

PRESS RELEASE
CENTRAL BANK OF NIGERIA COMMUNIQUE NO. 42 OF THE MONETARY POLICY
COMMITTEE, IN JANUARY, 2005

The Monetary Policy Committee met for two days, 24th and 25th January, 2005, to review the macroeconomic performance in 2004 and the way forward. At the end of the meeting the MPC expressed general satisfaction on the economic achievements recorded in 2004. To sustain the gains of 2004, the Committee agreed to adopt policy measures that would ensure continued price stability and non inflationary growth.

2. Provisional data showed that the real GDP grew by about 5.5 per cent. This was higher than the 5.0 per cent target set under the NEEDS programme for 2004. The year-on-year inflation rate was 9.5 per cent at end-December 2004, representing a significant deceleration from the 23.8 per cent recorded at end-December 2003. The 12 months moving average inflation, however, moved from 14.0 per cent at the end of 2003 to 15.0 per cent at end-2004.

3. The good macroeconomic outturn was due to the effective implementation of an appropriate mix of monetary and fiscal policies. For the first time in almost two decades, the CBN met the target on broad money supply (M2). The M2 rose by 15.2 per cent at the end of 2004 against the target of 15.0 percent under the NEEDS. Also, following the prudent fiscal operations of the Federal Government, the fiscal deficit /GDP ratio improved from the target of 3.0 per cent under NEEDS to about 2.1 (cash basis).

4. The stock of external reserves for the year ended December 2004 was US\$16.9 billion, compared with the target of US\$7.68 billion. The naira exchange rate was N132.85=US\$1.00 at end-December 2004, representing a nominal appreciation of about 3.0 per cent when compared with the rate of N137.0 to US \$1.00 in January 2004.

5. The Committee, however, noted with concern the amount of the proposed budget deficit for 2005, the bulk of which would be financed through the savings from the 2004 windfall crude oil receipts.

6. In order to sustain and improve on the economic gains which were achieved in 2004, the Committee agreed to adopt the following policy measures in addition to the open market operations:

- ⇒ Withdrawal/re-injection of public sector deposits to address the problem of excess liquidity in the banking system;
- ⇒ Reduction of the MRR by 200 basis points, in order to reduce the cost of private sector borrowing for productive investment;
- ⇒ Adoption of two weeks maintenance period for the CRR; and
- ⇒ Adoption of an exchange rate band of plus/minus 3.0 per cent, to sustain exchange rate stability, anchor expectations and minimize transaction costs.

The Committee also agreed to review the effectiveness or otherwise of the above instruments on quarterly basis.



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Secretary, Monetary Policy Committee,
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Abuja.

2nd February, 2005