

DOCUMENT OF THE MONETARAY POLICY COMMITTEE, NO. 7

This Communiqué of the Monetary and Policy Committee (MPC) of the Central Bank of Nigeria (CBN) summarizes the deliberations and policy decisions of the Committee during the month of December 2001, in keeping with the Bank's policy on transparency in monetary and exchange rate policies. It would be recalled that the Committee embarked on the monthly publication of key monetary and exchange rate policy decisions from June 2001, the essence of which is to inform the public about the policy objectives of the CBN, including the rationale for its decisions, aimed at minimizing information asymmetry, fostering market confidence and enhancing the achievement of macroeconomic stability.

The Committee met on December 11 to deliberate on the monetary, credit, foreign trade and exchange policy guidelines to be issued for implementation by banks, other financial institutions and authorized dealers in 2002, within the context of a medium-term perspective policy framework. It also appraised existing liquidity management measures and their impact on the

maintenance of macroeconomic stability as well as reviewed the strategy for enhancing efficiency of the foreign exchange market.

The Committee recalled that the CBN had responded to the problem of liquidity overhang in the economy in 2001, arising largely from the expansionary fiscal operations of all tiers of government, and the need to ensure macroeconomic and price stability by tightening monetary policy. It noted the relative stability in macroeconomic conditions in recent months following further tightening of monetary policy in September 2001 and enhanced surveillance of the banking system, which were reinforced by the on-going 100 per cent destination inspection of imports. The growth in monetary aggregates, which accelerated by 28.1 per cent in September, moderated to 26.1 per cent in October and was 26.8 per cent in November 2001, as against the growth target of 12.2 per cent for fiscal 2001. In the Inter-bank Foreign Exchange Market (IFEM), the average naira exchange rate against the US dollar stabilized at ₦111.60 = US\$1.00 in September and October but depreciated to ₦111.90 = US\$1.00 in November, while the rates appreciated in both the parallel market and

bureaux de change from ₦134.21 and ₦134.54 = US\$1.00 to ₦133.70 and ₦134.05 = US\$1.00, respectively. The inflation rate (moving average), however, rose moderately to 18.6 per cent in October 2001, from 18.4 per cent in the preceding month, representing an improvement, compared to the rapid acceleration observed since the beginning of the year.

Despite the relative stability, the Monetary Policy Committee observed evidence of further liquidity build-up in the system towards the end of November, arising from the rapid monetisation of excess crude oil proceeds and disbursement of earnings from GSM licensing which manifested in rising demand pressure in the foreign exchange market. This had the potential to weaken external sector position, in the face of declining world oil prices. Consequently, the Committee retained the existing policy measures in December.

A close monitoring of major macroeconomic indicators and sustained financial sector surveillance will remain in force.

December 2001