CHAPTER 3

MONETARY POLICY

CHAPTER 3
MONETARY POLICY

3.1 Introduction

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

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

3.2 Monetary Policy Measures

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

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

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

3.2.1 Banking System Stability

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

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

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

Box 3.1
THE ASSET MANAGEMENT CORPORATION OF NIGERIA (AMCON)

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

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

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

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

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

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

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

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

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

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

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

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

3.2.2 Price Stability

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

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

3.3 Activities of the Monetary Policy Committee (MPC)

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

3.3.1 Decisions of the MPC

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

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

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

Source: Central Bank of Nigeria

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

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

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

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

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

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

Table 3.2
Changes in CBN Key Interest Rates

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

Source: Central Bank of Nigeria

3.3.2 MPC Retreat and Monetary Policy Workshop

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

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

3.4 Liquidity Conditions and Management

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

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

Table 3.3
CBN Liquidity Enhancing Initiatives

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

Source: Central Bank of Nigeria

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

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

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

Source: Central Bank of Nigeria

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

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

3.5 Standing Lending/ Deposit Facilities

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

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

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

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

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

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

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

Source: Central Bank of Nigeria

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

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

Source: Central Bank of Nigeria

3.6 Performance of the Monetary Aggregates

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

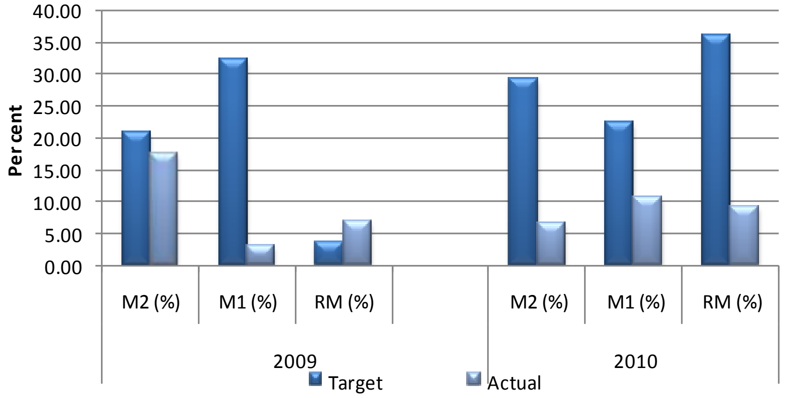
The growth in broad money stock in the second half of 2010 remained below the indicative target. In absolute terms, broad money grew by ₦643.22 billion or 5.93 per cent compared with ₦78.12 billion or 0.73 per cent in the first half of the year. The rates of monetary expansion in both periods, however,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

Table 3.7
Monetary Aggregates

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

Source: Central Bank of Nigeria

Figure 3.1
The Performance of M1, M2 and RM (2009 and 2010)

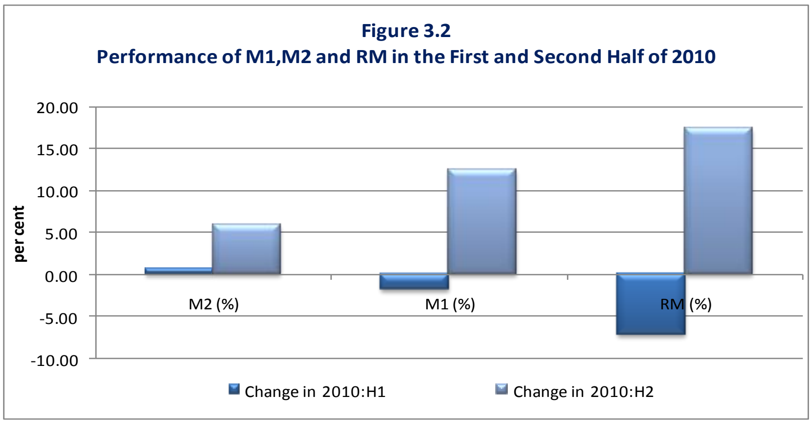


Source: Central Bank of Nigeria

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

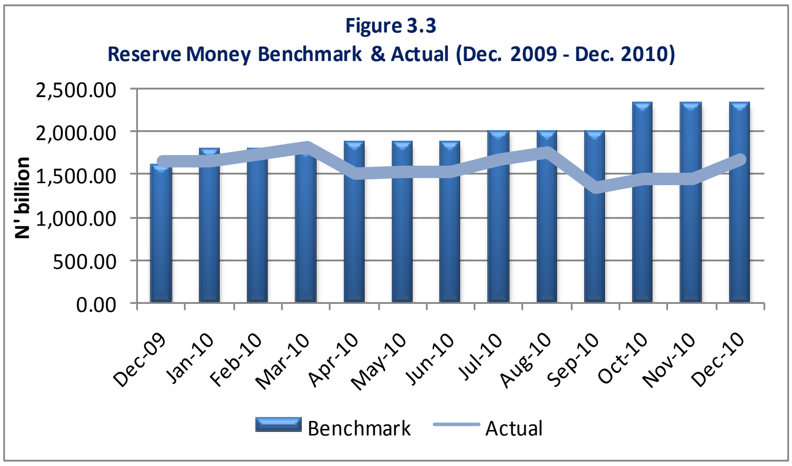
3.7 Movement in Broad and Narrow Money

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



Source: Central Bank of Nigeria

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

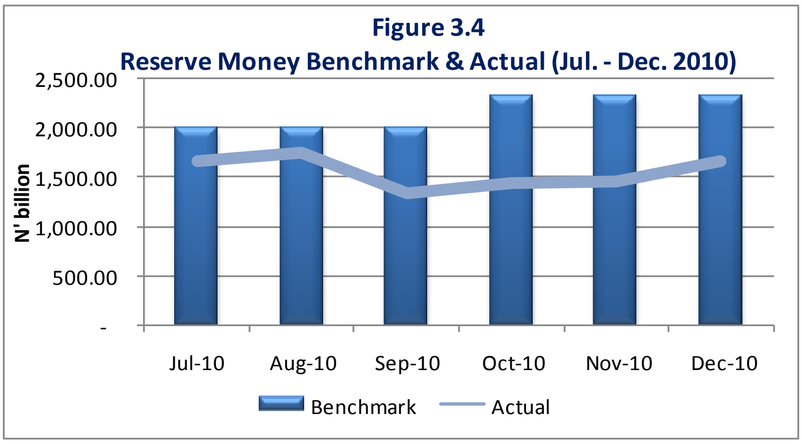


Source: Central Bank of Nigeria

3.8 Reserve Money

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

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



Source: Central Bank of Nigeria

3.8.1 Aggregate Credit to the Domestic Economy

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

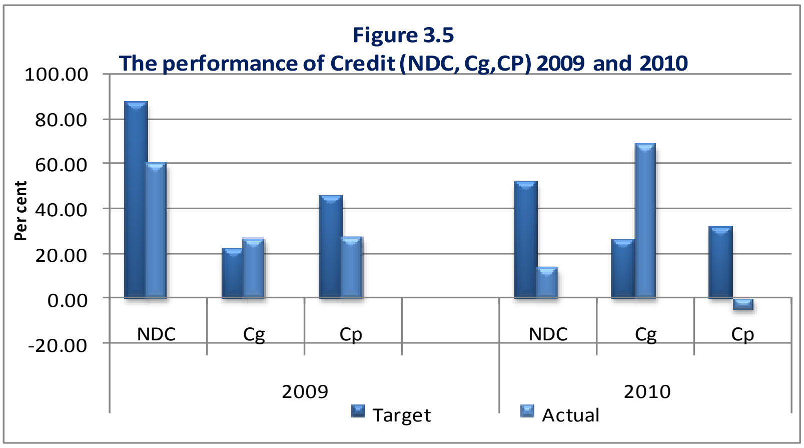
3.8.2 Credit to the Private Sector

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

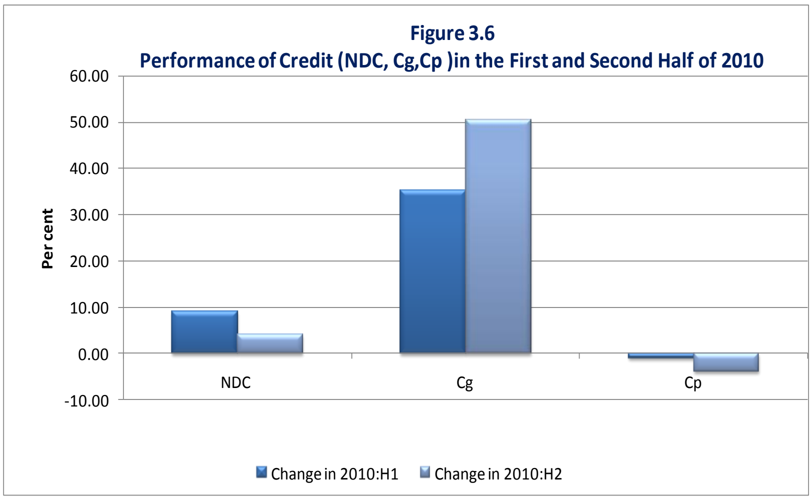
Credit to the private sector fell by ₦399.11 billion or 3.95 per cent in the second half of 2010, compared with the decline of ₦103.26 billion or 1.01 per cent in the first half. In fiscal 2010, bank credit to the private sector declined by 4.10 per cent in contrast to the benchmark growth of 31.54 per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

3.8.3 Credit to Government

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



Source: Central Bank of Nigeria



Source: Central Bank of Nigeria

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

3.8.4 Net Foreign Assets

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

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