



Financial System Strategy 2020



FSS 2020 International Conference

Money & Forex Markets



- Industry/Sector Overview
- Current Position Assessment
 - Industry Structure (Players, Regulators, Products etc)
 - Industry Trends
- Industry Issues, Gaps & Key Success Factors
- Industry Vision and Mission
- Proposed Industry Model
- Strategic Objectives & Initiatives
- Implementation Plan & Timelines



SECTOR OVERVIEW

- The industry is made up of both financial & non-financial institutions
- The financial institutions are mainly service providers and they include:
 - The Central Bank of Nigeria (CBN)
 - Commercial Banks
 - Discount Houses
- The end users are:
 - Institutional investors
 - Commercial Banks
 - Govt. Agencies
 - Corporates



The various market components are:

- Government Securities
- The Interbank
- Bankers Acceptance
- Commercial Paper
- Foreign Exchange (Spot, Forward & Futures)

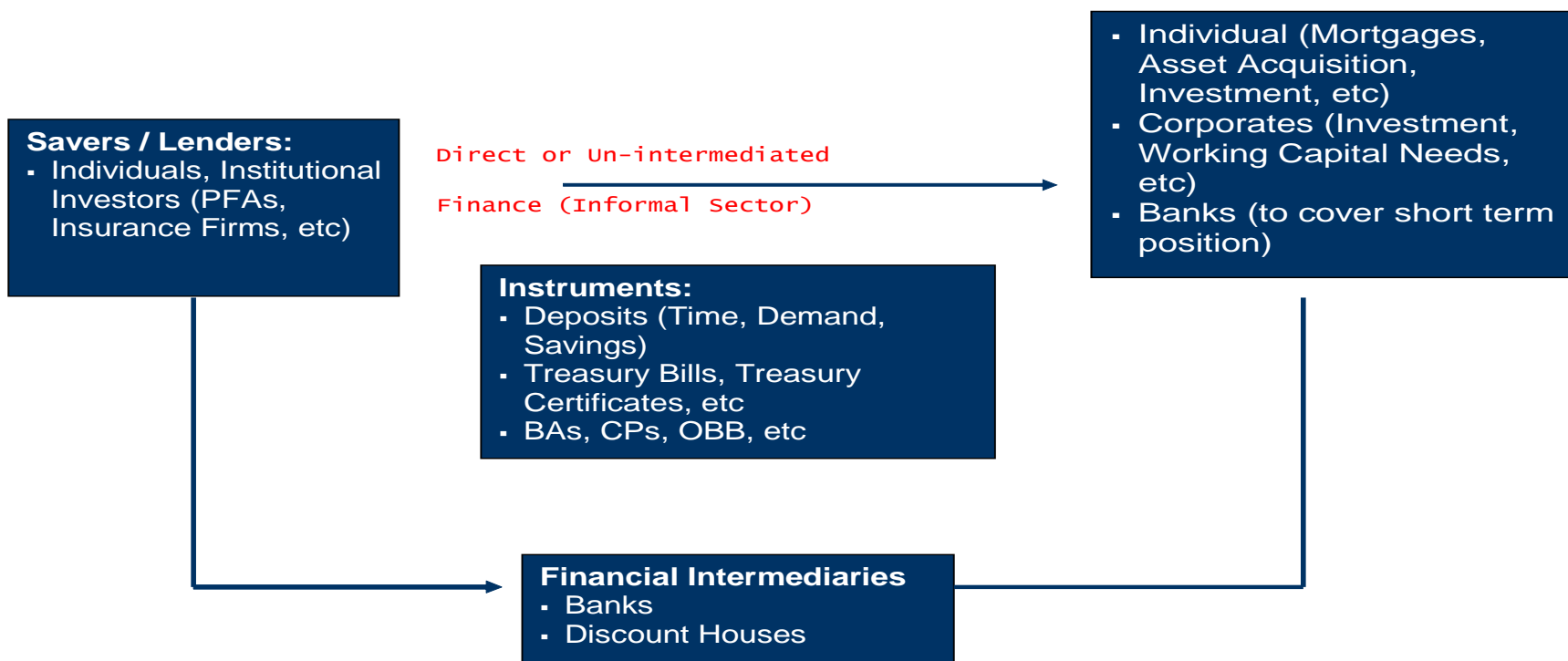
Key developments include but not limited to;

- Banking & Insurance Sector Consolidation
- Appointment of primary dealers in Govt. Securities
- Introduction of settlement/clearing banks
- Introduction of the Wholesale Dutch Auction System (WDAS)
- Sale of Forex to Bureau De Changes
- Introduction of Government Bond with longer maturity
- Reconstitution of National Payments System Committee (NPSC)
- Movement of public sector deposits to the Central Bank
- Nigerian banks getting rated by International Agencies



NIGERIA:
Current Position Assessment

Structure of the Nigerian Money Market

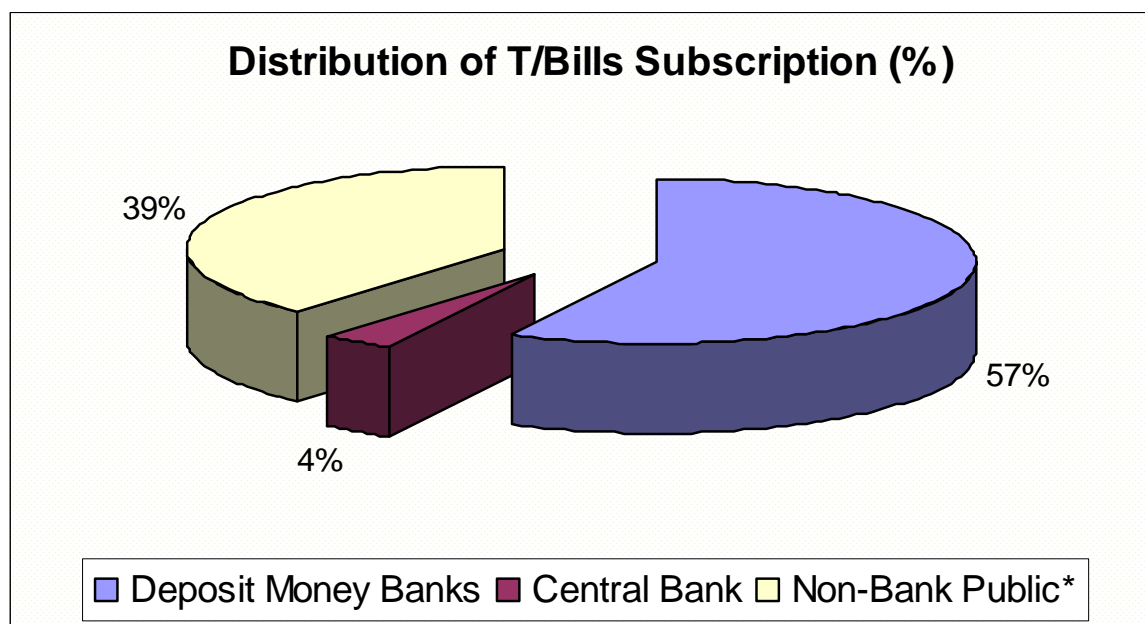


The model above shows the flow of money between suppliers and users of money and the intermediaries and may be useful in explaining the structure of the Nigerian Money Market. The model is rather simplistic and does not reflect all the intricacies and nuances in the money market.



- Federal Government
 - Short and medium term borrowing
- Central Bank
 - Monetary policy direction
- Deposit Money Banks
 - Securities Trading & Liquidity Position
- Discount Houses
 - Intermediaries in Govt. securities market.
- Non-Bank Financial Institutions
 - Deals in Commercial Papers, Advisory, Equities, etc.

Holders of instruments e.g. T/bills



Source: Central Bank of Nigeria



- The market is highly regulated
- Regulators include:
 - The CBN
 - Securities & Exchange Commission
 - Nigeria Stock Exchange
 - Nigeria Deposit Insurance Corporation

Regulators	Commercial Banks	Discount Houses	Finance Companies	Leasing Companies
Central Bank of Nigeria	X	X	X	X
Securities & Exchange Commission	X			X
Nigerian Stock Exchange				X
Nigerian Deposit Insurance Corporation	X			

Source: FDC Research



■ Money Market products include;

- Treasury Bills
- Commercial Papers
- Bankers Acceptances
- Treasury Bonds
- Federal Government Development Stocks
- Deposits (Time, Demand, Savings)
- Loans (Short or Long Term)
- Advisory Services

■ Foreign Exchange;

- Spot market, Swaps, Futures and Forward Contracts

Five-Year Summary of Money Market Instruments

Volume of Money Market Instruments (N'bn)					
	2005	2004	2003	2002	2001
Treasury Bills	854	871.6	825.1	733.8	578.5
Development Stocks	1.25	1.25	1.03	2.37	3.62
Bankers Acceptances	42.35	41.6	32.9	42.6	36.5
Commercial Papers	194.59	88.83	37.3	37.14	35.3

Source: CBN Annual Reports

Money Market

- Commercial Paper in 2005 was N194.6bn
 - 451.3% growth from N35.3bn in 2001
- Bankers acceptances up 16% to N42.35bn
- Developments Stocks declined 65% to N1.25bn
- Government securities (treasury bills) up 47.7% to N854.4bn

Forex Market Five Year Summary

	2005	2004	2003	2002	2001
	\$'bn	\$'bn	\$'bn	\$'bn	\$'bn
Official Receipts	35.7	24.97	15.6	9.7	9.8
Official Sales (WDAS/DAS)	10.8	9.54	9.6	8.1	9.6
Official Ave. Exchange Rate (N/\$)	131.66	133.5	129.36	121	111.9

Source: CBN

Forex Market

- Total forex grew 38% to \$38bn in 2005, CBN accounted for 93.2%
- Non-oil receipt declined by 39.5% to \$841m
 - Removal of Export Expansion Grant (EEG)
 - This has since been restored
- Total official forex utilization rose 58.4% to \$24.3bn
 - Import payments;
 - External debt service;&
 - other official payments.
- Net FDI estimated at about \$2bn annually whilst hedge funds inflow out at approx.. \$4bn last year

Money Market

- Market lacks depth
- Instruments not diversified
- Secondary market immature
- Reliant on government deposits
- Information flow deficient and inadequate
- Lack of proper coordination in the issuance of debt instruments

Forex Market

- Market is largely spot
- Dependence on Oil sector for foreign exchange
- Naira Supported by external reserves
- External sector funded mainly by trade flows
- Limited domestic currency convertibility



- Information technology
- Shortage of instruments
- Lack of reliable and timely data
- Knowledge gap
- Limited coordination among regulators

- The key success factors include;
 - Sound macroeconomic policies
 - Strong and stable institutions
 - High level of education
 - Reliable and timely release of data
 - Effective regulatory framework



SECTOR VISION AND MISSION



Vision

"To be the No.1 Money & Forex Markets amongst emerging markets and in the top 5 globally"



Mission

“To provide a safe, liquid and competitive money & forex markets, operating on global best practices”

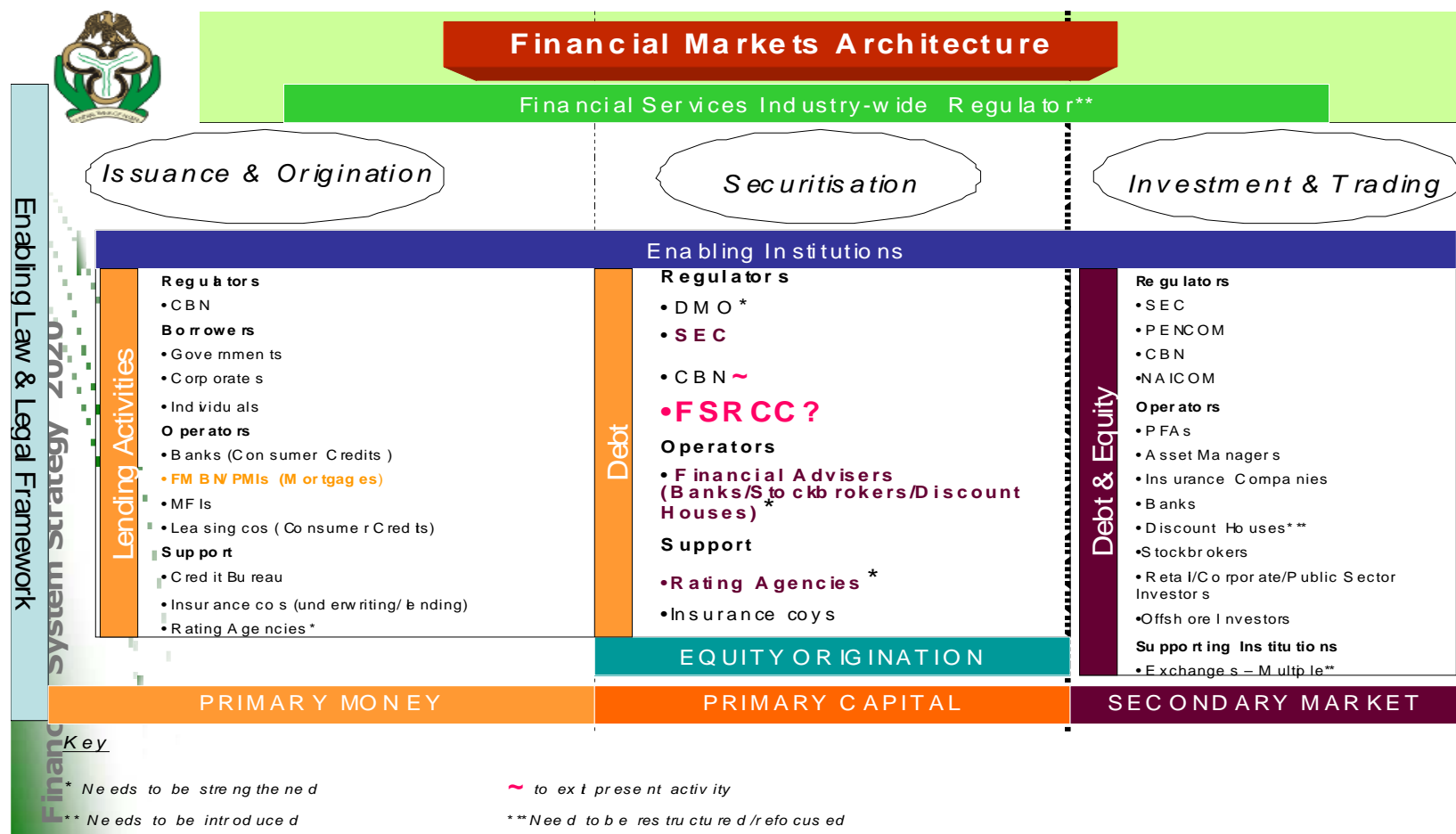


“By the year 2020

- Nigeria’s money and forex markets will be No.1 amongst emerging markets
- It will be in the Top 5 globally
- Provide funding opportunities for other economies
- Economy will be one of the strongest in the world



- The model subdivides the sector into 3 broad categories:
 - Issuance & Origination
 - Securitization; &
 - Investment & Trading
- Assumption of a single Financial Services Industry-Wide Regulator (FSIR)



•Source: Sadler 2001



Issuance & Origination

- Drivers (Governments & Govt.. agencies, Corporates & Individuals)
- Operators (Banks, Mortgage Institutions, Non-Bank FIs, etc.)
- Enablers (Credit Bureaus, Rating Agencies, Insurance Companies)



Securitization

- Drivers (DMO, SEC, CBN, Financial Sector Regulatory Coordinating Committee)
- Operators (Financial advisers, Banks, Stockbrokers, Discount houses)
- Enablers (Rating Agencies, Insurance Companies)

Investment & Trading

- Drivers (SEC, PENCOM, CBN, NAICOM)
- Operators (PFAs, Asset Managers, Insurance Companies, Banks, Stockbrokers, Retail/Corporate/Public sector investors, Offshore Investors)
- Enablers (Stock Exchange, Commodities Exchange, Nigeria International Financial Futures & Options Exchange (NIFFEX))



Strategic Objectives & Initiatives

Money Market

- Facilitate the development of a more robust, vibrant and deep money market
 - Increase number of primary dealers
 - Extend maturity profile of instruments
- Facilitate a more market oriented Monetary Policy Committee
 - Increase number of private sector and market-based members
 - Institutionalize membership
- Increase volume of corporate bills and instruments relative to Govt. T/Bills
 - Qualify highly rated short-term bills as liquid assets for discounting or liquidity ratio purpose



Strategic Objectives & Initiatives

- Align statutory and transaction costs to other emerging markets
- Intensify the phased withdrawal of public sector funds from banks
 - Make liquidation of existing deposits a precondition for raising bonds
- Ensure the development of a robust market information infrastructure-institutional, content, and channel
 - Contract agencies for dissemination of financial information
 - Develop standards for information sharing amongst players
- Increase coordination between the DMO and CBN
 - Institute weekly meetings btw DMO & CBN
- Elevate the level of corporate governance

Forex Market

- Accelerate/intensify the process of currency convertibility
 - Dismantling of remaining exchange control regulations
 - Repeal all existing laws that impede currency convertibility
- Facilitate the development of a more robust, vibrant and deep foreign exchange market
 - Create a framework for multiple currency activities
 - Bring forward all deadline for ECOWAS regional currency integration plans
 - Establish a Lagos International Futures & Forwards Exchange



Strategic Objectives & Initiatives

- Intensify the economic diversification from oil
- Develop a framework for the emergence of a real equilibrium rate of exchange (market determined)
- Increase investment flows relative to trade flows
 - Create a more vibrant money market



- IMPLEMENTATION PLAN
AND TIMELINES

Implementation Plan & Timelines

Money Market Objectives & Initiatives	Priority	Responsibility	Sequencing and Timing													
			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Objective 1: Develop a more robust, vibrant and deep money market																
Initiative 1: Increase the number of primary dealers	High	CBN	→													
Initiative 2: Extend maturity profile of instruments	High	<ul style="list-style-type: none"> CBN SEC 	→													
			Short Term		MEDIUM TERM					LONG TERM						

Money Market Objectives & Initiatives	Priority	Responsibility	Sequencing and Timing													
			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Objective 2: Facilitate a more market oriented Monetary Policy Committee (MPC)																
Initiative: Encourage participation of private sector members in the MPC	Medium	CBN														

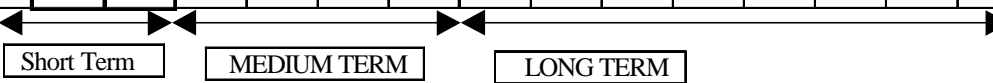
Implementation Plan & Timelines

Money Market Objectives & Initiatives	Priority	Responsibility	Sequencing and Timing													
			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Objective 3: Increase volume of corporate financial instruments relative to government																
Initiative 1: Qualify highly rated short-term bills as liquid assets for discounting or liquidity ratio purposes	High	<ul style="list-style-type: none"> CBN Discount Houses Rating Agencies 														
Initiative 2: Develop framework for rating of corporate debt of all maturities	High	<ul style="list-style-type: none"> Money Market Association of Nigeria Rating Agencies Bankers' Committee 														

Short Term

MEDIUM TERM

LONG TERM

Money Market Objectives & Initiatives	Priority	Responsibility	Sequencing and Timing													
			2	2	2	2	2	2	2	2	2	2	2	2	2	2
			0	0	0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	1	1	1	1	1	1	1	1	1	1	2
			7	8	9	0	1	2	3	4	5	6	7	8	9	0
Objective 4: Align statutory and transaction costs in Nigeria to other emerging markets																
Initiative: Benchmark statutory and transaction costs to emerging markets and reduce accordingly	High	<ul style="list-style-type: none"> SEC CBN 														
																

Money Market Objectives & Initiatives	Priority	Responsibility	Sequencing and Timing													
			2	2	2	2	2	2	2	2	2	2	2	2	2	2
			0	0	0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	1	1	1	1	1	1	1	1	1	1	2
			7	8	9	0	1	2	3	4	5	6	7	8	9	0
Objective 5: Intensify the phased withdrawal of public sector funds from banks																
Initiative 1: Make liquidation of existing deposits a precondition for raising bonds	High	<ul style="list-style-type: none"> CBN SEC 														
Initiative 2: Develop framework for monitoring banks utilized by govt. and govt. agencies	High	CBN														
Initiative 3: SEC to set criteria for issuance of state and municipal bonds	High	SEC														
			<div> <div>Short Term</div> <div>MEDIUM TERM</div> <div>LONG TERM</div> </div>													

Implementation Plan & Timelines


Money Market Objectives & Initiatives	Priority	Responsibility	Sequencing and Timing													
			2	2	2	2	2	2	2	2	2	2	2	2	2	2
			0	0	0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	1	1	1	1	1	1	1	1	1	1	2
			7	8	9	0	1	2	3	4	5	6	7	8	9	0
Objective 6: Develop a robust market information infrastructure – institutional, content, and channel.																
Initiative 1: Contract agencies for the dissemination of financial system information	Medium	<ul style="list-style-type: none"> CBN IT SEC 														
Initiative 2: Develop standards for information sharing amongst all players	Medium	<ul style="list-style-type: none"> CBN IT SEC 														
			<div> <div>Short Term</div> <div>MEDIUM TERM</div> <div>LONG TERM</div> </div>													

Implementation Plan & Timelines

Money Market Objectives & Initiatives	Priority	Responsibility	Sequencing and Timing														
			2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	1	1	1	1	1	1	1	1	1	1	2	0
			7	8	9	0	1	2	3	4	5	6	7	8	9	0	
Objective 7: Increase coordination between the DMO and CBN																	
Initiative : Institute periodical Meetings	High	<ul style="list-style-type: none"> • CBN • DMO 	→														
Objective 8: Elevate level of corporate governance		<ul style="list-style-type: none"> • CBN • EFCC 															
Initiative: Develop a format for declaration of all public sector deposit transactions	High	<ul style="list-style-type: none"> • CBN • EFCC 	→														
			<div> <div>Short Term</div> <div>MEDIUM TERM</div> <div>LONG TERM</div> </div>														

Implementation Plan & Timelines

Forex Market Objectives & Initiatives	Priority	Responsibility	Sequencing and Timing													
			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Objective 1: Intensify the process of currency convertibility																
Initiative 1: Dismantling of remaining exchange control regulations	High	CBN														
Initiative 2: Repeal all existing laws that impede currency convertibility	High	CBN														



Short Term

MEDIUM TERM

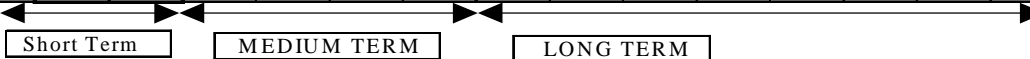
LONG TERM

Implementation Plan & Timelines

Forex Market Objectives & Initiatives	Priority	Responsibility	Sequencing and Timing													
			2	2	2	2	2	2	2	2	2	2	2	2	2	2
			0	0	0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	1	1	1	1	1	1	1	1	1	1	2
			7	8	9	0	1	2	3	4	5	6	7	8	9	0
Objective 2: Develop a more robust, vibrant and deep foreign exchange market																
Initiative 1: Create a framework for multiple currency activities		<ul style="list-style-type: none"> • CBN • DMO • Private Sector 	→													
Initiative 2: Bring forward all deadlines for the ECOWAS regional currency integration plans		CBN	→													
Initiative 3: Establish a Nigeria International Futures and Forwards Exchange		<ul style="list-style-type: none"> • CBN • SEC 							→							
			Short Term		MEDIUM TERM				LONG TERM							

Implementation Plan & Timelines

FSS 2020 Forex Market Objectives & Initiatives	Priority	Responsibility	Sequencing and Timing													
			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Objective 3: Develop a framework for the emergence of a real equilibrium rate of exchange																
Initiative 1: Discontinue managed float exchange rate regime in favour of a free floating exchange rate model		CBN														
Initiative 2: Adopt a real auction mechanism where the rate clears the market in place of the current managed auction		CBN														



Short Term
MEDIUM TERM
LONG TERM

Implementation Plan & Timelines

FSS 2020 Forex Market Objectives & Initiatives	Priority	Responsibility	Sequencing and Timing													
			2	2	2	2	2	2	2	2	2	2	2	2	2	2
			0	0	0	0	0	0	0	0	0	0	0	0	0	0
			0	0	0	1	1	1	1	1	1	1	1	1	1	2
			7	8	9	0	1	2	3	4	5	6	7	8	9	0
Objective 4: Increase investment flows relative to trade flows																
Initiative: Create a more vibrant money market (see money market initiatives)		CBN														

- The money and forex markets have witnessed significant changes in the last 5 years
- The changes capture the 'quick win' timelines for most of the strategic initiatives
- Sound macroeconomic policies, effective regulatory framework, amongst others, remain key success factors
- Timely release and reliability of data essential