

PRESS RELEASE

CENTRAL BANK OF NIGERIA COMMUNIQUE NO. 51 OF THE MONETARY POLICY COMMITTEE, AUGUST 1, 2007

The Monetary Policy Committee of the CBN met on 1st August 2007 and decided to leave the MPR unchanged at 8.0 per cent

- 1) The Monetary Policy Committee (MPC) met on August 1, 2007 under the chairmanship of the Governor, Professor Chukwuma C. Soludo. The Committee reviewed the major macroeconomic developments and the implementation of fiscal, monetary and exchange rate policies in the first half of 2007, as well as the challenges for the rest of the year. The MPC noted with satisfaction the overall macroeconomic performance in the first half of the year, as evidenced by the sustained single-digit inflation and relatively stable naira/dollar exchange rate and interest rates. The Committee, thus, restated its commitment to ensuring price and exchange rate stability through restrictive monetary policy stance for the rest of the year.

Key Macroeconomic Developments

- 2) **Inflation:** Inflation stayed within single-digit in the first half of 2007. The Committee noted the rise in year-on-year (headline) inflation to 6.4 per cent in June 2007 from 4.6 per cent in May, 2007, reflecting the combined effects of the increase in food, transport and energy price indexes. Staff estimates,

however, show that the year-on-year inflation would remain within single -digit for the rest of the year, despite current pressures.

- 3) **Exchange Rate:** The MPC noted with satisfaction the continued stability of the naira exchange rate in the first seven months of 2007. The exchange rate of the naira remained stable at both the wDAS and the BDCs during the period. The naira exchange rate in the wDAS appreciated from ₦126.88/US\$1 at end-March to ₦126.05/US\$1 (rate +1%) at end-June, 2007. The Committee also noted the actual and potential effects of the rising private foreign exchange inflows on the naira exchange rate. The inflows, comprising mainly foreign direct investment and portfolio investment averaged US\$674.6 million in the second quarter of 2007, compared with US\$500.0 million in the first quarter.
- 4) **External Reserves:** The Committee noted the decline in gross official reserves from \$43.17 billion at end-May 2007 to \$42.74 at end-June. Reserves stood at \$42.9 billion at end-July, 2007 owing to increased foreign exchange sales at the wDAS. The level of reserves, the Committee noted, would cover approximately 19 months of current foreign exchange disbursements or 25 months of imports.
- 5) **Growth in Monetary Aggregates:** At the end of June, 2007, broad money grew by 10.9 per cent. When annualized the growth in M2 translates to 21.7 per cent which was higher than the 2007 target of 19.0 per cent. The increase

in M2 was driven largely by sustained increase in the foreign assets (net) of the banking system. Meanwhile, in June, 2007 reserve money stood at ~~N~~858.4 billion which was lower than the Policy Support Instrument (PSI) programme target of ~~N~~860.00 billion. The drop in reserve money from the May 2007 level of N902.4 billion reflected the effect of the liquidity mop-up operations towards the end of the second quarter of 2007.

6) **Credit:** Growth in aggregate domestic credit (net) declined by about 9.12 per cent at end-May, and by 37.18 per cent in June 2007 relative to its level at end-December 2006. The fall in aggregate credit was attributed to the decline in credit (net) to government, which fell by about 50.6 per cent at end-May and by 50.5 per cent at end-June 2007. Meanwhile, credit to the private sector grew by about 24.8 per cent in June 2007 which on annualized basis comes to 49.6 per cent, compared to the target growth of 30.0 per cent for the year.

7) **Interest Rate Developments:** The MPC noted that volatility in the inter-bank rates continued to moderate in the first half of 2007. Although, the average inter-bank rate trended upward, it generally remained within the corridor defined by the Bank's Standing Facility. The Committee also noted that the spread between the average weighted deposit and maximum lending rate narrowed to 8.79 percentage points in the first half of 2007. With the year-on-

year headline inflation rate at 6.4 per cent in June 2007, both deposit and lending rates were positive in real terms.

OUTLOOK FOR THE REST OF 2007 AND THE MPC DECISIONS

The MPC noted that year-on-year headline inflation would continue to remain single digit in the third quarter of 2007, but may not return to the April level of 4.2 per cent, the lowest recorded in the first half of 2007. Overall, a combination of stable food prices and a restrictive monetary policy stance is expected to help sustain the headline inflation within single-digit. The Committee also noted the challenges arising from rising autonomous private inflows and the challenge of further appreciation of the naira/dollar exchange rate. In addition, the Committee noted other important sources of pressure/risk to low inflation including the virement of capital vote to finance recurrent expenditure and the distribution of part of the excess crude oil account. However, the forecast growth path of M2 in the rest of the year is within target if monetary policy remains on course.

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

- a) Retain the MPR at 8.0 per cent
- b) Approve increased sale of financial securities to pre-emptively and proactively mitigate the impact of increased fiscal injections on system liquidity.

The next meeting of the Monetary Policy Committee is scheduled to hold on October 2, 2007.

August 1, 2007