

PRESS RELEASE

CENTRAL BANK OF NIGERIA
COMMUNIQUE NO. 33 OF THE MONETARY POLICY
COMMITTEE FOR MARCH 2004

In keeping with the Bank's policy of transparency in the conduct of monetary and financial policies, the Central Bank of Nigeria hereby publishes a summary of the deliberations and decisions of its Monetary Policy Committee in March, 2004. The Committee met once during the month and reviewed developments in the macro economy and the financial market in February 2004.

The overall macroeconomic environment showed some improvement, as the monetary aggregates showed further contraction; the foreign exchange market remained generally stable, with the naira recording a modest appreciation and, the official gross external reserves improved significantly. Moreover, the level of interest rates showed further moderations.

A review of monetary developments indicated that the broad measure of money supply (M_2) fell by 2.8 per cent to ₦1, 959.5 billion, compared with the 0.2 per cent decline recorded in the preceding month. In the corresponding period of 2003, the M_2 , however, increased by 1.8 per cent. In addition, narrow money (M_1) fell by 4.9 per cent during the review month, compared with the 3.2 per cent rise recorded a month earlier. The main contractionary factor of broad money supply during the

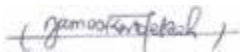
month under review was the substantial fall in bank credit to the domestic economy, mainly the CBN's net claim on the Federal Government. The development was explained by the rapid increase in the Federal Government's deposits with the CBN to a level, which more than offset Government's gross indebtedness to the Bank. Credit to the private sector, on the other hand, rose by 1.1 per cent, compared with the 3.4 per cent increase observed in the preceding month.

The moderation in demand pressure on the foreign exchange market observed in January continued into February, 2004. Thus, total foreign exchange sales in the Dutch Auction System (DAS) segment of the market remained virtually unchanged at the January level, rising by only 0.4 per cent to US\$780.1 million. Consequently, the naira exchange rate firmed and, in fact culminated in the appreciation to ₦135.00 per US \$1.00 in February from ₦135.3 in January, 2004. Over the same period, the naira appreciated even more substantially in the Bureaux De Change (BDC), rising from ₦147.79 to ₦142.95 per US\$1.00. Helped by the appreciable increase in foreign exchange inflow and moderation in the demand, the official external reserves of the country rose substantially by 11.2 per cent to US\$9.35 billion as at end-February 2004. That level of external reserves could finance up to 8.1 months of foreign exchange disbursements.

In February, 2004 activities in the money market remained generally calm, as in the preceding month. Actual data on interest rates movement,

as at mid-February 2004, showed that bank deposits and lending rates declined generally. The average savings deposit rate, for example, declined marginally by 0.12 percentage point to 3.4 per cent, while the average prime and maximum bank lending rates moderated by 0.29 and 1.67 percentage points to 19.20 and 19.90 per cent, respectively. Moreover, the weighted average inter-bank call money rate fell from 12.26 per cent in January 2004 to 10.85 per cent, reflecting the surfeit of funds in the market, relative to the demand.

Although inflation data for January and February 2004 were not available, preliminary indicators showed that the risk of further increase in domestic price level was marginal. Encouraged by that, coupled with the contraction in the broad money supply since the beginning of 2004, the Committee observed that the prospects of bringing the rate of inflation down was high if fiscal prudence was sustained. Meanwhile, the Committee decided to continue monitoring developments in the economy with a view to fine-tuning the existing policies, if necessary.



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10th March, 2004