

KEYNOTE ADDRESS

BY

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DELIVERED AT THE FIFTH FINANCE CORRESPONDENTS  
AND BUSINESS EDITORS SEMINAR, HELD AT THE  
IMO CONCORDE HOTEL, OVERRI, IMO STATE,  
FROM 26<sup>TH</sup> – 28<sup>TH</sup> JANUARY, 2004.

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CBN Board members,  
Deputy Governors,  
Special Advisers,  
Directors and Branch Controllers here present,  
Fellow Staff and Colleagues,  
Seminar Participants and Facilitators,  
Distinguished Ladies and Gentlemen

It is my delight to address you all at this year's Seminar organised for Finance Correspondents and Business Editors in the print and electronic media. As you are all aware, this is the fifth in the series of the seminar initiated by the Central Bank of Nigeria (CBN), to enhance the understanding and analytical ability of Finance Correspondents and Business Editors on topical economic issues, particularly monetary and financial sector developments. This, to our mind, would enable them to appreciate and analyse the Bank's policies and operations better, as well as, facilitate improvement in reporting on those issues. These would help promote healthier relationship between the Bank and media practitioners.

2. It is my expectation that, by the end of the seminar, participants would be better equipped with the necessary analytical tools to interpret, report and educate the discerning public on the major roles of

the financial system in the Nigerian economy and the efforts of the regulatory authorities to ensure the soundness and stability of the system.

3. I consider the theme for this seminar, “**Financial Sector Stability: Issues and Challenges**” quite appropriate, recognizing the important role of the financial sector in promoting economic growth and development in an increasingly liberalized world economic environment. It is also timely, in the light of recent developments in the financial system and public apprehension about the health and stability of the banking system in the country.

4. It is, perhaps, useful Distinguished Ladies and Gentlemen, to briefly outline the special place of financial institutions in the economy, in order to put the theme of this seminar into proper perspective. Banks and other financial institutions are providers of liquidity and payment services and, therefore, represent an important nerve center of the economy, and the link between the real and financial sectors. In particular, they facilitate the intermediation of financial resources through the promotion of the savings and investment process, as well as, constitute the institutional framework for the conduct of monetary policy and channel for the transmission mechanism. The relationship between the level of efficiency in the financial system and overall performance of the economy is, therefore, a very strong one.

5. The goal of ensuring the soundness and stability of the financial system, generally, is of paramount importance as bank failures may undermine public confidence in the system, and force a sudden contraction of the money supply, curtail savings and investment, induce a collapse of the payments system and cause severe dislocation of the real sector. The critical role of the Central Bank, therefore, is to regulate and monitor the financial system, ensure its development, prevent financial distress and facilitate sustained growth. One thing that all central banks have in common is the promotion of financial stability as a public policy objective, which is a key factor for influencing macroeconomic performance and reducing the potential for systemic distress.

6. As you may recall, the financial sector reform policies pursued in recent years have been designed to support the basic objectives of the structural adjustment programme adopted in September 1986. In the context of the reform, the CBN has shifted from direct control to a market-based mechanism in the conduct of monetary and financial policies. The driving force for the paradigm shift has been the desire to achieve enhanced efficiency in the mobilization and utilization of resources, as well as, develop an efficient framework for monetary management. In 2001, the Universal banking scheme was introduced, following further liberalization of the financial sector. Its adoption was borne out of the need to create a more level-playing field for the financial sector operators, encourage greater efficiency through

economies of scale, and foster competition by opening up various areas of entry by banks.

7. The supervisory role of the CBN, which is aimed at promoting a safe and sound financial system, has been expanded to cover non-bank financial institutions. The Banks and Other Financial Institutions Act (BOFI) of 1991 (as amended) conferred on the Bank the power to license and supervise banks. Through the Banking Supervision, Bank Examination, and Other Financial Institutions Departments, the CBN monitors financial institutions' compliance with existing laws and regulations. Activities of all the regulatory and supervisory authorities in the Nigerian financial sector, including the CBN, the Nigeria Deposit Insurance Corporation (NDIC), the National Insurance Commission (NAICOM) and the Securities and Exchange Commission (SEC) are coordinated through the Financial Sector Regulation Coordinating Committee (FSRCC) for enhanced efficiency and effectiveness.

8. In line with international best practices, the CBN has adopted the core principles of the Basle Committee on Banking Supervision, including the Prudential Guidelines for licensed banks to promote banking soundness and financial sector stability. I am pleased to note that facilitators have been invited to elaborate on current efforts by the supervisory authorities to strengthen surveillance activities and ensure financial sector stability in the country.

9. It is important to note that, the role of market discipline is being enhanced through the enforcement of necessary disclosure requirements that ensure timely publication of credible information that would guarantee safe and sound banking practices in Nigeria.

10. Permit me, Distinguished Participants to state that, recently, the BOFIA was amended to provide additional safeguards against insider abuse and promote good corporate governance by defining the functions and responsibilities of a Director and stipulating the procedures for lending to him and other related parties. The Bank has also adopted the code of good practices in monetary and financial policies, the international standards on auditing and is moving towards the full adoption of International Accounting Standards. The CBN is also making strides in implementing the recommendations of the Financial Action Task Force (FATF) to combat money laundering and advance fee fraud. The sustenance of these regulatory efforts is critical to ensuring a strong and stable financial sector capable of meeting the challenges of the 21<sup>st</sup> century within a globalized financial market and instruments.

11. Distinguished Ladies and Gentlemen, you will recall the distress situation in the financial sector in the early 1990s, which led to the ultimate liquidation of 26 banks on January 16, 1996, and its negative effect on public confidence in the system. There is the need for protecting the central role of the banking system and guarding against the negative externalities associated with bank failures, especially when

such failures are widespread. The supervisory authorities have accordingly adopted a robust framework of prudential regulation and supervisory practices, as well as, various distress resolution options that safeguard the system from widespread failures. In this context, problem banks are encouraged to promptly correct deviations from sound banking practices and failing banks are made to exit before they infect the system.

12. Indeed, the objective of supervisors is not to keep every problem bank alive at all cost, but rather to initiate an early, orderly and efficient exit of any bank that becomes severely under-capitalized. In this regard, I wish to dispel the distress rumour which made the round in recent times, following the suspension of some banks from the clearing system because of their unsustainably overdrawn accounts with the CBN. The banking system was not in crisis; in fact an analysis of relevant measurement criteria reveals that the banking system is enjoying relative calm and stability.

13. At this juncture, let me state that the maintenance of financial sector stability is complementary to the pursuit of monetary and price stability and, therefore, poses major challenges to central banks all over the world. Just as the causes of banking crises are multi-dimensional, so also are the strategies to avoid crises and ensure stability. They involve sound macroeconomic policy, effective conduct of regulation and supervision, creation of appropriate incentive/penalties structures, the development of market discipline as well as good corporate governance

and efficient management of financial institutions. It is a prime responsibility for central banks to contain financial crises, but the central bank is not the only body with financial stability responsibilities. Finance ministries share the role, so do other regulatory institutions, as well as, financial institutions themselves, as operators.

14. The CBN will sustain efforts at enhancing surveillance of the financial sector and also ensure that the operators play according to the rules of the game, through appropriate supervisory intervention and the encouragement of self-regulation in the financial services industry.

15. Given that financial institutions are at the heart of a market economy, it is therefore imperative that participants understand the issues involved in financial sector stability. With the formidable team of experts assembled here to share their knowledge and expertise on the salient issues relating to this important topic, I urge you to pay serious attention to the deliberations and to ask questions that will contribute to financial sector stability in Nigeria.

16. Once again, Distinguished Ladies and Gentlemen, I welcome you all to this seminar and wish you fruitful deliberations.

17. Finally, it is, therefore, my honour and privilege to declare the seminar open.

18. Thank you for your kind attention.



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