

PRESS RELEASE

CENTRAL BANK OF NIGERIA COMMUNIQUE NO. 52 OF THE MONETARY POLICY COMMITTEE, OCTOBER 3, 2007

The Monetary Policy Committee of the CBN met on 3rd October 2007 and decided to raise the MPR to 9.0 per cent

- 1) The Monetary Policy Committee (MPC) met on 3rd October, 2007. The Committee reviewed the major macroeconomic developments and the implementation of fiscal, monetary and exchange rate policies in the third quarter of 2007, as well as the challenges for the rest of the year. The meeting, the fourth in 2007, lasted about 6 hours. The MPC noted both the global and domestic economic and financial developments. It also noted that the macroeconomic environment in the third quarter of the year has helped to sustain single-digit inflation, relatively stable naira/dollar exchange rate, and the inter-bank interest rate which remained within the corridor defined by the Bank's Monetary Policy Rate (MPR).
- 2) It however, noted the prospects for further increase in liquidity and the potential of further appreciation of the naira exchange rate, and of inflation in view of the possible substantial fiscal injections in the fourth quarter of the year arising from the supplementary budget at the federal and state levels. The Committee, thus, restated its commitment to ensuring continued price

and exchange rate stability through appropriate monetary policy stance in the rest of the year.

Key Macroeconomic Developments

- 3) **Inflation:** Inflation stayed within single-digit in the third quarter of 2007. The Committee noted with satisfaction the decline in year-on-year (headline) inflation from 6.4 per cent in June 2007 to 4.8 per cent in July, 2007 and further down to 4.2 per cent in August, 2007.
- 4) **Exchange Rate:** The MPC noted the slight appreciation in the naira exchange rate at the wDAS in July through September, 2007. The naira exchange rate at the wDAS appreciated from ₦126.05/US\$1 in June to ₦124.75/US\$1 in September 2007, representing an appreciation of about 1.03 per cent. The Committee noted the effect of rising private foreign exchange inflows on the naira exchange rate.
- 5) **External Reserves:** The Committee noted with satisfaction the increase in gross official reserves which stood at about US\$47 billion in September, 2007. This represented an increase of 28.4 per cent when compared with the level of US\$36.63 billion in the corresponding period of 2006. The level of reserves, the Committee noted, could support approximately 20 months of current foreign exchange disbursements.
- 6) **Growth in Monetary Aggregates:** At the end of July, 2007, broad money grew by 13.3 per cent and further to 15.7 per cent in August. Staff projections

suggest that M2 grew by 16.1 per cent in September and would grow at about 17.6 per cent in October, 2007. When annualized these translate to 23.5 per cent in August; 21.5 per cent in September; and 21.1 per cent in October, 2007, respectively.

- 7) **Reserve Money:** In June, 2007 reserve money stood at ~~N~~858.4 billion which was lower than the target under the Policy Support Instrument (PSI) programme target of ~~N~~860.00 billion. However, as at end-September 2007 reserve money was N928.6 billion compared with the target of N880.0 for the third quarter of 2007.
- 8) **Credit:** Growth in aggregate domestic credit (net) declined by 36.6 per cent in August compared to 56.11 per cent decline at the end of the second quarter of 2007, driven mainly by sustained decline in credit (net) to government. Meanwhile, credit to the private sector maintained an upward trend, rising by about 48.79 per cent by July 2007, compared to the target growth of 30 per cent for the year.
- 9) **Interest Rates Developments:** The MPC noted that volatility in the inter-bank rates continued to ameliorate as rates fluctuated around the MPR. The average inter-bank call rate moved between 6.0 per cent and 8.57 per cent since end-August, 2007. Other market rates remained relatively stable and were generally within the corridor.

OUTLOOK FOR REST OF 2007 AND MPC DECISIONS

The MPC noted that year-on-year headline inflation would continue to remain single-digit in the rest of 2007, but at the upper region of the single digit range. 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 attendant risk of further appreciation of the naira/dollar exchange rate. In addition, the Committee also noted the high possibility of substantial fiscal injections in the fourth quarter, arising from the supplementary budget at the federal and state levels.

The Committee, thus, decided that the CBN:

- a) will continue to deploy increased forex sales for purposes of liquidity management
- b) embark upon active open market operations
- c) move the MPR to 9.0 per cent; which would be the repo rate and the rate at which CBN lends to the banks.
- d) The deposit money banks' deposits with the CBN will no longer earn interest.

These measures are intended, amongst others, to deepen inter-bank trading and encourage banks to free-up resources to enlarge the credit market.

Thank you for your kind attention.

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