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Keynote address at the CBN Executive Seminar on "Financial Sector Development, Economic Growth and the Nigerian Economyâ€

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Keynote Address

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Deputy Governors,
Departmental Directors,
Branch Controllers,
Eminent Resource Persons,
Distinguished Executives,
Ladies and Gentlemen.

1. It is my pleasure to be with you as the Special Guest of Honour at this year's annual Executive Seminar taking place again in Lagos after almost two decades since the inaugural edition. The theme for this year's Seminar "**Financial Sector Development, Economic Growth and the Nigerian Economy"** is indeed pertinent, particularly at this period when the advanced economies are refocusing strategies on banking sector stability so as to safeguard their seemingly fragile financial systems from the risks of financial contagion. In addition, this event is coming at the heels of the implementation of the 'Cash-less' policy aimed at achieving an environment where a higher and increasing proportion of transactions are carried out through other modes of payment other than cash, in line with the global trend. The 'Cash-less' policy, which had already commenced in the Lagos Area under a pilot scheme, was designed to, among others: smoothen financial intermediation; promote financial inclusion; minimize revenue leakages; eliminate incidence of robbery; free the financial system from the burden of high cost of currency management, arising from the preponderance usage of cash in the settlement of financial transactions.

2. As you are all aware, the financial sector consists of an array of institutions and processes, which include: specialised and non-specialised financial institutions; organised and unorganised financial markets; financial instruments and services, among others, all of which facilitate mobilisation, utilisation and transfer of funds. These institutions, as we know, are not always mutually exclusive; rather, they function as a set of complex and closely intertwined units, within and between the markets and the economy. It is therefore not out of place to assert

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that the financial system is the hub on which the growth of a nation's economic activities gravitates.

3. Ladies and Gentlemen, you all know that the role of the financial sector in economic growth and development has for a long-time occupied the minds of economists. From Adam Smith to Maynard Keynes and Paul Samuelson to Joseph Stiglitz, economists have continued to explore the various channels through which financial sector development contributes to economic growth. Generally, scholars have observed that long-term sustainable economic growth depends on the ability to raise the rates of accumulation of physical and human capital as well as the efficient use of the resulting productive assets. Therefore, it is imperative that the financial sector which forms the major catalyst to economic growth, be well-developed to accelerate the growth of savings, capital formation and investment.

4. Let me reiterate the fact that financial sector development involves the nurturing and expansion of the institutions, markets and all the processes that support financial intermediation. At the centre of this nurturing is the improvement of financial intermediation within the economy. First, this involves the mobilisation of domestic and foreign savings for investment by households and firms/corporate entities. Second, that the funds mobilised are allocated to the most productive use and third, the provision of liquidity to enable investors to operate efficiently. The main drivers of financial intermediation are the banks and non-bank financial institutions, which not only allocate pooled savings for investment, but also, monitor, absorb and allocate associated risks.

5. You will recall that the Nigerian financial sector has witnessed considerable improvement over the years, with the Central Bank of Nigeria and other regulatory authorities spearheading most of the reform initiatives in the face of the numerous challenges posed by internal and external economic conditions. The bank consolidation exercise of 2004-6 saw improved capitalization and expansion of banks' business capacity. The downside was that banks overstretched their limits without complementarily up-scaling their risk management and corporate governance capabilities. These led to erosion of capital and created liquidity challenges in the financial markets. In response, the CBN took drastic actions, including the removal of some banks' CEOs to avert crisis in the financial system.

6. In recognition of the primacy of the financial sector, the Bank introduced a new set of reforms to restore confidence and strengthen the banking sector to engender long-term sustainable growth of the economy. These reforms were anchored on four broad pillars, namely: enhancing the quality of banks; establishing financial stability; enabling a healthy financial sector evolution; and ensuring that the financial sector contributes to the real economy. Specifically, the Bank introduced a new banking model to replace the erstwhile universal banking framework that allowed many deposit money banks (DMBs), which hitherto engaged in the primary business of banking/asset management on stand-alone basis, to operate as financial supermarkets offering unfettered wide range of activities. The new model enunciated modalities for creating international, national, regional, mono-line and specialized banks in the financial sector. In addition, the DMBs that wish to retain subsidiaries are allowed to operate a holding company (national and international) structure to effectively ring-fence the core banking business within the group.

7. Furthermore, the reform also specified the quantum of capital to operate any class of the new structure. These capital prescriptions by all intents and purposes represented a subtle way of ensuring the recapitalisation of the banks within the economy. As already known to the public, to operate as regional, national and international bank, the DMBs require capitalization of ₦10, ₦25 and ₦50 billion, respectively. Also, a minimum capital of ₦15 billion is required to operate as a merchant bank with operations strictly confined to investment and wholesale banking. In addition, the CBN formally issued guidelines for the licensing and operation of non-interest banking in the first half of 2011 to expand the coverage of banking activities and promote financial inclusion within the economy. Overall, this reform is expected to facilitate a system where banks are involved only in the core banking activities devoid of the unbridled risky behaviour that contributed significantly to the recent banking crisis.

8. Another major strand of the reform initiatives was to ensure that the banking system contributes to the real sector of the economy by enhancing the availability of credit to improve business climates for employment generation and also create the conditions for the private sector to be the engine of growth. Thus, the CBN through the Bank of Industry (BOI) continued to strengthen the initiatives of improving access to financial services by the poorly financed real sector of the economy. Notable among these initiatives are: the ₦200 billion Commercial Agricultural Credit Scheme; the ₦200 billion Refinancing/Restructuring

SME/Manufacturing Funds and the Power/Aviation/Infrastructure Fund, which have been sustained to provide long-term finance for the real sector of the economy.

9. In addition, the CBN engaged the Alliance for Green Revolution (AGRA) to develop the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) to further strengthen agricultural financing strategies to boost output, increase farmers' income, create jobs and provide wealth opportunities across the value-chain. Let me emphasize that the whole essence of the NIRSAL is to spur the agricultural industrialisation process through increased production and processing of the greater part of the commodities produced across the nation.

10. Distinguished Ladies and Gentlemen, you will agree with me that the global financial crisis of 2007 – 2009 has demonstrated that financial integration, not only brings benefits, but also allow shocks to be transmitted more easily across continents and nations. The realisation of this has therefore, necessitated the continuing search for copious solutions, particularly by the industrial economies, to ensure a more resilient and efficient financial system as well as a financial stability framework that would minimise exogenous shocks and insulate the global financial system from contagion.

11. Moreover, recent developments around the globe particularly, with respect to the US sovereign debt downgrade and the European debt crisis which negatively affected the credit ratings of Greece, Portugal, Spain and Italy among others, have further underscored the urgent need to strengthen the global financial system, in general, and those at the regional and national levels, in particular. It is not surprising therefore, that the European Union led by Germany and France has spearheaded the moves to recapitalise fragile banks across Europe and one of such move was the injection of €4.0 billion fund approved for the Belgian bank Dexia, among others.

12. As you are aware, Nigeria is also affirming her resolve to strengthen the financial system, particularly by stemming bank failure, curbing systemic risks and containing contagion. To ensure this, the Bank revoked the licences of the three most fragile banks, namely Bank PHB Plc, Spring Bank Plc and Afribank Plc, following, which the NDIC incorporated three (3) 'bridge banks', namely Keystone Bank, Enterprise Bank and Mainstreet Bank, respectively, to assume their assets and liabilities. The move was not only to stabilise the banking sector and

avert systemic risks, but was also designed to save thousands of jobs that otherwise would have been lost if the 'bridge banks' mechanism was not implemented, as a matter of urgency.

13. Let me remind you that one of the most arduous problems confronting the Nigerian economy today is that of growth without employment (jobless growth phenomenon) which requires a very urgent attention. It is my fervent belief that the pursuit of financial innovations to aid the real sector can greatly improve the employment content of Nigeria's GDP growth. To this end, the Bank will continue to promote the policy of financial inclusion to engender the provision of universal access to finance at reasonable cost and a wide range of financial services to everyone so that more jobs will be created for the teeming population.

14. Ladies and Gentlemen, with these remarks, I presume the stage has been set for incisive deliberation on how to fashion-out new strategies to foster financial sector development that will continue to drive sustainable economic growth and development in Nigeria. I am aware of the assemblage of eminent resource persons to lead the discussions and I, therefore, challenge you all to brainstorm and come-up with plausible recommendations and suggestions that would support the financial sector and ultimately spur economic growth and development.

15. I wish you all a very fruitful deliberation and thank you for your attention.