

PRESS RELEASE
CENTRAL BANK OF NIGERIA, COMMUNIQUE NO. 41 OF THE MONETARY POLICY
COMMITTEE, IN DECEMBER, 2004

The Monetary Policy Committee of the CBN held its 188th meeting on December 14, 2004 and agreed to sustain the existing monetary policy measures.

2. Price developments since the last meeting of the MPC indicated that both the 12-month moving average and the year-on-year inflation rates moderated. The 12-month moving average inflation rate decelerated from 19.1 per cent in August 2004 to 18.2 per cent in September 2004. The year-on-year inflation rate decelerated significantly to 9.1 per cent in September 2004 from 13.0 per cent in the preceding month, reflecting the moderation in prices of all items less farm produce and energy. The exchange rate of the naira remained relatively stable in the Dutch Auction System of the foreign exchange market. Indeed, the nominal exchange rate has appreciated in 2004 relative to 2003. The gross official reserves increased further to US \$16.13 billion in November 2004 from US \$14.67 billion and US \$13.27 billion at the end of October and September 2004 respectively. The stock of external reserves at the end of November 2004 surpassed the US\$15.3 billion target for end-2004. Broad money stock (M_2) increased by 13.1 per cent during the first eleven months of 2004. This represented an annualised growth rate of 14.3 per cent, which was less than the 16.0 per cent target for 2004. In addition, credit (net) to government declined further in the first eleven months of 2004, while credit to the private sector rose by 25.9 per cent as compared with the 22.0 per cent target for 2004.

3. The Committee remained positive about the outlook for the rest of the year. It expects the external reserves to rise further owing to a projected increase in demand for Nigeria's crude oil exports. The Committee also expects that with a continuation of current fiscal operations, the money supply would stay within its programmed target and that the inflation rate would also moderate further. Against this background the

Committee decided not to take any new policy action. The Committee, however, agreed to monitor macroeconomic developments very closely, including the financing of the fiscal deficits. The Committee also noted that one of the challenges of monetary management in 2005 would be the financing of the deficits and the sharing of the excess crude oil revenue. In order to sustain the gains of 2004; the monetary authority might adopt a tighter policy stance in 2005, which might embrace the movement of public sector deposits in and out of banks. A Special MPC will be held in January to consider the Monetary Policy Framework for 2005.



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

16^h December, 2004