

CENTRAL BANK OF NIGERIA COMMUNIQUE NO. 54 OF THE MONETARY POLICY COMMITTEE, FEBRUARY 5th, 2008

The Monetary Policy Committee of the CBN met on 5th February 2008 and decided to leave the MPR unchanged at 9.5 per cent.

- 1. The Monetary Policy Committee (MPC) met on 5th February, 2008. The Committee reviewed the major domestic and international macroeconomic developments. It also focused attention on the implementation of fiscal, monetary and exchange rate policies in 2007, as well as the challenges for the first quarter of 2008. The MPC noted that the domestic macroeconomic environment was stable in 2007 despite tight conditions in the global financial markets engendered by major adverse financial developments like the US sub-prime market crisis. The Committee observed with satisfaction the sustained single-digit inflation rate throughout the year and the orderly functioning of the foreign exchange and domestic financial markets.**
- 2. The Committee recognized that the naira appreciation has been on account of the sustained foreign exchange inflows engendered by the favorable macroeconomic environment and the investment climate as well as high rates of return in domestic financial markets. It, therefore, restated its commitment to**

ensuring continued monetary and price stability through the pursuit of appropriate monetary and exchange rate policies.

Key Macroeconomic Developments

3. **Inflation:** The Committee noted with satisfaction the improvement in inflation outcomes in 2007 compared with the previous year. From 8.5 percent at end-December 2006, the year-on-year (headline) inflation closed at 6.6 percent in 2007, approximately 2 percentage points lower. The decline in inflation in 2007 was attributable to the restrictive stance of monetary policy, complemented by considerable fiscal restraint and favorable climatic conditions for food production in some parts of the country. Inflation in December 2007, however, was in contrast to inflation rates in the months of December 2005 and December 2006. The Committee, therefore, expressed its concern that given the rise in food prices in December 2007 and the overall global and domestic outlook, it will be necessary to ensure that inflation in 2008 is within single digit.
4. **Exchange Rate:** The MPC noted the steady appreciation in the Naira exchange rate, particularly in the second half of 2007. In January, 2008 the Naira exchange rate appreciated further and the WDAS rate stood at N116.81/US\$1 as at end-January. The appreciation of the Naira exchange rate was driven largely by

rising private foreign exchange inflows. The Committee recognized that inflows could continue as they were in December and January. However, it felt that the exchange rate would settle down at a reasonable level once the uncertainties in the global economy are reduced as a result of the monetary and fiscal actions being taken by industrialized economies.

5. **External Reserves:** The Committee observed that the gross official reserves as at 31st January, 2008 stood at US\$54.22 billion. This level of reserves would support about 28 months of current foreign exchange disbursements.
6. **Monetary Aggregates:** Over the end- December 2006 level, provisional figures indicate that broad money (M2) grew by 30.68 per cent in 2007. The growth in M2 was driven by the increase in foreign assets (net) of the banking system as well as the rise in credit to the private sector. While the Committee expressed concern about the rapid growth of M2, it noted with relief that this did not translate to higher inflation during the year, partly on account of improved supply conditions.
7. **Credit:** The Committee noted that credit to the private sector maintained an upward trend in the last quarter of 2007. Credit to the private sector grew by 96% which is unprecedented in

Nigeria's history. The MPC, however, noted that credit to government remained negative all through the year.

8. **Interest Rates:** The MPC observed that the inter-bank call money market rate increased slightly in December 2007, and January 2008, following the upward review of the MPR at the 201 meeting of the MPC which held on 4th December, 2007. As a result the yield curve has become steep at the shorter end. The Committee noted that the real interest rate however continue to be positive.
9. **Fiscal Stance:** The Committee noted the salutary effects of sharing the Paris Club debt refund to the states in dollars. The Federal budget for 2008 has projected significant increases in expenditure on account of government focus on infrastructure development, environmental protection and social safety nets. As these expenditures take time to yield results, the initial impact would be on aggregate demand. The private sector's own investments in partnership with those of the public sector would also have lagged effects on output. The Committee welcomes the recent decision of the National Economic Council (NEC) to phase the distribution of the proceeds of the Excess Crude Account to be paid in US dollars.

THE OUTLOOK:

In the light of the above, the outlook for 2008 while being positive has many elements of uncertainty. The Committee, therefore, decided:

- 1. To leave the MPR unchanged at 9.5 per cent**
- 2. To continue the use of Open Market Operations (OMO) for liquidity management and appropriate exchange rate policies.**

**Professor Chukwuma C. Soludo; CFR
Governor,
Central Bank of Nigeria,
Abuja.**

February 5, 2008