

STATEMENT BY THE GOVERNOR

.. Asia recorded appreciable growth... In some countries, monetary policy was tight although real interest rates remained low

The global economy continued to show signs of economic recovery during the last six months of 2010, despite market anxiety over the sovereign debt crises in the euro area and the challenges posed by rising food and energy prices. The pace of recovery and its composition, however, differed across the regions with the smaller export-dependent economies generally experiencing more pronounced growth than the larger economies with sizable domestic demand. Most advanced and a few emerging economies grew at a much slower pace due to concerns of large adjustment costs and high unemployment levels, which posed major social challenges to policy makers during the second half of 2010. In contrast, growth in China and most of East Asia (except Japan), including India, as well as sub-Saharan Africa, remained strong for most part of the second half of 2010.

Monetary policy was largely expansionary across the regions, with interest rates down to record lows in most advanced and emerging market economies, while central bank balance sheets expanded to unprecedented levels in key advanced economies. In order to curb rising inflationary threat, the authorities began the process of tightening monetary policy, although interest rates still remained generally low. Despite these challenges, the short-term baseline outlook for world output remained positive, with global growth expected to settle at high but more sustainable levels over the medium to longer term.

While monetary policy was expansionary, interest rates were generally low

The Nigerian economy witnessed strong economic growth performance during the last half of 2010, supported mainly by strong macroeconomic management and reforms, despite the lingering effects of the global financial crisis. In response to the rise in domestic inflationary pressures towards the end of the year, the monetary authorities raised the monetary policy rate by 25 basis points to 6.25 per cent. 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. It is expected that, with the commencement of operations by AMCON, the balance sheets of the Deposit Money Banks (DMBs) would be substantially cleaned up of non-performing loans in their portfolios.

The overall economic outlook suggests that the current global economic recovery would continue through 2011. While domestic economic activity is expected to be bolstered by the global recovery, the lingering sovereign debt crisis in a number of Euro Area countries poses serious challenges to global economic recovery, which might negatively affect the prospects for Nigeria's increased oil exports. The outlook suggests that the stance of domestic monetary policy in 2011 would be largely non-accommodating, to forestall the risk of inflation. Generally, the Central Bank of Nigeria would remain committed to ensuring the attainment of the single digit inflation objective in 2011.

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