

**OPENING ADDRESS OF THE EUROMONEY NIGERIA FINANCE &  
INVESTMENT CONFERENCE AT THE, EKO HOTEL & SUITES, LAGOS,  
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BY

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**Theme: Financing Liquidity in a Post Liquid World**

**Protocols**

I am delighted to be here as a Special Guest of Honour, and to give the opening address to the Euromoney Nigeria Finance and Investment Conference. Let me start by saying that I find the theme of your conference; *Finding Liquidity in a Post Liquid World* quite pertinent to the issues we are currently facing in the current downturn. This conference is coming at a very auspicious time and the topic in question is relevant not only to Nigeria, but the world at large, as nations struggle to cope with the effects of the global economic crisis on liquidity in their financial sectors. In America and Europe the crisis has been responsible for the collapse of major companies, unprecedented job losses and an economic recession.

Investor confidence is at an all time low, and it is getting increasingly difficult to access credit.

The liquidity crisis we are facing was caused by a fall of previously inflated asset prices which led to a write down of the bank capital of International Banks as a consequence of which there was a retrenchment in bank lending.

In Nigeria the global meltdown took its toll on oil prices which in turn affected the Federal Government's revenue, rapid depreciation of the Naira and the management of Nigeria's Foreign Reserves, the Nigerian Stock Exchange and ultimately Nigerian Banks; all these resulted in liquidity problems in the Nigerian Financial Services Industry. At this juncture, let me digress slightly, by borrowing a phrase attributable to a 15th century writer, Niccolo Machiavelli, who stated that we should "never waste the opportunities offered by a good crisis". Rahm Emanuel, US President Barack Obama's White House Chief of Staff also postulated last year that we should "never waste a crisis. It can be turned to joyful transformation". These statements, I believe are even more true to Nigeria as they are to other countries in the world. The global economic crisis has prompted

Nigeria and many other countries to work harder to diversify their economies to avoid similar developments in the future. I believe for the first time in a long while, we have been given an opportunity to take a good hard look at our country with a view to reworking our economy.

Foreign and domestic investors are currently seeking a competent, stable and viable economy to investment and Nigeria as an early stage emerging market must continue to remain attractive to them. In order to ensure that Nigeria remains an attractive destination for foreign investors, there is a need to strengthen the Financial Services Industry in the country with a long term view to restoring investor confidence in the system. A lack of proper regulation was a major factor during the crisis and new measures will be taken to ensure that financial institutions give full disclosure on their activities whilst also providing adequate information to the public in order to promote transparency. It is also important to imbibe sound risk management practices, as investors gain confidence when they know their investments are in the right hands and unnecessary risks will not be taken with their funds. A strong financial services sector must also be underpinned by good corporate governance and continuous public

enlightenment. The financial services industry has a responsibility to investors and the general public and in order to have a sound system, market operators and regulators must adhere to these requirements. The CBN would continue to ensure the maintenance of public confidence through the enforcement of appropriate disclosure and reinvigorating the policy of zero tolerance on all unprofessional and unethical banking practice.

As you are aware, the CBN has taken a number of measures to proactively mitigate problems of illiquidity in the Nigerian financial sector. Prior to the global financial crisis, liquidity management in the CBN focused on draining excess liquidity from the banking system. However, the crisis threw up the problem of liquidity shortage, demanding liquidity injection to the system. Hence, since September, 2008, the CBN stopped aggressive liquidity mop-up, progressively reducing the Monetary Policy Rate from 10.25 to 6.0 per cent, cash reserves requirement (CRR) from 4.0 to 1.0 per cent, and liquidity ratio (LR) from 40.0 to 25.0 per cent. Despite these interventions, the problem of liquidity shortage remained intractable.

The issue of liquidity shortages at the wake of the global financial crisis is not peculiar to the Nigerian financial system. Many other jurisdictions, including developed and emerging economies, experienced and are still experiencing, liquidity crunch of varying degrees. Like Nigeria, those countries embarked on short-term interest rate easing, by lowering their policy rates, reducing reserve requirements and liquidity ratios, and stoppage of liquidity mop-up operations. Other measures taken by some of these countries have included recapitalization of deposit taking institutions, and extension of medium-to long-term credit ~~extension~~ to these institutions, to cushion the effect of liquidity tightness.

Given the limited potency of these policy measures, some central banks have resulted to a policy of quantitative easing. This involves the purchase of government securities and high quality government assets including commercial papers and corporate bonds as a means of injecting fresh liquidity into the banking system. The US Federal Reserve has devised various facilities targeted at different segments of the market, such as The Commercial Paper Funding Facility, Term Auction Credit, Money market Investor Funding Facility and term Asset-Back Securities Loan Facility to

provide liquidity and restore confidence in the US credit market. The Bank of England also launched a policy of quantitative easing in February, 2009, with the authorization from the UK Treasury. The Bank of England set up an Asset Purchase Facility (APF) to buy selected high-quality private sector assets financed by the issuance of treasury bills. The purpose of the Asset Purchase Facility as per the Treasury's instructions, was to promote the flow of credit to the corporate sector through purchases of suitable instruments, notably commercial paper, corporate bonds, government-guaranteed bank bonds, asset-backed paper from viable securitization structures, and syndicated loans.

In Nigeria, we are already thinking along these lines. For instance, when the Monetary Policy Committee (MPC) met on the 1st of September, 2009 to address the challenges faced by the Nigerian economy against the backdrop of recent domestic and international economic and financial developments, it was felt necessary to come up with policy initiatives to further address the liquidity challenges facing the Nigerian economy. This led to the proposal by the MPC to set up an Asset Purchase Facility Fund (APFF).

The fund would be set up by the CBN in collaboration with the Ministry of Finance. The objective of the APF is to ease banking system liquidity and corporate financing conditions. This would improve the functioning of private markets as the fund would stand ready to make primary market purchases of securities as well as acting as backstop for secondary market investors. It is intended that the facility would be operated for as long as the abnormal conditions of high illiquidity in the inter-bank and credit markets that materially impair the financing of real sector persists. Currently modalities for the setting up of the APF are being worked out.

The CBN is very cognizant of its primary objective which is to promote output while maintaining price stability over time, thereby providing an enabling environment that would be conducive for the growth of the Nigerian economy in the medium-to long term. The conduct and implementation of monetary policy should be dictated by the prevailing domestic economic conditions. In order to achieve enhanced efficiency of the financial markets on which the effective conduct of monetary policy depends, the CBN would need to strengthen the implementation of the on-going financial sector reforms. An efficient and effective transmission

mechanism can only be assured in an environment that ~~that~~ has a transparent, sound and competitive banking system. That is why the CBN has and will continue to undertake reforms aimed at sanitizing Nigeria's banking industry to address the challenges it faces, owing to the downturn in the global economy.

I therefore commend Euromoney and its partners for conceiving this idea to rally key stakeholders to scrutinize the realities, challenges and implications of finding liquidity in a post liquid world. The CBN is open to constructive ideas and suggestions on measures and ways to effectively and sustainably address this challenges we face. Equally important are ideas about what Nigeria should learn out of the crisis and how to and how not to react to the crisis. I am impressed by the array of experts and top-rank participants attending this Conference. It is indicative of the quality of deliberations and recommendations to come. This conference could therefore not have come at a better time as it allows various stakeholders in the financial industry to rub minds on how to surmount our basic infrastructure gap, human capital deficit and widespread poverty to define

a sustainable path to our nation's future. We are therefore looking forward to the findings and recommendations of this Conference.

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Distinguished ladies and gentlemen let me extend my good wishes for a successful conference. Thank you very much.