

DOCUMENT OF THE MONETARY POLICY COMMITTEE, NO. 9

This communiqué provides a summary of deliberations and major decisions of the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) during the month of February, 2002. Its publication is in keeping with the Bank's policy on transparency in the conduct of monetary and financial policies.

The Committee met twice, on February 5 and 19, respectively, to review developments in the financial markets and the macro economy. Discussions focused mainly on liquidity management and policy measures aimed at ensuring sustained macroeconomic stability, enhanced surveillance of the financial system and strategies for enhancing the efficiency of the foreign exchange market.

The review of financial market developments revealed further growth in aggregate demand and persistence of pressure on the foreign exchange market. Between end-December 2001 and the second week of February 2002, the average naira exchange rate against the U.S. dollar depreciated in all segments of the markets, from ₦112.99 to ₦114.70 in the Inter-bank Foreign Exchange

Market (IFEM), ₦134.41 to ₦138.80 in the parallel market, and ₦134.59 to ₦139.20 per dollar in the bureau de change. The Committee also noted the persistence of liquidity overhang in the banking system and its potential adverse impact on macroeconomic variables, especially on inflation, interest and exchange rates.

In order to attenuate the recurrent problem of excess liquidity in the system, the Committee decided to sustain the policy of monetary tightening designed to encourage increased investment in the domestic money market securities. Consequently, the Committee approved the re-issuance of matured CBN Certificates on February 25, 2002.

The Committee also appraised the take-off of the pilot project of direct sale of travelers' cheques to end-users by the Travelex Group (formerly Thomas Cook) on February 11 and the revocation of the operating license of Savannah Bank Plc. on February 18, 2002. It reaffirmed its confidence in the appropriateness of existing regulatory measures designed to further deepen the foreign exchange market and sanitize the banking system.

February 2002