

Central Bank of Nigeria's Communiqué No. 58 of the Monetary Policy Committee, September 18, 2008

The Monetary Policy Committee (MPC) held a special meeting on September 18, 2008, essentially to review the stance of monetary policy in the light of the evolving economic and financial developments in the domestic and international economies.

The international financial markets are presently marked by a high degree of uncertainty. The financial stress and weaknesses of a number of financial institutions in the US and European economies have highlighted the need to look into the financial soundness of financial institutions all over the world. Stock markets in all the continents have reacted strongly with equity prices drifting downwards and trading volumes falling. A number of existing financial institutions have also now come under intense public scrutiny. Credit crunch continues to persist in most industrialized economies forcing central banks in these countries to provide substantial financial support.

The financial crisis has slowed down the industrialized economies. Reflecting the sharp fall in demand, crude oil prices have been softening in the international markets in recent weeks (below US\$

100 per barrel), even as consumer inflation continues to be relatively high in relation to target levels. The policy makers in these countries are presently concerned mainly with managing risk in the financial sector and reviving growth.

In view of the growing financial and real linkages with the rest of the world, Nigeria cannot afford to be unmindful of the international financial developments. However, the economic fundamentals remain very strong and therefore the impact of the global financial turmoil is expected to be limited. Foreign exchange reserves are high at US \$63.0 billion, representing about 16 months of total foreign exchange disbursements. Inflow of foreign investment remained strong at about US\$ 8.5 billion by the end of August 2008, compared to US\$ 5.8 billion for the corresponding period of 2007.

The Committee noted that while headline inflation and food prices have been on the increase, core inflation has been in single digit. The outlook on output for 2008 is strong, with non-oil GDP growing at over 8 per cent. The Committee acknowledges that growth in M2 and credit to the private sector have been high. Credit to the core private sector grew at 70.6 per cent at annualized rate by end of August 2008. However, the increase in interest rates

in August was mainly due to pressure of liquidity in the financial markets in general and in the inter-bank market in particular.

In order to lubricate the system, the MPC has decided to ensure that the financial system remains liquid. The MPC accordingly, took the following decisions:

1. reduce the MPR from 10.25 per cent to 9.75 per cent;
2. reduce CRR from 4 per cent to 2 per cent with immediate effect;
3. reduce the liquidity ratio from 40 per cent to 30 per cent;
4. allow repo transactions against eligible securities for 90 days, 180 days and 360 days; and
5. the CBN will now buy and sell securities through the two-way quotes.

The CBN will continue to monitor developments in both domestic and international economies and will be ready to take appropriate actions to ensure the smooth functioning of the financial markets and the economy in general.

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Governor,

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September 18, 2008.