

PRESS RELEASE

CENTRAL BANK OF NIGERIA, COMMUNIQUE NO. 37 OF THE MONETARY POLICY COMMITTEE IN JULY, 2004

The Monetary Policy Committee (MPC) at the end of its 184th meeting in July 2004, decided to keep unchanged the recent recall of public sector funds lodged with the deposit money banks. It would be recalled that at the end of its previous meeting, the MPC approved the withdrawal of public sector deposits amounting to ₦74.5 billion from the banks to the CBN. This represents 75.6 per cent of total public sector deposits and from only four parastatals. It would also be recalled that the temporary withdrawal of public sector deposits is part of the liquidity management instruments of the CBN, stated in its Monetary, Credit, Foreign Trade and Exchange Policy Guidelines for fiscal 2004/2005.

2. This would help to sustain the tightening of monetary policy stance agreed to in the previous meeting, in order to stem the rising inflationary pressure and the high demand for foreign exchange.
3. Available information since the last meeting indicated that the pressure on prices has continued. The daily average demand for foreign exchange dropped, but remained unsustainably high. The gross official external reserve increased and the naira exchange rate appreciated in the Dutch Auction System (DAS) segment of the market, owing to the increased supply of foreign exchange by the CBN. The exchange rate depreciated in the Bureaux de Change (BDC) market, thereby widening the spread between the DAS and the BDC exchange rates.
4. The Committee also observed that the growth in monetary aggregates remained within the programme targets, as bank credit to the Federal Government continued to fall. Nevertheless, it recognized the threat to monetary stability posed by the anticipated bunched government spending on capital projects in the rest of the year. It also noted the risk of further pressure on prices if the monetary policy stance should be relaxed so soon. In this regard, the Committee agreed to sustain the phased recall of public sector funds with the deposit money banks until further notice.



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29th July, 2004