

The Monetary Policy Committee of the CBN met on 1st April 2008 and decided to raise the MPR by 50 basis points

1. The Monetary Policy Committee (MPC) met on 1st April, 2008. The Committee discussed the international economic and financial situation along with a detailed review of the domestic macroeconomic developments including the implementation of the fiscal, monetary and exchange rate policies in the first quarter of 2008 and the outlook for the next two quarters. It considered the implications of the credit conditions in the global financial markets, the recent policy initiatives of the fiscal and monetary authorities in the major industrial countries, and the likely spill-over effects of the expected economic downturn in the world's largest economy, for the Nigerian economy.

2. The MPC noted that while the domestic macroeconomic environment was generally stable in the first three months of 2008, there are many uncertainties. The Committee observed that the current rate of inflation is a matter of concern. It expressed satisfaction over the overall stability in the government securities, money and foreign exchange markets, the buoyancy of the equity market and the accretion to foreign exchange reserves. It restated its commitment to sustaining monetary and price stability through the pursuit of appropriate monetary and exchange rate policies.

Key Macroeconomic Developments

3. Inflation: The Committee noted that the year-on-year (headline) inflation rose from 6.6 per cent at end-December 2007 to 8.6 per cent in January but fell to 8.0 per cent in February 2008. The higher levels of the headline inflation in January and February relative to that of December 2007, were mainly attributable to the increase in food prices. The recent release of grains from the strategic grains reserve and the prospects of

favourable weather would, however, help reduce the risks of price acceleration in the months ahead. The Committee noted that the expected huge fiscal injections in the months ahead and the sustained rise in asset prices would constitute potential downside risks that need to be addressed by strengthening the current restrictive monetary policy.

4. Exchange Rate: The MPC noted that the naira has appreciated in the first quarter of 2008, driven mainly by rising foreign exchange inflows reflecting the continued investor confidence in the economy. The foreign exchange market, however, continued to function in a stable manner.

5. External Reserves: The Committee noted with satisfaction that the gross official reserves amounted to US\$59.70 billion as at March 31, 2008. This level of reserves would support 38 months of current foreign exchange disbursements.

6. Monetary Aggregates: Broad money (M2) at end-December 2007 grew by 30.9 per cent compared with 30.5 per cent in the corresponding period of the preceding year. Provisional figures indicate that the M2 grew by 20.59 per cent in the first two months of 2008. The growth in M2 was driven mainly by the increase in foreign assets (net) of the banking system as well as credit to the private sector.

7. Credit: The Committee noted that credit to the private sector maintained an upward trend during the first quarter of 2008. Credit to the private sector grew substantially by 96 per cent in fiscal 2007 and by 8.6 per cent during the first two months of 2008 which on an annualized basis translated to 51.6 per cent. The MPC noted, however, that the Federal Government has continued to be a net creditor to the banking system.

8. Interest Rates: The MPC observed that the inter-bank call rate rose in January but moderated in the subsequent two months. Market conditions exhibited stability as evidenced from the data on the volume and deals in the inter-bank market. The spread

between the inter-bank call rate and the tenored NIBOR rates, however, showed that the counterparty credit risks continue to exist. The Committee urged that money market conditions be continuously monitored for purposes of effective liquidity management.

9. Fiscal Stance: The Committee noted the actual and potential impact on liquidity of the recent distribution of the Naira equivalent of US \$ 2.008 billion excess crude oil revenue and the second round distribution of same amount scheduled for June 2008. In addition, it noted that the federal budget as proposed contained significant increases in expenditure which would lead to projected budget deficits in the next two quarters of the year.

The Outlook for the Second and Third Quarters of 2008:

10. The MPC noted that the staff estimates indicate that inflation could remain within single-digit through the third quarter of the year if necessary actions are taken. In this regard, the Committee emphasized that the release of grains from the strategic grains reserve together with restrictive monetary policy would be important elements in keeping inflation under control in the months ahead.

Decisions:

In the light of the uncertainties mentioned above, the Committee decided to:

1. raise the MPR by 50 basis points from 9.5 per cent to 10.0 per cent;
2. issue treasury bills for liquidity management; and
3. Increase the sale of foreign exchange as the need arises.

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April 01, 2008