

**PRESS RELEASE**  
**CENTRAL BANK OF NIGERIA**  
**COMMUNIQUE NO. 35 OF THE MONETARY POLICY**  
**COMMITTEE IN MAY, 2004**

In keeping with the Bank's policy of transparency in the conduct of monetary and financial policies, the Central Bank of Nigeria hereby publishes the summary of the deliberations and decisions of its Monetary Policy Committee meeting, held in May, 2004. The Committee met once to review developments in the macroeconomy and financial markets.

2. In April, 2004, the overall performance of the economy was mixed. Although the growth in money supply ( $M_2$ ) was broadly on target, the rate of inflation continued to accelerate. The pressure on the naira, however, moderated, as the level of gross official external reserves rose. Moreover, the money market remained relatively calm, with both deposit and lending rates rising only moderately.

3. The report from the Federal Office of Statistics (FOS) indicated that in March, 2004, the inflation rate, on moving average basis, rose to 17.8 per cent from 16.5 per cent, in the preceding month. The annualized month-on-month inflation rate was 22.5 per cent, down from 24.8 per cent in the preceding month. The continued rise in the inflation rate was traced to developments in the non-food index, largely reflecting the lag-effect of the deregulation of the down-stream petroleum sector on production cost, as well as the import prohibition, among other causes.

4. The rapid growth in the monetary aggregates, which commenced in February, 2004, moderated slightly in April. In the month under review, the broad money stock ( $M_2$ ) increased by 1.2 per cent, compared with the 1.7 per cent growth recorded in the preceding month. The cumulative growth of broad money over the end-December, 2003 level was 7.0 per cent. Narrow money ( $M_1$ ) and base money rose only marginally by 0.1 and 0.6 per cent, respectively. The main expansionary factor of money supply was the rise in the foreign assets (net) of the banking system, which was moderated by the substantial fall in bank credit to the domestic economy, especially to government.

5. Available data on money market developments indicated a general increase in bank deposit and lending rates. In the month under review, the average inter-bank call rate rose by 1.07 percentage points to 15.89 per cent, over the level in March, 2004. Also, the spread between average savings deposit and maximum lending rates widened only marginally from 15.42 to 15.45 per cent.

6. In April, 2004, the demand for foreign exchange was moderately higher than in the preceding month, with the daily average sales rising to US\$34.54 million from US\$31.00 million in March, 2004. Arising from the increased foreign exchange inflow, the naira appreciated in all segments of the foreign exchange market. At the Dutch Auction System segment, it appreciated to ₦133.4714 from ₦134.4200 per US\$1.00, while in the Bureaux de Change,

the naira strengthened from ₦139.7604 to ₦138.8523 per US\$1.00. The level of official external reserves rose further to US\$10.88 billion, up from US\$10.49 billion at end-March, 2004.

7. The Committee viewed with serious concern, the escalation in the rate of inflation and decided to embark on partial withdrawal of public sector funds with the deposit money banks, as a strategy for mopping up excess liquidity in the system. The Committee noted that developments in the macroeconomy will continue to be monitored, with a view to taking further policy action, if the need arises.



James K.A. Olekah,  
Secretary,  
Monetary Policy Committee,  
Central Bank of Nigeria,  
Abuja.

**31<sup>st</sup> May, 2004**