The Effect and Policy Analysis of Global Financial Crisis on Nigeria Economy

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Abstract: The purpose of this study is to examine the changing trends of the global financial crisis and its effects on the Nigeria economy. It aims to study the rising success of the policy responds by the Central Bank of Nigeria, using banking sector and economy as a focal point. Descriptive method data analysis is used to analysis the data collected for the research, the finding from the banking officials of the First bank plc on the research topic. The research results show that Nigeria economy have achieved a medium or even high level of implementation policy by Central Bank of Nigeria (CBN) to constraint complexity and widespread of Global Financial Crisis (GFC) in the economy, and implored adequately, stability comprehensive measures to address the future penetrated of financial crisis. It was recommended that the immediate response of the CBN to ensure the maintenance of the banking system stability and injecting liquidity into the system and prudential supervision and regulation of the financial sector.

Keywords: Nigeria Banking sector, Economy crisis, Global Finance, Policy responses

1. Introduction

The banking sector stimulates growth and development in an economy by serving as the transmission channel for resources to the real sector. It provides access to financial services and improves the efficiency of other financial intermediaries in a stable macro-economic environment. The sector has recently witnessed monumental challenges in the intermediary functions because of the global financial meltdown that took center stage between August and November 2008. The meltdown that began from sub-prime mortgage uncertainty at a point within United State US systematically accidentally flow over to other areas of world become full by the integration of the world financial sectors and the impact of globalization (Ronald 2008 and John 2013). Period of economic mismanagement in both government establishment as well as private organization fast track the level of a global economic meltdown. All continents economies support with different set of ideas and policy, banking and others financial institutional was fast affected in the way that you cannot afford or prevent web of many different kinds networks which are the emergence of globalization, the exist situation of globalization, economic crisis are no more limits to one country, and the economic community Mark (2008). Economy of the nation has given proof and evidence of vulnerability to the emergent global economic crisis Igbatayo (2011). Nigeria economy, the emergent global crisis has influenced negatively effects on Nigeria financial institution; cause sudden unrest in banks sectors and the stock market. Banking industry are frightened especially stiff and difficult, making the monetary authority Central Bank to inject more than N400 Billion naira or US$2.72 billion into vulnerable banks to sustain and prevent the institution from total collapse Ogbuagu (2014). This policy may have salvaged the financial sectors from collapsing totally but its effect is still have been felt in some sectors Agu (2011). In the capital market, equity prices, in the past couple of years, have fallen sharply, with the All-Share Index at the Nigerian Stock Exchange down by 33 percent at the end of December 2009, from levels recorded in December 2008. The instability in Nigeria’s financial markets poses severe challenges to policy makers, requiring urgent measures to stem the tide. During period of 2008/2009 global financial crisis were very vital a challenge to the nation economy. The country economy had shown certain vulnerability to the states of global economic meltdown. Moreover, influence by crude oil and gas, the Nigeria economy attached on the petroleum sector, which contributed about 80 percent of government’s annual revenue and foreign exchange earnings. The petroleum industry also influences to the economy up to 50 percent of Nigeria’s annual GDP. The global oil and gas sectors get very great price increases in connection with sustained economic growth all over the world up to the mid-2008, when price of crude oil extremely at US$147.00 per barrel Olu
(2009). During the time that increased, Nigeria started to enjoyed dividend of crude oil price upturned, substantial increases in foreign exchange reserves to an extend level that has never happened before to about US$60 billion Igbatayo
(2011).

The question about severity and depth of the global financial crisis (GFC) on Nigeria banking sector remain unanswered. An unprecedented collapse of financial institution, loss in asset/value/share price in particularly of mortgage back securities, stock market crashes, speculative bubbles, Currency crisis and Losses of job (unemployment) among others are some of the effect of global financial crisis (GFC).

According to Previous, studies have highlighted the effect of global financial meltdown on Nigeria economy Adamu (2009). Omotola (2007). Ngwube, Ogbuagu (2014) Felix, Rebecca (2015). They were mainly focused on the economy. This paper, therefore intends to analyze the immediate changes posed by the GFC on the Nigeria banking sector and focus on the initial policy response of the monetary authorities in order to save the banking sector from going into distress. In addition, if there is relationship between GFC and current Nigeria economy recession.

2. Literature Review

The crisis was largely as because of the financial liberalization that took place in the last three decades, which had gone practically unquestioned since 1990s under US leadership Steinberg (2008). The last three decades witnessed innovation in the financial industry and this arguably become the driving force of the bank’s profitability off balance sheet activities (under pricing risk). The expansion in the financial innovation has undoubtedly gotten regulation enmeshed in the complexity of financial innovations, leading to loosened supervision and regulation. The financial economy crisis happen due to mismanagement through government establishment and the private organization that led to the fall in the public and private investment every organization produced far below to their capacity most especially financial institutions. The world experience increased in unemployment rate as a result of low profit and limited foreign trade finance for banks dropped down of credit lines for many bank, the capital market witness downturn because foreign investment divestment also drying up in the capitalization of the companies predispose influence to take over.

The defining moment of the G.F.C was the failure of Lehman Brother, USA on September 15 2008 and subsequent signs of liquidity constraints in the banking system, by end March, 2009, the credit crunch had set in and financial institutions in the US tighten their credit standards due to the inability of households to consumer and other loans. As a result, prices of financial assets experienced downward pressure as market adjusted to the outlooks of weak earnings, rising sector losses Fender (2008). Even countries that were not affected directly, were indirectly affected during the second round of the crisis when it turned economy Soludo (2009). Financial crises also affect liquidity in deposit money bank in the country Soludo (2004).

The effects of the financial crisis spread to other sectors of the world economy resulting in the credit and liquidity crunch, and the collapse of the stock market and its consequent effect on wealth. This led to weak consumer demand, declining output and losses of job. The Nigeria financial market, which dominated by the banking sector, is not insulated from the impact. The banking sub sector with about 90 percent of the capitalization of the Nigerian stock exchanges (NSE) suffer greatly leaving monetary authorities gasping with measure to stabilize it. Other evidence of the financial meltdown was and still Widespread unemployment; crashes in virtually every market across the globe; and financial losses even in companies that had never made losses in 25 years as ongoing concerns. By the end of 2008, the United State and all the countries in the Euro Zone (apart from Germany) and all other major countries of the world had stated experiencing negative growth; a serious global economic recession/depression had taken the world unawares.

3. The Role of the Banking Sector in an Economy

The financial sector plays a crucial role in the growth and development of any economy, as it performs the vital role of financial intermediation. Banks and other financial institution mobilized saving from the surplus unit and channel them for investment purposes on the productive sector of the economy Edame (2012). Through this process, they serve as the channel of the growth of the economy. Beside the mobilization of saving for investments, the banking sector helps in the implementation of monetary policies. In its effort to ensure price, monetary and exchange rate stability, the central bank implement policies such changing the policy rate and statutory reserves that will directly or indirectly impact on the balance sheets of deposit money banks (DBMs). This, in turn , affects the intermediates targets of monetary policy such
as monetary aggregates, interest rate, exchange rate etc, which would then impact in ultimate targets of monetary policy
DMBs, therefore, perform a vital role in transmitting monetary policy signals, from the monetary authorities to the
economy, intends to ensure efficient credit allocation and effective interest and exchange rate structures.

Another role of the banking sector is providing efficient safe and reliable payment system. The payment system serve as
a medium through which financial transaction are conducted. As the repository of the country’s liquidity, the financial
system, especially banks, constitute the backbone on the payment system (Aderibigbe (2004). There seems to be an
overlap of distress period Mobolaji (2008). Bearing in mind that there is virtually no cross ownership of bank (investment
or otherwise) between Nigeria and foreign countries and there is hardly any domestic mortgage market for there to a
subprime problem as found particularly in the UK and the USA, it is difficult to pronounce any direct impact of this
global situation. 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 bank to invest in other financial instruments with
the hope of making profit all around. This may be Nigeria’s own “sub-prime problem version”.

The crisis created a huge budget revenue hole of $65billion of which aid has filled only one-third. As a result, after some
fiscal stimulus combat the crisis in 2009 Katerin Kyri (2010). Most low-income countries (LIC) (Including those with
IMF programs) are cutting Millennium Development Goals (MDG), Spending, especially on education and social
protection. They have also had borrow expensive domestic loans and increase anti-poor sales taxes “Obadiah (2008).
There is several implication of the current meltdown in the Nigeria economy. It is likely to aggravate the ongoing stock
market crisis. As it were reported that foreign portfolio investors have withdrawn some US $15billion from our capital
market. Secondly, lower revenue expectation through all tiers of government mean reduction of funds for much needed
investment in infrastructures development. This would not only deepen infrastructures finance gap; it would also bedim
the prospects for our much vaunted vision 2020 project.

4. The Role of the Capital Market Sector in an Economy

The capital market role in the Nigeria economy, financial market is all about the act raising funds by various organization
by issue securities to the public, these securities are in two-type namely short term security/working capital and long term
security/fixed capital. Short-term were raised fund through lending in the money market by the provision of various
securities, Bill, promissory note etc. Government is source of fund in the short term/ fixed capital, fund raised by
companies through share, debentures, bonds etc. The funds are raise through various company in the country purposely
for investors to investment.

Capital market rise the large part of long-term saving such as investment in the various security, which give ways for
long time investment. Capital market also connected with the condition saving of an organization and mobilized long-
term from the current transfer function purchasing power, in form monetary, from surplus to deficit industry in exchange
for reimbursing at future purchasing power. The capital market improve the spread stress on the banking industry in the
sense of combine long-term and short-term investment capital. This process encourage wide ownership of productivity
and asset by minimum savers also enable the economy to enjoy from growth and wealth distribution, and provide way
for various investment ration that essential for industrial rapid growth. “The economic growth was proxied by gross
domestic products (GDP)” Kolapo (2012). Capital mechanism give way for an effectiveness and efficient estimation of
the financial available resources at a particular certain moment in an economy. At the market view of point it is also
permits to allocate funds according to return risk on the side of the investor viewpoint offer a large variety of financial
instruments with difference profitability risk very typical, suitable for saving or cover risk. “In capital market, the stock
in trade is money, which could be raise through various instrument Akaninyene (2015)”. Capital market provide equity
capital and other infrastructure development capital which has strong economy benefits for development of public goods
and other project are financing through capital market through long date bonds and asset backing security. “The emerging
market has also attracted and embraced the attention and interest of international investors, thus increasing capital inflow
Edame (2013)” Capital market also promote and develop private and public industry on partnership to encourage investor
participate to enhance economy productivity it is inevitable as resources continuously to diminish. “Market capitalization
positively and significantly influence economic growth in long run Aigbovo (2015)”.

The roles of capital market on Nigeria economy cannot be over emphasis it’s vital for economy growth in terms of wealth and capital distribution and
makes capital available and safe for investors to invest, it’s also create financial wide range by appearance of service and
products tailored for suitable investors to invest as well. The following are the important of capital market for Nigeria
economy
1. Capital market raise long term fund through firm, business organization for develop and growth of Nigeria economy
2. It create way for public investment through securities saving for investment on Nigeria economy
3. It's enable and help the country to achieved economy growth through capital investment
4. It's also provide financial opportunity for various institution e.g. commercial bank, mutual funds
5. Capital market encourage diversification of business and the country economy in the sense that the existing company or economy can go into expansion through investment on the capital market

5. Research Methodology

5.1 Study Area
The scope of the study is basically on: The effect and policy analysis of global financial crisis (G.F.C) on Nigeria banking sector. Since the nature of this paper, give room for the use of personal interview and secondary data. It therefore enables the documentation problems and effect of global financial crisis on Nigeria banking sector. The study was carried out in Ilorin, at First Bank plc.

5.2 Sampling and Data Collection Technique
The population for study (all commercial banks) In Ilorin; Because of large population size and hence sampling size, accidental or convenient sampling technique was used to selected First Bank plc ilorin branch. For the reason that this bank is close to the researchers to access information easily for the study

1. Personal interview (primary data, schedule interview were conducted with the advance officers in charge of operation in the banking hall. The researcher interview about fifty (50) officers.
2. Secondary data was collected from relevant banking journals

5.3 Method of Data Analysis
Descriptive method data analysis is used to analysis the data collected for the research. The method entails the finding from the banking officials of the First bank plc on the topic being chosen. For Data analysis, the researcher used SPSS this software is easy and suitable for the researcher.

6. Result and Discussion

6.1 Cause of the Global Financial Crisis
The G.F.C started to manifesting August 2008 with the inability of economic agents to repay their mortgage loans as a result of financial liberalization that took place in the last 3 decades, accompanied by inadequate regulatory framework in terms of institutions and assets; unregulated rating activity; as well as the excessive global liquidity generated mainly by the U.S. This distorted the perception of risk, leading to excess leveraging, added to the over-indebtedness of household and business, resulting in bubbles in both financial and real asset Barau (2009). Various reasons has been advance to explain the development and spread of the crisis that were spark by the mortgage defaults in the U.S.A. A survey showed that the causes of global financial crisis including. (Soludo 2009 and Mordi 2009).

1. Globalization and development in information and communication technology (ICT). This allows free movement of capital around the world. Couple with the integration of the world financial system, the marketing of toxic financial derivatives around the world was make easier. As such, when the bubble burst in the USA it quickly spread around the world through the contagion effect.
2. Another reason is the liberalization of the financial sectors, first in US and Europe and then in developing countries, led to the development and growth of financial markets, especially in the USA and Europe. This made possible for financial institutions to engage in sub-optimal financial transactions that went un-noticed for long time.
3. Furthermore, financial innovations in the form of securitization of asset through the introduction of structured investment vehicles (SIVs) and credit default swaps (CDs) helped in changing the market perception of risk and lowered credit standards. These are highly risk debt repackage and sold worldwide, they are, however, not standardized instruments due to their speculative nature.
6.2 Effects on the Nigeria Economy

The impact of (GFC) on the Nigeria economy was widespread and including the following areas:

1. The capital market witnessed unprecedented drop in the price of share, with all share index (ASI) and market capitalization (MC) crashing by as much 67.7 and 61.7 percent, respectively, between April 2008 and March 2009 (IBID). The banking sub-sector with about 65.0 percent of the NSE market capitalization are most affected. There is now worry about the extent of banks’ exposure to margin lending and to operators of the downstream petroleum sector.

2. Limited foreign trade finance for banks as credit lines dried up for some bank, thereby, putting undue financial pressure on the affected banks. There is no gainsaying that the era of LIBOR + 1 seem to be in the past. However, there are conformation lines they are at every high cost.

3. Rise in interest rate as found dry up, resulting from liquidity squeeze. The financial market witnessed interest rates realignment as investors move from the stock market to money market.

4. The sharp drop in the price of crude oil, which is the major sources of Nigeria foreign exchange margining considerably affected the 2009 until date budget. The reduction in federation account revenue, accruing to the three tiers of government-generated agitation among the federating units as agitation for the use of excess crude account heightened

5. Rising inflation spurred by high cost of food and energy prices. Inflation, which fell from 8.5 percent in 2006 to 6.5 percent in 2007, rose to worldwide high food and energy prices. It however, dropped to 12.0 percent in 2009.

6. The general decline in aggregate demand among the different economic unit’s couple with low industrial capacity utilization led to decline in GDP growth rate. For example, economic growth fell from 6.5 percent to 6.0 percent between 2007 and 2008.


The CBN play a pivotal role in the management of the Nigeria economy. As the monetary authority, the bank ensures monetary and price stability. To achieve these, it had to regulate and monitor the financial system, ensure its development and prevent it from financial distress, which could enhance confidence in the financial system as well as facilitate sustained growth Oniyido (2004).

In an effort to analyze the challenges of the GFC, the paper focuses on the immediate responses by the CBN to stem the treats on the banking sectors as well as the outcomes of those policy responses. The GFC posed serious internal and external structure and policy challenges to Nigeria economy for the banking sector, they could be categorize into three; Firstly, liquidity squeeze and the need to get credit flow to all sectors of the economy. Due to the shrinking global financial flows, there was a decline in credit lines from foreign sector. As a result, banking finds it difficult to perform their role of credit creation within the domestic economy, which resulted in reduction of expected profits and consequent loss of jobs. Furthermore, the spread in interest rates increased due to liquidity squeeze. Secondly, bank distress and stepping up of supervisory measures against infractions. The resultant liquidity shortage exposed weaker banks, forcing them to consistent rely on the CBN standing lending window for survival. This posed the problem of distress and the need to step up supervisory measure to ensure the health of the domestic banks. Thirdly, effect on the foreign exchange market in terms of exchange rate stability and the need to preserve and guard against the depletion of the country’s external reserves. The demand pressure on the foreign exchange market that arose due to divestment and repatriation of capital by foreign investors left the CBN with only two choices: to draw down in the country external reserves to meet these demands, or depreciate the domestic currency

7.1 Policy Responses by the Central Bank of Nigeria

In its effort to contain the challenges of the GFC on the banking sector and allow it perform its function as an investment vehicle, a number of policy measure were taken by the CBN. Those were aim at injecting liquidity into banking system, setting up supervisory measures to guard against distress as well as preserving and guarding Nigeria’s external reserves.

1. To increase the flow of credit into banking system at various meeting of the monetary policy committee MPC these measures included:
   - Systematic reduction of the monetary policy rate MPR from 10.25 percent to 6.00 percent between September 2008 and May 2009
   - Maintain an interest rate corridor +/-200 basis points around the MPR.
• Reduction of the liquidity ratio from 4.0 percent of total deposit liabilities to 25.0 percent between September 2008 to April 2009

• Setting up of a #200 billion special agricultural fund (SAF) for commercial agricultural production

2. In order to ensure that the banking system did not go into distress, the CBN introduced the resident bank examiners to monitor the day-to-day developments and transactions of the DMBs. Furthermore, the bank moved from compliance base to risk based and consolidated supervision of the banking sector. This was to forestall contagion risk due to the universal.

8. Summary, Conclusion and Recommendations

8.1 Summary
Integration of financial markets worldwide facilitated by the growth influence of globalization has predisposed economics both developed to the vagaries of GFC. Nigeria financial sector neither is nor insulated from this development. The banking sub sector, having largest assets of sector was being affect by the crisis. The monetary authority, the CBN should remain resolute in its present intervention and reforms as well as providing adequate prudential supervision and regulation of the financial sector in collaboration with other regulators in the financial system.

1. Credit Development: As liquidity was inject into the economy through the banking system, domestic credit and more importantly, credit to the private sectors expanded. However, there were positive developments in the expansion of credit to the private sectors, a full between January and June 2009 was experienced when dropped to single digits. This coincided with the period, when broad money supply was negatively.

2. Interest Rate Development: Inter-bank and open buy bank (OBD) rates continued to fluctuate during the period. However, the movement in the inter-bank rate was more significant, the OBB rate tended to move with the MPR, as it was collateralized. However, with the guarantee provided by CBN on inter-bank rates, it also crashed and was below the MPR at the end September 2009 they fell below it in October and remained around 5.0 percent in November and December 2009.

8.2 Conclusion
The effect of global financial crisis has demonstrate unexpected decline in in the growth of most under developed countries in the world most especially Africa. The policy response by the apex bank of Nigeria (CBN) and Nigeria economy emphasis on and discussed the rising success of policy response by Central bank of Nigeria also implementation policy by monetary authority to constraint complexity and widespread of Global Financial Crisis. Nigeria should implored adequately, stability comprehensive measures to address the future occurrence of financial crisis through fiscal and monetary policy.

8.3 Recommendation
The immediate response of the CBN to ensure the maintenance of the banking system stability achieved great success. However, there is the need to provide long lasting policy measures that would address future threats of global shock in the Nigeria banking industry. These included:
1. The need to remain resolute in the implementation of the second phase of the current interventions and reforms by the monetary authority on the banking sector.

2. The efforts at injecting liquidity into the system needs to be sustained, given that actual reserve money positions has been below its potential for growth (given the benchmark) for most period to cautiously avoid inflationary pressure.

3. Efforts should made to channel these funds to the productive sectors of the economy by improving the infrastructure.

4. Adequate prudential supervision and regulation of the financial sector, especially the banking sub-sector is very important and should be pursue vigorously by the monetary authorities.

5. Injection of funds and recapitalization of banks could lead to expansion of banks credits as money balance increase.

6. Building strong institution and implementing sound supervision and regulation will help in reducing the risk of financial and currency crisis.

7. Strengthening banking systems to ensuring that fund are allocate to most efficient uses, instead of being loan to cronies or directed to inefficient state-sanctioned projects.

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