



# ***Financial and Monetary Stability & The Evolving Mandates of Central Banks***

# FINANCIAL Vs. MONETARY STABILITY

## What is Financial Stability

Financial Stability is the condition in which Nigeria's financial system — banks, markets, and payment infrastructure — can absorb shocks without disrupting economic activity

### Core Dimensions of Financial Stability

- ✓ Banking Sector Soundness
- ✓ Liquidity Resilience
- ✓ Macro-Financial Linkages
- ✓ Systemic Risk Management

## What is Monetary Stability

Monetary Stability is the sustained control of inflation and the anchoring of inflation expectations to preserve purchasing power and macroeconomic credibility

### Core Policy Instruments

- ✓ Inflation targeting
- ✓ Interest rate policy
- ✓ Exchange rate management
- ✓ Money supply control

# HISTORICAL CONTEXT

**BEFORE**

**1933**

American economist showed how debt can cause depression

**1936**

British economist John Maynard Keynes claimed that financial markets have a larger role in the functioning of the economy than was previously thought

**AFTER**

**2007**

Lebanese-American risk theorist Nassim Nicholas Taleb published *The Black Swan*, which criticizes the risk management procedures of financial markets

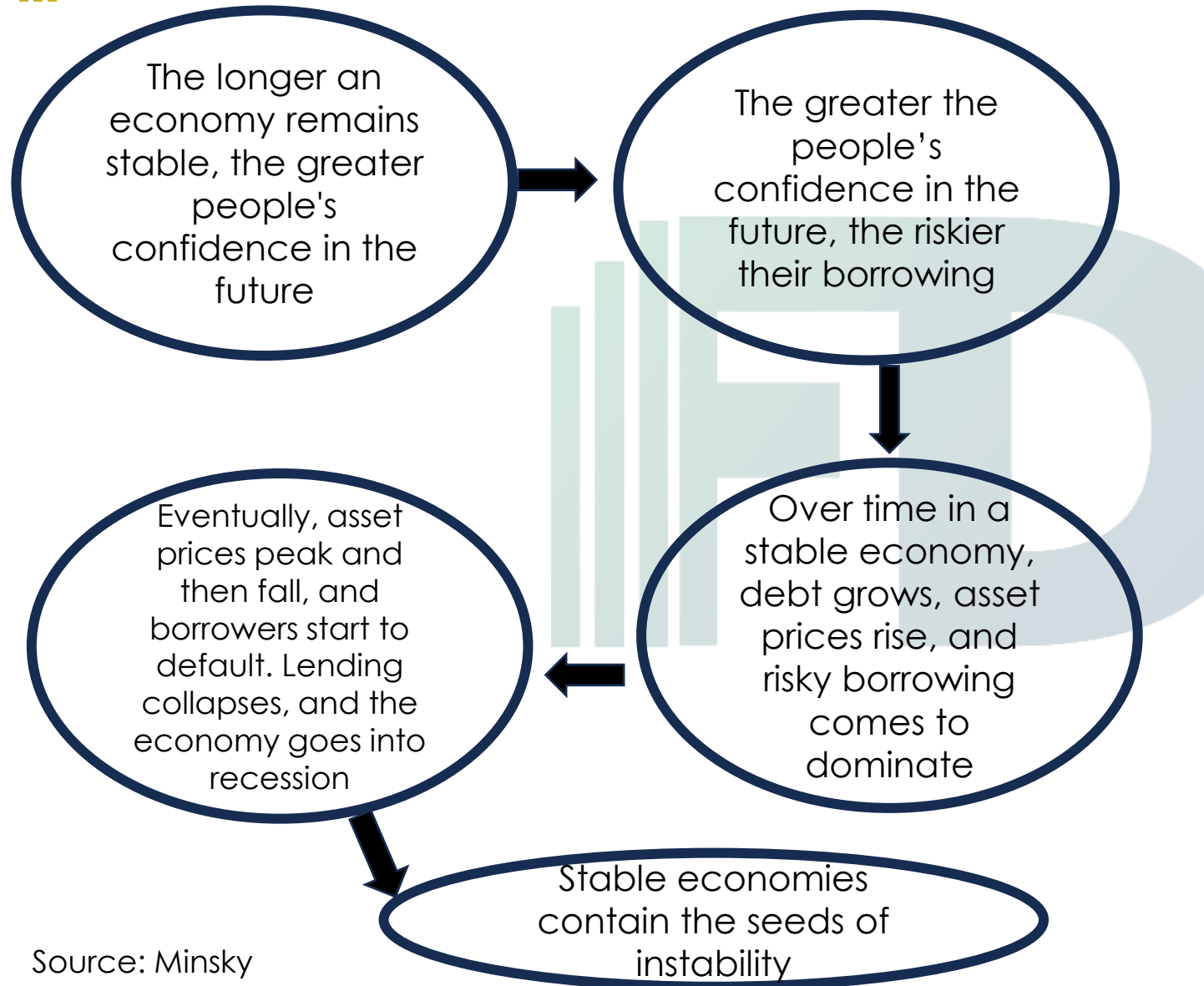
**2009**

Paul McCulley, former managing director of a large investment fund, coined the term “Minsky Moment” to describe the point at which booms turn into busts

# HISTORY OF CENTRAL BANKS AND THE LESSONS LEARNED

Period / Event	Challenge	Lesson Learned
<b>1920s–1930s (Great Depression)</b>	Central banks failed to prevent bank runs and deflation; monetary policy too tight	Need for proactive monetary policy and lender-of-last-resort function
<b>1970s (Stagflation)</b>	High inflation and slow growth; central banks focused only on money supply	Importance of balancing inflation control with economic growth
<b>1980s–1990s (Emerging Market Crises)</b>	Bank failures in developing countries due to poor supervision and high foreign debt	Stronger bank supervision, capital controls, and financial regulation
<b>2007–2008 (Global Financial Crisis)</b>	Subprime mortgage collapse, complex derivatives, and systemic risk	Proactive supervision, stress testing, macroprudential policy, and crisis preparedness
<b>Post-2009 (Regional / Emerging Crises)</b>	Sovereign debt crises, currency stress, market volatility	Vigilance, rapid intervention, coordination between fiscal and monetary policy, and early warning systems

# SOURCES OF INSTABILITY



Source: Minsky

- Excessive debt is a source of instability:
  - ✓ **Government debt**
  - ✓ **Consumer debt**
  - ✓ **Corporate debt**
- These can either lead to stability or instability
- Excessive consumer mortgage debt caused the 2007–2008 subprime crisis, addressed by monetary easing, bank bailouts, and stricter lending rules

# THE BUSINESS CYCLE PARADOX - STABILITY BREEDS INSTABILITY

Stable economies contain the seeds of instability



- Nigeria's stock market has experienced a robust rally in early 2026, building on 2025 gains, with market capitalization rising to ₦122.236trn and the ASI reaching 190,427 points, up from 156,000 points in January

# CRISIS AND OUTCOMES

- Crisis of debt
- Crisis of the markets
- Crisis of confidence
- Crisis of liquidity

**Has led to downturns, some coinciding with cyclical downturns and some with irrational exuberance**

- Collateralized debt instruments emerged in the 1980s–1990s as a way for banks to package loans
- When housing prices fell, mortgage defaults soared, CDOs lost value, banks faced huge losses, and the financial system nearly collapsed
- This amplified the financial crisis of 2007–2008 and drag down the financial system

**Savings → Investment → Speculation → Downturn / Crisis → (can loop back to Savings**

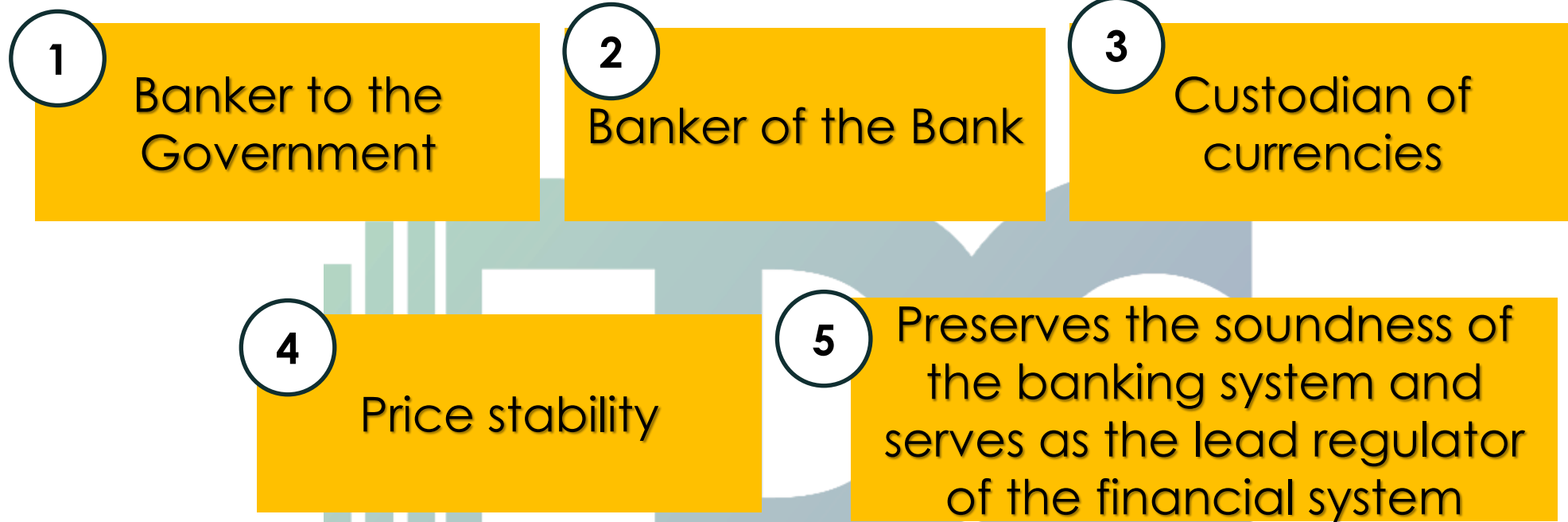


# VIGILANT CENTRAL BANKING IN ACTION

- After 2009, there has not been a global financial crisis on the scale of the 2007–2008 crisis (subprime mortgage)
- Central banks didn't allow debt crises, market crises, and confidence crises to spill over to banks. Policymakers and central banks are vigilant, and every time a crisis and its fallout happen, the impact on the entire system is minimized

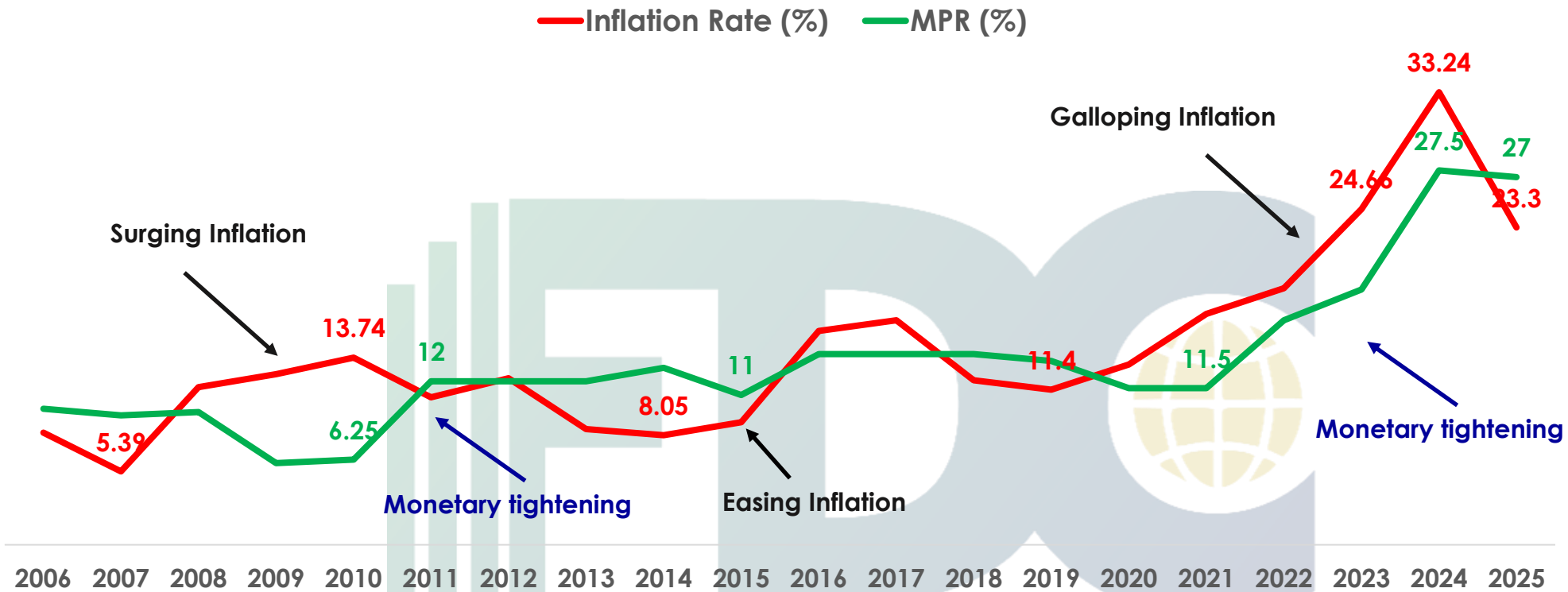


# ROLE OF CENTRAL BANKS



- Some central banks have decoupled supervision of banking from economic policy
- Some have included development financing
- Some have extended price stability to mean unemployment
- Some have made it proactive, conducting stress testing before crises happen
- Others have made it reactive, and once a crisis occurs, there is a clampdown

# COUNTRY CASE STUDY – NIGERIA (MONETARY STABILITY)



- Nigeria experienced periods of surging and galloping inflation, prompting central bank interventions to stabilize prices
- Monetary tightening through adjustments in the MPR helped ease inflation during key periods, highlighting the role of central bank policy in maintaining monetary stability

# COUNTRY CASE STUDY – NIGERIA (FINANCIAL STABILITY)

## BANKING RECAPITALIZATION

- ✓ CBN recapitalization 2024 – 2026:
- ☐ New minimum capital:
  - ✓ Intl - ₦500 bn
  - ✓ National - ₦200 bn
  - ✓ Regional - ₦50 bn
- Old minimum: ₦25 bn
- ✓ Status: over 20 banks fully compliant; ahead of March, 2026 deadline

## FX REFORMS

- **Unified FX market:** Single market-driven rate replaces multiple rates
- **Electronic systems & FX Code:** Boost transparency, ethics, and governance
- **Cleared FX backlogs:** \$7 bn obligations settled, liquidity improved

## CRR MANAGEMENT

- ❖ Feb' 2024 - CRR was raised to **45%** from 32.5% to curb inflation and excess liquidity
- ❖ Sept' 2025 - **75% CRR** was introduced on non-TSA public sector deposits to shield the banking system from fiscal liquidity risks

# COMPARATIVE ANALYSIS – WHAT WE CAN LEARN

	Kenya	South Africa	Nigeria
<b>Inflation Rate (% , Jan'2026)</b>	4.4	3.5	15.1
<b>Interest Rate (% , 2026)</b>	8.75	6.75	27
<b>Money Velocity (2025)</b>	4	1.7	3.7
<b>Financial Inclusion (% , 2025)</b>	85	91	74
<b>Digital Payment Usage (% of pop., 2025)</b>	89	67	45
<b>Electricity Per Capita (kWh)</b>	241	3,670	165

- If productivity in a country is impeded, inflation is likely to remain elevated
- Ensure that interest rates in the country are positive relative to the rate of inflation
- Enhance productivity to reduce inflation

# NATIONAL SAVINGS RATIO

$$\text{National Savings Ratio} = \frac{\text{Gross National Savings}}{\text{GDP}} \times 100$$

**Gross National Savings = Household + Corporate + Government Savings**

A higher national savings ratio can support productivity through the following channel:

Savings → Investment → Capital Formation → Higher Productivity → inflation down →

Economic Growth

- This leads to a stable exchange rate and sustainable growth
- We have less imbalances



# THE RISE OF FINANCIAL INCLUSION

## 2025 Inclusion Metrics (%)

Metric	Value	Rationale
Account Ownership	63	Steady from 64% formal (2023)
Digital Payments	54	Major driver via mobile money
Formal Borrowing	9	Low despite access gains
Formal Savings	43	Millions excluded by cost/trust
Formal Inclusion	64	Stable; women at 47-55%

## Inclusion Rates Over Time (%)

Year	Overall Inclusion	Formal Inclusion	Exclusion	Rationale
2020	68	56-57	32	Pre-naira redesign baseline
2023	74	64	26	Driven by non-bank channels; 29M adults excluded
2025	74	63-64	26	Stable amid economic pressures; 320M active accounts

- Financial inclusion data for 2025 shows continued progress, building on 2023's 64% formal rate, with global index 2025 reporting 63% account ownership amid smartphone and agent growth
- An efficient payment system enhances productivity by reducing transaction costs and improving economic efficiency

# KEY DRIVERS OF FINANCIAL INCLUSION Vs. EXCLUSION

## Agency Banking and Agents



### POS Agents

**Value: 1.96M (2025)**

Nationwide surge post-naira redesign



### Users Served

**Value: 11M (2023)**

12% of population, mainly unbanked



### Total Financial Agents

**Value: 60M (2023)**

Up from 29.2M in 2020; sustained 2025



### Firstmonie Transactions

**Value: ₦1.1trn (2023)**

Largest bank-led network

## Exclusion Drivers and Demographics (2023-2025)

Reason/Demographic	Rate(%)
No Money/Income	49
Distance	33
Rural Exclusion	37
Northern Regions	Highest
Women Gender Gap	9
Farmers/Dependents	High exclusion
Emergency Funds (₦75k in 7 days)	78 unable

- These reflect economic vulnerabilities, poverty, poor infrastructure, and cultural factors undermining Nigeria's 64-74% inclusion gains, as 78% can't handle a ₦75k emergency

# CENTRAL BANKING'S IMPOSSIBLE TRINITY

	Free Capital Mobility	Monetary Policy Independence	Exchange Rate Stability
Free Capital Mobility	—	✓ Possible	✗ Not possible together with full monetary independence
Monetary Policy Independence	✓ Possible	—	✗ Not possible together with free capital mobility
Exchange Rate Stability	✗ Not possible with full independence	✗ Not possible with free capital mobility	—

- The Impossible Trinity in international macroeconomics states that a country cannot simultaneously achieve all three of the following:
  - Exchange Rate Stability
  - Free Capital Mobility
  - Independent Monetary Policy
- A central bank can choose only two out of the three at any given time

# MONEY OF THE FUTURE - CONVERTIBLE CURRENCY

- A convertible currency is a currency that can be freely exchanged for other currencies in the global foreign exchange market

## Three key conditions define full convertibility

### Usability

Accepted for all transactions—trade, payments, investment, domestically and abroad

### Exchangeability

No limits or approvals needed for conversion into foreign currencies

### Market Rate

Traded openly in forex markets at equilibrium prices (fixed or floating)

## Step-by-Step Path

Macro stability

Current account liberalization

Institutional reforms

Capital controls easing

Full convertibility

## Major Fully Convertible Currencies



US Dollar



Euro



Pound



Japanese Yen



Swiss Franc

## Partially Convertible Currencies



Indian Rupee



Chinese Yuan

## Highly Restricted Currencies



Nigerian Naira



Ethiopian Birr

# THE CENTRAL BANK OF THE FUTURE

## □ “Proactive” as against “Reactive” Central Banks

- ✓ We expect to see, just like the Bank of England handing off financial prudential supervision
- ✓ Federal Reserve handing off the Office of the Comptroller of the Currency
- ✓ Banking regulation being taken away from central banks to allow them to focus on policy
- ✓ Central banks becoming primarily monetary policy institutions
- ✓ Focus on policy and not regulations



Thank you