



CENTRAL BANK OF NIGERIA

KEYNOTE ADDRESS

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*Delivered at the 2018 Financial Markets Dealers Association (FMDA) Conference,
held at Eko Hotels and Suites, Lagos, September 21st, 2018*

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Protocols

1.0 Distinguished ladies and gentlemen, it is my delight and pleasure to be invited to present a keynote address at this Conference on the theme **“The Nigerian Financial Market-A Catalyst for Sustainable Economic Growth”** to operators and stakeholders in the nation’s financialmarket. The conference theme is not only apt, but timely, considering thatfinancial markets constitute an important mechanism to mobilise domestic savings and channel same to productive investment which engenders capital accumulation, innovation and sustainable economic growth.

2.0The fundamental functions of financial markets that enhances economic performance remain constant over time and across countries and these includes: promoting borrowing and lending through the transfer of purchasing power between economic agents; providing price information for decision making by households and firms; spreading or sharing risk betweeninvestment promoters and fund providers;dealing with incentive-related problems that negatively affect financial contracts such moral hazards, adverse selection and information asymmetries; enhancing efficiency through reduction in transaction and information costs; and providing holders of financial assets with liquidity in times of need through re-sell or asset liquidation.

3.0 The financial market is broadly delineated into money and capital markets. The money market facilitates the transfer of short-term funds and promotes the management of liquidity in the economy. The main segments of the country's money market are the banking, treasury bills and the foreign exchange markets. The capital market is used to source long-term funds for long-term investments and the market consists of the treasury bonds market, corporate bonds market and the equity market.

4.0 In Nigeria, financial market development has been driven by several reforms over the years in line with the revolution taking place in the finance landscape around the globe. We have progressed from an era of heavy regulation to the on-going era that is driven primarily by deregulation, liberalization and globalization, and advances in information and communication technology which has brought about significant changes in financial infrastructure.

5.0 To put this keynote address in proper perspective, I will briefly review recent reforms in the Nigerian financial market, the financial market-sustainable economic growth nexus and the current challenges. Thereafter, I will proceed to consider how the market can be repositioned to play its catalytic role in sustainable economic growth.

Recent Financial Sector Reforms Impacting the Nigerian Financial Market

6.0 Ladies and Gentlemen, let me present an episodic overview of CBN's role in financial market development in Nigeria. During the 1958-1969 period, we established the local money and capital markets which was aimed at discouraging the outflow of surplus funds from Nigeria into instruments in the London money market. As may be expected, this facilitated the emergence and use of financial market instruments such as: treasury bills (1960), call money

scheme (1962), and treasury certificates (1968). In order to boost activities in the capital market, we supervised the issue of the first development loan stock in 1959 and also contributed significantly to the establishment of the Nigeria Stock Exchange in 1961. Furthermore, the Bank played a dominant role in the establishment of the Nigeria Industrial Development Bank (NIDB) in 1964 to provide medium and long term finance to key sectors of the economy.

7.0In the 1970-1986 period, I wish to recall that considering the paucity of domestic savings to finance medium and long term investment, the Bank supported the establishment of Nigeria Bank for Commerce and Industry (NBCI) in 1973 and the Nigerian Agricultural and Co-operative Bank (NACB) in 1973. To further strengthen institutional capacity to provide long-term capital in the Nigerian economy, NBCI, NIDB and the National Economic Reconstruction Fund (NERFUND), created in 1988, were later merged to form the Bank of Industry (BOI) in 2001. The CBN supported the establishment of Securities and Exchange Commission (SEC) in 1978/1979 to regulate and promote the development of capital market in Nigeria. A notable development in 1985 was the establishment of the Second-tier Securities Market (SSM) of the Nigerian Stock Exchange to meet the needs of small and medium enterprises (SMEs).

8.0Distinguished participants, you will recall that the 1986-2004 era represented a watershed in the annals of financial market development, especially money market, in Nigeria as the introduction of SAP in 1986 led to a regime of indirect monetary control and extensive financial liberalization through the implementation of market-oriented policies. Further institutional developments led to the establishment of Nigeria Deposit Insurance Corporation, (1988) to stabilize the banking system by instilling confidence in the sector and the creation of discount houses to intermediate in the money market through

transactions in short-term securities such as treasury bills, treasury certificates, and commercial bills.

9.0 Banks are the major players in money market in Nigeria. To foster competition and enhance their efficiency while leveraging on the SAP framework, the Bank promoted the policy of liberal licensing of banks and this resulted in a steep rise in the number of commercial and merchant banks from less than 40 before 1986 to 120 in 1992. Following global best practice, there was a policy induced bank consolidation exercise which commenced in 2004 to strengthen the banking system and the ensuing Initial Public Offers (IPOs) significantly boosted the equity market in Nigeria.

10.0 I would want to emphasize that beyond the need to recapitalize the banks, notable developments in the 2005-2008 period that impacted on the efficiency of the financial market revolves around regulatory reforms. Some examples of these reforms include: adoption of risk-focused and rule-based regulatory framework; adoption of zero tolerance in regulatory framework for data/information rendition/reporting and infractions; strict enforcement of corporate governance principles in banking; expeditious process for rendition of returns by banks and other financial institutions through e-FASS application software; revision and updating of relevant laws for effective corporate governance; and ensuring greater transparency and accountability in the implementation of banking laws and regulation; and strict enforcement of the contingency planning framework for systematic banking distress.

11.0 Distinguished ladies and gentlemen, some key developments that contributed to the strengthening of the financial market to moderate illiquidity after the global financial crisis include the establishment of a resolution vehicle (Asset Management Corporation of Nigeria) in 2010, to soak the toxic assets of

Deposit Money Banks (DMBs). Also, let me mention the “Alpha Project Initiative” which brought about the “new banking model” structure that replaced the hitherto one-size-fits-all model of banking. This new model resulted in the establishment of international banks, national banks, regional banks and specialized banks.

12.0 Distinguished participants, I am pleased to let you know that Nigerian banks are now ranked amongst key players in the global financial landscape with some of them featuring amongst the First 20 banks in Africa and among Top 1000 banks globally.

13.0 I want to say that the Nigerian capital market is not left out in terms of reforms to enhance market performance. Take for instance, since the aftermath of the effect of the global financial crisis on the capital market, the apex regulator in the capital market has stepped-up its surveillance activities and initiated different programmes. The 10-year capital market master plan initiated by the Securities and Exchange Commission (SEC) is the current overarching capital market development and reform plan covering the overall capital market, non-interest financial products and capital market literacy. Let me say that, at the end of the implementation of the plan, the Nigerian capital market will be Africa's most modern, efficient and internationally competitive capital market that will catalyze Nigeria's emergence as one of the top 20 global economies.

14.0 Furthermore, SEC worked with the International Finance Corporation (IFC) to develop a “Corporate Governance Scorecard” to further improve corporate governance practices in the sub-sector. Let me equally point out that as part of its effort to improve market operators' baseline infrastructure, market access and service delivery, SEC is currently implementing a process of ensuring that

capital market operators (CMOs) comply with a new minimum capital requirement. Compliance is now a prerequisite for the registration of new CMOs. Operators have also been encouraged to embrace mergers and acquisition as a way of building strong and responsive capital market.

Engendering Sustainable Economic Growth: Catalytic Role of the Nigerian Financial Market

15.0 Distinguished Ladies and gentlemen, let me dwell briefly on the role of the Nigerian financial market in promoting sustainable economic growth. The CBN as an apex regulator in the financial market have contributed immensely to the economic growth and development of Nigerian through the execution of its core mandate as enshrined in the CBN Act of 2007. Due to time constraint, I will focus on few issues. Our role is basically to ensure monetary and price stability. The Central Bank contributes to the smooth functioning and integration of the Nigerian financial markets and to economic growth through maintaining a steady medium-term price stability orientation for the market.

16.0 The pursuance of the objective of price stability is highly beneficial, as it will minimize the adverse effects of inflation and high inflation uncertainty which creates a climate for higher productivity over the medium term. Price stability reduces the economic and social inequalities caused by the asymmetric distribution of the costs of inflation among the various economic agents. In addition, in an environment of low inflationary expectations, inflation risk premium become relatively less important as a determinant of financial asset prices. Inter alia, the open market operations (OMO) is not only a major activity in the money market but also a veritable tool to moderate inflation.

17.0 The maintenance of a sound financial system provides the requisite enabling environment of trust and confidence for all participants in the financial market to pursue their legitimate economic goals. Prudential regulation by the Central Bank plays an important role in sustainable economic growth. Supervision is the guardian of financial stability, which in turn crucially determines the capability of the financial market to allocate resources efficiently and absorb liquidity shocks. Financial crises can have a deep and protracted impact on economic growth, as illustrated by several episodes of financial instability that occurred in many countries.

18.0 Let me add that the contribution of prudential supervision to economic growth proceeds along two dimensions. From a preventive perspective, supervision has to ensure a continuous and comprehensive monitoring of all the potential threats to financial stability in the financial market. The role of supervision is also crucial after the emergence of a crisis, in order to provide for a swift and ordered resolution.

19.0 Furthermore, I would want to comment on the laudable developmental interventions of the CBN, which have been well acclaimed by Nigerians. For instance, the anchor borrowers' programme is having a monumental impact on rice production in Nigeria. The quality and quantity of rice currently being produced in the country can compete favourably anywhere in the world. Aside this, there is a host of other interventions such as: the ₦300 billion Power and Aviation Intervention Fund (PAIF); ₦200 billion SME/Manufacturing Refinancing and Restructuring Fund (RRF); ₦200 billion Small and Medium Enterprises Credit Guarantee Scheme; Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL); and the ₦220 billion Micro, Small and Medium Enterprises Development Fund (MSMEDF), amongst others.

20.0 Distinguished participants, the Deposits Money Banks (DMBs) play a vital role in the sustenance and development of the financial market which promotes sustainable economic growth by mobilising funds and facilitating money creation through the extension of credits to individuals, corporations, other organisations and governmental bodies.

21.0 Let me hasten to say that aside the money market, operators and institutions (brokers, dealers, investment bankers and financial intermediaries) in the capital market play very important role in enhancing sustainable economic growth by facilitating the issue and sale/re-sale of short-term government securities, financial assets and other eligible financial instruments. Venture capital is thus made available to businesses through new issues. Also, the capital market facilitates the flow of portfolio investment which have salutary impact on external reserves in the short term.

Challenges of Financial Markets in Nigeria

- Distinguished participants, the performance of the financial market- most especially the capital market, in recent times has been a source of concern for market operators and policymakers in general. The development has underscored the fact that certain fundamental challenges are inhibiting the efficient functioning of the market. Hence, actors in the capital market should evolve comprehensive measures to strengthen, broaden and deepen the market to enhance its intermediary role in financing economic activities.
- Another impediment is that the Nigerian capital market still suffers from some of the issues in its structure and practices. Though there is increase in the number of listed securities, the market is dominated by equities, and

the equities segment is also highly concentrated on a particular type of security or economic sector. This exposes the market to significant vulnerability and extreme volatility with market sentiment easily susceptible to the influence of the dominant security/economic sector.

- Over time, there has been the general perception that regulation and supervision is not supportive of innovative growth and development in the market due to the effect of restrictive rules, procedures and regulation. Also, as may be obtainable in other emerging markets, the system of regulation and supervision remain inadequate and ineffective due, largely, to absence of required updated skill and tools. This allows for sharp practices and abuses, which erode investor confidence.
- Finally, the inadequate number and variety of securities available for trading on the Nigerian capital market constrains wider participation in the market. The current composition of the listed equities does not reflect the Gross Domestic Product (GDP) of Nigeria since important sectors making up our GDP such as agriculture, oil and gas and telecommunication are not proportionally represented. The limited variety of listed securities reduces the investment options available to the investor.
- Other challenges sighted by stakeholders' include poor access to information, poor capitalization of market operators and lack of investors' confidence in the sector. Furthermore, it is well known that the financial markets in Nigeria are considered to be shallow. For instance, the banking sector is responsible for almost 100 per cent of the loans taken by the private sector, while there is near non-existence of debt instruments in the capital market. Thus, enterprises that wish to access medium or long-term credit to expand their activities are unable to do so.

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The Way Forward and Conclusion

Way Forward

In the light of the importance of an efficient financial market to an economy, it is imperative to ensure that every impediment to the proper functioning of the market is addressed:

- Maintaining a stable macroeconomic climate at all times would make the market operate more efficiently and encourage participation by prospective investors. Taming inflation to its barest minimum and curtailing foreign exchange rate volatility among others are essential for macroeconomic stability that could create a conducive environment for investment.
- There is also the need to expand the range of investable securities on the Exchange to deepen the market and provide opportunities for risk diversification by investors.
- Similarly, there is need to create economic conditions that would encourage more stable longer-term capital flows in the market.
- To ensure greater accountability and promote transparency, the Nigeria Stock Exchange should ensure the internal discipline and efficient supervisory and regulatory processes.
- There is an urgent need to attract new listings and new investors in the market. There is significant untapped potential for raising capital for investment from the capital market as has been demonstrated in the past during the bank consolidation exercise.

Thank You.

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