

OPENING ADDRESS

BY

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DELIVERED ON THE OCCASION OF THE FIRST ANNUAL CONFERENCE ON
“CURRENT CHALLENGES OF MONETARY POLICY IN NIGERIA”, ORGANISED BY
THE MONEY, MACROECONOMIC AND FINANCE GROUP OF THE MONEY MARKET
ASSOCIATION OF NIGERIA (MMAN), AT THE NICON HILTON HOTEL, ABUJA,
JULY 4 – 6, 2002.

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Distinguished guests, ladies and gentlemen, I feel deeply honoured to be invited to this important conference as a Special Guest, and for the privilege to give this opening address. I am pleased to welcome you today to this international conference on "Current Challenges of Monetary Policy in Nigeria", which has been put together by the Money, Macroeconomic and Finance Group of the Money Market Association of Nigeria (MMAN). I will like to commend the organizers of the conference for the choice of topic, which I believe is very relevant, given the increasing importance that is currently attached to monetary policy in the management of the Nigerian economy. Moreover, I believe the conference is coming at the most opportune time because of the interest the subject has generated in recent times in public discourse. Much of the discussion has centred around using monetary policy to achieve short- to medium-term stabilization objective in the economy, against the backdrop of the lackluster performance of the Nigerian economy in the last decade or so and the need to quickly put the economy back on the path of sustainable economic growth.

2. The current challenges of monetary policy remain a topic of fundamental and perennial interest for those of us at the Central Bank of Nigeria (CBN) and the reason is not far-fetched. As you are all aware, for us at the CBN, our daily work includes participating in the formulation of monetary policy, executing monetary policy and monitoring developments in the financial markets and the economy as a whole. In this context, some of the issues we contend with involve the response of sectors to monetary easing and tightening, the impact of structural changes in markets that are central to monetary operations, such as

the money market—inter-bank funds and government securities markets, and how changes in the fortunes of the external sector affect government revenue, credit flows and liquidity creation and, hence monetary policy response.

3. These issues and other related ones, I suppose should form the focus of this conference. Besides financial change, these issues have direct relevance on how monetary policy actions are transmitted to the various sectors of the economy and the financial market, in particular. In addition to the conduct of open market operations, the CBN is particularly interested in the impact of financial innovations and rapid globalization of financial markets on the conduct and efficacy of monetary policy in Nigeria; more so, as the deposit money banks and other financial institutions, which come under the surveillance purview of the CBN, become more competitive and innovative in their financial intermediation roles.

4. The topics of this conference, as seen from the papers listed for presentation and discussion, also show the close relationship between monetary policy and several other roles of the CBN. The Bank sets broad policy for Nigeria's payment system and operates key parts of the system; it also supervises and regulates major banking institutions and other non-bank financial institutions in the financial market. Finally, the CBN closely monitors developments in the markets, liquidity and credit activities to safeguard the stability of the financial system. There is a great deal of interaction in the CBN among market specialists, economists, bank supervisors and examiners and payments system staff. The sharing of information and ideas across the Bank facilitates an understanding of the environment in which we operate and the linkages between the activities we engage in, which give valuable insights in our other responsibilities.

5. Going through the topics slated for the conference, I am tempted to believe that we in the Bank would be very much interested in the first five sessions, covering central banking operating procedures, current challenges of central banking in Nigeria, exchange rate economics, building a strong banking

system and globalization and national financial system. This special interest I am sure should not come as a surprise to many, if not all, of you present here today. These are the areas I consider as posing the greatest challenges to monetary policy formulation/implementation in Nigeria, although I do not intend to downplay the implications of fiscal federalism for the conduct of monetary policy. In this context, therefore, several issues that arise, which I think the conference should focus on and attempt to proffer suggestions to policy makers include the following.

6. First, what should be the primary objective(s) of monetary policy? Should the CBN pursue price stability as its single most important objective, in line with the general trend in central banks around the world, or should there be multiple objectives that are consistent with the overall general economic policy objectives of government? And if multiple objectives, is hierarchical mandate necessary? What are the implications for output and employment growth of pursuing price stability as the primary objective of monetary policy? Answers to these questions are important because today, there is a broad consensus among economists that monetary policy is not suitable for fine-tuning economic developments. Certainly, policy makers would like inflation to remain subdued. Any attempt to sacrifice the medium-term goal of price stability to efforts to meet short-term objectives will ultimately weaken the stability of the currency. It is important that all stakeholders recognize what monetary policy can and cannot do. To prevent monetary policy itself disrupting the economy, it needs to be made and kept independent of pressures arising from short-term political and electoral objectives. This a major challenge that the CBN must contend with in the evolving contemporary Nigerian political environment.

7. Second, how should monetary policy procedures be designed to ensure that inflation does not pose a serious policy problem? What monetary policy strategy should we adopt given our past and present experiences and the rapid move in many industrial and emerging economies towards inflation targeting? Is monetary targeting, which remains the basic framework for the conduct of

monetary policy, still relevant today in the face of structural changes in the economy and financial innovations? What about the issue of excessive fiscal dominance and the related issue of fiscal federalism, which has dominated public discourse in recent times, and their implications for the effective conduct of monetary policy in Nigeria? High fiscal deficits and large domestic public debt have posed and will continue in the future to pose enormous challenges to the conduct of monetary policy, except if there is a deliberate commitment on the part of the fiscal authority to pursue sound and prudent financial policy.

8. Third, what will be the impact of the advent of information technology, e-money and e-banking on the economy and monetary policy in particular? The proper functioning of our financial infrastructure poses a serious challenge to the effectiveness of monetary policy. A few big banks generally control the banking system and the range of financial instruments remains narrow, with treasury bills and government stocks being the dominant instruments in the market. This is in addition to the dualism in the financial and product markets as well as the large incidence of cash-based transactions, which undermine the transmission mechanism of monetary policy and makes the achievement of the objective of price stability difficult. In addition, there is an apparent lack of a role for assets prices in monetary policy in Nigeria.

9. Finally, is the issue of how to manage interest and exchange rates policies to achieve the appropriate balance between maintaining a strong and productive domestic economy and a viable and sustainable external sector. Interest (lending) rates are considered too high, which prevent productive investment from taking place, thereby constraining economic growth while savings rates are perceived as being too low to promote financial savings. Furthermore, the existing exchange rate is perceived as being substantially depreciated, which is deemed harmful to the economy in view of the import-dependent nature of the economy. It is important in our deliberations at this conference to adequately address the interest and exchange rates nexus. Is it appropriate to strive for a low interest rate and stronger exchange rate regime in an inflationary

environment and in the face of large public sector borrowing from the banking system?

10. Distinguished guests, ladies and gentlemen, the issues raised above are critical, which I think this conference should attempt to address. We in the CBN, look with expectation that the conclusions and recommendations that would emerge from this conference would be useful for the future direction of monetary policy in Nigeria. I have no doubt in my mind that, given the calibre of people assembled here to present and discuss the papers, their diverse background and topics to be covered, the conference will bring forth the desired outcome. This conference should assist the Bank in several ways. First, we expect that it would provide an insight into the various aspects of current challenges facing the CBN in the conduct of monetary policy in Nigeria. Second, as an institution engaged in policy implementation, we hope that the papers presented here and their discussion will lead to new approaches in monitoring the economy and the financial markets. Third, we expect that the conference would open new avenues for and stimulate further research on the conduct of monetary policy in Nigeria.

11. On this note, distinguished guests, ladies and gentlemen, I wish all of us fruitful deliberations and, hereby, formally declare the conference open.

12. I thank you for your attention.

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