

**PRESS BRIEFING BY THE GOVERNOR, CENTRAL BANK  
OF NIGERIA, PROFESSOR CHARLES SOLUDO ON THE  
OUTCOME OF THE MEETING OF THE MONETARY  
POLICY COMMITTEE HELD ON 15<sup>TH</sup> JUNE, 2005**

Deputy Governors,  
Directors,  
Executive Staff of the Bank,  
Members of the Press,  
Ladies and Gentlemen.

It is my pleasure to welcome you all to this Press Briefing on the outcome of the Meeting of the Central Bank of Nigeria's Monetary Policy Committee (MPC). The Committee met earlier on 10<sup>th</sup> and 11<sup>th</sup> May and reconvened on 15<sup>th</sup> June, 2005 to review the macroeconomic developments in the Nigerian economy during the preceding months of 2005 and recommend appropriate policy actions on the way forward.

Ladies and Gentlemen, after extensive deliberations, the MPC expressed some discomfort on the economic developments recorded during the first quarter of 2005. For instance, available information on price developments at the end of the first quarter 2005 indicated that inflation rate, on twelve-month moving average basis was 12.2 per cent, and the de-seasonalized point-on-point was 13 per cent. Broad money stock (M2) rose by 17.5 per cent, representing an annualized growth rate of 42.0 per cent. Furthermore, this growth rate records a significant deviation from

the set target of 15 per cent. The major source of liquidity injection into the economy was traceable to the tiers of government through the releases from the Federation Accounts Allocation Committee (FAAC). The Federal Government of Nigeria (FGN) Retained Revenue from January – April was ~~N~~478.6 billion. This represents a shortfall of 3.8 per cent when compared with the proportionate budget target. Sales of foreign exchange at Dutch Auction System (DAS) averaged \$37 million per day during the quarter, which was significantly above the seasonal trend of \$25 – \$28 million per day. Thus, there was persistent pressure on the foreign exchange market. In addition, the resultant surfeit of liquidity in the system has also led to the crash of interest rates especially in the interbank and treasury bill markets. The Committee, however, observed with satisfaction a steady build-up of external reserves which stood at \$23 billion as at end-May, 2005 as against the target of \$20.75 billion for the year.

MPC noted that fiscal policy is under stress – essentially because of the monetization of excess crude; decline in non-oil revenue; fall in OPEC quota . Limit on Ways and Means reached as at June, 14. Fiscal policy needs to be tightened.

Ladies and Gentlemen, having critically reviewed these developments in the economy, the MPC emphasized the need for the adoption of effective monetary policy actions to ensure that the economic achievements recorded in 2004 are sustained. In this regard, the Committee decided to adopt a number of monetary policy measures to check the problem of excess liquidity in the system in order to avert its adverse consequences on the economy. These measures call for tighter monetary policy. They include:

- Withdrawal of public sector deposit to address the problem of excess liquidity in the banking system. The Committee decided that the sum of N60 billion should be withdrawn within a period of 2 months. Central Bank is finalizing arrangements to be the banker to some key Government Parastatals;
- Minimum Rediscount Rate (MRR). The Committee decided to maintain the prevailing rate of 13%. This measure is aimed at avoiding any distortion in the prevailing level of interest rates so as to encourage the growth of real sector of the economy;
- Revision of Reserve Requirement (RR) upward by 50 basis points from 9.5 to 10 per cent in order to further

mop up liquidity in the system. The Committee has decided that, henceforth, debiting of banks accounts with CBN in order to meet the stipulated Reserve Requirement should be effected immediately after the monthly Federation Accounts Allocation Committee (FAAC) meetings. This is premised on the observation by the Committee that the pattern of liquidity overhang in the economy in recent years shows that the government fiscal operations exert significant influence on the level and pattern of liquidity in the economy;

- Revision of definition of Liquid Assets to include 3-year bonds;
- The Committee decided that, until Pension Funds Administrators are appointed, funds realized by the Pension Fund should, henceforth, not be invested in the Nigerian Treasury Bills instead they should be invested in long-term securities or sterilized; and
- Exchange rate band of  $\pm 3$  per cent is to be maintained.

Ladies and Gentlemen, the Monetary Policy Committee is indeed optimistic that the implementation of the above enumerated monetary policy measures, together with tightening of fiscal policy, will reduce the excess liquidity in

the system, lead to stable price level and a stable exchange rate. Our goal is to sustain and improve upon the gains in 2004 and ultimately create a conducive macroeconomic environment for the growth of the economy.

Thank you and God bless.