

## **PRESS RELEASE**

### **CENTRAL BANK OF NIGERIA**

#### **A COMMUNIQUE (NO. 19) OF THE MONETARY POLICY COMMITTEE MEETINGS DURING THE MONTH OF DECEMBER, 2002**

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria met twice on December 3 and 17, 2002 to appraise recent developments in the macroeconomy and the financial markets.

In keeping with the Bank's policy of transparency in the conduct of monetary and financial policies, this Communique provides the gist of the Committee's deliberations and decisions in December 2002.

In its deliberations, the Committee welcomed the continued moderation in inflationary pressure during review period. The moving average rate of inflation declined further to 13.6 per cent in October, 2002, from 18.9 per cent in December 2001, while the annualized month-on-month inflation rate dropped from 16.5 to 5.4 per cent during the same period. The observed deceleration was attributable largely to the moderating effect of good agricultural harvest on food prices and tight monetary policy.

The Committee also noted the calm in the money market, and the general downward movement in short-term rates in recent months. Moreover, the exchange rate of the Naira vis-à-vis the U.S. dollar appreciated in all segments of the foreign

exchange market. In the official market, the weighted exchange rate, which was ₦127.04 per dollar at the beginning of December, 2002, closed at ₦126.40 per dollar by the end of the second week, while the average rates in the parallel market and bureaux de change appreciated from ₦139.00 and ₦139.50 per dollar to ₦137.50 and ₦138.50 per dollar, respectively.

The Committee viewed the performance of the Dutch Auction System (DAS) introduced in July, 2002 with satisfaction for achieving the desired objectives, particularly the enhancement of allocative efficiency of the market, the narrowing of the spread between the official and parallel market rates, and the build-up of external reserves. Consequently, it reaffirmed its confidence in the appropriateness of the existing mechanism for exchange rate determination.

In view of these developments and encouraged by the sustained moderation in inflationary pressures and the general stability in the money market, and given the need to encourage increased credit to the private sector to boost investment/output growth, **the Monetary Policy Committee, at its meeting held on December 17, 2002, approved a further reduction of the Central Bank's Minimum Rediscount Rate (MRR) by 200 basis points to 16.5 per cent, with immediate effect.**

In order to sustain and improve on the relative stability of domestic prices and the exchange rate of the naira, the Committee called on the fiscal authorities to pursue prudent

financial policies in fiscal 2003. The Committee will continue to monitor developments in the economy closely, and take appropriate monetary policy actions as the need arises.



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DECEMBER 18, 2002