OPENING ADDRESS AT THE 2ND ANNUAL CONFERENCE OF THE MONEY, MACROECONOMIC FINANCE RESEARCH GROUP (MMFG) OF THE MONEY MARKET ASSOCIATION OF NIGERIA BY CHIEF (DR.) J. O. SANUSI, GOVERNOR, CENTRAL BANK OF NIGERIA AT HILTON HOTEL, ABUJA ON 15TH MAY 2003

The President, Money Market Association,
The Special Guest of Honour,
Distinguished Participants,
Ladies and Gentlemen,

1. It is a great honour and, indeed, my pleasure to present the opening address at the 2nd Annual Conference of the Money, Macroeconomic Finance Research Group (MMFG) of the Money Market Association of Nigeria. This year's conference represents a commendable effort by the Association to build capacity in the financial sector as well as sensitize the stakeholders on monetary policy formulation and implementation. I also like to seize this opportunity to commend the Association for its valuable contributions to the promotion of efficiency in the financial market.

2. The theme of the conference, 'Financial Stability' is germane in view of the pivotal role of the financial sector in promoting economic growth and development. Indeed, the significance of financial stability derives from the recognition of the negative impact, which financial crisis can have on domestic savings and investment growth. Indeed, events in Indonesia, South Korea and Thailand in 1997 remind us of the critical need to protect the banking and payments system from risks and crises.

3. In the period between the early 1960s and 1989, the scale of financial crisis in the country was generally low. The large-scale distress of the 1990's, however, attracted institutional and policy attention, leading to the establishment of an institutional framework for crisis resolution, that included imposition of holding action on affected banks and the adoption of a contingency plan for ensuring banking soundness. Recognizing that monetary policy and financial stability are intertwined, the CBN in 1986, embarked on financial sector reforms, involving interest rates deregulation, introduction of auction system for treasury instruments, liberalization of licensing of new financial institutions,

enhancing the capacity and effectiveness of financial sector surveillance, and the creation of the scope for operators' self-regulation.

4. These reforms were designed to make the financial system more robust and competitive, as well as minimize the inefficiencies generated by structural rigidities in the economy. To sustain and consolidate the gains of the financial sector reforms, the CBN now places more emphasis on prudential supervision, stipulation of new paid-up capital and capital adequacy requirements, and a more effective off-site surveillance and on-site examination.

5. Ladies and Gentlemen, it is important to note that financial stability will be elusive without the achievement of overall macroeconomic stability, while a stable macroeconomic environment will be difficult to establish in an unstable financial system. Nigeria's experience in financial crisis has revealed the vulnerability of the financial system to macroeconomic instability, structural rigidities and frequent policy reversals.

6. Furthermore, it has been demonstrated that the problem of fiscal dominance impacts negatively on the performance of the financial sector. Empirical evidence shows that large and unsustainable fiscal deficits, financed from the domestic financial market, generally lead to high inflation and the depreciation of the exchange rate. Furthermore, the financing of deficits through the banking system crowds out the private sector.

7. In addition to obvious exogenous factors, several internal causes have been identified to militate against the performance and stability of the financial sector. These factors include: weak management, poor internal controls, inadequate capital base, poor asset quality, boardroom squabbles and unprofessional behavior of some operators.

8. Distinguished participants, our experience, so far, has demonstrated that the task ahead of operators in the financial services industry is enormous, particularly as we integrate into the global economy. Unfortunately, the enthusiasm of the political class to provide democracy dividends at all cost will, in no small way, put further pressure on the government finances and the need for increased borrowings by government at all levels. These factors, against the background of the

globalization of the international financial market, pose greater challenges to the monetary authority and the operators.

9. It is, therefore, important that this conference, which has attracted experts and valuable sundry stakeholders should critically examine these problems and prescribe feasible solutions, which will enhance the stability of the financial system and macroeconomic environment. I urge each and every one of you to speak frankly so that we may find a lasting solution to the problems that could lead to financial distress in Nigeria. I should emphasize here, that the responsibility for ensuring financial stability does not rest with the Central Bank alone. The operators and the three tiers of government should share this role with the regulatory and supervisory authorities.

10. Let me conclude by assuring you that due consideration will be given to the views and recommendations that will emerge from your deliberations. On this note, I declare the 2nd Annual Conference of the Money, Macroeconomic Finance Research Group of the Money Market Association of Nigeria open.

11. I wish you all fruitful discussions.

12. Thank you and God bless.

Chief (Dr.) J. O. Sanusi, *CON*
Governor,
Central Bank of Nigeria,
Abuja.

May 15, 2003