

PRESS RELEASE

CENTRAL BANK OF NIGERIA

COMMUNIQUE (NO. 14) OF THE MONETARY POLICY COMMITTEE'S ACTIVITIES DURING THE MONTH OF JULY, 2002

This Communique outlines the essential elements of the deliberations and key policy decisions of the Monetary Policy Committee (MPC) of the Central Bank of Nigeria in July, 2002, in keeping with the Bank's policy of transparency in the conduct of monetary and financial policies.

The Committee met four times on July 2, 16, 19 and 30, respectively, to review developments in the financial markets and the macroeconomy. Discussions focused mainly on liquidity management and policy measures aimed at ensuring sustained macroeconomic stability as well as strategies for enhancing the efficiency of the foreign exchange market.

The review of macroeconomic conditions revealed that major indicators were relatively stable. Broad measure of money stock (M2) increased disproportionately by 9.8 per cent in the first half of 2002. On an annualized basis, the growth in M2 translates to 19.6 per cent as at June, 2002 compared with the 15.3 per cent target for fiscal 2002. However, the growth represented a deceleration relative to the rapid expansion of 21.2 per cent in the corresponding period of 2001. Base money, which increased from ₦504.2 billion in December 2001 to ₦513.9 billion in January

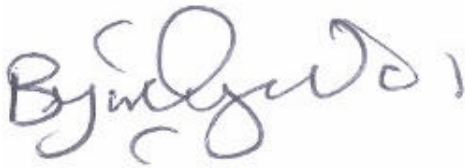
2002, fluctuated downward to ₦499.0 billion in June. Also, the rate of inflation (moving average) which accelerated in 2001 and peaked at 18.9 per cent between December 2001 and February 2002, declined consistently to 16.8 per cent by May 2000, while the month-on-month rate declined to 10.2 per cent from 18.0 per cent in February. Leading macroeconomic indicators pointed to further moderation in subsequent months. Furthermore, the inter-bank market interest rates, which were high and sometimes volatile for the greater part of 2001 have remained generally stable between January and June, 2002. However, the Committee noted the sluggish growth in bank credit to the private sector and the need to increase the level of bank credit for productive activities and thereby stimulate investment growth. In the first half of 2002, for example, bank credit to the private sector increased by only 6.8 per cent as against the 34.9 per cent programme target for the year and 24.2 per cent recorded in the corresponding period of 2001.

It was against this background that the Committee, at its meeting held on July 16, 2002, decided to adjust the CBN's minimum rediscount rate (MRR) downward by 200 basis points to 18.5 per cent with immediate effect, and to reduce the required cash reserve ratio (CRR) by 300 basis points to 9.5 per cent for banks that increase their credit to the real sector of the economy by a minimum of 20 per cent over the level at the end of June, 2002. It is hoped that both measures will help moderate banks' cost of

fund and thereby influence a downward review of bank lending rates to the real sector.

Also, at its meetings held on July 16 and 19, respectively, the Committee, after a careful review of the developments in the foreign exchange market, decided to re-introduce the Dutch Auction System (DAS) with effect from July 22, 2002. The DAS is aimed at enhancing the efficiency of the foreign exchange market through market-based determination of the Naira exchange rate.

The Committee appraised the relaxation of the MRR and the take-off of the DAS on July 30, 2002, and affirmed its confidence in the appropriateness of the various policy measures adopted, but noted the need for all stakeholders (the banks and the Government) to play their expected roles in ensuring the achievement of the desired objectives.



BEN. C. ONYIDO
SECRETARY
MONETARY POLICY COMMITTEE
CENTRAL BANK OF NIGERIA

JULY 31, 2002