

**OPENING REMARKS BY THE GOVERNOR,  
CENTRAL BANK OF NIGERIA, CHIEF (DR) J.O.  
SANUSI, AT THE OPENING CEREMONY OF THE  
FIRST ANNUAL CAPITAL MARKET CONFERENCE  
AND DINNER HELD AT THE SHERATON  
HOTEL AND TOWERS, IKEJA, 13<sup>TH</sup> – 14<sup>TH</sup>  
AUGUST, 2002**

Your Excellency, Vice President, Atiku Abubakar,  
The Honourable Minister of Finance  
Mallam Adamu Ciroma  
The Chairman, SEC,  
Captains of Industry,  
Distinguished Ladies and Gentlemen,

I feel greatly honoured, as the Chairman of this epoch making occasion, to welcome you all to the First Annual National Capital Market Conference, organized by the Securities and Exchange Commission (SEC). Indeed, as the former Secretary (1972–1977) of Capital Issues Commission and first Chief Executive (1978) of SEC, today is a memorable day for me, considering the great strides SEC has made since its humble beginning three decades ago, first as the Capital Issue Committee and later as the Capital Issues Commission.

2.0 The focus of this conference – “Nigerian Capital Market and Globalisation Challenge”, could not have been more

appropriate, given the wind of change that is currently taking place in contemporary financial markets and new challenges posed for market participants and regulatory authorities. The organisers must, therefore, be congratulated for their initiative and dynamism in bringing major stakeholders together to articulate the way forward for the Nigerian Capital Market, given the changed environment in which financial institutions have to operate.

3.0 The financial market plays a pivotal role in mobilizing financial resources from the surplus units and channeling them to the deficit units for productive investment, thereby facilitating the growth and development of an economy. The widespread programmes of financial liberalisation and advanced technological innovations, particularly in the fields of data processing and telecommunications have broken down barriers of national boundaries and facilitated massive international capital flows. These developments, aided by the adoption of flexible interest rates and exchange rate regimes are providing market participants with incentives to develop new financial instruments and techniques in order to remain competitive. The Nigerian Capital Market constitutes an integral part of this process.

4.0 Let me add at this point that the major factors which

drive the capital market are a country's economic fundamentals which are anchored on a sound financial system, macroeconomic stability and a productive real sector. We in the Central Bank of Nigeria have laboured over the years to ensure banking soundness and stable macroeconomy, through the use of appropriate monetary and exchange policy instruments while advocating fiscal prudence. The objective is to ensure the efficacy of the financial markets and promote public confidence in the economy.

5.0 A tight monetary policy with consequent high interest rate as we have witnessed in Nigeria in recent years is an opportunity for the capital market to grow, not necessarily in terms of higher prices of the existing stock, but by inducing credible companies to approach the market to raise new funds for investment as a reaction to the banks high cost of short term funds. I am happy to note that investors took advantage of the tight monetary policy in the last three years to patronise the Nigerian Capital Market as shown by the trend in the value of new issues which increased from 43.3 per cent in 2000 to 113.9 per cent in 2001.

6.0 Mr. Chairman, Distinguished Ladies and Gentlemen, while attention is still focused on the capital market and the

prospects for attracting foreign investments into the country, kindly permit me to use this medium to make a brief remark on the recent re-introduction of the Dutch Auction System (DAS) for the determination of the naira's exchange rate. The system has been extensively used in many countries as an efficient means of allocating scarce foreign resources through the determination of the realistic value for the national currency, which makes goods produced in the domestic economy competitive with their imported counterparts. In spite of the growing commitment to globalisation and liberalisation, no economy is totally dependent on importation of goods and services, which an over-valued currency tend to encourage. Thus, the interest of the Nigerian people will be best served by an exchange rate policy that makes the Nigerian economy competitive, especially in its own markets, encourages domestic production and job creation at home, not abroad, eliminates unemployment and poverty, and boosts income that can promote a vibrant capital market.

7.0 You will recall, Distinguished Ladies and Gentlemen that the Inter-bank Foreign Exchange Market (IFEM) was introduced in October, 1999 with the objective of broadening the supply of foreign exchange in the economy, in order to

achieve a realistic exchange rate for the naira. However, after its initial success, the market became narrow, shallow and flattened as the CBN continued to be the major supplier of foreign exchange contrary to policy expectations. The IFEM seized to be a dynamic process for determining exchange rate as the two-way quotes received from banks became converged while CBN virtually met all demands from banks. Moreover, the IFEM was characterised by sharp practices by banks, persistent and speculative demand pressures and multiple exchange rates, with the concomitant substantial drain of our external reserves. It was apparent that there were so much malpractices because the exchange rate was subsidised and there was an intrinsic rent which was exploited by banks through arbitrage.

8.0 The Dutch Auction System does not give room for distortions, speculation, opportunism and sharp practices, which were inherent in the IFEM. I must warn, however, that in exchange rate management, there are no miracle solutions. Whatever regime is adopted is bound to be defective over time as the passage of time will reveal its strengths and weaknesses. The critical factor is that the productivity of the economy must increase. Exchange rate policy is dynamic and must be reviewed from time to time.

9.0 Indeed, for now, with the introduction of the DAS, we have succeeded in minimizing the inordinate appetite for foreign exchange demand as consumers are now required to pay at their respective bid rates. Furthermore, the arbitrage premium – the incentive for round-tripping - has been substantially reduced. The parallel/black market for dollars will, however, persist if the activities of tax-dodgers and impostors who avoid tariffs through non-documentation are not curtailed.

10.0 Mr. Chairman, this creates a challenge to which our Custom services must respond forcefully through an effective 100 per cent inspection. If the policy is sustained and complemented by prudent fiscal policies, DAS is expected to address substantially the problems of foreign exchange speculation, capital flight, massive importation of finished goods and the unwholesome practice of dumping. We remain optimistic that the system will succeed, as the CBN will play its role with all sense of responsibility and expect all other stakeholders to play theirs in the overall interest of our national economy.

11.0 It is my expectation that at the end of this Conference, the outcome of the deliberations would have put the financial

markets on a higher leverage to take advantage of the benefits of liberalization and globalization.

12.0 I thank you for your kind attention.

**Office of the Governor,  
Central Bank of Nigeria,  
Abuja.**

**August 13, 2002**