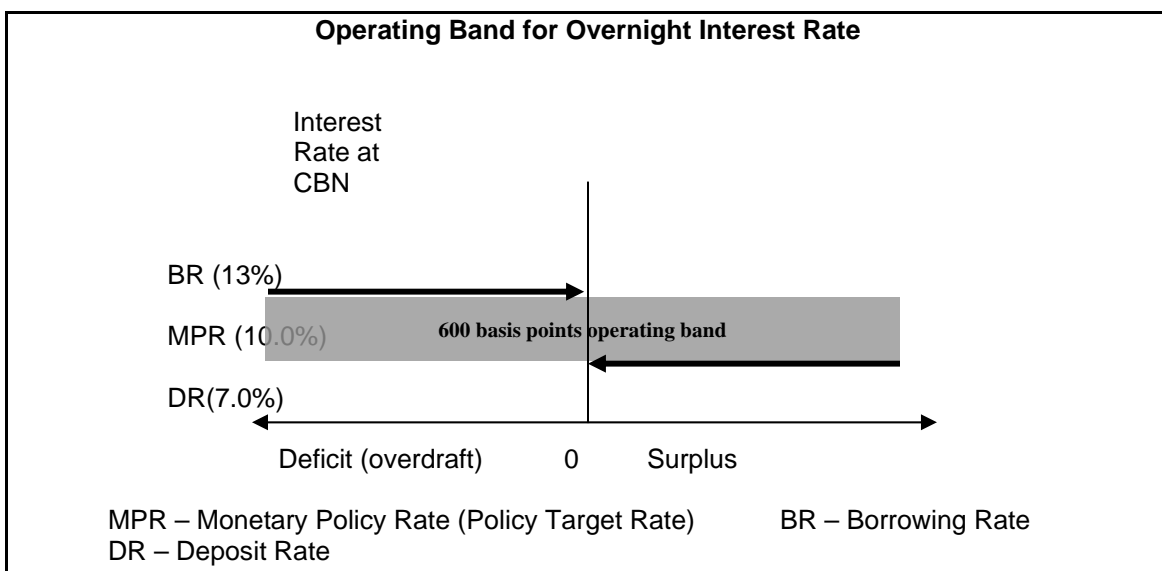


Educational

INTEREST RATES BEHAVIORS AND MONETARY POLICY RESPONSE:

A stable deposit base as opposed to volatile, short-term funds has started to impact positively on interest rates stability. In order to fast track interest rates stability, the CBN introduced a new framework for the implementation of monetary policy in December of 2006. As part of the new framework, the Bank established a standing deposit and lending facility and replaced the MRR with the Monetary Policy Rate (MPR) which was initially set at 10.0 per cent (but reviewed downwards subsequently). The entire system was designed as a corridor with the lending facility as the upper bound of the corridor while the deposit facility served as the lower bound. The entire corridor had a width of 600 basis points with the MPR at the centre.



The MPR was reviewed by the MPC at its subsequent sittings as deemed appropriate by the Committee and on the recommendations of the MPTC. Currently, the MPR is 9.0 per cent and it is also to serve as the Bank's overnight (repo) rate.

Following the adoption the new framework, the erstwhile volatility in the inter-bank moderated significantly as the figure below shows.

Other monetary policy outcomes: Relative to the past, the conduct of monetary policy during the period could be said to be fairly effective. As the last two rows of table 3 shows, inflation and growth outcomes were closest to their targets during the period 2006-2007 compared to previous periods.

Inflation and the exchange rate were relatively stable. As the figure below shows the Bank's favoured measure of inflation, the year-on-year headline inflation has remained single digit in the post bank consolidation period. Likewise, the exchange rate of the naira has been fairly stable.