

DOCUMENT OF THE MONETARAY POLICY COMMITTEE, NO. 5

A COMMUNIQUE

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) met three times, on October 2, 16 and 30, respectively, to review financial market developments and macroeconomic conditions. The meetings focused on the appraisal of existing liquidity management measures and their impact on the maintenance of macroeconomic stability. Also, the Committee met twice with some stakeholders in the foreign exchange market on October 5 and 9, respectively, on the strategy for enhancing efficiency of the market. This Communique provides a summary of the deliberations and policy decisions of the Committee during the month.

The Committee noted the relative stability in macroeconomic conditions during the month, which was attributable largely to the tightening of monetary policy and enhanced surveillance of the financial markets. These were reinforced by the on-going 100 per cent custom's destination inspection of imports. Although the growth rate of broad money stock (M2) rose from 21.2 per cent in

August 2001 to 22.7 per cent in September, the rate was substantially lower than the 25.8 per cent recorded in May and , indeed, base money declined in the fourth week of October. The inflation rate (moving average), however, rose moderately to 18.5 per cent in September, 2001, up from 18.1 per cent in the preceding month, representing an improvement, compared to the rapid acceleration observed since the beginning of the year. Moreover, relative exchange rate stability was maintained.

In the Inter-bank Foreign Exchange Market (IFEM), the average naira exchange rate against the US dollar stabilized at ₦11.60 = US\$1.00, while the rates appreciated in both the parallel market and bureau de change from ₦135.00 and ₦135.20 – US\$1.00 to ₦134.00 and ₦134.30 = US\$1.00, respectively, between October 2 and 26, 2001. Similarly, the weighted average Inter-bank call rate fell from 19.4 per cent in the fourth week of September to 17.6 per cent as at October 26, 2001.

In the light of these developments, the Monetary Policy Committee retained the existing policy measures in October. The Committee also decided to re-issue the fourth tranche of the CBN

Certificates of 180-day tenor, maturing on November 23, 2001, at 20.5 per cent rate of interest, as the lingering problem of liquidity overhang remained.

A close monitoring of macroeconomic conditions will be sustained with a view to taking appropriate policy action as the need arises.

October 2001