CENTRAL BANK OF NIGERIA

MONETARY, CREDIT, FOREIGN TRADE
AND EXCHANGE POLICY GUIDELINES
FOR 2002 FISCAL YEAR

AMENDMENT NO. 1 TO THE MONETARY
POLICY CIRCULAR NO. 36

TO: ALL BANKS

1. It would be recalled that following the persistent problem of Excess Liquidity in the banking system and the need to Restore macroeconomic stability consistent with sustainable growth, the Central Bank of Nigeria (CBN) adopted some measures to tighten monetary policy in 2001. Specifically the CBN Minimum Rediscount Rate (MRR), which is our nominal anchor for interest rate policy, and the minimum Cash Reserve Ratio (CRR) maintained by banks with the CBN, were raised progressively from 14.0 and 10.0 per cent to 20.5 and 12.5 per cent respectively during the year.

2. Recent macroeconomic developments, however, reveal some moderation in the pressure on the economy since the second quarter of fiscal 2002. For example, the rate of inflation (moving average), which accelerated in 2001 and stabilised at 18.9 per cent between December 2001 and February 2002, declined consistently to 16.8 per cent by May 2002, while the month-on-month rate declined to 10.2 per cent from 18.0 per cent in February. Further moderation is expected during the third quarter of the year. In addition, the interbank market interest rates, which were high and sometimes volatile for the greater part of last year has since the beginning of this year been generally stable and moderate. Also, the growth in bank credit to the private sector has remained sluggish, recording only 6.2 per cent during the first five months of 2002, as against the 34.9 per cent programme target for the year.

3. Consistent with these developments and in anticipation of further improvements in the macroeconomic environment during the rest of the year, the CBN has decided to relax some of the monetary policy measures adopted in 2001, in order to stimulate investment growth. Specifically, the following amendments to the CBN Monetary

Policy Circular 36 of 2002 have been adopted with immediate effect.

2. **DOWNWARD REVIEW OF THE CBN MINIMUM REDISCOUNT RATE**

4. The Minimum Rediscount Rate (the rate at which the CBN lends to its prime borrowers) has been adjusted downward by 200 basis points to 18.5 per cent per annum, from the current 20.5 per cent. It is expected that banks will take a cue from this by reducing their lending rates, and that the Government will exercise expenditure restraint, while ensuring further strengthening of infrastructural facilities to complement this policy action.

2. **REDUCTION OF THE CASH RESERVE REQUIREMENT (CRR) FOR BANKS THAT INCREASE THEIR LENDING TO THE REAL SECTOR**

. Cognisant of the need to increase the level of bank credit for productive activities in the private sector, the CBN has modified the requirement that tends to limit the growth in bank lending to the economy. In this regard, the CBN will reduce the required cash reserve ratio (CRR) by 300 basis points 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.

6. It is anticipated that the above action, reinforced by the downward review of the MRR, will help moderate the cost of funds to banks and thereby influence the downward review of bank lending rates to the real sector.

7. The CBN will continue to monitor macroeconomic developments and financial market conditions closely with a view to fine-tuning the existing monetary measures as and when necessary.

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