



**THE Nigerian
STOCK EXCHANGE**

RC: 2321

LEVERAGING ON POLITICAL STABILITY FOR SUSTAINABLE ECONOMIC DEVELOPMENT

Presented by

Oscar N. Onyema

CEO, The Nigerian Stock Exchange

for

Chartered Institute of Bankers of Nigeria

2011 Lagos Bankers' Nite

Federal Palace Hotel, Victoria Island, Lagos

August 4, 2011

Outline

- The Latin American Experience
- Nigeria's Challenge
- Economic Development
- What We Know
- Nigeria's Solution
- NSE's Role & Outlook
- Nigeria's Opportunity
- Government & Private Sector Must-Do's



THE Nigerian
STOCK EXCHANGE

RC: 2321

Introduction

Political Stability

unlocks
the
door
to

**Economic
Development**



The Latin American Experience

- **1980s:** Economic crisis and external debt burden
 - Erosion of credit worthiness
 - Loss of attractiveness for FDI
 - Decline of private capital flows
- **1990s:** Reversal of FDI and capital flight trends
 - Political and macroeconomic stability
 - Return of confidence of nationals
 - Revitalization of capital markets



THE NIGERIAN
STOCK EXCHANGE
RC: 2321

The Latin American Experience

**Political Stability,
Financial Markets
and**

**Economic Development
Go Hand-in-Hand**

THE Nigerian
STOCK EXCHANGE

RC: 2321

Nigeria's Challenge

- Rapid economic development

- Hindered by:

- Political sensibilities
- Sub-optimal management of the economy
- Policy inconsistencies
- National security
- Insufficient infrastructure
- Terms of trade
- Encumbered legal system
- Structural unemployment
- Deficient quality education
- Inadequate government funding



THE Nigerian
STOCK EXCHANGE
RC: 2321

Economic Development

- A sustained concerted effort by policymakers and community to promote the standard of living and economic health of a country
- A policy intervention effort with aims of economic and social well-being of people
- *Economic growth* is one aspect of the process of economic development
- **Financial markets are the backbone of economic development**

* *Economic growth is the occurrence of market productivity and rise in GDP*

What We Know: Part I

Economic growth requires an efficient financial market

- Pool domestic savings and mobilize foreign capital

Capital markets are important to economic development because of their efficiency

- Assets can be traded at a fair price

What We Know: Part II

Capital markets play several key roles

- Lower the cost of equity capital
- Stimulate investment and growth by spreading the risks of long-term investment projects
- Contribute to more efficient investment
- Enhance the supply of investable funds by attracting foreign portfolio capital
- Contribute to the mobilization of domestic resources and provision of fresh equity capital to the corporate sector

What We Know: Part III

FDI is negatively affected when raising local capital is difficult and costly

Illiquidity in a capital market hinders capital-raising efforts of large domestic firms

RC: 2321

Restricted capital markets “silently” impose major economic penalties on local companies

- Correlation between transparency and tax burdens

Growth of Asia and Latin America

- Impressive growth of financial markets in the 1980s due to:
 - Adoption of market-friendly economic reforms
 - Increased privatization of state-owned enterprises
 - Debt-for-equity swaps
 - South Korea - Market capitalization rose from \$3.8B in 1980 to \$140.9B in 1989 (or 6.3% to 73.1% of GNP, respectively)
 - India - Capital market increased from \$3.9B in 1980 to \$7.5B in 1989 (or 4.4% to 8.5% of GDP, respectively)
 - Similar impressive growth occurred in financial markets of Chile, Mexico and Brazil

Emergence of the BRICs

Nigeria's Solution

1. Facilitate the success of economic and structural reforms
2. Revitalize the capital market for mobilization of funds required to finance development
 - Efficient mobilization of domestic and international savings
 - Channeling of savings to productive sectors

The NSE's Vision

“ To be the leading Stock Exchange in the African region for capital formation, driven by transparency, innovation, efficiency and liquidity.”

THE NIGERIAN
STOCK EXCHANGE



To become the gateway to
African Markets.

2321
← Aligned with
the nation's
vision.

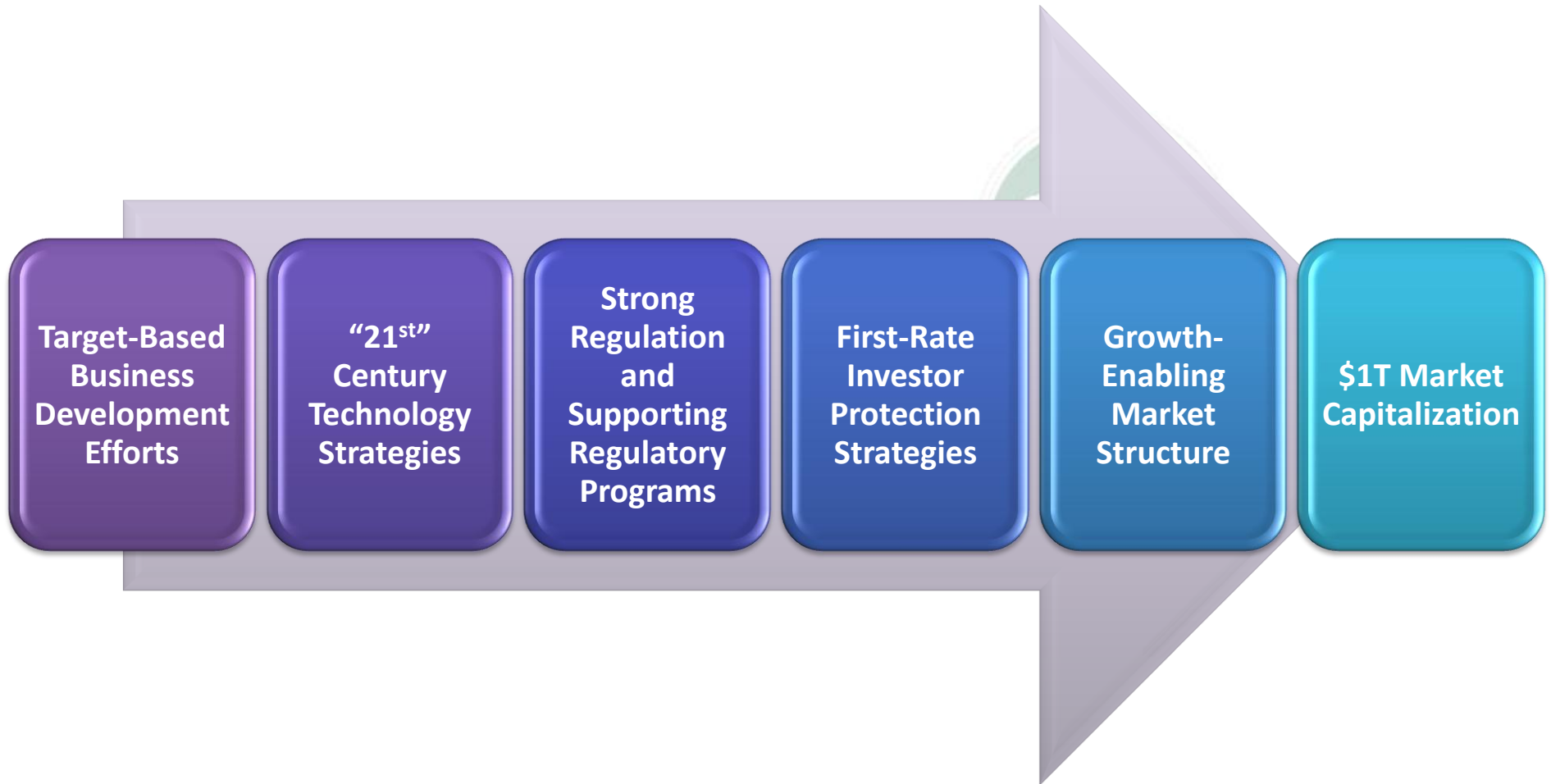
Current Position

**NSE services the 2nd
largest financial
centre in sub-
Saharan Africa**

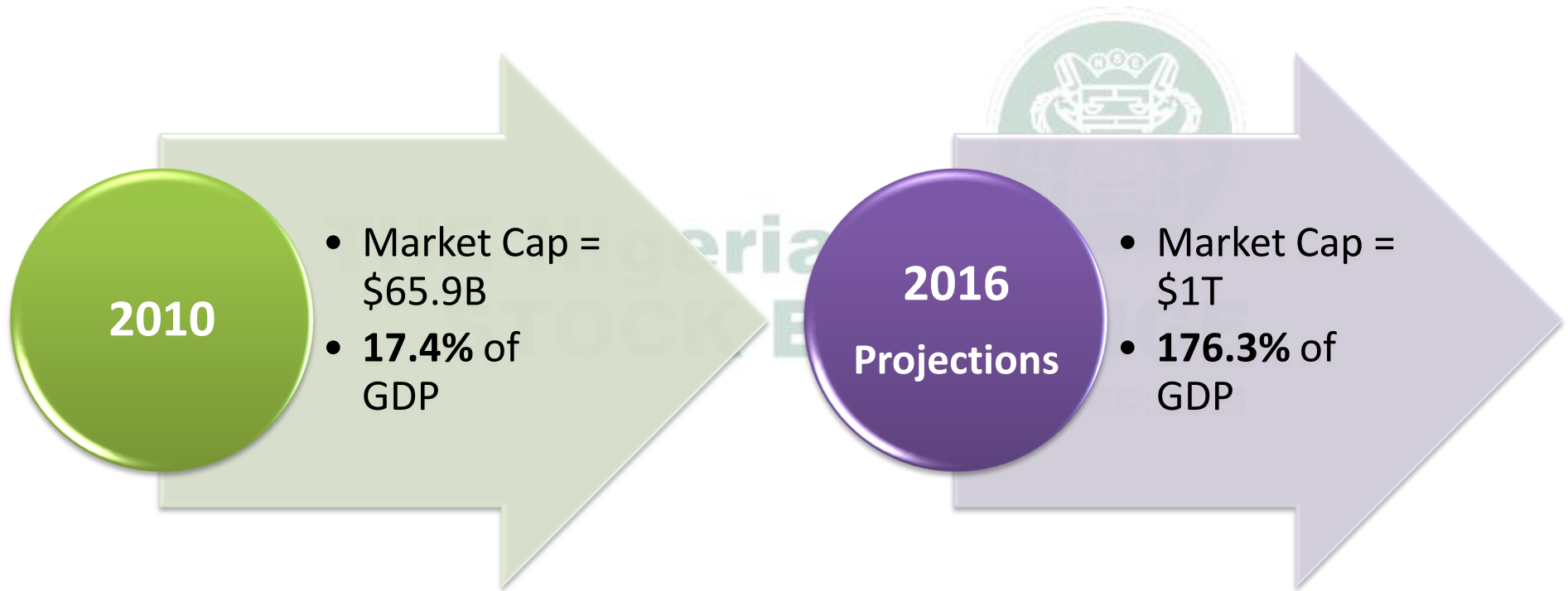
**NSE is the 3rd
largest stock
exchange in Africa
by capitalization**

**NSE is the largest
market in West
Africa by company
capitalization**

5-Year Outlook



5-Year Outlook: Market Capitalization & GDP



Sources: GDP (\$377.9B)--www.cia.gov; Exchange rate--www.cenbank.org; Projection based on 7% avg. GDP growth (aggregated)

Nigeria's Opportunity

Step 1: Stability, Manpower & ROI

4 Democratic Elections;
1 Internationally-
Recognized "True and
Fair" Election

7% Avg. Annual GDP
Growth;
Population of 150M;
High Rates of Return

Step 2: Economic Reforms

Financial System:
*Banking Reforms,
Monetary Policies,
Capital Market Reforms*

Macroeconomic Policies:
*Industrialization,
Int'l Trade,
Currency Mgmt, Structural
Unemployment*

Step 3: Vision & Commitment

Infrastructure
Development

"Demonstration effect" by
Federal and State
Governments
(Need for Action)

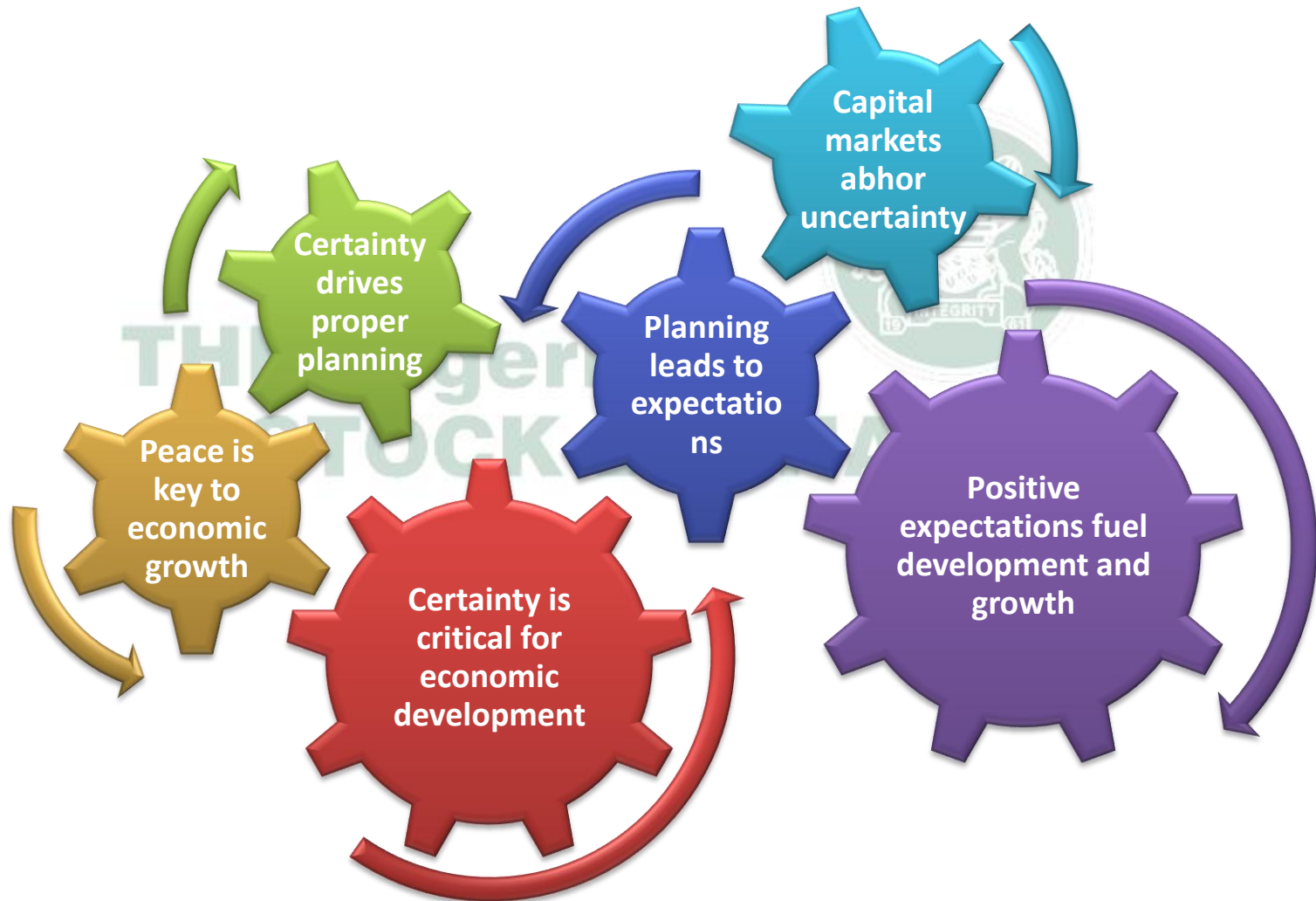
Government Must-Do's

- Ensure political and economic stability
- Guarantee transparency in government
 - Augment national image and reputation
- Develop a well-structured regulatory and legal framework
- Comply with the rule of law
 - e.g., Minimum wage, trade-related contracts with the private sector, etc.
- Stabilize and make consistent market-driven policies
 - Protect from government volatility
- Float privatized state-owned businesses on the exchange
 - e.g., Power companies, NNPC – one year exit strategy, not two years
- Grant tax incentives to listed companies and trading fees
 - e.g., Morocco offers 25% rebate for listed companies & 50% rebate for IPOs

Private Sector Must-Do's

- Comply with the rule of law and regulatory requirements
 - e.g., Taxes, Employment, IFRS, etc.
- Define and adhere to high corporate governance standards
- Efficiently mobilize and channel funds (local savings and FDI)
- Encourage and support continuity of economic policies and reforms
- Implement social responsibility strategies
 - Invest in the local community

Political Stability is Key





**THE Nigerian
STOCK EXCHANGE**

RC: 2321

LEVERAGING ON POLITICAL STABILITY FOR SUSTAINABLE ECONOMIC DEVELOPMENT

Q&A

Thank You

The Nigerian Stock Exchange

Stock Exchange House

2-4 Customs Street

P.O. Box 2457, Marina

Lagos Island

Lagos, Nigeria



THE NIGERIAN
STOCK EXCHANGE
RC: 2321

oonyema@nigerianstockexchange.com

www.nigerianstockexchange.com