GLOBAL FINANCIAL CRISIS AND THE NIGERIA ECONOMY: BANKING SECTOR PERSPECTIVE

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Abstract

This paper examined the global financial crisis and the Nigeria economy. The aim of the paper is to trace the current global financial crisis and its effects on Nigeria economy and the banking sector in view. Owing to the fact that Nigeria is a sub-system in the global economy, is not free from the effects of the global economic meltdown which has posed numerous challenges to the world economy. Some Major findings in respect of the economic menace have indicated that Nigeria economy has been affected in the following ways which include decrease in oil prices, exchange rate depreciation, decline in foreign reserve, sharp fall in share prices era. Also in the banking sector: there has been a bad record of decrease in public deposit and poor loan recovery and management. Following the reality of the horrible effects of the, global financial crisis in Nigeria economy, therefore, the researcher recommend that government should increase its expenditure on capital project as it will have multiplier effect on the economy, regulate the lending patterns in banking sectors, review policies and practice that will favour non-oil sectors and formulate policies that will help the local banks compete with their foreign counterpart.. In conclusion, the Nigeria. Stock Exchange and the Security and Exchange Commission will join hands with the Central Bank Nigeria (CBN) through coordinated activities to save the Nigeria economy from the blazing furnace of economic meltdown.

Today, we would say that everyone knows that something is wrong with the economics of nations. This word “financial crisis” or in other hand “economic meltdown” has been mentioned in the news media of every nation, both nationally and internationally, Economic meltdown is a period when the economic activities of a nation got crashed and paralyzed. On the other hand, it is a situation in which the value of financial institution or assets drop rapidly causing economic difficulties. The effects are man-hour houses, physical and emotional stress etc. The improvement in technology has brought the entire world into a global village, no country can boast of self sufficiency in its required balanced supply of resources. Soludo (2008) said that economic crisis spread faster because the world has become more than ever before a global village. Nigeria economy is a sub-system in the global economy. The former President Yara'Adua admitted that the impact of global financial meltdown had already been noticeable in Nigeria. According to him, daily national revenue, share fall in the value, the continuing crash of the naira against foreign currencies are some of his major problems that the global financial crisis is already affecting Nigeria. It is also likely that the situation of economic crisis would affect banking sector. The former CBN governor Sanusi had urged the financial regulators to impose higher disclosure on the country's banking sector (Business Day March 16, 2009).

Current Global Financial Crisis

The current global economic crisis has its root from the mortgage market crisis in the United States of America. The lender can take possession of the residence acquired using the mortgage proceeds in a process called "fore closure" but as bad debts became high, many banks and lending institutions panicked. A significant number of them were over leveraged. They had borrowed beyond what was responsible and were now on the hook. The banks sought to decrease the leverage ratio by either getting rid of the bad loans or raising more money. As stock brokers found out about the bad loans the banks and lending institutions were carrying, they pulled their money from the firms, and the market worsened. Now paralyzed by their bad assets/debts and looking to hoard cash, banks stopped lending.

The Effects of the Global Financial Crisis on the Nigeria Economy

It has now come to the understanding of every one that the current situation we are is a sub-system in the global economy. It is not insulated from the current economic melt-down that is ravaging the entire world. The effects of this global menace on the Nigeria economy have been felt in the following areas.

Collapse of Commodity Prices:

The most affected is oil, whose price in the international market is currently in a pitiable state (as at March, 2009). Between, July 2008-January 2009, oil price fall drastically from $ 147 per barrel to $ 40 per barrel. This means a 2675 percent decrease just within six months. Nigeria is a mono economic nation. More than eighty percent of her revenue comes from oil. It is with this that one needs not to be told of the enormous bad effect of the global economic crunch is hailing on our economy. No wonder president Yar'Adua then sounded pessimistic when he was signing the 2009 budget projected from N2.87 trillion to N3.1018 trillion by the national assembling (News March 23. 2009). The president expressed doubt about the ability of Nigeria to realize the high oil revenue projected in the approved budget, which is higher than the projection in the original proposal. He reiterated that he must express some reservation regarding these higher forecast given the current realities of declining international oil process an production constraints" (Ibid). The resultant effect of this oil price collapse is a reduction in government expenditure. This undoubtedly, goes with its own economic set back.

Exchange Rate Depreciation:

The naira exchange rate depreciated by 20.1% at February, 2009 from N117.72 US$1in October, 2008.While inflation rate, which was 17.8 percent in 2005 dropped to 5.2 percent in 2007 and remained at a single digit up to May 2008. (Tell magazine February' 2. 2009). The stability of the Naira started to reverse in the last quarter of 2008. According to monthly report of the Money Market Association of Nigeria (MMAN) for February 2009 "the value of Naira dipped further against the dollar in the parallel market, resulting to loss of N30.00" (Business day, Monday 16 March, 2009). On March 12, 2009, the official exchange rate of the Naira to the US dollar stood at N145 while in the parallel market, it stood at N180 (Ibid). Experts have attributed this sudden depreciation of Naira value to the bad effect of the global financial crisis, which started rearing its ugly head in the last quarter of 2008. The situation has brought seemingly unending hardship to the economy as prices of goods and services are escalating at an alarming rate. Manufactures find it difficult to make and take business decision as the values of Naira in next second becomes uncertain.

The inflation rate of 5.2 percent in 2007 has presently (March 2009) moved up to a double digits of 14.5 percent. According to the statistics by the United Nations Development Programme (UNDP), seventy percent of Nigerian live on $ 1 per day as against 50 percent in 2005 (Tell magazine, February 2, 2009).

De-Accumulation of Foreign Reserves

In a macro-economy, there is no gain saying the fact that dwindling of oil price in the international market will surely affect our foreign reserves. Despite assurance from the Central Bank of Nigeria that the global financial crisis would not have serious implication on the economy, expert believed that the crisis would affect the economy. Between October and December 2008, Nigeria's foreign reserves have dwindled by over $ 10 billion (tell magazine, Feb 2, 2009). The foreign reserves which presently stood at less than $48 billion had in the third quarter of 2008 reached above $62 billion before the ugly slap of the global financial crunch started in the last quarter. Undoubtedly, experts have attributed this rapid de-accumulation in the country's reserves to the dwindling oil price, high import payment due to Naira depreciation etc.

Capital Market Down Turn

The Nigeria capital market, which had performed exceptionally for the three years prior to March. 2008 has fallen into funk. Many stake holders in the market have been counting losses since that periods. According to a report in the "Tell Magazine" "the prices of most stocks have since fallen by 60 percent, leading many investors distressed”. From March 5, 2008 through December 2010, the stock market index had lost approximately 38, 286.20 Or 57.7 percent. The prolonged down turn in the market has resulted in extensive losses to the portfolio of many investors. The combined losses of Nigerian banks according to the CBN were approximately N900 billion (financial standard, Jan 26, 2009:39). The situation worsened after many international portfolio managers began to with draw their money at the start of the global financial crisis, which require them top balance account in the home country.

The Crash of the Stock Market on (8 October 2009 – December 31, 2013)

Date	Share	Market Capitalization Tr
October 8, 2009	50,952	8,167
October 10, 2009	51,349	7.924
Dec. 31, 2009	57,990	10.18
January 3, 2010	59,257	10.402
March 3, 2010	65,910	12.552
Dec. 31, 2010	55,949	10.92
July 14, 2011	54.942	11.001
Dec. 31, 2011	49.204	10.14
June 26, 2012	48,387	10.253
October 2, 2012	46,216	9.84
Dec. 31, 2012	45,959	9.72
March 25, 2013	44.056	9.314
October 11, 2013	45.04	9.65
Dec. 31, 2013	43.02	8.72

Source: The News Magazines v3 2009 & vol. 9, 2013

Presently, investors in the Nigerian stock market are in for a hard time as events have shown that its hope of recovery is still far-fetched. The market slide is as a result of panic dumping by investors “foreign capital investment in the Nigeria capital market dropped by ₦105.87 billion in the year 2008 (financial standard, Jan. 26, 2009)”.

Reduction in Foreign Investment

Every country is affected by the global financial crisis. Nigeria has experienced a drastic fall in foreign direct investment. Early 2008 the World Bank had pointed out that there could be a “cut-back” in foreign capital inflow into the African region (African News services 2008) it further pointed that Nigeria’s current aid assistance from foreign donors stands at about one percents of its entire budgets (Ibid). In earlier development, Mr. Jean-Luc Bodin, a consular general of the French mission made it difficult to attracted Foreign DirectX-investment (FDI) to Nigeria

(Financial Standard 12 Jan 2009). He noted that investors are ready to come in and invest if only Nigeria government could relax its policy in other sectors a bit.

The Effects of the Global Financial Crisis in Banking Sector

Regarding the indispensable roles of the banking sectors in any economy, one can rightly say that the banking sector is the "engine room" for any meaningful economic growth and development. The importance of the sector is not for credit, also for payment purposes. According to Sanusi, the CBN Governor "collapse in banking sector will tantamount to the collapse of other sectors of economy". The realities on ground do not portray that all is well with the banking sector despite the assurance by the Central Bank. The global financial crisis has affected the banking sector in the following areas;

Reduction in Public Sector Deposit

This has been attributed to the drastic fall in crude oil price from $ 147 per barred in July 2008 to the current price of $ 40 per barrel. Otudor (2009) the banking sectors, difficulties have been compounded by heavy-withdrawals of public sector fund in recent months. Most banks survive on government fund, which are no longer there, owing to dwindling revenue from oil.

Difficulty in Loan Repayment

Due to the global financial meltdown, many banks are currently reeling under bad loans. Loans to investors to buy stocks and securities which they have been unable to repay because of the crash of the capital market. Odumosu (2011) said that banks are also finding it difficult to recover loans from the petroleum sector because of the slum in oil prices.

Withdrawal of Foreign Credit Lines of Banks:

A lot of foreign investors have withdrawn their money from the banks because of the crisis in their own countries. Shofowora (2010) noted that banks have lost millions of Dollars to capital flight. The overall effects often above are reduction in banks liquidity, there by leading to high cost of capital. The situation has brought about a shrink in potential business opportunities for banks and intensified competition for business both locally and abroad.

Step Taken By the CBN in Combating the Effects of the Global Financial Crisis in the Nigeria Economy

As the financial regulator in the economy, the Central Bank of Nigeria (CBN) in its capacity has .taken a lot of steps towards minimizing the effect of this global menace on our economy. Some of the steps are:

Reduction in Monetary Policy Rate (MPR)

Monetary Policy Rate (MPR), which was formally called Minimum Rediscount Rate (MRR), was in September 2008 reduced from 10:25 percent to 9.75 percent. MPR is the rate at which Central Bank lends money to Money Deposit Banks (Commercial Banks). According to CBN, this reduction would help boost liquidity in the negative effects of the global financial crisis.

Reduction in Cash Reserve Ratio (CRR)

In an effort to ensure that banks meets up with cash requirement of their customers in the midst of economic melt-down, the Central Bank had also announced the reduction of Cash Reserve Ratio (CRR) of bank from 4 percent to the present 2 percent. According to report, this reduction by 2% is expected to inject N50 billion in the economy (Financial standard Monday 12 January 2009).

Restriction of Bank's Trading on Foreign Exchange

To ensure stability in the country's exchange rate, the CBN had restricted banks from buying foreign exchange for trading purposes. This is to curb the excessive supply of Naira against other currencies, which cause decline in the value of Naira. The CBN had also introduced expanded discount window facility to banks. With this expansion, banks are allowed to borrow up to 360 days. Undoubtedly, this will help to ensure liquidity in the banks.

Reduction in Liquidity Ratio

Liquidity ratio was reduced by the CBN from 40:0 percent to 3:0. The liquidity mopping up had since Sep. 2008 stopped by the CBN.

Recommendations

Based on these the following recommendations are made;

1. There is need by government to review policies and practices that are not favourable to the exporters in the non oil sectors. This will help in diversification of our nation's revenue sources.
2. Policies should be formulated towards reducing the inter-connectedness in the banking sector with its partners in advanced countries US and Europe.
3. The government should increase it expenditure on capital project. This will have multiplier effect on the economy.
4. There should be sound regulation on the lending pattern of our banks.

Conclusion

With the realities on ground in our economy and the banking sector in particular, one is led to the conclusion that Nigerian faces an uncertain economic situation both in the near and far future as a result of the ongoing global and economic financial crisis. Our capital market is tattered at the moment, our monoculture of oil has continued to bed evil the economy, resulting in a reported need to adjust governments expenditure, our foreign reserves situation remains enigma wrapped in a mystery for now, the foreigner are running out of the country with their funds in a high speed, and loan repayment to our banks becomes ever difficult. To avoid the nation from getting consigned to another long period of economic wilderness one hopes that the government both executives and the national legislation, and Nigeria Stock Exchange, the security and exchange commission will join hands with the Central Bank through coordination of activities. This will help them rise to the occasion as has been attempted by various governments around the world- buying our heads in the sand and mouthing platitudes of complacency is not the option.

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