

DOCUMENT OF THE MONETARY POLICY COMMITTEE, NO. 4

A COMMUNIQUE

This Communiqué provides a summary of the deliberations and major decisions of the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) during the month of September 2001. Its publication is in keeping with the Bank's policy on transparency in monetary and exchange rate policies.

The Committee met twice, on September 4 and 18, respectively, to review developments in the financial markets and the macro-economy. The meetings focused on the appraisal of existing liquidity management measures and the effect in the achievement of sustained macroeconomic stability. The Committee noted the relative stability achieved in both the money and foreign exchange markets following the tightening of monetary policy in June 2001 and enhanced surveillance of the banking system, which were reinforced by the on-going 100 per cent destination inspection of all imports into the country. The growth in base money, which accelerated by 6.6 per cent in June, moderated to 1.6 and 0.6 per cent in July and August,

respectively. Between June and the first week of September, 2001, the average naira exchange rate against the US dollar showed modest but consistent appreciations in all segments of the foreign exchange market, from ₦112.47 to ₦111.60 in the IFEM, ₦135.69 to ₦132.90 in the parallel market and ₦136.19 to ₦133.30 per US dollar in the bureau de change.

However, the accelerated rate of inflation continued and current developments in fiscal operations of all tiers of government point to further growth in money supply increasing the risk of renewed demand pressure in the foreign exchange market and further escalation of the inflation rate. For example, broad measure of money supply (M2) had increased by 23.9 per cent by end-August as against the 12.2 per cent programmed for the entire year. Moreover, the rate of inflation, which stood at 6.9 per cent in year 2000, had accelerated to 19.0 per cent (year on year) and 17.7 (moving average) in July 2001 and is projected to rise further in the third quarter of the year.

Against the backdrop of the current and anticipated adverse developments in monetary conditions, and the need for sustained

macroeconomic stability, the Committee, at its meeting held on September 18, 2001, decided to raise the Minimum Rediscount Rate (MRR) by 200 basis points to 20.5 per cent with immediate effect. Furthermore, the Committee decided to re-issue the third tranche of CBN Certificate of 180-day tenor maturing on September 22, 2001, at 21.0 per cent, up from 19.0 per cent on the maturing one, as a complementary measure aimed at addressing the problem of liquidity overhang.

The Committee will continue to monitor macroeconomic developments and market conditions closely, and effect necessary changes in its policy action as the need arises.

September, 2001