

**Central Bank of Nigeria Communiqué No. 69 of the Special Monetary  
Policy Committee Meeting, April 15, 2010**

The Monetary Policy Committee (MPC) held a special meeting on April 15, 2010 to, among other things, consider the modalities for the injection of ₦500 billion into the real economy in continuation of the current quantitative easing policy. It also reviewed domestic economic conditions during the first quarter of 2010 against the backdrop of the global economic and financial developments with a view to guiding monetary and financial sector policies for the rest of 2010.

The MPC noted the persisting tight credit conditions and the continuing under-performance of key monetary aggregates which had informed its earlier decision to embark on a quantitative easing policy to be implemented through investment in debentures to be issued by the Bank of Industry (BOI). The Committee commended the co-operation of key stakeholders in preparing the modalities for the injection of the ₦500 billion financing facility for the emergency power projects dedicated to industrial clusters and restructuring/refinancing of DMBs' exposures to the manufacturing sector and SMEs. It stressed the need for even greater co-operation in fast-tracking on-going reform efforts in the banking sector to ensure the smooth flow of credit to the real sector of the economy as well as energizing reforms in the power and other economic infrastructure sectors, to promote private sector/foreign investment and employment-generating growth. In this regard, the MPC welcomes the attention to the power sector by the Federal Government. The Committee emphasized that while economic reforms and human capital development remain key ingredients for economic growth,

the Bank is mindful of the supportive role that macroeconomic and financial stability plays in achieving sustainable growth and, will continue to focus attention on these two areas.

On the global scene, the Committee noted that the rebound in global economic activity which started in the second half of 2009, has been sustained. The rebound was driven largely by the fiscal policy stimuli undertaken in both the developed and emerging market economies in response to the global financial crisis and the ensuing economic slowdown. In the wake of the financial and economic crises, monetary policy was considerably eased with interest rates down to record levels in most advanced and emerging markets, and central bank balance sheets expanded considerably to accommodate the stimulus packages. The key concerns, however, remain the speed and sustainability of the recovery process which is progressing at varying degrees across the different regions.

The recovery in the advanced economies is still weak with real output projected to remain below its pre-crisis level until late 2011. However, growth in the emerging and developing economies is expected to recover faster given their stronger initial economic conditions and swift policy responses.

The MPC also noted the continuing rebound in commodity prices, particularly crude oil prices, which is helping to support growth in commodity producing regions, including Nigeria. However, the inflation risk of the rebound in energy prices appears to be mitigated by the subsisting low

levels of capacity utilization, weak private demand and well-anchored inflation expectations.

The MPC further observed that while financial markets have recovered remarkably faster than expected, financing conditions, especially for businesses and firms, were likely to remain weak in the near-term as financial institutions continue to maintain a cautious approach to credit extension. It noted the relative stability prevailing in most segments of the market and the need for policies to ensure their sustenance.

### Key Domestic Macroeconomic and Financial Developments

#### Output and Prices:

The robust output growth recorded in 2009 continued in 2010. Provisional data from the National Bureau of Statistics (NBS) indicates that real Gross Domestic Product (GDP) grew by 6.68 percent in the first quarter of 2010, down from 7.44 per cent in the fourth quarter of 2009, but up from the 4.50 per cent recorded in the first quarter of 2009. The growth was largely driven by the non-oil sector. Overall GDP growth for 2010 was projected at 7.53 per cent which is higher than the revised estimate of 6.66 per cent recorded in 2009. Quarterly GDP growth rates of 7.24, 7.36 and 8.51 per cent was projected for the second, third and fourth quarters of 2010, respectively.

The non-oil sector was expected to remain the main driver of overall economic growth, with agriculture, wholesale and retail trade, and services contributing 2.01 per cent, 2.10 per cent and 2.09 per cent, respectively. The Committee noted that the impressive growth forecasts reflected prospects for moderate rainfall in 2010, which would boost crop production and the

relative peace in the Niger-Delta, which could enhance crude oil and natural gas production.

The year-on-year headline inflation rose from 12.0 per cent in the last quarter of 2009 to stabilize at 12.3 per cent in January and February 2010. Similarly, core inflation stabilized at 10.1 per cent in January and February 2010, up from 9.7 per cent recorded in the last quarter of 2009. The stability in the domestic price level could be attributed to a number of factors, namely, the continuing monetary contraction, the delay in the passage of the 2010 federal budget and the improvement in the supply of petroleum products, amongst others. Notwithstanding these developments, the Committee restated its earlier position that the threat of inflationary pressure in the near-to-medium term remains real, but that it will continue to monitor price developments in the months ahead with a view to creating an enabling environment for sustainable growth and employment.

#### Monetary, Credit and Financial Market Developments:

Provisional data showed that relative to end-December 2009, broad money (M2) declined by 0.23 per cent at end-February 2010, which, when annualized represented a decline of 1.38 per cent, compared to the indicative growth target of 29.26 per cent for 2010 and the annualized M2 decline of 5.16 per cent in the corresponding February of 2009. The reserve money (RM), which stood at ₦1,668.50 at end-December 2009, declined to ₦1,574.33 and ₦ 1,636.60 billion in January and February 2010, respectively, but rose to ₦ 1, 782.21 billion in March 2010. As at April 8, 2010, the RM level of ₦1, 710.0 billion was just below the provisional 2010

second quarter indicative benchmark of ₦1, 872.80 billion by ₦162.76 billion or 8.69 per cent.

Available data showed that in February 2010, aggregate domestic credit (net) grew by 2.66 per cent over the December 2009 level, and by 15.96 per cent when annualized, which is higher than the annualized decline of 55.6 per cent recorded in the corresponding period of 2009, but below the 2010 indicative target of 55.54 per cent. Credit to government (net), which grew by 17.84 per cent, was the major contributor to the growth in aggregate credit (net) in February 2010, as credit to the private sector declined, by 1.97 per cent. The annualized growth rate of credit to the private sector as at February 2010, was -11.82 per cent, as against the provisional benchmark of 31.54 per cent for 2010. The substantial growth of credit to government (net) reflects the risk aversion of the DMBs and suggests the possible crowding out of private sector credit.

During the first quarter of 2010, the downward slide in interest rates in the domestic money market, which began in July 2009, following the Bank's decision to guarantee interbank transactions, continued. The low rates provide ample evidence of the surplus funds in the banking system that resulted from the huge volume of funds injected through fiscal operations. The weighted average interbank call rate, which was 2.89 per cent as at end-December 2009, declined to 2.48, 2.17, and 1.50 per cent in January, February, and March, 2010, respectively. Similarly, the securitized open-buy-back (OBB) rate, which was 2.64 per cent at end-December 2009, declined to 2.46, 2.20, and 1.31 per cent in January, February, and March

2010, respectively, compared with the monetary policy rate (MPR) of 6.00 per cent and Standing Deposit Facility rate of 1.0 per cent.

Notwithstanding the falling interbank rates, the DMBs' interest rates structure failed to reflect this trend as the high retail lending rates persisted. The average maximum lending rate increased to 23.32 percent in February, 2010 from 23.18 per cent in the preceding month compared with 23.45 and 23.1 per cent in December and November 2009, respectively. The average prime lending rate, on the other hand, declined marginally to 18.28 per cent in February 2010 from 18.38 per cent in January. It was 19.03 and 18.93 per cent, respectively, in December and November, 2009.

The weighted average savings rate rose to 3.38 per cent in February 2010 from 3.33, 3.36 and 3.35 per cent in January 2010, December and November 2009, respectively. The consolidated deposit rate, which remained unchanged at 6.13 per cent in December 2009 and January 2010 dropped to 5.53 percent in February 2010. Thus, the spread between the average maximum lending rate and the average consolidated deposit rate widened to 17.79 per cent in February 2010 from 17.05 per cent in January 2010 and 17.34 per cent in December, 2009. The Committee noted that the key policy challenges remain the negative growth in credit to the private sector, high lending rates and widening interest rate spread despite the declining interbank rates and relative surplus liquidity in the banking system.

Compared to the last quarter of 2009, the Nigerian capital market is showing signs of recovery. The All-Share Index (ASI) increased by 30.7 per cent from 20,827.17 as at end-December 2009 to 27,216.03 on 7<sup>th</sup> April, 2010.

Market Capitalization (MC) also increased, by 32.1 per cent, from ~~N~~4.98 trillion at end-December 2009 to ~~N~~6.58 trillion on 7<sup>th</sup> April 2010. The number of deals, volume and value of shares traded increased by 115.6, 134.6 and 326.1 per cent, respectively, during the review period. The increase in ASI and MC was partly due to share price increases in the Banking, Food & Beverage and Oil/Gas sectors.

The Committee welcomed the improvements in the stock market, and noted further prospects for continuing recovery with the passage of the Asset Management Corporation Bill. It, however, emphasized that the recovery of the capital market does not necessarily translate to economic recovery as the reforms initiated in the other sectors of the economy needed to be carried through in order to grow the economy. The Committee, therefore, called for the political will and commitment to see these reforms through.

#### External Sector Developments:

The foreign exchange market remained relatively stable in the first three months of 2010. At the WDAS, the review period opened with an exchange rate of N149.08/US\$1 (1% commission inclusive) and closed at N149.78/US\$1, with an average closing rate of N149.94/US\$1 for the quarter. When compared with the average closing rate of N146.87/US\$1 recorded during the first quarter of 2009, this represented a depreciation of N3.07 (2.05 percent). The average exchange rate depreciated marginally at the inter-bank market from N150.35/\$ in the fourth quarter of 2009 to N150.43/\$ in the first quarter of 2010. In the same vein, the premium between the WDAS average exchange rate and the inter-bank market rate

remained low at N1.98/\$ (1.31%) in the first quarter of 2010, while that between the WDAS average exchange rate and the BDCs rate narrowed from N4.58 (3.0%) in the fourth quarter of 2009 to N4.02 (2.63%) in the first quarter of 2010.

The Committee observed that the naira exchange rate has remained stable in all segments of the market during the first quarter and believes that if the current exchange rate policy stance of liberalizing the foreign exchange market, with a view to enhancing foreign exchange supply, remains in place, the relative stability in the foreign exchange market and the exchange rate, is likely to be sustained in the near term. The Committee will, however, continue to monitor developments in the market to ensure that measures are taken to eliminate speculative demand.

The gross external reserves stood at US\$40.68 billion as at 31<sup>st</sup> March, 2010, representing a decrease of US\$0.71 billion or 1.71 per cent relative to the level of US\$41.39 billion as at 28<sup>th</sup> February 2010. Although the Committee noted that the external reserves were sufficient to finance 17 months of imports, which were well above the internationally recommended 3-months import cover, it believed that with the rising price of crude oil in the international market in recent months, coupled with the improvement in output with peace in the Niger Delta, there is likely to be an improvement in the level of foreign exchange reserves in the near term.

#### The Committee's Considerations

The principal concerns of policy at this point in time were identified as the following:

1. Ensuring that the quantitative easing adopted by the Committee actually translate to injection of credit to the private sector players in the real economy;
2. Establishing some correspondence between the monetary policy rate (MPR) and prime and maximum lending rates of DMBs in order to establish a proper transmission channel from policy rate movements to market interest rates; and
3. Maintaining macroeconomic stability and stimulating growth while remaining vigilant with respect to inflation and capital market asset price bubbles.

In considering the modalities for the restructuring/refinancing programme, the Committee was concerned about the need for a proper definition of SMEs that will not exclude many potential beneficiaries thereby limiting the effectiveness/impact of the intervention. In this regard, the MPC noted the existence of several definitions of SMEs, but felt that by providing a limit to the size of the loan per borrower from an institution more potential borrowers would be covered.

The Committee also reviewed developments in the economy during the first quarter of 2010. The MPC noted with concern the persisting high lending rates despite the current low inter-bank and deposit rates, and as a consequence the wide spread between lending and deposit rates. This, the Committee attributed to inefficiency in cost management and unrealistic profit expectations and targets. It believed that promoting transparency in the pricing and setting of rates by DMBs could help to drive down lending rates. In this regard, DMBs would be required to regularly publish and submit their

risk-based interest rate pricing model to the CBN. In addition, the banks would be required to provide a statement showing the relationship between the MPR and their prime and maximum lending rates.

For the avoidance of doubt, the MPC will not fix lending and deposit rates by fiat. However, every bank will be required to disclose the maximum spread it charges above the MPR to its prime customers and the risk premium it charges between prime and maximum lending rates. The pricing model would also disclose the basis for the spread and principal components covered.

The articulation of the pricing model in this mode and its disclosure to the general public will serve two purposes. First, by providing visibility on relative efficiency of financial institutions, banks will be encouraged to seek profitability by driving down costs and charging competitive rates rather than charging excessive rates of interest. Second, by explicitly stating prime and maximum lending rates as a fixed spread over MPR, the policy rate becomes an effective tool for driving lending rates up or down as policy stance dictates.

The MPC noted with satisfaction the existing macroeconomic conditions. In this regard, the Committee restated its commitment to monitoring developments in the economy and stands ready to take appropriate action when the need arises.

## **Decisions**

### **In the light of the above, the MPC:**

1. Approved the technical committee's recommendations with respect to modalities for the Refinancing/Restructuring of DMBs facilities to manufacturers with N1Billion as the maximum loan size a bank may refinance for a single borrower. The guidelines will be released shortly.
2. Directed that banks be required to submit their Risk-based Interest Rate Pricing Model to the Central Bank of Nigeria on a monthly basis which will be published. A circular to this effect will be issued shortly. Loan pricing, henceforth be stated as fixed spread above MPR, and shall be adjusted along with MPR movements.
3. Retained the MPR at 6 per cent and existing asymmetric corridor around the MPR at +2.0 per cent and -5.0 per cent.
4. Endorsed complementary policies being put in place by the Board of the CBN, especially the revised guidelines for loan loss provisioning for preferred sectors, the N200 billion guarantee for real sector credit and regulations governing margin lending.
5. Noted with satisfaction the progress of the AMCON Bill through the National legislature and urged the CBN to continue in its effort towards expedited passage of the Bill and speedy implementation.

**Sanusi Lamido Sanusi**  
**Governor,**  
**Central Bank of Nigeria**  
**Abuja**

**April 15, 2010**