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Central Bank of Nigeria Communiqué No. 63 of the Monetary Policy Committee Meeting, May 21, 2009

The Monetary Policy Committee (MPC) had a meeting yesterday and reviewed money and foreign exchange market developments. The Committee noted that there was a need to address the problem of excess liquidity in the system without necessarily putting pressure on interest rates.

The MPC noted that the exchange rates have remained stable at both the official and the parallel market rates for some months now. However, there has remained a wide premium between the official and parallel market rates.

The MPC observed that the medium term outlook for the forex market was stable. Consequently, the MPC decided to review the series of controls instituted in the last few months, and over the next three months return to the fully liberalized regime that we had before the recent controls.

We believe that the premium between the parallel and official exchange rates will narrow significantly in the days ahead, and we can sustain the changes over time. The CBN is also exploring the possibility of introducing futures and swaps in the foreign exchange market.

Decisions

Consequently, the MPC decided as follows:

1. To issue short-term instruments to be synchronized with the Debt Management Office's (DMO) issuance of the FGN Bonds to mop-up excess liquidity in the system.
2. To return to a regime of fully liberalized foreign exchange market over the next three months. As a first set of measures towards the return to

Wholesale Dutch Auction System (wDAS), the Committee decided to increase the net foreign exchange open position (NOP) for banks from 1.0 to 2.5 per cent with immediate effect, while keeping in view the possibility of raising it further at the end of June 2009.

3. Banks are no longer mandatorily required to sell to the CBN, after 5 days, funds sourced from non-RDAS and non-oil export proceeds and may use such funds for interbank transactions.
4. Removal of the requirement that banks transact foreign exchange at 1.0 per cent around the CBN rate. The CBN will now participate in the interbank foreign exchange market at the prevailing rate.
5. Effective June 1, 2009, RDAS will be twice weekly.
6. Approval-in-Principle (AIP) has been granted to 50 non-bank Class 'A' BDCs. The list of the BDCs will be published from Saturday, May 23, 2009. As from next week (week beginning from 25^{th} May, 2009) about US$60 million will be sold to the BDCs per week. The BDCs are expected to sell at retail rate of not more than 2.0 per cent above the CBN selling rate.
7. Government Agencies and Oil Companies will have the discretion to sell foreign exchange at the interbank foreign exchange market or to the CBN with effect from May 25, 2009.

Thank you for your kind attention.

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Governor, Central Bank of Nigeria
May 21, 2009