

PRESS RELEASE

CENTRAL BANK OF NIGERIA

A COMMUNIQUE (NO. 17) OF THE MONETARY POLICY COMMITTEE MEETINGS DURING THE MONTH OF OCTOBER, 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 (CBN) in October, 2002. This is in keeping with the Bank's policy of ensuring transparency in the conduct of monetary and exchange rate policies.

The Committee met twice, on October 8 and 22, respectively, to review developments in the financial markets and the macroeconomy. Discussions focused mainly on the appraisal of the current policy measures in promoting macroeconomic stability and investment/output growth.

The assessment of macroeconomic developments during the month indicated the continued moderation of inflationary pressure. Specifically, the inflation rate on the moving average basis declined further to 15.6 per cent in August from 16.2 per cent in July, 2002. Based on the annualized month-on-month rate, inflation fell more substantially to 11.0 per cent from 15.6 a month earlier. Further moderation is projected for September and October 2002. The improved inflation performance was influenced largely by the moderating effect of good agricultural harvests on food prices. The Committee also noted the relative calm in the money market, particularly the downward movement in short-term interest rates. It

was, however, concerned about the surge in monetary expansion as broad money supply (M2) recorded a further increase of 1.2 per cent in September 2002, bringing the cumulative growth rate of M2 since the beginning of the year to 17.5 per cent, as against the programme target of 15.3 per cent for 2002. The level of base money rose by 1.5 per cent in the first two weeks of October, although it remained within the programme benchmark for the month. The main expansionary factor of money supply was the monetisation of the external reserves draw down by US\$500 million, which was shared by the three tiers of government.

Developments in the foreign exchange market were positive, as relative stability in the naira exchange rate was maintained, reflecting the impact of increased supply of foreign currency by the CBN to the market. Performance under the Dutch Auction System (DAS) was generally satisfactory during the month under review. The weighted average exchange rate of the naira vis-à-vis the US dollar appreciated marginally to ₦126.52 per dollar in the second week of October, from ₦126.99 per dollar in the last week of September 2002.

During the review month, the Committee appraised the macroeconomic implications of the phased monetisation of the US\$1.5 billion draw-down on external reserves, and underlined the need for fiscal prudence by all the three tiers of government. The Committee also noted with satisfaction the steady decline in CBN's holdings of Nigerian Treasury Bill (NTB) and the corresponding increase in the holdings by the public. While welcoming this development, it anticipated that need to create the CBN's own security for conduct of open market operations (OMO) may arise.

Consequently, the Committee approved, in principle, the creation of “Special OMO Bills”, to be issued strictly for liquidity management, as and when necessary.

The Monetary Policy Committee will continue to monitor developments in the financial system, in particular, and the economy, in general, and will take appropriate policy measures in the best interest of the country.



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

OCTOBER 31, 2002