PRESS RELEASE

CENTRAL BANK OF NIGERIA COMMUNIQUE NO. 48 OF THE MONETARY POLICY COMMITTEE, 28th NOVEMBER, 2006

The Monetary Policy Committee of the CBN met on Tuesday, 28th November 2006 and adopted a new monetary policy framework that will take effect from Monday, December 11, 2006. The framework, which will be launched on Monday December 4, 2006, will introduce a new Monetary Policy Rate (MPR) to replace the current Minimum Rediscount Rate (MRR).

1.0 The Monetary Policy Committee (MPC) met on November 28th 2006. The MPC reviewed the major macroeconomic developments in the economy and the implementation of fiscal, monetary and exchange rate policies in the first ten months of 2006, as well as the challenges for the rest of the year. The meeting, the fourth in the year, lasted for about four hours. The Committee noted with satisfaction the relative stability in the overall macroeconomic environment during the review period and restated its commitment to ensuring monetary and price stability for the rest of the year.

The New Framework for Monetary Policy Implementation in Nigeria

2.0 In order to enhance efficiency in the conduct of Monetary Policy in Nigeria, the MPC at its 195th meeting on 9th August, 2006 gave a commitment to introduce a new framework for monetary policy with effect from November 1, 2006. The expected date for the take off had to be shifted owing to the need to put the necessary infrastructure in place, especially the IT facilities and to enable the CBN address other logistics. The Committee noted with satisfaction the relative stability in the banking system since the banking consolidation.

3.0 The new monetary policy framework, which hinges on an interest rate corridor, provides for the CBN lending facility as well as the acceptance of overnight deposit from operators at specified rates. Under the new initiative, the CBN discount window could be accessed by market operators (Discount Houses and Deposit Money Banks), that are in need of funds to meet liquidity shortages and those with excess liquidity could deposit the funds overnight. The utilization of the standing facility is expected to bring about orderly market operations in the banking system by ensuring that interest rate volatility is reduced to the barest minimum and stability in market rates could be guaranteed. The new framework is expected to lead to the emergence of a policy rate to replace the current MRR which from past experience had not been sufficiently responsive to CBN's policy initiatives, especially in tackling the problem of excess liquidity in the system.

4.0 The MPC took note of the challenges which the new policy initiative is likely to confront and gave serious consideration on key issues that bothered on the policy setting rules, that is, the policy response function, the frequency of MPR changes, the significance of inflation rate in determining the policy rate, the problem of price, credit and operational risks, sensitization of operators and other stakeholders, training, and so forth.

5.0 The Committee thus decided to:

a) Begin the implementation of the new monetary policy framework with effect from Monday, December 11, 2006.

b) Adopt a Monetary Policy Rate (MPR) that will replace the current Minimum Rediscount Rate (MRR). The MPR, which is the main instrument of the new framework, will determine the lower and upper band of the CBN standing facility and is expected to have the capability of acting as the nominal anchor for other rates.

c) Discontinue outright rediscounting of bills in the CBN to encourage trading among the market operators.

d) Ensure the full deployment of IT infrastructure (RTGS, T24 and eFASS) for the effective implementation of the new framework.

e) Convene meeting of the MPC every other month to review developments in the economy.

Thank you for your kind attention.

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