

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

Appendix 1
COMMUNIQUE OF THE MONETARY POLICY COMMITTEE MEETING NO. 71,
5TH July 2010

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

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

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

On the domestic scene, the MPC observed that financial markets, though still fragile, have recovered faster than expected, urging greater efforts in

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

Key Domestic Macroeconomic and Financial Developments

Output and Prices:

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

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

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

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

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

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

The Committee believes that in order to provide the private sector with the necessary credit to grow the economy, further efforts are needed to unlock the credit market in order to enhance the flow of credit to the real economy. The rates at the inter-bank segments of the money market were much higher than what obtained in the preceding period owing to the short-lived tight liquidity conditions in May 2010. Consequently, in May 2010, the average inter-bank call and Open-Buy-Back (OBB) rates rose significantly to 5.97 and 4.92 per cent,

respectively, representing increases of 470 and 381 basis points above the 1.27 and 1.11 per cent recorded in the preceding month. In line with the increase in rates at the inter-bank call and OBB segments, the 7- and 30- day NIBOR rates increased by 397 and 311 basis points to 6.43 and 8.24 per cent, respectively, from 2.46 and 5.13 per cent in April. However, with the release of statutory revenue in the last week of May, the banking system became liquid.

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

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

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

External Sector Developments:

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

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

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

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

The Committee's Considerations Against the backdrop of the foregoing, the MPC noted with satisfaction the continued macroeconomic stability. It, however, stressed the need to grow the real sector on a sustainable basis. It also reiterated

the possible inflation risks highlighted at the last MPC meeting, in the light of the anticipated budget deficit and the operationalisation of the proposed Asset Management Corporation. However, monetary aggregates are still underperforming and the Asset Management Corporation is yet to take-off. On balance, therefore, the inflation threat remained subdued in the short to medium term. In addition, some of the approved quantitative easing measures are yet to be completely implemented.

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

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

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

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

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

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

On the domestic front, the MPC noted the relative stability achieved in the financial markets, while urging greater efforts in accelerating reforms in the other sectors of the economy, to attain self-sustaining growth. The MPC welcomed the continuing rebound in commodity prices which is helping to support growth in commodity producing regions, including Nigeria, but reiterated the need to

diversify the economy to protect the country from the vagaries of oil price volatility. The Committee believes that the inflation risk of the rebound in energy prices appears mitigated by the continuing weak private demand, good harvest, and well-anchored inflation expectations.

Key Domestic Macroeconomic and Financial Developments

Output and Prices

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

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

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

Based on the revised and rebased CPI, the year-on-year headline inflation rose to 13.7 per cent in August 2010 from 13.0 per cent in July 2010. Similarly, core inflation increased to 12.4 per cent in August from 11.3 per cent in July 2010. Food inflation also trended upward to 15.1 per cent from 14.0 per cent in July 2010. The upward trend in the domestic price level could be attributed to the late commencement of rains in some food producing regions in the northern part of

the country, which may have affected the production/supply of some staple food items, while some non-food components of the new CPI basket also recorded price increases.

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

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

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

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

decreased by 62 and 196 basis points to 3.85 and 4.55 per cent, respectively, from 4.47 and 6.51 per cent in July.

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

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

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

External Sector Developments

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

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

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

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

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

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

measures are taken to eliminate speculative demand and exchange rate volatility.

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

The Committee's Considerations

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

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

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

The Committee commended the commitment of the Federal Ministry of Finance/Securities and Exchange Commission to the reforms in the capital market and efforts to get the oil/gas and telecommunication companies listed

on the Exchange. The MPC further observed that the declining share of the banking sector in market capitalization is a positive development, which is good for rebalancing the market to reduce the overwhelming influence of the banking sub-sector. The MPC commended the government for resuming the power sector reforms and its decision to fast track them, which it believes will impact positively on the cost structure of the economy.

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

Conclusion

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

Decisions

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

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

Sanusi Lamido Sanusi (CON)

Governor,
Central Bank of Nigeria, Abuja
September 21, 2010

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

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

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

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

Key Domestic Macroeconomic and Financial Developments

Output and Prices:

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

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

was 14.1 per cent in October, down from 14.6 per cent in September. However, core inflation rose to 13.2 per cent in October from 12.8 per cent in September.

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

Monetary, Credit and Financial Market Developments:

Provisional data showed that relative to end-December 2009, broad money (M2) grew by 4.25 per cent in October 2010, which, when annualized represented a growth of 5.10 per cent. Reserve money (RM), which stood at ₦1,653.86 billion at end-December 2009, fluctuated downward and by November 15, 2010, stood at ₦1,444.95 billion. Available data showed that in October 2010, aggregate domestic credit (net) grew by 19.69 per cent over the December 2009 level, and by 23.63 per cent when annualized. Credit to government (net), which grew substantially by 53.35 percent over end-December 2009 (or 64.02 per cent on annualized basis), was the major source of expansion in aggregate credit.

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

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

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

The All- Share Index (ASI) increased from 23,050.59 at end-September to 25,301.34 as at 15th November, 2010, or by 9.8 per cent. Market capitalization (MC) - equities only, increased by 43.1 per cent from ₦5.65 trillion to ₦8.08 trillion over the same period. The number of deals increased by 21.6 per cent, while the volume and value of shares traded decreased by 38.5 and 62.7 per cent, respectively. The increase in ASI and MC was principally due to the share price increases in the Banking, Food & Beverage, insurance and Oil/Gas sectors, and new and supplementary listings of shares on the exchange. The Committee believes that the effective take-off of the Asset Management Corporation (AMCON) and progress made on resolution of the banking system crisis have been major contributions to this improvement in sentiment.

External Sector Developments

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

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

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

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

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

The Committee's Considerations

The key concerns noted by the Committee were:

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

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

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

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

Decisions

The MPC's decisions were therefore:

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

Sanusi Lamido Sanusi (CON)

Governor,
Central Bank of Nigeria, Abuja
November 23, 2010