

## DOCUMENT OF THE MONETARY POLICY COMMITTEE, NO. 2

### A COMMUNIQUE

This communiqué of the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) reports on the deliberations of the Committee during the month of July 2001, in keeping with the Bank's policy on transparency in monetary and exchange rate policies.

The Committee met twice, on July 10 and 24, respectively, to review the macroeconomic conditions and financial market developments. The Committee noted that the tightening of monetary policy in June, 2001 was borne out of the need to halt the negative macroeconomic trends, induced mainly by the expansionary fiscal operations of the three tiers of government, which put undue pressure on the exchange rate and domestic prices.

Movements in major macroeconomic indicators up to the fourth week of July, 2001, pointed to relative stability in the money and foreign exchange markets, as a result of the tight monetary policy measures taken by the CBN in June and the sustained

surveillance of the financial markets. Base money rose by 0.9 per cent to ₦462.2 billion as at the fourth week of July, compared with the sharp increase of 6.6 per cent in June. The naira exchange rate vis-à-vis the US dollar appreciated in all segments of the foreign exchange market, from ₦112.47, ₦135.69 and ₦136.19 = US\$1.00 in June to ₦111.75, ₦135.30 and ₦135.60 = US\$1.00, respectively, in the Inter-bank Foreign Exchange Market (IFEM), parallel market and bureaux de change. Although inflation inched to 15.7 per cent in May, 2001, from 13.9 per cent in April, it is anticipated that the combination of tight monetary policy and the on-set of the harvest of agricultural commodities, especially food, will have a moderating effect on the domestic price level during the rest of the year.

Against the backdrop of these developments in the month under review, and the anticipated developments in liquidity conditions, the Monetary Policy Committee decided to retain the existing monetary policy measures. The Committee will, however, continue to monitor macroeconomic and market conditions

closely, with a view to effecting necessary adjustments in its policy instruments.

July 31, 2001