PRESS RELEASE

CENTRAL BANK OF NIGERIA COMMUNIQUE NO. 49 OF THE MONETARY POLICY COMMITTEE, FEBRUARY 7, 2007

The Monetary Policy Committee of the CBN met on Wednesday 7th February, 2007 and decided to leave the MPR unchanged at 10 per cent

1) The Monetary Policy Committee (MPC) met on Wednesday 7th February, 2007. The Committee reviewed the major macroeconomic developments and the implementation of monetary, fiscal and exchange rate policies in 2006, as well as the challenges for 2007. The Meeting, the first in 2007, lasted five (5) hours. The MPC noted with satisfaction the improvement in the overall macroeconomic indicators in 2006, but expressed concern over potential inflationary build-up in the election year. Thus, the MPC restated commitment to ensuring monetary and price stability in 2007.

Key Macroeconomic Developments

2) **Inflation:** The MPC observed that the headline and the food (year-on-year) inflation stayed within single digit for the greater period of the year, and ended 8.5 and 3.9 percent at end-December 2006, respectively. Core inflation, however was 17.0 percent at end-December 2006, reflecting the impact of fuel

scarcity and the disturbances in the Niger Delta. The Committee noted the efforts to resolve the crisis. The Committee expressed concern over the potential risk of an increased fiscal spending by all tiers of government in the first quarter, and thus, affirmed that the conduct of monetary policy would be aggressive in order to dampen the potential inflationary impact of the spendings.

3) **Domestic Output:** At end 2006, provisional data on real output showed a growth of 5.63 per cent compared with 6.51 percent growth in 2005. The main drivers of growth were agriculture, manufacturing, telecommunications, and wholesale and retail trade. The Committee noted with concern the negative (-4.67) growth in the oil sector following the disturbances in the Niger Delta in 2006, but expressed satisfaction over the projected 2.5 percent positive growth for the oil sector in 2007.

4) **Exchange Rate:** The MPC noted with satisfaction the stability of the naira following the Bank's liberalization of the forex market since April 2006. The exchange rate of the naira remained stable at both the WDAS and the BDCs in 2006. The Committee also noted the positive impact of the stable exchange rate on the economy generally, and reaffirmed its commitment to sustaining the stability in 2007.

5) **External Reserves:** Following continued higher oil prices, gross official reserves (at end-December, 2006) amounted to $41.96 billion compared with $28.3 billion recorded at end-December, 2005. This was notwithstanding Nigeria's exit payment to the Paris Club in April. As at 31st January 2007, gross official reserves was US$43.6 billion. The Committee, also noted with satisfaction that crude oil prices at the international market would remain above the budget price of $40.0 per barrel in 2007, in spite of recently observed downward trends in prices.

6) **Growth in Monetary Aggregates:** Broad money (M2) grew by 28.23 per cent over the end-December, 2005 level, compared with the target of 27.8 per cent for 2006. Money supply was influenced mainly by growth in bank's credit to the private sector.

7) **Credit**: Growth in aggregate domestic credit (net) declined by about 88.84 per cent at end-December, 2006 relative to its level at end-December 2005. The fall in aggregate credit was attributed to the decline in credit (net) to government.

8) **Interest Rates Developments:** Following the adoption of a standing facility and a new policy rate – Monetary Policy Rate (MPR) on December 11, 2006, the volatility in the inter-bank

rate moderated and stayed within the lending and deposit standing facility rates of the CBN. The MPC noted, however, some challenges such as the absence of intra-day credit facility.

9) **Outlook for 2007 and MPC Decisions**

The downside risks to low inflation in fiscal 2007, include increased fiscal injections, and rising autonomous private inflows, which could lead to persistent excess liquidity in the system if the authorities do not take pre-emptive actions. Other pressure points are the election spending and falling price of crude oil in the international market. The Committee, however, noted with satisfaction that the impact of the adverse developments could unwind soon after the general election. On the whole, the Committee believes that the medium-term outlook is one of robust economic performance.

Against this background, **the Committee decided to:**

a) Leave the MPR unchanged at 10 per cent

b) Release the 8 per cent special CRR invested on behalf of the Banks by the CBN, to the DMBs on maturity. This would enable the banks utilize the amount of reserve money released for regular operations.

c) Keep the CRR unchanged at 3 per cent

d) Maintain the liquidity ratio at 40 per cent

e) Allow the collateralized placements among deposit money banks to count as liquid assets, for purposes of liquidity ratio, and

f) That the domiciliary deposit accounts shall continue to be excluded from the definition of the broad money (M2) and the computation of a bank's CRR.

Thank you for your kind attention.

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