

CEO
INTERVIEWBola Onadele. Koko
Chief Executive Officer, FMDQ Group PLC

Nigeria must operate a truly liberalised FX Market...says FMDQ CEO

Bola Onadele. Koko, Chief Executive Officer, FMDQ Group, in this interview, shares his views on the Nigerian economy, and what must be done by the apex bank towards the resuscitation of Nigeria's foreign exchange market, among others.

The Nigerian economy achieved an output growth of 3.10% in 2022 (lower than the 3.40% achieved in 2021) and is projected to achieve a growth rate of 3.20% in 2023, which is lower than the projected average growth rate of 3.90% for countries in the International Monetary Fund's (IMF) Emerging Market & Developing Economies analytical set. It is often opined that the Nigerian economy needs to grow at double digits over a decade or more to achieve economic prosperity commensurate with our resources.

What has to happen for that level of economic growth to be realised?

Thank you for the question. I believe that the level of growth required to regain our place as the giant of Africa is well within our capabilities as a nation. Indeed, Nigeria remains a nation blessed with a veritable plethora of advantages that we have managed to turn into disadvantages. The government and citizenry must put all hands on deck towards harnessing the opportunities that our unique endowments provide to us.

With over 200 million people, Nigeria is the most populous country in Africa, and the sixth most populous in the world (projected to become the third most populous by 2050). It is also well documented that c.70% of this population are under 30 years of age, representing a very youthful population and an enormous human capital opportunity that has not been harnessed in the years past. As the globalisation of the job market continues, the opportunity and prospect of becoming one of the human capital destinations of the world in a similar vein to India and China continues to strengthen, thereby placing significance on being able to equip our youthful populace with the skills that make them attractive exports to the global market.

Over the past couple of years, we have had more than our fair share of security issues and instability, but this should not make us lose sight of the fact that we are currently in the middle of our longest run of democratically elected governments. As coups continue to spread across neighbouring countries, Nigeria's democracy has remained stable, and the people's trust in our institutions is become stronger gradually, albeit at a slower pace. The political stability that we are experiencing as a nation is another strength that we need to harness further in electing the right leaders to steer the country in the right direction.

Along with our human capital resources, Nigeria is blessed with abundant natural resources across the nation. We have historically focused on extracting and exporting these raw natural resources, with little to no value-adding economic activity in the value chain of these natural resources; a very relatable example for most people is crude oil, which we extract and export, only to import its by-products, such as petrol, diesel, and kerosene, for consumption. Consequently, it is also important for us to shift our approach towards harnessing our natural resources from purely extractive, to extracting and refining these resources into their most usable and in-demand forms globally. This will be a big boon to our economy, spurring industrial development that will sweep up large swathes of the unemployed populace further driving economic growth. We can take a cue from Singapore, a nation that is about 0.1% of Nigeria in land area and a population that is 2.6% of Nigeria's population (i.e., less than Lagos State) but with a GDP of \$467bn, similar to that of Nigeria's at \$477bn in 2022. Interestingly, unlike Nigeria blessed with various natural resources, Singapore does not have any natural resources,

yet the country has managed to develop its industries and even become a major financial centre in Asia. Further, while Nigeria exports crude oil only to import its by-products such as petrol, diesel and kerosene, Singapore imports crude oil and exports its by-products to Asian countries such as Malaysia, Indonesia, Hong Kong, and Australia, amongst others. Singapore is also reputed to have the eleventh largest foreign reserves in the world (more reserves than large economies such as the United Kingdom, France, and Germany). Singapore achieved this economic status through visionary leadership and disciplined implementation of its economic plans, which led to its economy growing by an average of 6% annually between 1965 and 1995, thereby improving the living standards of the populace. Underlining Singapore's story is an economic strategy based on business-friendly laws/regulations and open markets combined with its skilled workforce, low tax rates, advanced infrastructure, and zero-tolerance against corruption. Over the years, Singapore has developed robust social programmes for its citizens, providing support in the form of financial assistance, free medical care (public hospitals), education support (school tuition, laptops for underprivileged students, etc.) as well as rebates for public transport and utility costs for the needy households.

Perhaps, an extension of earlier discussions around how our human capital can become a key driver of economic explosion, is leveraging technology. Interestingly, technology (specifically fintech) is one area where we have fared reasonably well on the continent and globally, evidenced by Nigeria remaining one of the top three destinations for private equity and venture capital funding in Africa, with many small & medium enterprises in the country attracting inward capital from foreign investors to advance innovative business ideas and solutions.

These, and more, are some of the opportunities/advantages that we should be working to harness to attain the level of growth that we desire, although the nation continues to be bedevilled by a cocktail of social issues stemming from high unemployment/underemployment, large infrastructural deficit, and worsening insecurity (in recent years). Despite commendable efforts by the government and security agencies, insecurity has found its way to the top of the list of issues plaguing the country, which needs to be addressed urgently; as very little progress can be made with respect to harnessing the opportunities previously discussed, if every waking day and every business trip is fraught with higher mortality risk due to insecurity.

Beyond improving security and ramping up efforts to address infrastructural deficits, the government needs to focus on developing and implementing a strategy focused on harnessing all the above opportunities through the most efficient channels (i.e., private sector or public sector) targeting the following:

- Make the state governments economically viable to drive prosperity
- Galvanise an urgent private sector-led economic revolution on the back of market-friendly policies, legal and regulatory frameworks. We need Jobs! Jobs!! Jobs!!!
- Champion the programme for massive private and public investments in education (as this is the future of Nigeria!)
- Drive higher healthcare standards backed by



stronger insurance and social benefit programmes

- Encourage inward investments in critical sectors to fast-track growth and development in such sectors/industries

Underlining all of these targets is the need for the government to formulate its philosophy/ideology around how the Nigerian financial markets can and will be used to advance these targets.

It is just over seven (7) years since you granted the interview in October 2016, addressing the impact and responses to issues plaguing the Nigerian FX market, as well as other topical matters ranging from falling crude oil prices and economic recession at the time.

Are there any similarities and differences in the current conditions in the Nigerian FX market compared to the prevailing conditions in 2016?

Yes, there are actually quite a lot of similarities and some differences in the current Nigerian FX market conditions and that of 2015/2016. In 2016, we also had significant FX supply shortages (on the back of the crude oil price crash which commenced in late 2014 and lasted well into late 2016), which put depreciation pressures on the Naira in the formal FX market, a natural outcome which the former Governor of the Central Bank of Nigeria (CBN) and President Buhari were not willing to reconcile with. The unorthodox or atavistic defence of the Naira resulted in a gap between exchange rates in the formal FX market vs. alternative (black) market, as the huge unfulfilled FX demand in the formal FX markets sought supply in the thin alternative (black) market. This exacerbated FX demand in the alternative market and the disequilibrium got worse with the CBN's restriction of forty-one (41) items from accessing the formal FX market

in June 2015, causing the exchange rates in the alternative market to cross the \$/₦400.00 level by February 2017.

The CBN's actions from 2015 focused on restricting access to FX (in the hope of disincentivising importation and driving local production of the restricted items) to conserve the country's FX reserves, as well as pegging of inter-bank rates through "crude" regulatory pressures on banks. However, these actions only promoted an increase in unethical practices in the Nigerian FX market, as the gap between the exchange rates in the formal FX market and alternative market presented huge opportunities for financial rewards through arbitrage, roundtripping and other practices by market participants.

Further, in 2016, we also witnessed a rise in inflation from about 9.55% in Q4 2015 to 18.55% in Q4 2016, similar to what we are currently witnessing.

The combination of these macroeconomic indicators and series of events, perhaps, drove the CBN at the time to work with market participants and stakeholders to implement laudable reforms, which helped stem the tide in the FX market in the ensuing three (3) years between 2017 – 2020, during which we witnessed exchange rate stability around the \$/₦360.00 level until March 2020 when the Coronavirus pandemic ("COVID-19") hit.

In terms of differences, while 2016 was largely impacted by the fall in crude oil prices globally, thereby impacting our FX supply flows, 2023 has witnessed the opposite, as crude oil prices have been increasing. However, we are having to grapple with unrepatriated export proceeds and localised problems in the form of under par crude oil production due to social issues, ranging from insecurity to graft, amongst others, which have resulted in the same outcome – low FX supply.

Further, unlike 2016 where monetary policy transmission could be deemed to have been more effective, evidenced by the relationship between CBN's monetary policy rate and interest rates on sovereign fixed income securities (thereby supporting efforts to tame rising inflation and boosting FX liquidity through investment flows), monetary policy in 2023 could be deemed to be less effective as CBN's monetary policy rate remains significantly higher than interest rates on sovereign fixed income securities (thereby losing its significance as a benchmark). I should however add that the regulatory attitude towards market dynamics is currently more professional.

Overall, the challenges plaguing the FX market today are reminiscent, in some form, to those of 2016, barring a few differences highlighted above, and this perhaps points to the fact that implementation of FX market reforms targeted at resuscitating the Nigerian FX market must be vision-led, and initiatives comprehensively executed to ensure actualisation of long-term objectives, especially as the Nigerian economy become more integrated with international markets. We must realise and accept that the higher the degree of integration of our economy with international markets via trade and investments, the lower our ability to influence exchange rates of the Naira to major foreign currencies.

Since the transition to a new government, the CBN has initiated reforms targeted at reinvigorating the Nigerian FX Market. The first of which was to officially float the Naira, and allow its exchange rate to foreign currencies to be determined by market forces (i.e., demand and supply). Another highlight was the abolishment of segmentation in the Nigerian FX market into one (1) marketplace - *the Nigerian Autonomous Foreign Exchange Market ("NAFEM")*. Whilst these reforms are considered laudable, the outcome has been below par as the execution of the initiatives have been sub-optimal.

During that interview in October 2016, you termed the FX market as "The Nerve Centre of the Economy" and highlighted the critical interventions required to take the Nigerian FX market to the next level to mitigate devaluation risk (at the time) and support economic progress.

In a somewhat similar scenario to 2016 when your interview occurred just fifteen (15) months into a new government after general elections wherein an incumbent Commander-in-Chief was unseated for the first time in our history, a new government has recently been sworn in, albeit from the same ruling party, and arguably at a time when there are sentiments that the Nigerian economy is at a precipice of economic and social collapse.

Are the critical interventions highlighted in your 2016 interview still relevant today after seven (7) years? If so, what would you consider the most critical agenda for the new government within its first year for the Nigerian financial markets?

In 2016, the CBN had just liberalised the foreign exchange market after pegging the currency for about fifteen (15) months at circa \$/₦199.00; it also released the *Revised Guidelines for the Operation of the Nigerian Inter-bank Foreign Exchange Market* which I had lauded as world-class, whilst also noting the misalignment of the supporting structures, regulation and regulatory appetite to the philosophy of liberalisation contained in the Guidelines which had led to the FX market being largely illiquid. Noting all of these factors, I reiterated the need for Nigeria to operate a truly liberalised market, fully embracing the liberalised FX philosophy and suggested a four-pronged approach to addressing our issues, which include:

- Liquidity-promoting market structure
- Market-friendly policies
- Increased menu of hedging products
- Capital market-driven economic development

Every single one of the stated critical interventions may even be more relevant with the destruction that occurred under the previous administration. The pervading devaluation risk is at even higher levels today. A lack of liquidity still bedevils our market, the gap between the exchange rates in the alternative market and the formal FX market surpassed 2017 levels, reaching almost \$/₦300.00, before reducing on the back of new reforms announced in June 2023 by the CBN. However, the divergence in exchange rates picked up again, specifically in August and September, due to reintroduction of regulatory cap on \$/₦ by the CBN, causing persistent FX liquidity challenges, worsened by the dearth of investment inflows, which further contributes to the devaluation risk and leaves us in a very similar or even worse situation to 2016.

These interventions are not just relevant today – they are imperative! The issue of market liquidity remains a thorn in our side. However, the CBN's recent signal gives hope of a transformation towards a single market structure, although it addressed only the demand side. We expect on the supply side, the return of FX flows from the oil companies and oil service companies to the NAFEM to boost price discovery and liquidity in that market. Further, we also recently heard from the Honourable Minister of Finance and Coordinating Minister of the Economy - Mr. Olawale Edun - that President Bola Tinubu recently signed two (2) Executive Orders targeted at boosting FX liquidity through the

domestic issuance of foreign currency instruments and allowing foreign exchange cash previously held outside to legally come into the banking system. I believe time will testify to their resolve to see this through or otherwise. CBN has a lot to do, and speedily too, in the renaissance of the Nigerian financial markets.

On the fiscal side, Nigeria has been walking a fiscal tightrope, and surely that must be on top of the agenda for the new government. Fiscal revenues continue to underperform relative to the size of our economy, and despite periodic windfalls from crude oil sales during periods of price increase, the nation was not reaping the expected benefits. Why? A costly petrol subsidy regime combined with falling oil production! The fiscal deficit for 2022 stood at a staggering ₦8.30 trillion, painting a concerning picture. Oil booms, once our saving grace, barely make a dent now. Our fiscal deficit relative to GDP was 6.60% in 2021, as the petrol subsidy significantly strained our resources, constituting 2.30% of the GDP in 2022. This fiscal maze we find ourselves in sees us borrowing to fund expenditures, only to have our revenues eaten up by debt servicing – a whopping 96.30% in 2022! So, what is the way out of this mess? Boost revenues! This means expanding the tax umbrella, sealing revenue leakages, and encouraging foreign investments at an unprecedented scale, while reining in expenditures (especially reduction of wastages).

The removal of petrol subsidy, as it was previously implemented, somewhat helps in tackling the expenditure side of the puzzle, however the government must resist the urge to reintroduce petrol subsidy in any form which facilitates revenue leakages (in the form of bloated subsidy claims) and cross-border smuggling of petrol due to price variance between pump price in Nigeria and its territorial neighbours.

We have recently read in the news from various industry sources that the petrol subsidy may have returned since the landing cost is higher than the pump price, albeit in another form called under-recovery, wherein the NNPC Limited is basically selling petrol below its cost of purchase, in reaction to the government's announcement that pump prices of petrol will not be adjusted upwards after the initial adjustment immediately following the president's inauguration speech announcing the end of petrol subsidy. However, the government must explore or support novel private sector-led initiatives to achieve its social benefit objectives around petrol consumption, while also boosting government revenues through taxes.

Revenue generation and collection also needs an overhaul. The government has been on an admirable drive to increase non-oil revenue, and the progress that has been made is clear for all to see. Widening the tax net, especially to encompass the often-overlooked informal and freelance sectors, is vital. However, a delicate balance must also be achieved, as we cannot risk stifling economic growth or making Nigeria less enticing for investments. Harmonising and leveraging our national data asset across various databases, as well as improved adoption of technology would go a long way in bridging the gaps in our tax infrastructure thereby unleashing our revenue earning potential, and improving our fiscal position.

Although the previous administration held a moderately positive disposition to the financial markets through its own activities in the Nigerian financial markets, as well as its efforts in terms of policy making and enactment of enabling laws

(e.g., Companies and Allied Matters Act, 2020 (CAMA), Banks and Other Financial Institutions Act, 2020 (BOFIA), Business Facilitation Act, 2023), its posture was more reactive, rather than proactive in its approach to understanding and formulating its ideology/philosophy around how the Nigerian financial markets would be used as the catalyst for its economic agenda. In formulating its ideology/philosophy, this administration must develop its economic agenda with inputs from critical stakeholders in the Nigerian financial markets, seek insights on how the Nigerian financial markets can be leveraged to achieve its objectives, and commence implementation of agreed initiatives.

These are all achievable in the administration's first year.

Speaking of critical interventions, you emphasised the introduction of hedging products in the Nigerian FX market and collaborated with the CBN on the launch of the Naira-settled OTC FX Futures ("NSOFF") product in 2016, amongst other landmark initiatives.

How would you rate the impact and success of the NSOFF product introduced as one of the turnkey market development initiatives in 2016?

Hugely successful, I would say. The timely introduction of the product at the time (coupled with attractive returns) provided a springboard for the mobilisation of foreign inflows into the FX market. As investors were able to preserve their capital through the OTC FX Futures contracts (now referred to as *Cleared Non-Deliverable Forwards* or *Cleared NDFs* in allusion to developments in the Nigerian financial markets), negative investment sentiments/outlook about Nigeria reduced considerably thereby encouraging greater allocation of foreign investors' global portfolios to Nigeria, which in turn played a significant role in supporting the liquidity and stability that the Nigerian FX market enjoyed between 2017 and 2020.

In addition to capital preservation benefits for foreign investors, the product helps local end-users manage their FX risk exposures and budget more effectively, thereby reducing front-loading of FX demand and artificial pressure on the value of the currency. The total value of executed contracts of the Cleared NDFs since 2016 is \$67.79 billion, with an open contract value of \$4.16 billion as of October 31, 2023, and these numbers bring to bear the acceptance level of the product and the impact it has had on the market I must say, however, that some of the effectiveness of the product is curtailed when the underlying spot market is as illiquid as we are experiencing now, or when the Nigerian Autonomous Foreign Exchange Rate Fixing ("NAFEX"), the settlement rate, lags the real rates transactions are executed in the market due to regulatory 'knee' on the fixing. However, FMDQ continues to work hard, alongside the CBN, to improve the product and further increase its value to the market and economy.

Some of these outcomes of the engagements with the CBN include the extension of the product's tenor from the original twelve (12) monthly contracts to thirteen (13) monthly contracts, and eventually, sixty (60) monthly contracts, to facilitate hedging on longer term and more stable foreign direct investments.

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What challenges have limited the success of the NSOFF product and what other initiatives are long overdue for implementation in the Nigerian FX market, in terms of promoting liquidity and hedging?

A primary obstacle hampering the success of the Cleared NDFs product is the pronounced liquidity crunch in the spot FX market. This product, being non-deliverable and settled in Naira, implies that only the differential between the contract rate and the reference benchmark rate, i.e., NAFEX, is exchanged on the settlement day. But if the product's primary role as a hedging instrument is hampered because market participants cannot access dollars in the FX markets at NAFEX to fulfil their FX needs, then they are left with market liquidity risk and price risk, albeit reduced, between the settlement day and when they actually get the dollars. In simpler terms, even if they have used this contract to hedge their FX exposures, they might end up having to pay a premium over the NAFEX to source FX, or worse, not get any FX at all. This leaves them vulnerable to market fluctuations while hunting for dollars.

Additional bottlenecks include the current arrangement where there is only one (1) counterparty (the CBN) on the sell-side of the market, as well as the prescription and strict adherence to the list of eligible underlying transactions, which is unconventional in derivatives markets globally. Under this arrangement, non-bank users of the product must provide proof of an eligible underlying transaction, at contract settlement. While the objective behind this requirement is to prevent currency speculation via the product, it also inadvertently discourages potential users of the product from using it for their hedging needs due to the administrative burden of documentation.

For the FX markets, unification and true liberalisation are the pressing needs of the hour. The Nigerian financial markets have made laudable strides towards being able to support the scale of economic transformation required to actualise the nation's potential. For example, some of the other initiatives tagged as the next phase of development in the Nigerian FX market during my last interview are introduction of more hedging products and the rollout of central counterparty (CCP) clearing services to effectively de-risk the Nigerian financial markets.

Since then, FMDQ has launched a CCP, FMDQ Clear Limited, in the Nigerian financial markets to support the introduction of new hedging products by its exchange, FMDQ Securities Exchange Limited, and this materialised with the activation of its Exchange-Traded Derivatives market and the go-live of two (2) products – the sovereign bond futures and standard FX futures in July this year. Sadly, the re-emergence of challenges in the FX market akin to the scenario which played out in 2016 continue to undermine the advancement of these key initiatives.

In the Nigerian FX market, the following reforms/initiatives are long overdue and should be pursued immediately:

- Eliminating regulatory ambiguity in the FX market (caused by multiple releases of complementary and contradictory regulations/guidelines)
- Improving transparency, price discovery (on-system trading) and liquidity-enabling arrangements (two-way quotes trading) in the FX market
- Facilitating access to the FX markets by local and foreign participants (through upgrades to the extant market structures and leveraging financial market infrastructures to de-fragment and de-risk the market)
- Rollout of more hedging products

The CBN must embrace a more laissez-faire approach in its oversight of the Nigerian FX market, participating only as is required towards achieving its own core mandate of price stability. It is imperative that the CBN

applies the same micro-prudential rules and standards on all the deposit money banks.

Staying with the CBN, we have also recently witnessed a change in leadership at the CBN similar to what occurred in 2015, which preceded a series of CBN-led initiatives/reforms (including the launch of the NSOFF product mentioned earlier, amongst others) aimed at reinvigorating the Nigerian FX market to support the economy.

What specific reforms/areas in the Nigerian financial markets would you advise the financial services regulators to pursue or address urgently?

Following a change in leadership at the CBN by the Tinubu administration, the CBN's recent efforts are akin to a maestro trying to orchestrate harmony in a discordant market. Although it has taken too long, kudos to the CBN under Mr. Olayemi Cardoso for commencing the clearance of the CBN's backlog of unsettled FX obligations. This, in addition to prior moves, like floating the Naira, amalgamating various FX windows into the NAFEM, and removing the FX restrictions on the 43 items, are just sub-plots of what, by my estimation, is a programme with about seven (7) moves towards resuscitating the Nigerian FX market, as follows: **1. Expediting the clearance of the CBN's backlog of unsettled**

control monetary policy by influencing short-term interest rates.

The money market in Nigeria has evolved over the years, influenced directly and indirectly by the policy stance of the leadership of the CBN. Presently, the money market in Nigeria faces several issues, particularly ineffective monetary policy transmission, as well as the opacity and fragmentation in general. Despite these challenges, the money market in Nigeria continues to trudge along, but there remains potential for it to be so much more!

The CBN must reassess its extant efforts and implement critical reforms targeted at enhancing monetary policy transmission, while supporting market development initiatives targeted at reducing fragmentation, formation of market-driven interest rates and aid monetary policy decisions.

Other financial services regulators such as the Securities and Exchange Commission (SEC), National Pension Commission (PenCom) and National Insurance Commission (NAICOM) must also pursue, and support initiatives targeted at boosting activity and managing risks in the Nigerian financial markets, while eliminating regulatory clashes.

The new government also spoke about its desire to achieve single digit interest rates in the



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FX obligations; 2. Facilitating FCY liquidity arrangements by banks; 3. Mobilising onshore and offshore FX supply; 4. Activating price discovery and ensuring credible NAFEX; 5. Publication of consolidated regulations; 6. Facilitating hedging of foreign investments; 7. Addressing dollarisation needs of local investors; amongst others.

The challenge ahead is dual. First, how does the CBN ensure its early (pro-market) efforts/actions under the new government do not become a one-hit-wonder or fizzle out completely, but instead, mark the start of a harmonious symphony in the Nigerian FX market? Second, how does the CBN pursue these required actions without creating more negative social sentiments, which may force the Presidency to curtail its actions? It is clear that a serious balancing act is required, and the task ahead is by no means an easy one for Mr. Cardoso. Real reforms in trading & surveillance, and counterparty risk management & settlement through the FMDQ CCP, and ultimately positioning the Nigerian FX market as a global FX centre, will come to focus only after the housekeeping job is done.

The money market plays a crucial role in the functioning of any economy. It is integral to providing liquidity to financial institutions, enabling efficient management of short-term cash surpluses and deficits, and serves as a platform for price discovery and interest rate determination. In many modern economies, it also serves as a mechanism to implement and

economy to promote economic prosperity.

How do you perceive the government's desire to achieve single digit interest rate given the current domestic and global macroeconomic conditions, and what approach would you recommend for achieving the desired single interest rates?

Whilst the president has expressed his desire for single-digit interest rate, he must, respectfully, in the interest of the economy and Nigerians, stop expressing unrealistic and populist rhetorics on matters of monetary policy! He must not tie Mr. Cardoso's hands on interest rate management in the same way President Buhari tied Mr. Emefiele's hands on exchange rate! We all know low interest rate is laudable, as it means lower cost of capital for businesses, which promotes economic expansion leading to more jobs and higher consumption and fiscal revenues, but that is highly impossible now. With Dollar interest rates at circa 6%, Nigerian Eurobonds currently at 13% p.a., Naira inflation at about 27% and unprecedented depreciation of the Naira, we should see an inverted yield curve. Mr. Cardoso must prove his independence towards taking necessary decisions/actions on monetary policy management and nudge short-term Naira interest rates high enough to position Naira an attractive currency to invest in.

I must emphasise that interest rates management is the exclusive prerogative of the CBN as it attempts to fulfil its core mandate of

price stability. Consequently, to achieve the desired interest rate targets, fiscal authorities must focus strictly on fiscal policies/actions which can boost economic activity and output (e.g., tax rebates), while working collaboratively with the CBN to ensure such policies/actions do not counteract or contradict monetary policy actions and targets.

Lastly, on this point, a key initiative the Minister of Finance & Coordinating Minister of the Economy may consider is a transparent interest rate rebate scheme targeted at key sectors of the economy. There is really no economic justification, and it is in fact unfair to continue to support those importing toothpicks and biscuits with low interest rate at the expense of savers, investors and pensioners!

Since inception in 2013, FMDQ has laudably been at the forefront of driving innovation and development in the Nigerian financial markets. As FMDQ commemorates its 10th anniversary, it is imperative to look back at some of the achievements of FMDQ for the Nigerian financial markets.

What role has FMDQ played in the key successes achieved in the Nigerian financial markets since its inception to date?

In the 10 years since the birth of FMDQ, we have embraced the ever-evolving roles that we have had to play in the development of the Nigerian financial markets. Growing from a SEC-registered OTC market into a full-fledged securities exchange, and eventually a vertically integrated financial market infrastructure (FMI) group, through the establishment of additional subsidiaries - a CCP (FMDQ Clear Limited), a central securities depository or CSD (FMDQ Depository Limited), an information repository for private capital (FMDQ Private Markets Limited), and an IT solutions company (iQx Consult Limited); all (including the flagship FMDQ Securities Exchange Limited) under a restructured SEC-registered holding company – FMDQ Group PLC.

Through all of these subsidiaries, FMDQ has been able to play an active role across the financial markets value chain since its inception in 2013 to date, with each entity playing their own integral role in the financial markets, cutting across four (4) major roles in the ecosystem:

1. Market Organiser
2. Catalyst for Infrastructure Capital
3. Financial Market Diplomat;
4. Adviser to Government and Regulators

Notably, FMDQ Securities Exchange has become and remains Nigeria's largest securities exchange by market turnover, and led in the rollout of many initiatives targeted at deepening the Nigerian fixed income and currencies markets.

As we celebrate our 10th anniversary, ten (10) notable successes in the Nigerian financial markets driven by FMDQ include:

1. *Launch of the flagship FMDQ Daily Quotation List - a database of rates and prices of fixed income, currencies and other securities admitted or reported on the Exchange*
2. *Resuscitation and organisation of the Nigerian commercial papers (CP) market*
3. *Activation of the Debt Capital Markets Development (DCMD) Project – a market-wide initiative aimed at addressing and implementing solutions to the issues hampering the development of the nation's DCM and, by extension, inhibiting it from contributing effectively to economic development*
4. *Development and administration of NAFEX - the globally accepted benchmark for the formal FX market in Nigeria*
5. *Launch of the Cleared NDFs product discussed earlier through a collaboration with the CBN*

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- 6. *Pioneered central (non-CCP) clearing of derivatives in Nigeria*
- 7. *Activation of straight-through processing (STP) of sovereign and CBN securities secondary market transactions*
- 8. *Launch of FMDQ Academy and the FMDQ Next Generation Financial Markets Empowerment Programme (FMDQ-Next)*
- 9. *Launch of FMDQ Green Exchange*
- 10. *Activation of FMDQ Exchange-Traded Derivatives (ETD) market*

At FMDQ, we continue to push the boundaries of innovation within applicable regulations to make the Nigerian financial markets **GOLD** i.e., Globally Competitive, Operationally Excellent, Liquid and Diverse. The activation of the ETD market is a testament to this fact, as this provides market participants with a bouquet of products to hedge their risks and manage their portfolio exposures, as well as facilitates a linkage between the money and capital markets.

In these ten (10) years, FMDQ has also been at the forefront of engagements with regulators and the government to ensure advancement of market development initiatives. An example of this is our collaboration with market stakeholders to ensure the enactment of netting laws to facilitate bankruptcy remoteness in the Companies Allied Matters Act, 2020.

FMDQ's role in the evolution of Nigerian financial markets has been paramount, and it continues to contribute immensely to the growth and sustainability of the Nigerian financial landscape through innovative product offerings, regulatory engagements, and education initiatives.

How do you envision the Nigerian financial markets evolving over the next ten (10) years?

For Nigerian economy to realise its potential and take its pride of place globally, the Nigerian financial markets must be vision-led with attendant articulated strategies. We must compare and compete favourably in size, characteristics, and importance with leading economies. Singapore, yes Singapore, is now in the third position of Global FX Turnover!

Consequently, key metrics, such as number of listed companies and issues, market capitalisation-to-GDP ratio, trading intensity, etc., must match those of peer economies.

All of these point towards the Nigerian financial markets where the capital markets become a primary venue for capital raising and commodities trading for domestic and regional businesses/enterprises (under a single cross-border regulatory framework), supported by advanced money markets which facilitate effective monetary policy transmission and interest rate formation, and support the proliferation of intra-African trade and regional currencies' convertibility, and an FX market which ensures free capital flows to drive market efficiency - all of these supported by an active, diverse and liquid derivatives market to effectively cater to the risk management needs of market participants.

In ten (10) years, we envision that the Nigerian financial markets should have become an international financial centre with characteristics similar to those of other emerging market economies.

We have discussed in great detail the level of economic growth required for Nigeria to realise its economic potential within the sub-Saharan region and globally, as well as the anticipated evolution of the Nigerian financial markets.

In more specific terms, what needs to be done with the economy for the new administration to inspire greater hopes of prosperity for Nigerians?

As the new administration fully settles in, it must quickly get on with formulating and

implementing policies/actions targeted at driving the promises in President Tinubu's 'Renewed Hope' campaign manifesto. Critically, key focus should be given to the following actions and outcomes:

- **De-dollarisation of the Economy:** The last four (4) years (since 2020) has been characterised by massive dollarisation of the economy through foreign currency holdings in cash or investments by citizens (including government officials), and rightly so as Nigerians, like any other rational economic agents sought to preserve their capital (by protecting it against capital erosion due to sub-optimal returns and currency depreciation). We therefore need to find creative arrangements/initiatives that will encourage Nigerians to switch back to Naira holdings and investments, and attract substantial amount of the foreign currency cash holdings into the banking system via ingenious schemes
 - **Exchange Rate:** The administration must be brave enough to professionally maintain exchange rate at a certain level needed to improve and ensure adequate fiscal revenue (*They must not seek to quickly push the \$/₦ exchange rate back to the \$/₦400.00 level*). This, in addition to other efforts would allow the CBN build FX reserves, and demonstrate the credibility of the exchange rate to encourage repatriation of export proceeds and inward foreign investment flows. The exchange rate needs to be the disincentive for citizens to consume foreign goods and services
 - **Imports:** To further discourage over-reliance on imports, and encourage local production, import duties may be raised on certain finished products to encourage local production and consumption. This would also help boost fiscal revenues via import duties and consumption taxes i.e., value added tax (VAT). Specifically, the government would earn higher VAT on imported products (as their prices go up locally), as well as VAT on the local substitute products
 - **Infrastructure and Industrialisation:** The need for industrialisation cannot be over emphasised. However, industrialisation can only be pursued aggressively on the back of critical infrastructure. The infrastructure deficit plaguing the Nigerian economy is well documented, and despite the prior administration's efforts towards addressing the infrastructure deficit, these efforts need to be fast-tracked and pursued more aggressively with private sector orientation
- Critically, the economy needs power, transportation, and storage infrastructure to be a competitive market for value-added industrialisation. Otherwise, imports would remain a cheaper option (especially as technology advances and becomes marginally cheaper) than locally produced goods. If imports remain cheaper, then we would have FX demand increasing and the associated devaluation risk, which would force us to revert to pursuing the current 'export' strategy (i.e., exporting raw resources) to at least provide some FX liquidity. The new administration needs to come up with a medium-term industrialisation plan, setting clear industrialisation targets and articulating how these would be pursued and achieved across sectors/industries
- **Interest Rate:** There is too much Naira liquidity in the financial system; a position corroborated by the CBN and evidenced by the failed attempt by recent monetary policies to curb inflation. A lot of the Naira liquidity is also driving FX demand, thereby leading to Naira depreciation. Consequently, short-term interest rates need to rise significantly (close to 30% levels) to drain the banking system and economy of excess liquidity to make Naira scarce. As the economy improves, the short-term interest rates will moderate to lower levels



The liquidity drain should be such that banks must rely on the CBN to a greater extent for liquidity needs via the CBN's lending window. This will re-establish the relevance of the monetary policy rate (which may now be the CBN repo rate) in interest rate formation and also improve monetary policy transmission

- **Financial System Strategy:** The new administration should also develop and publish (before the year-end) a financial system strategy document jointly authored by the Ministry of Finance and the CBN, articulating the relevant transformation agenda, policies, and action plan(s) for the Nigerian financial markets and broader financial system

Overall, Nigerians need to be made aware of the deplorable state of the economy, and the new administration must demonstrate its willingness and ability to engage Nigerians in rebuilding the economy. This would critically entail Nigerian leaders across the three (3) arms of government, showing economic empathy by being more prudent with already scarce resources (especially on non-critical spending), as well as leading the switch in consumption from imported products to locally produced products. We must all buy 'made in Nigeria', starting with our leaders!

As the Nigerian economy continues to grapple with the effects of the new and anticipated fiscal and monetary policies of the new administration, it is expected that the Nigerian financial markets would play a huge role in the efficient intermediation of capital to drive economic development and prosperity, especially given the huge opportunities in the sub-Saharan region.

What role has effective partnerships/collaborations played in FMDQ's journey to date, and what opportunities do you see for collaboration/partnerships to ensure the Nigerian financial markets take pride of place amongst peers?

FMDQ recognises the importance of partnerships and collaborations in our journey towards making the Nigerian financial markets GOLD. As one tree does not make a forest, we acknowledge that one stakeholder alone cannot carry the markets on this journey. We have thus, throughout our existence, sought partnerships and collaborations in carrying out all our market development initiatives. We have also been very happy to collaborate with other stakeholders in bringing their initiatives and

ideas to fruition for the betterment of the market. We are supremely grateful for the support we have received over the years from the SEC, CBN, PenCom, Debt Management Office, Nigeria, the Office of the Vice President, Lagos State Government, Financial Sector Deepening (FSD) Africa, Climate Bonds Initiative, the University of Oxford, United Kingdom; I could go on. We are also thankful for the collaborative members of our different subsidiaries and the Financial Markets Dealers' Association. We hope to continue this journey of growing the financial markets hand in hand with other stakeholders.

FMDQ is a big believer and proponent of the principle of collaboration; it is why we will continue to be at the forefront of any partnership opportunities to continue to energise the Nigerian financial markets. We will support initiatives that seek to improve the market in alignment with FMDQ's vision. We will also continue to proactively seek out engagements with stakeholders for the betterment of the market.

Congratulations to FMDQ on its 10th anniversary, what developments and corporate objectives should we look forward to over the next ten (10) years?

Thank you very much!

Let me state here that the support received from the media, especially your good selves, has been extremely humbling. We are very appreciative of this and will continue to do our part to provide requisite support to our media partners.

At FMDQ, we are excited about the next ten (10) years with respect to our role and position in the Nigerian financial markets. Particularly, we look forward to the actualisation of our corporate objectives at the Group and Entity levels, some of which include:

- Becoming a one-stop platform for mobilising capital and financial market intermediation
- Expanding our footprints across the continent
- Establishing strategic partnerships globally towards the achievement of our vision of becoming the leading African builder of ecosystems of financial infrastructure and services for markets

FMDQ Group is Africa's First Vertically Integrated Financial Market Infrastructure Group