

## **Central Bank of Nigeria Communiqué No. 62 of the Monetary Policy Committee Meeting, April 08, 2009**

The Monetary Policy Committee (MPC) met today to review the challenges posed to the Nigerian economy by the complex mix of external and domestic economic and financial developments. The Committee recognized at the outset that external forces have had a severe impact on the Nigerian economy through trade, finance and confidence channels. The Committee, however, noted that the severity of the impact could be alleviated by undertaking appropriate economic and financial policies, taking into account the evolving international economic situation.

The Committee noted that movements in crude oil prices play a critical role in the Nigerian economy. This has limited the macroeconomic and external performance of the economy since October 2008. During the first quarter of 2009, the outcomes have been mixed.

### **Key Economic and Financial Developments**

The Committee reviewed the recent policy initiatives by the CBN to stabilize the foreign exchange market and to improve liquidity conditions in the domestic money market. It welcomed the staff assessment of the positive impact of these initiatives on the domestic economy, given the market view of the outlook in the context of the global economic and financial crisis.

#### *Domestic Output*

Provisional aggregate output growth in the first quarter of 2009 was estimated at 6.32 per cent by the National Bureau of Statistics (NBS) compared with 5.78 per

cent in the corresponding quarter of 2008. For 2009 as a whole, the NBS estimate of real output growth is 5.75 per cent. Compared with the growth outlook of the rest of the world, the projected domestic output growth is robust.

### *Price Developments*

#### *Inflation*

Inflation has been high and a matter of concern. The Committee noted the upward swing of the year-on-year headline inflation from 14.0 per cent in January to 14.6 per cent in February 2009. Core inflation, however, decelerated to 7.2 per cent in February from 8.0 per cent in January whereas food inflation rose from 18.4 per cent in January to 20.0 per cent in February. The outlook for inflation in the near term remains uncertain. Nonetheless, the staff estimates indicate that inflation could decelerate to single digit by mid-2009, in response to subdued aggregate demand, lower impact of imported inflation and the near-completion of the pass-through effect of the depreciation of the Naira.

#### *Interest Rates*

The domestic money market rates have been under pressure since February 2009. The weighted average inter-bank call rate went up from 17.62 per cent in February to 22.15 per cent in March. The collateralized Open Buy Back (OBB) rate however was lower than the Monetary Policy Rate (MPR). The deposit and lending rates too have inched up. The staff expects that in the near-term, interest rates are likely to moderate in response to expected subdued inflation and

improvements in the liquidity conditions facilitated by the CBN initiatives in this regard.

### *Exchange Rate*

The MPC noted with satisfaction the positive outcomes of measures taken recently in stabilizing the exchange rates in all the segments of the market. The demand for foreign exchange has moderated significantly in the retail Dutch Auction System and will continue to be sustained in the near term.

### *Monetary and External Developments*

Provisional data indicates that broad money (M2) declined by 1.14 per cent in February 2009 over the end-December 2008 level. However, on a year-on-year basis (February 2009 over February 2008) M2 grew by approximately 30 per cent. This was mainly on account of 44 per cent (on annualized basis) growth in credit to the private sector by end-February 2009. The order of expansion in M2 on a year-on-year basis is in line with long term trends and could be sustained in the short to medium term.

The Committee noted that financial conditions in the country remain robust. There are no apparent systemic threats to the banking system. Regulatory practices and guidelines are generally in line with best practice. The Committee further noted with satisfaction the efforts being made to continuously improve upon the regulatory framework.

Foreign exchange reserves position has continued to support external sustainability, facilitated by the downward movement in the overall world trade and financial flows.

### **Policy Coordination**

The Committee is of the view that for monetary policy to be credible and effective, it should have the support of appropriate fiscal policy and structural reforms. The Committee therefore reaffirmed its commitment to coordinate monetary policy actions with those of fiscal and other institutional and regulatory policies. The MPC underscored the importance of the CBN acting in concert with the fiscal authorities in the efforts at addressing the global economic and financial crisis.

### **Conclusion:**

In conclusion, the MPC observed the relative tight monetary conditions in the economy, and hence the need for monetary easing. The major pressure points for monetary policy in the short term include:

- Liquidity tightness and hence relatively higher interbank interest rates, and also pressures on other interest rates
- Lower growth rate of credit to the private sector compared to the trend in the last three years
- Rising food price inflation, and need for increased agricultural output
- Ensuring the continuation of banking and financial sector stability and soundness

## **Decisions**

In view of the above, the MPC decided to:

- i) Reduce MPR from 9.75 per cent to 8.0 per cent;
- ii) Reduce the liquidity ratio from 30.0 per cent to 25.0 per cent with effect from April 14, 2009; and
- iii) Reduce the Cash Reserve Requirement (CRR) from 2.0 per cent to 1.0 per cent with effect from April 14, 2009.

The MPC also commended the earlier CBN Board's decision and Mr. President's approval in respect of the N200 billion special agricultural fund for large scale agriculture. The CBN will fully underwrite the cost of the fund, and ensure immediate implementation. This initiative will significantly reduce food price inflation, and assist the CBN in achieving its core mandate of price stability.

**Professor Chukwuma C. Soludo, CFR**

Governor, Central Bank of Nigeria

April 8, 2009