CENTRAL BANK OF NIGERIA

MONETARY POLICY REVIEW

February 2014

Central Bank of Nigeria
33 Tafawa Balewa Way
Central Business District
P.M.B. 0187, Garki,
Abuja
Phone: +234 (0)9 462 36011
Website: www.cbn.gov.ng
E-mail: info@cbn.gov.ng

ISSN: 2141-6281

Central Bank of Nigeria

Mandate

▪Ensure monetary and price stability

▪Issue legal tender currency in Nigeria

▪Maintain external reserves to safeguard the international value of the legal tender currency

▪Promote a sound financial system in Nigeria

▪Act as banker and provide economic and financial advice to the Federal Government

Vision

"By 2015: Be the model Central Bank delivering Price and Financial System Stability and promoting Sustainable Economic Development"

Mission Statement

"To be proactive in providing a stable framework for the economic development of Nigeria through effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector"

Core Values

- Meritocracy
- Leadership
- Learning
- Customer - Focus

ACRONYM	MEANING
QE3	Quantitative Easing 3
MPC	Monetary Policy Committee
DMB	Deposit Money Banks
CRR	Cash Reserve Ratio
rDAS	retail Dutch Auction System
MPR	Monetary Policy Rate
OMO	Open Market Operation
NOP	Net Open Position
GDP	Gross Domestic Product
TSA	Treasury Single Account
IMF	International Monetary Fund
NBS	National Bureau of Statistics
PIB	Petroleum Industry Bill
MSMEs	Small Scale Manufacturing Enterprises
DH	Discount Houses
SLF	Standing Lending Facility
MC	Market Capitalization
FED	US Federal Reserve Bank
OECD	Organization For Economic Cooperation and Development
ASI	All-Share Index
ECA	Excess Crude Account
SDF	Standing Deposit Facility
M2	Broad Money Stock
RM	Reserve Money
NDC	Net Domestic Credit
C_g	Credit to the Government
C_p	Credit to the Private sector
NFA	Net Foreign Assets
IFEM	Interbank Foreign Exchange Market
LCCI	Lagos State Chamber Of Commerce and Industry
MYTO	Multi Year Tariff Order
wDAS	Wholesale Dutch Auction System
OBB	Open Buy Back
NIBOR	Nigeria Interbank Offered Rate
BDC	Bureau de Change
OTC	over-the-counter
BoE	Bank of England
BoJ	Bank of Japan
ECB	European Central Bank

CONTENTS

Page

Table of Contents

List of Tables

Page

List of Figures

List of Boxes

Page

Appendices

STATEMENT BY THE GOVERNOR

The monetary Policy environment in the review period was benign with the continued moderation in consumer price inflation to single digit, indicating the effectiveness of the sustained tight monetary policy stance of the Bank. This was against the background of several key challenges including the planned tapering of QE3 announcement by the US Federal Reserve Bank; anticipated increase in government spending in preparation for the 2015 general elections; and the depletion of fiscal buffers required to sustain exchange rate stability. Domestic output growth remained resilient in the face of a weakening global economy; although some of Nigeria's major trading partners including the US, Europe and China were gradually returning to a long-run growth path. Accordingly, the thrust of monetary policy in the second half of 2013 remained the sustenance of the relative price stability achieved in the first half of 2013.

The conclusion of the banking sector reforms afforded the MPC a clearer view of financial stability to detect a creeping perverse incentive problem reflected in the build-up in excess liquidity in the banking system, alongside sluggish growth in private sector credit and rising cost of liquidity management; all traced to DMB's appetite for cheap public sector funds and purchase of government securities. The CRR on private sector deposits was retained at 12.0 per cent, while CRR on public sector deposit was raised to 50.0 per cent to address the effects of the buildup in excess liquidity on the banking system as well as stem the pressure on the exchange rate.

The performance of the monetary aggregates was largely below the indicative benchmarks for the period. The naira exchange rate continued to enjoy relative stability. The strategic intervention of the Bank in the foreign exchange market including the re-introduction of the retail Dutch Auction System (rDAS) helped in stabilizing the market. Market real interest rates remained positive, against the backdrop of moderating inflationary pressures which sustained the flow of investment into the economy.

Forecasts of both the international and domestic environments suggest a clouded fiscal and external sector outlook in the near to medium term. However, the monetary authorities would continue to respond to the various challenges with a view to fostering a stable and robust macroeconomic environment.

DR. (MRS.) Sarah O. Alade
Ag. Governor,
Central Bank of Nigeria
February 2014

CHAPTER 1
OVERVIEW

Monetary policy in the second half of 2013 aimed primarily at sustaining the already moderated rate of inflation which was achieved in the first half of 2013. The benign headline inflation rate of 8.0 per cent at end-December 2013, from 8.4 per cent at end-June 2013, is evidence of the effectiveness of the policy. Besides, monetary policy also aimed at limiting pressure on the exchange rate, boosting the external reserves position, sustaining stability in the money market and reducing the spread between lending and deposit rates. These goals were largely achieved through a mixed-grill of a number of instruments, which helped to strengthen investor confidence in the economy.

The Monetary Policy Rate (MPR) was the principal instrument used to control the direction of interest rates and anchor inflation expectations in the economy. The other intervention instruments included Open Market Operations (OMO), Discount Window Operations, Cash Reserve Ratio (CRR) and foreign exchange Net Open Position (NOP).

Open Market Operations (OMO) was the other major tool for liquidity management in the second half of 2013; achieved through the issuance of CBN bills. The sale of CBN bills declined by 52.8 per cent in the second half compared with the first half. In the second half, the volume of transactions of the standing lending facility window rose by 30.66 per cent, while that of standing deposit facility window rose by 53.6 per cent, compared with the first half.

The Monetary Policy Committee (MPC) held three regular meetings during the review period, and the MPR was successively maintained at 12.0 per cent with a symmetric corridor of +/- 200 basis points. The MPC introduced a higher Cash Reserve Ratio (CRR) for public sector deposits with the Deposit Money Banks (DMBs), in order to further tighten money supply.

Beside the change in the CRR on public sector deposits, other existing policies were retained, and complemented with administrative measures. The Net Open Position (NOP) limit was sustained at 1.0 per cent, Liquidity Ratio (LR) at 30.0 per cent and the mid-point of the exchange rate at N155/US$ +/-3.0 per cent. The decision of the MPC to retain most of the existing measures was to assure the market of the continuity of the tight monetary policy regime.

Monetary policy continued to contribute significantly to the robust performance of the economy after the shock of the global financial crisis in 2008 (on the one hand and the domestic banking crisis of 2009 on the other). In spite of these developments, output remained relatively high while inflation decelerated in 2013. Most measures of inflation moderated throughout the period in response to the policy measures implemented by the Bank. Year-on-year headline inflation decreased to 8.0 per cent in December 2013, from 8.4 per cent in June 2013 and 12.0 per cent in December 2012. Food inflation also declined marginally to 9.3 per cent from 9.6 per cent over the same period. However, core inflation rose from 5.5 per cent to 7.9 per cent between June and December 2013.

Domestic output growth remained resilient despite the weaknesses in the global economy. Data from the National Bureau of Statistics (NBS) showed that GDP grew by 6.81 per cent in the third quarter of 2013 compared with 6.18 per cent attained in the previous quarter of that year and to 6.48 per cent in the corresponding quarter of 2012. The non-oil sector, particularly agriculture, wholesale and retail trade and services were the major drivers of growth.

In the second half of 2013, the financial market remained stable and active. In the money market, government securities and CBN OMO bills were actively traded. In the foreign exchange market, the CBN continued its intervention in order to maintain the exchange rate within the policy corridor. The capital market improved in performance compared with the first half of the year and the corresponding period in 2012. Foreign portfolio investment and improved corporate earnings helped fuel growth in the sector.

The outlook for domestic inflation suggests that the threshold of 6 – 9 per cent could be realized in the near-to-medium term. Inflation dynamics are expected to be driven by growth in output and fiscal policy and by the existing monetary policy regime. In its forecast, the International Monetary Fund (IMF) expects an average inflation rate of 7.8 per cent for Nigeria in 2014 to be supported by fiscal deficits that would remain below 3.0 per cent of GDP. The growth outlook for the domestic economy is strong given improvements in recovery in the advanced economies which could lead to higher demand for Nigeria's crude oil. Both the IMF and the Lagos Chamber of Commerce and Industry (LCCI) have projected growth above 6.0 per cent (IMF projects 7.4 per cent). Domestic output growth is expected to be driven by high crude oil price, robust domestic demand and increasing trade and investments from the emerging economies. However, the underlying risks to the outlook include potential increases in fiscal spending in 2014 and 2015 for election-related activities. Also, the US$10 billion a month tapering of the Fed bond buying programme could weaken the financial sector and limit foreign credit availability. The tight monetary policy regime is expected to remain in place in the near-to-medium term to address the potential impact of the identified risks.

CHAPTER 2
DOMESTIC PRICES AND THE REAL ECONOMY

Inflationary pressures moderated in 2013, due in part to the sustained deflationary monetary policy. Moderation in inflationary pressures was augmented by the relative stability in the exchange rate of the naira. During the review period, the domestic output growth gained momentum compared with the preceding period of 2013 and the corresponding period of 2012.

2.1 Domestic Economic Activity

Domestic output growth improved, driven largely by the performance of agriculture and the building and construction sectors. Overall, growth in 2013 was estimated at 6.87 per cent, up from 6.58 per cent in 2012, signalling a steady growth in the economy. Real GDP estimate at the end of the period stood at 7.67 per cent, up from 6.18 and 6.99 per cent at end of the preceding period of 2013 and corresponding period of 2012. The 8.73 per cent growth in non-oil real GDP in Q4 2013 was higher than the 8.22 per cent in the corresponding period of 2012. In contrast, the oil sector in Q4 2013 grew marginally by 0.04 per cent.

The oil sector contributed approximately 11.73 per cent to real GDP growth in Q4 of 2013, lower than the 12.90 per cent in Q2. The decline was due to disruptions in crude oil production, caused by oil bunkering and illegal refining as well as declines in prospecting; because of the uncertainties surrounding the fiscal regime in the Petroleum Industry Bill (PIB).

Of the major components of the non-oil sector in Q4, agriculture, wholesale and retail trade, and services contributed 1.64, 2.34, and 2.66 per cent respectively to GDP growth (Table 2.1). The robust domestic growth given the sluggish global economic recovery was a consequence of favourable domestic conditions for agricultural production, complemented by strong macroeconomic management.

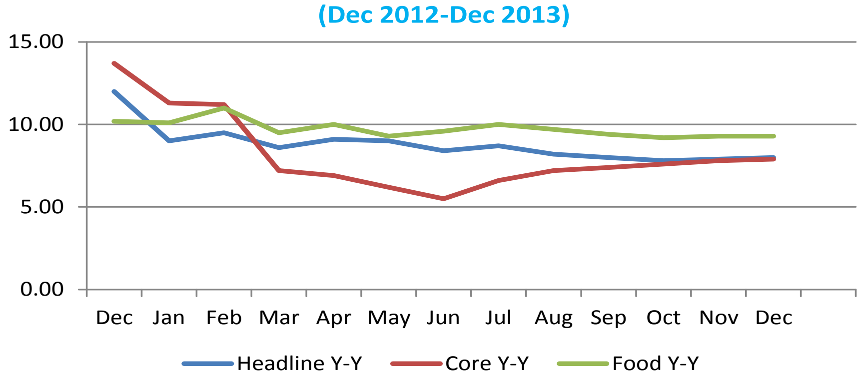
Table 2.1

Real GDP Growth										
Sectors	Q1 2012	Q2 2012	Q3 2012	Q4 2013	2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013
Agriculture	1.54	1.75	1.70	1.43	1.61	1.43	1.84	2.17	1.64	1.78
Industry	-0.13	0.23	0.33	0.48	0.18	0.05	0.15	0.27	0.72	0.33
Building & Construction	0.38	0.27	0.19	0.25	0.27	0.47	0.33	0.24	0.31	0.33
Whole & Retail Trade	1.93	1.45	1.76	2.22	1.84	1.92	1.27	1.70	2.34	1.84
Services	2.80	2.69	2.51	2.61	2.65	2.69	2.58	2.44	2.66	2.59
Real Non Oil GDP Growth										
Sectors	Q1 2012	Q2 2012	Q3 2012	Q4 2013	2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013
Agriculture	1.86	2.06	1.98	1.65	1.89	1.70	2.14	2.50	1.87	2.07
Industry	0.11	0.40	0.38	0.68	0.39	0.16	0.36	0.40	0.78	0.46
Building & Construction	0.45	0.31	0.22	0.29	0.32	0.56	0.38	0.28	0.36	0.38
Whole & Retail Trade	2.33	1.70	2.05	2.57	2.16	2.28	1.48	1.96	2.68	2.13
Services	3.38	3.16	2.93	3.02	3.12	3.19	3.00	2.82	3.04	3.00

2.2 Trends in Inflation

Inflationary pressures remained benign, helped largely by consumer price moderation, which started in Q4 of 2012. This was attributed largely to the tight monetary policy of the Bank.

Fig 2.1
Headline, Core and Food Inflation Rate (Dec 2012-Dec 2013)

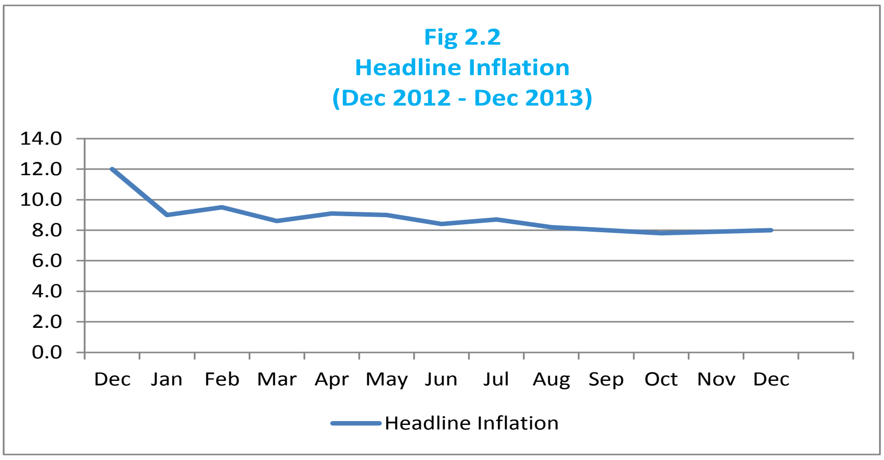


Headline inflation (year-on-year) at end-December 2013 dropped slightly to 8.0 per cent from 8.4 and 12.0 per cent at end-June 2013 and end-December 2012, respectively (Fig 2.2 and Fig 2.3). The main drivers of headline inflation were food and non-alcoholic beverages, housing, water, electricity, and transport.

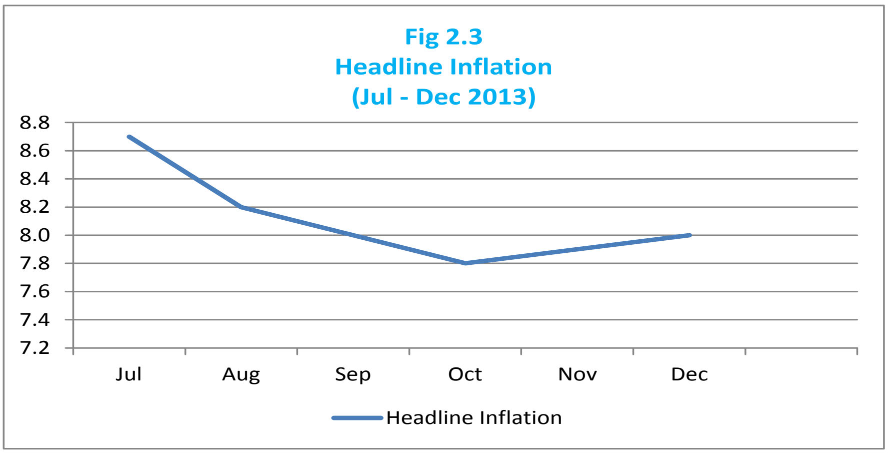
Food inflation (year-on-year) continued to moderate at 9.3 per cent end-December 2013, down from 9.6 and 10.2 per cent in end-June 2013 and end-

December 2012, respectively. The declines in transportation and processing costs due to improved fuel and electricity supply accounted for the improvements in food inflation during the period.

Core inflation (year-on-year) increased to 7.9 per cent at end-December 2013 from 5.5 per cent at end-June 2013, but down from 13.7 per cent at end-December 2012. The rise could be attributed to increase spending during the end-year festive periods.



Source: NBS



Source: NBS

The core and food components of the consumer price index rose to 153.0 and 154.3 end-December 2013 from 145.5 and 147.5 at end-June 2013 (Table 2.2). Thus the index of food increased by 6.8 percentage points, that of core inflation by 7.5

percentage points. This suggests that the core component of inflation exerted greater pressure on headline inflation than the other components. Quarterly trend during the review period revealed a similar pattern (Table 2.3).

Table 2.2
Inflation Rate
(Dec 2012 – Dec 2013)

	Headline Inflation			**Core Inflation**			**Food Inflation**		
	CPI	Y -on-Y	12 MMA	CPI	Y-on-Y	12MMA	CPI	Y-on-Y	12MMA
Dec	141.10	12.00	12.20	141.80	13.70	13.90	141.20	10.20	11.30
Jan	141.90	9.00	11.90	143.80	11.30	13.70	142.30	10.10	11.10
Feb	143.00	9.50	11.70	143.80	11.20	13.70	142.30	11.00	11.20
Mar	144.00	8.60	11.40	144.80	7.20	13.00	144.60	9.50	11.00
Apr	144.80	9.10	11.10	144.50	6.90	12.30	145.60	10.00	10.80
May	145.80	9.00	10.80	145.20	6.20	11.50	146.40	9.30	10.50
Jun	146.60	8.40	10.40	145.50	5.50	10.70	147.50	9.60	10.40
Jul	147.40	8.70	10.00	147.20	6.60	10.00	148.40	10.00	10.20
Aug	147.80	8.20	9.80	149.10	7.20	9.40	149.20	9.70	10.20
Sep	148.90	8.00	9.50	150.00	7.40	8.90	150.40	9.40	10.10
Oct	150.00	7.80	9.20	150.90	7.60	8.60	151.60	9.20	10.00
Nov	151.10	7.90	8.80	151.80	7.80	8.10	152.90	9.30	9.80
Dec	152.30	8.00	8.50	153.00	7.90	7.70	154.30	9.30	9.70
Source: NBS									

Table 2.3
Quarterly Consumer Price Developments
(November 2009=100)

	2013				2013			
	March		June		September		December	
	Y-on-Y	12MMA	Y-on-Y	12MMA	Y-on-Y	12MMA	Y-on-Y	12MMA
Headline	8.60	11.40	8.40	10.40	8.00	9.50	8.00	8.50
Core	7.20	13.00	5.50	10.70	7.40	8.90	7.90	7.70
Food	9.50	11.00	9.60	10.40	9.40	10.10	8.00	8.50

Source: NBS

In the second half of 2013, the major components of food inflation contributed to its moderation. The contribution of processed food decreased from 4.5 per cent at end-July, 2013 to 4.1 per cent at end-December 2013. Also, meat, fruits, and tubers declined from 0.94, 0.45 and 1.25 per cent to 0.84, 0.38 and 1.18 per cent, respectively (Table 2.4).

Table 2.4
Contribution of Selected Components of CPI to Food Inflation (Year-on-Year) (Jul – Dec 2013)

Date	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Food	10.00	9.70	9.40	9.20	9.3	9.3
Processed Food	4.50	3.90	4.60	4.20	4.8	4.1
Meat	0.94	0.91	0.89	0.82	0.84	0.84
Fruits	0.45	0.44	0.42	0.43	0.41	0.38
Yams, Potatoes & Other Tuber	1.25	1.25	1.19	1.19	1.21	1.18

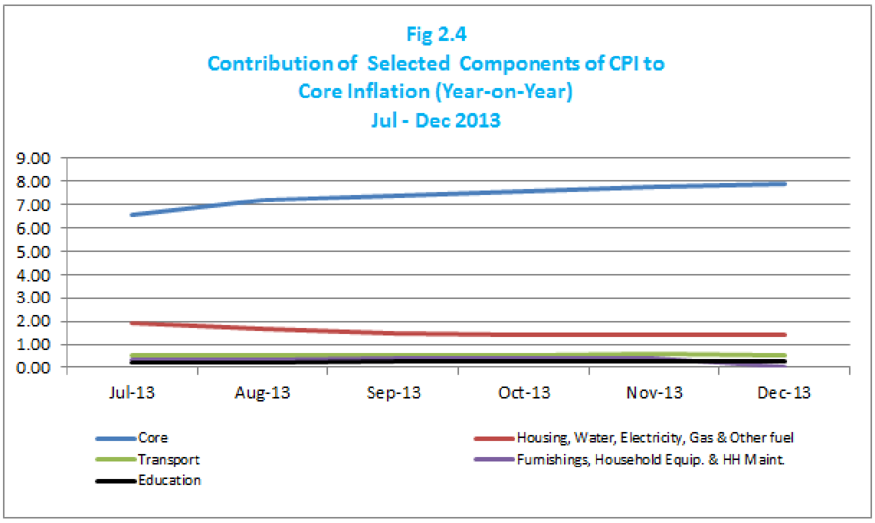
Source: NBS

The composition of the core inflation index shows that the combined sub-indices for housing, water, electricity, gas and other fuels fell from 1.89 to 1.40 per cent between July and December 2013. Transport; furnishings, household equipment & household maintenance; and education all increased from 0.53, 0.35 and 0.20 to 0.54, 0.42 and 0.29 per cent, respectively (fig 2.4). Therefore the increase in core inflation witnessed during the period can only be attributed to the other major components of core inflation.

Table 2.5
Contribution of Selected Components of CPI to Core Inflation (Year-on-Year) (Jul – Dec 2013

Date	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Core	6.60	7.20	7.40	7.60	7.75	7.87
Housing, Water, Electricity, Gas & Other fuel	1.89	1.68	1.50	1.40	1.43	1.40
Transport	0.53	0.50	0.56	0.55	0.59	0.54
Furnishings, Household Equip. & HH Maint.	0.35	0.33	0.38	0.40	0.42	0.42
Education	0.20	0.20	0.28	0.27	0.29	0.29

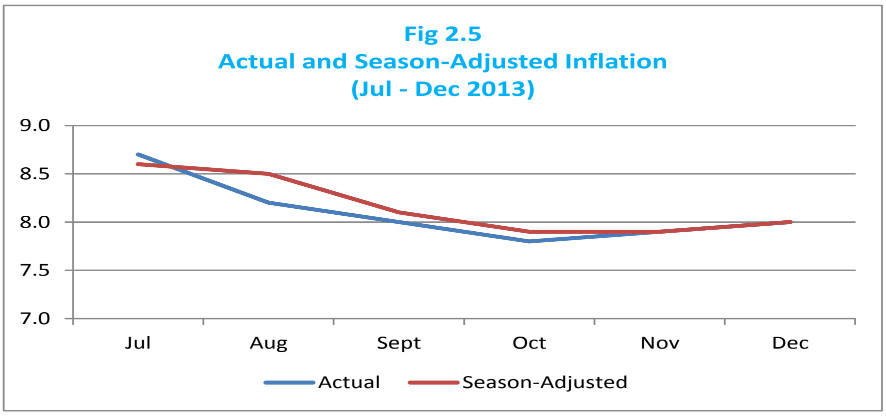
Source: NBS



Source: NBS

2.3 Actual and Season-Adjusted Headline Inflation

In the second half of 2013, the MPC maintained the tight monetary policy regime which began in 2011. With the exception of July, season-adjusted inflation was higher than the actual inflation rate (Fig 2.6). Both actual and season-adjusted inflation had downward trends between July and October 2013, reflecting the effectiveness of monetary policy at the time. However, the actual inflation began an upward trend in October, overtaking the season-adjusted inflation in December 2013. The actual inflation was favourable between July and October because of better-than-expected domestic food harvest, stable exchange rate, declines in global food prices and reduction in processing costs. In the period October – December 2013, the sequence of religious festivals coupled with pressure on the exchange rate arising from increased demand, resulted in an upward trend in actual inflation.



2.4 Key Factors of Domestic Price

During the last quarter of 2013, the year-on-year headline and food inflation was moderate, complemented by an upward trend in core inflation compared with the previous period. These developments can be attributed to both domestic and global conditions. Furthermore, there were unfavourable dynamics in both demand and cost factors in the domestic sector.

2.4.1 Demand Factors

The tight monetary policy helped to moderate inflationary pressures. In addition to retaining the MPR at 12 per cent, the Bank undertook aggressive liquidity mop up operations and raised CRR on public sector deposits by 38 percentage points to 50 per cent in order to mitigate inherent inflationary pressures arising from cheap public sector deposits in the deposit money banks (DMB's).

On the fiscal side, although overall government spending in 2013 was marginally higher than 2012, capital budget releases were restrained during the period, culminating in system liquidity and inflationary pressures.

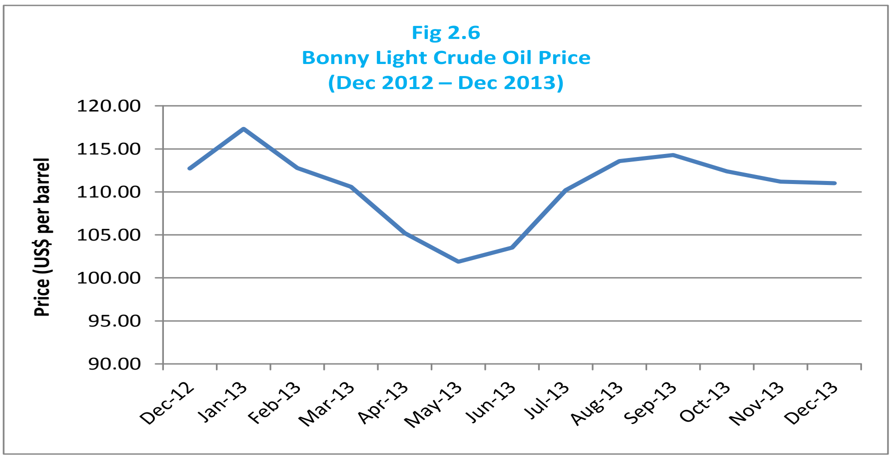
2.4.2. Cost Factors

Government and banking sector reforms were designed to stimulate real sector activities such as in agriculture, oil and gas, aviation and medium and small scale manufacturing enterprises (MSMEs); helped to lower industrial costs. The rehabilitation and construction of new roads as well as improvement in the nationwide supply of fuel tempered energy costs. The power sector reforms, as well as increased water supply at the hydro-power stations boosted power supply in the second half of 2013, leading to lower production costs. Developments in the naira exchange rate stabilized the cost of imported intermediate and final goods, resulting in a moderating effect on the general price level.

2.4.3. Other Factors

Low global inflation and the relatively stable exchange rate of the naira checked-mated the potential impact of imported inflation on domestic prices. In a number of our major trading partner countries such as the USA, the UK, Japan and China inflation remained generally low. Also, favourable international oil prices (Figure 2.7) helped the buildup in foreign exchange reserves, which provided the necessary import cover to sustain exchange rate stability and sustained moderation in domestic prices.

The government's commitment to reducing fiscal deficit was sustained. It was a net financier of the banking system during much of the review period, culminating in slower rate of expansion in money supply. This orientation in fiscal policy complemented the sustained tight monetary policy to rein-in inflation expectations.



Source: Bloomberg

Box 1
The Effects of Climate Change on the Nigerian Economy

Climate change refers to changes in the local, regional, and global climatic patterns and weather conditions including temperatures, precipitation, extreme heat and wind, caused by the greenhouse effect (International Energy Agency,). Excessive buildup of greenhouse gases, over time, induces change to the earth's climate and damages natural ecosystems with dangerous effects on human health and welfare. The majority of atmospheric greenhouse gases are emitted from the burning of fossil fuels to produce energy, although smaller amounts also come from deforestation, industrial processes, and agricultural practices. The primary effect of climate change is observed in global warming.

The United States Environmental Protection Agency (USEPA) warned that the earth's average temperature is rising. The small changes in the average temperature of the planet result in large and potentially harmful shifts in climate and weather patterns over time. Shifting weather patterns and climatic conditions threaten food production through increased unpredictability of precipitation, rising sea levels that contaminate coastal freshwater reserves and increase the risk of devastating flooding, and warming of the atmosphere

Most parts of Nigeria have been subjected to occurrences of unusual climatic events including floods and droughts, which have resulted in crop failures, loss of livestock, wide spread shortage of food products and displacement of population. The floods in the second half of 2012 considerably reduced food output in the country. Other effects include:

1. **Impact on Population:** Loss of arable lands, forests, water and fishery resources have resulted in Increased human migration and social conflict. Changing rainfall patterns would force livestock farmers into extended periods of nomadism. Other consequences include scarcity of water and firewood due to increased loss of surface water and forests.

2. **Impact on Agriculture:** Agriculture in Nigeria is largely seasonal and rain-fed and therefore vulnerable to climatic changes. Thus climate change poses a risk to about 40 per cent of the gross domestic product (GDP) and 60 per cent of employment, which are dependent on agriculture. Climate change would also have considerable impact on agricultural systems by changing the crop calendar and the length of growing seasons.

3. **Impact on Economic Infrastructure:** Climate change is often accompanied by greater variability in rainfall, temperature, atmospheric conditions, resulting in floods, wind and dust covers that damage economic infrastructure such as bridges, dams, air transportation facilities, roads, houses among other. These require increased budgetary outlays for rehabilitation and reconstruction.

Implications for Policy

Climate change has serious implications for output, employment and price developments. It is, therefore, important for policy makers to be aware of these implications in order to formulate appropriate policies and interventions including insurance, strategic grain reserves and clean development mechanisms to ameliorate the impact of climatic changes on economic activities and price stability.

CHAPTER 3
MONETARY POLICY

At the beginning of the second half of 2013, volatility was observed in the foreign exchange market and there were concerns about the consequence of the unwinding of the US Federal Reserve bond-buying programme. Another cause of concern was the build-up in excess liquidity in the banking system and the associated costs of liquidity management. The banking system environment showed signs of growing dollarization. Globally, the U.S., U.K., the Euro Area and Japan experienced modest recovery, which signalled the possibility of capital flow reversal. Broadly, these developments provided the background for and dominance of monetary policy decisions in the second half of 2013.

3.1 Highlight of Monetary Policy Measures

The Bank retained the tight monetary policy during the second half of 2013 with the MPR at 12.0 per cent. The continuous use of the policy regime was to sustain the stability of the exchange rate and moderate potential inflationary risks arising from excess liquidity in the system. The liquidity surfeit, occasioned by the hike in oil-price budget benchmark to US$79 per barrel in the 2013 budget up from US$75 per barrel in 2012, resulted in higher fiscal spending. The other major factors that engendered liquidity surfeit were the availability of public sector deposits in DMBs in the face of the lingering implementation of the Treasury Single Account (TSA) policy as well as inflow of short-term capital.

The MPC at the July 2013 meeting introduced a separate CRR of 50.0 per cent on public sector deposits, and retained that of the private sector at 12.0 per cent, to further constrain liquidity in DMBs. The dual CRR regime was maintained throughout the period along with the NOP at 1.0 per cent and the mid-point of the exchange rate at N155.00/US$1.00 with a band of +/- 3.0 per cent. The policies were designed to sustain the stability and value of the domestic currency, attract foreign investments and build up external reserves.

3.2 Decisions of the Monetary Policy Committee

MPC decisions in the second half of 2013 were based on major developments in the domestic and global economies. The key global challenges during the period included, but not limited to, the continued sluggish recovery in the global economy, threats to international commodity prices, and the exacerbation of the European debt crisis. Whereas the key domestic challenges were financial market fragility and fiscal weakness, a lack-lustre output growth, high unemployment, capital outflow volatility and anticipation of speculative attacks on the naira.

3.2.1 July 2013 MPC Meeting

In general, the Committee was satisfied with the prevailing macroeconomic stability, characterised by single digit inflation, stable banking system, exchange rate stability, favourable output growth, capital market recovery and growth in external reserves, which helped to sustain internal balance and external sector viability. Members observed the volatility in the foreign exchange market, and reaffirmed the commitment of the Bank to preserve stability of the currency (given the capital flow reversals) in order to stem further depreciation. Consequently, the Bank succeeded in sustaining the dual objectives of financial and price stability.

The Committee further noted the build-up in excess liquidity in the banking system, and was concerned about the rising costs of liquidity management. The liquidity surfeit was due largely to the availability of public sector deposits with DMBs because of the delays in the implementation of the TSA policy. The inflationary outlook for the rest of the year was considered benign. However, risks remained primarily due to the expansionary fiscal policy and rising deficits, excess liquidity in the banking system and risks to the exchange rate due to depletion of fiscal buffers in the Excess Crude Account (ECA). Despite the potential risks, the Committee voted to hold the MPR at 12 per cent, maintain the symmetric corridor around the MPR at +/-2 per cent and to retain the CRR at 12 per cent for private sector deposits. The Committee, however, introduced a 50 per cent CRR on public sector deposits applicable to Federal, State and Local Government deposits to rein-in on widespread systemic liquidity.

3.2.2 September 2013 MPC Meeting

The Committee was impressed with the continued positive developments in the economy, especially moderation in inflation and stability in the domestic financial markets. It was also noted that output growth continued to be robust with strong growth forecast by the National Bureau of Statistics for Q3 and Q4. The Committee, however, observed that certain economic fundamentals, which necessitated the July MPC policies had not changed substantially. In particular, the strong demand pressures in the foreign exchange market and the risk of capital flow reversal still remained potential threats.

The Committee was therefore faced with three policy options. The first was the option to increase the MPR in response to pressures in the foreign exchange market. However, it was rejected because there were no major inflationary concerns at the time. The second was to reduce the rates in the light of moderating inflation and slow GDP growth to avoid sending wrong signals of a premature termination of the tightening cycle. The third was to maintain the existing policy regime and to give it enough time to impact the system. After due consideration of all options and issues, the Committee retained the MPR at 12.0 per cent with the symmetric corridor of 200 basis points. The 50.0 per cent CRR on public sector deposits and 12.0 per cent on private sector deposits were also retained. Liquidity ratio was retained at 30.0 per cent with the NOP at 1.0 per cent.

3.2.3 November 2013 MPC Meeting

The MPC meeting of November 2013 considered many issues that have significant implications for monetary policy. In the global economy, the expected commencement of QE3-tapering (Box 2) in the US in 2014 and the continued economic recovery in the US and the Euro area were expected to bring about a rise in interest rates, with downside risks to exchange rate and stock prices in the domestic economy. Furthermore, there was the envisaged 2014 fiscal expansion, arising from pre-election expenditure. The MPC believed that it was premature to change the existing policy regime in view of the identified underlying risks. The Committee further noted the significance of portfolio funds relative to the total external reserves, and the implications of the extreme fragility of the domestic financial market and vulnerability to external shocks.

With hindsight of the potential headwinds in 2014 and the Banks's inflation target of 6.0-9.0 per cent, alongside the need to retain portfolio investments, the Committee decided to retain the MPR at 12.0 per cent with a corridor of +/- 200 basis points. In support of the tight monetary stance, the Committee also retained the CRR on private sector deposits at 12.0 per cent and that of the public sector at 50.0 per cent. Liquidity Ratio and NOP were also retained at 30.0 per cent and 1.0 per cent, respectively.

Table 3.1
MPC Decisions
(July – November, 2013)

Items	July	September	November
MPR	Retain the MPR at 12%	Retain the MPR at 12%	Retain the MPR at 12%
MPR Corridor	Maintain +/- 200 basis points	Maintain +/- 200 basis points	Maintain +/- 200 basis points
SDF Rate	Maintain at 10%	Maintain at 10%	Maintain at 10%
SLF Rate	Maintain at 14%	Maintain at 14%	Maintain at 14%
CRR	Introduced 50% CRR for Public Sector Deposits Retained 12% CRR for Private Sector Deposits	Retained 50% CRR for Public Sector Deposits Retained 12% CRR for Private Sector Deposits	Retained 50% CRR for Public Sector Deposits Retained 12% CRR for Private Sector Deposits
LR	Retain at 30%	Retain at 30%	Retain at 30%
NOP	Retained at 1%	Retain at 1%	Retain at 1%
FX Rate Mid–Point	Retain at N155/US$1	Retain at N155/US$1	Retain at N155/US$1
FX Band	Maintain +/-3 per cent band	Maintain +/-3 per cent band	Maintain +/-3 per cent band

3.3 Monetary Policy Instruments

The MPC deployed a number of instruments to achieve the objectives of monetary and price stability. The prime instrument, the MPR, was complemented by CRR, Open Market Operations (OMO) and Discount Window Operations. The choice of instruments was guided by the need to maintain overall macroeconomic stability.

3.3.1 Monetary Policy Rate (MPR)

The Bank's benchmark policy rate, the MPR, continued to be the major instrument for monetary policy, and was complemented by the interest rate corridor (standing lending/deposit facility rates) and CRR. The Committee kept the MPR unchanged at 12.0 per cent with a symmetric corridor of +/- 200 basis points during the three regular meetings held in the second half of 2013.

3.3.2 Open Market Operations (OMO)

Open Market Operations (OMO) remained the major medium for liquidity management. CBN Bills were the main securities for OMO transactions during the period, with total amount of N4,670.0 billion offered, while subscription was N5,377.0 billion. Actual sales, however, amounted to N3,348.39 billion in the second half of 2013, compared with N7,099.54 billion in the first half of 2013, and N2, 795.58 billion in the corresponding period of 2012. This represented a decrease of 52.83 per cent in the second half and an increase of 153.95 per cent in the first half, respectively. The decrease in OMO sales was probably due to the increase in CRR on public sector deposits and exclusion of speculative bids.

3.3.3 Reserve Requirements

The Bank did not only retain reserve requirements (Cash Reserve and liquidity ratios), but also introduced an asymmetric Cash Reserve Ratio (CRR) for public and private sector deposits to complement OMO and other instruments to ensure sound liquidity management. The asymmetric CRR was introduced to contain the liquidity threat posed by increasing government deposits in the DMBs and its impact on financial asset prices. Thus, the Cash Reserve Ratio for private sector deposits was retained at 12.0 per cent, while that of government was increased to 50.0 per cent. The liquidity ratio was unchanged at 30.0 per cent in the second half of 2013.

Table 3.2
OMO Bills Auction
(January 2009 – December 2013)
(N'million)

Date	2009	2010	2011	2012	2013	% Change over the Previous Period
Jan	115.47	149.83	205.59	246.64	1,756.66	
Feb	80.11	100.22	216.92	297.70	1,351.59	
Mar	80.00	65.00	284.06	491.59	1,265.25	
Apr	101.36	160.49	215.07	304.18	1,516.69	
May	120.22	100.22	204.60	363.13	1,27.40	
Jun	120.00	158.70	340.24	14.12	81.95	
1st Half	**617.16**	**734.46**	**1,466.48**	**1,717.35**	**7,099.54**	**153.95**
Jul	125.36	250.91	209.74	0.05	508.14	
Aug	105.22	141.16	218.92	4.50	91.72	
Sep	91.76	206.57	280.57	318.42	150.51	
Oct	170.26	167.01	309.95	882.80	1,206.86	
Nov	120.22	205.93	242.93	939.54	791.09	
Dec	162.56	297.91	319.91	650.27	599.47	
2nd Half	**775.38**	**1,269.49**	**1,582.02**	**2,795.58**	**3,348.39**	**-52.83**
Cumulative Figure	**1,392.54**	**2,003.95**	**3,048.50**	**4,518.18**	**10,447.93**	

3.4 Standing Facilities

The DMBs and Discount Houses (DH) actively accessed the standing facilities (lending/ deposit) in the second half of 2013. There was a marginal increase in the cumulative volume of transactions at the CBN standing lending facility (SLF) window during the period. Requests for SLF amounted to N6, 923.86 billion compared with N5, 248.70 billion in the first half of 2013, and N7, 733.53 billion in the corresponding period of 2012. In the second half of 2013, the volume of SLF represented an increase of 30.7 per cent relative to the first half of the year but a decrease of 10.5 per cent compared with the second half of 2012 (Table 3.3). The relative increase in the volume of SLF transactions was traced to the 38 percentage points hike (12.0 to 50.0 per cent) in the CRR on public sector deposits with the DMBs.

Table 3.3
CBN Standing Lending Facility
(January 2009- December 2013)
(N'billion)

Date	2009	2010	2011	2012	2013	% change over the preceding/corresponding period
Jan	846.18	135.5	565.51	939.16	669.75	-28.69
Feb	3,457.57	-	1,369.60	1,060.90	1,115.64	5.16
Mar	4,592.69	-	3,425.47	2,053.62	993.47	-51.62
Apr	3,875.48	-	3,328.35	1,875.31	778.7	-58.48
May	2,581.43	270.97	3,722.41	1,472.21	796.89	-45.87
Jun	3,691.75	21.7	5,217.30	3,320.24	894.25	-73.07
1st Half	**19,045.10**	**428.17**	**17,628.64**	**10,721.44**	**5,248.70**	**-51.04**
Jul	4,675.02	55.76	3,334.91	3,322.49	793.07	-76.13
Aug	3,733.78	0	2,714.70	2,235.59	2,465.79	10.30
Sep	2,287.90	73.1	7,698.83	979.61	2,407.54	145.77
Oct	1,231.61	983.44	6,675.79	319.72	263.36	-17.63
Nov	537.58	1374.8	2592.94	355.79	314.22	-11.68
Dec	1,022.60	853.5	2,057.10	520.33	679.88	30.663233
2nd Half	**13,488.49**	**3,340.60**	**25,074.27**	**7,733.53**	**6,923.86**	**-10.469604**
Total	**32,533.60**	**3,768.77**	**42,702.91**	**18,454.97**	**12,172.56**	21.582726

There was also a significant increase in the cumulative volume of transactions at the CBN Standing Deposit Facility (SDF) window. The cumulative volume of SDF stood at N26,862.21 billion in the second half of 2013, compared with N17,484.79 billion in the first half of 2013, and N9,885.25 billion in the corresponding period of 2012. The volume of SDF at end-December 2013 represented 171.74 per cent increase over that of the corresponding period in 2012 (Table 3.4). The observed increase in the use of the SDF window was a reflection of the insignificant trading activities in the interbank market in the review period, compared with the corresponding period of 2012.

Table 3.4
CBN Standing Deposit Facility
(January 2009- December 2013)
(N'billion)

Date	2009	2010	2011	2012	2013	% Change over the preceding/corresponding period
Jan	-	5,622.63	1,864.84	868.1	2,132.70	24.93
Feb	-	6,101.90	721.62	788.26	3,047.91	42.91
Mar	-	9,413.45	325.75	352.85	6,101.42	100.18
Apr	-	6,853.06	49.65	201	2,817.00	(53.83)
May	-	1,735.45	73	1,242.50	1,718.53	(38.99)
Jun	-	5,563.64	97.18	275.25	1,667.22	(2.99)
1st Half	-	**35,290.13**	**3,132.04**	**3,727.96**	**17,484.78**	**369.02**
Jul	162	4,055.52	-	294.95	6,341.59	76.07
Aug	1,453.38	6,849.71	-	980.55	5,282.96	-20.04
Sep	1,058.75	4,224.80	-	2,130.35	2,905.72	-81.81
Oct	3,106.30	1,117.30	422.5	2,408.70	8,328.91	65.08
Nov	1,050.59	443.78	436.47	2,363.53	5,321.54	-56.37
Dec	1,797.92	1,191.78	576.85	1,707.17	4,003.03	-32.94
2nd Half	**8,628.94**	**17,882.89**	**1,435.82**	**9,885.25**	**26,862.21**	**171.74**
Total	**8,628.94**	**53,173.02**	**4,567.86**	**13,613.21**	**44,346.99**	

3.5 Foreign Exchange Intervention

To sustain the stability of the naira achieved in the first half of 2013, the Bank continued its intervention in the foreign exchange market during the review period. The total supply of foreign exchange by the Bank was US$17,728.04 million compared with US$13,869.92 million during the first half of 2013 but lower than the US$23,458.70 million in the corresponding period of 2012 (Table 3.5). The increase in total foreign exchange supply compared with that of the preceding half-year was primarily due to the demand pressure. The Bank re-introduced the Retail Dutch Auction System (rDAS) as part of measures to address speculative demand.

Table 3.5
Foreign Exchange Supply by the CBN
(US$ million)

YEAR	2011			2012			2013		
	Sales to wDAS	Sales to BDC	Total Supply (wDAS + BDC)	Total wDAS sales	Sales to BDC	Total Supply (Total wDAS + BDC)	Sales to wDAS	Sales to BDC	Total Supply (wDAS + BDAC)
Jan	1,461.75	429.17	1,890.92	2,000.00	135.54	2,135.54	1,640.65	365.73	2,006.38
Feb	1,838.85	279	2,117.85	1,794.85	300.04	2,094.89	1,942.18	720.59	2,662.77
Mar	1,582.02	482.19	2,064.21	3,274.38	330.53	3,604.91	1,452.75	698.16	2,150.91
Apr	1,841.07	306.05	2,147.12	2,385.58	322.26	2,707.84	891.52	492.76	1,384.28
May	2,707.47	277.34	2,984.81	2,825.19	392.03	3,217.22	1,487.00	625.52	2,112.52
Jun	2,283.95	657.49	2,941.44	2,894.96	347.32	3,242.28	3,000.00	544.81	3,544.81
1st Half	**11,715.11**	**2,431.24**	**14,146.35**	**15,174.96**	**1,827.72**	**17,002.68**	**10,414.10**	**3,447.57**	**13,861.67**
Jul	1,835.20	741.16	2,576.36	2,895.51	398.15	3,293.66	3298.09	575.30	3873.39
Aug	1,948.52	450.84	2,399.36	3,172.69	504.28	3,676.97	2,166.99	466.52	2633.51
Sep	3,593.54	613.77	4,207.31	4,161.90	995.65	5,157.55	2,625.22	480.45	3105.67
Oct	2,342.08	478.71	2,820.79	3,406.03	716.76	4,122.79	2,387.28	598.35	2985.63
Nov	1,561.68	280.21	1,841.89	3,260.91	795.37	4,056.28	2,404.32	522.70	2927.02
Dec	**1,839.13**	**341.11**	**2,180.24**	**2,475.80**	**675.65**	**3,151.45**	**1,998.02**	**404.80**	2402.82
2nd Half	**13,120.15**	**2,905.80**	**16,025.95**	**19,372.84**	**4,085.86**	**23,458.70**	**14,679.92**	**3,048.12**	17,728.04
Total	**24,835.26**	**5,337.04**	**30,172.30**	**34,547.80**	**5,913.58**	**40,461.38**	**25,591.05**	**6,495.69**	32,086.74

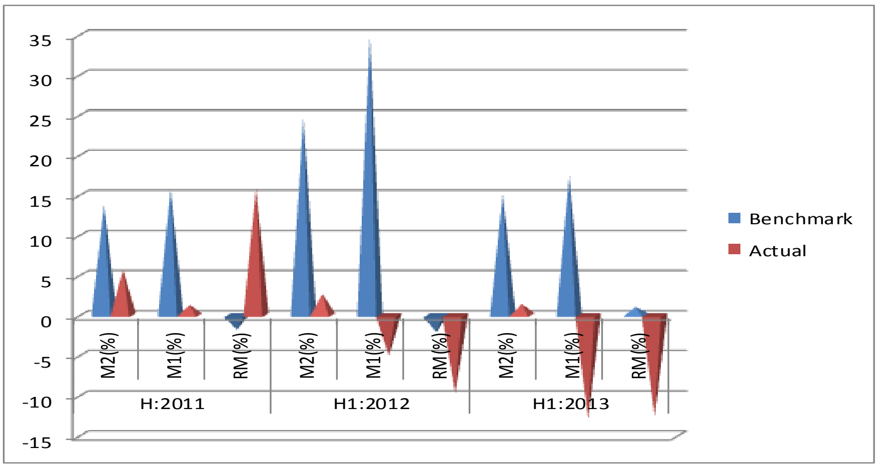
3.6 Performance of the Monetary Aggregates

The sluggish growth in the monetary aggregates continued in the second half of 2013 owing partly to the tight monetary policy by the Bank. Broad money stock (M2) changed from N15,483.85 billion to N15,668.95 billion, a marginal increase of 1.2 per cent between end-December 2012 and end-December 2013, compared with 16.39 per cent increase in the corresponding period of 2012 and with end-December 2013 benchmark of 15.20 per cent. Narrow money (M1) declined by 5.50 per cent to N7,012.83 billion at end-December 2013 from N7,420.95 billion at end-December 2012, compared with the growth of 9.59 per cent in the corresponding period of 2012 and the benchmark of 17.44 per cent for end-December 2013. Reserve Money (RM) increased by 77.92 per cent to N 5,361.37 billion at end-December 2013 from N3,013.32 billion at end-December 2012. The end-December 2013 RM volume was 7.02 per cent (N351.49 billion) higher than the benchmark of N5,009.88 billion for the fourth quarter 2013.

Table 3.6
Performance of the Monetary Aggregates
(H2: 2012 and 2013)

Monetary Aggregate	2012 (Percentage Growth)			2013 (Percentage Growth)				Change	
	Benchmark	Actual end-December. (H2: 2012)	Deviation (Actual – Benchmark)	Actual end-June. (H1: 2013))	Benchmark	Actual end-December. (H2: 2013))	Deviation (Actual – Benchmark)	**Over end-December 2012**	**Over end-June 2013**
M2 (N'b)	16,577.53	15,483.85	-1,093.68		17,232.01	15,668.95	-1,563.06	185.10	15,668.95
M2 (%)	24.64	16.20	-8.44		15.20	1.20	-14.00	-15.00	-14.45
M1(N'b)	9,117.64	7,420.95	-1,696.69		8,097.56	7,012.83	-1,084.73	-408.12	7,012.83
M1 (%)	34.71	9.58	-25.13		17.44	-5.05	-22.49	-14.63	-10.20
RM (N'b)	3,013.32	3,704.48	691.16		5,009.88	5,361.37	351.49	1,656.89	5,361.37
RM (%)	8.23	33.05	24.82		35.24	77.92	42.68	44.87	70.53
NDC (N'b)	18,873.49	12,698.20	-6,175.29		17,032.01	15,040.70	-1,991.31	2,342.50	15,040.70
NDC (%)	52.17	-7.22	-59.39		23.58	18.45	-5.13	25.67	14.90
Cg (N'b)	-204.66	-2,453.56	-2,248.90		754.81	-1,468.78	-2,223.59	984.78	-1,468.78
Cg (%)	61.47	393.81	332.34		44.22	40.14	-4.08	-353.67	43.77
Cp (N'b)	19,078.15	15,151.76	-3,926.39		17,786.82	16,509.47	-1,277.35	1,357.71	16,509.47
Cp (%)	47.50	6.82	-40.68		17.52	8.96	-8.56	2.14	5.39
NFA (N'b)	7,654.56	9,043.68	1,389.12		10,561.41	8,513.27	-2,048.14	-530.41	8,513.27
NFA (%)	6.60	26.68	20.08		16.78	-5.86	-22.64	-32.54	-7.20

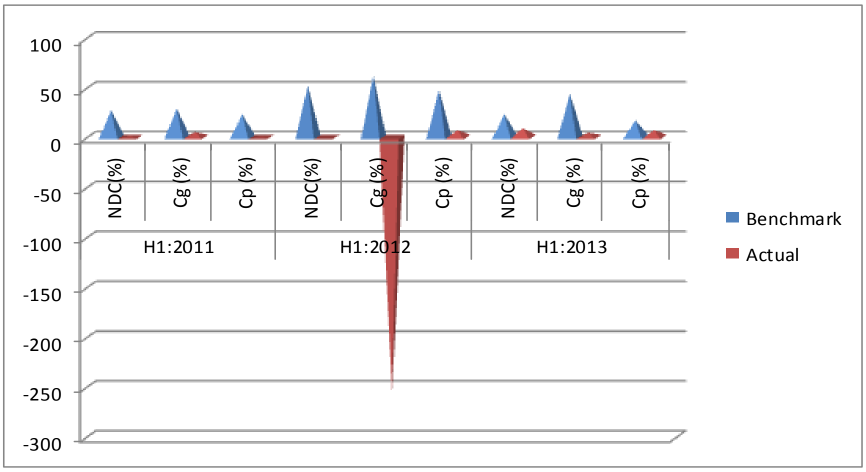
Fig 3.1
The Performance of M1, M2 and RM
(H1: 2011 - 2013)



Net domestic credit (NDC) increased by 18.45 per cent to N15,040.69 billion at end-December 2013 from N12,698.21 billion at end-December 2012, compared with the benchmark of 22.98 per cent for 2013. The improved performance was partly due to less reliance of the FGN on issuance of bonds for public financing, thereby freeing up resources for the private sector.

Net Credit to Government (C_g) declined by 40.14 per cent to stand at N1,468.78 billion at end-December 2013 from N2,453.56 billion in December 2012, compared with the indicative benchmark of 18.27 per cent for end-December 2013. Thus, the FGN continued to be a net creditor to the banking system during the review period.

Fig 3.2
The Performance of NDC, Cg and Cp
(H1: 2011 – 2013)



Credit to the private sector (C_p) rose by 8.96 per cent to N16,509.47 billion at end-December 2013 from N15,151.76 billion at end-December 2012, compared with the benchmark of 19.39 per cent for end-December, 2013. Net foreign assets (NFA) declined by 5.86 per cent to N8, 513.27 billion at end-December 2013 from N9, 043.68 billion at end-December 2012, compared with the benchmarks of 16.78 per cent for end-December 2013.

Box 2

Effects of US QE3 Tapering on Emerging Markets

Quantitative easing (QE) is an unconventional monetary policy tool used by central banks to stimulate the economy when standard monetary policy instruments have become ineffective. Many central banks around the world embarked on QE in the wake of the global financial and economic slowdown. The U.S is currently implementing its third round of QE codenamed QE3, which commenced in the third quarter of 2012 with monthly bonds purchase of US$85 billion as the main component.

The indication by the US Fed to commence tapering its bond buying programme under QE3 in January 2014, has expectedly begun to have some adverse effects in emerging markets and developing economies that benefited from cheap foreign resources in stimulating growth. The planned scale-back of QE3 has set in motion a process of reversal of some or all of the earlier gains in the economies of those countries. The proposal, coupled with economic recovery in the advanced economies, has the potential to raise interest rates and yields in the US. Given this scenario, foreign investors have started to move funds back to source countries. As a result, asset prices, especially, exchange rate, stock and bond prices have come under pressure due to reduced inflows or flow reversals in a number of countries including Mexico, Argentina, Turkey, South Africa, India and Ghana. For instance, the Istanbul $BIST_{100}$ Index declined by about 2.2 % and the South African ASI by 0.5% in the review period. In terms of currencies, the Rand, Ruble, Peso and Lira have all weakened against the Euro and the US dollars in the review period**.** This sequence of events could hurt growth, employment and domestic price level. Financial markets in Emerging Market Economies (EMEs) could face challenges as banks lose their ability to raise new debt and external credit lines dry up. In addition, corporate foreign debt could become more expensive to service if local currencies depreciate substantially. Furthermore, prolonged monetary tightening by central banks to defend their currencies in the face of sustained recovery in the advanced economies could be counter-productive in the long run.

Quantitative easing in advanced economies contributed to the recovery of the Nigerian stock market and added to reserve accretion. However, tapering and continued recovery in advanced economies would leave monetary policy with limited options. Like most emerging markets, economic managers in Nigeria have to admit that the days of easy money from expansionary monetary policy in advanced countries are ending slowly especially as most are not likely to move policy rates to pre-crisis level in the short- to medium-term. Given these risks, Nigeria appears to enjoy some levers: flexible exchange rate regime; a current account surplus; naira dominated public debt and a sizeable level of external reserves. There are, however, vulnerabilities the Bank would have to respond to by keeping domestic rates moderately high in order to stem the negative impact of rapid capital reversal. In addition, the Bank needs to make effective use of communication and forward policy guidance to sustain investor's confidence. However, there is a limit to the role monetary policy alone can play. Thus, rebuilding fiscal buffers and consolidation, coupled with sound monetary policy has the potential to contribute to sustainable macroeconomic stability as the tapering unfolds in the medium- to long- term.

Nevertheless, there is a possible repatriation of foreign funds before the close of the year, as QE is gradually withdrawn and as Nigeria gradually moves closer to her electioneering year.

Therefore, Nigeria should be prepared for the a potential shock waves engendered by the complete withdrawal of the QE Policy, because it will have severe impact on its economy, as well as on the rest of the global economy.

CHAPTER 4
DOMESTIC FINANCIAL MARKETS

4.1 Money Market

The money market remained active in the second half of 2013 with government securities and CBN OMO bills being actively traded. Market activities were largely influenced by liquidity conditions as well as the implementation of administrative measures such as the introduction of 50.0 per cent CRR on public sector deposits, prohibition of concurrent dealings in wDAS and the Bank's standing lending facility. Interbank interest rates remained largely locked-in within the corridor of +/- 200 basis points around the MPR of 12.0 per cent. However, occasional spikes were observed, particularly during periods of temporary liquidity shortfalls and at the implementation of the 50.0 per cent CRR on public sector deposits.

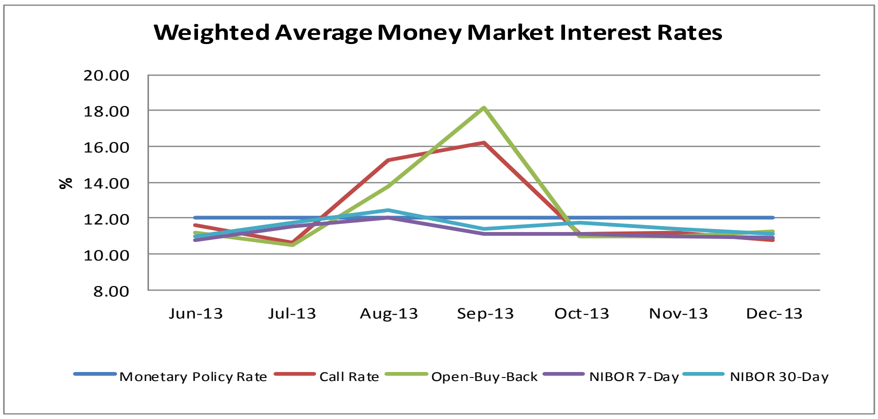
4.1.1 Developments in Short-Term Interest Rates

Stabilizing short-term interest rates around the policy rate remained a challenge for monetary management during the review period. This was because the monthly allocation of federally-collected revenue among the three tiers of government created system-wide liquidity swings in short-term interest rates (Figure 4.1). The average interbank call rate ranged from 10.63 to 16.22 per cent, while the open buy-back (OBB) rate ranged from 10.46 to 18.18 per cent in the second half of 2013.

Table 4.1
Weighted Average Money Market Interest Rates
(June – December 2013)
(Per cent)

Month	Monetary Policy Rate	Overnight Interest Rates		Tenored
		Call Rate	Open Buy-Back	NIBOR 30-Day
Jun-13	12.00	11.59	11.19	11.00
Jul-13	12.00	10.63	10.46	11.75
Aug-13	12.00	15.24	13.77	12.46
Sep-13	12.00	16.22	18.18	11.38
Oct-13	12.00	11.08	10.99	11.75
Nov-13	12.00	11.15	11.00	11.38
Dec-13	12.00	10.75	11.24	11.13

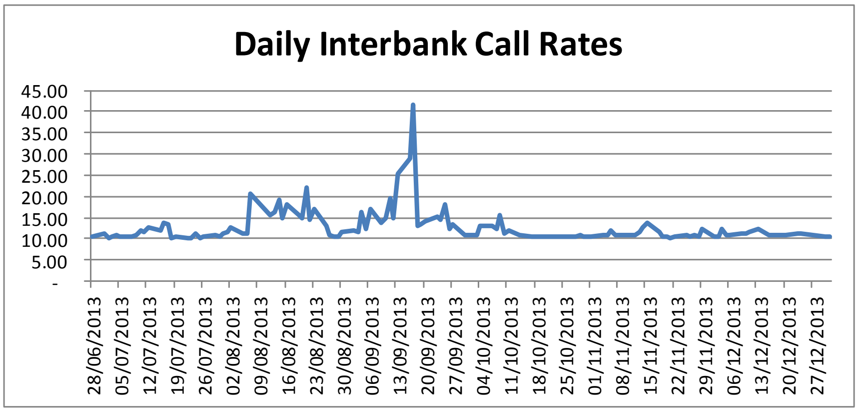
Fig 4.1
Weighted Average Money Market Interest Rates
(June – December 2013)
(Per cent)



(i) Interbank Call Interest Rate

The average (weighted) interbank call rate dropped to 10.75 per cent in December 2013 from 11.59 per cent in June 2013. During the intervening months, the rate rose to 15.24 and 16.22 per cent in August and September 2013 respectively. Over the second half of 2013, interbank rates dropped by approximately 84 basis points in contrast to an increase of 29 basis points between December 2012 and June 2013. On a year-on-year basis, the weighted average interbank (call) rate declined by 113 basis points (Figure 4.2).

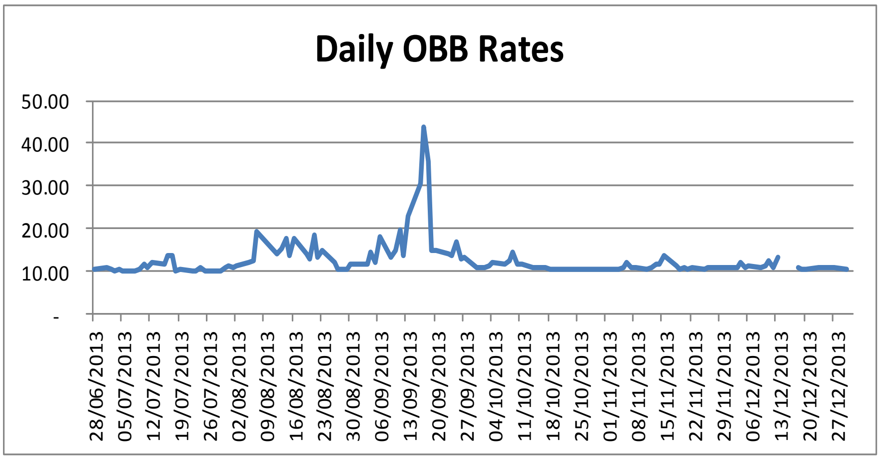
Fig 4.2
Daily Interbank Call Rates
(June 2013 – December 2013)
(Per cent)



(ii) Open Buy-Back Rate

The average (weighted) open buy-back (OBB) rate rose to 11.24 per cent in December 2013 from 11.19 per cent in June 2013 (Figure 4.3). Over the first half of 2013, the OBB rate rose by approximately 5 basis points compared with a decline of 54 points between December 2012 and June 2013. On a year-on-year basis, the average OBB rate declined by 49 basis points.

Fig 4.3
Daily Open Buy-Back (OBB) Rates
(June 2012 – December 2013)
(Per cent)



(iii) Nigeria Interbank Offered Rate (NIBOR)

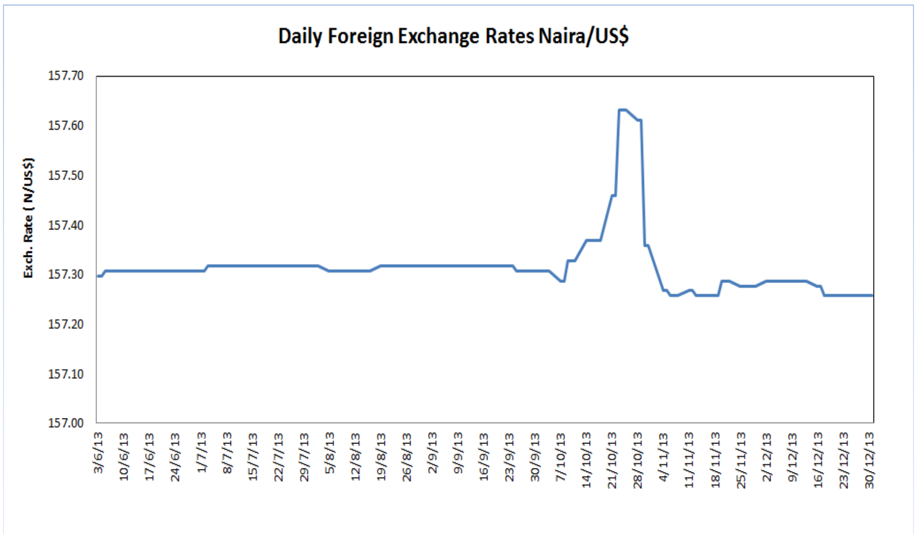
Nigeria Interbank Offered Rate (NIBOR), the traditional reference rate for tenured transactions, remained relatively stable in the review period. The average weighted 30-day NIBOR, which was 12.96 per cent in December 2012 moderated to 11.00 per cent in June 2013, but rose marginally to 11.13 per cent at the end of the second half of 2013 (Table 4.1 and Figure 4.1).

The general decline in short-term rates during the period was due primarily to easing of liquidity conditions partly engendered by OMO bill maturities, redemption of AMCON bonds and government's fiscal operations.

4.2 Foreign Exchange Market

The policy thrust of the Central Bank remained primarily to maintain a stable exchange rate of the naira. This informed the Bank's interventions in the market were to stabilize the exchange rate around the mid-point of N155/US$ +/- 3.0 per cent. The second half of 2013 had stable exchange rates, but there were some spikes between October and December 2013 due to the introduction of the policy of payment of inward remittances in the domestic currency on the one hand and short-term capital outflows, on the other. On the average, the exchange rate was fairly stable at N157.32/US$ in the period under review, similar to that of the preceding period at N157.30/US$ and to the corresponding period of 2012 at N157.35/US$ (Figure 4.4).

Fig 4.4
Daily Exchange Rate
(June 2013 – December 2013)



4.2.1 Average Exchange Rate

The w/rDAS spot rate depreciated mildly to an average of ₦157.32/US$ in the second half of 2013 from ₦157.30/US$ in the first half of 2013 but appreciated when compared with ₦157.35/US$ in the corresponding period of 2012. This represented depreciation and appreciation of 0.01 and 0.02 per cent respectively.

At the interbank foreign exchange market (IFEM), the naira exchange rate averaged ₦160.32/US$ in the second half of 2013 compared with N158.18/US$ in the first half of 2013, a depreciation of 1.35 per cent. Similarly, relative to ₦158.37/US$ in the second half of 2012, the exchange rate at the interbank market depreciated by 1.23 per cent. The rate at the BDC segment averaged ₦165.19/US$ in the second half of 2013 in contrast to ₦159.66/US$ in the preceeding period and ₦160.49/US$ in the second half of 2012. This represented depreciations of 3.46 and 2.93 per cent, respectively.

The mild depreciation in average exchange rates across all segments of the foreign exchange market was attributed to decreased supply of forex and in the face of increased demand pressure (Table 4.2).

Table 4.2
Average Monthly Spot Exchange Rates
July 2012 – December 2013
(N/US$)

	CBN	IFEM	BDC
Jul-12	157.43	161.33	163.32
Aug-12	157.38	158.97	162.24
Sep-12	157.34	157.78	159.8
Oct-12	157.32	157.24	159
Nov-12	157.31	157.58	159.32
Dec-12	157.32	157.33	159.26
2012: H2 Average	**157.35**	**158.37**	**160.49**
2012 Average	**157.50**	**158.84**	**160.86**
Jan-13	157.3	156.95	159.13
Feb-13	157.3	157.5	158.68
Mar-13	157.31	158.37	159.8
Apr-13	157.31	158.2	159.81
May-13	157.3	158.02	159.57
Jun-13	157.31	160.02	160.98
2013: H1 Average	**157.30**	**158.18**	**159.66**
Jul-13	157.32	161.12	162.43
Aug-13	157.31	161.15	162.00
Sep-13	157.32	161.96	163.14
Oct-13	157.42	159.83	165.00
Nov-13	157.27	158.79	167.19
Dec-13	157.27	159.04	171.35
2013: H2 Average	**157.32**	**160.32**	**165.19**
2013 Average	**157.31**	**159.58**	**163.01**

4.2.3 End-Period (Month) Exchange Rate

The naira appreciated in the w/rDAS segment of the foreign exchange market at end-December 2013, but depreciated at the Interbank and significantly so at the BDC segment when compared with end-June 2013. At the w/rDAS, the naira appreciated by 0.03 per cent to ₦157.26/US$ from ₦157.31/US$ at end-June 2013.

Year-on-year, the naira appreciated by 0.04 per cent at end-December 2013 (Table 4.3).

At the interbank segment, the naira exchange rate fell to N159.90/US$ from N160.60/US$ at end-June 2013, an appreciation of 0.40 per cent. However, relative to end-December 2012 rate of N157.25/US$, the naira depreciated marginally by about N2.65 or 1.69 per cent. At the BDC segment, the naira depreciated by 6.17 per cent to ₦172.00/US$ at end-December 2013, from ₦162.00/US$ at end-June 2013. The depreciation can be attributed to the yuletide season during the review period. Relative to the end-December 2012 rate of ₦159.00/US$, the exchange rate of the naira at the BDC segment, however, depreciated by 8.18 per cent (Table 4.3 and Figure 4.5).

The depreciation in rates across all but one segment of the foreign exchange market was explained by the decreased supply of foreign exchange; particularly, the introduction of a cap on purchases by BDCs from authorised dealers, restriction on importation of foreign currency bills without prior approval of the Bank and stringent returns requirement on forex utilization.

Fig 4.5
End-Month Exchange Rate
(Jul 2012 - December 2013)

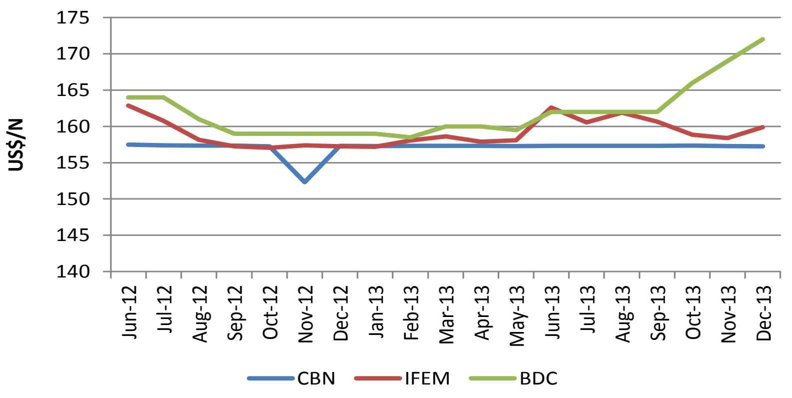


Table 4.3
End-Month Exchange Rates Movements
(July 2012 – December 2013)
(N/US$)

	CBN	IFEM	BDC
Jul-12	157.40	160.75	164.00
Aug-12	157.36	158.17	161.00
Sep-12	157.34	157.24	159.00
Oct-12	157.27	157.06	159.00
Nov-12	152.32	157.40	159.00
Dec-12	157.33	157.25	159.00
Jan-13	157.30	157.20	159.00
Feb-13	157.31	158.05	158.50
Mar-13	157.31	158.63	160.00
Apr-13	157.31	157.90	160.00
May-13	157.30	158.10	159.50
Jun-13	157.31	162.60	162.00
Jul-13	157.32	160.55	162.00
Aug-13	157.32	161.90	162.00
Sep-13	157.31	160.65	162.00
Oct-13	157.36	158.85	166.00
Nov-13	157.28	158.40	169.00
Dec-13	157.26	159.90	172.00

4.2.4 Nominal and Real Effective Exchange Rate

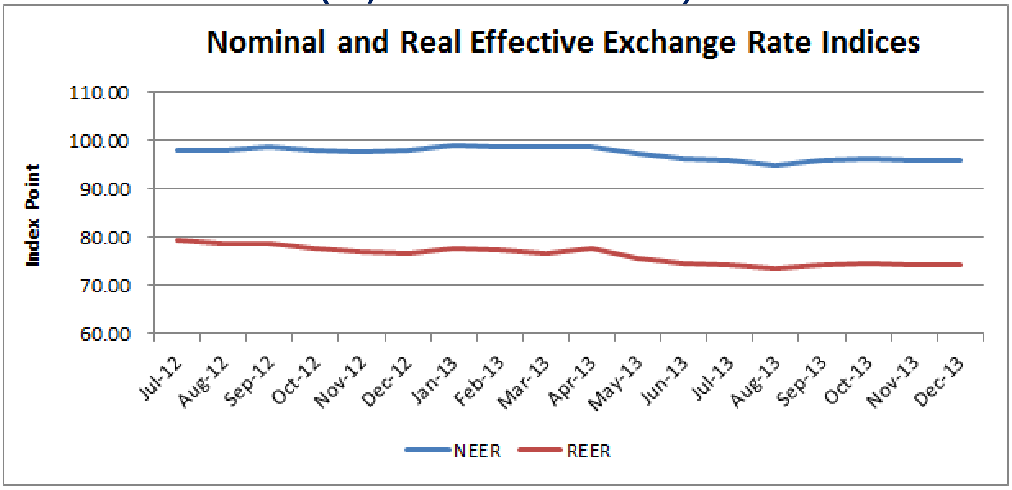
The Nominal Effective Exchange Rate (NEER) appreciated by 0.31 per cent to 96.10 at end-December 2013 from 96.40 at end-June 2013. On comparison with the end-December 2012 rate of 98 per cent, the NEER appreciated by 1.94 per cent. The Real Effective Exchange Rate (REER) appreciated slightly by 0.23 percent at end-December 2013 from 76.50 at end-June 2013 and by 3.09 per cent above end-December 2012 rate (Table 4.4 and Figure 4.6).

On the average, both the NEER and REER decreased at end-December 2013, when compared with their end-December 2012 figures, indicating exchange rate appreciation in both nominal and real terms relative to the currencies of Nigeria's major trading partners.

Table 4.4
Nominal and Real Effective Exchange Rates Indices
(July 2012 – December 2013)

	NEER	REER
Jul-2012	98.00	79.40
Aug-2012	97.90	78.90
Sep-2012	98.60	78.80
Oct-2012	98.20	77.80
Nov-2012	97.80	77.00
Dec-2012	98.00	76.70
2012: H2 Average	**98.08**	**78.10**
2012: Average	**98.90**	**80.20**
Jan-2013	99.00	77.90
Feb-2013	98.80	77.50
Mar-2013	98.60	76.60
Apr-2013	98.80	77.70
May-2013	97.20	75.50
Jun-2013	96.40	74.50
2013: H1 Average	**98.13**	**76.62**
Jul-2013	96.10	74.30
Aug-2013	94.80	73.50
Sep-2013	96.10	74.40
Oct-2013	96.50	74.60
Nov-2013	96.00	74.30
Dec-2013	96.34	72.34
2013: H2 Average	**95.93**	**74.24**
2013: Average	**97.03**	**75.43**

Fig 4.6
Nominal and Real Effective Exchange Rate Indices
(July 2012 – December 2013)



4.2.5 Demand and Supply of Foreign Exchange

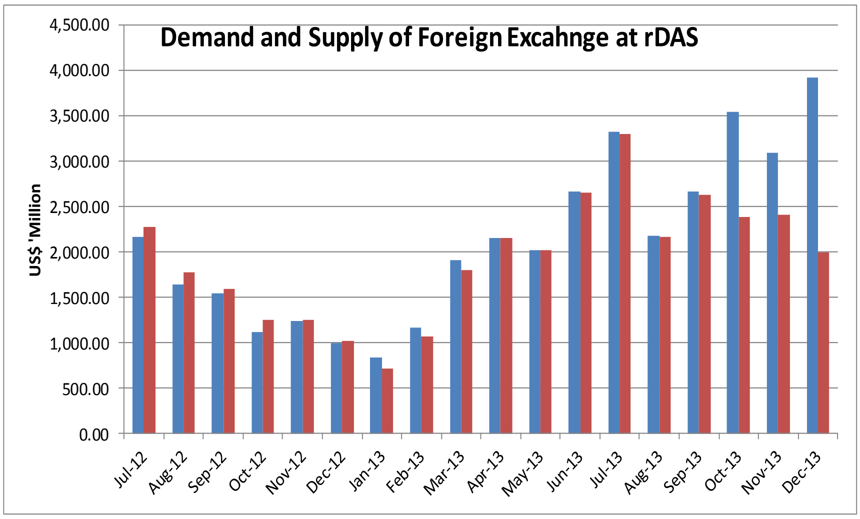
The total demand for foreign exchange at the w/rDAS during the review period increased by 74.23 per cent to US$18,727.85 million from US$10,748.71 million in the first half of 2013. On a year-on-year basis, the demand for foreign exchange increased by 115.12 per cent in 2013 compared with the second half of 2012. The development was attributed to the high demand for foreign exchange associated with the end of the year festivities and increased capital outflows following foreign investors' divestment of their portfolio holdings in flight to safety. The total supply of foreign exchange at the w/rDAS in the second half of 2013 increased by 38.93 per cent to US$14,880.32 million, compared with US$10,711.03 million recorded in the first half of 2013. It also rose by 26.94 per cent when compared with end-December 2012 (Table 4.5 and Figure 4.7).

Furthermore, a number of policy measures were undertaken to complement existing ones in order to moderate the demand pressure for foreign exchange. These included the re-introduction of the rDAS, prohibition of importation of foreign currency bills by authorized dealers without prior CBN approval, cap on purchases by BDCs from authorised dealers and stringent returns requirement on forex utilization. In addition, the degree of intervention was increased, leading to relative stability in the exchange rate of the domestic currency.

Table 4.5
Foreign Exchange Demand and Supply
(July 2012 – December 2012)
(US Dollar Million)

	w/rDAS Demand	w/rDAS Supply
Jul-12	2,166.32	2,280.00
Aug-12	1,646.41	1,780.00
Sep-12	1,549.18	1,590.00
Oct-12	1,112.89	1,250.00
Nov-12	1,236.98	1,250.00
Dec-12	993.81	1,020.00
2012: H2 Total	**8,705.60**	**9,170.00**
2012: Total	**19,668.75**	**19,920.00**
Jan-13	836.39	713.50
Feb-13	1,164.28	1,072.82
Mar-13	1,911.29	1,801.54
Apr-13	2,156.22	2,154.47
May-13	2,019.20	2,018.70
Jun-13	2,661.33	2,650.00
2013: H1 Total	**10,748.71**	**10,711.03**
Jul-13	3,325.56	3,298.09
Aug-13	2,179.38	2,166.99
Sep-13	2,660.13	2,625.22
Oct-13	3,541.93	2,387.28
Nov-13	3,095.32	2,404.72
Dec-13	3,925.53	1,998.02
2013: H2 Total	**18,727.85**	**14,880.32**
2013: Total	**29,476.56**	**25,291.35**

Figure 4.7
Demand and Supply of Foreign Exchange at rDAS
(July 2012 – December 2013)



4.2.6 Foreign Exchange Flows

4.2.6.1 Foreign Exchange Flows through the CBN

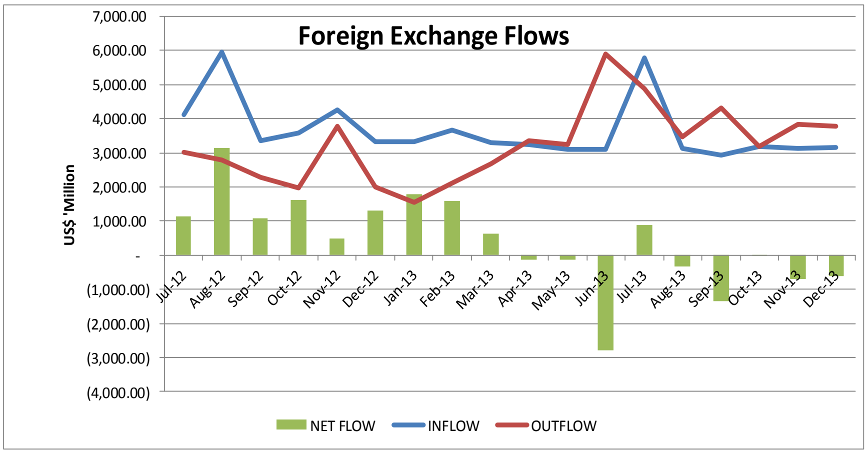
Gross foreign exchange inflow through the CBN increased by 7.98 per cent from US$19,747.38 million in the first half of 2013 to US$21,322.87 million in the second half, an increase of about 8 per cent. Relative to the corresponding period of 2012, gross foreign exchange inflow declined by 13.36 per cent from US$24,611.59 million. Foreign exchange outflow rose by a whopping 24.64 per cent from US$18,813.70 million in the first half of 2013 to US$23,456.94 million in the second half of 2013. It, however, rose by 48.13 per cent in second half of 2013 from US$15,835.23 million in the same period in 2012.

During the period under review, foreign exchange flows through the CBN resulted in a net inflow of US$-2,134.07 million compared with US$933.77 million and US$8,776.36 million in the first half and corresponding period of 2012, respectively (Table 4.6).

Table 4.6
CBN Monthly Foreign Exchange Flows
(July 2012 – December 2013)
(US$ million)

	INFLOW	OUTFLOW	NET FLOW
Jul-2012	4,132.09	3,006.72	1,125.37
Aug-2012	5,953.41	2,796.59	3,156.82
Sep-2012	3,358.57	2,277.44	1,081.13
Oct-2012	3,576.35	1,960.37	1,615.98
Nov-2012	4,272.42	3,794.48	477.94
Dec-2012	3,318.75	1,999.63	1,319.12
2012: H2	**24,611.59**	**15,835.23**	**8,776.36**
2012 Total	**46,782.34**	**35,190.67**	**11,591.67**
Jan-2013	3,320.75	1,538.09	1,782.66
Feb-2013	3,681.07	2,103.40	1,577.67
Mar-2013	3,302.64	2,671.54	631.1
Apr-2013	3,238.83	3,369.37	-130.55
May-2013	3,095.50	3,233.67	-138.17
Jun-2013	3,108.60	5,897.63	-2,789.04
2013: H1	**19,747.39**	**18,813.70**	**933.67**
Jul-2013	5,778.32	4,891.28	887.04
Aug-2013	3,132.99	3,467.97	-334.98
Sep-2013	2,946.03	4,308.07	-1,362.04
Oct-2013	3,175.31	3,177.74	-2.43
Nov-2013	3,125.45	3,837.85	-712.4
Dec-2013	3,164.77	3,774.03	-609.26
2013: H2	**21,322.87**	**23,456.94**	**-2,134.07**
2013 Total	**41,070.26**	**42,270.64**	**-1,200.40**

Figure 4.8
Foreign Exchange Flows through the CBN
(July 2012 – December 2013)



4.2.6.2 Foreign Exchange Flows through the Economy

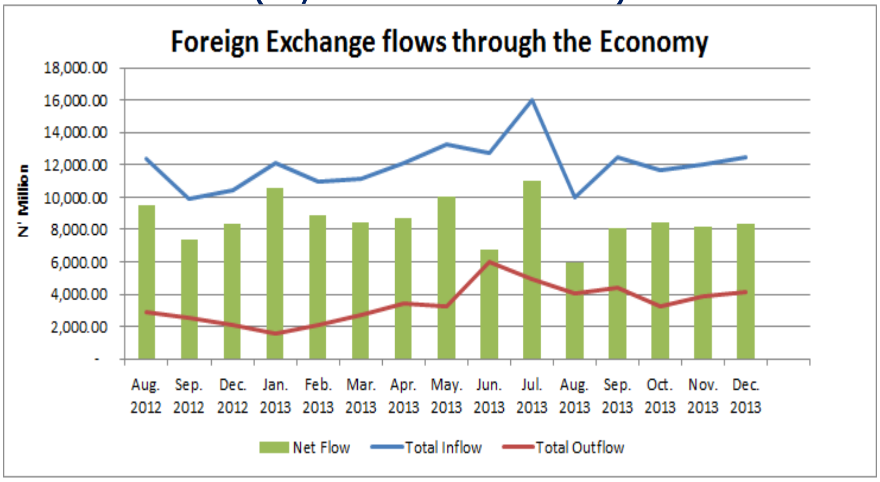
Gross foreign exchange inflow to the economy rose to US$73,822.74 million in the second half of 2013 from US$72,277.13 million in the first half of 2013, and US$63,466.93 million in the second half of 2012, an increase of 2.14 and 16.32 per cent, respectively. Gross foreign exchange outflow rose by 25.16 per cent to US$23,798.15 million from US$19,014.82 million in the first half of 2013. Similarly, it increased by 41.47 per cent from US$16,822.06 million in the corresponding period of 2012, again, indicating upward trends in foreign exchange outflow in the economy.

During the second half of 2013, foreign exchange flows resulted in a net inflow of US$50,024.60 million compared with US$53,378.26 million in the first half of 2013 and US$46,644.90 million in the second half of 2012 (Table 4.7). The reduction in the net inflows was attributed to the relative increase in capital reversal due to the US quantitative easing programme in the review period.

Table 4.7
Monthly Foreign Exchange Flows through the Economy
(July 2012 – December 2013)
(US$ million)

Descriptor	Total Inflow	Inflow (CBN)	Inflow (Autonomous)	Total Outflow	Outflow (CBN)	Outflow (Autonomous)	Net Flow	Net Flow (CBN)	Net Flow (Autonomous)
Jan. 2012	8,518.24	4,307.02	4,211.22	3,027.16	2,945.80	81.36	5,491.08	1,361.22	4,129.86
Feb. 2012	9,859.56	3,546.16	6,313.40	3,998.38	3,902.27	96.11	5,861.18	-356.11	6,217.29
Mar. 2012	9,812.73	4,266.63	5,546.10	3,060.67	2,912.43	148.24	6,752.06	1,354.20	5,397.86
Apr. 2012	9,973.15	3,242.89	6,730.26	1,895.22	1,754.89	140.33	8,077.93	1,488.00	6,589.93
May. 2012	9,550.02	3,627.10	5,922.92	3,392.09	3,256.97	135.12	6,157.93	370.13	5,787.80
Jun. 2012	7,834.38	3,180.94	4,653.44	4,831.11	4,583.13	247.98	3,003.27	-1,402.19	4,405.46
Total H1 2012	55,548.08	22,170.74	33,377.34	20,204.63	19,355.49	849.14	35,343.45	2,815.25	32,528.20
Jul. 2012	8,865.39	4,132.10	4,733.29	3,187.15	3,006.74	180.41	5,678.25	1,125.37	4,552.88
Aug. 2012	12,416.40	5,953.41	6,462.99	2,938.76	2,796.56	142.20	9,477.64	3,156.85	6,320.79
Sep. 2012	9,945.14	3,358.57	6,586.57	2,542.85	2,277.44	265.41	7,402.29	1,081.13	6,321.16
Dec. 2012	10,474.61	3,318.75	7,154.99	2,109.62	1,999.63	47.29	8,364.99	1,319.12	7,107.70
Total H2 2012	63,466.93	24,611.59	38,854.47	16,822.06	15,835.21	924.14	46,644.90	8,776.40	37,930.33
Total 2012	119,015.01	46,783.20	72,231.81	37,026.69	35,253.41	1,773.28	81,988.35	11,529.82	70,458.53
Jan. 2013	12,154.31	3,320.75	8,833.56	1,561.22	1,538.09	23.13	10,593.09	1,782.66	8,810.43
Feb. 2013	10,972.73	3,681.07	7,291.66	2,130.08	2,103.40	26.68	8,842.65	1,577.67	7,264.98
Mar. 2013	11,141.76	3,302.64	7,839.12	2,712.82	2,671.54	41.28	8,428.94	631.10	7,797.84
Apr. 2013	12,149.85	3,238.83	8,911.02	3,430.09	3,369.37	60.72	8,719.76	-130.55	8,850.30
May. 2013	13,264.85	3,095.50	10,169.35	3,252.13	3,233.67	18.46	10,012.72	-138.17	10,150.89
Jun. 2013	12,593.63	3,108.60	9,485.03	5,928.48	5,940.05	31.62	6,781.10	-2,831.45	9,454.18
Total H1 2013	72,277.13	19,747.39	52,529.74	19,014.82	18,856.70	201.89	53,378.26	891.26	52,328.62
Jul. 2013	15,980.59	5,778.32	10,202.27	4,941.04	4,891.29	49.75	11,039.54	887.02	10,152.52
Aug. 2013	10,007.30	3,132.99	6,874.31	4,020.74	3,467.97	552.77	5,986.57	-334.97	6,321.54
Sep. 2013	12,506.86	2,946.03	9,560.83	4,397.01	4,308.08	88.93	8,109.85	-1,362.05	9,471.90
Oct. 2013	11,704.38	3,175.31	8,529.07	3,236.64	3,177.75	58.89	8,467.74	-810.00	9,277.74
Nov. 2013	12,025.74	3,125.45	8,900.29	3,880.79	3,837.85	42.94	8,144.95	-2.44	8,147.39
Dec. 2013	11,597.87	3,261.68	8,336.19	3,321.93	3,304.33	17.60	8,275.95	634.78	7,641.17
Total H2 2013	73,822.74	21,419.78	52,402.96	23,798.15	22,987.27	810.88	50,024.60	-987.66	51,012.26
Total 2013	146,099.87	41,167.17	104,932.70	42,812.97	41,843.39	1,012.77	103,402.86	-96.40	103,340.88

Figure 4.9
Foreign Exchange Flows through the Economy
(July 2012 – December 2013)



4.3 Capital Market

The capital market witnessed improved performance in the second half of 2013, compared with the first half and the corresponding period of 2012. This development was due largely to improved earnings and increase in foreign portfolio investments driven by improved investor confidence in the economy.

4.3.1 Equities Market

The All-Share Index (ASI) rose by 14.28 per cent to 41,329.19 at end-December 2013, from 36,164.31 at end-June 2013, and by 47.19 per cent relative to the same period in 2012. Market Capitalization (MC) for equities also increased by 15.75 per cent to N13.23 trillion at end-December 2013 from N11.43 trillion at end-June 2013, and by 47.49 per cent when compared with the N8.97 trillion recorded at end-December 2012 (Table 4.9 and Figure 4.10).

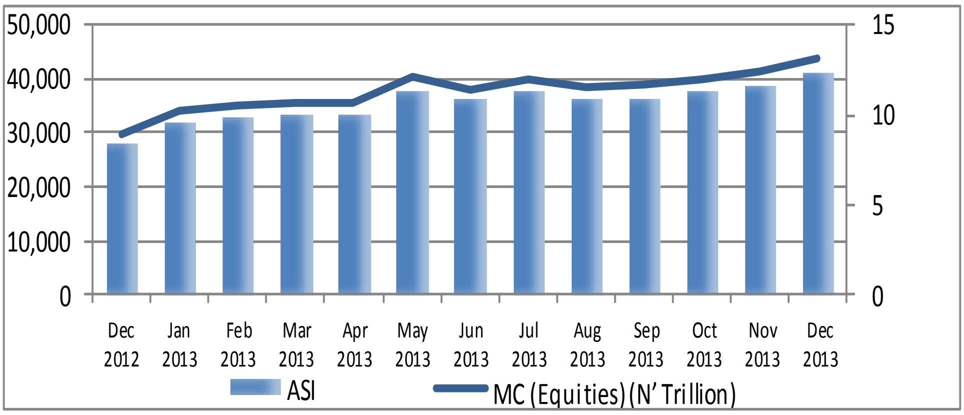
The ASI's 47.19 per cent year-to-date increase was driven mainly by the strong performance in the financial services sector, primarily banking and insurance. The Bloomberg NSE Banking Index rose by 31.94 per cent, while the Insurance Index increased by 29.80 per cent relative to 2012. In particular, the Bloomberg NSE Consumer Goods and the Bloomberg Oil and Gas indices also rose by 31.14 and 122.25 per cent, respectively, in 2013 relative to 2012.

Table 4.8
NSE All-Share Index and Market Capitalization
(December 2012 – December 2013)

Date	ASI	MC (Equities) (N' Trillion)
Dec-12	28,078.81	8.97
Jan-13	31,853.19	10.19
Feb-13	33,075.14	10.58
Mar-13	33,536.25	10.73
Apr-13	33,440.57	10.69
May-13	37,794.75	12.08
Jun-13	36,164.31	11.43
Jul-13	37,914.32	12.01
Aug-13	36,248.53	11.50
Sep-13	36,585.08	11.65
Oct-13	37,622.74	12.02
Nov-13	38,920.85	12.45
Dec-13	41,329.19	13.23

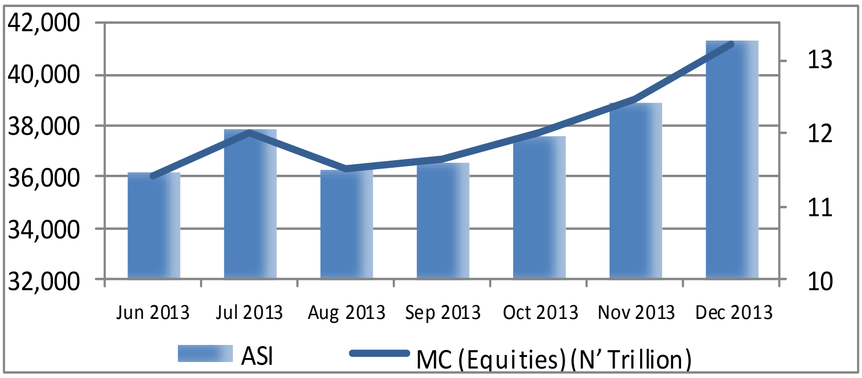
Source: NSE

Figure 4.10
NSE ASI and MC
(December 2012 – December 2013)



Source: NSE

Figure 4.11
NSE ASI and MC
(June – December 2013)



Source: NSE

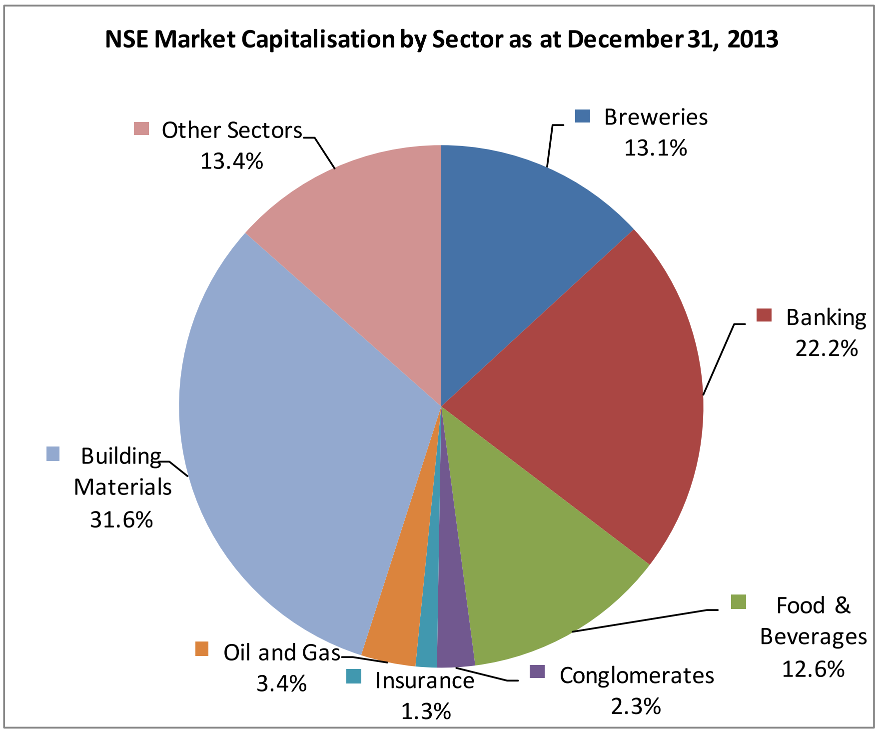
4.3.2 Market Turnover

Aggregate stock market turnover in the second half of 2013 decreased by 17.38 per cent to 48.20 billion shares, valued at N451.76 billion, in 616,780 deals, compared with 58.34 billion shares valued at N591.56 billion, in 763,974 deals in the first half of 2013. Relative to the second half of 2012, market turnover increased by 12.01 per cent from 43.03 billion shares valued at N340.58 billion, in 528,299 deals.

4.3.3 Sectors and Equities Market Capitalization

The building materials sub-sector was the most capitalized sector in the review period. Its share in overall market capitalization rose to 31.6 per cent at the end of the second half of 2013 from 30.4 per cent in the first half. Other leading sub-sectors were banking, breweries, and food, beverages and tobacco, with respective market shares of 22.2, 13.1 and 12.6 per cent, at end-December 2013 (Figure 4:12).

Figure 4.12
NSE Market Capitalisation by Sector as at End-June 2013



Source: NSE

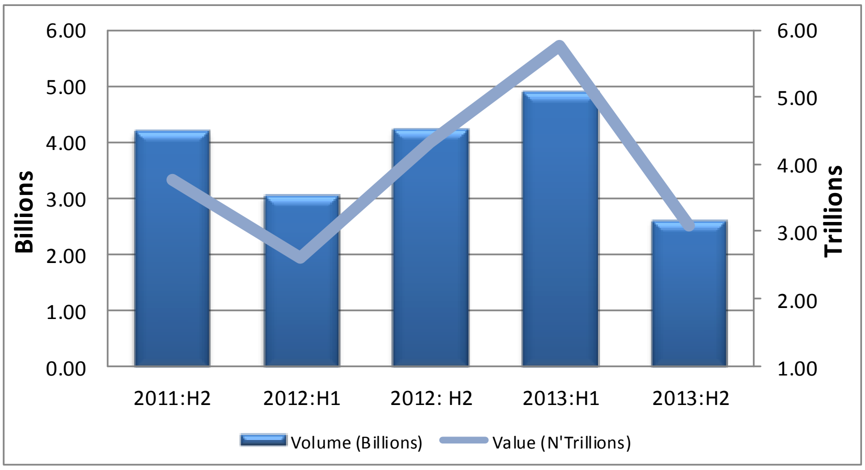
4.3.4 Bonds Market

The fixed income securities market in Nigeria continued to be dominated by the Federal Government of Nigeria (FGN) bonds. Sub-national government bonds have witnessed some activity but the corporate bonds segment has the least share of the market by volume.

4.3.4.1 Federal Government of Nigeria Bonds

Total transactions in FGN Bonds in the over-the-counter (OTC) market in the second half of 2013 was 2.61 billion units valued at N3.08 trillion in 17,582 deals. This performance was dwarfed by 4.89 billion units valued at N5.77 trillion in 28,840 deals achieved in the first half of 2013 and by a turnover of 4.22 billion units valued at N4.32 trillion in 24,082 deals in the second half of 2012 (Figure 4.13). The outstanding FGN bonds were valued at N3, 941.59 billion as at December 2013. The increase in activities in the FGN bonds market was as a result of continued improvement in investor confidence following various reforms in the Capital Market and increased short-term capital inflow; resulting from the implementation of unconventional monetary policy in various jurisdictions as well as the tight monetary policy stance that drove up yields on FGN bonds.

Figure 4.13
Volume and Value of FGN Bonds Traded in the OTC Market (H2:2011 – H1:2013)

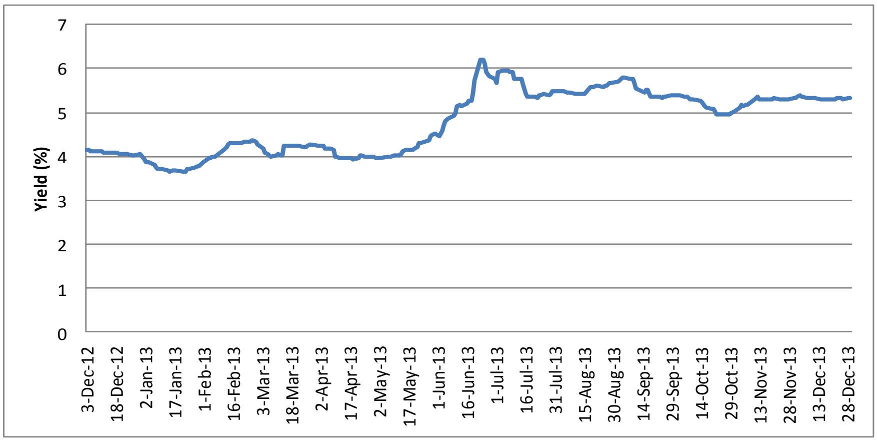


Source: NSE

FGN Eurobond

The Federal Government of Nigeria issued two (2) additional Eurobonds during the review period: US$500M Jul 2018 5.125% and US$500M Jul 2023 6.375% issued on July 12, 2013. As at end-December 2013 the outstanding FGN Eurobond amounted to US$1.5 billion compared with US$0.5 billion at end-June 2013. Yields on dollar-denominated assets declined on account of the strengthening of the US dollar. Consequently, the yield on the FGN Eurobond dropped to 5.33 per cent at end-December 2013 from 5.83 at end-June 2013. However, the yield remained above that of end-December 2012 at 4.04 per cent (Figure 4.15).

Figure 4.14
Yields on Nigeria's 10-Year U.S. Dollar-denominated Bond
(December 1, 2012 – December 31, 2013)

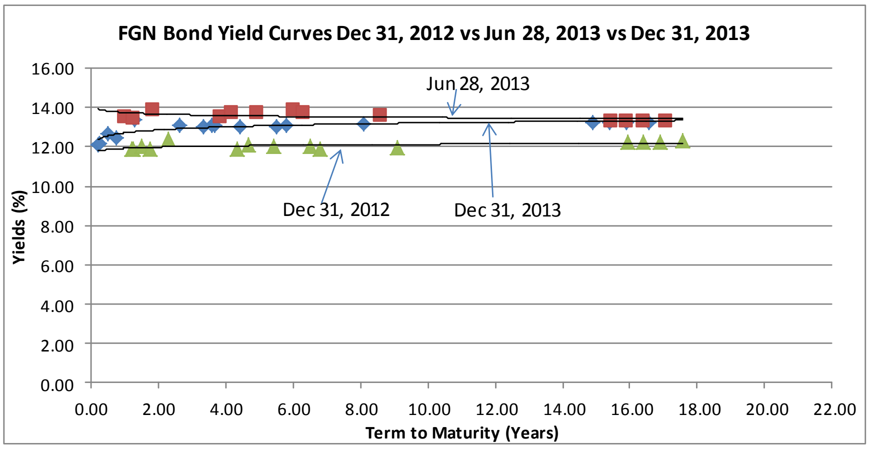


Source: Bloomberg

4.3.4.3 Yields on Federal Government Bonds

The FGN bonds yield curve at end-December 2013 trended downwards by 60 basis points relative to end-June 2013, and upwards by 89 basis points compared with the end-December 2012 (Figure 4.16). This development reflected improvements in inflation expectations arising from sustained tight monetary policy stance, justified by the single digit inflation between January and November, 2013, along with the broad-based macroeconomic stability.

Figure 4.15
FGN Bonds Yield Curves
End-December 2012 vs. End-June 2013 vs. End-December 2013



4.3.4.4 State/Local Government Bonds

There were increased activities in the sub-national bonds market. The total value of outstanding state/local government bonds at end-December 2013 was N626.25 billion compared with N526.75 billion in the first half. Two new sub-national government bonds were issued in the review period: the N12 billion 5-year bonds issued by Niger State Government and N87.5 billion 7-year bonds issued by Lagos State Government in November 2013. This compared with one sub-national government bond of N10.0 billion issued by Osun State with a 7-year tenor in the first half of 2013.

4.3.4.5 Corporate Bonds

In the second half of 2013, the value of outstanding corporate bonds was N571.24 billion, compared with N563.66 billion recorded in the first half of 2013. Two new corporate bonds were issued in the review period compared with four corporate bonds issued in the preceding period. FSDH SPV Plc. issued a 3-year bond of N5.53 billion on October 25, 2013 while NAHCO issued a 7-year bond of N2.05 billion on December 5, 2013.

In July 2013, First Bank of Nigeria Plc. issued a US$300 million Eurobond callable in 2018 but maturing in 2020. Also, on November 4, 2013, GTBank issued a 5-year 7.0 per cent Eurobond at a yield of 6.125 per cent and 469 basis points (bps) spread over United States Treasuries (UST). The issue, the second, under GTBank's Medium Term Notes (MTN) programme, had an approved limit of US$2-3 billion. Beside First Bank and GTBank, two other banks, Access and Fidelity had previously issued Eurobonds. The two issues in the review period brought the total value of Eurobonds issued by Nigerian banks and outstanding at the end of 2013 to US$1.85 billion. Of this amount, US$1 billion was issued in 2013, out of which US$800 billion was issued in the second half of the year.

CHAPTER 5
ECONOMIC OUTLOOK

5.1 Overview

The global economy accelerated more in the second half of 2013 than the first half according to IMF World Economic Outlook (WEO, January 2014). World output growth for the year was estimated at 3.0 per cent, up from an earlier estimate of 2.9 per cent in October 2013. The up-tick in activity was attributed to broad expansion in final demand in the advanced economies and rebound in exports in emerging market economies. Other contributors to global output growth in the review period included increased domestic demand in China and easing of financial conditions in the advanced economies despite the announcement by the U.S. Federal Reserve on December 18 that it will begin tapering its quantitative easing in January 2014.

The global economy experienced a structural adjustment in its growth trajectory in the advanced and emerging market and developing economies. Outlook for global growth in 2014 is 3.7 per cent. With the advanced economies recovering at full steam, the pre-crisis growth momentum is anticipated in the region, which is expected to grow by 2.2 per cent in 2014 up from 1.3 per cent in 2013. Similarly, the emerging market and developing economies are projected to grow at 5.1 per cent in 2014, compared with 4.7 per cent in 2013. For Sub-Saharan Africa, growth was projected to rise to 6.1 per cent, from 5.1 per cent in 2013 and the Fund estimated growth of 7.4 per cent for Nigeria, up from 6.2 per cent in 2013.

Global inflation remained low during the year 2013, averaging 3.1 per cent. In the advanced economies, the average headline inflation rate was 1.4 per cent while for emerging market and developing economies, it averaged 6.1 per cent. Headline inflation in sub Saharan Africa in 2013 settled at 7.8 per cent while the end period inflation was 8.0 per cent in Nigeria.

In the advanced countries, monetary policy remained easy, with policy rates of the Fed, the BoE, BoJ and ECB ranging from 0 – 0.5 per cent so as to boost output growth and employment in those countries. In the emerging and developing economies, however, policy rates were much higher as a means of moderating inflation and currency volatility. Nigeria retained its policy rate at 12.0 per cent throughout 2013.
The outlook for inflation and output in Nigeria in the first half of 2014 is positive on the back of strong oil price performance and sustained recovery in the advanced economies.

5.2 Output[1] Growth

5.2.1 Global Output and Outlook

Overall, global economic growth was estimated to have dropped slightly to 3.0 per cent in 2013 from 3.1 per cent in 2012. Provisional data from the IMF WEO January 2014 Update indicated that the annual output growth for 2013 in the advanced economies was 1.3 per cent; emerging markets and developing economies (EMDEs), 4.7 per cent and sub-Saharan Africa, 5.1per cent (Table 5.1). Global output growth in the second half of 2013 was stronger than July forecast with much of it coming from the advanced economies, due to a rise in inventory demand. Notably, UK's growth forecast projected at 1.4 per cent in October 2013 ended at 1.7 per cent during the review period.

Growth outlook in the near term is positive, following the momentum gained in the review period. In a report by Credit Suisse on its outlook for 2014, progress in the global economy was forecast to be anchored largely on improvements in the Euro Zone, scaling back on debt by the U.S private sector and enhancing economic policies by Japan. On the other hand, growth in the emerging economies would slow down. The reasons for the weaker growth differed across emerging market and developing economies, and included tightening capacity constraints, stabilizing or falling commodity prices, less policy support, and slowing credit growth after a period of rapid financial deepening.

The IMF opined that the impetus to global growth was expected to come largely from the United States given that monetary conditions remain supportive and fiscal consolidation continues to ease. In addition, the US economy as a result of sharp fiscal tightening was characterised by a gradual recovery of the real estate sector, increased wealth of households and easier bank lending conditions.

According to the IMF, business confidence indicators in the Euro Zone suggested that economic activities were stabilizing in the core economies in the region as a result of the reduction in the pace of fiscal tightening. However, growth in the region for 2014 was estimated at only 1.00 per cent due to the tight credit conditions in the peripheral states.

Exports, underpinned by strong growth as well as increased consumption driven by low level unemployment in the advanced economies are expected to support activities in emerging markets and developing economies. Growth is expected to remain modest, against the backdrop of supply-side impediments, including

[1] Quarterly and half year data obtained from Bloomberg, annual data from the IMF WEO

infrastructure bottlenecks and capacity constraints, although the recent stabilisation of financial market conditions should provide overall support to the economic recovery in the short term.

On the fiscal side, polices are expected to be neutral and investment is predicted to increase in the region; however, conditions for external funding have become more constricted. In China, it is anticipated that the authorities would settle for lower growth which is in line with their transition to a more balanced and sustainable growth path and this slow growth is expected to cut across developing Asia in 2014.

Growth in sub-Saharan Africa is expected to be supported largely by commodity-related projects while that of the Middle East, North Africa, Afghanistan and Pakistan is expected to be motivated by a modest recovery in oil production.

The global outlook is shrouded by substantial uncertainties and the balance of risks remains skewed to the downside. Furthermore, developments in global funds and financial market conditions as well as their related uncertainties may have the potential to negatively affect economic conditions.

Table 5.1
Global Output and Outlook
(2012 – 2015)

	2012	2013	2014	2015
A. World Output				
World Output	**3.1**	**3.0**	**3.7**	**3.9**
Advanced Economies	**1.4**	**1.3**	**2.2**	**2.3**
USA	2.8	1.9	2.8	3.0
Euro Area	-0.7	-0.4	1.0	1.4
Japan	1.4	1.7	1.7	1.0
UK	0.3	1.7	2.4	2.2
Canada	1.7	1.7	2.2	2.4
Other Advanced Economies	1.9	2.2	3.0	3.2
Emerging & Developing Economies	**4.9**	**4.7**	**5.1**	**5.4**
Central and Eastern Europe	1.4	2.5	2.8	3.1
Commonwealth of Independent States	3.4	2.1	2.6	3.1
Developing Asia	6.4	6.5	6.7	6.8
Latin America and the Caribbean	3.0	2.6	3.0	3.3
Middle East, North Africa Afghanistan, and Pakistan	4.1	2.4	3.3	4.8
Sub-Saharan Africa	5.5	4.9	5.0	6.0
B. Commodity Prices (US' Dollars)				
Oil	1.0	-0.9	-0.3	-5.2
Non-fuel	-10.0	-1.5	-6.1	-2.4
C. Consumer Prices				
Advanced Economies	2.0	1.4	1.7	1.8
Emerging & Developing Economies	6.0	6.1	5.6	5.3

Source: IMF World Economic Outlook, Update, January 2014

5.1.2 Domestic Output Growth and Outlook

Overall domestic growth rate for 2013 is projected at 6.87 per cent up from 6.58 per cent in 2012. Provisional data from the NBS indicated output growth of 6.64 per cent in the second half of 2013 compared with 6.36 per cent in the second half of 2012. The non-oil sector remained the major driver of growth in the review period and the agricultural, wholesale and retail trade and services sub sectors had the best growth performance. The outlook for growth remains positive as the IMF has projected a 7.4 per cent growth compared with 6.2 per cent in 2013 (WEO, October 2013). Growth performance would be driven by high oil prices, improvements in infrastructure and robust domestic demand. According to the Lagos Chamber of Commerce and Industry (LCCI), growth in 2014 will exceed 6 per cent and the major drivers would be telecommunications, building and construction, hotel and restaurants and solid minerals. Key risks to the growth outlook include slow economic recovery in major trading partner-countries, continuing security concerns, oil production losses, exchange rate instability and loss of oil export markets to shale oil production and new crude producers in Africa.

5.3 Inflation Trend

5.3.1 Global Inflation and Outlook

Global inflation fell to 3.10 per cent in the second half of 2013 from 3.53 per cent in the second half of 2012. In the advanced economies, inflation averaged 1.33 per cent in the second half of 2013 as against 1.73 per cent in Q4 of 2012. Consumer price inflation was estimated at 6.54 per cent in the second half of 2013 up from 6.27 per cent in Q4 of 2012. Similarly, sub-Saharan Africa recorded average inflation rate of 8.36 per cent in December 2013 as against 10.53 per cent in Q4 of 2012.

Globally, price inflation will remain subdued even as activities in the advanced economies pick up because there's still a huge output gap to be filled. Improved supply and lower demand growth in key emerging market economies for commodities, coupled with the fall in prices should help to moderate global prices in 2014. In the advanced economies, inflation is projected at 1.7 per cent in 2014 and an average of 5.6 per cent in the emerging and developing economies in the same period. Moderation in non-oil commodity prices, good agricultural harvests and appropriate macroeconomic policy mix are expected to reduce inflation in 2014 to below 6.3 per cent.

5.3.2 Domestic Inflation Outlook

Inflation continued to moderate in the second half of 2013, falling to 8 per cent in December 2013 compared with 12.0 per cent in the corresponding period of 2012. Also, both core and food inflation decreased significantly to 7.9 and 9.3 per cent in December 2013, compared with 13.7 and 10.2 per cent in December 2012, respectively.

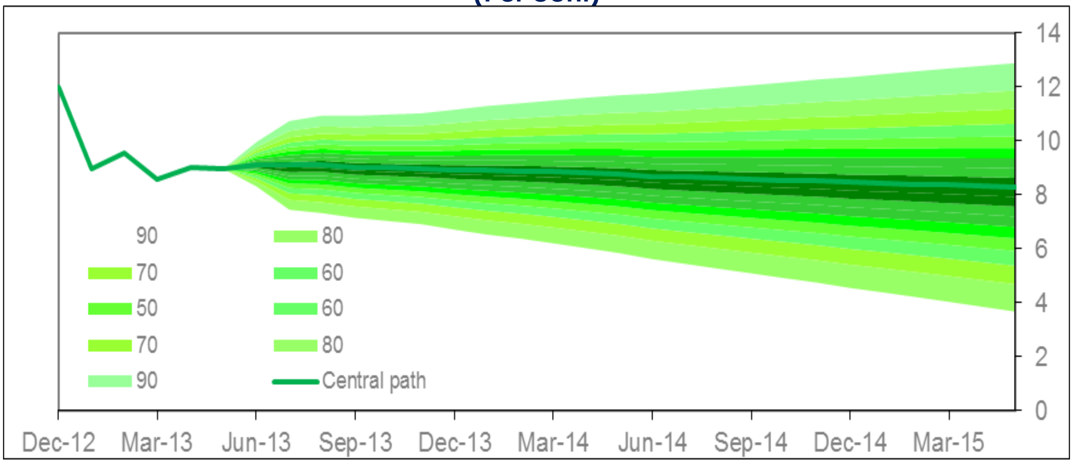
Staff projections suggest that headline inflation would lie between 8.00 and 9.30 per cent in March and June 2014, respectively. On a higher confidence, headline inflation could lie between 8.6 and 9.9 per cent in March and June 2014, respectively. The expected moderation in inflation is anticipated to be driven by growth in output and the use of appropriate monetary policy tools. The major upside risks to the projections are increases in aggregate spending by the government in the run-up to the 2015 elections, pressure on the exchange rate due to capital outflows caused by QE tapering in the US and rising interest rates in Europe.

5.4 Outlook for Monetary Policy in 2014

Nigeria's monetary policy environment in the second half of 2013 was stable; output was robust, inflation moderated throughout the period, fuel supply remained steady, and agricultural production enjoyed favourable weather conditions. The sustained tight monetary policy contributed immensely to the maintenance of macroeconomic stability. In particular, the tight monetary policy had a salutary impact on portfolio investments, which helped to drive the recovery of asset prices on the Nigerian Stock Exchange and also enhanced external reserves.

It is expected that the monetary stance in the first half of 2014 will continue to be tight as the US commences QE tapering in January in addition to increased election spending in the domestic economy.

Figure 5.1
Fan Chart for Headline Inflation
(Per cent)



Source: Research Department

APPENDICES

APPENDIX 1

Central Bank of Nigeria Communiqué No. 90 of the Monetary Policy Committee Meeting of Monday and Tuesday, July 22 and 23, 2013

The Monetary Policy Committee met on July 22 and 23, 2013 with 10 out of the 12 members in attendance. A new member, Mr. Stephen O. Oronsaye, who is a Board member, replaced Professor Sam Olofin whose tenure as a Board member had expired. The Committee reviewed the economic conditions and challenges that confronted the domestic economy in the first half of the year, particularly since the last MPC meeting in May 2013. It also re-evaluated the short-to-medium term risks to inflation, domestic output, external balance and financial stability.

International Economic Developments

Global economic recovery remained weak, as new risks have emerged including the possibility of a further slowdown in growth in the emerging market economies. The old risks of a recession in the Eurozone have persisted alongside slowing growth in China and the possibility of tighter financial conditions when central banks gradually exit from their current monetary accommodation stance.

Consequently, global growth prospects have not improved. Blaming weaker domestic demand and slower growth in several key emerging market economies, as well as a more protracted recession in the euro area, the IMF in July 2013 reviewed downward its global growth forecast. It also reviewed downward its growth forecast for the US and China to 1.7 and 7.8 per cent, from 1.9 and 8.0 per cent in April 2013, respectively, but raised the forecast for the UK from 0.7 per cent to 0.9 per cent in the same period. For the Eurozone which has seen its longest recession since monetary union, the IMF projects a further contraction of 0.6 per cent in 2013, which more or less doubled the earlier forecast in April. The IMF has also cut the growth forecast for Brazil, South Africa, India and Russia to 2.5, 2.0, 5.6 and 2.5 per cent from 3.0, 2.8, 5.8 and 3.4 per cent, respectively. Japan's growth rate forecast is projected at 2.0 per cent, up from a forecast of 1.5 per cent.

The slowdown in global growth is likely to impact on commodity prices and thus, adversely impact oil exporting countries like Nigeria. In addition, continued fragility in financial markets continues to generate bouts of capital flow reversals and inflows that are potentially disruptive to emerging and transition markets.

Domestic Economic and Financial Developments

Output

The National Bureau of Statistics (NBS) estimated the real Gross Domestic Product (GDP) growth at 6.72 per cent for Q2 2013, slightly higher than the 6.56 per cent recorded in Q1, and 6.39 per cent in Q1 of 2012. Overall, GDP growth for fiscal 2013 was projected at 6.91 per cent up from 6.58 per cent in 2012. The non-oil sector remained the major driver of growth recording 7.91 per cent in contrast to the growth rate of -0.68 per cent for the oil sector during the second quarter of 2013. The drivers of the non-oil sector growth remained agriculture; wholesale and retail trade; and services which contributed 1.72, 1.47, and 2.90 per cent, respectively. The Committee noted the continued decline in the contribution of the oil sector to overall GDP and the underlying factors responsible for this state of affairs. These factors include; sustained oil theft which has led to a decline in output volumes in the face of an uncertain international oil market and price signals, weak infrastructure, and downside risks due to discovery of shale oil and the emergence of other African oil exporters competing for Nigeria's traditional oil market.

Prices

Inflationary pressures continued to moderate partly in response to the tight monetary policy and base effect. The year-on-year headline inflation decelerated to 8.4 per cent in June from 9.0 per cent in May. Also, core inflation declined significantly to 5.5 per cent in June from 6.2 per cent in May and 6.9 per cent in April. Food inflation, however, rose to 9.6 per cent in June from 9.3 per cent in May 2013. Notwithstanding the moderation in headline inflation, there are benign risks on the horizon, including the possibility of accelerated fiscal releases in the later part of the year and the effects of the upward review in electricity tariffs in line with the MYTO following the implementation of the full deregulation of the energy sector.

The six-month inflation outlook indicates that inflation would remain within single digit territory due to base effect and tight monetary policy. However, the current state of government finances is likely to generate increased borrowing. The key risks to the outlook, therefore, remain fiscal operations, increased pressure on the exchange rate due to excess structural liquidity in the banking system and the possibility of a capital flow reversal in the medium term.

Monetary, Credit and Financial Market Developments

Broad money supply (M2) grew by 0.71 per cent as at end-June 2013 over the level at end-December 2012. When annualized, M2 grew by 1.42 per cent, compared with the growth of 2.70 per cent in the corresponding period of 2012. Thus, M2 growth was also significantly below the growth benchmark of 15.20 per cent for 2013 and 7.60 per cent for Q2 of 2013.

Interest rates in the interbank money market moved in tandem with the level of liquidity conditions in the banking system. The average liquidity ratio was 67.79 per cent compared with the prudential requirement of 30.0 per cent. Thus, the average inter-bank call and open-buy-back (OBB) rates, which opened at 12.07 and 11.91 per cent on May 20, 2013, closed lower at 10.42 and 10.29 per cent, respectively, on June 28, 2013. However, the average inter-bank call and OBB rates for the period were 11.80 and 11.46 per cent, respectively.

The recovery in the Nigerian capital market continued, as equities market indicators were upbeat in the review period. The All-Share Index (ASI) increased by 28.8 per cent from December 2012 to June 2013, while the equities Market Capitalization (MC) increased by 27.3 per cent from N8.97 trillion on December 31, 2012 to N11.43 trillion on June 28, 2013. Improved earnings and investor confidence in the economy contributed to the up-swing in stock prices. The equities market median price-earnings ratio rose above the long-run median by 9.0 per cent in June 2013 indicating that share prices were recovering faster than earnings and investor assessment of future returns was good.

External Sector Developments

At the Wholesale Dutch Auction System (wDAS), interbank and the BDC segments of the foreign exchange market, the exchange rate depreciated to N157.32/US$, N161.25/US$, and N163.00/US$ on July 19, 2013 from N157.30/US$, N158.30/US$, and N159.50/US$ on 21st May, 2013. The Committee noted the depreciation recorded in all segments of the foreign exchange market in the review period on the back of a general sell-off by portfolio investors in emerging and frontier markets following guidance by the US Federal Reserve Bank (FED) with respect to its quantitative easing programs. It also observed that the experience in Nigeria was not unique, as the spike in the US yields negatively impacted financial markets globally. However, calm has since returned to the financial markets following further clarifications by the FED that exit from quantitative easing is not imminent and does not necessarily mean monetary tightening. Thus, the Nigerian capital market has seen a rally, while the demand pressure in the foreign exchange market has somewhat moderated. The Committee, however, noted the build-up of structural excess liquidity in banks balance sheets, which poses risks to the inflation and exchange rate outlook.

The Committee noted the increase in external reserves to US$47.99 billion as at July 18, 2013 from US$43.83 billion at end-December, 2012, representing a rise of US$4.16 billion or 9.49% year-to-date. This level of reserves provides cover for approximately 11 months of import.

The Committee's Considerations

The Committee was satisfied with the prevailing macroeconomic stability achieved during the period, including the single digit inflation, stable banking system, exchange rate stability, favourable output growth, capital market recovery and growth in external reserves, thus sustaining internal balance and external viability. The Committee also noted the recent volatility in the foreign exchange market and also recognized that the commitment of the Bank to defend the currency in the face of capital flow reversal and significant revenue attrition has stemmed the depreciation of the naira. Consequently, the Bank has been able to sustain the objectives of financial and price stability.

The Committee observed the build-up in excess liquidity in the banking system, and expressed concern over the rising cost of liquidity management as well as the sluggish growth in private sector credit, which was traced to DMB's appetite for government securities. This situation is made more serious by the perverse incentive structure under which banks source huge amounts of public sector deposits and lend same to the Government (through securities) and the CBN (via OMO bills) at high rates of interest.

The Committee expressed strong concerns about the risks posed to government revenues from oil theft, less than expected production, new discoveries of shale oil, the fast increasing number of African oil exporters, the dwindling market for Nigerian crude as well as the inevitability of a fall in global oil prices as well as capital flow reversal, which may impact the current global (dollar) carry trade, for which Nigeria has been a major beneficiary.

The Committee commended the Federal Government on its sustained efforts towards fiscal consolidation in 2012 and stressed the need to reverse the loose fiscal stance of 2013. The Committee articulated the monetary policy risks of dwindling fiscal revenues to include: the crowding out effect of government borrowing, depletion of excess crude savings and pressure on the exchange rate. Available data indicates that capital expenditure is the first casualty of dwindling government revenues as available resources are channeled into funding non-discretionary recurrent expenditure.

The Committee considered the inflationary outlook for the rest of the year as benign. However, principal risks remain largely due to the loose fiscal stance and rising deficit, excess liquidity in the banking system and risks to the exchange rate due to a combination of revenue shocks and external developments.

Decisions

Having considered all the above factors, the Committee decided:

1. By a vote of 9 to 1 to hold the MPR at 12 per cent. One member voted for a 50 basis points reduction;

2. By a vote of 9 to 1 to maintain the symmetric corridor around the MPR at +/-2 per cent. One member voted for an asymmetric corridor;

3. Unanimity to retain the CRR at 12 per cent; and

4. 9 to 1 to introduce a 50 per cent CRR on public sector deposits. This will be applied on Federal, State and Local Government deposits and all MDAs. For other deposits CRR will remain at 12 per cent.

Thank you.

Sanusi Lamido Sanusi, *CON*
Governor
Central Bank of Nigeria
23rd July, 2013

APPENDIX 2

Central Bank of Nigeria Communiqué No. 91 of the Monetary Policy Committee Meeting of Monday 23 and Tuesday 24 September, 2013

The Monetary Policy Committee met on September 23 and 24, 2013, with all of the 12 members in attendance. The Committee reviewed the economic conditions and challenges that confronted the domestic economy up to September, particularly since the last MPC meeting in July 2013. It re-assessed the short-to-medium term risks to inflation, domestic output, external balance and financial system stability.

International Economic Developments

The global economy continued on the slow path to recovery with financial systems responding swiftly to new and expected risks. The risks include the possibility of the US FED tapering off its accommodative monetary policy stance (QE) and higher long-term interest rates as the economy enters the recovery mode. This move which has been temporarily postponed portends uncertainties in external conditions for emerging markets and developing economies, including Nigeria. Meanwhile, the underlying risk of a recession in the Eurozone, weak domestic demand and slowing growth in China have created tight financial conditions; which could easily worsen and reduce global growth prospects by the time monetary contraction begins in the U.S, Japan and the other advanced economies. The conclusion of German elections (and the re-election of Angela Merkel for a third term as Chancellor), should however open the door to much speedier progress in key reforms, especially around the common resolution mechanism for European banks.

In the interim, the IMF has declared that global growth is strengthening on the back of accommodative monetary policy. The Fund has further emphasized that though an end to unconventional monetary policy was certain, its impact would largely depend on country specific circumstances and the pace of recovery recorded by various economies.

The Organisation for Economic Cooperation and Development (OECD) has noted that the momentum in the global economy was shifting away from the emerging markets back to the advanced economies. The pace of business activity increased in the Eurozone, while an official index of leading economic indicators for the US also strengthened in August. Consequently, the OECD growth forecasts for most advanced economies in 2013 have been revised upward to between 1.5 and 1.8 per cent. The positive outlook in the advanced economies has compensated for the slowdown of growth in the major emerging markets. However, the OECD warned that a prolonged slowdown in major developing countries could have profound effects on the world economy and translate into weaker growth for the advanced economies. The IMF had projected global growth at 3.1 per cent in 2013.

Domestic Economic and Financial Developments

Output

The National Bureau of Statistics (NBS) has reported a slowdown in the growth rate of real Gross Domestic Product (GDP) in Q1 and Q2 2013 relative to Q4 2012. Growth was estimated at 6.18 per cent in Q2, down from 6.56 per cent recorded in Q1, 2013. Overall, GDP growth for fiscal 2013 was projected at 6.91 per cent up from 6.58 per cent in 2012. The non-oil sector remained the major driver of growth at 7.36 per cent in Q2 (lower than the 7.89 per cent reported for Q1) in contrast to the oil sector output decline of 1.15 per cent (worse than the decline of 0.54 per cent in Q1). The drivers of the non-oil sector growth remained Agriculture; Wholesale and Retail trade; and Services which contributed 2.14, 1.48, and 3.0 per cent, respectively. The Committee expressed concern about the worsening performance of the oil sector, which is principally due to the reported incidence of growing crude oil theft and significant revenue leakages in the oil sector. The Committee, therefore, urged the government to step up efforts aimed at curtailing the malfeasance in the oil sector, and adopting best practice in establishing strong controls, independent oversight and transparency in the official oil sector.

Prices

Inflationary pressures continued to moderate in response to the tight stance of monetary policy. Headline inflation declined from 8.7 per cent in July to 8.2 per cent in August. Food inflation declined to 9.7 per cent in August from 10.0 per cent in July while core inflation, rose slightly to 7.2 per cent in August from 6.6 per cent in July. The Committee noted with satisfaction that, overall, headline inflation has remained below 10.0 per cent for eight (8) straight months and represented the lowest level achieved over the past 5 years, the longest such stretch since 2008; and that the six-month inflation outlook indicates that inflation would remain within single digit range. The Committee was nonetheless, conscious of the potential risks on the horizon, including the possibility of pressures coming from the fiscal activities of the government in the later part of the year, and in the run up to the 2014 elections.

Monetary, Credit and Financial Market Developments

Broad money supply (M2) contracted by 5.58 per cent in August 2013 over the level at end-Decemberember 2012. When annualised, M2 contracted by 8.37 per cent, compared with the growth of 3.51 per cent in the corresponding period of 2012. M2 growth rate was also below the benchmark of 15.20 per cent for 2013. This is to be expected, given the tight monetary policy stance. Aggregate domestic credit (net) grew by 3.85 per cent in August 2013 which annualises to a growth rate of 5.78 per cent over the end-Decemberember 2012 level, compared with the contraction of 3.56 per cent in the corresponding period of 2012. The annualised growth rate in aggregate domestic credit (net) at end-August 2013 of 5.78 per cent was below the provisional benchmark of 22.98 per cent for 2013.

Reserve money (RM) rose by 30.64 per cent to N4,227.61 billion at end-August 2013 from N3,236.15 billion by end-Junee. At that level RM was N343.06 billion or 8.83 per cent above the 3rd quarter, 2013, indicative benchmark of N3,884.55 billion.

Interest rates in all segments of the money market moved in tandem with the tight level of liquidity in the banking system. The inter-bank call and OBB rates, which opened at 10.69 and 10.22 per cent on July 29, 2013, closed at 15.67 and 14.92 per cent, respectively, on September 20, 2013. The average inter-bank call and OBB rates for the period were 14.86 and 13.93 percent, respectively.

The recovery in the Nigerian capital market continued, as equities market indicators all trended upward during the period under review. The All-Share Index (ASI) increased by 28.9 per cent from 28,078.81 on December 31, 2012 to 36,188.72 on September 20, 2013. Market Capitalization (MC) increased by 28.4 per cent from N8.97 trillion to N11.53 trillion over the same period. Improved earnings and investor confidence in the economy contributed to the rise in stock prices.

External Sector Developments

The naira exchange rate remained stable at the wDAS segment of the foreign exchange market. The exchange rate at the wDAS-SPT during the review period opened and closed at N157.32/US$(including 1% commission). The average wDAS exchange rate during the period was N157.31/US$. At the interbank segment, the naira exchange rate opened at N160.75/US$ and closed at N161.47/US$, representing a depreciation of N0.72/US$ or 0.45 per cent. The average interbank exchange rate during the period was N160.78/US$. At the BDC segment, the selling rate opened at N162.50/US$ and closed at N163.00/US$, representing a depreciation of N0.50k/US$ or 0.31 per cent. The average BDC exchange rate for the period was N162.14/US$. The stability of the exchange rate reflected the commitment of the Bank to supporting the currency at a time of massive depreciation in the currencies of emerging and frontier countries. This commitment was underscored by the policy of intervention to improve supply conditions, and the very tight monetary conditions maintained since the last MPC meeting.

The Committee noted the decline in external reserves to US$45.27 billion as at September 19, 2013. External reserves, however, still increased by US$4.08 billion or 9.91 per cent, year-on-year, compared with US$41.19 billion at end-September 2012. However, the Committee noted that this level of accretion is too low given the relatively high price of crude oil and further underscores the need for much-needed reform of the oil sector.

The Committee's Considerations

The Committee noted with satisfaction the positive developments in the economy, especially, the moderation in inflation, stability in the financial system and currency markets. It also noted the strong growth forecast by the National Bureau of Statistics for Q3 and Q4 on the back of relatively slow growth in Q2. It observed that the actions taken by the Bank since the last MPC yielded their intended effect on stabilizing the exchange rate while maintaining inflation within its target range. The Committee also noted that the fundamentals in the economy which necessitated the July MPC measures had not changed substantially; except that the US Federal Reserve had provided clearer insight into the tapering off of its asset purchase programme - Quantitative Easing3. The Committee noted that in more than 30 countries surveyed, the Naira exchange rate remained one of the most stable having depreciated by only 2.3 per cent from year to date compared with the massive depreciation in the value of other currencies such as the Indian Rupee, the Indonesian Rupiah, the Brazilian Real, the South African Rand and the Ghanaian cedi.

The clarifications provided by the Fed over its QE3 policy brought substantial relief to the financial markets globally and initiated a reversal of the trend in capital outflows from the country. However, the Committee noted the existence of strong foreign exchange demand pressures coming domestically and which are not necessarily linked to an increase in the import of goods. This non-import related demand was attributed to the buildup in political activities in the country and increasing resort to dollarization of the economy by the political class. The Committee charged the Bank to ensure the stability of the currency in the face of these challenges, and to fast-track plans for adopting new regulations aimed at combating money laundering in the BDC segment.

The Committee considered the developments in money market rates which rose astronomically to peak at 40.0 per cent on 18th September 2013. However, these developments were temporary, arising from the postponement/stalemate in sharing the monthly Federation Account Allocation Committee Revenues. Banks which participated in the wDAS widow expressed a preference for paying high interbank rate for one day rather than their borrowing from the CBN at 14.0 per cent and being barred from the wDAS window. In any case, the Committee noted the continued dependence of the banking sector on monetised oil revenues for its liquidity and stressed the need to keep pushing banks into altering their business model to reduce vulnerability.

Decision

The Committee noted that the actions taken at the last MPC have served the purpose of helping the naira avoid the fate of other developing-country currencies by keeping it relatively stable. It also noted the continued moderation in inflation and the benign outlook for the next six months. Finally, with the FOMC decision not to begin tapering asset purchases immediately, and the improved outlook for financial stability in Europe after the German elections, the risks of currency instability are significantly reduced. The monetary stance maintained by the US Federal Reserve is positive for international oil prices and portfolio flows.

In consideration of all the issues, the Committee decided by a vote of 11 members to hold the MPR at 12.0 per cent. One member voted to reduce the MPR by 50 basis points. 11 members voted to retain the symmetric corridor of 200 basis points around the MPR while one member voted for an asymmetric corridor of 200 basis points above the MPR and 400 basis points below the MPR. All members voted to retain the 50.0 per cent Cash Reserve Requirement (CRR) on public sector funds, and 12.0 per cent CRR on private sector deposits.

Thank you.

Sanusi Lamido Sanusi, CON
Governor
Central Bank of Nigeria
24th September, 2013

APPENDIX 3

Central Bank of Nigeria Communiqué No. 92 of the Monetary Policy Committee Meeting of Monday 18 and Tuesday 19 November, 2013

The Monetary Policy Committee (MPC) met on November 18 and 19, 2013 against the backdrop of widespread uncertainties and risks of deflation in the global economy but stable domestic macroeconomic conditions. Eleven (11) out of the twelve (12) members were in attendance. The Committee reviewed the global and domestic economic environment from January to October 2013 and re-assessed the short- to medium-term risks to inflation, domestic output and financial stability and the outlook for the rest of the year.

International Economic Developments

The global economy is currently adjusting structurally to the evolving growth dynamics in the advanced and emerging market economies. While growth in the advanced economies has resumed, growth in the emerging economies has slowed down. Global growth averaged 2.5 per cent in the first half of 2013, same as in the second half of 2012. The United States (US), Japan and a few European countries just emerging from recession are helping to drive the current growth.

Improvement in US output is anchored by enhanced industrial production buoyed largely by strong private demand and extra-ordinary accommodative monetary policy. The political standoff over fiscal sustainability, which led to a shutdown of the US Government in October, 2013, was moderated, however, by discretionary spending during the period. Strong signs of growth resumption have emerged from some euro area economies, especially Portugal and Greece. Given the changing global growth dynamics, the International Monetary Fund (IMF) revised its global economic growth forecast in October to 2.9 per cent in 2013 and 3.6 per cent in 2014.

Global inflation is estimated to fall from 3.75 per cent in 2012 to 3.0 per cent in 2013, but could rise marginally in 2014. Food and fuel prices continued to positively moderate global consumer price inflation. In the light of these developments, most central banks responded by either maintaining current policy stance or moderately easing the policy rate in the last three months. The financial markets expect monetary conditions to remain easy through the first quarter of 2014. Indications to this came from the Fed Chairman-designate during her Senate screening. In addition, the Bank of England has given signals that its quantitative easing would continue to late 2014 while the Bank of Japan has also indicated that its quantitative easing would continue until inflation reaches a 2.0 per cent target.

Domestic Economic and Financial Developments

Output

The National Bureau of Statistics (NBS) estimated that real Gross Domestic Product (GDP) grew by 6.81 per cent in the third quarter of 2013, which was higher than the 6.18 per cent in Q2, and 6.48 per cent Q3 of 2012, respectively. Overall, growth for 2013 was projected at 6.87 per cent, up from 6.58 per cent in 2012, indicating that the economy is remaining on its steady growth trajectory.

The non-oil sector remained the major engine of growth recording 7.95 per cent compared with a decline of 0.53 per cent for the oil sector in the third quarter of 2013. Agriculture, wholesale and retail trade, and services continued to be the drivers of non-oil sector growth contributing 2.50, 1.96, and 2.82 per cent, respectively. The relatively strong domestic growth forecast in an environment of sluggish global growth and sturdy signs of deflation reflected the continuing favourable conditions for increased agricultural production and incentives for strong macroeconomic management.

Prices

The moderation in consumer price inflation, which began in the fourth quarter of 2012, continued in the third quarter of 2013. The year-on-year headline inflation moderated to 7.8 per cent in October 2013 from 8.0 per cent in September. Also, food inflation declined to 9.2 per cent in October from 9.4 per cent in September 2013. Core inflation, however, rose to 7.6 per cent in October 2013 from 7.4 per cent in September. Thus, the decline in headline inflation reflected the moderation in food prices. The Committee observed with satisfaction that in the last four months, all the three measures of inflation continued to be within the single digit inflation target. However, the Committee noted the potential risks to inflation of increased aggregate spending in the run-up to the 2015 elections.

Monetary, Credit and Financial Market Developments

Broad money supply (M2) contracted by 6.16 per cent in October 2013 over the level at end-Decemberember 2012. When annualised, M2 contracted by 7.39 per cent, in contrast to the growth of 8.24 per cent in the corresponding period of 2012. M2 was also below the growth benchmark of 15.20 per cent for 2013. Aggregate domestic credit (net), however, grew by 7.32 per cent in October 2013, which annualised to a growth rate of 8.78 per cent over the end-Decemberember 2012 level, in contrast to the contraction of 3.30 per cent in the corresponding period of 2012. The annualised growth rate in aggregate domestic credit (net) at end-October 2013 of 8.78 per cent was below the provisional benchmark of 22.98 per cent for 2013. The decline in M2 was traced mainly to decline in net credit to Federal Government and Net Foreign Assets and other assets (net).

Overall, Government spending in the 2nd Half of 2013 has been more moderate than it was in the earlier part of the year. The erosion of the fiscal buffers through the depletion of the ECA has further exposed the economy to vulnerabilities while the fall in oil revenue has left capital inflows as the only source of external reserves accretion. The Federal Government debt has also risen phenomenally along with its deposits at the deposit money banks, showing the Government as a net creditor to the system. This underscores the urgent need for the immediate implementation of the Treasury Single Account. The continued delay in returning government accounts to the Central Bank is adding to the huge cost of government debt due to poor cash flow management.

Reserve money (RM) declined marginally by N138.48 billion or 2.98 per cent to N4,511.51 billion at end-October 2013, from N4,649.99 billion at end-September 2013. The level of RM at end-October 2013, was below the fourth quarter indicative benchmark of N5,009.88 billion by N498.37 billion or 9.95 per cent.

Interest rates in all segments of the money market reflected the tight liquidity conditions in the banking system. The weighted average inter-bank call and OBB rates opened at 17.99 and 16.92 per cent on September 25, 2013 but closed at 12.50 and 11.73 per cent, respectively, on November 15, 2013.

The capital market continued its rally with the equities market providing the lead. The All-Share Index (ASI) increased by 34.9 per cent from 28,078.81 on December 31, 2012 to 37,883.53 on November 15, 2013. Market Capitalization (MC) increased by 35.0 per cent from N8.97 trillion to N12.12 trillion in the review period. Improved earnings and investor confidence in macroeconomic management and substantial portfolio inflows (as foreign investors took advantage of the favourable domestic economic environment) accounted for the upswing in capital market activities. Generally, equity market valuations remained close to their long run median suggesting that equity prices were fully valued and the stock valuations were close to economic fundamentals.

External Sector Developments

The naira exchange rate remained stable at the w/rDAS and inter-bank segments of the foreign exchange market. The exchange rate at the w/rDAS-SPT during the review period opened at N157.31/US$ (including 1% commission) and closed at N157.63/US$, representing a depreciation of N0.32k. The average official exchange rate during the period was N157.38/US$. The inter-bank selling rate opened at N160.00/US$ and closed at N158.65/US$, averaging N160.15/US$, representing an appreciation of N1.35k for the period. However, at the BDC segment of the foreign exchange market, the selling rate opened at N162.00/US$ and is hovering around N167US$ at present, reflecting the impact of reduction in dollar supply to the segment-as part of the CBN anti-money laundering measures.

The Committee noted the increase in external reserves to US$45.37 billion as at November 15, 2013, representing an increase of US$1.26 billion or 2.85 per cent above the level of US$44.11 billion at end- September 2013. External reserves increased by US$0.95 billion or 2.14 per cent on a year-on-year basis over the US$44.47 billion at end-November 2012. The Committee continued to express its disappointment at the low rate of reserve accretion in spite of strong oil prices; which is a result of the absence of fiscal savings.

The Committee's Considerations

The Committee recognized the importance of taking into consideration not just the static indices at the point of meeting but overall strategic objectives and targets, as well as the outlook for the domestic economy and the external environment, especially with this being the last meeting for 2013.

The Committee noted the decline in inflation and the benign outlook going into the first half of 2014. It further noted the positive impact of monetary policy in engendering a stable exchange rate regime and attracting portfolio investment thus driving the strong recovery of asset prices on the Nigerian Stock Exchange. It also noted that global monetary conditions were likely to remain loose going into Q1:2014 for a number of reasons. First, in the U.S.A, it is clear that the incoming Federal Reserve Chairperson, Janet Yellen, does not see tapering as imminent given the on-going disputes around the budget and the weakness of economic recovery.

In England, although recovery appears to be firmly on track, the BoE is clearly not going to consider raising rates until unemployment falls to 7%, probably in late 2014. The BoJ is likely to continue with QE until inflation reaches its 2% target which is a long way off, and the ECB has just lowered its benchmark rate to avert the risk of deflation. For these reasons, the Committee does not anticipate any major internal or external shocks before its next meeting in January 2014.

The MPC also noted that AMCON is expected to reduce its debt by N1 trillion in December 2013. The CBN has directed that AMCON redeem its Bonds for cancellation by exchanging them for FGN Treasury Bills on its books. Consequently, the only impact of the repayment is that the Balance Sheet of AMCON (and the contingent liability on the FGN from its guarantee of AMCON Bonds) will shrink by N1 trillion. This is positive for the economy and the credit rating of the FGN and the banking industry. Its impact on the markets will be minimal given that only AMCON's Balance Sheet is affected significantly and AMCON is not a player in these markets.

The outlook for 2014, however, portends some potential headwinds that may lead to further tightening in monetary conditions. It is expected that 2014 will be the year for QE- tapering in the US and interest rate rises in Europe, both of which will lead to some pressure on the exchange rate and stock prices due to the impact on capital flows. It is also the year in which election spending is likely to take place domestically, thus bringing more pressure to bear from the fiscal side. As a result, the MPC is of the view that we are not yet at the end of the tightening cycle and may need to tighten further in response to these eventualities next year.

The Committee also noted that, while Federal Government spending overall in 2013 has not been significantly higher than in 2012, oil revenues have continued to decline in spite of the relative stability in oil price and output when compared with preceding years. As a result, Excess Crude savings have fallen from about $11.5b at year-end 2012 to less than $5b on November 14. External Reserves have remained in excess of $45billion only because of a massive inflow in portfolio funds. The implication of this is that financial markets are extremely fragile and susceptible to external shocks. The MPC again calls on the Fiscal Authorities to rebuild buffers in the excess crude account, and this can be done by blocking fiscal leakages in the oil sector and increasing oil revenues. Clearly, the major risk on the fiscal side at present is not one of escalation of spending but loss of revenue from oil exports.

Finally, the Committee formally adopted an inflation target of 6-9% in 2014. It also noted that ECOWAS Heads of State have set a 5% target at the Convergence Council. The MPC reaffirmed its commitment to moving Nigeria firmly into being a low-inflation environment in the medium term. However, the MPC recognizes the high cost of rapid adjustment and plans to make the transition gradually.

Decision

Having considered the success of Monetary Policy in attaining price and exchange rates stability; the potential headwinds in 2014; the ultimate goal of transiting to a truly low – inflation environment; and the need to retain portfolio flows in view of the erosion of fiscal reserve buffers, the committee decided as follows:

1. Nine (9) members voted to keep MPR at 12% +/- 2%; private sector CRR at 12%; public sector CRR at 50% and Liquidity Ratio at 30%

2. One (1) member voted for a 0.5% reduction in MPR and an increase in public sector CRR from 50% to 75%

3. One (1) member voted for 0.5% reduction in MPR and an increase in public sector CRR from 50% to 100%

The Committee has therefore decided by a majority vote of 9 to 2, to hold all rates at current levels.

Thank you for Listening

Sanusi Lamido Sanusi, CON
Governor
Central Bank of Nigeria
19th November, 2013