PRESS RELEASE

CENTRAL BANK OF NIGERIA
COMMUNIQUE NO. 32 OF THE MONETARY POLICY
COMMITTEE FOR JANUARY AND FEBRUARY 2004

The Central Bank of Nigeria hereby publishes a summary of the deliberations and decisions of its Monetary Policy Committee in January and February, 2004. This is in keeping with the Bank's policy of transparency in its conduct of monetary and financial policies. The Committee met twice during the period, once each month.

A review of major macroeconomic indicators and financial market developments revealed that, while signs of a modest economic recovery were becoming noticeable and the financial markets remained generally stable, the problem of inflation resurgence was evident. The pressure on the foreign exchange market, however, moderated somewhat, with the exchange rate of the naira recording a marginal appreciation in January. Also, the level of gross external reserves increased marginally.

In contrast to the excessive monetary expansion that characterized most of 2003, a sharp contraction in money supply was observed in December, 2003 and January 2004. Specifically, the broad money stock (M_2) declined by 5.3 and 0.2 per cent in both months, respectively as narrow money (M_1) fell substantially by 7.8 and 3.2 per cent, respectively, during the two months. Conversely, in January, 2003 M2 and M1 increased substantially by 9.2 and 11.2 per cent, respectively. The main contractionary factors of money supply during the review period, were the sharp fall in banking system credit (net) to the Federal Government and public sector institutions and the decline in foreign assets (net) of the banking system.

Attributable largely to the lagged effect of the excessive growth of money supply in 2003 and 2002, the pass through effect of the naira depreciation and the hike in the price of fuel, the inflation resurgence observed in September 2003 continued into December. Actual data from the Federal Office of Statistics (FOS) indicated a further rise in the inflation rate to 14.0 per cent (on the twelve-month moving average basis) in December, 2003, up from 13.0 and 12.3 per cent in November and October, 2003, respectively. On a month-on-month basis, the annualized rate of inflation was 23.8 per cent in December 2003, compared with 21.3 per cent in the preceding month. The rise in the composite index was influenced, largely, by the increases in prices of food items and transportation costs.

The increased demand pressure experienced in the foreign exchange market in October, 2003 continued into December. However, the pressure moderated in January 2003 and contributed to the marginal appreciation of the naira exchange rate, from ₦137.53 in December, 2003 to ₦136.12 per

US$1.00 in January 2004 at the Dutch Auction System (DAS) segment of the market. Correspondingly, the naira appreciated in the Bureaux De Change (BDC) from ₦150.34 to ₦147.44 per US$1.00 over the same period.

The surfeit of funds in the money market influenced the continued downward movement of interest rates. Available information showed that both the deposit and lending rates of the banks declined in January, from their respective levels in December, 2003. Moreover, the call money rate in the inter-bank market, recorded a substantial fall, from 21.11 to 12.26 per cent per annum over the review period.

In its overall assessment of developments in the economy, the Committee was encouraged by the improvement, although modest, in the growth performance of the real sector, helped by the strong agricultural sector performance and enhanced capacity utilization in the manufacturing sector. Also, the moderation of demand pressure in the foreign exchange market seemed to have been sustained, resulting in the continued appreciation of the naira in all segments of the foreign exchange market. The resurgence of inflation in September, 2003 and its escalation in the subsequent months was, however, of great concern to the Committee.

Recognising the urgent need to douse inflationary expectations and bring the rate down, the Committee at its February 2004 meeting decided to tighten the stance of monetary policy. Consequently, it approved a selective withdrawal of public sector funds from the banking system, targeting a total of ₦40 billion, as a strategy for reducing excess liquidity in the system. The Committee emphasized the need for continued monitoring of macroeconomic and financial market developments, with a view to taking appropriate policy measures.

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Secretary
Monetary Policy Committee
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Abuja.

<u>18th February, 2004</u>