CENTRAL BANK OF NIGERIA

MONETARY POLICY REVIEW

MAIDEN EDITION 2010

Central Bank of Nigeria
Monetary Policy Review
Volume 1, No 1, Maiden Edition 2010

Aims and Scope

The Central Bank of Nigeria Monetary Policy Review is published two times in a year in February and August by the Monetary Policy Department. The publication is designed to improve public communication of monetary policy as well as understanding of the basis for monetary policy decisions. The contents of the publication are therefore intended for general information only. *While necessary care has been taken to ensure the accuracy of the information contained in this publication, the CBN shall not be liable for any wrong interpretation or application of any piece of information contained herein.*

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Central Bank of Nigeria
Monetary Policy Review
Volume 1/1 maiden edition 2010

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ISSN: 2141-6281

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Central Bank of Nigeria

Mandate

▪Ensure monetary and price stability
▪Issue legal tender currency in Nigeria
▪Maintain external reserves to safeguard the international value of the legal tender currency
▪Promote a sound financial system in Nigeria
▪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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PREFACE

I am delighted to introduce this Maiden Edition of the Central Bank of Nigeria (CBN) **Monetary Policy Review (MPR)** produced by the Monetary Policy Department. Although much has been written on the monetary policy process and implementation in Nigeria, there remains considerable scope for further initiatives and a more rigorous appraisal mechanism for evaluating the impact of monetary policy actions on the economy. In addition, the bases for the monetary policy actions of the Bank had not been properly understood in the past, leading to considerable speculations on the next move of the policy makers. The MPR has been introduced with the objective of providing a comprehensive and objective assessment of the monetary policy of the Bank, with a view to improving the communication of monetary policy actions to key stakeholders in order to guide them in making informed decisions.

The publication of the MPR is a major step forward in improving monetary policy communication by the Bank. It provides an avenue for stocktaking through a comprehensive review of macroeconomic developments in the economy, presenting the monetary policy decisions of the Bank as well as providing insight into the Bank's likely future monetary policy direction. The MPR will also enable major stakeholders in the economy to understand, evaluate and appreciate the bases for the CBN's monetary policy decisions, this being necessary for stakeholder-buy-in of the Bank's monetary policy actions.

The maiden edition of this publication is coming at a time when the global economy is emerging from a deep financial crisis and economic recession. These developments, amongst others, greatly altered the global financial architecture and placed an onerous burden on central banks to refocus on financial stability. Consequently, the task of central banking has assumed a more global dimension than the usual jurisdiction specific to monetary policy operations of most central banks. The lessons learnt from the recent global financial and economic crises have enabled the CBN not only to re-examine its stance on monetary policy, but also necessitated a rebalancing of the pursuit of price and monetary stability on the one hand and achieving rapid economic growth on the other hand.

The current efforts and focus of the CBN, especially, towards mitigating banking system risk and ensuring financial sector stability have no doubt, brought into the front burner, the need to have a stable environment that would facilitate the maintenance of price and monetary stability. Apart from tackling the endemic problem of ensuring banking soundness, the CBN has striven to create an enabling environment for the evolution of a healthy and stable financial system in Nigeria. This was against the backdrop of anchoring on a monetary policy mechanism that responds positively to the developmental needs of the economy. It is partly to address this concern and focus on recent challenges that the Bank has found it expedient to launch this publication. Although, the MPR will be published bi-annually, in February and August, however, this maiden edition covers the period January 2009 to June 2010.

I commend the untiring efforts of Monetary Policy Department in ensuring the production of the maiden edition of this publication. It is my expectation and hope that the MPR will be an indispensable resource material for policy makers and other stakeholders involved in economic policy management. I welcome comments, observations and contributions on this initiative, which will enable the Central Bank of Nigeria, improve on subsequent editions.

Sanusi Lamido Sanusi
Governor,
Central Bank of Nigeria

ACKNOWLEDGEMENT

The conduct of monetary policy is the statutory responsibility of the Central Bank of Nigeria. The primary objective of monetary management by the Bank is to ensure a stable macroeconomic environment, which is the basis for promoting sustainable economic growth and development. This task became more apparent during the recent global financial crisis, when the Bank in collaboration with the fiscal authorities adopted measures to avert a collapse of the banking system and to stimulate aggregate demand and strengthen output growth.

The need for this publication is twofold. Firstly, in a democratic environment, monetary policy has left the confines of central banks' strong rooms to the public domain, for the purpose of accountability. Consequently, it is incumbent on central banks to become more transparent in the conduct of monetary policy, such that the public is clearly informed on the monetary policy formulation and implementation processes. This also involves communicating the rationale and goals of monetary policy, while reasons for policy sub-optimal performance are explained. Secondly, most of the documents containing monetary policy decisions are available to the public but on isolated basis, which makes it difficult for stakeholders to have a complete understanding of the sequence of events in the monetary policy making process. These issues underpinned the publication of **Monetary Policy Review** by the Central Bank of Nigeria.

This maiden edition is particularly significant for the additional reason, that the recent global financial and economic crises redefined the task of monetary management in ways that had never been previously contemplated. The weak regulatory framework and environment were partly blamed for the crises. While the propriety of such conclusion is not an issue here, we adjudge that the terrain of monetary management has been significantly altered after the crises. An emerging lesson from the crises was the coordinated responses of the fiscal and monetary authorities in their rescue operations in providing temporary liquidity accommodation. In this context, the Central Bank of Nigeria took far-reaching measures to address the challenges of liquidity crunch in the banking system. This edition of the Monetary Policy Review provides readers with reasons behind those measures.

This maiden edition begins with an overview of monetary and financial developments since January 2009. In chapter 2, the goals and instruments of

monetary policy and the measures taken to achieve financial and price stability are discussed. Other issues discussed in the chapter include; the activities and major decisions of the Monetary Policy Committee, the institutional framework for liquidity management and the movement of key monetary aggregates. Chapter 3 explains the operations of major financial markets in Nigeria. Specifically, it highlighted developments in the various segments of the financial markets, namely, capital market, money market, and foreign exchange market. Chapter 4 presents the trend in inflationary developments during the review period, including the determinants of inflation as well as major risk factors to inflation. Chapter 5 assesses the economic outlook for the rest of 2010 and prospects of global and domestic output growth, inflationary performance and energy prices. The appendices contain the Communiqués (January 2009 June 2010) of the Monetary Policy Committee meetings during the review period.

The preparation of this document benefited immensely from contributions by various Departments of the Bank, and the support of the Governor of the Central Bank of Nigeria, Mallam Sanusi Lamido Sanusi. The commitment of the Monetary Policy Department and the Editorial Team is hereby acknowledged. It is hoped that this publication will serve the growing need for information by major stakeholders in the Nigerian economy.

Sarah O. Alade (Ph.D)
Deputy Governor, (Economic Policy)

CHAPTER ONE

OVERVIEW

Monetary policy in 2009 placed high emphasis on ensuring the liquidity of the banking system

The focus of monetary policy in 2009 revolved around the need to maintain stability in the banking system. The tight liquidity conditions in the banking system particularly in the second half of 2009 arose from the global financial and economic crises. Thus, the thrust of policy tilted towards providing adequate liquidity in the banking system than on price stability. In the first half of 2010, the Bank made deliberate efforts to unlock the credit market. The CBN sustained the use of the Monetary Policy Rate (MPR) to anchor short term money market rates and other interest rates.

The major instrument of monetary policy was Open Market Operations (OMO) conducted through Treasury Bills auction in the primary market. This was complemented by discount window operations (including standing lending and deposit facilities, repo and reverse repo operations) and the use of the cash reserve requirement (CRR). Primary market transactions in government securities, sale/purchase of CBN bills and foreign exchange market operations were also used in monetary management.

MPC held 6 regular and 1 special meetings in 2009

The conduct of OMO was geared towards increasing the liquidity of the financial system. As a result, growth in reserve money marginally exceeded its 2009 target of N1,604 billion by 3.9 per cent

In 2009, the Monetary Policy Committee (MPC) held 6 regular and 1 special meetings, while 3 regular and 1 special meetings were held in the first half of 2010. Consistent with the policy stance of monetary easing, the MPR which was 9.75 per cent in January 2009 was reduced to 8.0 per cent and 6.0 per cent in April and July 2009, respectively. The policy rate remained unchanged at 6.0 per cent for the rest of 2009 and throughout the first half of 2010. However, the existing symmetric corridor was restructured to an asymmetric corridor (lending at 2.0 per cent above the MPR and deposit at 5.0 per cent below the MPR) at the MPC meeting of November 3, 2009 and March 1, 2010.

Sustained illiquidity ... rising short term interest rates ... CBN guaranteed interbank placements

The persistent illiquidity of the banking system, in the second half of 2009, prompted the adoption of far-reaching liquidity enhancing measures by the monetary authorities. As the tight liquidity condition persisted, short term interest rates in the money market rose and liquidity surplus banks refrained from interbank lending, prompting the monetary authorities to guarantee placements in the interbank market in order to promote activities in that market and to avert the collapse of the money market. The conduct of OMO was geared towards the injection of liquidity into the financial system. As a result, the growth in reserve money for 2009, marginally exceeded the benchmark of N1,604 billion by N64 billion, representing an excess of 3.9 per cent, over the benchmark for the year. The combined effects of monetary easing and other quantitative easing measures substantially enhanced liquidity in the banking system. However, throughout the first half of 2010, the challenges of credit crunch persisted in the economy because the deposit money banks adopted a cautious approach to risk-taking, which affected aggregate lending to the private sector of the economy.

...high interbank rates reflected market pricing of uncertainty ...

Short term money market interest rates, such as the interbank call rates, which had risen astronomically in the first half of 2009, dropped in the second half of that year, following the guarantees provided by the CBN for interbank market transactions. The high interbank interest rates experienced earlier, reflected market pricing of uncertainty, illiquidity and high counter party risk.

... CBN guarantees as well as the banking reforms undertaken in the second half of 2009 provided increased confidence in the banking system ...

The CBN guarantees as well as the effects of banking sector reforms undertaken in the second half of 2009 boosted public confidence in the banking system. In the first half of 2010, money market interest rates fell considerably although the credit crunch persisted. By end-June 2010, money market interest rates had fallen to an all time low, but this did not reflect in increased credit to the private sector as banks continued with their cautious approach to lending.

...expansion in M2 combined with seasonal factors led to rising inflation...

Indeed, the relationship between money, output and prices became more distorted, especially in the second half of 2009, despite the expansionary stance of monetary policy. Consequently, policy-induced expansion in M2, combined with seasonal factors in the last quarter of the year, led to an increase in year-on-year headline inflation, which closed at 13.9 per cent at end-December 2009. The level of year-end inflation was, however, 1.2 percentage points lower than the level of 15.1 per cent recorded at end-December 2008. The combined effects of the monetary and fiscal stimulus, reforms of the banking system and favourable weather conditions for increased agricultural output, contributed to an overall growth in real GDP of 6.66 per cent at end-December 2009. Given the favourable weather conditions and improved energy supply, provisional figures indicate that real GDP grew by 7.68 per cent at end-June, up from 7.23 per cent in the first quarter of 2010. Overall, real GDP is projected to grow by about 8.13 per cent in 2010.

...expansionary monetary policy, banking sector reforms and higher agricultural output led to GDP growth of 6.66 per cent in 2009

... year-on-year headline inflation trended downwards in the first half of 2010 from the level at end-December 2009 despite the expansionary posture of monetary policy...

During the first half of 2010, the year-on-year headline inflation rate fluctuated between 12.9 and 15.6 per cent. Following the rise from 14.4 per cent in January to 15.6 per cent by end-February, the inflation rate dropped to 14.8 per cent at end-March 2010. In April 2010, the rate of inflation, which was 15.0 per cent, declined to 12.9 per cent in May and subsequently rose to 14.1 per cent in June 2010.

The macroeconomic environment in 2009 presented significant challenges for the attainment of price stability, given the emerging problem of excess liquidity in the banking system. The stance of fiscal policy was largely supportive of expansionary

...fiscal policy was supportive of the expansionary monetary policy... while demand pressure in the foreign exchange market led to depreciation in the naira exchange rate

monetary policy. The continued divestment of portfolio investment by foreign investors during the year intensified the demand pressure in the foreign exchange and capital markets, with adverse consequences for the naira exchange rate and the stock of external reserves. Consequently, the naira exchange rate depreciated substantially before stabilizing at around N150/US$ at end-2009, while the stock of external reserves decreased from US$42.38 billion between end-December 2009 and end-June 2010, indicating a decline of 11.59 per cent.

... Assets Management Company of Nigeria Bill was passed by the National Assembly in the second quarter of

The goal of ensuring the liquidity of the banking system was largely achieved in 2009, especially in the last quarter of the year. In an effort to promote and sustain banking system soundness, the Assets Management Corporation of Nigeria Bill was passed by the National Assembly in the second quarter of 2010 and assented to by the President, Federal Republic of Nigeria as the Assets Management Company of Nigeria. In addition, a N500 billion quantitative easing facility was established to support the development of critical infrastructure and the growth of real sector output.

...outlook suggests improved aggregate demand and banking stability while monetary policy would remain largely expansionary for most part of 2010...

The overall positive outlook envisaged for the rest of the year is hinged on the expected recovery of the global economy from the financial and economic slowdown. While domestic economic activity is expected to improve in the face of the recovery of the global economy and improved liquidity of the banking system, serious concerns exist regarding the sovereign debt crises in some European economies such as Greece, Spain, Portugal, and the possibility of austerity measures in other industrial economies, including the USA. The economic outlook, therefore, suggests that the stance of monetary policy in the remainder of 2010 would remain largely uncertain.

CHAPTER TWO

MONETARY POLICY

2.1 Introduction

The thrust of monetary policy in 2009 was to ensure the stability of the banking system against the backdrop of the global financial and economic crises. In the last quarter of 2009, signs of recovery in the global economy and financial system began to emerge. Consequently, the challenge of monetary policy in 2010 was that of maintaining the soundness and stability of the banking system, while at the same time ensuring low and stable prices.

This Chapter reviews the instruments of monetary policy, major decisions of the MPC and liquidity mgt measures in 2009 and first half of 2010...

This chapter presents the institutional framework for monetary policy in Nigeria, the goals and instruments of monetary policy, the major decisions of the Monetary Policy Committee (MPC) as well as the impact of monetary policy measures on the monetary aggregates in 2009 and the first half of 2010.

2.2 Institutional Framework for Monetary Management

Monetary policy design is anchored by the MPC

The responsibility for the conduct of monetary policy, as contained in the CBN Act 2007, is vested in the Monetary Policy Committee (MPC). The Act empowers the MPC to have responsibility within the Bank for formulating monetary and credit policy. It also requires the MPC to meet at least four (4) times in a year with a provision to hold special meetings as the need arises. The MPC consists of twelve (12) members, namely: the CBN Governor (Chairman), the four (4) Deputy Governors of the Bank, two (2) non-executive members of the Bank's Board of Directors, three (3) members appointed by the President, and two (2) members appointed by the Governor. The CBN Monetary Policy Department provides the Secretariat for the Committee.

... Key Committees service the needs of the MPC for the effective conduct of monetary policy

To ensure that the MPC is provided with reliable and timely data and information on developments in the economy, the Management of the Bank established Committees to service the needs of the MPC. These committees include the Monetary Policy Technical Committee (MPTC), Monetary Policy Implementation Committee (MPIC), Fiscal Liquidity Assessment Committee (FLAC), Liquidity Assessment Group (LAG) and the Financial Markets Advisory Group (FMAG).

The Monetary Policy Technical Committee (MPTC) is the technical arm of the MPC. It is a clearing house for the various economic reports to be presented to the MPC. It gathers data, inputs and reports from relevant Departments in the Bank, preparatory to the MPC meetings. It reviews such reports and makes recommendations to the Committee. The MPTC is chaired by the Director of Monetary Policy Department and its membership is drawn from relevant Departments of the Bank. The Monetary Policy Department is the Secretariat of the MPTC.

...the MPIC meets weekly to review actionable decisions of the MPC and liquidity developments in the preceding week...

Monitoring of monetary policy implementation is anchored by the Monetary Policy Implementation Committee (MPIC), chaired by the Deputy Governor (Economic Policy). Membership of the Committee is drawn from relevant Departments of the Bank. The MPIC meets weekly to review money and financial markets' developments based on the latest information available to the CBN and market intelligence reports from relevant operations' departments of the Bank. The daily assessment of liquidity position, provided by the Monetary Policy Department, forms the basis for decisions on the type of policy actions and instruments needed to address the liquidity conditions in the system. The Monetary Policy Department is the Secretariat of the MPIC.

...... daily liquidity assessment provided by the Monetary Policy Department forms the basis for policy actions...

...... FLAC serves as the liaison between the monetary and fiscal authorities...

The Fiscal Liquidity Assessment Committee (FLAC) meets a day before the MPIC meetings. The membership of the Committee comprises key revenue collecting agencies and relevant Departments in the Bank. The Committee collects data and reports from such agencies, which are used as inputs for the reports of the MPIC. The Monetary Policy Department also serves as the Secretariat for the FLAC.

The Liquidity Assessment Group (LAG), comprising of Financial Market Department, Trade and Exchange Department, Reserve Management Department, Banking and Payments System Department, and Monetary Policy Department meets daily to assess the actual liquidity that would determine the policy actions to be taken. It also serves to validate as well as improve the accuracy of the forecasts of liquidity conducted by the Monetary Policy Department. The Financial Market Department is the Secretariat of the LAG

2.3 The Goals and Instruments of Monetary Policy during the Review Period

... the Bank recognized the challenge posed by the global financial crises and so pursued accommodating monetary policy to achieve the stability of the banking system.

The Bank was faced with the dual challenges of ensuring the stability of the banking system as well as containing the rising inflation during the review period. In addressing the issue of banking system stability, the Bank recognized the serious challenge posed by the global financial and economic crises. In particular, the ensuing global liquidity crunch had adverse impact on the liquidity position of Nigerian banks. Consequently, the CBN pursued an accommodating monetary policy stance for most part of the review period. As part of the complementary measures to ease liquidity pressure in the banking system, the suspension of aggressive mop-up of excess liquidity in the system, which commenced in the second half of 2008, was

...the use of expanded discount window operations was discontinued in July 2009, following the introduction of the CBN guarantee of interbank market transactions

sustained in 2009 through the first half of 2010. Other liquidity injection measures included access to the expanded CBN discount window and quantitative easing. However, resort to expanded discount window operations was discontinued in July 2009, following the introduction of the Bank's guarantee of interbank market transactions. The guarantee remained in place throughout the first half of 2010. To further increase the liquidity of the banking system, the Bank also guaranteed pension funds' placement with banks.

2.3.1 Banking System Stability

...the Bank in conjunction with NDIC conducted a special audit on the DMBs to determine the soundness of the banking system

To ascertain the impact of the global financial and economic crises on the soundness of the Nigerian banking system, especially on the liquidity condition of the banks, the CBN in conjunction with the Nigeria Deposit Insurance Corporation (NDIC) conducted a special audit on the deposit money banks (DMBs) in the second half of 2009. The outcome revealed acute liquidity shortage in the banking system. In addition, the audit revealed a huge portfolio of non-performing loans amounting to N3.3 trillion and the consequent capital base erosion, as well as poor corporate governance in some banks. This represented 13.22 percent of GDP and 36.9 per cent of N8.9 trillion gross credits

...bank audit revealed substantial capital erosion in some banks. CBN injected N620 billion in bailout money. Banks with severe liquidity condition advised to recapitalize by June 2011

To mitigate the liquidity shortages in some banks, the CBN injected a total of N620 billion (in form of Tier-II capital), amounting to 2.5 per cent of GDP, to boost the liquidity of the banking system. In addition, the Executive Directors and Chief Executive Officers of eight (8) of the most affected banks were removed and replaced with the CBN appointed Management Teams, while those found to have compromised their positions were further referred to the Economic and Financial Crimes Commission (EFCC). The list of major beneficiaries of the non-performing loans was also circulated through the print and electronic media, and concerted efforts were made to recover the loans. However, the banks with liquidity problems but whose capitals were not impaired were advised to recapitalize not later than June 2011.

...quantitative easing measures introduced in 2010 include: N200 billion Asset Purchase Facility (APF), N500 billion Bank of Industry (BOI) Debentures, passage of Asset Management Company (AMCON) bill...

In the first half of 2010, policy focus was to ensure the provision of adequate liquidity to the banking system, promote activities in the interbank market and reduce interest rates volatility and level with a view to enhancing the availability of credit to the domestic economy. Consequently, a number of quantitative easing measures were introduced including, the establishment of N200 billion Asset Purchase Facility Fund (APF) and N500 billion infrastructure facility for on-lending by Bank of Industry (BOI), at concessionary interest rates to projects in the power and aviation sub sectors as well as Small and Medium Enterprises (SMEs). Also, the Asset Management Company of Nigeria (AMCON) Bill was passed into law by the National Assembly and subsequently assented to by the President of the Federal Republic of Nigeria.

Asset Management Corporation of Nigeria

Asset Management Corporation of Nigeria (AMCON) was conceived as a vehicle to absorb the toxic assets of the banking system with a view to freeing up the hitherto encumbered balance sheets of the Deposit Money Banks, in order to stimulate the recovery of the financial system. When operational, the corporation would buy up the non-performing loans of the banks, thereby, providing them with the much needed liquidity. As part of the reforms initiated by the CBN, in addition to the activities of AMCON, recapitalizing some of the troubled banks would restore stability and increase access to finance by borrowers, thus, restoring confidence in the banking system.

The CBN policy actions renewed public confidence in the banking system, as interbank market activity rebounded and naira exchange rates stabilized, while the level of deposits with the banking system substantially increased.

2.3.2 Price Stability

...the challenge of price stability was how to achieve single digit inflation

The major challenge to price stability in 2009 through the first half of 2010, was moderating the double digit, year-on-year headline inflation rate from the 3-year high of 15.1 per cent at end-December 2008 to single digit. To this end, the CBN continued to use the Monetary Policy Rate (MPR) to signal the direction for other money market rates in the domestic economy.

... the MPR which averaged 9.56 per cent between 2006 and 2007 successfully anchored short-term interest rates around 11.86 per cent in 2008

Monetary targeting remained the framework for monetary policy. As an anchor for short term interest rates, the MPR, which averaged 9.56 per cent between 2006 and 2007, successfully anchored short-term interest rates around an average of 11.86 per cent in 2008. However, in 2009, considerable volatility in short-term interest rates was observed, attributable largely to the liquidity crisis induced by the global financial and economic crises. The immediate challenge, therefore, was to stabilize the money market interest rates and restore credit flow to the private sector, while ensuring the soundness and stability of the banking system.

In the first half of 2010, the need to increase the liquidity of the banking system was uppermost.

In the first half of 2010, the need to increase the liquidity of the banking system was uppermost. Consequently, most measures tilted towards the pursuit of an expansionary monetary policy. Due to the liquidity injection measures, the domestic price level in the period averaged 14.5 per cent, which was higher than the 13.9 per cent recorded at end-December 2009.

2.4 Major Monetary Policy Decisions During the Review Period

2.4.1 Monetary Policy Decisions in 2009

Monetary Policy was largely influenced by conditions in the global financial system....

At its meeting of 14th January, 2009, the MPC decisions focused largely on addressing liquidity concerns in the foreign exchange market. The MPC reviewed developments in the foreign exchange market and noted the depreciation of the naira, resulting from the high demand pressure as against the falling supply levels of foreign exchange in the market. Previously, the MPC meeting of 11th December, 2008 noted the threat to the stability of the foreign exchange market posed by the declining accretion to external reserves, hence, reduced the permissible net open position (NOP) of the DMBs from 20.0 per cent to 10.0 per cent of shareholders' funds and directed the CBN to participate more actively in the foreign exchange market operations by buying and selling foreign currency through the two way quote.

... MPC reintroduced rDAS, approved cash backing of foreign exchange purchases, restricted funds purchases at rDAS to eligible transactions, return of unspent forex to CBN and reduction of Net Open position from 10 per cent to 5 per cent

More importantly, the Committee noted that there were uncertainties about the sustenance of future inflow of foreign exchange, leading to heightened speculative demand pressures in the market. The MPC, therefore, re-introduced the retail Dutch Auction System (rDAS), which was suspended in the first-half of 2008. Other measures designed to manage demand included the cash call for backing foreign exchange purchases under the rDAS; restriction of utilization of funds purchased at the rDAS to eligible transactions only; return of unutilized funds purchased by authorized dealers to the CBN within five business days after delivery; and the further reduction of foreign exchange Net Open Position of banks from 10.0 to 5.0 per cent of shareholders' funds.

At its second meeting on 9th February, 2009, the MPC observed that the prevailing domestic economic performance was largely influenced by external factors. For instance, while output growth

...MPC noted the existence of excess liquidity with high interest rates...guided by need for financial stability, MPC retained MPR at 9.75per cent, pegged spread between CBN and DMBs' buying and selling rates of forex at 1 per cent

was sluggish, inflation remained high; and strong demand pressure in the foreign exchange market persisted. The MPC also noted the co-existence of high interest rates with excess liquidity in the banking system. However, given the priority accorded to the maintenance of price and exchange rate stability, the Committee took the following decisions: retained the MPR at 9.75 per cent; reduced the DMBs' foreign exchange Net Open Position to 1.00 per cent of shareholders' funds; pegged the spread between the CBN and DMBs buying and selling rates of foreign exchange at 1.00 per cent; and the spread between BDCs buying and selling rate at 2.00 per cent.

...at its third meeting, the MPC reduced the monetary policy rate by 175 basis points from 9.75 per cent to 8.00 per cent

The third meeting of the MPC was held on 8th April, 2009 against the backdrop of perceived illiquidity in the banking system and high interbank interest rates, over the medium term. Other challenges included: weak credit expansion to the private sector compared with the trend observed in the preceding three years; and rising food prices. The MPC noted the impact of the tight monetary conditions in the economy and the need for monetary easing to stimulate output growth.

Consequently, the Committee reduced the Monetary Policy Rate (MPR) by 175 basis points to 8.0 per cent from 9.75 per cent. In addition, the liquidity ratio was reduced from 30.0 to 25.0 per cent and the Cash Reserve Requirement (CRR) from 2.0 to 1.0 per cent. These measures were intended to relax the tight liquidity condition in the money market and encourage bank lending to the private sector.

At the Committee's fourth meeting held on 21st May, 2009, the MPC noted that the exchange rate had stabilized at both the official and parallel markets, although the wide premium between the official and parallel market rates remained. Guided by the prospect of sustained stability in the foreign exchange market, over the medium term, the MPC decided to review the various control measures instituted in the preceding few months, while targeting a return to fully liberalized regime within three months. Furthermore, the Committee noted the need to address the problem of excess liquidity in the banking system without necessarily driving interest rates upwards.

...MPC granted approval in principle to 50 non-bank Class 'A' BDCs in May 2009...

In the light of the foregoing, the MPC took the following decisions: issuance of short-term securities to mop-up excess liquidity in the system; raising the permissible foreign exchange net open position for banks from 1.0 to 2.5 per cent as a first step towards returning to Wholesale Dutch Auction System (wDAS); reversal of the regulation that banks operate exchange rate transactions at 1.0 per cent around the CBN rate; granting approval in principle to 50 non-bank Class 'A' BDCs to access the CBN foreign exchange window; and granting Government Agencies and the oil Companies the option of selling their foreign exchange at the interbank foreign exchange market or to the CBN.

...MPC removed caps and floors on interest rates, reduced MPR from 8 per cent to 6 per cent, restored interest rate corridor of +/-200 basis points, approved the de-risking of interbank market through guarantee of all inter-bank placements...

At its fifth meeting held on 7th July, 2009, the MPC noted the continued adverse effects of the weak global demand and fall in crude oil production on Nigeria's external sector and fiscal operations, during the first half of the year. Although aware of the prospects of economic recovery in some emerging market economies, the Committee was of the view that the impact was not likely to offset the effects of the continued weak economic performance in the advanced economies. Consequently, the Committee observed that the growth prospects for the remainder of 2009 might weaken, while inflationary pressures were persisting.

Thus, the Committee focused its decisions on stimulating output growth and promoting exchange rate and financial market stability. Towards those ends, the MPC decided to: remove all controls (caps and floors) on interest rates hitherto imposed by the Bankers' Committee; reduce MPR to 6.0 from 8.0 per cent as well as restore the interest rate corridor of +/-200 basis points. The Committee also approved the de-risking of the interbank market operations through the CBN guarantee of all interbank placements; further liberalised the interbank foreign exchange market, through the replacement of rDAS with wDAS; raised net foreign exchange open position limit for banks from 2.5 to 5.0 per cent of shareholders' funds; admitted all class 'B' Bureaux-de-Change into the CBN window; and reduced the class 'A' Bureaux-de-Change's minimum capital requirement to N250 million from N500 million.

The MPC held its sixth meeting on 1st September, 2009. The Committee noted that the recessionary trend in many industrial economies seemed to be abating, although there was uncertainty about the timing of attainment of sustained economic recovery. In the domestic economy, the MPC observed that real output growth moderated somewhat relative to the forecast, while year-on-year headline inflation stabilized at a little over 11.0 per cent. Furthermore, the Committee noted, with satisfaction, the stability of exchange rate in the foreign exchange market and interest rates in the money market. The developments were attributed largely to the effects of the policy measures taken at its July 2009 meeting.

...MPC retained MPR at 6 per cent, interest rate corridor at +/- 2 per cent around the MPR and approved in principle, the establishment of an Asset Purchase Facility.

In the light of the foregoing, the Committee felt that policy initiatives were needed to further improve conditions in the markets without jeopardizing price and financial stability. Consequently, the MPC retained the MPR at 6.0 per cent, while

the interest rate corridor remained at +/- 200 basis points around the MPR. In addition, the establishment of an Asset Purchase Facility Fund (APFF)[1] was
approved in principle, with the objective of providing a medium for effective liquidity injection into the system and mechanism for credit easing targeted at specific sectors of the economy.

...MPC retained MPR at 6 per cent with asymmetrical corridor of interest rates; approved quantitative easing through establishment of the Asset Management Company (AMC); lifting of ban on the use of Bankers' Acceptances and Commercial Papers...

In its seventh meeting in 2009, held on 3rd November, the MPC noted that the global economy had improved faster than projected, as major industrial economies had shown considerable signs of recovery. On the domestic front, the Committee observed that while inflation had decelerated in the fourth quarter of the year, there was still the risk of inflation resurgence, due to the planned deregulation of the prices of petroleum products and seasonal factors, which were expected to impact on agricultural output, in the short to medium term.

On the other hand, there was significant deceleration in the growth of major monetary aggregates due to weak demand for credit. In the light of this, the MPC had to strike a balance between measures required to foster growth and those to contain inflationary pressures on a sustained basis. Accordingly, the Committee retained the MPR at 6.0 per cent, but with an asymmetric corridor of +2/-4 per cent to encourage interbank lending; approved quantitative easing through the establishment of an Asset Management Company (AMC)[2]; lifted the suspension on the use of Bankers' Acceptances and Commercial Papers; and

[1]The Asset Purchase Facility Fund was designed to inject liquidity in the market. At the time the MPC took the decision, there was substantial liquidity crunch in the banking system and there was need for rejuvenation through liquidity injection.
[2]The MPC approved to sponsor a bill for the establishment of an Asset Management Company (AMC), The AMC was intended to address amongst other things, the clearing of non-performing loans from the balance sheets of the deposit money banks as well as the injection of fresh liquidity into the banking system. At the November, 2009 meeting, the MPC noted that the banking system was inundated with a huge portfolio of non -performing loans which was revealed after the completion of the special audit of the DMBs conducted by the CBN and NDIC in the third quarter of 2009.

removed the 1.0 per cent general provisioning on performing loans.

2.4.2 Decisions of the MPC in the first half of 2010

...MPC meeting of 4th & 5th January, 2010 was first to hold under the 2007 CBN Act....

The MPC meeting held on 4th and 5th January, 2010, was the first in which the membership was constituted under the 2007 CBN Act. The MPC meeting was scheduled for 2 days, with the first day devoted to receiving economic reports, while deliberations, reviews and decisions were made on the second day.

...MPC noted signs of slow recovery in industrial economies. Global economy was still short of liquidity... commodity prices had resumed their upward trend heightening the possibility of higher recovery and inflation

At the January 2010 meeting[3], the Committee conducted a comprehensive review of domestic economic performance in 2009, against the backdrop of positive developments in the international economic and financial environments. The MPC noted signals of slow recovery in the developed economies, which were most severely affected by the economic and financial crises, and indicators of positive growth in the emerging market and developing economies due to their resilience to the financial crisis. The MPC also observed that although central banks around the world had taken measures to inject substantial liquidity into their economies, the global economy was still short of critical liquidity as financial institutions continued to maintain a cautious approach to credit extension. In addition, primary commodity prices, including crude oil prices, had resumed an upward trend, thus, enhancing the prospects of imminent growth recovery and concerns about the resurgence of inflation.

MPC observed improved confidence in the banking system, macroeconomic developments and moderation

On the domestic front, the Committee observed signs of improved macroeconomic development as reflected in the moderation of domestic price level and greater confidence in the banking system. It also noted improved growth performance in

[3]The interest rate corridor as at January was 200 basis point above the MPR and 400 basis point below the MPR.

the last quarter of 2009 and prospects of higher growth in 2010. In making its decisions, the Committee took cognizance of the continued implementation of the 2009 budget into the first quarter of 2010; the expansionary stance of the 2010 budget; expected liquidity injection/inflow from the recapitalization of the troubled banks and resolution of the problem of non-performing loans of the DMBs and inflationary expectations arising from the eventual deregulation of the downstream petroleum sector.

... Retained MPR at 6 per cent with an asymmetric corridor of interest rates, extended guarantees on interbank transactions...

Consequently, the MPC decided to leave the MPR unchanged at 6.0 per cent with an asymmetric corridor of interest rates; extended the CBN guarantee on all interbank market transactions till end-December, 2010; approved the Monetary Programme for 2010/2011 and the Guidelines for Monetary, Credit, Foreign Trade and Exchange policies for 2010/2011.

... Although the bonds market had rebounded, access to credit was likely to remain restricted except a fiscal stimulus package was available...

The second meeting of the MPC in 2010 was held on 1st and 2nd March. The meeting reviewed developments in the domestic economy as well as the international economic and financial market environment, during the first two months of the year. As noted in the meeting of January, the committee observed that the global economic recovery was expected to remain weak, with the rate of real output growth falling below its pre-crisis level, until late 2011. The Committee also noted that although the bond market had rebounded, access to credit was likely to remain limited, except where there were government interventions in the form of public lending programmes and guarantees.

The Committee also underscored the need to fast-track the ongoing reforms in the banking sector, to ensure increased flow of bank credit to the real sector. Furthermore, the MPC emphasized the need for complementary reforms in critical sectors of the economy, such as power supply and other economic infrastructure, in order to attract the much-needed private sector investment from domestic and foreign sources.

...MPC in March, 2010 approved the granting liquidity status to state government bonds subject to their meeting eligibility criteria...

The MPC's decisions were guided by the need to strengthen growth through the unlocking of credit markets and encouraging the DMBs to channel their excess funds to the real sector. Consequently, the MPC took the following decisions: left the MPR unchanged at 6.0 per cent; retained the 8.0 per cent interest rate on the Standing Lending Facility, while the rate on the Standing Deposit Facility was reduced from 2.0 to 1.0 per cent. Other decisions, included; granting liquidity status to state government bonds subject to their ability to meet specified eligibility criteria and continuation of quantitative easing policy through the provision of N500 billion[4] facility in debentures issued by the Bank of Industry (BOI), for investment in emergency power projects as well as refinancing/restructuring of DMBs' existing portfolios to manufacturers.

...Special MPC meeting held on April 15, 2010 to review the implementation of quantitative easing policy...

...MPC approved the Refinancing/Restructuring of DMB facilities to manufacturers with N1billion max loan size for single borrowers and the monthly submission by DMBs of their Risk-based Interest Rate Pricing Model to the CBN.

A special meeting of the MPC was held on 15th April, 2010 to consider modalities for the injection of N500 billion under the quantitative easing policy. The objective was to ensure that the quantitative easing policy actually translated to increased bank credit to the real sector and to ensure that a positive relationship was established between the monetary policy rate and the banks' lending rates. The Committee also underscored the need to maintain macroeconomic stability and accelerate the rate of economic growth. In that regard, the MPC approved the Refinancing/Restructuring of DMBs facilities to manufacturers for loans not exceeding N1 billion to a single borrower. The Committee directed the DMB's to submit their Risk-based

[4]This facility was later extended to the aviation sector.

Interest Rate Pricing Model to the Central Bank of Nigeria on a monthly basis. The MPR was retained at 6.0 per cent with the existing asymmetric corridor of +2.0 and -5.0 per cent, and appropriate complementary policies[5] of the CBN were also endorsed.

The last meeting of the MPC in the first half of 2010 was held on 10th and 11th May. The Committee noted that the recovery in global economic activity had improved considerably; although large fiscal deficits continued to pose a fundamental threat to macroeconomic stability globally.

...MPC extended the CBN guarantee for all interbank transactions and foreign credit lines as well as extended pension funds' placements with banks from December 31, 2010 to June 30, 2011...

On the domestic front, the MPC observed that the financial markets had recovered faster than expected, while the stability of macroeconomic environment was adjudged satisfactory. In taking its decisions, therefore, the Committee emphasized the need for the sustainability of relative stability in the financial markets; increased foreign capital inflow to revitalize the economy; and the need to unlock the credit markets by focusing on the complementary angles of both supply and demand policy measures. Consequently, the MPC: left the MPR unchanged at 6.0 per cent; retained the existing asymmetric corridor of interest rates; extended the CBN guarantee scheme for all interbank market transactions and foreign credit lines, and extended the guarantee to placements of pension funds' with the DMBs from 31st December 2010 to 30th June 2011.

2.5 Liquidity Conditions and Management

2.5.1 Liquidity Conditions and Management in 2009

The emergence of capital flight and the drying up of external credit lines created adverse liquidity conditions in the Nigerian

[5] This includes the revised guidelines for loan loss provisioning for preferred sectors, the N200 billion guarantee for real sector credit and regulations governing margin lending.

...capital flight and the drying up of external credit lines created adverse liquidity conditions in the banking system

banking system in 2009. These contributed to the depressed bank credit growth in the domestic economy in 2009 through the first half of 2010. The main challenge to the banking system, therefore, was managing acute illiquidity, especially during the first three quarters of 2009. The Central Bank of Nigeria intervened in August and September 2009, by providing N620 billion to rescue banks identified with grave liquidity situation following the special audit of the DMBs. To further enhance the liquidity of the banking system, funds were provided to finance the N200 billion Commercial Agricultural Credit Scheme (CACS), established in 2008. The CBN interventions greatly enhanced the liquidity position of the banking system. However, the DMBs cautious approach to lending and aversion to risk denied many potential borrowers easy access to credit; thereby, creating a contraction of bank credit in the last quarter of 2009 through the first half of 2010.

The major tool of liquidity management during the review period was Open Market Operations (OMO), complemented by discount window operations, liquidity ratio, cash reserve requirement and interest rate policy. Total sale of OMO securities in 2009 was N254.49 billion compared with N2,787.77 billion in 2008, representing a decrease of 90.8 per cent. The decrease in the volume of transactions relative to 2008 reflected, in part, the tight liquidity conditions during the period.

... there was significant improvement in the liquidity condition of the DMBs in the second-half of 2009 following the restoration of interest rate corridor and introduction of CBN guarantee

In order to further improve liquidity conditions in the system, the Cash Reserve Requirement (CRR) was reduced from 2.0 to 1.0 per cent, while the MPR was reduced from 9.75 to 8.0 per cent in April 2009. Despite these measures, the problem of illiquidity persisted up to August 2009, resulting in the persistent rise in interbank call rates, moving from a monthly average of 13.99 per cent in December 2008 to 18.10 per cent in July 2009.

Following the MPC decisions of July 2009, particularly, the restoration of interest rate corridor and de-risking of transactions in the interbank market, through the CBN guarantee of all interbank placements, there was significant improvement in liquidity condition of the banking system during the second-half of the year. Consequently, the weighted average interbank call rate, which peaked at 18.10 per cent in July, commenced a gradual downward movement to 10.17 per cent in August and further to 4.68 per cent by end-December 2009. Other money market rates followed a similar trend.

2.5.2 Liquidity Conditions and Management in the First Half of 2010

... actions of the monetary authorities in the last quarter of 2009 increased the liquidity of the banking system throughout the first half of 2010 ...

Liquidity conditions in the first half of 2010 reflected the cumulative effect of the expansionary actions of the monetary authorities in the last quarter of 2009. Consequently, there was liquidity surfeit in the banking system throughout the first half of 2010.

The major tools of liquidity management in the first half of 2010 remained the Open Market Operations. Total subscription to Nigerian Treasury Bills in the first half of 2010 was N734.46 billion. On annualised basis, this would translate to N1, 550.74 billion by end-December, 2010. The volume of subscriptions would be 44.37 and 38.94 per cent lower than the levels in 2008 and 2009, respectively. The low level of NTBs issued in the first half of 2010 was part of the broad measures of accommodative monetary policy stance of the CBN. This was to ensure that the relative conditions of liquidity in the banking system, which had been achieved since the third quarter of 2009, were not threatened.

Other complementary liquidity management tools were also used to ensure that the comfortable liquidity conditions in the banking system were sustained. The MPR and CRR, which were reduced to 6.0 and 1.0 per cent in July, 2009, respectively, remained unchanged through the first half of 2010.

The effect of the relatively stable liquidity condition in the banking system was reflected in the activities at the CBN lending window during the period. Indeed, there was no operation on the Bank lending window for a reasonable part of the first half of 2010. Total volume of operations on the CBN Standing Lending Facility (SLF) was N428.57 billion, as against the N31,648.17 billion recorded on the Standing Deposit Facility (SDF).

2.6 Monetary Aggregates and Interest Rates

Upward trend in average prime lending rates from 2nd quarter of 2009 indicated persistent ....

Table 2.1 shows the trend in key interest rates and monetary aggregates in 2009 and the first half of 2010. The trend in average prime lending rate was a reflection of persistent liquidity shortages during the review period. The average prime lending rate showed an upward trend, which became pronounced from the second quarter of 2009. For example, the average prime lending rate rose from 14.88 per cent at end-December 2008 to 17.41 per cent, during the first quarter of 2009, representing an increase of 17.0 per cent. Similarly, the average prime lending rate increased by 7.29 percentage points to 18.68 per cent in the second quarter of 2009.

...the injection of N620 billion into the banking system in the third quarter of 2009 moderated the rising trend in the lending rates ...

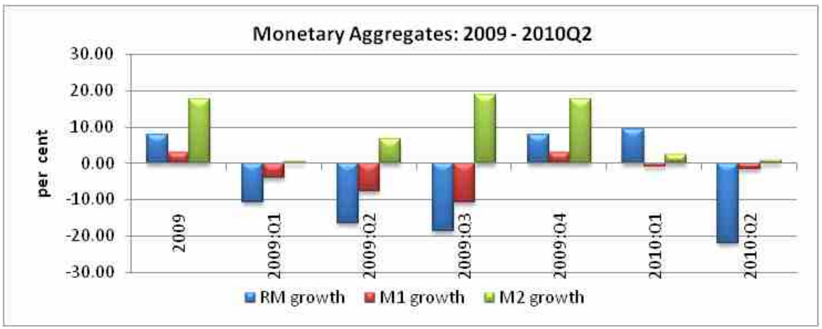
The intervention carried out by the CBN through the injection of N620 billion into the banking system in the third quarter of 2009, moderated the rising trend in the lending rates as the average prime lending rate declined to 18.37 per cent in the third quarter. However, the average prime lending rate rose marginally to 18.97 per cent in the fourth quarter of 2009.

The trend in the first half of 2010 showed a moderation in the lending rates, as the average prime lending rate reduced to 18.60 per cent in the first quarter of 2010, while it showed a modest increase to 18.91 per cent in the second quarter. The liquidity enhancing interventions of the CBN contributed immensely in moderating the rising trend in lending rates, especially in the last two quarters of 2009 as well as in the first half of 2010.

Unlike the lending rate, however, deposit rates remained constant throughout the review period as average savings deposit rate was 4.50 per cent for the whole period. This is indicative that depositors with the DMBs in the country did not have influence on pricing of their deposits, given that the risk to deposit with banks actually increased during the period while the pricing of deposit did not reflect such risk. Furthermore, as a result of increasing average lending rate while deposit rate was constant, the interest rate spread showed a rising trend from 10.38 percentage points in the fourth quarter of 2008 to 14.47 percentage points in the fourth quarter of 2009, and moderated slightly to 14.41 per cent by the second quarter of 2010. This, in essence, suggests that the banking industry in Nigeria still exhibit features of monopolistic competition.

The illiquidity situation in the banking system during the first three quarters of 2009 had a moderating effect on money supply. For example, the broad money stock (M2) stood at N10,767.80 billion in 2009, compared with the programme benchmark of N11,073.54 billion, representing a shortfall of N305.74 billion or 2.76 per cent. Similarly, the broad money stock for the first-half of 2010 was N10,845.90 billion, compared with the annualised benchmark of N12,342.11 billion, reflecting a shortfall of N1,496.21 billion or 12.12 per cent (Chart 2.1A). Although the contraction was reflected in the various measures of monetary aggregates, the effect was most severe on the narrow measure of money supply (M1).

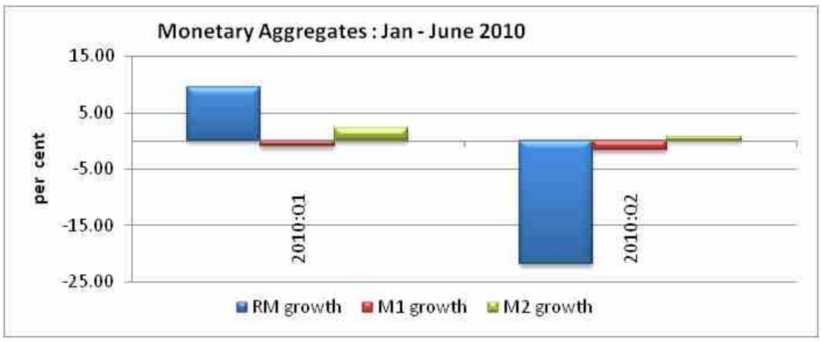
Chart 2.1A



Source: CBN Monetary Survey

Narrow money (currency outside banks and private demand deposits with the banking system) increased by only 3.02 per cent in 2009, compared with the rise of 55.87 per cent in 2008. The stock of narrow money in the first half of 2010 declined by 1.72 per cent, compared to the annualised growth benchmark of 11.18 per cent (Chart 2.1B and Table 2.1).

Chart 2.1B



Source: CBN Monetary Survey

Table 2.1
Monetary Aggregates and Interest Rates
(In per cent unless otherwise stated)

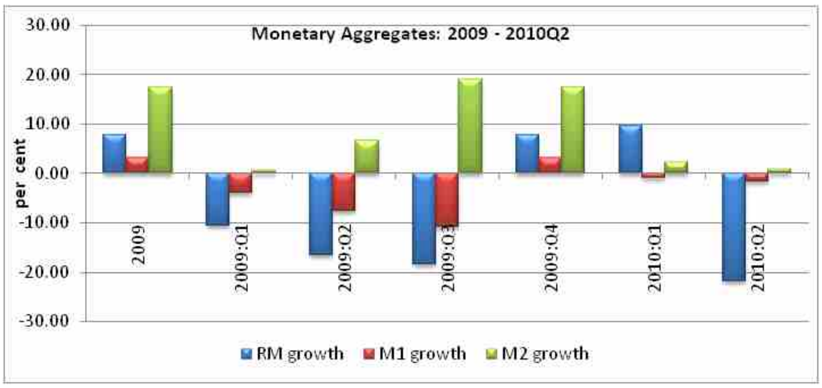
ITEM	2009	2008	2010:Q1	2010:Q2	2009:Q1	2009:Q2	2009:Q3	2009:Q4	2008:Q1	2008:Q2	2008:Q3	2008:Q4
RM growth	7.71	4.74	9.49	-21.91	-10.65	-16.60	-18.53	7.71	0.40	26.98	4.34	4.74
M1 growth	3.02	55.87	-1.01	-1.72	-3.92	-7.67	-10.78	3.02	45.88	38.90	45.10	55.87
M2 growth	17.46	57.78	2.25	0.73	0.50	6.56	18.92	17.46	37.66	36.80	54.22	57.78
DD/TD+SD*	70.03	91.90	68.01	69.55	89.18	81.40	69.36	70.03	112.49	100.98	84.82	91.99
Credit/M2*	94.63	87.91	91.16	93.15	91.42	94.26	103.73	94.63	74.57	84.98	83.41	87.91
CG/M2*	-0.21	-0.33	-14.98	-13.74	-0.37	-0.32	-0.29	-0.21	-0.31	-0.34	-0.36	-0.33
NFA/M2*	70.34	93.27	61.43	59.79	90.08	84.00	72.81	70.34	99.41	104.62	95.12	93.27
CIC/RM*	55.78	92.30	59.99	77.94	58.09	57.79	61.71	55.78	74.31	60.50	78.28	92.30
MultplierM1	3.03	3.14	2.74	3.20	3.37	3.47	3.43	2.98	3.78	2.85	3.62	3.14
MultplierM2	6.51	5.92	6.08	7.06	6.50	7.03	7.49	6.43	6.66	5.23	7.18	5.92
APLR	18.97	14.88	18.60	18.91	17.41	18.68	18.37	18.97	15.44	15.19	15.02	14.88
ASDR	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
INTSPR	10.52	10.38	14.10	14.41	12.91	14.18	13.87	14.47	10.94	10.69	10.52	10.38

Source: CBN Monetary Survey
Notes: Credit refers to claims on other private sectors in the monetary survey. (*) Refer to ratios; CG refers to credit to government; CIC stands for currency in circulation; NFA for net foreign assets; RM for reserve money; DD for demand deposits; TD for time deposits and SD for saving deposit; APLR for average prime lending rate; ASDR for average savings deposit rate; INTSPR for interest rate spread.

Growth in broad money at 17.46 per cent was below the target of 20.8 per cent for 2009...

The growth in broad money (M2) in 2009, though higher than narrow money, was substantially lower than the programmed benchmark for the year. The broad money stock recorded a relatively modest growth of 17.46 per cent, compared with the 57.78 per cent recorded in 2008 and the 20.80 per cent benchmark for 2009. The growth performance of broad money in the first half of 2010 was sub-optimal (Chart 2.1C), for an increase of 0.73 per cent compared with the annualised growth target of 14.62 per cent.

Chart 2.1C



Source: CBN Monetary Survey

In the period 2008 - 2009, the narrow money multiplier (ratio of narrow money to reserve money) declined slightly, from 3.14 per cent in 2008 to 2.98 per cent in 2009, representing a decrease of 5.1 per cent over the period.

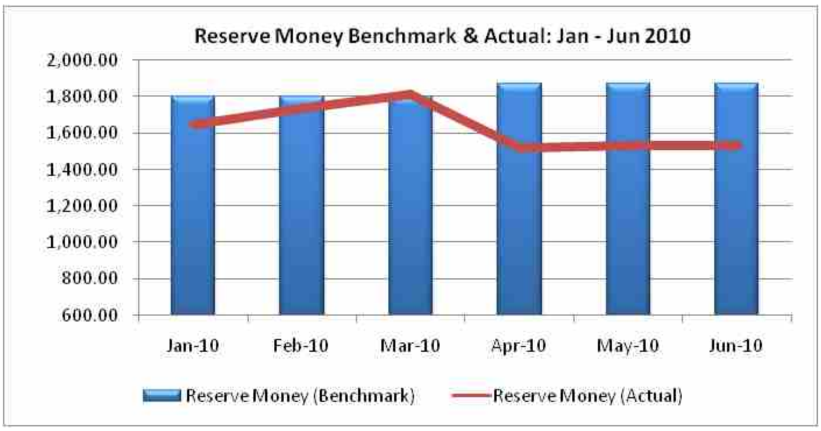
Chart 2.2A

Source: CBN Monetary Survey (CBN)

Money multiplier has been trending upwards consistently

Generally, the money multiplier (for both narrow and broad money) has assumed a consistent upward trend. For example, the broad money multiplier rose by 7.93 per cent in 2009, up from 6.43 per cent in 2008. In the first half of 2010, the narrow money multiplier rose by 9.33 per cent over the end-December 2009 level, while the broad money multiplier increased by 15.13 per cent over the same period. Given the achievement of less than programmed growth targets of broad money supply during the period, the rise in the money multiplier was indicative of contraction in base money (reserve money),Table 2.1.

Chart 2.2B



Source: CBN Monetary Survey

Growth in M1 was due to moderation in demand deposits

The low growth in money supply (M1, M2) largely reflected the impact of weak expansion of bank credit to the domestic economy and the fall in the foreign assets (net) of the banking system.

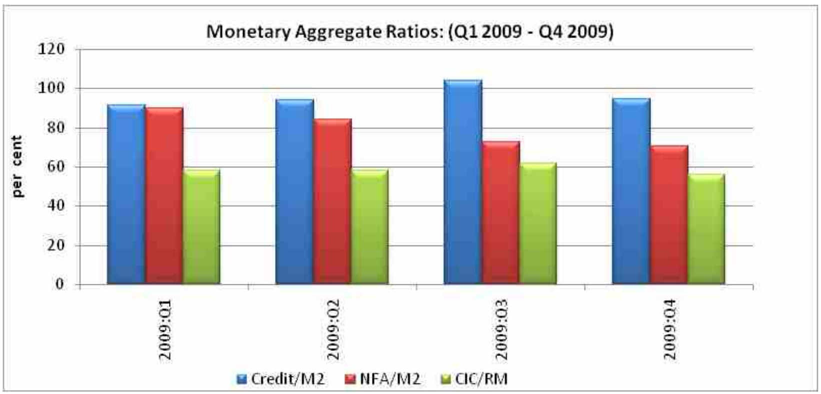
Chart 2.2C

Source: CBN Monetary Survey

Credit to Private Sector did not show much improvement in 2009

Aggregate bank credit to the domestic economy increased by 59.61 per cent in 2009 and exerted a moderating effect on monetary expansion. The low growth rates cut across both credit to the private sector and credit to government. For example, credit to the private sector grew by 25.92 per cent in 2009 as against 84.21 per cent in 2008. In addition, credit to the private sector as a ratio of M2 did not show much improvement during the review period as it only moved from 87.92 per cent at end-December 2008 to 94.63 per cent at end-December 2009, representing an increase of 7.63 per cent. The trend in the first half of 2010 reflected the credit crunch in the banking system, as the estimated ratio of private sector credit to M2 reduced to 93.15 per cent.

Chart 2.3A

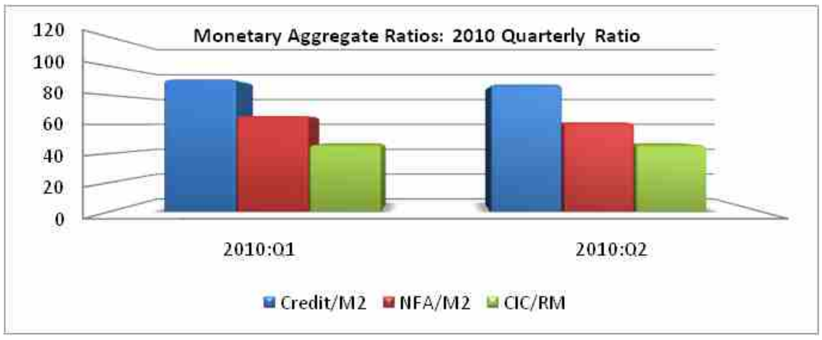


Source: CBN

Growth in credit was not only a supply side issue as the demand side also needed to be addressed

This phenomenon brings into focus the fact that issues involving growth in credit did not border only on the supply side (liquidity condition). It points out the fact that the demand side of credit should equally be addressed and this is being vigorously pursued through the demand side quantitative easing measures of the Bank, as indicated in various decisions of the MPC in the first half of 2010. In addition, the Bank is also collaborating with the relevant fiscal authorities to address other issues associated with the demand side of credit.

Chart 2.3B

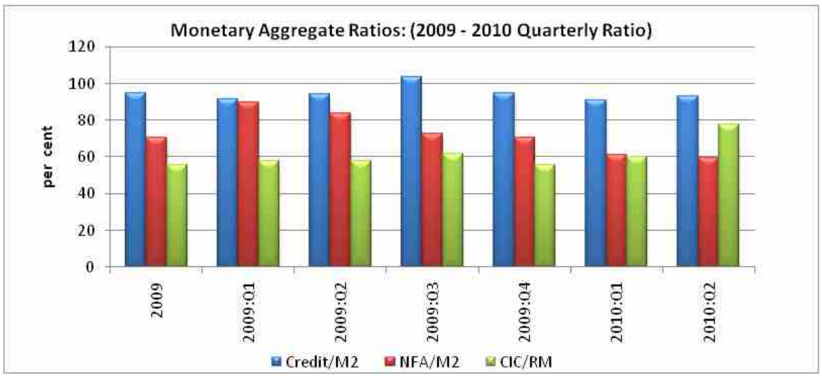


Source: CBN Monetary Survey

... Net deposits of government with the banking system witnessed considerable decline in 2009 ...

Since 2008, government has been a net creditor to the banking system as reflected in Table 2.1 where credit to government as a ratio of M2 is negative. However, the net deposits of government with the banking system witnessed considerable decline in 2009 as the ratio declined from 33.0 per cent at end-December 2008 to 21.0 per cent by end-December 2009. Available data for the first half of 2010 showed that the ratio further reduced to 8.32 per cent. This is a reflection of dwindling revenue of government, mainly as a result of both reduction in the price and volume of crude oil exports.

Chart 2.3C



Source: CBN Monetary Survey

Net foreign assets as a percentage of M2 showed a significant deceleration, from 93.27 per cent at end-December 2008 to 70.34

Net foreign Assets/GDP and CIC/RM ratios showed considerable deceleration

per cent by end-December 2009. The ratio declined further to 61.37 per cent by the end of the first half of 2010, influenced by continued low capital inflows, among other factors. Currency in Circulation (CIC) as a ratio of Reserve Money (RM) also witnessed considerable reduction during the review period. It moved from 92.30 per cent at end-December 2008 to 55.78 per cent by end-December 2009, while it declined further to 37.59 per cent by end-June 2010 (Table 2.1). This is a reflection of the increasing depth of the financial system.

Upward trend in average prime lending rates in 2nd and 3rd quarters of 2009 indicated persistent liquidity shortages

The trend in average prime lending rate was a reflection of persistent liquidity shortages during the review period. The average prime lending rate showed an upward trend, which was more pronounced in the second and third quarters of 2009 (Table 2.1). For example, the average prime lending rate rose from 14.88 per cent at end-December 2008 to 17.41 per cent during the first quarter of 2009. Also, the average prime lending rate increased by 7.29 per cent to 18.68 per cent in the second quarter of 2009.

...the injection of N620 billion into the banking system in the third quarter of 2009 moderated the rising trend in the lending rates ...

The intervention carried out by the CBN through the injection of N620 billion into the banking system in the third quarter of 2009 moderated the rising lending rates, as the average prime lending rate declined to 18.37 per cent in the third quarter. However, the average prime lending rate rose marginally to 18.97 per cent during the fourth quarter of 2009.

In the first quarter of 2010, the average prime lending rate fell to 18.86 per cent, and showed a modest increase to 18.91 per cent in the second quarter. The CBN interventions to inject liquidity into the system, contributed immensely to moderating the rising trend of bank lending rates, especially in the last two quarters of 2009 and the first half of 2010.

CHAPTER THREE

DEVELOPMENTS IN THE FINANCIAL MARKETS

3.1 Introduction

...the financial markets in Nigeria are at various stages of development

The main financial markets in Nigeria comprise the foreign exchange, money and capital markets, while the commodity and derivative markets are still evolving. These markets, however, are at various stages of development. The challenges, which faced the Nigerian financial markets in 2009, could be traced to the impact and after-effect of the global financial and economic crises, which began in 2008. The consequent illiquidity of the global financial system affected the Nigerian financial system, resulting in sustained bearish trend in the capital market. The enormity of the crises in both the capital market and the banking system compelled the CBN intervention in banks with identified liquidity crises, by injecting huge liquidity into the banking system. The CBN intervention promoted early recovery and return of public confidence in the banking system. However, the problem of banks' apathy to lending to the private sector stalled private sector investments in productive activities. This condition prevailed in the third quarter of 2009, through the first half of 2010.

...the challenge of monetary policy in 2009 was that of maintaining the liquidity of the banking system while in the first half of 2010, focus was on ensuring access to credit...

The major challenge of monetary management in 2009 was the dearth of liquidity in the banking system, while in the first half of 2010; the challenge was that of unlocking the flow of bank credit to the private sector. There was in addition, the need to promote good corporate governance, enhance efficient liquidity management and encourage access to bank credit. Accordingly, policy measures focused on coordinated regulation of the financial system, building supervisory capacity within the regulatory regime; fast-tracking the implementation of risk-based, consolidated and cross-border supervision; improving governance structures and practices with a view to building public confidence in the system. More fundamentally, the stance of monetary policy was aimed at increasing the liquidity of the banking system and enhancing private sector access to bank credits.

... Asset Management Company was established to buy the toxic assets of the highly leveraged banks...

To improve the liquidity position of the banking system (and free the DMBs from encumbrances associated with their toxic assets) institutional arrangements were initiated to establish an Asset Management Company of Nigeria (AMCON) to buy-up the non-performing loans of the banks. In furtherance of this initiative, the National Assembly passed the harmonized AMCON bill in June 2010. The AMCON, when fully operational, is expected to provide a cushion from any further erosion of the asset base of the DMBs and ensure a reduction in the size of their non-performing loans (NPLs). In this Chapter, developments in the financial markets in 2009 through the first half of 2010 were examined.

3.2 The Money Market

The money market is relatively more developed and one of the most active segments of Nigeria's financial markets. The major instruments in the market include: Nigerian Treasury Bills (NTBs), CBN Certificates, CBN Bills, Special NTBs, Discount Window (DW) operations, Repurchase (repo) transactions, Reverse repo transactions, Bills discounting, Pledges and Open Buy Back (OBB).

3.2.1 Developments in Short-Term Interest Rates

...interbank interest rates rose throughout the first half of 2009 and subsequently declined by December 2009.

The major challenge to the money market in the review period was managing short-term interest rates in order to contain the persistent upward trend and the volatility of short-term market rates. This phenomenon was traced to the problem of tight liqiudity in the banking system. While monetary policy focus was to use short-term interest rates as a signalling mechanism to assess market developments, particularly the interbank interest rates, the CBN intervention through its quantitative easing policy sought to increase the liquidity of the banking system, thereby, directly easing the pressure in the money market. The liquidity enhancing measures introduced in the last quarter of 2009 forced the downward trend of money market rates throughout the first half of 2010.

TABLE 3.1
Weighted Average of Money Market Interest Rates

Month	Monetary Policy Rate	Call Rate	Tenored Inter-bank Rate	Open-Buy-Back	NIBOR 7-Day	NIBOR 30-Day
Dec-08	9.75	12.17	15.42	8.83	16.68	17.98
Jan-09	9.75	7.91	15.81	14.91	10.30	14.91
Feb-09	9.75	17.30	18.78	18.07	16.82	18.07
Mar-09	9.75	20.60	21.30	18.92	21.29	18.92
Apr-09	8.00	12.51	15.05	15.25	13.45	15.25
May-09	8.00	13.17	17.63	15.91	14.42	15.91
Jun-09	8.00	18.60	17.63	19.84	19.55	19.84
Jul-09	6.00	18.16	16.63	19.66	18.94	19.66
Aug-09	6.00	10.17	15.22	14.29	12.27	14.29
Sep-09	6.00	9.76	14.91	13.78	11.34	13.78
Oct-09	6.00	6.60	14.91	13.78	11.34	13.78
Nov-09	6.00	5.25	14.91	13.78	11.34	13.78
Dec.-09	6.00	2.52	14.91	12.54	6.75	12.54
Jan-10	6.00	2.48	10.04	12.84	6.93	12.84
Feb-10	6.00	2.17	6.37	11.27	7.70	11.27
Mar-10	6.00	1.50	4.60	7.85	5.55	7.85
Apr-10	6.00	1.27	4.05	5.13	2.46	5.13
May-10	6.00	5.97	6.40	2.84	6.43	2.84
Jun-10	6.00	2.84	4.66	5.82	3.63	5.82

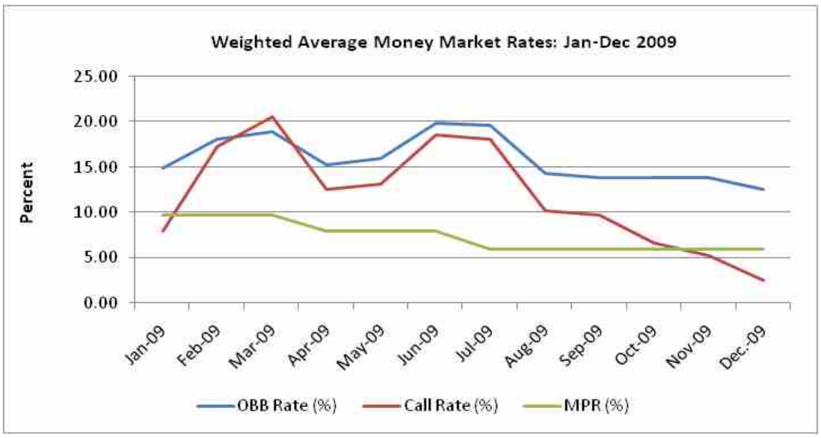
Source: CBN

...average weighted OBB rate rose to 9.44% but declined to 3.59% by end-December 2009. NIBOR also moved in line with the interbank and OBB rates

The average weighted interbank call rate, which stood at 12.17 per cent in December 2008 rose to 18.60 per cent at the end of the first half of 2009, reflecting the effect of sustained illiquidity in the money market. It however, plummeted to 2.52 per cent in December 2009. By January 2010, the weighted average interbank interest rate dropped further to 2.48 per cent and to 1.50

per cent at end-March 2010 (Chart 3.1). However, the weighted average interbank interest rate was at 2.84 per cent at end-June 2010.

Chart 3.1

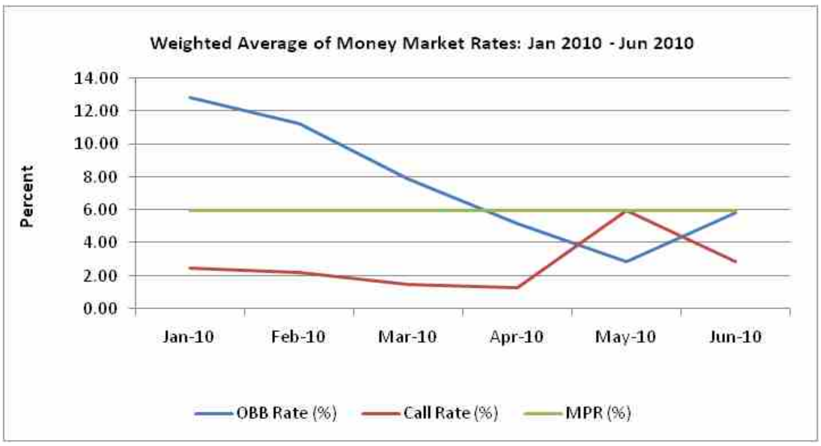


Source: CBN

...rescheduled Federation Accounts Allocation Committee (FAAC) meeting in May, 2010led to high inter-bank money market interest rates ...

The interbank and open buy-back (OBB) rates trended upwards, especially in the second quarter of 2010, due to a temporary liquidity shortage in the market caused by a rescheduled Federation Accounts Allocation Committee (FAAC) meeting for revenue sharing, coupled with the mandatory provisioning for funding of foreign exchange purchases. Normalcy was restored to the market when the rescheduled FAAC meeting was held and substantial liquidity was consequently injected into the system.

Chart 3.2



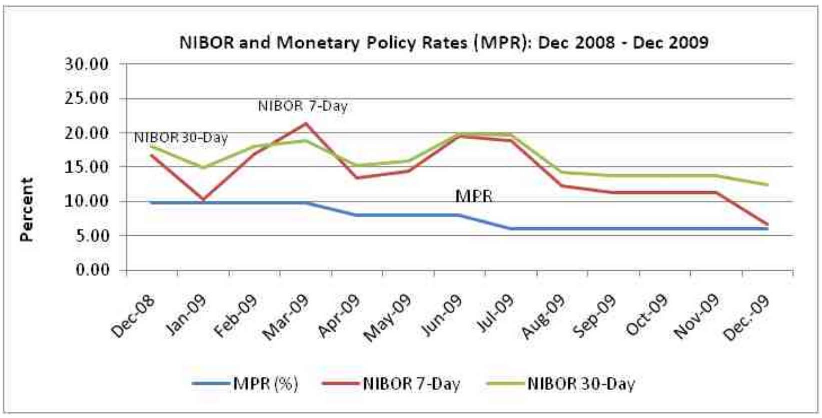
Source: CBN Monetary Survey

The average weighted open buy-back (OBB) interest rate which was 8.83 per cent in December 2008, rose to 19.84 per cent in the first half of 2009. The OBB rate closed at 12.54 per cent in December 2009, reflecting the impact of the liquidity easing measures. The OBB rate at the end of the first quarter of 2010 dropped to 7.85 per cent and further to 5.13 per cent in April. It however, trended upwards to 5.82 per cent by end-June 2010.

... Other money market interest rates, moved in tandem with the interbank and OBB interest rates throughout 2009

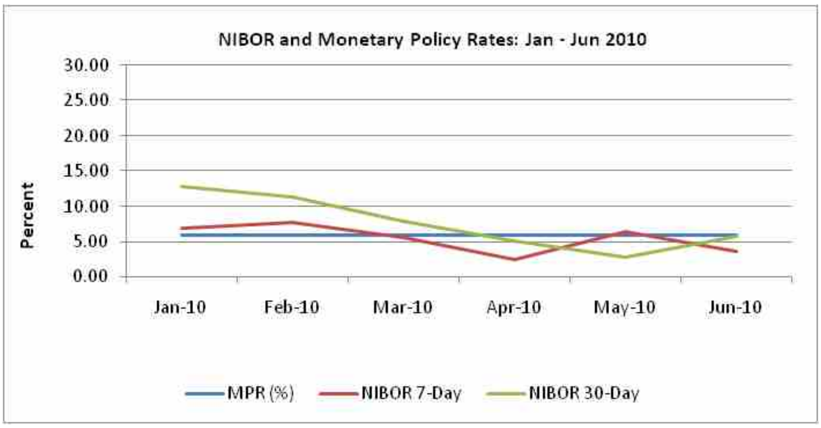
Other money market interest rates, including the Nigeria Interbank Offered Rate (NIBOR) of 7-day and 30-day tenors, moved in tandem with the interbank and OBB interest rates throughout 2009 (see Chart 3.2) through the first quarter of 2010. On annualised basis, both the 7-day and 30-day tenors of Nigeria Interbank Offered Rate (NIBOR), which were 5.55 and 7.85 per cent, respectively, at end-March 2010, declined to 3.36 per cent and 5.82 per cent, respectively, by end-June 2010.

Chart 3.3



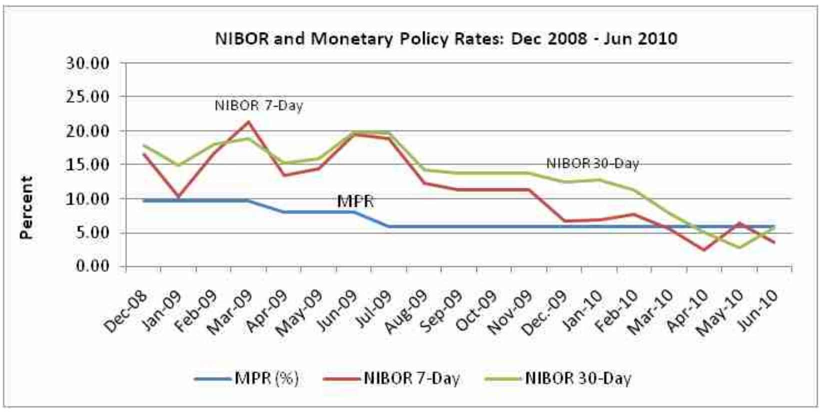
Source: CBN Monetary Survey

Chart 3.4



Source: CBN Monetary Survey

Chart 3.5



Source: CBN Monetary Survey

3.3 Capital Market Developments

...trading activities on the floor of the NSE were bearish in 2009 but this trend abated in the first

Trading activities on the floor of the Nigerian Stock Exchange (NSE) were largely bearish, in 2009. The All-Share Index (ASI) fell by 33.78 per cent from 31,450.78 at end-December 2008 to 20,827.17 at end-December 2009. Market Capitalization (MC) also declined by 28.30 per cent from N6.96 trillion to N4.99 trillion over the same period (Chart 3.6). The market value of shares traded closed at N1.20 billion at end-December 2009, compared with the N1.99 billion recorded at end-December 2008, representing a decrease of 39.85 per cent.

The bearish trend on the NSE, however, abated during the first half of 2010, with the ASI recording an increase of 21.88 per cent from 20,827.17 at end-December 2009 to 25,384.14 at end-June 2010. Similarly, the MC rose by 23.89 per cent, from N4.98 trillion at end-December 2009 to N6.17 trillion at end-June 2010. The market value of shares traded closed at N2.45 billion at end-June 2010, compared with N1.19 billion at end-December 2009, representing an increase of 105.89 per cent.

Chart 3.6

Source: Nigerian Stock Exchange

... Bearish trend in the Nigerian capital market in 2009, was attributed to the sustained illiquidity in the banking system and to banking sub-sector share price decreases

The bearish trend in the Nigerian Stock Exchange in 2009, was partly attributable to the price crash in the market and the sustained illiquidity in the banking system. In particular, prices of the banking sub-sector stocks fell precipitously. Investors were concerned that the huge provisioning required for non-performing loans, arising from margin facilities granted during the boom period, may significantly reduce profitability and returns on investment in the banking sector. This continued to dominate activities on the floor of the stock exchange. Rising unemployment, widespread illiquidity in the banking system, loss in capital gains and the effect on income and purchasing power as well as low investor confidence in the system further exerted downward pressure on the stock market activities. The situation became more complicated as foreign investors repatriated their funds and shunned further investment in the market. Besides, domestic investors readjusted their portfolios in favour of the bonds market, in 2009.

The combined effects of the liquidity enhancing measures, special audit of banks and the accompanying actions of the CBN and other quantitative easing measures restored confidence in the banking system

The modest recovery in the global economy, which started in the last quarter of 2009, began to make impact on the Nigerian stock market in the first half of 2010. The combined effects of the liquidity injection measures by the CBN, outcome of the special audit of banks and the concomitant response by the regulatory authorities as well as the quantitative easing measures of the Bank restored public confidence not only in the banking system but the entire financial system. These measures had salutary effects on developments in the capital market, which rebounded in the first half of 2010.

Chart 3.7

Source: Nigerian Stock Exchange

... new code of corporate governance for quoted firms was released by SEC in the first half of 2010

The revised code of corporate governance for quoted companies released by the Securities and Exchange Commission (SEC) in the first half of 2010 and the passage of the Asset Management Company of Nigeria (AMCON) bill, as Asset Management Corporation of Nigeria by the National Assembly are expected to positively impact on investor confidence and enhance the growth of capital market activities. Consequently, the rebound of market activities is expected to be sustained, in the near to medium term.

Chart 3.8

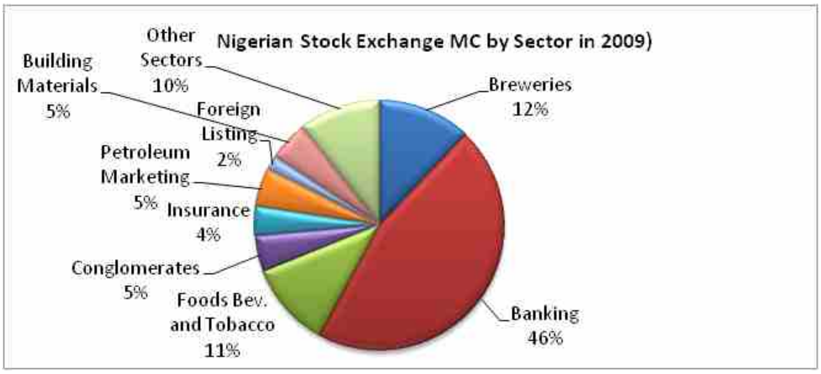
Source: Nigerian Stock Exchange

3.4 Sectoral Contribution to Market Capitalization

... Banking sector stocks dominated activities on the floor of the NSE in 2009 and throughout the first half of 2010...

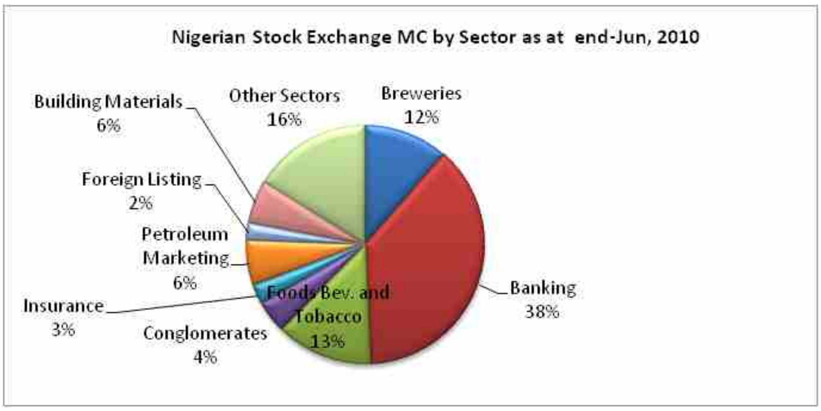
In the period under review, the banking sector dominated activities in the Nigerian Stock Exchange. Accordingly, the sector's share in overall market capitalization was 46.0 per cent, at end-December 2009, down from 52.0 per cent at end-December 2008. This was followed by Breweries, Foods/Beverages & Tobacco and Other Sectors accounting for 12.0, 11.0 and 10.0 per cent of the total MC, respectively. In the first half of 2010, however, the share of the banking sub-sector declined further to 38.0 per cent of the total MC. Other Sectors, Food/Beverages & Tobacco and Breweries contributed 16.0, 13.0 and 12.0 per cent of the total MC, respectively (Charts 3.9 and 3.10). The decline in the share of the banking sector was attributable largely to the sharp fall in the stock prices of most banks, particularly those that were rescued by the CBN intervention. The prices of banks stocks were also depressed by the low prospects of good dividend earnings, following the high provisioning requirement for non-performing assets in the portfolios of most banks, particularly those with liquidity problem. Consequently, investors took advantage of the more lucrative bonds market, which was offering more attractive returns on investments.

Chart 3.9



Source: Nigerian Stock Exchange

Chart 3.10



Source: Nigerian Stock Exchange

3.5 Turnover and Capitalization

In 2009, market turnover on the Nigerian Stock Exchange closed the year at N0.686 trillion or 2.9 per cent of GDP, down by 71.2 per cent from the N2.4 trillion (10.4 per cent of GDP) recorded in 2008. This downward trend was attributed to the impact of the global financial and economic crises. The bulk of activities were in equities, which accounted for N0.685 trillion or 99.94 per cent of total transactions compared with the N2.376 trillion or 99.85

...market turnover was .9 per cent of GDP in 2009. The bulk of transactions were in equities. Turnover on FGN bonds were minimal

per cent recorded in 2008. Transactions in industrial bonds sector accounted for N412.8 million or 0.06 per cent of total market turnover compared with the N3.53 billion or 0.15 per cent recorded in 2008. The Preference Stocks sub-sector was inactive in 2009 and the first half of 2010. Furthermore, transactions in Federal Government bonds on the Stock Exchange were idle. On the other hand, a turnover of N18.51 trillion in 134,120 deals was recorded in the over-the-counter (OTC) transactions market for Federal Government bonds, up from N10.44 billion in 78,248 deals, in 2008. Overall, the Turnover Ratio of the Nigerian Stock Exchange dropped from 21.86 per cent in 2008 to 13.26 per cent in 2009.

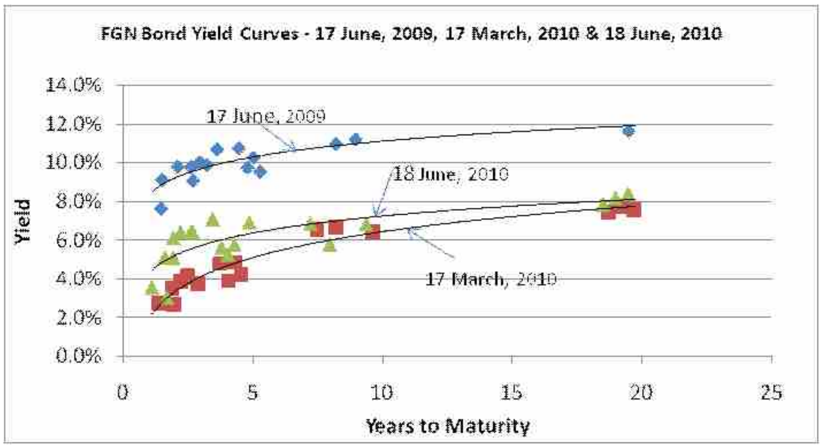
In the first half of 2010, the volume of transactions in FGN Bonds over the counter (OTC) was 6.9 billion, valued at N8.35 trillion in 76,307 deals. During the same period in 2009, transactions numbered 7.02 billion, valued at N7.15 trillion in 45,382 deals.

3.6 Developments in the Bonds Market

3.6.1 Yields on Federal Government Securities

The FGN bonds yield curve in June 18, 2010 fell by approximately 500 basis points from the level a year earlier. In addition, the yield curve shifted upward, compared with the position on March 17, 2010. Overall, yields on long-tenored FGN bonds remained below the 11.0 per cent May 2010 inflation rate (Chart 3.11), representing negative returns in real term.

Chart 3.11



Source: Financial Markets Dealers Association

... share of market capitalization of Federal & State Government Bonds, Preference Shares and Industrial Loans was 29.0 per cent of total market capitalization in 2009 and 23.9 per cent in the first half of 2010.

The combined share of the Federal Government Bonds and State Governments' Bonds, Preference Shares and Industrial Bonds totaling N2.04 trillion or 8.20 per cent of Gross Domestic Product (GDP), was 29.0 per cent of the total MC in 2009. The share of the FGN Bonds in total MC was 27.50 per cent at end-December 2009.

In the first half of 2010, the share of Federal and State Government Bonds, Preference Shares and Industrial Bonds fell to N2.02 trillion or 23.90 per cent of the total MC. During the same period, FGN Bonds valued at N1.94 trillion were traded, while the value of the sub-national bonds and corporate bonds/preference shares traded amounted to N91.50 and 26.82 billion, respectively.

3.6.2 The New Issues Market

The Equities Market

In 2009, the Nigerian Stock Exchange considered and approved 30 applications for new issues valued at N279.25 billion or 1.20 per cent of GDP, as against 70 applications valued at N2.6 trillion or 11.30 per cent of GDP in 2008. Non-bank corporate issues accounted for 71.50 per cent, with 25 applications valued at N199.65 billion, while the banking sector accounted for 3.60 per cent, with only one application, valued at N10.1 billion. State Government bond issues accounted for N69.5 billion or 24.90 per cent of the total amount approved in 2009. Although, no new initial public offers (IPOs) were approved in 2009, a total of N14.7 billion was raised through supplementary issues, N31.72 billion through rights issues and N71.74 billion through bonds issue; including four State Government Bonds.

3.6.3 New Listings and De-listings

The NSE de-listed six FGN Development Stocks and four State Government Bonds in 2009. There were no listings or delisting of FGN Stocks, State Governments Bonds and Industrial bonds in the first half of 2010.

3.6.3.1 Federal Government of Nigeria (FGN) Bonds

...accretion of funds to the Federation Account declined in 2009

Revenue accruing to the Federation Account declined significantly in 2009. Accordingly, total disbursements of funds to the three tiers of government by the Federation Accounts Allocation Committee (FAAC) decreased from N4.81 trillion (20.90 per cent of GDP) in 2008 to N2.54 trillion (10.24 per cent of GDP) in 2009, representing a decline of 47.20 per cent. This was largely attributed to the impact of the global financial and economic meltdown, which weakened economic growth in Nigeria's major trading partners, and fall in the price of crude oil. In addition, the security situation in the Niger Delta impacted negatively on oil production and export volume.

Following the declining Federal Government revenue profile, the fiscal authorities resorted to the issuance of medium to long term debt instruments to raise revenue for its operations. As a result, the following debt instruments were issued: 4th FGN Bond 2010

Series 12, 4th FGN Bond 2010 Series 13; 4th FGN Bond 2010 Series 14; 5th FGN Bond 2013 Series 1; 5th FGN Bond 2018 Series 2; 5th FGN Bond 2013 Series 4; 5th FGN Bond 2028 Series 5; 6th FGN Bond 2012 Series 1; 6th FGN Bond 2012 Series 2; 6th FGN Bond 2029 Series 3; 6th FGN Bond 2019 Series 4 and 6th FGN Bond 2029 Series 5.

3.6.4 State Government Bonds

...a number of states approached the capital market to raise funds through bonds issue

The dwindling oil revenue also affected state government finances. Thus, a number of states approached the capital market to raise revenue to meet their contingent liabilities and to finance their capital projects. The following state government bonds were issued in 2009: Lagos State Fixed Rate Bond 2013 Series 1; Kwara State Fixed Rate Bond and Imo State Fixed Rate Bond.

In April 2010, the Lagos State Government issued a N50 billion Fixed Rate Bond 2010/2017 Series 2, of semi-annual coupon payment within a band of 13.0-14.5 per cent. Proceeds from the issue were meant for infrastructural development.

3.7 The Foreign Exchange Market

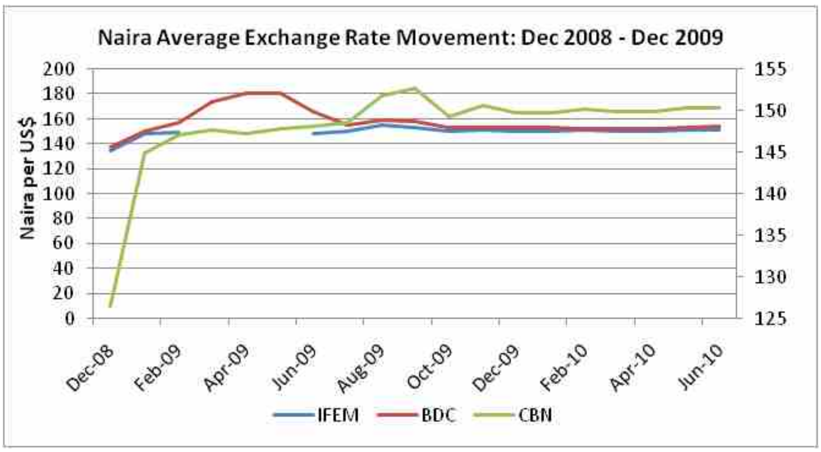
... the CBN is the major supplier of foreign exchange in the market. Funding of the market by the CBN derives mainly from proceeds of oil

Nigeria's foreign exchange market is still evolving. Although largely dominated by the CBN, which is the major supplier of foreign exchange to the market, deposit money banks (DMBs) and oil companies play a significant role in providing alternative sources of funds to the market. Official funding of the market by the CBN derives mainly from the proceeds of oil exports. In this regard, the fall in oil revenue which resulted in the depletion of Nigeria's external reserves signalled an impending disruption to the supply of foreign exchange to the market. It was against this background that the Nigerian foreign exchange market was among the most vulnerable to the adverse effect of the global financial and economic crises.

3.7.1 Exchange Rates Movement

The average exchange rate of the naira in 2009 at the Wholesale/Retail DAS depreciated by 20.33 per cent to N148.82/US$, relative to the level in 2008. At the interbank and Bureaux-de-change (BDC) segments of the foreign exchange market, the naira traded at an average exchange rate of N150.62/US$ and N161.58/US$ in 2009, representing depreciation of 20.99 per cent and 25.29 per cent, respectively, relative to the levels in 2008 (Table 3.2 and Chart 3.12). The naira depreciated in all segments of the foreign exchange market in 2009, due largely to speculative demand, panic buying and capital outflows.

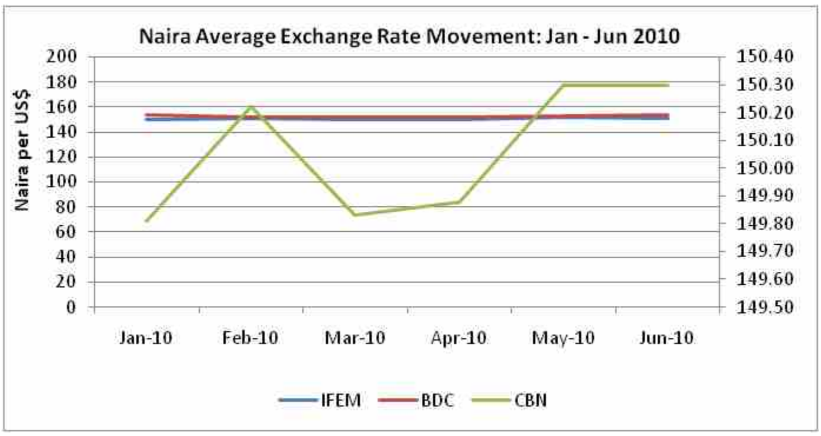
Chart 3.12



Source: CBNNote:
The interbank market in foreign exchange was affected by the directive of the CBN that DMBs and oil companies should sell their foreign exchange to only the CBN. The policy was designed as a stop gap measure to address the supply shortage in the foreign exchange market.

In the first half of 2010, the Naira exchange rate appreciated at the BDC segment of the market by 5.77 per cent to N152.80/US$, relative to the level at end-December 2009. By mid-June 2010, the naira traded at an average exchange rate of N150.06/US$ and N150.77/US$ in the BDC and wDAS segments, respectively, representing a depreciation of 0.83 and 0.10 per cent, compared with their respective levels in the corresponding period of 2009. However, the relative exchange rate stability was traced to the measures put in place to check speculative activities in the market. Such measures included the return to the retail Dutch Auction System (rDAS) and the classification of bureau de change (BDCs) into classes A and B.

Chart 3.13



Source: CBN

Table 3.2

Monthly Average Exchange Rate Movements at Various Segments of the Market									
(Naira per US dollars)									
MONTH	CBN RATE			BDC RATE			IFEM RATE		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
January	117.98	144.85	149.81	120.80	150.15	153.55	117.72	147.93	150.33
February	118.21	147.14	150.22	119.57	156.98	152.06	117.50	149.12	150.96
March	117.92	147.76	149.83	119.00	174.32	151.85	116.79	N/A	150.07
April	117.87	147.23	149.88	118.93	180.27	152.05	117.47	N/A	150.45
May	117.83	147.84	150.30	118.80	180.63	153.26	117.79	N/A	151.48
June	117.81	148.20	150.30	118.70	166.14	154.00	117.74	148.54	151.30
July	117.77	148.61		119.00	155.13		117.71	149.88	
August	117.74	151.83		119.00	158.95		117.69	155.23	
September	117.73	152.67		119.00	158.00		117.62	153.25	
October	117.72	149.33		119.00	153.14		117.72	150.21	
November	117.74	150.57		119.10	152.95		117.88	151.03	
December	126.48	149.69		137.65	153.38		134.33	149.80	
AVERAGE	**118.57**	**148.82**	**150.06**	**120.71**	**161.62**	**152.80**	**119.00**	**150.62**	**150.77**

Source: CBN
Notes:
CBN: Central Bank of Nigeria
IFEM: Interbank Foreign Exchange Market
BDC: Bureau-De-Change

3.7.2 Foreign Exchange Inflow and Outflow

Inflows

Total foreign exchange inflows to the CBN as at end-June 2010 stood at US$12,943.41 million, compared with US$11,128.79 million in the corresponding period of 2009. Oil and Gas proceeds accounted for US$12,159.30 million or 93.94 per cent of total inflows for the period, while the balance of 6.06 per cent was from non-oil proceeds (Table 3.3 and Chart 3.16).

Outflows

... Total foreign exchange outflow through the economy from autonomous sources, declined by 37.1 per cent in 2009...

Total foreign exchange outflows from the CBN amounted to US$18,777.92 million as at end-June 2010 compared with US$20,474.63 million in the corresponding period of 2009. The CBN funding of the foreign exchange market accounted for US$11,715.10 million or 62.39 per cent of the outflows, while other uses, including debt service and public sector accounted for the balance of 37.61 per cent of outflows (Table 3.3 and Chart 3.16).

Table 3.3

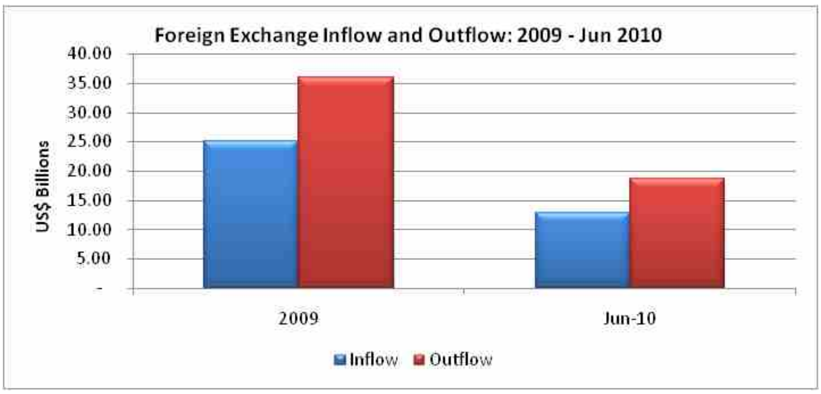
CBN Monthly Foreign Exchange Flows (US $ million)			
MONTH	Inflow	Outflow	Netflow
Dec-08	**4,975.74**	**1,968.17**	**3,007.57**
Jan-09	1,980.76	4,452.39	-2,471.63
Feb-09	1,503.19	3,531.08	-2,027.89
Mar-09	2,240.67	3,308.20	-1,067.53
Apr-09	2,069.19	2,941.19	-872
May-09	2,038.91	3,356.96	-1,318.05
Jun-09	1,296.07	2,884.81	-1,588.74
Jul-09	1,690.36	2,111.26	-420
Aug-09	1,879.80	3,797.02	-1,917.51
Sep-09	4,513.12	3,106.61	1,406.51
Oct-09	1,701.76	2,161.31	-459.55
Nov-09	2,082.78	2,138.82	-56.04
Dec-09	2,040.70	2,096.17	-55.47
2009 Total	**25,037.31**	**35,885.82**	**-10,847.90**
Jan-10	2,302.51	2,197.05	105.46
Feb-10	2,369.22	2,860.35	-491.13
Mar-10	1,849.40	3,012.76	-1,163.36
Apr-10	2,016.92	2,981.53	-964.61
May-10	2,381.63	3,840.39	-1,458.76
Jun-10	2,023.73	3,885.81	-1,862.08
Mid-2010 Total	**12,943.41**	**18,777.89**	**-5,834.48**

Source: CBN

Net Flows

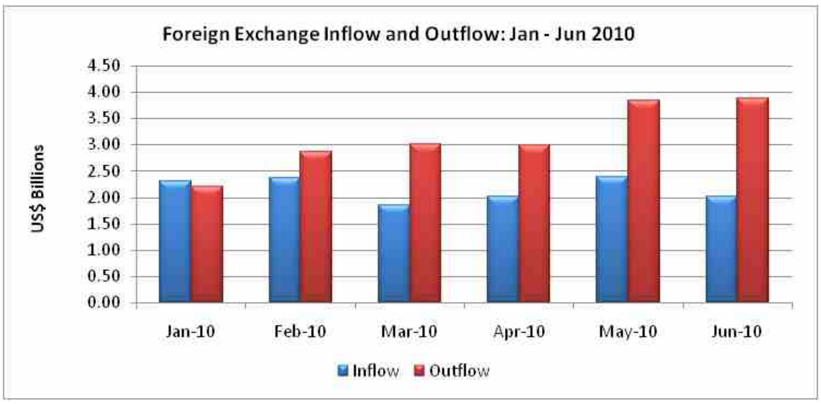
Foreign exchange total outflows from the CBN as at end-June 2010 exceeded inflows by US$5,834.48 million or 45.08 per cent compared with net outflow of US$9,345.84 million or 83.98 per cent in the corresponding period of 2009 (Table 3.3).

Chart 3.14



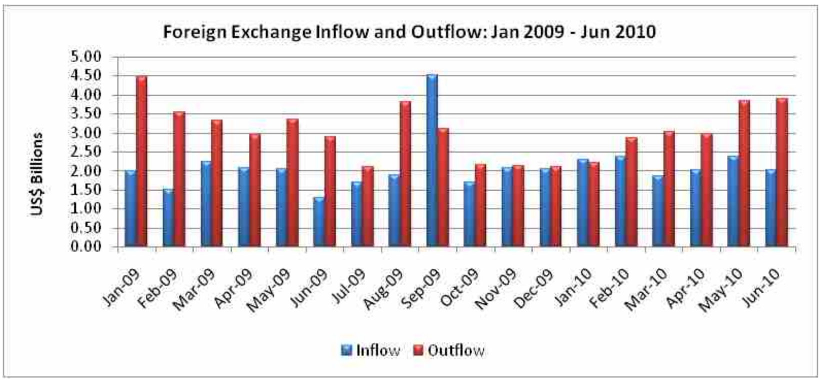
Source: CBN

Chart 3.15



Source: CBN

Chart 3.16



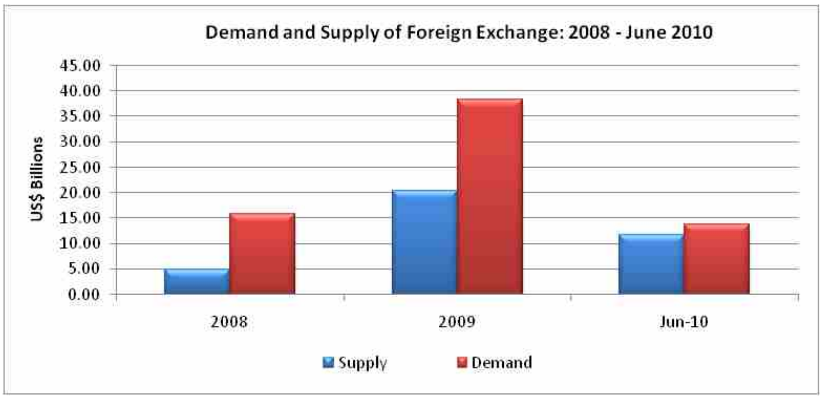
Source: CBN

... the CBN increased forex funding to meet the foreign exchange demand in the economy...

3.7.3 Demand and Supply of Foreign Exchnage

In 2009, the demand for foreign exchange at the official window of the foreign exchange market increased by 143.3 per cent to US$38,318 million over the US$15,752 million level in the preceding year. The demand pressure was exacerbated by capital flight traced to the divestment of portfolio investments and remittances of dividends by foreign investors, as the global financial and economic crises deepened. Total foreign exchange sold by the CBN at the wDAS and BDC windows amounted to US$20,390 million in 2009, compared with US$4,810 million sold in the preceding year (Chart 3.17).

Chart 3.17



Source: CBN

Foreign exchange demand from January to June 2010 stood at US$13,884.66 million, while supply was US$11,677.67 million. These represent 36.23 and 57.27 per cent, respectively, of the total of US$38,318.91 million and US$20,390.00 million recorded in 2009. These also indicate monthly averages of US$2,251.03 million and US$1,883.20 million, respectively (Chart 3.17).

CHAPTER FOUR

DOMESTIC PRICE DEVELOPMENTS

...Attainment of price stability remained the major objective of monetary policy in 2009 & 2010....

4.1 Introduction

In this Chapter, we shall examine the trends in inflation and factors that influenced domestic price movement during the review period.

4.2 Inflationary Trends in 2009

The year-on-year headline Inflation rate of 13.9 per cent in December 2009 remained below the inflation rate of 15.1 per cent in December 2008. The moderation in inflationary pressure was largely attributed to the early harvest of maize and yam, which had a dampening effect on food prices. The 12-month moving average rate of inflation exhibited an upward trend, increasing from 11.6 per cent in December 2008 to 12.5 per cent in December 2009 (Chart 4.1).

...Year- on-year Inflation remained at double digit ranging between 10.4 per cent and 14.6 per cent throughout 2009

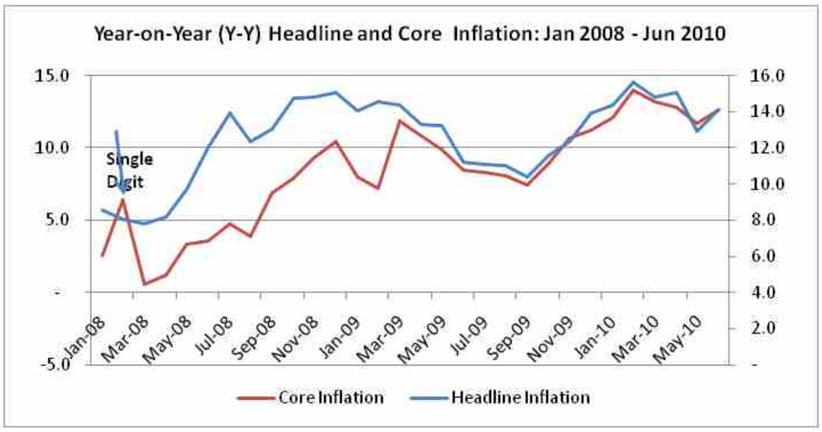
The attainment of price stability remained an ancillary objective of monetary policy in 2009, being overshadowed by the urgent need to avoid the collapse of the banking system by injecting liquidity into the troubled banks, to ensure financial system stability. To keep a tab on inflationary trends, the Bank implicitly targeted a single digit year-on-year headline inflation rate. However, the inflation rate remained at double digit throughout 2009, ranging between 10.40 and 14.60 per cent on a year-on-year basis. For example, inflation rate rose from 14.0 per cent in January to 14.60 per cent in February, before trending downwards for seven consecutive months, to 10.40 per cent in September 2009. By October, the price level had started inching upwards, rising to 11.60 per cent, and further to 12.40 and 13.90 per cent in November and December 2009, respectively.

Inflation in the first half of 2010 trended downwards…

4.3 Inflationary Trends in 2010

Inflation rate (year-on-year headline) still remained considerably high in the first half of 2010. The inflation rate had accelerated from 14.4 per cent to 15.6 per cent between January and February 2010, before it declined to 14.8 per cent in March 2010. In April 2010, inflation rose to 15.0 per cent, before trending downward to 12.9 per cent in May. However, it trended upward to 14.1 per cent in June 2010.

Chart 4.1

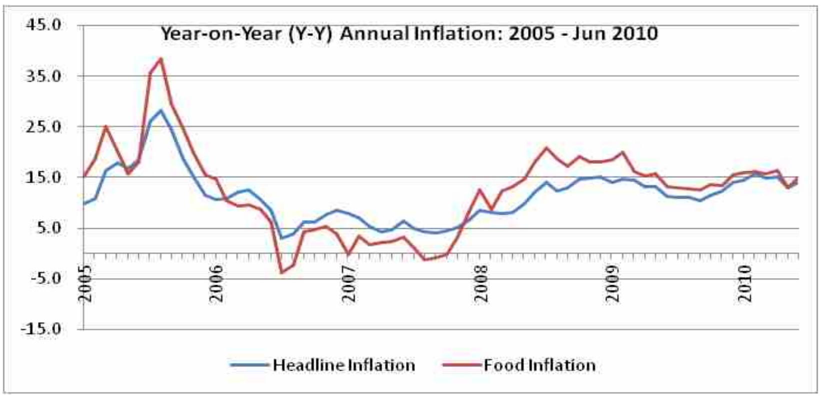


Source: National Bureau of Statistics (NBS)
Notes: Core inflation is all items less farm produce

In December 2009, the all-items Composite Consumer Price Index (CPI) was 102.2 (November 2009=100), compared with 89.7 in the same period of 2008, representing 13.94 percentage points increase over the level in December, 2008.

In June 2010, the all-items Composite CPI was 108.8 (November 2009=100), compared with 102.2 in December 2009 and 95.3 in June 2009. Consequently, the year-on-year headline inflation rate increased to 14.1 per cent in June 2010 from the 13.9 per cent recorded in December 2009 and 11.2 per cent in the corresponding period of 2009 (Chart 4.2).

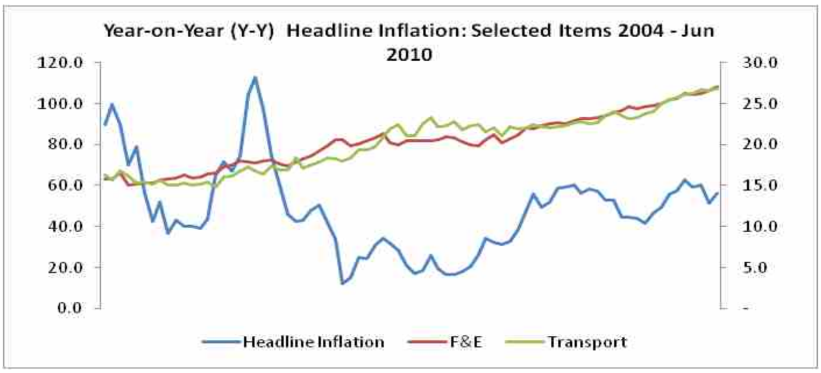
Chart 4.2



Source: NBS
Notes: Core Inflation is all items less farm produce

The breakdown of price indices by items showed that food and non-alcoholic beverages; and housing, water, electricity/gas and other fuel (utilities) contributed most to the overall changes in headline inflation in 2009 and the first half of 2010. Specifically, the index of food and non-alcoholic beverages rose to 102.4 in December 2009 and 110.0 in June 2010 from 88.6 in December 2008. The composite index of utilities (which ranks next to food in the CPI basket), rose by 7.49 per cent to 109.1 in June 2010, from 101.5 in December 2009 and by 12.36 per cent over the corresponding period of 2009. The observed increase in the index was probably due to the generally weak state of basic infrastructure in the economy, the effect of which was transmitted to the other items (Chart 4.3).

Chart 4.3



Source: NBS

..Global increase in the prices of food & energy contributed to upward trend in inflation in 2009...

The general increase in the prices of food and energy, partly fuelled by the accommodative stance of monetary policy, contributed significantly to the upward trend in inflation during 2009. Consequently, food inflation remained at double digit throughout the year. On a year-on-year basis, the food inflation rate moderated to 15.5 per cent in December 2009, compared with 18.0 per cent a year earlier

Table 4.1
Inflation Rate

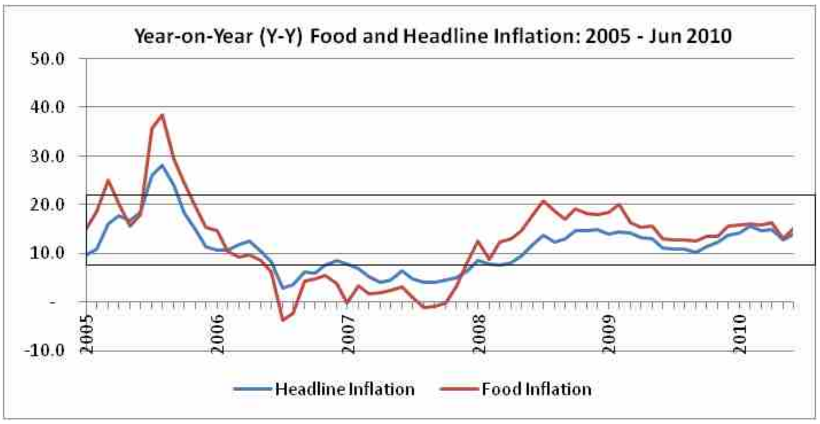
	Headline Inflation		Core Inflation		Food	
	Year on Year	12-Month Average	Year on Year	12-Month Average	Year on Year	12-Month Average
Jun-08	12.0	7.0	3.6	5.8	18.1	7.4
Dec-08	15.1	11.6	10.4	5.1	18.0	16.1
Jun-09	11.2	13.7	8.5	8.3	13.1	17.5
Dec-09	13.9	12.5	11.2	9.2	15.5	14.8
Jun-10	14.1	13.1	12.7	10.9	15.1	14.4

Source: NBS (Base November 2009 = 100)

..Downward price movement in the first half of 2010 attributed to constrained credit demand as deposit money bank tightened credit conditions...

Despite increased liquidity in the banking system, growth in the monetary aggregates moderated, which reflected positively in the downward price movement in the first half of 2010. This development was attributed largely to constrained credit expansion to the private sector, as the deposit money banks became extremely risk averse and exercised caution by denying many potential borrowers access to credit. In spite of this, the year-on-year headline inflation increased from 13.9 per cent in December 2009 to 14.1 per cent in June 2010 (Chart 4.4 and Table 4.1).

Chart 4.4



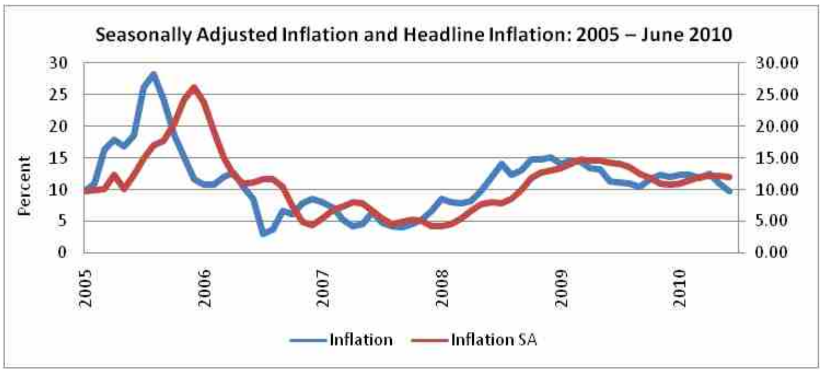
Source: NBS

4.4 Actual and Seasonally Adjusted Inflation

Seasonality played a key role in inflation outcome in the review period

An analysis of inflationary developments indicates evidence of seasonality during the period under review. Seasonality played a key role in the lower actual inflation rates observed between May and September 2009, and May and June 2010. In these months, the seasonally adjusted inflation rates were above the actual rates observed; implying that holding seasonal factors constant (or their absence), would result in recorded higher headline inflation. The low inflation outcome in those months was influenced, in part, by the bumper harvest of food crops, especially, yam and maize, which had a dampening effect on food prices. Moreover, food items constitute the component of CPI with the highest weight and most susceptible to seasonal factors. The converse was, however, noticed in November and December 2009 as well as January and February of 2010, when actual inflation rate was higher than the seasonally adjusted rate, post harvest (Chart 4.5).

Chart 4.5



Source: NBS

Inflation was double digits throughout 2009

Notwithstanding the effects of seasonal factors (particularly off-farm produce supply period and year-end festivities), the inflation rate remained at double digit throughout 2009 and the first half of 2010.

4.5 Determinants of Inflation Performance in 2009 and the First Half of 2010

The overall picture of price development during the review period is that inflation remained high and at double digit throughout 2009 and the first half of 2010. This development was underpinned by the accommodating stance of monetary and fiscal policies, aimed at mitigating the liquidity crunch in the banking system and stimulating output growth, following the adverse impact of the global financial and economic crises on the economy. Besides the expansionary monetary policy stance, other important factors that influenced inflation performance during the period under review are highlighted below.

4.5.1 Domestic Economic Activity

Domestic economic activity remained satisfactory as output grew by 6.9 per cent in 2009

Against the backdrop of the global economic meltdown, domestic real output was generally satisfactory in 2009. Real GDP grew by 8.23 per cent in the fourth quarter of 2009, up from 4.50, 7.22 and 7.07 per cent in the first, second and third quarters, respectively. In 2009, annual real GDP grew by 6.66 per cent, which was significantly higher than the 5.98 per cent recorded in 2008.

In the second quarter of 2010, real GDP was projected to grow by 7.68 per cent, up from 7.23 per cent recorded in the first quarter of the year. The annual real GDP is expected to grow by 7.75 per cent in 2010.

Oil sector remained the main driver of growth

Main challenge to growth was deterioration in electricity generation and distribution and militancy activities in the early part of the year

The non-oil sector remained the major driver of growth. Improved performance of the oil sector following the restoration of relative peace in the Niger Delta during the second half of 2009 enhanced real GDP growth prospects. The major challenges to growth during the year were the deterioration in electricity generation and distribution and militancy activities, especially during the first three quarters of 2009. Though, relative peace was achieved in the Niger-Delta throughout the first half of 2010, the problem of electricity generation and distribution continued to inhibit output growth.

The aggregate index of industrial production, however, improved during the fourth quarter of 2009 relative to the preceding quarters. Consequently, the index of industrial production rose by 2.6 and 1.1 per cent over the levels attained in the third quarter and the corresponding period of 2008, respectively. The increase in industrial production in the fourth quarter of 2009 largely reflected the 6.5 and 9.5 per cent rise in electricity generation and consumption, respectively.

In the fourth quarter of 2009, the index of manufacturing production, estimated at 88.56 (1990=100), rose marginally by 0.2 per cent over the level in the preceding quarter, representing a 3.4 per cent decline from the level recorded in the corresponding

... Index of industrial production rose by 2.6 and 1.1 per cent over the level in the preceding quarter and corresponding period 2008...the rise was traced to increase in crude oil

period of 2008. Similarly, the index of mining production rose by 2.4 and 0.7 per cent over the levels attained in the preceding quarter and the corresponding period of 2008, respectively. The rise was accounted for, by the increase in crude oil and gas production, following the implementation of the Amnesty Programme which became effective in the last quarter of 2009. Mining activities, especially in the Niger Delta region continued uninterrupted in 2010 with output rising above the levels attained in the later part of 2009, helped by the easing of militancy activities in the region.

4.5.2 Climatic Conditions

Nigerian agriculture is largely rainfall fed. Adequate rainfall in most parts of the country aided good harvest

Nigerian agriculture is still largely rain-fed. Consequently, climatic conditions play a key role in determining the level of agricultural production. Since food constitutes at least 63.76 per cent of the weight of items in the CPI basket, favourable weather conditions often impact positively on domestic price developments in the country. In 2009 and the first half of 2010, the adequate rainfall experienced in most parts of the country aided good harvests of major food crops, notwithstanding the inclement weather conditions experienced in some other food producing areas.

4.5.3 The Stance of Fiscal Policy

Accommodative fiscal and monetary policy were key factors in the upward trend in 2009

The fiscal policy stance of Government in 2009 was geared towards fiscal consolidation and financial system recovery. The objective was to stimulate domestic aggregate demand and revitalize the economy through targeted increase in development expenditure. To mitigate the impact of the global financial and economic crises on the domestic economy, the Federal and State Governments embarked on stimulus budgeting, financed mainly from borrowing through the issuance of sovereign and sub-national bonds, resulting in about N1.0 trillion deficit financing.

This phenomenon, coupled with the impact of the CBN's expansionary monetary policy played a key role in the inflationary outcome in 2009.

...Fiscal policy in 2010 continued to be supportive of monetary management...

In the first half of 2010, fiscal policy continued to be largely expansionary and supportive of the stance of monetary policy, designed to enhance banking system liquidity and maintain stability of the financial system. Consequently, increased expenditure on critical infrastructure was designed to improve the productive base of the economy and achieve growth. Federal Government fiscal operations based on the 2010 budget had a proposed deficit of N1.562 trillion (4.66 per cent of GDP), which could play a critical role in inflationary outcome in 2010. However, the poor implementation of the 2009 Federal Government Budget and the delayed passage of the 2010 Appropriation Bill as well as the Supplementary budget appeared to have greatly constrained Federal Government Expenditure, and could moderate price developments.

4.5.4 Exchange Rate Stability

The Naira exchange rate remained stable while the premium between the BDC and official exchange rate narrowed

The naira/dollar exchange rate remained relatively stable, especially in the second half of 2009, while the premium between the official and the BDC exchange rates narrowed considerably, following the further liberalization of the foreign exchange market. The stability of the exchange rate of the naira in 2009 and the first half of 2010 impacted positively on the CBN anti-inflation efforts by helping to lock-in inflation expectations. However, in order to further liberalize and deepen the interbank foreign exchange market, the suspended wholesale Dutch Auction System (wDAS) was re-introduced in May, 2009. The measure was designed to conserve external reserves, ensure exchange rate stability, curtail speculative activities and enhance prudence in the utilization of officially sourced foreign exchange, in order to foster growth in the real sector.

4.6 Factors Responsible for Inflation in 2009 and First Half of 2010

Downside risks to inflation during the review period are stimulus budgeting from all the three tiers of government

The downside risk to inflation control during the period under review was the expansionary spending by the three tiers of government to mitigate the contractionary impact of the global financial and economic crises. Moreover, monetary policy stance in 2009 became more accommodating apparently to avoid the collapse of the banking system through the injection of liquidity by the CBN to rescue troubled banks. Other important risks to domestic inflation were: the global food crisis, adverse weather conditions in some parts of the country, poor infrastructure base and exchange rate depreciation in the first half of 2009.

Monetary policy stance in the first half of 2010 reflected more, the need to ensure credit access than the tendency to curb inflation

There are indications of increasing growth of credit to government since January, 2010...

Given the huge fiscal deficit budgeted in 2010, domestic financing of the private sector may be quite challenging. However, if recourse is not made to the central bank and deposit money banks to finance the sizeable budget deficit, the inflationary effect of deficit spending would be minimal. Notwithstanding, the recourse to domestic financial markets for deficit financing could crowd-out the private sector, leading to a fall in investments and production, with attendant inflationary consequence. Already, from January 2010, there have been indications of increasing growth of credit to government, while credit to the private sector has been shrinking. Also, much of the budget revenue is not derived from withdrawals or tax payments from the economy, but from the oil sector with the attendant risk of revenue volatility. The focus of the budget is on spending on key infrastructure in the areas of works, power, education and health. Although, expenditure on infrastructure is likely to have foreign components, the domestic components are substantial and could generate high domestic demand pressures that may fuel inflation.

CHAPTER FIVE

ECONOMIC OUTLOOK

5.1 Global Economic Output and Prices

... Various stimulus packages designed to lower uncertainty and systemic risks in the global financial system helped to avert total collapse of the system...

The global output growth, which commenced a slow recovery in the last quarter of 2009 continued on a steady path to stronger recovery in the first half of 2010. However, this trend is expected to decelerate in the first half of 2011. Despite the wide-ranging monetary and fiscal stimulus packages, that were introduced to boost aggregate demand and stimulate growth, the economies of many countries were in recession, in 2009. The stimulus packages were designed to reduce uncertainties and systemic risks in the global financial system. These measures paid-off as a total collapse of the global financial system and the emergence of a crippling recession was averted. The pace of recovery, however, has been slow, but varies considerably across regions reflecting different initial conditions, and policy responses.

In the advanced economies, the surge in inventory and, lately, fixed investment accounted for an unprecedented rise in manufacturing and global trade. However, low consumer confidence and reduced household incomes and wealth are holding consumption down (weak private demand). Conversely, household spending is doing well in many emerging market economies, while investment is propelling job creation.

Sustained global output growth recovery is anchored on two rebalancing acts; internal rebalancing with strengthening of private demand in advanced economies, allowing for fiscal consolidation, and external rebalancing; with an increase in net exports in deficit countries, such as United States, and a decrease in net exports in surplus countries, especially, China. The varying pace of economic recovery across advanced and emerging economies has precipitated recovery that is neither strong nor balanced and runs the risk of not being sustained.

Going forward, the challenge for monetary policy would be to mitigate the weak private demand in the wake of low interest rate and inflation in most of the developed economies and dampen the rising inflation or asset price pressures, arising from huge external surpluses in some developing and emerging economies. The monetary authorities in the developed economies should continue with accommodative monetary policy, while their government continue with financial sector repair and reform and address fiscal consolidation. In the emerging economies with huge external surpluses, there should be monetary tightening supported with nominal effective exchange rate appreciation as excess demand pressures build. Considering the interconnectivity of economies, there is need for careful design at the national level and coordination at the global level for the rebalancing to be achieved.

This Chapter presents a review of the global and domestic economic outlook for the rest of 2010.

5.2 Global Output Growth and Projections

Global output is forecast to rise from -0.6 in 2009 to 4.6 per cent in 2010 and 4.3 per cent in 2011

Global economic output growth is forecast to strengthen from -0.6 per cent in 2009 to 4.6 per cent in 2010 and 4.3 per cent in 2011. The positive growth projections are based on the assumption that the extraordinary monetary and fiscal stimulus measures, introduced by national authorities, at the heat of the global financial and economic crises, would yield the desired results, thereby positively influencing output growth in 2010 and 2011. However, economic recovery is still fragile, proceeding at a sluggish pace with most of the advanced economies and a few emerging economies still facing large adjustments.

Growth prospects for the other major industrial economies in 2010 appear encouraging. Output in the USA is expected to rise from -2.4 per cent in 2009 to 3.3 per cent in 2010 before

In the advanced economies, the US output is projected to grow from -2.4 per cent in 2009 to 3.3 per cent in 2010, indicating that the world's largest economy would rebound from recession. The recovery in the US economy is however, forecast to moderate as output growth averages 2.9 per cent in 2011. In Japan, the economy is expected to pull out of recession, as the rate of growth in GDP rises from -5.2 per cent in 2009 to 2.4 per cent in 2010 and 1.8 per cent in 2011. Output performance in other advanced economies is expected to be relatively weak by historical standards, with aggregate real output in 2010 falling below its pre-crises level up until late 2011. The challenges to economic performance would be weak private demand, high unemployment, huge public debt and weak financial systems.

Generally, positive output growth is expected in the Euro Area. Thus, real GDP in the Euro Area is expected to rise by 1.0 per cent in 2010, in contrast to the 4.1 per cent fall in 2009, and further growth by 1.3 per cent in 2011. Output growth in the United Kingdom is projected to grow, as the economy moves from a contraction of -4.9 per cent in 2009 to positive growth of 1.2 per cent in 2010, and 2.1 per cent in 2011.

...the prevailing fiscal crisis in a number of European countries is likely to negatively impact the expected growth in the Euro Area ...

However, the prevailing fiscal crisis in a number of European countries, including Greece, Spain, Portugal, Ireland, Germany, the United Kingdom, and Italy, amongst others, is likely to impact negatively on the expected growth. Although the euro area and the IMF have responded to the debt crises, especially in Greece, the size of available resources committed thus far, is far below what is required to stabilize the affected countries. Moreover, a wave of eminent and widespread austerity measures is spreading in most of the industrial countries, including the USA. These factors are likely to reduce the volume of bailout resources, available to the troubled countries. Consequently, the successful outcome of the bailout interventions would depend largely on prospects of further assistance from the euro area and international community. Already, China has declined an offer to buy up a part of the Greek debt. These developments are likely to reduce the growth prospects in the euro area.

...the emerging market economies of Asia are expected to accelerate in growth, while growth in China is also expected to accelerate ...

Growth performance in the Other Advanced Economies (newly industrialized Asian economies) is expected to improve from a - 0.9 per cent recorded in 2009 to 6.7 per cent in 2010 and 4.7 per cent in 2011. The growth prospects for the other major emerging market economies, including India also appear to be strong. Growth in China is expected to strengthen further as output growth rate accelerates from 9.1 per cent in 2009 to 10.5 per cent in 2010 before dropping to 9.6 per cent in 2011.

... Growth in the Middle East and North Africa as well as the Western Hemisphere is expected to be strong...

Other emerging market and developing countries' economies are expected to post higher growth rates of 6.8 per cent in 2010 and 6.4 per cent in 2011 up from the 2.5 per cent recorded in 2009 and 6.1 per cent in 2008. Output growth in the Middle East and North Africa, as well as the Western Hemisphere is expected to be strong as the downside risks to growth in those economies would moderate in 2010 and 2011. Thus, the growth rate of GDP is forecast to rise from 2.4 per cent in 2009 to 4.5 per cent in 2010 and 4.9 per cent in 2011. In the Western Hemisphere, the rate of growth will rise from -1.8 per cent in 2009 to 4.8 and 4.0 per cents in both 2010 and 2011, respectively. Improved growth performance is expected to be largely driven by strong domestic demand.

... Output growth in Sub-Saharan Africa is forecast to average 5.9 per cent in 2011 with threat of higher inflation...

Output growth in Sub-Saharan Africa, which averaged 5.6 per cent in 2008, declined to 2.2 per cent in 2009, before recovering to a forecast level of 5.0 per cent in 2010 and 5.9 per cent in 2011. The Sub-Saharan countries, however, risk higher inflation outcome owing to rising and sustained domestic demand pressures, especially on food, and the exchange rate (Table 5.1).

The recovery in the financial markets is expected to strengthen further in 2010, thereby, encouraging increased financial flows to support the recovering economies. Furthermore, there is need for appropriate policy mix that would foster a rebalancing of objectives to promote strong output growth and ensure efficient aggregate demand management. Also, ensuring financial market stability must be sustained to provide support, especially in economies where recovery has not fully commenced. As economic activities normalized from end 2009 through 2010, output growth in the global economy is expected to strengthen further in 2011 at higher level than the pre-crisis growth rate. It is expected that improved aggregate demand in the industrial countries that could facilitate a rebound in commodity prices, in favour of developing countries, would support higher output growth in 2010 and beyond. However, the emerging sovereign debt crisis in a number of European countries and weak private demand in advanced economies are expected to pose further challenges to global economic growth.

Growth will be uneven across regions in 2010 and 2011 with the emerging and developing economies growing faster. Most Central Banks in developing countries will contend with rising inflationary pressures

In summary, the general expectation is that, in 2010 and 2011, the industrial countries would experience sluggish growth, while the emerging and developing market economies may likely enjoy rapid output growth. In the circumstance, the policy responses of most central banks would be more diverse for industrialized countries and emerging economies. With low inflation and interest rate in industrialized countries, monetary policy should remain highly accommodative in the foreseeable future. In addition, government should continue with financial sector repair and reform and address fiscal consolidation as well as not being in a haste to jettison fiscal stimulus but offer credible medium-term plans for debt stabilisation and eventual debt reduction.

In some of the larger, fast-growing emerging economies faced with rising inflation or asset price pressures, monetary policy tightening should be supported with nominal effective exchange rate appreciation as excess demand pressure build. Government should continue with fiscal response to support and facilitate demand rebalancing or renewed capital flow. In all, considering the interconnectivity of economies, there is need for careful design at the national level and coordination at the global level for the rebalancing to be achieved.

5.3 Global Commodity and Energy Prices

The global oil market assumed a bearish trend in 2009 as prices declined by 36.3 per cent. Growth in the global economy is however, expected to resume in 2010 as price recovery averaging 21.8 per cent rise is projected, before dipping by about 3.0 per cent in 2011. The projected rise in world oil prices in 2010, over the level in 2009, is predicated on improvement in aggregate demand and output growth in the global economy. Developments in non-fuel commodity prices are expected to follow a similar trend in 2010 as price movement swings from a fall of 18.7 per cent in 2009 to a 15.5 per cent increase in 2010 before recording a decline of 1.4 per cent in 2011.

Table 5.1 World Economic Outlook

	2007	2008	2009	Projections as at June 2010 2010	2011
World Output	5.0	3.0	-0.6	4.6	4.3
Advanced Economies	2.6	0.5	-3.2	2.6	2.4
United States	2.0	0.4	-2.4	3.3	2.9
Euro Area	2.6	0.6	-4.1	1.0	1.3
Japan	2.1	-1.2	-5.2	2.4	1.8
United Kingdom	3.0	0.5	-4.9	1.3	2.5
Canada	2.7	0.5	-2.5	3.6	2.8
Other Advanced Economics	4.7	1.7	-1.2	4.6	3.7
Emerging & Developing Economies	8.0	6.1	2.5	6.8	6.4
Central and Eastern Europe	5.7	-3.1	-3.6	3.2	3.4
Commonwealth of Independent States	8.6	-6.6	4.3	4.3	4.3
China	11.9	9.6	9.1	10.5	9.6
Russia	8.1	5.6	-7.9	4.3	4.1
India	9.8	6.4	5.7	9.4	8.4
Brazil	5.4	5.1	-0.2	7.1	4.2
Sub-Saharan Africa	6.8	5.6	2.2	5.0	5.9
Middle East and North Africa	5.9	5.3	2.4	4.5	4.9
Western Hemisphere	5.6	4.2	-1.8	4.8	4.0
Commodity Prices (US' Dollars)					
Oil	10.7	36.4	-36.3	21.8	3.0
Non-fuel (Average Based on World Commodity Export Weights)	14.1	7.5	-18.7	15.5	-1.4
Consumer Prices					
Advanced Economies	2.2	3.4	0.1	1.4	1.3
Emerging & Developing Economies	6.4	9.3	5.2	6.3	5.0

Source: WEO, July 2010

5.4 Outlook for the Domestic Economy

Outlook for Nigerian economy remains fairly optimistic

The outlook for the Nigerian economy in 2010 and 2011 is fairly optimistic, predicated on the implementation of the Federal Government Amnesty Programme for militants in the Niger Delta Region, the bottoming out of the global economic recession in 2009, the expected improvement in power generation and distribution which began to manifest in the last quarter of 2009 and the expected buoyancy in external aggregate demand environment. In addition, the investment climate has become more attractive to foreign and domestic capital flows due to the combined effects of the wide ranging reforms in the banking sector, modest rebound of the stock market, recapitalization of some troubled banks, coupled with other confidence building measures in the economy implemented since the last quarter of

2009. Consequently, the domestic economy anchored on these favourable developments is projected to grow by 7.53 per cent in 2010.

5.4.1 Aggregate Output

Oil output is expected to rise in 2010 and 2011 following the resolution of the crisis in the Niger Delta ...

Oil production is expected to rise in 2010 and 2011, following the resolution of the restiveness in the Niger Delta, with positive implications for total output growth and revenue generation. Nevertheless, the non-oil sector is expected to remain the main driver of output growth in 2010 and 2011. Consequently, the contribution of the non-oil sector to GDP is expected to rise marginally from 8.61 per cent in 2009 to 8.92 per cent of GDP in 2010. Agriculture is projected to grow marginally by 0.99 per cent in 2010. Overall, real GDP growth is projected to be higher in 2010 than in 2009, rising to 7.53 per cent in 2010 from 6.66 per cent in 2009. The economy is expected to perform moderately well in 2010, especially if the current measures to reform the power sector are faithfully implemented.

5.4.2 Inflation

Inflation would remain within the lower end of the double digit in 2010. The situation might not be different in 2011

Current forecasts show that inflation would remain within the lower end of double digits in 2010. However, liquidity management by the CBN is expected to be challenging, constrained by the effect of the expansionary stance of monetary and fiscal policies. In addition, large deficit spending[6] by government and outlays on infrastructure[7] are expected to further increase the liquidity of the banking system. Similarly, revenue sharing from the excess crude account, the planned full deregulation of petroleum products prices, relaxation of quantitative reserve requirements by the CBN, high resolution costs associated with the banking sector reforms, expected

[6] estimated at N1,500 billion
[7] estimated at about N1,150 billion between 2007 and 2011

foreign capital inflows to strengthen deposit money banks' balance sheets, and spending on the 2011 general elections may also compound the problem of liquidity management in the banking system. Consequently, the prospects of excess liquidity in the banking system would exert upward pressure on the domestic price level in 2010 and 2011.

5.4.3 Financial Markets

5.4.3.1 The Capital Market

Capital Market activities would rise due to increased corporate bonds issue. New funds may also be raised through share issues

The high momentum of trading activities that characterised the Nigerian Stock Exchange (NSE) in 2007 suffered a remarkable reversal in 2008 and 2009. However, signs of gradual market recovery manifested in the first half of 2010. The capital market witnessed increased activities during the first half of 2010, as indicated in Table 5.2. Consequently, the key market performance indicators, Market Capitalization (MC) and All-Share Index (ASI) rose by 26.05 per cent to N6, 290 billion and 24.17 per cent (25,861.93), respectively. With the reform measures introduced by the Securities and Exchange Commission (SEC) and the implementation of the 2010 budget, a rebound in the market is expected during the second half of 2010.

Given the prospects of improved power supply in 2010, increased investment by corporate institutions is expected; leading to increased demand for capital. It is also expected that a number of companies would approach the capital market to raise funds through equities and corporate bonds. These developments are expected to heighten the tempo of activities in the stock market and stimulate demand for bank credit. The recent banking reforms may also promote increased capital market activities as banks with eroded capital (which had received directives from the CBN to recapitalize) approach the market to raise new funds. Consequently, the key market indicators, MC and ASI are projected to improve further (Table 5.2).

Table 5.2
Activities on the NSE: 2007- June, 2010

	Year			
	2007	2008	2009	2010
MC (N trillions)	10.18	6.96	4.99	6.29
ASI (At end Period)	57.990.22	31,450.78	20,827.17	25,861.93
Volume (billion)	0.79	0.32	0.27	0.50
Value (N billions)	14.80	1.99	1.20	5.40

Source: Nigerian Stock Exchange (NSE)

5.4.3.2 The Foreign Exchange Market

The Naira is expected to be stabilize further in 2010 as external conditions improve

The foreign exchange market witnessed sustained demand pressure in the first half of 2009 driving the naira/dollar exchange rate to depreciate in all segments of the market. However, towards the end of the year through the first half of 2010, the exchange rate stabilized at around N150 naira/dollar. The pressure in the foreign exchange market was attributable to larger than expected foreign exchange outflows propelled by capital flight and speculative demand. On the other hand, inflows from oil export receipts and foreign private investment dwindled. These adverse conditions are, however, expected to moderate in 2010 as the global economy recovers and with financial sector reforms underway in Nigeria. In effect, the naira is expected to stabilize further as external sector performance improves in 2010 and beyond.

5.4.3.3 The Money Market

The liquidity condition of the DMBs is expected to improve in 2010 thus stabilizing short term interest rates

The domestic money market experienced severe liquidity challenges in 2009. In effect, the viability of many DMBs was threatened and the interbank market operations were inactive because of the system's perceived high risk status. With the additional measures introduced in 2010, such as confering liquidity status on state government bonds, passage of the Asset Management Corporation of Nigeria Bill into law, increased government spending on infrastructure, relaxation of the statutory reserve requirements by the CBN, the prospects of additional resource inflows to strengthen deposit money banks' balance sheets is bright. The overall impact of these measures would have positive implications for enhancing the effectiveness and efficiency of the money market in 2010 and beyond. Consequently, short term interest rates are expected to stabilize at the lower end of the spectrum, as from the third quarter of 2010.

5.4.4 Monetary Management

...monetary policy in 2010 may remain expansionary while the Monetary Authorities would keep a close eye on inflationary trends

The primary goal of monetary policy in 2010 and 2011 would remain the maintenance of price and financial stability. Accordingly, the CBN shall aim at ensuring the supply of adequate liquidity to the Nigerian financial system. The growth in the major monetary aggregates is expected to be higher than the rates recorded in 2009, reflecting largely the effects of the expansionary stance of monetary policy in 2010 and the expected large fiscal outlay on the 2011 elections. Moreover, the apathy of the DMBs to lend to the real sector is expected to be reversed, translating to rapid growth in aggregate bank credit to the domestic economy with its expansionary effects on money supply.

Table 5.3
Monetary and Credit Growth Targets for 2007-2010

	2007	2008	2009	2010
M2	16.0-19.0	17.0-20.0	17.06	29.25
Total Bank Credit	98.99	55.21	-59.04	51.43
Credit to Govt.	-58.01	-95.14	26.64	25.70
Credit to Private sector	70.05	43.45	26.01	31.54
NFA	17.10	7.68	-11.72	12.59
Other Assets	26.78	-28.12	-8.25	45.00

Monetary policy, for the rest of 2010 would, therefore, focus on mitigating inflation threats, while ensuring that the objective of promoting high output growth is not undermined. In essence, monetary policy would be development oriented, maintaining appropriate balance between the need to achieve price stability including the prevention of asset price bubbles, promoting strong output growth and ensuring financial sector soundness and stability. To stimulate domestic investment growth, efforts would be geared towards sustaining the gradual reduction in the spread between bank deposits and lending rates.

APPENDICES

Appendix 1
MONETARY POLICY COMMITTEE MEETING COMMUNIQUE NO. 60, 14TH JANUARY

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) met today, January 14, 2009, and reviewed the developments in the foreign exchange market vis-a-vis Nigeria's external reserves position and macro economic developments. It noted that the preliminary estimate of the GDP growth rate for the end of 2008 was an impressive 6.8% compared with 6.2% in 2007. It also noted that inflationary pressure remained high throughout the year and provisional figures indicate that the end December headline inflation was 14.6% while estimated core (non-food) Inflation rate was at 9.2%. It also reviewed the developments in the oil market as well as capital flows into the economy in 2008 and the prospects for 2009. MPC also reviewed the recent developments in the foreign exchange market and the depreciation of the naira in the light of decreased supply of foreign exchange vis-a-vis increased demand. It noted the uncertainties and the speculative pressures in the foreign exchange market.

The MPC noted that while it is desirable to allow the exchange rate to adjust in response to market conditions, the CBN remains determined to restore stability to the market.

Consequently, the MPC decided as follows:

1. In the meantime, the CBN is reintroducing the Retail Dutch Auction System (RDAS), with effect from Monday, January 19, 2009, and will be conducted on Mondays and Wednesdays. We will revert to WDAS at the appropriate time.

2. Bids for the purchase of foreign exchange under the RDAS must be cash-backed at the time of the bid.

3. Funds purchased from CBN at the Auction shall be used for eligible

transactions only, subject to stipulated documentation requirements. Such fund shall NOT be transferable in the interbank foreign exchange market.

4. Authorized Dealers shall return to the CBN any unutilized funds within five (5) business days after delivery, at the rate of purchase.

5. Purchases by banks on behalf of their customers will be published in the dailies fortnightly.

6. Interest earned on Letters of Credit established and for which settlement has not been effected, shall be repatriated to the CBN for repurchase at the bid rate at the time the funds were purchased.

7. The foreign exchange Net Open Position (NOP) of banks will be reduced from 10% to 5% with effect from Monday, January 19, 2009.

8. CBN remains committed to Section 15 (4), of the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act of 1995, which guarantees unconditional transferability of funds in respect of loans, and portfolio and foreign direct investments into Nigeria.

Prof. Chukwuma C. Soludo, CFR,
Governor,
Central Bank of Nigeria,
Abuja,
January 14, 2009

Appendix 2
MONETARY POLICY COMMITTEE MEETING COMMUNIQUE NO. 61, 9TH FEBRUARY 2009

The Monetary Policy Committee (MPC) met today, February 9, 2009 and reviewed the current domestic and international economic and financial developments. The Committee, at the outset, noted that the country's present economic and financial situation and its near-term prospects are impacted largely by exogenous factors. The deepening recession in industrialized economies and the slowdown in economic activity of emerging countries, the fall in capital flows into Nigeria through remittances and foreign investments and the drying up of credit lines for Nigerian banks would, in the view of the Committee, impact negatively on Nigeria's external and fiscal positions. The latest estimates of economic outlook of industrialized and emerging economies show that their performance in 2009 would continue to be a major drag on the world economy. The sub-Saharan Africa too is projected to post a lower rate of output growth in the year ahead.

On the domestic scene, the Committee noted that macroeconomic outcomes in 2008 weakened slightly relative to the previous year due largely to the global financial crisis and the attendant economic slowdown. Indeed, the Committee observed that output growth in 2008 was more or less unchanged from the 2007 level. High food prices throughout the year continued to drive head line inflation. Interest rates trended upwards from the third quarter and remained elevated through November, but moderated in December. The Naira exchange rate was stable through November, but depreciated sharply in December and January 2009 following increased demand pressures.

The international developments, in the view of the Committee, present serious challenges to policy making in the short term notwithstanding signs of inherent resilience of the domestic real and financial sectors of the Nigerian economy. Monetary policy in particular has a major role to play in moderating the price variables interest rates and exchange rates in a manner that would foster business confidence and economic growth, price and exchange rate stability and financial soundness. Key Macro-economic Developments

Inflation

The Committee noted that the year-on-year headline inflation rate at end December 2008 was 15.1 per cent compared with 6.6 per cent at end-December 2007. Similarly, the core inflation trended upwards to 10.4 per cent in December 2008 from 3.6 per cent at the end of 2007. The Bank's six month forecast horizon suggests gradual moderation of the year-on-year headline inflation, although may likely remain in the double-digit zone in the first half of the year. Similarly, core inflation is projected to moderate during the period. The latest estimates of the aggregate output as measured by the Gross Domestic Product at 1990 constant basic prices, provided by the National Bureau of Statistics (NBS) shows that aggregate output growth for 2008 was estimated at 6.41 per cent, close to the 6.45 per cent achieved in 2007. Agriculture contributed 2.75 per centage points to overall growth.

Monetary Aggregates

Provisional data for broad money (M2) grew sharply by 58.02 per cent in 2008. The MPC noted that the growth in M2 was driven largely by the rise in credit to the private sector, which grew by 59.52 per cent. Staff estimates indicate that monetary expansion in 2009 is likely to moderate on account of the expected decline in net foreign assets, complemented by the anticipated deceleration in growth in credit to the domestic economy.

Exchange Rate

The Committee noted the sharp depreciation in the naira exchange rate that took place in all the segments of the foreign exchange market in December 2008 following the sudden surge in demand, induced largely by the perceived negative impact of the global financial crisis. The reduced inflow to the economy has constrained supply to the market leaving the CBN as the main source of Foreign Exchange. However, with the measures taken in January 2009, the exchange rate depreciation has moderated.

External Reserves

The MPC noted the recent foreign exchange demand pressure and decline in foreign exchange earnings which resulted from the fall in the international oil price and assured that efforts were being made to forestall the rapid depreciation of the naira and preserve the country's external reserves position in spite of the enormous challenges posed by the current turmoil in the global economy.

Capital Market

The MPC noted with cautious optimism the improvement in the activities at the equities segment of the Nigeria Stock Exchange (NSE) since January 30, 2009 against the backdrop of the bearish performance that characterized the market from the second quarter of 2008. With appropriate policy interventions, it is expected that the current positive development would be sustained.

Outlook

In line with seasonal pattern, growth in broad money is expected to moderate in the first quarter of 2009, owing to the lull in fiscal operations and economic activity during the period. Consequently, staff projections indicate that headline inflation would moderate during the first and second quarters of 2009.

Conclusions and Decisions

The paradox that we face currently is that excess liquidity is co-existing with rising interest rates, which in real terms and in relation to the deposit rate seem to be high. On the one hand we need to tighten liquidity to address inflation and exchange rate concerns; while on the other hand, we would need to address high interest rate by relaxing monetary conditions. Another paradox is that the observed excess liquidity has not translated to commensurate credit creation; in fact credit growth appears to have slowed down.

The Committee also noted the currently heightened risk perception and changes in liquidity management, accompanied by uncertainties in the fiscal arena given that the budget for 2009 has not been passed. The outlook for the foreign exchange market is however positive. In the circumstance the MPC is concerned about achieving the multiple objectives of a sound financial system, price and exchange rate stability, as well as ensuring that credit continues to flow to the rest of the economy.

Consequently the MPC decided as follows:

a. Monetary Policy Rate (MPR) will be kept unchanged at 9.75 per cent;

b. Open market operations will be actively used for achieving effective liquidity management;

c. The CBN is seriously concerned about the rising lending rates and especially the re-pricing of existing facilities by banks as well as the wide spread between deposit and lending rates. The CBN will be meeting with the bank chief executive officers to agree on modalities to check excesses, especially in the light of the global economic and financial crisis.

d. To anchor expectations and stabilize the exchange rate, MPC remains committed to managing the exchange rate within a band of +/-3 per cent until further notice.

e. The difference between the CBN buying and selling rates shall not be more than 1 per cent; while that of banks and BDCs will not be more than 1 per cent and 2 per cent, respectively around the CBN rate.

Professor Chukwuma C Soludo, CFR
Governor,
Central Bank of Nigeria,
Abuja.
February 9, 2009

Appendix 3
MONETARY POLICY COMMITTEE MEETING COMMUNIQUE NO. 62, 8TH APRIL 2009

The Monetary Policy Committee (MPC) met today to review the challenges posed to the Nigerian economy by the complex mix of external and domestic economic and financial developments. The Committee recognized at the outset that external forces have had a severe impact on the Nigerian economy through trade, finance and confidence channels. The Committee, however, noted that the severity of the impact could be alleviated by undertaking appropriate economic and financial policies, taking into account the evolving international economic situation.

The Committee noted that movements in crude oil prices play a critical role in the Nigerian economy. This has limited the macroeconomic and external performance of the economy since October 2008. During the first quarter of 2009, the outcomes have been mixed.

Key Economic and Financial Developments

The Committee reviewed the recent policy initiatives by the CBN to stabilize the foreign exchange market and to improve liquidity conditions in the domestic money market. It welcomed the staff assessment of the positive impact of these initiatives on the domestic economy, given the market view of the outlook in the context of the global economic and financial crisis.

Domestic Output

Provisional aggregate output growth in the first quarter of 2009 was estimated at 6.32 per cent by the National Bureau of Statistics (NBS) compared with 5.78 per cent in the corresponding quarter of 2008. For 2009 as a whole, the NBS estimate of real output growth is 5.75 per cent. Compared with the growth outlook of the rest of the world, the projected domestic output growth is robust.

Price Developments

Inflation

Inflation has been high and a matter of concern. The Committee noted the upward swing of the year-on-year headline inflation from 14.0 per cent in January to 14.6 per cent in February 2009. Core inflation, however, decelerated to 7.2 per cent in February from 8.0 per cent in January whereas food inflation rose from 18.4 per cent in January to 20.0 per cent in February. The outlook for inflation in the near term remains uncertain. Nonetheless, the staff estimates indicate that inflation could decelerate to single digit by mid-2009, in response to subdued aggregate demand, lower impact of imported inflation and the near-completion of the pass through effect of the depreciation of the Naira.

Interest Rates

The domestic money market rates have been under pressure since February 2009. The weighted average interbank call rate went up from 17.62 per cent in February to 22.15 per cent in March. The collateralized Open Buy Back (OBB) rate however was lower than the Monetary Policy Rate (MPR). The deposit and lending rates too have inched up. The staff expected that in the near-term, interest rates are likely to moderate in response to expected subdued inflation and improvements in the liquidity conditions facilitated by the CBN initiatives in this regard.

Exchange Rate

The MPC noted with satisfaction the positive outcomes of measures taken recently in stabilizing the exchange rates in all the segments of the market. The demand for foreign exchange has moderated significantly in the retail Dutch Auction System and will continue to be sustained in the near term.

Monetary and External Developments

Provisional data indicates that broad money (M2) declined by 1.14 per cent in February 2009 over the end-December 2008 level. However, on a year-on-year basis (February 2009 over February 2008) M2 grew by approximately 30 per cent. This was mainly on account of 44 per cent (on annualized basis) growth in credit to the private sector by end-February 2009. The order of expansion in M2 on a year on-year basis is in line with long term trends and could be sustained in the short to medium term. The Committee noted that financial conditions in the country remain robust. There are no apparent systemic threats to the banking system. Regulatory practices and guidelines are generally in line with best practice. The Committee further noted with satisfaction the efforts being made to continuously improve upon the regulatory framework. Foreign exchange reserves position has continued to support external sustainability, facilitated by the downward movement in the overall world trade and financial flows.

Policy Coordination

The Committee is of the view that for monetary policy to be credible and effective, it should have the support of appropriate fiscal policy and structural reforms. The Committee therefore reaffirmed its commitment to coordinate monetary policy actions with those of fiscal and other institutional and regulatory policies. The MPC underscored the importance of the CBN acting in concert with the fiscal authorities in the efforts at addressing the global economic and financial crisis.

Conclusion:

In conclusion, the MPC observed the relative tight monetary conditions in the economy, and hence the need for monetary easing. The major pressure points for monetary policy in the short term include:

- Liquidity tightness and hence relatively higher interbank interest rates, and also pressures on other interest rates

- Lower growth rate of credit to the private sector compared to the trend in the last three years

- Rising food price inflation, and need for increased agricultural output

- Ensuring the continuation of banking and financial sector stability and soundness

Decisions

In view of the above, the MPC decided to:

i) Reduce MPR from 9.75 per cent to 8.0 per cent;

ii) Reduce the liquidity ratio from 30.0 per cent to 25.0 per cent with effect from April 14, 2009; and

iii) Reduce the Cash Reserve Requirement (CRR) from 2.0 per cent to 1.0 per cent with effect from April 14, 2009.

The MPC also commended the earlier CBN Board's decision and Mr. President's approval in respect of the N200 billion special agricultural fund for large scale agriculture. The CBN will fully underwrite the cost of the fund, and ensure immediate implementation. This initiative will significantly reduce food price inflation, and assist the CBN in achieving its core mandate of price stability.

Professor Chukwuma C. Soludo, CFR
Governor,
Central Bank of Nigeria,
Abuja.
APRIL 8, 2009

Appendix 4
MONETARY POLICY COMMITTEE MEETING COMMUNIQUE NO. 63, 21ST MAY 2009

The Monetary Policy Committee (MPC) had a meeting yesterday and reviewed money and foreign exchange market developments. The Committee noted that there was a need to address the problem of excess liquidity in the system without necessarily putting pressure on interest rates.

The MPC noted that exchange rates have remained stable at both the official and the parallel markets for some months now. However, there has remained a wide premium between the official and parallel market rates. The MPC observed that the medium term outlook for the forex market was stable.

Consequently, the MPC decided to review the series of controls instituted in the last few months and, over the next three months, return to a fully liberalized regime that we had before the recent controls. We believe that the premium between the parallel and official exchange rates will narrow significantly in the days ahead, and we can sustain the changes over time. The CBN is also exploring the possibility of introducing futures and swaps in the foreign exchange market.

Decisions:

Consequently, the MPC decided as follows:

1. To issue short-term instruments to be synchronized with the Debt Management Office's (DMO) issuance of the FGN Bonds to mop-up excess liquidity in the system.

2. To return to a regime of fully liberalized foreign exchange market over the next three months. As a first set of measures towards the return to Wholesale Dutch Auction System (wDAS), the Committee decided to increase the foreign exchange net open position (NOP) for banks from 1.0 to 2.5 per cent with immediate effect, while keeping in view the possibility of raising it further at the end of June 2009.

3. Banks are no longer mandatorily required to sell to the CBN, after 5 days, funds sourced from non-rDAS and non-oil export proceeds and may use such funds for interbank transactions.

4. Removal of the requirement that banks transact foreign exchange at 1.0 per cent round the CBN rate. The CBN will now participate in the interbank foreign exchange market at the prevailing rate.

5. Effective June 1, 2009, rDAS will be twice weekly.

6. Approval-in-Principle (AIP) has been granted to 50 non-bank Class 'A' BDCs. The list of the BDCs will be published from Saturday, May 23, 2009. As from next week (week beginning from May 25, 2009), about US$60 million will be sold to the BDCs per week. The BDCs are expected to sell at retail rate of not more than 2.0 per cent above the CBN selling rate.

7. Government Agencies and Oil Companies will have discretion to sell foreign exchange at the interbank foreign exchange market or to the CBN with effect from May 25, 2009.

Professor Chukwuma C. Soludo, CFR
Governor,
Central Bank of Nigeria,
Abuja.
May 21, 2009

Appendix 5
MONETARY POLICY COMMITTEE MEETING COMMUNIQUE NO. 64, 7TH JULY 2009

The Monetary Policy Committee (MPC) met today to review and discuss the latest domestic and international developments and their implications for the Nigerian economy. The Committee noted the continued adverse effects of weak global demand and falling crude oil production on Nigeria's external and fiscal performance during the second quarter of the year. The MPC noted the reported prospects of economic recovery in some emerging market economies. However, this development is not likely to offset the continued weak economic performance in advanced economies. In view of the openness of the Nigerian economy, the Committee observed that the growth prospects may weaken in the remainder of 2009, more so that inflationary tendencies appear to be persisting.

Key Economic and Financial Developments

Domestic Output

Provisional data from the National Bureau of Statistics (NBS) indicates that the Gross Domestic Product (GDP) at 1990 constant basic prices grew by 4.85 per cent in the first quarter of 2009. It is estimated that the GDP grow by 5.13 per cent in the second quarter of 2009 compared with 5.20 per cent in the corresponding period of 2008. The non-oil sector is estimated to grow by 8.03 per cent in the second quarter of 2009 mainly as a result of the performance of agriculture (2.84 per cent); wholesale and retail trade (2.20 per cent); and services (2.28 per cent).The NBS forecast shows a lower growth of 5.75 per cent in overall real GDP for 2009, compared with 6.41 per cent in 2008, notwithstanding the projected weak performance of the global economy.

Price Developments

Inflation

The Committee noted the marginal decline in headline year-on-year inflation rate to 13.2 per cent in May from 13.3 per cent in April 2009. The persistence of high food inflation at 15.7 per cent in May compared with 15.3 per cent in April remains a matter of serious concern given its overwhelming weight in the consumer price index (CPI) basket. It is, however, expected that the headline inflation would slow down in the coming months on account of slack demand and the likely improvement in the supplies of agricultural produce.

Monetary Developments

Provisional data indicates that broad money (M2) decelerated sharply by 4.9 per cent in the first five months of 2009 in contrast with the growth of 29.9 per cent during the corresponding period of 2008. On a year-on-year basis, M2 grew by 15.6 per cent, mainly on account of the decline in net foreign assets and slowdown in credit to private sector. The decline in net foreign assets reflected the fall in oil export receipts and deceleration in other inflows, calling for policy initiatives to improve the availability of foreign exchange in the system. The slowdown in credit to private sector is not unconnected with the slack domestic demand as well as financial squeeze, requiring a combination of credit and structural measures to ensure that there are no enduring adverse effects of credit slowdown on growth and employment.

Interest Rates

Key interest rates at the interbank market rose in May and June 2009. The weighted average interbank call rate on unsecured transactions stood at 12.5 per cent in April, 13.2 per cent in May and 18.6 per cent in June. In the first few days of July, the interbank call rate ranged from 21 to 22 per cent. The weighted average open buy back rates in April, May and June were 7.1, 7.2 and 7.7 per cent, respectively. The average spread between the call rates and the rates on secured transactions has been very high at 1090 basis points in June, 600 basis points in May and 540 basis points in April. The average prime lending rate rose from 19.34 per cent in April to 19.53 per cent in May 2009 while the average maximum lending rate declined from 23.17 per cent in April to 22.86 per cent in May. The weighted average rate on all categories of deposits rose from 5.98 per cent in April to 6.13 per cent in May 2009. Thus, the spread between the two rates is higher than the current inflation rate, which provides a unique opportunity to banks to improve efficiency and reduce lending rates.

Exchange Rates

The MPC noted with satisfaction that recent measures to stabilize the Naira exchange rate have posted some positive outcomes. The Naira exchange rate has stabilized at the rDAS in recent weeks while in the other segments, the rates have appreciated, thereby narrowing the arbitrage opportunities. However, the premium over the rDAS rate has remained significant. The present situation offers an opportunity to further narrow the gap between the two rates by measures aimed at further liberalizing the interbank foreign exchange market.

External Reserves

Foreign exchange reserves as at July 03, 2009 amounted to US$43.19 billion (provisional) compared with US$53 billion at end December 2008. The decline in reserves mirrored mainly the relative downward drift in international crude oil prices from the levels reached in mid-2008 and the slowdown of other foreign exchange inflows. However, the decline in reserves is likely to moderate in the next two quarters owing to the expected rise in international crude oil demand arising from recent reports of improvement in the recovery prospects in the US and other developed countries and in the relatively favorable outlook for growth in some important emerging economies.

The Stance of Policy

The Committee noted that the recent economic and financial developments point to the need for policies to be focused on growth, exchange rate and financial market dynamics. Monetary and credit policies have to be therefore properly integrated with exchange rate policies. The stance of monetary policy in the coming months would be to assure that liquidity, both domestic and foreign currency, is adequate to meet genuine demand and that real lending rates are moderated. To match these forces for bringing about stability in foreign exchange and domestic money markets, the CBN would undertake suitable foreign exchange and domestic open market operations in a coordinated manner in the coming months. For this purpose, the CBN would announce an advance calendar of its operations for each week so that market expectations are formed in a manner that is conducive to the realization of the objectives of policy. The CBN also proposes to have in place firm consultation procedures with bank executives prior to and after the policy meetings as a condition for bringing about a more open and transparent monetary policy.

Decisions:

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

A. Interest Rate Policy

1) The Committee affirms the clearly established empirical evidence of a strong nexus between low real interest rates and economic growth. However, the strategy for achieving low interest rates will need to be based on market forces and involve a deliberate and painstaking effort aimed at addressing structural problems that lead to high interest rates. All caps and floors imposed thus far by the Bankers' Committee have turned out to be unenforceable and counter-productive. Only a minority of banks are fully compliant. The Committee has, therefore, removed those caps.

2) The wide divergence between interbank rates and the Monetary Policy Rate (MPR) exerts pressures on lending rates. As part of the strategy for achieving convergence, the Monetary Policy Framework which has the interest rate corridor as an important component is hereby restored. Consequently, the MPR would be reduced from 8.00 per cent to 6.00 per cent per annum. The corridor of interest rates would be +/- 200 basis points, with the rate on the standing lending facility at 8.00 per cent and the rate on the standing deposit facility at 4.00 per cent.

3) It is recognized that high interbank rates are substantially driven by the refusal of banks to lend to each other because of perceived counter-party risk. Whereas steps are being taken by the CBN to address this problem through proper bank audits, appropriate resolution frameworks and enhanced disclosure and transparency in financial statements, these will take some time before finalization and full restoration of confidence in the system. In view of the dire consequences to the real sector and the banks themselves of a sustained regime of excessively high interest rates, it is important to de-risk

the interbank market and address the concerns of lenders and investors while the regulatory reforms are in progress.

Consequently, the CBN shall provide a guarantee on all interbank placements from July 2009 to March 31, 2010. This guarantee is also extended to placements with banks by pension funds. Details of operational modalities will be discussed at the Bankers' Committee meeting. However, a condition for this guarantee is that pricing must reflect the credit enhancement it provides. Overnight placements shall not be priced higher than MPR + 2%. A maximum spread of 300, 400 and 500 basis points above the MPR shall be maintained for tenors up to 30, 60 and 90 days, respectively. This will lay the foundation for evolving a risk-free yield curve at the short end. The CBN expects to conclude the diagnosis, resolution and disclosure policy on the banking system, by March 31, 2010.

4) In view of the CBN guarantee of the interbank market transactions, there will be no new loans on the Expanded Discount Window (EDW) and no extension of maturing obligations. Furthermore, all banks are required to liquidate their obligations under the EDW facility at maturity.

B. Foreign Exchange Market

1) The interbank foreign exchange market will be liberalized with immediate effect and wDAS replaces rDAS.

2) All other restrictions imposed recently are removed and the net open position limit for banks is increased to 5% of banks' capital base.

3) All Class 'B' Bureaux-de-Change may now participate directly in the CBN window. Only those with valid licences are eligible. However, they will make a caution deposit of $20,000.00 each.

4) Class 'A' BDCs capital requirement is hereby reduced from N500 million to N250 million.

5) Allocation of foreign exchange will differ in magnitude between Class 'A' and 'B' BDCs, given the different levels of capitalization.

Sanusi Lamido Sanusi
Governor,
Central Bank of Nigeria,
Abuja.
July 7, 2009

Appendix 6
MONETARY POLICY COMMITTEE MEETING COMMUNIQUE NO. 65, 1ST SEPTEMBER 2009

The Monetary Policy Committee (MPC) met today to address the challenges faced by the Nigerian economy against the backdrop of recent domestic and international economic and financial developments.

External Environment

The Committee noted at the outset that recessionary conditions in many developed economies seem to be abating. However, there still exists considerable uncertainty as to when economic recovery would set in on a sustained basis. In recent weeks, there has been some improvement in the price of crude oil in international markets. While this development augurs well for Nigeria's fiscal and external sector positions, its sustainability would, however, depend on how quickly the global economy would bottom out of the current recession. Inflation rates have so far been very low in developed countries, making it possible for central banks to maintain record low levels of interest rates. However, unemployment rates continue to be high and the financial system is still not adequately capitalized. Other emerging countries too have recorded economic slowdown and relatively low inflation. They are, however, recovering at an improved rate and their financial and foreign exchange markets have been functioning well.

Key Domestic Developments

Output

The latest estimates of the National Bureau of Statistics (NBS) for 2008 and 2009 show a moderation in the rates of real GDP growth. The revised growth rate for 2008 is put at 5.99 per cent as against an earlier estimate of 6.41 per cent. For 2009, the NBS has projected growth at 5.33 per cent compared with an earlier projection of 5.75 per cent. In the first quarter of 2009, growth was in the order of 4.50 per cent compared with 4.64 per cent in the first quarter of 2008. In the second quarter of 2009, however, output growth is estimated at a higher level of 6.73 per cent compared with 5.65 per cent in the second quarter of 2008. This was largely due to the contributions of agriculture, wholesale and retail trade and a growth in the relative contribution of petroleum and natural gas production from -1.72 to 0.57 percentage points. Against this background, the Committee noted the increased agricultural output and the expected improvement in the output of petroleum and natural gas will augur well for dampening inflation expectations.

Inflation

The Committee noted that the headline (year-on-year) inflation has been stable at a little over 11 per cent as at July 2009. The average rates of headline inflation and food inflation in the first seven months of 2009 were respectively 13.11 per cent (11.53 per cent in 2008) and 15.94 per cent (15.98 per cent in 2008). Given the outlook on output and limited aggregate demand, the staff assessment is that at the end of the year, the headline inflation would moderate further. However, should there be any reversal in the movement of inflation; appropriate policies would be adopted at the next MPC meeting. The main risk to inflation comes from core inflation with higher oil prices and possible removal of subsidies combining with the usual growth of spending around the Christmas festive season.

Monetary Developments

Provisional data for broad money (M2) for July 2009 shows a growth of 10.2 per cent on a year-on-year basis, the lowest for any month since February 2006. This largely reflects the decline in net foreign assets (NFA) and sharp deceleration in the growth of credit to private sector.

The Committee noted that recent improvements in oil output and prices would help to improve the gross foreign exchange reserves of the economy. However, it underscored the importance of continuing with the efforts at improving the macroeconomic climate for attracting foreign capital inflows and spurring growth of private credit for productive purposes.

Interest Rates and Financial Markets

With the reduction of the Monetary Policy Rate and the introduction of an interest rate corridor as well as Central Bank's guarantee of unsecured interbank market transactions which were firmly set, effective July 20, there has been considerable improvement in the risk perceptions of market participants. The spread between the unsecured call rate and the secured open buy-back (OBB) rate has since then come down significantly and averaged 430 basis points compared with the average spread of 1384 basis points between July 1 and July 17 and the average spread of 1115 basis points in June 2009. The coupon rates on dated government securities in the primary market have tended to move downwards. The overnight interbank rate was 4.11 per cent as at 28th August, 2009.

In general, this implies a massive reduction in the interbank rates since the last MPC meeting. However, the translation of this reduction into rates on purchased funds and lending rates seems to be delayed. Both rates are being monitored on an on-going basis.

Exchange Rates and Foreign Exchange Reserves

The foreign exchange market has in general been relatively stable with the re-introduction of the wholesale Dutch auction system and the measures taken to further liberalize the interbank market since the last meeting of the MPC. There has also been reduction in exchange rate volatility. The spread between the rates at which the auctions had been settled and the rates quoted by BDCs have narrowed from about 12 per cent to 4.4 per cent. In view of this, the spread would narrow further once the confidence in the international foreign exchange markets is fully restored with the bottoming out of the current global recession, and more BDCs are being brought into the market.

Foreign exchange reserves as at August 28, 2009 stood at US $41.597 billion. The Committee believes that the recent improvement in the output of oil and the price of crude oil in international markets should help improve the external reserves position towards the end of the year.

Perspectives and the Stance of Policy

Against the backdrop of signs of gradual improvement in the external economic environment and the positive outlook for the domestic economy, the Committee felt that policy initiatives are needed to further improve growth without jeopardising price and financial stability. It will, therefore, continue to manage liquidity actively to ensure that credit requirements are taken care of at reasonable interest rates while monitoring the trends in prices. The Committee will also pursue an interest rate policy that is consistent with price and financial stability and supportive of enhancing the levels of economic activity on a higher trajectory.

On foreign exchange, the policy stance remains that exchange rate should be principally market driven, but interventions will be made to mitigate tendencies towards volatility and to counteract speculative attacks on the national currency.

Decisions

In the light of the above, the Monetary Policy Committee decided to:

a) Keep the MPR unchanged at 6 per cent per annum;

b) Maintain the interest rate corridor at +/- 2 per cent around the MPR; and

c) Approve in principle the establishment of an "Asset Purchase Facility Fund".

The Central Bank of Nigeria and Federal Ministry of Finance to jointly consider the modalities for setting up the APF Fund for effective liquidity injection and credit easing targeted at specific areas of the economy.

Sanusi Lamido Sanusi
Governor,
Central Bank of Nigeria
Abuja
September 1, 2009

Appendix 7
MONETARY POLICY COMMITTEE MEETING COMMUNIQUE NO. 66, 3RD NOVEMBER 2009

The Monetary Policy Committee (MPC) at its meeting today reviewed the domestic and external economic and financial developments for the year so far. The international economic scene, in the Committee's view, has turned out to be better than was projected about six months ago. Developed countries that were most adversely affected by the severe economic and financial crises have shown some signs of improvement in terms of output. However, questions remain on the durability and sustainability of the recovery.

There are also concerns over the high unemployment rates in these economies, although the stock and housing markets showed some evidence of picking up. The financial sector has been stabilized and measures are set to closely monitor and regulate it. The prices of primary commodities including crude oil have risen largely due to the fiscal and monetary stimulus and on news of recovery. The rise in commodity prices however has given rise to concerns about resurgence of inflation in the near future. Emerging countries on their part have registered fairly good growth rates and are poised to make further gains in 2010. The main concerns in the international economy relate to the robustness of the recovery and the possibility of incipient inflationary tendencies. It is against this background that the question of timing and dimension of fiscal and monetary tightening is being debated.

The Committee reviewed the domestic economic developments bearing in mind the evolving international economic and financial situation. The review underscored the need for strengthening the on-going efforts at working out economic policies with reference to a desirable medium term path of economic growth along with price and financial stability. Monetary policy, the Committee emphasized, has to play an active role in the fulfillment of this task.

In the short run, however, the space available for monetary policy is somewhat limited by the uncertainty about the sustainability and robustness of economic recovery in most major trading partner countries, the fiscal constraints largely brought about by the growing gap between the rising expenditure demands and revenue receipts and the overall deceleration in domestic economic activities. The Committee noted with satisfaction that there has been a gradual downward movement in inflation in recent months but observed that this has mirrored essentially the slack demand. The Committee also noted that structural measures currently being undertaken to strengthen the banking sector and to foster financial stability would pave the way for improved effectiveness of monetary policy in the short to medium term. The Committee welcomed the recent upward movement in the prices of crude oil in international markets and hoped that it will be sustained in the near future. It considered the external payments situation to be manageable. In the Committee's view, the behavior of short term money market interest rates and exchange rates is in general consistent with the market fundamentals.

Key Macro-economic and Financial Developments

Output and Prices:

Data on real GDP growth for Quarter 3 of 2009 is not yet firm but the provisional estimate of the National Bureau of Statistics (NBS) is 7.58 per cent. The NBS reported that in Quarters I and II, output grew by 4.50 per cent and 7.22 per cent, respectively. The Committee felt that on the basis of the output growth recorded thus far and other indicators, growth in 2009 would remain robust.

The inflation rate as measured by the year-on-year increase in 'all items' consumer price index was 10.4 per cent in September 2009. This outcome is lower than the headline inflation of 15.1 per cent in December 2008 and lower than the average headline inflation of 12.6 per cent for the first 9 months of the year. Food inflation has been between 12.5 and 13.0 per cent in Q III of the year.

Monetary and Financial Market Developments:

Broad money (M2) at the end of September 2009 showed an increase of 5.6 per cent on a year-on-year basis. The year-on year movement in narrow money (M1) was negative 4.2 per cent as at end-September 2009 mainly on account of the decline in demand deposits. The trends in money supply movement reflect the fall in net foreign assets and slowdown in credit to private sector. This implies that the aggregate demand is not adequate, suggesting the need for the continuation of an accommodative monetary policy.

Notwithstanding the low monetary growth, money market rates, reflected market realities. With the interbank money market guarantees in place and the measures to strengthen the banking sector, confidence in the money market has improved. This is reflected in the downward movement in the daily unsecured call rates. The average call rate for September 2009 was 9.98 per cent compared with 10.38 per cent in August and 17.64 per cent in July. The secured open buy-back (OBB) rate was 6.71 per cent for September, 2009, compared to the 6.67 per cent in August but lower than the 7.47per cent in July. The spread representing the counterparty credit risk thus narrowed to 327 basis points in September as against 365 basis points in August and 1017 basis points in July. In October, the call rate averaged 6.95 per cent while the average OBB rate was 6.08 per cent, the spread being a mere 87 basis points.

The Committee noted that in October excess reserves of banks with the CBN were high with the average daily excess reserves exceeding the average in any of the preceding four months of the year. Some banks took recourse to standing deposit facilities with sharp increase since the middle of the month. No bank accessed the standing lending facilities during the same period. While this could be considered a structural phenomenon in view of the mid-month Federation Accounts Allocations, the sharp recourse to standing deposit facility and non-use of the standing lending facility in the latter-half of the month seem to suggest that there is scope to reset the rates on standing facilities so as to eliminate perverse incentives and encourage banks to enlarge their asset portfolios in a prudent manner.

Stock market developments continued to be marked by cautions. In October 2009, the year-on-year declines in the average share price index and market capitalization were 47.0 per cent and 42.4 per cent respectively. The declines, however, are an improvement over the average declines of 57.6 per cent in the share prices and 50.7 per cent in market capitalization in the first nine months of the year. This may be attributable to the emerging news that the financial conditions of the domestic banking sector has been strengthened by the injection of funds by the CBN and the major stock markets of the world have shown improved investor sentiments following reports of imminent recovery in the medium term.

External Sector Developments

The foreign exchange market has been stable. The official exchange rate stood at an average of N149.3578 per US dollar in October 2009. The interbank market rate averaged N150.1252/$US. There was thus a slight appreciation of the Naira during the month. The spread between the rates has continued to be insignificant.

Foreign exchange reserves stood at US$43.34 billion as at end September 2009, an improvement of about US$ 1.64 billion over August, mainly owing to the receipt of the SDR allocation. As at October 30, 2009, foreign exchange reserves are provisionally estimated to be US$43.05 billion. Crude oil prices in the international markets have edged upward in recent weeks. If the current oil price trend is sustained and if the expected recovery in both developed and emerging countries is realized, there will be further improvement in the level of foreign exchange reserves, with implications for liquidity and exchange rate management. The Committee will continue to ensure stable exchange rates determined by market forces.

The Committee's Considerations

The Committee observed that while inflation has decelerated, it is important to recognize that seasonal factors and the planned deregulation of the prices of petroleum products pose a major risk to inflation outlook in the near to medium term. It is this context that heightens the criticality of the policy dilemma now being faced by the Central Bank of Nigeria (CBN). Providing further impetus to the current accommodative monetary policy could be inflationary in the short to medium term whereas the gap between the likely output growth and the trend rate of growth as well as the fragility of economic recovery in many of the systemically important countries point to the need for maintaining monetary accommodation along with reasonable fiscal stimulus. The Committee also noted the existing paradox of the co-existence of system-wide liquidity shortages as reflected in the data on monetary and credit aggregates and abundant liquidity with some banks as evidenced from the data on standing facilities. The CBN, in the light of these considerations, has to take a balanced view of the measures required for fostering growth prospects and containing inflationary pressures on a sustained basis and also to further strengthen the liquidity management.

Decisions

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

1. The Monetary Policy Rate (MPR) will remain unchanged at 6 per cent, but an asymmetric corridor of interest rates around the MPR is introduced. The rate on the standing lending facility will remain at 200 basis points above the MPR, while the rate on the standing deposit facility will be 400 basis points below the MPR.

2. There will be quantitative easing to bridge the gap currently estimated at about N500 billion between the levels of the current monetary aggregates and the benchmark levels for 2009. The modalities for quantitative easing include investments in bonds to be issued by Asset Management Company (AMC). The setting up of AMC, however, is subject to the approval of the National Assembly. Other modalities include the redemption of promissory notes issued by the Federal Ministry of Finance as well as by the CBN in connection with the retirement of debt and liabilities arising from purchase and assumption of failed banks.

3. Purchase of loans by banks under the AMC will be based on terms aimed at strengthening the balance sheets with a focus on asset quality, improving liquidity and capital adequacy as well as on reducing debt overhang relating to the stock market in order to stimulate activity in the capital market.

4. With effect from November 16, 2009, the temporary ban placed by the CBN on the use of Bankers' Acceptances (BAs) and Commercial Papers (CPs) will be lifted. Guidelines will be issued by the CBN prior to that date.

5. In view of the fact that the audits of banks have been concluded and adequate provisions have been made for non-performing loans and to stimulate credit growth and strengthen banks' balance sheets, the 1 per cent general provision on performing loans contained in the existing prudential guidelines is hereby waived for the year 2009 as a countercyclical measure. New prudential guidelines will be issued before the end of Q1 2010. The totality of these measures is aimed at improving system liquidity and financial stability to regenerate confidence in the Nigerian markets and to further stimulate growth. The MPC is conscious of the upside risks as a result of quantitative easing but holds the view that progress in the execution of capital projects and favourable outlook on agricultural output growth will moderate the upside risks. The priority, therefore, is to stimulate growth in output and to ensure financial stability with a view to improving the effectiveness of monetary policy.

Sanusi Lamido Sanusi
Governor,
Central Bank of Nigeria
Abuja
November 3, 2009

Appendix 8
MONETARY POLICY COMMITTEE MEETING
COMMUNIQUE NO. 67, 4TH AND 5TH JANUARY 2010

The Monetary Policy Committee (MPC) met on 4th and 5th January, 2010 to review domestic economic conditions in 2009 and the challenges faced by the Nigerian economy against the backdrop of developments in the international economic and financial environments in order to chart the course for monetary and financial sector policies for 2010. On the international economic scene, the Committee noted that developed countries that were most adversely affected by the severe economic and financial crises had started showing signs of recovery.

The apparent rebound in global economic activity was being driven mainly by rising manufacturing activity, recovering housing markets and the restoration of consumer confidence. Although central banks around the world have undertaken large interest rate cuts and measures to inject liquidity into their economies, the risks still remain that the current rebound may be sluggish and that the global economy would remain credit-constrained in the near-to medium-term, as financial institutions continue to maintain their cautious approach to credit extension.

The Committee also noted that commodity prices, including crude oil prices, have resumed an upward trend due largely to the fiscal and monetary stimuli, and the prospect of economic recovery in advanced economies. The rising commodity prices have, however, renewed concerns about the resurgence of inflation in the near-term. The Committee further noted that emerging and developing market economies, on their part, have continued to show strong resilience to the financial crises and recorded positive growth rates despite the harsh international economic and financial environment in 2009.

On the domestic scene, the MPC underscored the need for strengthening ongoing reform efforts in the banking sector aimed at engendering desirable medium term economic growth path consistent with price and financial stability. It further underlined the need to fast-track the proposed reforms in some key sectors of the

Nigerian economy, and in particular, the power sector, to attract the much-needed private sector/foreign investment. This, the Committee noted, was necessary because of the benefits in terms of the growth-enhancing and employment-creating potentials that these reforms and opening-up of the sectors would have on the rest of the economy.

Key Domestic Macroeconomic and Financial Developments:

Output and Prices:

Provisional data from the National Bureau of Statistics (NBS) indicates that real Gross Domestic Product (GDP) grew by 8.23 per cent in the fourth quarter of 2009, up from 4.50, 7.22 and 7.07 per cent in the first, second, and third quarters, respectively. Overall GDP growth for 2009 was projected at 6.90 per cent which is significantly higher than the 5.98 per cent recorded in 2008. The non-oil sector, as a group, remained the major driver of growth although this was complemented by the sharp increase in the growth of the oil sector GDP following the relative peace in the Niger Delta in the second half of the year.

The Committee observed that the higher than anticipated real output growth recorded in Nigeria despite the harsh international economic environment mirrored the trends in some sub-Saharan African countries and further buttresses the view that African countries were better able to withstand the global economic and financial crises relative to other regions of the world. The Committee felt that on the basis of the robust economic growth recorded and the sustained implementation of appropriate policies, further improvement in output could be expected in 2010. The headline inflation rate, as measured by the year-on-year increase in the all item consumer price index, was 12.4 per cent in November 2009, up from 11.6 and 10.4 per cent recorded in October and September, respectively. The outcome was however; lower than the headline inflation of 15.1 per cent recorded in December 2008. Food inflation which hovered between 12.5 and 12.90 per cent in the third quarter rose to 13.5 per cent in the fourth quarter of the year.

Inflation outlook for 2010 remains uncertain, but a combination of both domestic and international economic developments, namely the impact of the planned full deregulation of petroleum products prices, the expansionary fiscal outlay, the quantitative easing measures undertaken by the Bank, the resolution costs associated with the banking sector reforms, possible capital inflows to strengthen commercial banks balance sheets, and the rising international commodity prices, pose serious threats to domestic price movements and, hence, inflation risk in the months ahead. Against this background, the Committee emphasized the need to continue to monitor price developments with a view to creating an enabling environment for sustainable economic growth and employment.

Monetary, Credit and Financial Market Developments

Over the preceding December level, broad money (M2) grew by 12.80 per cent (on annualized basis) in November 2009, which was significantly below the indicative benchmark of 20.8 per cent growth for 2009. Similarly, the annualized growth rate of aggregate domestic credit (net) as at November 2009 was 56.10 per cent, compared with the provisional benchmark growth rate of 86.97 per cent for 2009. Despite the various policy measures implemented by the CBN to ensure adequate liquidity in the banking system, reserve money (RM) was largely below the indicative benchmarks for most of 2009.

The annualized growth rate of private sector credit was 26.10 per cent, significantly below the indicative benchmark of 45.00 per cent but not in itself insignificant in view of all the developments in the banking sector. The trends in money supply movement reflect the fall in net foreign assets and the slowdown in credit to the private sector. This implies slack aggregate demand, indicating the need for the continuation of an accommodative monetary policy stance. Notwithstanding the sub-optimal monetary growth during the year, confidence in the money market has improved considerably following the interbank money market guarantee and other measures to strengthen the banking sector. This was reflected in the downward movement of the daily interbank call rates. Specifically, the average call rate for November was 5.25 per cent down from 6.60 per cent in October and 9.76 per cent in September 2009.

The secured open buy-back (OBB) rate for November was 4.53 per cent, down from 5.80 and 6.60 per cent in October and September, 2009, respectively. As at December 30 2009, the interbank call and OBB rates were 2.91 and 2.51 per cent, respectively. The spread reflecting counterparty credit risk, has narrowed significantly from an average of 316 basis points in September to 80 basis points, 72 basis points and 40 basis points in October, November, and December, respectively. The Committee observed that despite the falling interbank rates, the retail lending rates of deposit money banks (DMBs) were still high. The average maximum lending rate had risen to 23.1 per cent in November from 22.97 and 22.64 per cent in September and June, 2009, respectively. Also, the average prime lending rate rose to 18.93 per cent in November from 18.33 and 18.16 per cent in September and June, 2009, respectively.

The Committee reaffirmed that the reduction of structural and institutional impediments as well as DMBs risk perception of borrowers could moderate the high lending rates. It also felt that current efforts by the Bank to promote the use of shared infrastructure by DMBs as well as the development of the fixed income market in conjunction with relevant agencies would further reduce cost of operation and moderate lending rates. The Committee noted the progress made so far in this area and urged an intensification of efforts and closer collaboration with political authorities to fast-track its actualization. The weak performance of the Nigerian capital market continued throughout 2009. The All-Share Index (ASI), which was 31,450.78 in December 2008, fluctuated to 19, 851.89 (36.88 per cent) at end-March 2009, 26,861.55 (14.59 per cent) at end-June 2009, 22,065.00 (29.84 per cent) at end- September, 2009, and further to 20,827.17 on 31 December, 2009. Market C pitalization (MC), which stood at N6.96 trillion in December 2008 declined steadily to N4.989 trillion on 31 December, 2009. The NSE has attributed the bearish performance at the stock market to the harsh operating environment and the gloomy economic outlook in 2009, which affected the quarterly results of some quoted companies.

However, the major stock markets around the world have shown improved investor sentiments following prospects of recovery in the medium term. It was also noted that although banking shares in general have been badly affected by losses incurred, a number of companies in the non-bank sector have had strong performance in the stock exchange.

External Sector Developments

The foreign exchange market remained relatively stable for the most part of 2009, after the initial turbulence recorded in the first quarter of the year, following measures taken by the CBN. In November, the WDAS average exchange rate stood at N150.85 per US dollar compared with N149.3578 per US dollar in October 2009, representing a depreciation of 1.0 per cent. As at end-December 2009, the WDAS average exchange rate was N149.58 per US dollar compared with N126.48 per dollar at end-December 2008. The interbank market rate averaged N151.03/$US as at end December 2009. Thus, as at end-2009, the spread between the WDAS and interbank market rates was insignificant. The convergence reflects renewed confidence and clarity in expectation, founded on the stability that has been sustained in exchange rates. Policy will continue to focus on avoiding volatility in exchange rates and thus retaining confidence.

External reserves stood at US$42.47 billion on 29th December 2009, down from the level of US$53.00 billion recorded at end-December 2008. Overall, the net outflow of foreign exchange has moderated significantly from US$5.6 billion, US$3.8 billion, and US$931.93 million to US$138.37 million in the first, second, third and fourth quarters, respectively. Notwithstanding the decline in the level of external reserves as at end-December 2009, the Committee was satisfied that the level of reserves remained robust and significantly higher than initially projected at the beginning of the year. However, if the elevated price of crude oil in the international market in recent months is sustained, then, given improvement in output with peace in the Niger Delta, there is likely to be an improvement in the level of foreign exchange reserves. The strong reserve position enhances the Bank's ability to maintain exchange rate stability and protect the currency from speculative attack.

The Committee's Considerations

The Committee welcomed the optimistic growth forecast for 2010 by the NBS but noted that the growth had been without employment owing to the stagnation in the manufacturing sector, and the failure to link growth in agriculture to industry. The Committee stressed the need for improvements in power and infrastructure to further enhance and sustain the growth process. In this regard, the MPC welcomes the commitment of the Bankers' Committee at its Enugu Retreat to provide the platform for increased financing for infrastructural development in support of economic growth. It restated its commitment to work with the government to create the enabling environment that will facilitate the financing of the real sector by the DMBs, including strong advocacy for the fast-tracking of stalled reforms in the power sector, including review of the tariff regimes for gas and electricity and concessioning of the transmission company.

The Committee also observed that the focus of the reform measures in the banking sector is to impact the overall efficiency and stability of the system in a manner that will ensure that banks play their appropriate roles as transmission channels for resources to the real sector. This is expected to increase credit to the growth-enhancing sectors of the economy and therefore, engender an all inclusive growth, as well as avoid a recurrence of crises provoked by over exposure to speculative and non-value-adding ventures.

The Committee further cautioned against being overly optimistic in our expectations about the outlook for the price of crude oil, and welcomed the prudent benchmark used in the budget for 2010. It noted that the current price of crude oil was being driven by the low value of the US dollar and the low interest rates in the US and once these reverse, crude oil prices may be lower than they are today. It expressed the hope that all stake holders will give support to the Finance Ministry in keeping to this benchmark price, and resist the temptation to push for an increase based on short-term consideration.

The Committee took cognizance of the expansionary nature of the 2010 Federal budget, the continued implementation of the 2009 Budget up to Q1 2010, expected liquidity injection/inflow during the recapitalization of the troubled banks and resolution of toxic asset problems, and the eventual deregulation of the downstream petroleum sector and their possible inflationary impact. In this regard, the MPC affirmed that it will closely monitor price developments in the near-term and will take appropriate policy measures, if necessary, to ensure the attainment of price and financial sector stability.

On the other hand, the Committee recognised the need to maintain the growth trajectory of the economy, to ensure that lending rates are not placed under further upward pressure and to provide sufficient liquidity during the resolution process of the banking system.

Decisions

In the light of the above, the Committee unanimously took the following decisions:

1. The Monetary Policy Rate (MPR) will remain unchanged at 6 per cent with the asymmetric corridor of interest rates remaining at 200 basis points above the MPR and 400 basis points below the MPR.

2. The CBN will extend the guarantee on all interbank transactions up till December 31, 2010. However, the CBN has the discretion to terminate the guarantee on a case-by-case basis as part of the ongoing reform process.

3. The MPC approved the Monetary Programme for 2010/2011 and the Monetary, Credit, Foreign Trade and Exchange Guidelines for Fiscal Years 2010/2011.

Sanusi Lamido Sanusi
Governor,
Central Bank of Nigeria
Abuja
Jan 5, 2010

Appendix 9
MONETARY POLICY COMMITTEE MEETING COMMUNIQUE NO. 68, 1ST AND 2ND MARCH 2010

The Monetary Policy Committee (MPC) met on 1st and 2nd March, 2010 to review domestic economic conditions for the first two months of 2010 and the challenges faced by the Nigerian economy against the backdrop of developments in the international economic and financial environments in order to chart the course for monetary and financial sector policies for the remainder of the year. On the international economic scene, the Committee noted that the rebound in global economic activity which started in the second half of 2009 has continued. The rebound was driven largely by the unprecedented amount of fiscal stimuli undertaken in both the developed and emerging market economies in the wake of the global financial crises. As a consequence, monetary policy had been largely accommodative with interest rates down to record lows in most advanced and emerging markets, coupled with the considerable expansion of central bank balance sheets.

The key concerns, however, remain the strength and sustainability of the recovery process which is proceeding at varying speeds across the different regions. In the advanced economies, the recovery is still expected to be weak by historical standards, with real output projected to remain below its pre-crisis level until late 2011. Given their stronger initial economic conditions and swift policy responses, growth in the emerging and developing economies is expected to recover faster. The Committee also noted the continuing rebound in commodity prices, particularly crude oil prices, which is helping to support growth in commodity producing regions. However, the inflation risk of the rebound in energy prices appears to be mitigated by the subsisting low levels of capacity utilization, weak private demand and well-anchored inflation expectations.

The MPC also observed that although financial markets have recovered remarkably faster than expected, financing conditions, especially for businesses and firms, are likely to remain difficult in the near-term as financial institutions continue to maintain a cautious approach to credit extension. Bank lending is likely to remain sluggish given the need to rebuild capital, maintain liquidity and the possibility of further credit write downs, mostly related to non-performing exposures to commercial real estates and stock markets.

The Committee further noted that although the bond markets have rebounded, the households, small and medium-size enterprises that have only limited access to capital markets, are likely worldwide to continue to face credit constraints, except where public lending programmes and government guarantees are in place. As investors increasingly differentiate across countries with the resumption in capital flows, the risk of sovereign debt default has been heightened in some countries with large government deficits and debts. On the domestic scene, the MPC underscored the need for co-operation in fast-tracking on-going reform efforts in the banking sector to ensure the flow of credit to the real sector of the economy, aimed at supporting growth in the medium term. It also underlined the need for energizing reforms in critical sectors of the economy such as power and other economic infrastructure, to attract the much-needed private sector/foreign investment and, thereby promote employment-generating growth.

Key Domestic Macroeconomic and Financial Developments:

Output and Prices

Provisional data from the National Bureau of Statistics (NBS) indicates that real Gross Domestic Product (GDP) will grow by 6.68 per cent in the first quarter of 2010, down from 8.23 per cent in the fourth quarter of 2009, but up from the 4.50 per cent recorded in the first quarter of 2009. Overall GDP growth for 2010 was projected at 7.53 per cent which is higher than the 6.90 per cent recorded in 2009.

The non-oil sector, especially, agriculture, wholesale and retail trade, and services would remain the major driver of growth although this is likely to be complemented by a modest increase in the growth of the oil sector GDP following the sustained peace in the Niger Delta region. While noting the optimistic growth projections for the year, the Committee observed that the robust growth projections was predicated on the assumption that the reforms that have been initiated in certain key sectors of the economy would be carried through. It, therefore, urged strong commitment and political will on the part of the authorities to see these reforms through.

The headline inflation rate, as measured by the year-on-year increase in the all item consumer price index, was 12.3 per cent in January 2010, up from 12.0 per cent in December 2009, but lower than the 12.4 per cent recorded in November 2009 and the 14.0 per cent recorded in January 2009. Food inflation, which hovered between 13.5 and 13.6 per cent in the fourth quarter of 2009, rose to 14.0 per cent in the January 2010. Inflation outlook for 2010 remains uncertain, due to a combination of both domestic and international economic developments, namely, the planned full deregulation of petroleum product prices, the expansionary fiscal outlay for 2010, and the rising international commodity prices.

The Committee, however, noted that against the backdrop of weak aggregate demand as mirrored in the contraction in monetary aggregates since the beginning of 2009, the inflation risk to growth appears mitigated. The Committee will continue to monitor price developments in the months ahead with a view to creating an enabling environment for sustainable growth and employment.

Monetary, Credit and Financial Market Developments:

Over the preceding December level, broad money (M2) declined by 3.11 per cent in January 2010, which was significantly below the indicative benchmark of 29.26 per cent growth for 2010. Similarly, the annualized decline in aggregate domestic credit (net) as at January 2010 was 22.44 per cent, compared with the provisional benchmark growth rate of 82.8 per cent for 2010.

As in most periods of 2009, reserve money continued to be below the indicative benchmark for the first quarter of 2010 in the first two months of 2010. The annualized growth rate of private sector credit was -16.20 per cent, significantly below the provisional benchmark of 31.54 per cent, indicating that the private sector particularly, small and medium enterprises were being starved of the much-needed credit. Banks lost about 66 per cent of their capital between December 2008 and December 2009 which has constrained the ability of the banks to grow credit. This underscores the need for Asset Management Corporation (AMC) to deal with non-performing loans and fast-track the recapitalization of the institutions to enable them continue to grow their loan books.

The trends in money supply reflected a fall in all its components, including net foreign assets, credit to the private sector and credit to government. This development is a reflection of the slack in aggregate demand, underlining the need for the sustenance of the easing of monetary policy. Notwithstanding the sub-optimal performance of monetary aggregates thus far, confidence in the money market has continued to improve following the interbank money market guarantee and other measures to strengthen the banking sector. This is reflected in the downward movement of the daily interbank call rates. Specifically, the average call rate for January 2010 was 2.31 per cent, down from 2.89 per cent at end-December 2009 and 5.25 per cent in November.

The secured open buy-back (OBB) rate for January 2010 was 2.30 per cent down from 2.64 per cent at end-December 2009 and 4.53 per cent in November. As at February 25, 2010, the interbank call and OBB rates were 2.21 and 2.07 per cent, respectively. Thus, the rates appear to be converging, reflecting a restoration of confidence in the money market and favorable liquidity position in the banking system. However, this liquidity position of banks against the backdrop of declining private sector credit implies that the banks are reluctant to lend to the real economy.

The focus of policy measures would be to ensure the flow of credit to the real economy by supporting targeted lending programmes. In this regard, the Committee maintained its earlier position that despite falling interbank rates and growing banking system liquidity, the retail lending rates of deposit money banks (DMBs) were still very high. This is despite the marginal decline in the average maximum lending rate to 23.18 per cent in January 2010 from 23.45 and 23.1 per cent in December and November, 2009, respectively.

The average prime lending rate also fell to 18.38 per cent in January 2010 from 19.03 and 18.93 per cent in December and November 2009, respectively. The Committee reaffirmed that the reduction of structural and institutional impediments, DMBs risk perception of borrowers, as well as use of shared infrastructure by banks and the development of alternative funding sources for firms, could moderate the high lending rates. The Committee welcomed the efforts made thus far, on these issues, particularly the request to accord liquidity status to State Government bonds, the proposal for tax waivers on fixed income securities, the proposed national credit guarantee scheme for small and medium-scale enterprises, and on-lending programmes through the Development Finance Institutions (DFIs), such as the Bank of Industry. It urged their intensification for eventual actualization. The Nigerian capital market is showing some signs of recovery compared to the last quarter of 2009. The All-Share Index (ASI), which was 20,827.17 at end-December 2009, rose by 10.36 per cent to 22,985.00 on 25th February, 2010. Market Capitalization (MC) also rose by 11.4 per cent, from N4.98 trillion at end-December 2009 to N5.54 trillion on 25th February, 2010. The NSE has attributed the improved performance of the stock market to share price increases in the Banking, Food and Beverages, and Oil and Gas sectors. However, the major stock markets around the world showed deteriorating performance over the period, following calls for increased regulation in the US and Europe, deteriorating government finances in Europe and poor unemployment reports in some advanced economies.

External Sector Developments

The foreign exchange market remained relatively stable in the first two months of 2010. In January 2010, the WDAS average exchange rate stood at N149.78 per US dollar, the same rate recorded in December 2009. As at 24th February 2010, the WDAS exchange rate had depreciated to N150.10 per US dollar. The interbank market rate averaged N150.33/US$ in January, 2010. Thus, the spread between the WDAS and interbank market rates remains insignificant. The convergence reflected the continued confidence and clarity in expectation, engendered by the exchange rate stability. Policy will continue to focus on avoiding volatility in exchange rates and strengthening confidence in the market. External reserves stood at US$41.54 billion on 24th February 2010, down by US$0.51 billion or 1.21 per cent from the level of US$42.05 billion recorded in the preceding month.

Overall, the net outflow of foreign exchange which moderated significantly from US$931.93 million to US$138.37 million in the third and fourth quarters of 2009 turned to a net inflow of US$0.10 billion in January 2010. The Committee was satisfied with this development, noting that the level of reserves remained robust and buoyant enough to support the country's external transactions in the near-term. It, however, believes that if the rising price of crude oil in the international market in recent months is sustained, coupled with improvement in output with peace in the Niger Delta, there is likely to be an improvement in the level of foreign exchange reserves.

The Committee's considerations

The Committee noted the potential for inflationary pressure in the near-to medium term, but observed that recent experience shows that inflation has been driven largely by structural factors particularly the bottleneck experienced in the supply of petroleum products in the wake of the announcement of the full deregulation of the downstream petroleum industry. It noted that growth in both monetary and credit aggregates has remained weak since the beginning of 2009, and therefore any attempt at this time to tighten monetary policy will exacerbate the problem and further constrain credit availability to the real economy.

The MPC further stressed the need to unlock the credit market. Members also observed that there is sufficient liquidity in the money market as suggested by the low interbank interest rates, but that the perception of credit risk on the part of the DMBs remained a major constraint to their ability to lend to the real sector of the economy. In this regard, the Committee felt that a broader macroeconomic policy framework will be needed to unlock the credit market. In this context, the MPC recognised the need to encourage the DMBs to channel the excess funds deposited with the CBN under the standing deposit facility to the real sector. It therefore considered the review of the setting of the standing facility corridor as imperative, to encourage banks to lend to the productive sectors of the economy. As part of the efforts to bring lending rates down, provide alternative sources of long-term funds to finance development projects and deepen the capital market in line with the CBN's developmental mandate, the MPC, deliberated on the possibility of granting liquidity status to bonds issued by state governments that meet certain eligibility criteria, including the Investment and Securities Act 2007 (ISA) and DMO requirements.

Decisions

In the light of the above, the Committee unanimously took the following decisions:

1. MPR remains unchanged at 6.0 per cent;

2. Standing Lending Facility interest rate remains unchanged at 8.00 per cent, while the Standing Deposit Facility rate is lowered from 2.0 per cent to 1.0 per cent;

3. Granted liquidity status to bonds issued by state governments, subject to their meeting the specified eligibility criteria. Detailed guidelines will be issued in due course, principally related to meeting strict standards of fiscal responsibility; and

4. To continue with the quantitative easing policy by providing N500 billion facility for investment in debentures issued by the Bank of Industry (BOI) in accordance with Section 31 of the CBN Act 2007, for investment in emergency power projects dedicated to industrial clusters.

The funds are to be channeled through the Bank of Industry for on-lending to the DMBs at a maximum interest rate of 1.0 per cent for disbursement of loans with a tenor of 10 15 years at concessionary interest rate of not more than 7.0 per cent. The Committee also approved in principle the extension of this facility to DMBs for the purpose of refinancing/ restructuring existing portfolios to manufacturers. However, the final approval for this will come after the consideration of the report of a technical committee to be set up to work out the modalities for implementation within one month. Membership of the committee comprises the CBN, the Bankers' Committee Sub-committee on Economic Development, Bank of Industry, Manufacturers Association of Nigeria (MAN), and National Association of Small and Medium Enterprises (NASME).

The African Finance Corporation (AFC) will serve as technical adviser on the power project. In the case of the power projects, the following projects of the Federal Government will be covered under this facility subject to their being restructured into commercially viable projects on which banks are willing to take credit risks: Lagos (500 MW); Kano (250 MW); Onitsha/Nnewi (200 MW); Port Harcourt/Aba (200MW); Kaduna (225 MW); Funtua/Gusua/MFashi/Zaria (200 MW); Lokoja (200MW); and Maiduguri/Gombe/Bauchi (200 MW). Other power projects currently being financed by banks may also be refinanced from the fund. However, banks will be required to secure the funds drawn with eligible securities. In addition, real sector projects certified bankable that emanate from the State Governors' engagement with the Bankers' Committee in line with the outcome of the Enugu Retreat will be accommodated under the facility.

Sanusi Lamido Sanusi
Governor,
Central Bank of Nigeria
Abuja
March 2, 2010

Appendix 10
MONETARY POLICY COMMITTEE MEETING COMMUNIQUE NO. 69, 15TH APRIL 2010

The Monetary Policy Committee (MPC) held a special meeting on April 15, 2010 to, among other things, consider the modalities for the injection of N500 billion into the real economy in continuation of the current quantitative easing policy. It also reviewed domestic economic conditions during the first quarter of 2010 against the backdrop of the global economic and financial developments with a view to guiding monetary and financial sector policies for the rest of 2010.

The MPC noted the persisting tight credit conditions and the continuing under-performance of key monetary aggregates which had informed its earlier decision to embark on a quantitative easing policy to be implemented through investment in debentures to be issued by the Bank of Industry (BOI). The Committee commended the co-operation of key stakeholders in preparing the modalities for the injection of the N500 billion financing facility for the emergency power projects dedicated to industrial clusters and restructuring/refinancing of DMBs' exposures to the manufacturing sector and SMEs.

The MPC stressed the need for even greater co-operation in fast-tracking on-going reform efforts in the banking sector to ensure the smooth flow of credit to the real sector of the economy as well as energizing reforms in the power and other economic infrastructure sectors, to promote private sector/foreign investment and employment-generating growth. In this regard, the MPC welcomes the attention to the power sector by the Federal Government. The Committee emphasized that while economic reforms and human capital development remain key ingredients for economic growth; the Bank is mindful of the supportive role that macroeconomic and financial stability plays in achieving sustainable growth and, will continue to focus attention on these two areas.

On the global scene, the Committee noted that the rebound in global economic activity which started in the second half of 2009 has been sustained. The rebound was

driven largely by the fiscal policy stimuli undertaken in both the developed and emerging market economies in response to the global financial crisis and the ensuing economic slowdown.
In the wake of the financial and economic crises, monetary policy was considerably eased with interest rates down to record levels in most advanced and emerging markets, and central bank balance sheets expanded considerably to accommodate the stimulus packages. The key concerns, however, remain the speed and sustainability of the recovery process which is progressing at varying degrees across the different regions.

The recovery in the advanced economies is still weak with real output projected to remain below its pre-crisis level until late 2011. However, growth in the emerging and developing economies is expected to recover faster given their stronger initial economic conditions and swift policy responses.

The MPC also noted the continuing rebound in commodity prices, particularly crude oil prices, which is helping to support growth in commodity producing regions, including Nigeria. However, the inflation risk of the rebound in energy prices appears to be mitigated by the subsisting low levels of capacity utilization, weak private demand and well-anchored inflation expectations.

The MPC further observed that while financial markets have recovered remarkably faster than expected, financing conditions, especially for Businesses and firms, were likely to remain weak in the near-term as financial institutions continue to maintain a cautious approach to credit extension. It noted the relative stability prevailing in most segments of the market and the need for policies to ensure their sustenance.

Key Domestic Macroeconomic and Financial Developments

Output and Prices

The robust 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 6.68 per cent in the first quarter of 2010, down from 7.44 per cent in the fourth quarter of 2009, but up from the 4.50 per cent recorded in the first quarter of 2009. The growth was largely driven by the non-oil sector. Overall GDP growth for 2010 was projected at 7.53 per cent which is higher than the revised estimate of 6.66 per cent recorded in 2009. Quarterly GDP growth rates of 7.24, 7.36 and 8.51 per cent was projected for the second, third and fourth quarters of 2010, respectively.

The non-oil sector was expected to remain the main driver of overall economic growth, with agriculture, wholesale and retail trade, and services contributing 2.01 per cent, 2.10 per cent and 2.09 per cent, respectively. The Committee noted that the impressive growth forecasts reflected prospects for moderate rainfall in 2010, which would boost crop production and the relative peace in the Niger-Delta, which could enhance crude oil and natural gas production.

The year-on-year headline inflation rose from 12.0 per cent in the last quarter of 2009 to stabilize at 12.3 per cent in January and February 2010. Similarly, core inflation stabilized at 10.1 per cent in January and February 2010, up from 9.7 per cent recorded in the last quarter of 2009. The stability in the domestic price level could be attributed to a number of factors, namely, the continuing monetary contraction, the delay in the passage of the 2010 federal budget and the improvement in the supply of petroleum products, amongst others. Notwithstanding these developments, the Committee restated its earlier position that the threat of inflationary pressure in the near-to-medium term remains real, but that it will continue to monitor price developments in the months ahead with a view to creating an enabling environment for sustainable growth and employment.

Monetary, Credit and Financial Market Developments

Provisional data showed that relative to end-December 2009, broad money (M2) declined by 0.23 per cent at end-February 2010, which, when annualized represented a decline of 1.38 per cent, compared to the indicative growth target of 29.26 per cent for 2010 and the annualized M2 decline of 5.16 per cent in the corresponding February of 2009. The reserve money (RM), which stood at N1,668.50 billion at end-December 2009, declined to N1,574.33 billion and N 1,636.60 billion in January and February 2010, respectively, but rose to N 1, 782.21 billion in March 2010. As at April 8, 2010, the RM level of N1, 710.0 billion was just below the provisional 2010 second quarter indicative benchmark of N1, 872.80 billion by N162.76 billion or 8.69 per cent.

Available data showed that in February 2010, aggregate domestic credit (net) grew by 2.66 per cent over the December 2009 level, and by 15.96 per cent when annualized, which is higher than the annualized decline of 55.6 per cent recorded in the corresponding period of 2009, but below the 2010 indicative target of 55.54 per cent. Credit to government (net), which grew by 17.84 per cent, was the major contributor to the growth in aggregate credit (net) in February 2010, as credit to the private sector declined, by 1.97 per cent. The annualized growth rate of credit to the private sector as at February 2010, was -11.82 per cent, as against the provisional benchmark of 31.54 per cent for 2010. The substantial growth of credit to government (net) reflects the risk aversion of the DMBs to private sector credit and suggests the possible crowding out of private sector credit.

During the first quarter of 2010, the downward slide in interest rates in the domestic money market, which began in July 2009, following the Bank's decision to guarantee interbank transactions, continued. The low rates provide ample evidence of the surplus funds in the banking system that resulted from the huge volume of funds injected through fiscal operations.

The weighted average interbank call rate, which was 2.89 per cent as at end-December 2009, declined to 2.48, 2.17, and 1.50 per cent in January, February, and March, 2010, respectively. Similarly, the securitized open buy-back (OBB) rate, which was 2.64 per cent at end-December 2009, declined to 2.46, 2.20, and 1.31 per cent in January, February, and March 2010, respectively, compared with the monetary policy rate (MPR) of 6.00 per cent and Standing Deposit Facility rate of 1.0 per cent. Notwithstanding the falling interbank rates, the DMBs' interest rates structure failed to reflect this trend as the high retail lending rates persisted. The average maximum lending rate increased to 23.32 per cent in February, 2010 from 23.18 per cent in the preceding month compared with 23.45 and 23.1 per cent in December and November 2009, respectively. The average prime lending rate, on the other hand, declined marginally to 18.28 per cent in February 2010 from 18.38 per cent in January. It was 19.03 and 18.93 per cent, respectively, in December and November, 2009.

The weighted average savings rate rose to 3.38 per cent in February 2010 from 3.33, 3.36 and 3.35 per cent in January 2010, December and November 2009, respectively. The consolidated deposit rate, which remained unchanged at 6.13 per cent in December 2009 and January 2010 dropped to 5.53 per cent in February 2010. Thus, the spread between the average maximum lending rate and the average consolidated deposit rate widened to 17.79 per cent in February 2010 from 17.05 per cent in January 2010 and 17.34 per cent in December, 2009. The Committee noted that the key policy challenges remain the negative growth in credit to the private sector, high lending rates and widening interest rate spread despite the declining interbank rates and relative surplus liquidity in the banking system compared to the last quarter of 2009, the Nigerian capital market is showing signs of recovery. The All-Share Index (ASI) increased by 30.7 per cent from 20,827.17 as at end-December 2009 to 27,216.03 on 7th April, 2010. Market Capitalization (MC) also increased, by 32.1 per cent, from N4.98 trillion at end-December 2009 to N6.58 trillion on 7th April 2010. The number of deals, volume and value of shares traded increased by 115.6, 134.6 and 326.1 per cent, respectively, during the review period. The increase in ASI and MC was partly due to share price increases in the Banking, Food & Beverage and Oil/Gas sectors.

The Committee welcomed the improvements in the stock market, and noted further prospects for continuing recovery with the passage of the Asset Management Corporation Bill. It, however, emphasized that the recovery of the capital market does not necessarily translate to economic recovery as the reforms initiated in the other sectors of the economy needed to be carried through in order to grow the economy. The Committee, therefore, called for the political will and commitment to see these reforms through.

External Sector Developments

The foreign exchange market remained relatively stable in the first three months of 2010. At the WDAS, the review period opened with an exchange rate of N149.08/US$1 (1% commission inclusive) and closed at N149.78/US$1, with an average closing rate of N149.94/US$1 for the quarter. When compared with the average closing rate of N146.87/US$1 recorded during the first quarter of 2009, this represented a depreciation of N3.07 (2.05 per cent). The average exchange rate depreciated marginally at the interbank market from N150.35/$ in the fourth quarter of 2009 to N150.43/$ in the first quarter of 2010. In the same vein, the premium between the WDAS average exchange rate and the interbank market rate remained low at N1.98/$ (1.31%) in the first quarter of 2010, while that between the WDAS average exchange rate and the BDCs rate narrowed from N4.58 (3.0%) in the fourth quarter of 2009 to N4.02 (2.63%) in the first quarter of 2010.

The Committee observed that the naira exchange rate has remained stable in all segments of the market during the first quarter and believes that if the current exchange rate policy stance of liberalizing the foreign exchange market, with a view to enhancing foreign exchange supply, remains in place, the relative stability in the foreign exchange market and the exchange rate, 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.

The gross external reserves stood at US$40.68 billion as at 31st March, 2010, representing a decrease of US$0.71 billion or 1.71 per cent relative to the level of US$41.39 billion as at 28th February 2010. Although the Committee noted that the external reserves were sufficient to finance 17 months of imports, which were well above the internationally recommended 3-months import cover, it believed that with the rising price of crude oil in the international market in recent months, coupled with the improvement in output with peace in the Niger Delta, there is likely to be an improvement in the level of foreign exchange reserves in the near term.

The Committee's Considerations

The principal concerns of policy at this point in time were identified as the following:

1. Ensuring that the quantitative easing adopted by the Committee actually translate to injection of credit to the private sector players in the real economy;
2. Establishing some correspondence between the monetary policy rate (MPR) and prime and maximum lending rates of DMBs in order to establish a proper transmission channel from policy rate movements to market interest rates; and
3. Maintaining macroeconomic stability and stimulating growth while remaining vigilant with respect to inflation and capital market asset price bubbles.

In considering the modalities for the restructuring/refinancing programme, the Committee was concerned about the need for a proper definition of SMEs that will not exclude many potential beneficiaries thereby limiting the effectiveness/impact of the intervention. In this regard, the MPC noted the existence of several definitions of SMEs, but felt that by providing a limit to the size of the loan per borrower from an institution more potential borrowers would be covered.

The Committee also reviewed developments in the economy during the first quarter of 2010. The MPC noted with concern the persisting high lending rates despite the current low interbank and deposit rates, and as a consequence the wide spread between lending and deposit rates. This, the Committee attributed to inefficiency in cost management and unrealistic profit expectations and targets. It believed that promoting transparency in the pricing and setting of rates by DMBs could help to drive down lending rates.

In this regard, DMBs would be required to regularly publish and submit their risk-based interest rate pricing model to the CBN. In addition, the banks would be required to provide a statement showing the relationship between the MPR and their prime and maximum lending rates.

For the avoidance of doubt, the MPC will not fix lending and deposit rates by fiat. However, every bank will be required to disclose the maximum spread it charges above the MPR to its prime customers and the risk premium it charges between prime and maximum lending rates. The pricing model would also disclose the basis for the spread and principal components covered. The articulation of the pricing model in this mode and its disclosure to the general public will serve two purposes. First, by providing visibility on relative efficiency of financial institutions, banks will be encouraged to seek profitability by driving down costs and charging competitive rates rather than charging excessive rates of interest. Second, by explicitly stating prime and maximum lending rates as a fixed spread over MPR, the policy rate becomes an effective tool for driving lending rates up or down as policy stance dictates.

The MPC noted with satisfaction the existing macroeconomic conditions. In this regard, the Committee restated its commitment to monitoring developments in the economy and stands ready to take appropriate action when the need arises.

Decisions

In the light of the above, the MPC

1. Approved the technical committee's recommendations with respect to modalities for the Refinancing/Restructuring of DMBs facilities to manufacturers with N1Billion as the maximum loan size a bank may refinance for a single borrower. The guidelines will be released shortly.

2. Directed that banks be required to submit their Risk-based Interest Rate Pricing Model to the Central Bank of Nigeria on a monthly basis which will be published. A circular to this effect will be issued shortly. Loan pricing, henceforth be stated as fixed spread above MPR, and shall be adjusted along with MPR movements.

3. Retained the MPR at 6 per cent and existing asymmetric corridor around the MPR at +2.0 per cent and -5.0 per cent.

4. Endorsed complementary policies being put in place by the Board of the CBN, especially the revised guidelines for loan loss provisioning for preferred sectors, the N200 billion guarantee for real sector credit and regulations governing margin lending.

5. Noted with satisfaction the progress of the AMCON Bill through the National Legislature and urged the CBN to continue in its effort towards expedited passage of the Bill and speedy implementation.

Sanusi Lamido Sanusi
Governor,
Central Bank of Nigeria
Abuja
April 15, 2010

Appendix 11
MONETARY POLICY COMMITTEE MEETING COMMUNIQUE NO. 70, 10TH AND 11TH MAY 2010

The Monetary Policy Committee (MPC) met on 10th and 11th May, 2010 to review domestic economic conditions during the first four 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 course for monetary policy for the remainder of the year.

On the global scene, the Committee noted that the recovery in global economic activity, which started in the second half of 2009, has evolved better than expected although large fiscal deficits continue to pose a threat.

The recovery, which was driven largely by the unprecedented fiscal and monetary policy stimuli undertaken in both the developed and emerging market economies in response to the global economic slowdown, was progressing at varying degrees across the different regions. In the advanced economies, recovery is progressing. Among emerging and developing economies, Asia is taking the lead although growth is solidifying in key Latin American countries. Sub-Saharan African countries have thus far, weathered the global crisis well, and their recoveries are expected to be stronger than in previous global downturns.

Across the globe, real and financial activities have been mutually supportive in their recovery. Although the money markets have stabilized, and corporate bond and equity markets have rebounded, access to credit remained difficult for some sectors, especially small firms and households that lack access to the capital markets. Although, the tightening of bank lending standards and the credit crisis appear to be bottoming out, the resumption of credit growth in many emerging and developing countries has been weak. In the advanced economies, eroded bank capital is likely to remain a constraint on growth as banks continue to repair their balance sheets. In a few advanced economies, particularly the Euro area, rising public sector deficits and debts accumulated in the wake of the crises as part of measures to stimulate growth, have heightened sovereign risk premia, thereby posing additional risks to the recovery process.

The MPC observed that the domestic financial markets have recovered remarkably faster than expected, though still fragile, and urged greater efforts in accelerating the reforms in the different segments of the financial system to promote financial sector stability which is critical to economic growth. In particular, deep and liquid capital markets and strong and effective insurance companies, pension funds and other institutional investors are critical for establishing the balance required for the attainment of financial system stability. While noting that financial market inefficiencies and supervisory and regulatory failures were at the root of the current crisis, it welcomed the relative stability that has been achieved in most segments of the market in response to the various measures taken by the regulatory authorities and emphasized the need for its sustenance.

The MPC also noted the continuing rebound in commodity prices, particularly crude oil prices, which is helping to support growth in commodity producing regions, including Nigeria. However, the inflation risk of the rebound in energy prices appears to be mitigated by the subsisting low levels of capacity utilization, weak private demand and well-anchored inflation expectations.

Key Domestic Macroeconomic and Financial Developments

Output and Prices

The Committee observed that the robust 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 6.68 per cent in the first quarter of 2010, down from 7.44 per cent in the fourth quarter of 2009, but up from the 4.50 per cent recorded in the first quarter of 2009. NBS also projected that the GDP is expected to grow by 7.24, 7.36 and 8.51 per cent in the second, third and fourth quarters of 2010, respectively. Overall GDP growth for 2010 was projected at 7.53 per cent which is higher than the revised estimate 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 2.61, 2.09 and 2.14 per cent, respectively. The Committee noted that the impressive growth forecasts reflect prospects for moderate rainfall in 2010, which is expected to support the production of major crops across the country, and the sustained peace in the Niger-Delta, which would boost crude oil and natural gas production. The MPC, however, noted that at a mere 4 per cent share of GDP, the manufacturing sector needed revamping to enhance its role in boosting growth and employment generation. In this context, it called for appropriate sector-specific policies to drive manufacturing growth. The year-on-year headline inflation rose from 12.0 per cent in the last quarter of 2009 to stabilize at 12.3 per cent in January and February 2010 and declined to 11.8 per cent in March 2010. Similarly, core inflation rose from 9.7 per cent in the last quarter of 2009 to stabilize at 10.1 per cent in January and February 2010, before declining to 9.5 per cent in March 2010.

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, availability of food stuff, and improvement in the supply of petroleum products, amongst others. Notwithstanding these developments, the Committee restated its earlier position that the threat of inflationary pressure in the near-to-medium term remains real given the expansionary stance of the 2010 Federal Government budget and the anticipated increase in spending usually associated with the run-up to election across the country. In this regard, the MPC confirmed that it will continue to monitor price developments in the months ahead with a view to ensuring 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) grew by 2.3 per cent at end-March 2010, which, when annualized represents a growth of 9.02 per cent, compared to the indicative growth target of 29.26 per cent for 2010. Reserve money (RM), which stood at N1,668.50 billion at end-December 2009, declined to N1,574.33 billion and N 1,636.60 billion in January and February 2010, respectively, but rose to N1, 782.21 billion in March 2010. As at April 27, 2010, the RM level of N1, 497.1 billion was below the provisional 2010 second quarter indicative benchmark of N1, 872.80 billion by N375.52 billion or 20.06 per cent.

Available data shows that in March 2010, aggregate domestic credit (net) grew by 6.1 per cent over the December 2009 level, and by 24.5 per cent when annualized, which is far below the 2010 indicative target of 55.54 per cent. Credit to government (net), which grew by 28.4 per cent (or 113.6 per cent on annualized basis), was the major contributor to the growth in aggregate credit (net) in March 2010, as credit to the private sector declined, by 1.7 per cent (or 6.8 per cent on annualized basis). The annualized growth rate of credit to the private sector of -6.8 per cent was far below the provisional growth benchmark of 31.54 per cent for 2010. The substantial growth of credit to government (net) reflects the risk aversion of the DMBs to lending to non-government borrowers, implying the crowding out of private sector credit.

During the first four months of 2010, the downward trend in interest rates in the domestic money market, which began in July 2009, following the Bank's decision to guarantee interbank transactions, continued. The low rates provide ample evidence of sufficient liquidity and restored confidence in the money market. The weighted average interbank call rate, which was 2.89 per cent as at end-December 2009, declined to 2.48, 2.17, and 1.50 per cent in January, February and March 2010, respectively. The downward trend continued to 1.27 per cent on April 30, 2010. Similarly, the securitized open-buy-back (OBB) rate, which was 2.64 per cent at end-December 2009, declined to 2.46, 2.20, and 1.31 per cent in January, February and March 2010, respectively. The rate further declined to 1.11 per cent on April 30, 2010, compared with the monetary policy rate (MPR) of 6.00 per cent and Standing Deposit Facility rate of 1.0 per cent.

The falling interbank rates appear to reflect marginally on the DMBs' lending rates. The retail lending rates have started declining albeit by far lower magnitudes than the decline in interbank rates. The average maximum lending rate dropped to 22.88 per cent in March 2010 from 23.32 and 23.18 per cent in February and January 2010, respectively. The rate was 23.45 per cent in December 2009. Also, the average prime lending rate dropped to 18.06 per cent in March 2010 from 18.28 and 18.38 per cent in February and January 2010, respectively. In December 2009 the rate was 19.03 per cent. Similarly, the weighted average savings rate dropped to 3.20 per cent in March 2010, from 3.33 per cent in January 2010 and 3.38 per cent in February. As at end-December 2009, the average savings rate stood at 3.36 per cent. The consolidated deposit rates declined to 3.88 per cent in March 2010, down from 5.44 per cent in February and 6.13 per cent in January 2010. As at end-December 2009, the consolidated rate was 6.13 per cent. Despite the decline in deposit rates, the spread between the average maximum lending rate and the consolidated deposit rate widened to 18.99 percentage points in March 2010, up from 17.88, 17.05 and 17.34 percentage points in February and January, 2010, and December 2009, respectively. The Committee noted that the key policy challenges remain the negative growth in credit to the private sector, and subsisting high lending rates in the face of declining interbank rates and relative liquidity surfeit in the banking system compared to the last quarter of 2009, the Nigerian capital market is recovering. The All-Share Index (ASI) increased by 27.0 per cent from 20,827.17 as at end-December 2009 to 26,453.20 on 30th April, 2010. Market Capitalization (MC) also increased, by 28.3 per cent, from N4.98 trillion at end-December 2009 to N6.39 trillion over the same period. The number of deals, volume and value of shares traded increased by 58.1, 87.7 and 216.0 per cent, respectively, during the review period. The increase in ASI and MC was partly 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 with the passage of the Asset Management Corporation of Nigeria (AMCON) Bill. It, however, emphasized that the recovery of the capital market does not necessarily translate to economic recovery as the reforms initiated in other sectors of the economy needed to be carried through to complement financial sector reforms in order to grow the economy. The Committee would, however, continue to monitor the recovery of the capital market to ensure that a bubble is not once again being formed.

External Sector Developments

The foreign exchange market remained relatively stable in the first four months of 2010. At the wDAS, the review period opened with an exchange rate of N149.08/US$1 and closed at N150.10/US$1, with an average closing rate of N149.92/US$1 for the period. When compared with the average closing rate of N147.36/US$1 recorded in April 2009, this represented a depreciation of N2.56 (0.017 per cent). The average exchange rate depreciated at the interbank market from N150.35/US$ in the fourth quarter of 2009 to N150.80/US$ in April 2010. The premium between the average wDAS closing rate of N149.94/US$1 and the average selling rate of N150.80/US$1 at the interbank foreign exchange market widened to N0.86/US$1 (0.57 per cent), from N0.51/US$1 (0.35 per cent) recorded in the first quarter of 2009, while that between the wDAS average exchange rate and the BDCs rate narrowed to N2.53/US$1 (1.69 per cent), from N13.61/US$1 (9.27 per cent) in the first four months of 2009.

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 of liberalizing the foreign exchange market which has enhanced foreign exchange supply from autonomous sources. 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$40.31 billion as at 30th April, 2010, representing a marginal decrease of US$0.37 billion or 0.91 per cent relative to the level of US$40.68 billion as at 31st March 2010. The MPC noted that although the level of external reserves were sufficient to finance 17 months of current imports, which is well above the internationally recommended benchmark of 3-months import cover, it believed that with the rising price of crude oil in the international market in recent months, coupled with the improvement in output with peace in the

Niger Delta, there is likely to be an accretion in the level of foreign exchange reserves in the near term.

The Committee's Considerations

The key concerns for policy in this era of global recovery were identified as follows:

1. Ensuring that the growing risk of fiscal deficit accumulated in the wake of the abating global financial and economic crises does not endanger the stability of financial markets. In most of the affected countries, the huge fiscal deficits arose not only from increased spending but also from reduced revenues, thus suggesting the need for greater focus on revenue generation in the finances of government.

2. Monitoring imbalances in capital flows across industrial and emerging markets resulting in different rates of recovery. This is to ensure that inflows of capital into the country are sustainable and thus avoid formation of asset price bubbles.

3. The continuing global credit crunch despite unprecedented measures taken by central banks to inject liquidity in troubled financial institutions/markets. This underscores the need for focus on both supply side (monetary) and demand side (fiscal factors) in unlocking the credit markets.

With regards to the continuing credit crunch, the MPC reemphasized that credit growth is a function of demand and supply factors. As the Central Bank is working to improve the supply side through the various reform measures to strengthen the DMBs' balance sheets, remove toxic assets, and generally repair the banking system to promote the flow of credit, the demand side would necessarily require critical reforms in the real sector, particularly power, energy, and key infrastructure to reduce the cost of doing business and improve investment climate to generate bankable projects.

The MPC noted with satisfaction that, overall; the Bank has achieved its mandate of price and financial stability, as reflected in relatively stable exchange rates, interest rates and moderating inflation. By the time the AMCON Bill is harmonized and finally passed by the National Assembly and implemented, the repair of banks' balance sheets would unlock the flow of credits to the real economy. In this regard, the MPC enjoins other stakeholders in government to undertake complementary measures to enable economic agents translate the stable macroeconomic environment into economic growth and development.

Overall, the Committee decided that there is a need to maintain and extend the focus on stability and avoid decision that may cause disruption. In view of the inflation outlook in the short-term, it was felt that the reversal of accommodative monetary stance at this time would be premature.

The Committee however, noted that in the next quarter monetary expansion may be driven by increased government spending, the purchase of toxic assets by the AMCON and recapitalization of distressed banks. These expansions may translate into the risk of higher inflation, asset price bubbles or pressure on exchange rate and foreign reserves. The next MPC in July will assess these risks and take appropriate actions.

Decisions

In the light of the above, the MPC decided as follows:

1. Leave the MPR unchanged at 6.0 per cent.

2. Retain the asymmetric corridor of interest rates at 200 basis points above the MPR and 500 basis points below the MPR for the Standing Lending Facility and Standing Deposit Facility, respectively.

3. Extend the CBN guarantee for all interbank transactions and foreign credit lines as well as pension funds' placements with banks from December 31, 2010 to June 30, 2011. This is to provide ample time for the conclusion of the banking sector resolution and the publication of audited accounts for the

period up to December 2010. It is expected that by June 2011 all creditors and investors will have sufficient information to take an independent view of the risk of individual counterparties.

Sanusi Lamido Sanusi
Governor,
Central Bank of Nigeria
Abuja
May 12, 2010