

## **PRESS RELEASE**

### **CENTRAL BANK OF NIGERIA, COMMUNIQUE NO. 36** **OF THE MONETARY POLICY COMMITTEE** **IN JUNE, 2004**

On the recommendation of its Monetary Policy Committee, the Central Bank of Nigeria (CBN) has decided to recall ₦74.5 billion of public sector funds lodged with deposit money banks, with effect from July 21, 2004.

2. The policy action, which represents a tightening of monetary policy stance, is designed to stem the continued high demand pressure in the foreign exchange market, and acceleration of the inflation rate.

3. Available information on price developments in May, 2004 indicated that the inflation rate, on twelve-month moving average basis, exceeded the 17.5 per cent recorded in April, 2004. Moreover, the daily average demand for foreign exchange remained unsustainably high at US\$46.03 and US\$47.90 million in June and May 2004, respectively, while the level of gross official external reserves recorded only a modest increase during the month, despite the substantial rise in net inflow. Overall, the naira exchange rate depreciated in the Bureaux de Change (BDC) market, although the rate appreciated marginally in the Dutch Auction System (DAS) segment of the market, due to increased supply of foreign exchange by the CBN. The effect was reflected in the further widening of the spread between the DAS and the BDC exchange rates.

4. In the month under review, the growth in monetary aggregates remained broadly within the programme targets, helped mainly by the continued fall in bank credit to Federal Government.

The Committee, nevertheless, emphasized the need for proactive monetary policy actions to ensure the sustenance of this positive development, recognizing the potential risk to macroeconomic stability posed by anticipated bunched government spending on capital projects during the second half of this year. In this regard, the phased recall of public sector funds with the deposit money banks will be sustained until the need for re-injection of liquidity arises. Meanwhile, the Committee will continue to closely monitor developments in the economy, with a view to taking appropriate action to fine-tune the current policy measures.



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2<sup>nd</sup> July, 2004