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Managing the Global Economic Meltdown in a Consolidated Banking Sector of Nigeria: Rhetorics or Realities

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Abstract: This paper interrogates the implications of the global economic meltdown on the Nigeria Economy within the framework of a consolidated Banking sector. It investigates the ability of the Nigerian financial sector to withstand the challenges of the global economic meltdown in the face of the current crisis facing the banking sector. We argued in this paper that the financial melt down though a reality in the country's financial sector, has limited impact on the economy because Nigeria's economy had been heavily weighed down by internal crisis. We however, argued nonetheless that because the global economic meltdown coincided with the age of globalization that emphasis interconnectedness and breaking down of all market barriers, Nigeria cannot be an exception to its devastating effects since globalization in the first instance is not a friend to developing economies like ours.

Key words: Banking sector consolidation, central bank of Nigeria, economic development, economic meltdown and globalization

INTRODUCTION

Broadly defined, a recession is a downturn in a nation's economic activity. The consequences typically include increased unemployment, decreased consumer and business spending, and declining stock prices. According to Ogunleye (2009), recessions are typically shorter than the periods of economic expansion that they follow, but they can be quite severe even if brief. Recovery is slower for some recessions than from others.

The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. Around the world stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. Many blame the greed on the Wall Street for causing the problem in the first place because it is in the US that the most influential banks, institutions and ideologies that pushed for the policies that caused the problems are found.

For the developing world, the rises in food prices as well as the knock-on effects from the financial instability and uncertainty in the unindustrialized nations which were first witnessed in the late 70's and through the 80's are having a compounding effect.

Former Governor of the Central bank of Nigeria Soludo (2009) on the 18th of March, at a special briefing of the Federal Executive Council said "resource flows and capital flows around the world are frozen up. Nigeria depends for more than 95 percent of its foreign exchange on oil and the price has crashed to the extent that from about July last year (2008) the outflow of foreign exchange has actually far outstripped the inflows. He said in 2008 Nigeria sold about a billion dollars a month to the bureaux de change but early this year the inflow has been about $800 million a month"(Soludo, 2008).

The ICAN president in Appiah-Dolphyne, (2009) at a seminar also addressed the loss of N9 trillion clipped off from investors in the nations capital market. Also the national coordinator of Independent Shareholders Association of Nigeria (ISAN) Mr. Sunny Nwosu in Ogundipe, (2009) explained that while some other nations have well spelt out recovery plans, Nigeria has been virtually inactive in taking visible revival steps to bring the economy out of the woods. Executive Secretary of Nigerian Automobile Manufacturers association Mr. Arthur Madueke in Obi (2009) lamented that the productive sector which could have given stimulus to financial market's growth has been on a long recess in Nigeria. This paper therefore, interrogates the implications of the global financial meltdown on the Nigerian economy and seeks to assess the effect of the Soludo's led banking sector consolidation and recapitalization on the economy.

This is calling on the backdrop of the fact that although some analyst are painting the industry horizon with various brushes of gloom and doom, it came as a surprise and a relief when Forbes released its 2009 global rankings of companies and had three Nigerian banks-intercontinental Bank Plc, First Bank, and the United Bank for Africa (UBA) Plc on the list of top 2000 world biggest companies, joining 248 other companies around the world to displace same number of companies that featured on the list in the 2008 ranking. Though the recent events in the Sanusi led sanitization of the Nigeria's

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banking sector have refuted such event through the indictment of eighth commercial banks for poor banking processes especially in giving out some non-performing loans to some individuals and corporate organizations without passing through the normal due process.

This was well-received by the industry and regulators as a confirmation of the 2009 global banking industry ranking which also listed the same three banks among the top 500 banks in the world. Broadly speaking, First Bank of Nigeria Plc, Intercontinental Bank Plc, Union Bank of Nigeria Plc, Zenith Bank Plc and United Bank for Africa are on the world's top 500 banking brands by the account of most international analyst.

Sources of Data: Most of the information used in this paper was extracted from both primary and secondary sources especially newspapers, magazines and books. Also some of the data were also accessed from the Internet on the subject matter of the global economic melt down. Most of this information were carefully ranged to present a reliable result. Journals were also accessed through electronic means in libraries and the web. The study was however cautious in using only electronic publications from well-known scholars. The data was further illustrated with the available literatures to reach a logical conclusion.

RESULTS AND DISCUSSION

Genesis and causes of the global economic crisis: The global financial meltdown began in August 2007 when the growing payment mortgage deficit, put million of debt obligation in danger of which was guaranteed and sold to investment banks. The crisis has it root in a banking practice called sub-prime lending or sub-prime mortgage lending in the United States. Sub-prime mortgage is granted to borrowers whose credit history is not sufficient to get conventional mortgages lending or who do not qualify for market interest rate, owing to various risk factors such as income level, size of the down payment made, credit history and employment status. This Sub-prime mortgage lending is designed to make these categories of individuals own a house at an affordable rate. These mortgages are packed by banks into Mortgage Backed Securities (MBS) and sold to two financial institutions created by US government namely; Federal National Mortgage Association and Federal Home Loan Mortgage Corporations; so as to free banks fund for lending to more prospective homeowners.

These two government institutions in turn repackage the loans and sell them to individual investors, financial institutions like banks, pension funds, hedge funds, around the world. Between 1994-2004, the US housing market experienced boom, of which Sub-prime borrowing was a major contributor to an increase in home ownership rates and demand for housing. Home ownership rate increased from 64% in 1994 to a peak of 69.2% in 2004 (Fiaka, 2008). This increase in the demand for home ownership resulted to corresponding rise in housing price and consumer spending, and most homeowners used the increased property value experienced in the boom to refinance their home with lower interest rate and take out second mortgages against the added value to use the fund for consumer spending. By 2006, a number of factors like rising gasoline prices, the hurricane Katrina, the war in Irag and Afghanistan, outsourcing the rising food price due to the global food crisis, led to rising unemployment and decline in business activities. This macro economic turbulence translated to increasing default by homeowners, hence, increasing foreclosure rates. Rising foreclosure rate coupled with over building during the boom years led to over rising housing and these led to decline in housing prices. US household debt as a percentage of income rose to 130% as at 2007. Some homeowners were unable to finance the loan and they began to default on their loan as it attracts higher interest rate and payment amounts. Other homeowners with limited accumulated equity chose to stop paying their mortgage loan. They were essentially "walking away" from their property and allowing foreclosure. Most of the defaults or foreclosure was Sub-prime mortgages. As at October 2007, 16% of these loans were in foreclosure proceedings. By May 2008, it rose to 25% and during the third quarter of 2008, it rose to 43%. Since most of these mortgages were sold to financial institutions and individual investors around the world, it exposed them to the US housing market crisis especially the Sub-prime mortgage debtors meant that the Mortgage Backed Securities became a bad loan in the book of banks, other financial institutions and investors who bought these securities, the bad loan resulted to huge lose by the financial institutions and eventually bankruptcy.

According to the Wikipedia the free encyclopedia (2008), the global financial crisis began in July 2007 when a loss of confidence by investors in the value of securitized mortgage in the United States resulted in a liquidity crisis that prompted a substantial injection of capital into financial markets by the United States Federal Reserve, Bank of England and European Central Bank.

The tide spread, an indicator of the perceived credit risk in the general economy spiked up in July, 2007 remained volatile for a year, then spiked even higher in September 2008 reaching a record 465% on October 10, 2008.

Nigeria and the global economic meltdown: Most Nigerians got to realize that the country has begun to take its share of the global financial crisis when the Nigerian Stock Exchange started to record unprecedented losses in the value of shares of companies listed on the market. In 2008, the Nigerian Stock Exchange lost about N556 Billion when because of the economic meltdown in their home countries foreign nationals who had invested in Nigeria pulled out their money to shore up their native economies. Nigerians saw what happened; they panicked and the confidence crisis which has seen the loss of trillions of naira in the market, began! Apart from the mega losses by investors in the Nigerian Stock Exchange, other areas in which the current global economic chaos will affect Nigeria include:

- Foreign portfolio investments withdrawals and withholding in order to service financial problems at home, as well as prospects of reduced Foreign Direct Investment (FDI), are bound to affect investor confidence in and the economic health of Nigeria. This is particularly in an era in Nigeria where Public-private Partnership (PPP) of big-ticket items like power plants, rail, housing and roads are being encouraged.
- A general credit crunch from lending institutions for businesses requiring short- and long-term money, including banks lending to each other. Even credit-worthy individuals will realize that it is increasingly difficult to access bank credits that they had made use of before the crisis.
- Parallel to the concept of sub-prime mortgage problem abroad is the rife phenomenon of marginal borrowing/lending in Nigeria, whereby investors borrow money from banks to invest in other financial instruments (particularly IPOs of other banks) with the hope of making profit all around. This may have been Nigeria's own "sub-prime" problem version, resulting in an exploding domestic stock market and astounding bank profits without commensurate physical development in the country. Huge sums of money are trapped because the stock exchange bubble burst and marginal-borrower-investors failed to realize the anticipated profits.
- Nigeria being an oil monoculture, the see-sawing price of crude oil and prospects for economic recession in the developed world with its attendant reduced energy needs, coupled with violent ethnic tensions in the Niger- Delta as well as interests in innovative energy resources (wind, solar, bio-fuels) in developed countries, are bound to give a pause to confidence in Nigeria's economy. It is no longer news that the Nigerian Government has lost billions of dollars in oil revenue as a result of the crash in crude oil prices in the international market due to declining demand.
- The naira has sharply depreciated against the US dollar and other major currencies around the world. The major thing Nigeria exports, is oil; that is the major source of foreign currency. And when this source is threatened, there will be a pressure on external reserves which in a fixed exchange regime gets eroded in order to maintain the exchange rate. But in a flexible exchange regime like we now have, depreciation is the only way out.

Causes of economic recession (meltdown) in Nigeria: According to the Africa News Services (2008), the Nigerian economy has long been in recess due to a number of factors First, Nigeria has been over dependent on petroleum as a source of income, according to the CBN Governor, Nigeria gets over 95% of its revenue from oil a trend that has been observed since the 1970's.

Second, Resource mismanagement (not just petroleum, but natural gas as well), countries like Malaysia and Singapore in the 1970's had the same revenue with Nigeria but today make more than 11times the revenue of Nigeria. Nigeria is ranked as one of the most corrupt nations in the world by transparency international. Third, in recent times

Third, in recent times the activities of the Niger-Delta militants has worsened the situation as this factor has worsened the situation as the barrels of crude produced per day dropped due to militant activities which include kidnapping, stopping operations and damage to oil wells and facilities.

Fourth, is the high rate of importation; that has been a great menace to the Nigerian economy as many commodities are imported and on the long run other economies benefit from Nigeria. For example many electronic products are imported from industrialized economy. This has its roots in the inability of the country to engage on genuine industrialization programme.

Fifth, the debt game (at all levels); Nigeria as a country is still heavily indebted to The World Bank and International Monetary Fund (IMF).

Sixth, the changing dynamics of over population has also affected the Nigerian economy because adequate plan have not been put in place for the nation's increasing population.

Seventh, outright corporate greed exhibited by various companies and service providers have also contributed greatly to the economic situation in the Coutry.

Eighth, The national relocation of employment and the changing of means of labour also have resulted to many people migrating to major cities like Lagos, Abuja, Port Harcourt causing these cities to be overpopulated and few people left to farm in the other states.

Ninth, Growing gap between the elite and the impoverished also has its fair share on the nation's economic meltdown. Other factors are the erosion of human dignity, the erosion of dignity of life.

Global financial meltdown and its effects to Nigerian Economic development: It could seem, on the surface, as though Nigeria is one of those countries that might be fortunate enough to avoid the global meltdown. Nigeria is not as inter-dependent on the global capital systems as other nations on the continent – and there is little that Nigeria exports (with the exception of oil) to really throw it into a serious crisis for them. That not withstanding, Nigeria's main export is crude oil since it is the highest contribution to the country's GDP, it is likely to impact negatively on the economy as shall be discussed shortly.

As recently as November 3, Bartholomew Ebong, the just sacked managing director and CEO of Union Bank of Nigeria Plc was adamant that the world's global crisis was not Nigeria's (Ogbonna, 2008). Ebong stated, when interviewed, that the bank is stepping back to assess the situation, but is confident that Nigeria, and its trading partners, likely won't get caught in the economic backlash (Ogbonna, 2008). What is aiding Nigeria further is that unlike other nations, it has no significant foreign ownership in the United States except its foreign reserve that is currently lodged in United States and European Banks and stands at a fluctuating rate of $59B – therefore, it's not directly connected to the U.S. economy, which was the first to spur the meltdown.

Even the World Bank agreed with Ebong, pointing out that Nigeria (with its reference budget export oil price of below $70) wouldn't be quite as damaging as it has been in the past (Appiah-Dolphyne, 2009). Although at the moment, the Nigerian government had pegged its' budget rate at an amount between ($40 - $45) per barrel of oil sold. But many of Nigeria's largest trading partners are being impacted by the meltdown (Africa News Service, 2008).

Though the World Bank points out that there could be a "cut-back" in foreign capital inflows into the African region, which could impact growth, it points out that Nigeria's current Aid assistance from foreign donors stands at about one percent of its entire budget (Appiah-Dolphyne, 2009). Because it's such a small percentage, the cutback shouldn't really have a long-term impact on the capital inflow (Appiah-Dolphyne, 2009).

However, World Bank Chief Economist Shanta Devarajan points out that this doesn't mean the Nigerian government (or banking directors, for that matter) can get away with ostrich-like behavior of sticking their heads in the sand (Appiah-Dolphyne, 2009). Devarajan warns that policies should be implemented and formulated to prevent the crisis from having a huge impact on the Nigerian economy (Appiah-Dolphyne, 2009).

The economist could definitely have a point. Though experts are still uncertain as to the impact of the global economic meltdown on Nigeria, there are some concerns, despite the fact that the Governor of the Central Bank of Nigeria, Soludo (2008) noted that the Nigerian economy wouldn't experience a "serious adverse impact" (Africa News Service, 2008). But a recent editorial on the Africa News Service expressed concerns that maybe – yet again – the government was painting too rosy a picture of the scenario in order to avoid a national panic (Africa News Service, 2008).

The reason is that Nigeria relies on its export of crude oil for much of its revenue – and on imports when it comes to getting the Nigeria nation to work effectively (Africa News Service, 2008). The United States is the number-one importer of Nigeria's crude oil (Africa News Service, 2008). Drop in oil demand, following last summer's huge spike in prices means that Americans are driving less and are using less energy, while more emphasis is being placed on alternative fuels (Africa News Service, 2008). This could have a definite impact on Nigeria's revenues. At the U.S. gas pumps, prices are already dropping – having dropped more than 50% from last summer. Furthermore, the current call for participating more on off-shore drilling and even opening the Arctic National Wildlife Refugee for drilling could mean less demand from Nigeria as more oil is dug up from the United States ground at home.

Certainly, Nigeria could start exporting crude to nations such as China and India, but these two countries are also moving away from dependency on foreign oil and working toward alternative technologies. If much of this continues, it could mean that Nigeria might end up sitting on a stockpile of a lot of crude, with no buyers to take it up. The financial Position of United States Auto makers such as General Motors, Ford and Chrysler are at the moment very precarious that one would be akin to bet that once these companies regroup, they will more likely than not initiate products that are geared towards more fuel efficiency vehicles, alternative energy powered vehicles that may rely more on electric, bio fuels etc. If and when those are the norm, Nigeria will certainly loose its edge in the Oil industry and hence the financial unpredictability will be Nigeria's to experience, but only if, the leaders are more proactive in its approach towards infrastructural development such as its electricity, roads, rail, security etc, will that experience be averted. When all this happens, maybe, Nigeria then will be in a position to attract foreign investors that will be interested in other areas of interest other than the Oil industry.

The Role of the state and consolidated banking sector in the management of the crisis: A new national economic management framework aimed at dealing holistically with the impact of the global economic recession on Nigeria has been established by President Umaru Musa Yar'adua. Members of the Presidential Steering Committee include Governors Babatunde Fashola of Lagos State, Isa Yuguda of Bauchi State, Adams Oshiomhole of Edo State and Bukola Saraki of Kwara State. Also on the committee are the Ministers of Finance, National Planning, and Petroleum, as well as the Chief Economic Adviser to the President, Dr. Tanimu Kurfi; and the former Governor of the Central Bank of Nigeria (CBN), Soludo (2009). The committee has come up with recommendations which the Federal Government has approved. These include:

- Reduction by 5% of excise duty on all locally produced goods except cigarettes and alcohol;
- Full deregulation of the downstream sector of the oil industry;
- Cancellation of the funding of refineries;

- Government has earlier announced it would inject N70 Billion into the wobbly textile industry through guarantees.

All agreements on major projects in the oil sector which the Nigerian National Petroleum Corporation, NNPC, entered into with its key partners are to be reviewed. NNPC has disclosed that the action is informed by difficulties in funding the prime projects as a result of the present global economic crunch. The Corporation said that in order to keep the projects on course, it has adopted austerity measures in its capital expenditure and reviewed the cost of the affected projects. It plans to further review the Memorandum of Understanding (MoU) it signed with some companies on new oil and gas projects in the country.

As earlier noted, the increased high rating of the Nigerian Banks in the world economy suggests that where properly managed the Banks can play key role in the reversal of the economic recession in Nigeria. On of the major handicaps to the industrialization process in Nigeria is the lack of capital for investment. Arising from this development, Nigeria had been highly dependent of foreign capital for industrial growth and development of the various sectors of the economy. Foreign direct investments often had string attached which has been unfavourable for economic development. Abu-Maji and Abu-Ameh (2009) dealt extensively with the negative implications of international capital on Nigeria's agricultural sector. Tenuche (2001) also documented the negative role of the foreign capital on the industrial sector. These sectors are keys to economic development. This trend can be reverse with a focus of the Banking sector of critical sector of the economy through investment of capital.

CONCLUSION AND RECOMMENDATION

We have been able to give a historical and analytical account of the causes, dimension and impacts of the current global financial crisis in the world on the economy and most especially on the finance services sector and how the Soludo's led financial sectors recapitalization and consolidation have been able to bail the Nigeria banking sector from the total devastating impact of the meltdown. In spite of the current crisis rocking the sector under the new dispensation of Sanusi Lamido, our analysis shows firm and decisive financial and economic policy of a nation is a function of a positive and productive leadership which can see beyond today whatever policies and decision it takes. Similarly, it shows clearly that the stronger the financial sector of a country is, the more stable the economy will be. It is therefore safe to conclude that beyond the rhetoric, it is today a reality that the consolidated banking sector of Nigeria under Soludo (2009) has positively affected the Nigeria's banking and financial service sector and helped to cushion the effects of the global financial crisis on the Nigeria's economy.

The strongest recommendation of this paper therefore, is that it is that for the country to successfully manage the current global economic meltdown the following are been recommended:

- There is the need to diversify the economy from it present state of monoculturism to a more diversified models which will require paying attention to the key sectors of the economy through the intervention of the newly consolidated Banks in Nigeria.
- Exploration of and identification of the opportunity in the domestic economy in which included high untapped oil and gas reserves the could be exploited for development
- The government should have the political will to re-think policies and amend institutional framework as need arose, regulatory authorities should strengthen the regulatory process as well as develop a coordinate action programme and stem corruption and mismanagement of capital.
- The current financial services recapitalization and consolidation should be sustained and also extended to the microfinance banks.
- Focus on Positive and Purposeful Leadership: Periods of economic recession require leaders with purpose and vision. It requires leaders with the qualities of creativity, innovations and vision. Such leaders must be conscious of the facts available with a focus on his destination through his mission statement and be capable of harmonizing resources to bring about progress. The leader must redefine his goals, begin a new session of training and retraining the available staff to refocus and redirect them to the organization new policy trust which at this time is to conserve resources. This throw up the challenge of a evolving a virile electoral process that from where can emerge credible leaders.

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