PRESS RELEASE
CENTRAL BANK OF NIGERIA
COMMUNIQUE NO. 34 OF THE MONETARY POLICY COMMITTEE IN APRIL 2004

The Central Bank of Nigeria hereby publishes a summary of the deliberations and decisions of its Monetary Policy Committee in April 2004. The Committee met once in the month and reviewed developments in the macro economy and the financial market; and decided not to introduce any monetary action.

The overall economic picture showed that growth in monetary aggregates slowed as the banking system's credit to government contracted; the foreign exchange market remained stable, with the official gross external reserves showing further improvement and the naira exchange rate appreciating. The level of the banks' interest rates, however, increased and the average inflation rate rose further.

A review of monetary developments showed that the broad money supply (M_2) fell by 2.0 per cent to ₦2, 023.4 billion at end-March 2004, in contrast to the increase of 2.4 per cent recorded in the preceding month; and the 7.8 per cent increase in March a year earlier. The cumulative growth since the end of December 2003 showed that M_2 grew by 1.93 per cent at end-March 2004, significantly lower than the 16.0 per cent target for the entire fiscal 2004. The slow growth in broad money was attributed to the decline in the banking system credit (net) to the federal government. The banking system's credit to the private sector, on the other hand, rose by 13.7 per cent during the first quarter of 2004.

The narrow money (M_1) also fell by 2.3 per cent in March 2004, compared with declines of 2.4 and 3.2 per cent recorded in February and January 2004, respectively. The cumulative growth since the end of December 2003 showed a decline of 16.2 percent at end-March 2004, which contrasted with the 13.4 per cent programmed target for the fiscal year. The main factor contracting the growth in narrow money supply was the substantial fall in the banking system's net claims on the Federal Government.

In addition, the monetary operations of the CBN showed a net withdrawal of liquidity from the banking system in March 2004. The treasury bills issue rate declined; although available data indicated a general increase in the banks' deposit and lending rates as well as a rise in the inter-bank call rate, owing to the liquidity squeeze in the banking system.

The pressure on the foreign exchange market moderated further in March, 2004, as sales in the Dutch Auction System (DAS) segment of the market declined to US $ 690.16 million from US $ 780.14 million in February 2004. Consequently, the naira exchange rate appreciated to ₦134.26 per US $1.00 in March 2004 from ₦135.00 per US$1.00 in the preceding month. The naira, also appreciated in the Bureaux De Change (BDC), from ₦142.95 to ₦139.92 per US$1.00 in the same period. The stock of official external reserves of the country rose further from US$9.35 billion at end-February 2004 to US$9.68 billion at end-March 2004, which can finance more than 8.0 months of imports.

The twelve-month moving average inflation rate rose further in February 2004. Available data from the Federal Office of Statistics (FOS) showed that the average inflation rate was 16.5 per cent in February 2004 up from 15.0 per cent in the preceding month. The annualised month-on-month inflation rate also increased from 22.4 per cent in January 2004 to 24.8 per cent in February 2004. The rise in the inflation rate was largely attributed to the increase in the prices of clothing materials, house rent, health services and items for personal care, as well as the rise in prices of vegetables and fruits.

Encouraged by the continued moderation in the growth of broad money supply, coupled with the reduction in the pressure on the demand for foreign exchange, the Committee observed that the prospects of containing inflation and stabilising the interest rate were high, if the current level of fiscal prudence was sustained. Against these assumptions, the Committee decided not to introduce any monetary policy change. Meanwhile continued effort will be made to monitor the impact of the recent withdrawal of liquidity from the banks under the new settlement system with a view to fine-tuning the existing policies, if necessary.

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22nd April, 2004