

PRESS RELEASE
CENTRAL BANK OF NIGERIA

A COMMUNIQUE (NO. 18) OF THE MONETARY POLICY
COMMITTEE MEETINGS DURING THE
MONTH OF NOVEMBER, 2002

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) met twice during the month, on November 5 and 19, respectively. This Communique summarizes the deliberations and policy decisions of the Committee during the month. The central focus was on the appraisal of current policy measures in ensuring macroeconomic stability and promoting investment/output growth.

The Committee reviewed macroeconomic developments and noted with satisfaction the continued moderation of inflationary pressure. The inflation rate, on moving average basis, declined further to 14.8 per cent in September 2002 from 15.6 per cent in the preceding month, while the annualized month-on-month inflation rate fell to 10.0 per cent from 13.3 per cent in August 2002. Projections for October and November 2002 showed further decline. The observed deceleration in the domestic price level was attributable largely to the dampening effect of good agricultural harvests on food prices. The Committee, however, expressed concern about the high demand pressure in the economy, given the acceleration in the rate of monetary expansion, which has the potential of reversing the downward trend in the domestic price level and increasing the risk of macroeconomic stability. The cumulative growth rate of broad money stock (M2) accelerated rapidly by 24.4 per cent in the first ten months of 2002, compared

with the growth of 16.5 per cent observed at the end of August, and was therefore substantially out of line with the target expansion rate of 15.3 per cent for the whole fiscal year. The acceleration of monetary growth was attributable mainly to the monetisation of additional external reserves, from September 2002, which was shared by the three tiers of government, thus underscoring the need for fiscal prudence.

Developments in the foreign exchange market remained positive, as the gap between the official and parallel market exchange rates narrowed to 9.38 per cent in the first two weeks of November 2002 from 9.48 per cent in the last two weeks of October. The Committee noted that the Dutch Auction System (DAS) of foreign exchange management was achieving the desired objectives, and reaffirmed its confidence in the appropriateness of existing measures. It, however, expects that the Government will exercise expenditure restraint to complement this policy action.

The Monetary Policy Committee also appraised the decision of the deposit money banks to adjust their lending rate to not more than 4 percentage points above the prevailing Minimum Rediscount Rate (MRR), with effect from November 1, 2002, and noted the need to encourage the sustenance of that initiative in order to stimulate investment demand and productive activities in the private sector.

The Committee will continue to closely monitor developments in the economy and take appropriate monetary policy action as the

need arises, in order to ensure a stable macroeconomic environment as well as the flow of credit to the private sector to stimulate investment growth.

A handwritten signature in black ink, appearing to read 'Ben C. Onyido', written in a cursive style.

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

NOVEMBER 20, 2002