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July 13, 2009

CIRCULAR TO ALL BANKS

GUARANTEE FOR INTER-BANK PLACEMENT AND PLACEMENTS WITH BANKS BY PENSION FUND ADMINISTRATORS

In the effort to resolve the effectiveness of Monetary Policy, the CBN, following the meeting of the Monetary Policy committee on July 07, 2009, resolved to guarantee all inter-bank placements and placements with banks by Pension Funds Administrators maturing on or before March 31, 2010.

In order to give effect to the decision to guarantee inter-bank placements, banks are advised to be guided as follows:-

i. The pricing of the placements must reflect the credit enhancement provided by the guarantee. Thus, it is expected that overnight placements shall not be priced higher than MPR + 2%, while 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. Any placements priced outside these bands shall not be eligible under this programme.

ii. The guarantee shall be applicable to only inter-bank transactions by Nigerian banks that are denominated in the local currency, that is, the Naira.

iii. All transactions by banks in this regard shall be subject to the single obligor limits of the participating institutions. In other words, for the guarantee to be effective, the placement(s) by an institution to another institution shall not exceed its single obligor limit at any point in time.

iv. Placements by Pension Funds Administrators shall continue to be subject to the exposure limits set by the National Pension

Commission (PENCOM), if any. To qualify under this arrangement, pricing most also be in line with (i) above.

v. The guarantee on all inter-bank placements that meet the above requirements shall be applicable to only those maturing not later than March 31, 2010, and it covers full payment of principal and accrued interest in the event of a default.

Furthermore, in order to avoid arbitrage in the money market, banks are reminded that access to the CBN Discount Window for the purpose of placement at the inter-bank market, is not permitted. Such action shall be regarded as unprofessional conduct and would attract very severe sanctions.

Banks are reminded that the ultimate objective of these measures is to bring down lending rates and stimulate economic growth. They are therefore urged to pass on the benefits of reduced funding costs to their borrowing customers. The CBN will continue to monitor rate movements on a regular basis.

This circular takes effect from July 13, 2009.

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DIRECTOR OF BANKING SUPERVISION