Central Bank of Nigeria Communique No. 61 of the Monetary Policy Committee Meeting, February 09, 2009

The Monetary Policy Committee (MPC) met today, February 9, 2009 and reviewed the current domestic and international economic and financial developments. The Committee, at the outset, noted that the country's present economic and financial situation and its near-term prospects are impacted largely by exogenous factors. The deepening recession in industrialized economies and the slowdown in economic activity of emerging countries, the fall in capital flows into Nigeria through remittances and foreign investments and the drying up of credit lines for Nigerian banks would, in the view of the Committee, impact negatively on Nigeria's external and fiscal positions. The latest estimates of economic outlook of industrialized and emerging economies show that their performance in 2009 would continue to be a major drag on the world economy. The sub-Saharan Africa too is projected to post a lower rate of output growth in the year ahead.

On the domestic scene, the Committee noted that macroeconomic outcomes in 2008 weakened slightly relative to the previous year due largely to the global financial crisis and the attendant economic slowdown. Indeed, the Committee observed that output growth in 2008 was more or less unchanged from the 2007 level. High food prices throughout the year continued to drive head line inflation. Interest rates trended upwards from the third quarter and remained elevated through November, but moderated in December. The Naira exchange rate was stable through November, but depreciated sharply in December and January 2009 following increased demand pressures.

The international developments, in the view of the Committee, present serious challenges to policy making in the short term notwithstanding signs of inherent resilience of the domestic real and financial sectors of the Nigerian economy. Monetary policy in particular has a major role to play in moderating the price variables—interest rates and exchange rates—in a manner that would foster business confidence and economic growth, price and exchange rate stability and financial soundness.

Key Macro-economic Developments

Inflation

The Committee noted that the year-on-year headline inflation rate at end December 2008 was 15.1 per cent compared with 6.6 per cent at end-December 2007. Similarly, the core inflation trended upwards to 10.4 per cent in December 2008 from 3.6 per cent at the end of 2007. The Bank's six month forecast horizon suggests gradual moderation of the year-on-year headline inflation, although may likely remain in the double-digit zone in the first half of the year. Similarly, core inflation is projected to moderate during the period.

Output

The latest estimates of the aggregate output as measured by the Gross Domestic Product at 1990 constant basic prices, provided by the National Bureau of Statistics (NBS) shows that aggregate output growth for 2008 was estimated at 6.41 per cent, close to the 6.45 per cent achieved in 2007. Agriculture contributed 2.75 percentage points to overall growth.

Monetary Aggregates

Provisional data for broad money (M2) grew sharply by 58.02 per cent in 2008. The MPC noted that the growth in M2 was driven largely by the rise in credit to the private sector, which grew by 59.52 per cent. Staff estimates indicate that monetary expansion in 2009 is likely to moderate on account of the expected decline in net foreign assets, complemented by the anticipated deceleration in growth in credit to the domestic economy.

Exchange Rate

The Committee noted the sharp depreciation in the naira exchange rate that took place in all the segments of the foreign exchange market in December 2008 following the sudden surge in demand, induced largely by the perceived negative impact of the global financial crisis. The reduced inflow to the economy has constrained supply to the market leaving the CBN as the main source of foreign exchange. However, with the measures taken in January 2009, the exchange rate depreciation has moderated.

External Reserves

The MPC noted the recent foreign exchange demand pressure and decline in foreign exchange earnings which resulted from the fall in the international oil price and assured that efforts were being made to forestall the rapid depreciation of the naira and preserve the country’s external reserves position in spite of the enormous challenges posed by the current turmoil in the global economy.

Capital Market

The MPC noted with cautious optimism the improvement in the activities at the equities segment of the Nigeria Stock Exchange (NSE) since January 30, 2009 against the backdrop of the bearish performance that characterized the market from the second quarter of 2008. With appropriate policy interventions, it is expected that the current positive development would be sustained.

Outlook

In line with seasonal pattern, growth in broad money is expected to moderate in the first quarter of 2009, owing to the lull in fiscal operations and economic activity during the period. Consequently, staff projections indicate that headline inflation would moderate during the first and second quarters of 2009.

Conclusions and Decisions

The paradox that we face currently is that excess liquidity is co-existing with rising interest rates, which in real terms and in relation to the deposit rate seem to be high. On the one hand we need to tighten liquidity to address inflation and exchange rate concerns; while on the other hand, we would need to address high interest rate by relaxing monetary conditions. Another paradox is that the observed excess liquidity has not translated to commensurate credit creation; in fact credit growth appears to have slowed down.

The Committee also noted the currently heightened risk perception and changes in liquidity management, accompanied by uncertainties in the fiscal arena given that the budget for 2009 has not been passed. The outlook for the foreign exchange market is however positive.

In the circumstance the MPC is concerned about achieving the multiple objectives of a sound financial system, price and exchange rate stability, as well as ensuring that credit continues to flow to the rest of the economy. Consequently the MPC decided as follows:

a. Monetary Policy Rate (MPR) will be kept unchanged at 9.75 per cent;
b. Open market operations will be actively used for achieving effective liquidity management;
c. The CBN is seriously concerned about the rising lending rates and especially the re-pricing of existing facilities by banks as well as the wide spread between deposit and lending rates. The CBN will be meeting with the bank chief executive officers to agree on modalities to check excesses, especially in the light of the global economic and financial crisis.
d. To anchor expectations and stabilize the exchange rate, MPC remains committed to managing the exchange rate within a band of +/-3 per cent until further notice.
e. The difference between the CBN buying and selling rates shall not be more than 1 per cent; while that of banks and BDCs will not be more than 1 per cent and 2 per cent, respectively around the CBN rate.

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