PRESS RELEASE

CENTRAL BANK OF NIGERIA COMMUNIQUE NO. 46
OF THE MONETARY POLICY COMMITTEE, JUNE 8, 2006

The Monetary Policy Committee of the CBN decided on 8th June 2006 to raise the Minimum Rediscount Rate (MRR) by 100 basis points to 14.0 per cent.

(1) The Monetary Policy Committee (MPC) of the CBN met on 8th June, 2006. The MPC reviewed the major macroeconomic developments and the implementation of fiscal, monetary and exchange rate policies in the first five months of 2006, as well as the challenges for the rest of the year. The Meeting, the second in the year, lasted five (5) hours and had in attendance two new External Board Members of the Bank. The MPC noted the mixed economic performance in the first five months and restated its commitment to ensuring monetary and price stability in the rest of the year. This Press Release summarises some of the major conclusions of the MPC.

KEY MACROECONOMIC DEVELOPMENTS

(2) **Inflation**

The MPC noted that both the end-April headline and core inflation rates had increased to 12.6 and 16.6 per cent from 11.6 and 2.4 per cent in December 2005 respectively. The provisional estimates for end-May as well as the forecasts for June for the two measures of inflation, however, indicated some moderation. The MPC observed further that inflation was being pushed by structural factors particularly the vandalism of oil pipelines, which was affecting the efficient supply of power-energy and cost of transportation. In addition, inflation in non-food price (core) was being aided by the continued build-up of excess liquidity. On the other hand, food prices had declined to 9.6 per cent at end-April from 15.5 per cent at end-December 2005. The Committee expects continued decline in food prices in the next quarter as the harvest period sets in; this would have a general dampening influence on prices given the overriding weight of food in the inflation basket. However to complement the influence of food, the MPC noted the need to address the problems posed by excess liquidity.

(3) **Economic activity**

The GDP growth was seasonally low in 2006, relative to the high growth in 2005. The overall end-March 2006 GDP grew by 2.7 per cent year-on-year, down from 6.9 per cent in the corresponding period of 2005. This was attributed largely to the unrest in the Niger Delta, which affected oil productions. In addition, the incessant pipeline vandalism disrupted the supply of fuel products as well as the supply of power energy that adversely affected non-oil private sector activity.

(4) **Exchange rate**

The MPC noted with satisfaction the relative stability of the naira following the Bank's initiative to allow the BDCs access to the CBN's forex window in April 2006. The naira exchange in the BDCs has since appreciated from US $1/N151.00 in March to US $1/N136.00 by the first week in June 2006. Against the DAS exchange rate, which has stabilized at about US $1/N127.00, the BDC market premium has dropped from N24.00 in March to N9.00 in the first week of June 2006.

(5) **External Reserves**

Gross external reserves increased from US $28.00 billion at end- December 2005 to US $36.00 billion at end-March 2006. Following the US $4.60 billion exit payment to the Paris Club in April, the stock of external reserves fell to US $32.00 billion at end- April, but rose to US $34.00 billion at end-May 2006, owing to continued positive developments in the international oil market and the commitment of the Authorities to accumulate external reserves to defend the value of the naira.

(6) **Growth in Monetary Aggregates**

Broad money (M2) grew by 14.1% as at end-May 2006 over the December 2005, which represented an annualized growth rate of 33.8 per cent compared with the target of 15.0 – 17.0 per cent for 2006. The rise in money stock was due to the 22.5 per cent increase in aggregate bank credit (net) to the public sector; compared with the target negative 4.0 per cent for the entire 2006. The increase in M2 was also helped by the monetization of foreign assets (net). Credit to the private sector, however, increased by 4.35 per cent in the period under review owing to the slowdown in economic activity in the sector. When annualised credit to the private sector was 10.4 per cent compared to the target of 30.0 per cent for 2006.

(7) **Reserve Money**

At end-May 2006, the reserve money was N812.50 billion, which was higher than the target of N800.00 billion for the second quarter 2006. In addition, the level of RM is projected to rise to N835.00 billion if current trends continued.

(8) **Interest Rates**

The MPC noted the general decline in banks' deposit and lending rates following the excess liquidity in the system. Consequently, the spread between the average savings deposit and maximum lending rates fell from 16.2 percentage points in December 2005 to 15.1 percentage points at the end of May 2006.

THE OUTLOOK FOR THE REST OF THE YEAR

(9) Some risks exist owing to persistent excess liquidity in the rest of 2006 if current trends remained unchanged. A prolonged disruption in oil production would reduce government revenue from oil; and to meet the planned programme, government might resort to high powered money, which would be more inflationary. Against this background, the MPC decided to tighten monetary policy in line with its anti-inflationary policy goal.

DECISIONS

The Committee thus:

(a) Raised the MRR from 13.0% to 14.0%, to take effect from 12th June, 2006,

(b) Maintained the CRR at 5.0%

(c) Resolved to sustain the on-going liberalization of the forex market as well as effectively monitor the market to maintain stability of the naira.

(d) The Monetary Policy Implementation Committee (MPIC) would continue to keep daily surveillance on monetary operations.

(e) With the deployment of the electronic Financial Analysis Surveillance System (eFASS), the Bank will leverage on that to ensure the proactive implementation of monetary policy.

(f) The OMO shall continue to be the major instrument of monetary policy.

(g) The Committee, further assured that it would respond to changes in economic prospects as needed to support the attainment of its objectives.

Thank you for your kind attention.

James Olekah

Director Monetary Policy,

Central Bank of Nigeria,

Abuja.

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