack on inflation and exchange rate respectively, I would vote for status-quo. The rationale for this position is obvious.
- A.2 In the first place, although Year-on-Year (YoY) Headline and Food Inflation rates inched up marginally from 10.3% to 10.5% and 9.5% to 9.7% in September and October respectively, Month-on-Month (MoM) rates for Headline and Food Inflation actually declined by 0.92% and 0.7% respectively during the same period.
- A.3 Year-on-Year Core Inflation rate however actually declined marginally from 11.6% in September to 11.5% in October. Therefore while Year-on-Year measures showed a mixed but stable trend, the Month-on-Month rates witnessed a marginal decline. This, for me, is an indication that the recent rather aggressive tightening measures adopted by the MPC are beginning to bear fruits.



- A.4 In spite of the fact that market rates and lending rates in general have trended upwards in response to the recent increase in MPR, the economy recorded a robust growth as GDP grew by 7.40% in Quarter Three (3). Even though this is a decline when compared to 7.72% recorded in Quarter Two (2), it is an impressive improvement over the 6.64% recorded in Quarter One (1). This further supports my view that at present, no direct relationship has been established between liquidity tightening measures, credit and GDP growth. Even if there is, it is substantially a lagged relationship. Significantly, Staff estimates are that Quarter Four (4) GDP growth is expected to be 9.05%, riding on good growth projections from Agriculture, Wholesale and Retail Trade, and Services sectors. Overall GDP growth rate is estimated to be 7.69% for 2011.
- A.5 The level of foreign reserves actually rose by 8.32% from \$31.7 billion in September to \$34.3 billion in October in reflection of the various liquidity tightening and administrative measures adopted by the CBN.
- A.6 Market interest rates were volatile but all trended upwards in response to the upward adjustment of the Monetary Policy Rate (MPR) to 12%.
- A.7 We witnessed mild appreciation of exchange rates. In the WDAS segment we witnessed 1.5% appreciation while 0.18% and 3.03% appreciation were recorded in the Interbank and BDC segments, respectively.
- A.8 The Euro Sovereign Debt problem and possible banking crises worsened. This had led to change in leadership in Greece, Italy and Spain. The US deficit problem continued as the congressional super committee that is negotiating possible deficit reduction agreement failed to reach a deal. Meanwhile, GDP growth rate slowed down in Brazil, India and China with India recording the lowest growth rate in Quarter Two (2) since 2009.

A.9 Overall, we recorded moderate success in keeping inflation and exchange rate stable while recording modest GDP growth rate and some foreign reserves accretion.

## **B. Challenges/pressure points**

In spite of the successes recorded the following are possible pressure points which we must keep in view.

B.1 Continued demand pressure for foreign exchange due to the fact that the system is still very liquid which could support sustained speculative demand. The measures taken to adjust the WDAS exchange rate to N154.5 per USD has done little in eliminating the effect of these factors. There is the obvious need to embark on further liquidity mop up that is consistent with our tightening stance and on further administrative measures.

B.2 It is unlikely that the fuel subsidy would be removed before the next MPC meeting. It is still a possibility though and the inflationary impact of such a decision is a risk to keep in mind in spite of the expected positive fiscal and foreign exchange market impact of this decision.

B.3 Year-end festivities usually put pressure on inflation via excessive fiscal and consumer spending. This is a source for concern as such a development may erode whatever gains we have made in containing inflationary pressures.

B.4 The Euro area sovereign debt and possible financial crises should be of keen interest to us. We should be hopeful that the contagion would not radically impact on Italy any further given the potential consequence of such on the fortunes of Nigeria via second round effects.

## **C. Recommendation**

Having reflected deeply on the foregoing, I have no doubt that any immediate further tightening measures at this time may be unnecessary. I therefore recommend the following:

- C.1 Monetary Policy Rate should be maintained at 12%
- C.2 Cash Reserve Ratio should be maintained at 8% with Symmetric Corridor of plus and minus 2%.
- C.3 Continue to tighten liquidity based on normal open market operations
- C.4 Further administrative measures to check wastages associated with foreign exchange demand. This should be complemented with active participation in the interbank market by the CBN in order to contain divergence in rates at the various segments of the foreign exchange market.

### **3.0 GARBA, ABDUL GANIYU**

#### **Decision**

I vote for:

- I. Holding the MPR at 12.0%
- II. Maintaining the Asymmetric Corridor for SLF and SDF at  $\pm 2\%$
- III. Maintaining CRR at 8%

#### **Basis of Decision**

- 1. To allow for the effects of previous policies to be fully realized.
- 2. To allow for more active implementation of policies.
- 3. To allow for more effective implementation of institutional changes that change the incentive system against "rouge players" whose

motives and behaviors undermine the efficient functioning of the financial markets particularly money and foreign exchange markets.

#### 4.0 LEMO, TUNDE

The recent monetary tightening stance of the Monetary Policy Committee has assisted a great deal in reducing the demand pressures in the foreign exchange market, resulting in modest accretion to the Gross External reserve which stood at USD 34.38billion on November 17, 2011. The decision has also made Nigeria more attractive to foreign investors as the MPR, for the first time in October 2011, turned positive in real terms.

The above notwithstanding, developments in the domestic economy suggest that the inflationary pressures may persist till the end of the year as headline and food inflation rose marginally in October. The slight reduction in core inflation may not be sustained in the run up to the year-end due to the impact of increase in consumption pattern at this time of the year. These pressures are however not strong enough for serious concern, especially as the political negotiations necessary for the removal of fuel subsidy may not be concluded in the near-term.

The global economic recovery remains fragile. While the threat of double dip recession has decreased in USA, unemployment still remains high. Europe continues to grapple with sovereign debt crisis, mounting market tension and risk of banking crises, while expected growth in China may slow down considerably as the housing market is already showing sign of a possible crash. These external developments may have negative impact on global demand for crude oil and therefore result in significant shortfall in government revenue and money supply.

I am therefore of the opinion that MPC needs to watch these domestic and foreign developments in the next few months as further tightening

may be pro cyclical in the event of a major slowdown in global and domestic economies. Furthermore, additional time is also required to monitor the full effects of MPC decisions taken on October 18, 2011.

In view of the foregoing, I recommend the following:

- a. Maintenance of the MPR at the current rate of 12%
- b. Retention of the current symmetric corridor of +/-2%
- c. Current Cash Reserve Requirement of 8% to remain unchanged, and
- d. Achieve a convergence of the Wholesale Dutch Auction (WDAS) and Interbank rates.

## **5.0 MOGHALU, KINGSLEY CHIEDU**

Several indicators, in particular a mild resurgence of inflationary pressures, would, on the face of it, argue for a continuation of monetary tightening at this meeting of the Monetary Policy Committee. The year-on-year headline inflation rate rose from 10.3 per cent in September 2011 to 10.5 per cent in October 2011. Food inflation also rose from 9.5 per cent in September to 9.7 per cent in October.

However, there are also important factors and developments that, without prejudice to the need for the Central Bank of Nigeria to maintain its strong anti-inflation stance in the medium to long term, point to the conclusion that is wiser to adopt a pause-and-see stance and hold the policy rate steady at this review by the MPC.

These factors include:

- Research indicators that, despite the mild increase in price levels and increases associated with year-end consumption patterns, it is likely, perhaps even probable, that there will be price declines in the first half of 2012.

- A combination of marginal reduction in core inflation to 11.5 per cent in October 2011 from 11.6 per cent in September 2011 and staff projections that the effects of recent extensive monetary tightening measures agreed at the extraordinary meeting of the MPC on 10 October 2011 have yet to be fully transmitted into the economy.
- Global economic crisis, especially the debt crisis of the Eurozone and its far-reaching potential consequences if not contained, could create recessions that will impact Nigeria's economy through possible effects on crude oil prices and the exposures of Nigerian banks and require a return to a more accommodative monetary stance. The dark clouds hovering over the global economy call for proceeding cautiously with monetary tightening at this point in time.
- There are now questions over the timing of a previously anticipated deregulation of petroleum product prices as the Federal Government of Nigeria seeks to build political consensus in support of the proposed policy change.
- The utilization of other measures, including an adjustment of the mid-point of the naira, to ensure the stability of the currency, ensures that the monetary policy rate is not the sole means for managing exchange rate policy.

On the basis of the foregoing, I vote for:

- (1) Holding the monetary policy rate steady at 12.0 per cent.
- (2) Maintaining the symmetric corridor at +/- 200 basis points
- (3) Maintaining the Cash Reserve Ratio at 8.0 per cent.
- (4) Adjusting the mid-point target of the naira to N155 to the dollar.

## **6.0 OLOFIN, SAM**

It is gratifying to note that some of the proactive policy measures put in place at the extraordinary meeting held in October 2011 to forestall an unwarranted attack on the Naira are beginning to yield the desired results. The observed turbulence in the foreign exchange market and excessive speculative hedging against the Naira which partly warranted the emergency meeting appears to have abated and stability has been restored to the foreign exchange market albeit at a moderately higher rate of \$1: N155. This may be suggesting the need for a more elastic band other than the plus or minus 3 percent around the \$1:N150 rate that has prevailed in the market over the last three to four quarters. Even though there has been a mild resurgence of inflationary pressure, the year-on-year headline inflation has only risen by insignificant percentage points from 9.3 percent in September 2011 to 10.3 in October 2011. Projections by the NBS indicate that real GDP growth rate is likely to remain significantly positive at a projected rate hovering around 8 percent for the year 2011.

Despite the phenomenal jerking up the MPR by over 200 basis points at the last meeting, aggregate domestic credit continues to grow even though at a slightly lower annualized rate of 19.5 percent compared with 23.72 percent recorded over a similar period in 2010. For the first time in recent months the country has a positive real interest rate even if this is at the moment at a rate that still leaves the country less competitive in attracting the much desired foreign capital inflows when compared with Ghana and South Africa. The outlook on the fiscal front remains essentially a potentially inflationary one even if the much awaited deregulation in the petroleum sector and removal of subsidies appears not to be coming into effect as quickly as has been anticipated in the period immediately following the April elections. The potentials for major exogenous disturbances impacting negatively on commodity prices particularly oil, on which government revenue and foreign exchange earnings largely depend remains high.

The foregoing notwithstanding, one does not at the moment see an overriding need to tinker with the various monetary policy tightening

measures and related administrative measures that were put in place at the October 2011 extraordinary meeting. Some of these measures need to be monitored over a longer period, taking into account their respective implementation and impact lags before evaluating the extent to which they have been effective or otherwise. There is however the need for effective monitoring of their implementation to ensure their effectiveness. There is need to pay particular attention to the administrative measures that are aimed at minimizing the speculative component of the growing demand for foreign exchange and the pressure this exerts on the value on the Naira as well as on the rate of inflation. Given the present overall outlook and projections of this into the short to medium term, one would vote for maintaining the status quo until the end of the fourth quarter of the year, except if unforeseen exogenous disturbances warrant any emergency meeting(s) to re-evaluate our current stance.

## **7.0 OSHILAJA, JOHN**

Data-points reviewed at today's meeting of the MPC prompted a unanimous decision to hold the Policy and derived CBN interest rates at current levels. This is to say that, notwithstanding varying perspectives on the information provided, the MPC broadly agreed to maintain its current tight policy stance. On this occasion, however, the CBN also chose to reiterate the MPC's position by formally adopting part of the exchange rate adjustment that had already occurred in the marketplace. The MPC also agreed to keep recently adopted administrative measures at current levels, and to let these continue working through their various channels. Finally, we agreed on the need for the MPC to remain prepared to use all available tools to preemptively strike against significant threats to general price stability; i.e. inflation.

External and internal risk factors were fully considered. These ranged from possibilities of a harder than generally expected economic landing in



China, a deep and prolonged recession in the European Monetary Union (EMU), the likely inability (under renewed crisis conditions) of US Authorities to globally stimulate growth in the customary manner, to the risks these and other key domestic factors pose on Nigerian fiscal revenues and macroeconomic balances. We also recognize that, even as domestic inflation seems to be flagging, prospects for achieving meaningful fiscal consolidation in Nigeria are likely to be weak in the short and possibly intermediate term. As such, the effective fiscal stance of Nigerian governments justifies continuing MPC vigilance. That said, global market developments and their impact on Nigeria could end up vindicating the government's current posture – even if only reviewed in retrospect.

In my view, today's MPC decision to hold represents an opportunity for local market players to pause, reflect and reassess. Domestic institutions might well use this largely unanticipated breather to reassess core views on interest and exchange rates for the Naira; against a global backdrop of increasing economic and political uncertainties. I also see further exciting opportunities in today's decision for the Monetary Authorities. Here are three examples:

### **Liquidity Management**

There remains considerable scope for improved performance in Liquidity Management. Interbank interest-rate volatility has been quite pronounced in recent years owing principally to larger, less predictable official transfers. These domestic transfers complicate the Central Bank's monetary reserve targeting efforts; to the extent that achieved levels of bank reserves can vary markedly. In light of such challenges, zeroing-in on pricing – i.e. influencing market interest rates – becomes a pragmatic backup strategy. Rate volatility might be further moderated, however, through the CBN's faster execution of countermeasures against fiscally-induced liquidity injections. This capability is going to be even more valuable when CBN guarantees on interbank obligations are withdrawn at this years' end.

## **Bank Exposures to Sovereign Bond Risks**

We have a sizable market for government bonds in Nigeria but for all its size, the market still lacks meaningful and reliable liquidity. Currently, indicative secondary market bond prices (when quoted), and their derived benchmark yields, cannot be relied upon as reasonably accurate indicators of value. We have a banking sector in Nigeria that is heavily exposed to these bonds for regulatory reasons, and also possibly in the mistaken local belief that Naira sovereign bonds are completely risk free. Indeed, FGN Naira Bonds are credit-risk free, thanks to the Central Bank's capabilities as Lender of Last Resort – for Naira. Unfortunately, as is also the case with their European counterparts, Nigeria's banks are structurally over-dependent on local Money Markets to fund Capital Market investments. This unfailingly gives rise to high levels of market risk exposures (in the form of price and liquidity risks) that can make banking sector stability transitory at best, and illusory at worst – even when anchored by large holdings of sovereign risk. Regulators and bank CEOs in the Eurozone are presently rediscovering this inescapable financial market reality.

The CBN did well to boldly intervene against widespread solvency problems that threatened Nigerian banking with devastating havoc. The NPLs have been quarantined, and financial disaster was largely averted. However, sustainable banking sector stability now needs the CBN to play a further, catalytic role in reducing this unhealthy dependence on transient bank-investment funding within its jurisdiction. Nigeria does not have to blunder into the same structural mistake Eurozone market planners did.

## **Exchange Rate Policy Articulation**

Exchange Rate Policy might also be further articulated to convey key determinants of midpoints around which desired trading bands are

established. On this occasion, the CBN's proposed new midpoint for USD/NGN exchange is roughly the upper limit of the band established around the old midpoint. To which market participants might be prompted to wonder whether the CBN has started as it means to proceed? Will widening or narrowing bands also foreshadow future exchange rate adjustments? I believe the CBN can publicly clarify the rules of engagement in such respects, without sacrificing much operational flexibility. Low visibility, regarding the manner in which official exchange rates are adopted, is one of the inhibiting factors behind the poor liquidity and shallowness of frontier securities markets. The latter are among market features that promote broader international participation; admittedly this has been lacking in Nigerian financial markets since the inception of liberalization initiatives adopted in 2007.

## **8.0 SALAMI, ADEDOYIN**

While Headline and Food inflation both rose slightly to 10.5 per cent and 9.7 per cent in October, Core inflation, in contrast, decelerated marginally to 11.5 per cent. Notwithstanding the fact that these numbers are higher than our objective of achieving the single digit inflation, and CBN Staff expectation that prices will breach 11 per cent in November, there is a sense of calm around many of the key factors which typically give concern.

Although output growth for 2011 is projected at 7.69 per cent, slightly lower than the 7.87 per cent achieved in 2010, the rate of increase of economic activity is acceptable albeit that it is less than potential. Furthermore, Staff forecasts indicate that all inflation types will moderate as the year ends and into the first quarter of 2012. Indeed, the forecasts show that Headline inflation will ease to 8.3 per cent by February 2012.

Painfully slow, if any progress, in government attempt to build a political consensus around the removal of petrol price subsidies suggests that higher prices expected to accompany price deregulation is receding into an uncertain future. It will be interesting to see what the 2012 Federal and

State budgets look like in the event of an ultimately unsuccessful attempt to build a political consensus – especially, if as anticipated oil prices ease, however slightly, in the year ahead. The measures with respect to the exchange rate at MPC’s meeting in October appear to have contained the pressures.

Notwithstanding the ‘calm’, the continuing high level of banking system liquidity – despite the measures, especially raising the Cash Reserve Ratio. My fear remains the possible implications for pressure on the currency of high liquidity. A combination of slowdown in economic activity as firms prepare to close over the year-end holidays and the movement of the Naira’s midpoint and band give some room for comfort that the risk to the currency is less than it was before the MPC’s meeting in October. Furthermore, the combined impact of changes to the administration of access to foreign currency and adjustment to the midpoint and range of the Naira’s band, decided upon by the Central Bank, should continue to keep currency stability required for effective management of inflation.

I am thus able to support maintenance of the status quo on the Monetary Policy Rate (MPR), the Standing Deposit and Lending Rates.

## **9.0 UCHE, CHIBUIKE**

At the October 10, 2011 emergency meeting of the MPC, the MPR was raised by 275 basis points from 9.25 to 12.0 per cent. This unprecedented hike was, at least in part, as a consequence of the speculative attacks on the Naira. Other monetary tightening measures adopted at the emergency meeting included: the increase of CRR from 4.0 to 8.0 per cent and the reduction of the authorised dealers’ Net Open Position from 5.0 to 1.0 per cent. In the light of the fact that the Naira exchange rate has now been fairly stabilised and there are no material changes in the inflation numbers, I am of the opinion that we should maintain the status quo at this stage until we get more current data on the impact of the recent emergency MPC action. In the medium term, however, my concern remains the fact that hikes in MPR and other monetary tightening

instruments negatively impacts on credit to the real sector. I will therefore be favourably disposed to revisiting the current MPR with the view of aiding real sector growth and development in the near future. I am of course assuming that given the current transformation agenda of the Federal Government, it is now determined to be more fiscally responsible.

## **10.0 YAHAYA, SHEHU**

I recommend that the MPR is maintained at its current level, as well as the corridor, CRR. This vote is based on the following considerations.

- a) Although the YOY headline inflationary rate has inched up a little bit to 10.5%, it should be recognized that the increase is quite small, and core inflation has declined somewhat. Also, while prices may increase a bit in December due to demand pull factors, these pressures should subside thereafter.
- b) There has been depreciation in the exchange rate of the Naira, but the rate has appreciated a bit last month. There has also been a trend towards convergence in rates in the interbank, WDAS and BDC markets. This trend, within the context of the shift in mid-point, will appear to be sustainable in the short term, as long as there is no dramatic fall in crude oil prices.
- c) Indeed, taxed on available data, crude oil prices are expected to remain flat in the near term, which works both ways – probably no dramatic spike in government revenue and expenditure which would spoke additional inflationary pressure.
- d) External Reserves have increased in the last month, even though import coverage has reduced.
- e) Manufacturing output is projected to decline somewhat, due to the higher costs induced by higher interest rates and to elasticity of demand. Moreover, SMEs, even though the data is not adequate,

are bound to be even more strongly affected by the higher interest rates. It would not be propitious to further overburden them at this time, particularly if we are to avoid additional risks of job losses.

- f) Lastly, the effects of the last MPC decision to raise MPR by 275 basis points is still playing out and it would be important to watch the effects before applying additional measures.

It is here recognized that liquidity is still high in the banking system and this situation may last for a while longer since lending is unlikely to significantly expand under a higher interest regime until adjustment takes place. This may pose risks with respect to continuing strong demand for foreign exchange.

On the basis of the above considerations, I vote for maintenance of the MPR at the current rate, the retention of the symmetric corridor and the current CRR.

## **11.0 SANUSI LAMIDO SANUSI**

### **Governor of the Central Bank of Nigeria and Chairman of the Monetary Policy Committee**

We are meeting today in domestic circumstances that are decidedly calmer and more stable than they were when we called an extraordinary meeting in October. At that time the markets were in a panic over the bad news from Europe and reversal of capital flows from emerging markets, and several currencies were under pressure, including the naira.

The sharp measures we took in October, significantly raising both MPR and, CRR, to stem speculative activity, encouraged portfolio allocation, and restored confidence. Although the naira has settled at a somewhat weaker level than the previous N150:\$1, it has happened in a controlled and orderly manner consistent with our objective of maintaining exchange rate stability without resorting to a fixed exchange rate.

Nigeria Bureau of Statistics (NBS) figures for October show continuing robust growth in (especially non-oil) GDP and a slight up-tick in inflation. The marginal increase in headline inflation from 10.3 percent to 10.5 percent is driven largely by energy, rent and building materials. Core inflation fell marginally Year-on Year to 11.5 from 11.6% in September. All broad indices showed month-on-month declines in October, compared with increases in the previous month.

The tightening measures adopted at the MPC of October have actualized their prime objective of calming the markets, encouraging a portfolio reallocation to naira, raising real interest rates to positive territory and satisfying the foreign exchange markets.

On the external front, there are heightened concerns over economic and financial developments in the developed and emerging markets. Fiscal imbalances, bank solvency risks, higher inflation and unemployment etc. portend a world in which a new recession cannot be ruled out. A softening of commodity markets will put pressure on government finances and reserves with high interest rates. This should moderate government spending, thus strengthening the support to disinflation from the fiscal side. I am also less convinced now that fuel subsidy removal is imminent, given the repeated delays.

My view is that the measures taken in October are working and the uncertainties in the external environment advise a pause at this point to avoid further tightening being pro-cyclical. The next MPC is in January and we can take a decision on further tightening based on the situation then.

I therefore vote for

1. Retention of MPR at 12% and symmetric corridor of +/- 2%.
2. Retention of CRR at 8%
3. Adopting a target exchange rate band of N155 +/-3%/\$1 i.e. N150 – N160/\$1