

PRESS RELEASE

CENTRAL BANK OF NIGERIA

**A COMMUNIQUE (NO. 24) OF THE
MONETARY POLICY COMMITTEE
FOR THE MONTH OF MAY 2003**

In keeping with the policy of transparency in the conduct of monetary and financial policies, the Central Bank of Nigeria (CBN), hereby publishes a summary of the deliberations and decisions of the Monetary Policy Committee (MPC) in May 2003.

2. During the month, the Committee met twice to review developments in the financial markets and the macro economy. It observed that the rapid growth in the monetary aggregates that characterized developments in the first four months of 2003, moderated in May, while the inflation rate showed further deceleration. However, the pressure on the foreign exchange market intensified, resulting in the depreciation of the naira in all segments of the market.

3. In the month under review, the broad money stock (M2) increased by only 0.45 percent, down from 2.3 per cent in April. However, the cumulative growth rate in the first five months of the year was 23.3 percent, which exceeded the 15.0 percent targeted for the whole year by a substantial margin. The main expansionary factors of money supply were the increases

in the foreign and domestic assets (net) of the banking system. During the five-month period, bank credit to the domestic economy increased by 18.7 percent, with the bulk going to the government sector. It is relevant to note that the appreciable increase in government claims (net) on the banking system largely reflected by the rapid draw-down of government deposits with banks. Private sector claims on the banks also increased, but by a relatively modest 13.0 percent, compared with the 32.3 programme target for the year.

4. The inflation rate, as reported by the Federal Office of Statistics (FOS), declined further to 10.1 percent in April, 2003, down from 10.5 percent in March. The continued decline in the inflation rate was influenced largely by the moderation in food prices, which contributes about 70 percent to the overall index.

5. The Committee noted the general downward movement in interest rates, particularly bank deposit and lending rates. The weighted average call rate in the inter-bank market, however, rose sharply to 17.99 in May from 10.86 percent a month earlier, due largely to the tight liquidity situation in the banking system, as the distribution of revenues in the Federation Account to all tiers of government was put on hold.

6. Overall, the Committee welcomed the continued improvement in inflation performance and the substantial moderation in monetary expansion during the review month. Furthermore, it considered the downward movement in bank lending rates as a positive development that could encourage increased private sector borrowing for productive activities. However, the renewed pressure on the foreign exchange market was viewed with concern. Meanwhile, the Committee did not adopt any change in the stance of monetary policy, but developments in the macroeconomy would continue to be closely monitored, with a view to taking a timely policy response, as the need arises.



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