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THE GLOBAL ECONOMIC MELTDOWN AND THE NIGERIAN ECONOMY

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Abstract

Over the years, the current global financial crisis otherwise known as economic meltdown started around 2007 but became obvious especially in the USA during the second half of 2008. Since then, it has spread globally like a wildfire and its ripple effects are being felt throughout the world. This paper examines the Nigeria situation in the light of the lingering financial crisis and proffers policy recommendations which may be adopted by relevant authorities to mitigate the economy against the vigorous of crisis. It also traces the genesis of the crisis, x-rays the situation of a few economics in the face of the crisis as well as policy options that have been adopted by governments and the success recorded so far In spite of contentions of the weak integration of Nigeria with the rest of the world. The global financial crisis constitutes serious threat to millions of people around the world, especially the poor.

Key words: The effect of global economic meltdown, on Nigeria economy; Causes of global financial crisis on Nigeria Economy.

Introduction

The world is facing the most severe financial crisis since the great depression of the last century. The current financial crisis is unprecedented in the history of the modern world and it is having a catastrophic effect on the financial wellbeing of millions of people around the world.

Global financial meltdown is an acknowledgement of globalization. Nwokah & Eguavoen (2009) provide a common description of the concept as a financial distortion that started at one point which gradually but steadily affected all financial institutions and economics in the world negatively. Merrill as cited in Onofowokan (2008) provided a myopic view of the concept by describing global financial meltdown as the crash of shares/ and shares price in the various stock exchange markets in developing and developed countries. In summary, global financial meltdown can be described as the collapse of the global financial system to the extent that money and capital lost their efficiency in contributing to economic development.

The profile of the Nigeria economy reveals a paradox, on the one hand, the economy is endowed with a large stock of national resources on the other hand the economy has shown a record of poor performance in the past few decades and is now ranked among the poorest in the world.

The nation's extreme reliance on the oil and gas industry, to the detriment of the real sectors accounts for its poor performance trends. The development unleashed micro-economic shocks that continue to undermine the nation's development prospects since the 1980s. Consequently, policy makers have initiated various economic reforms aimed at reviving the nation's poor macro-economic indicators. The challenges include the need to revive the Agricultural and industrial sectors, while developing solid minerals to diversify and transform the economy into a major player in an increasingly competitive and global economic environment.

The Nigerian economy is endowed with a huge stock of national resources in Agriculture, oil and gas and solid minerals, which provided a foundation for sustainable growth prior to the nation's political independence in 1960. However, with the discovery of oil and the windfall of revenue that accompanied it, the nation's policy makers became distracted, marginalizing both agriculture and solid mineral development that provided the foundation for the nation's economy, also the oil boom triggered unsustainable consumerism that fuelled importation of consumer goods to the detriment of the nation's nascent industrial economy. The volatility of the nation's petroleum industry is particularly susceptible to the global economic downturn, which hit the Nigeria economy in the early 1980s precipitating a deep macro-economic shock that lasted a couple of decades. Following recent economic reforms, the economy has improved, led by a resurgent

agricultural sector. However the main functioning sector remains depressed and the solid mineral industry is yet to make a meaningful contribution to the nation's (GDP).

Therefore concerted efforts are required to transform the nation's economy away from dependence on the oil industry and to become a stable, modern, middle income industrial economy.

The effect of the global economic meltdown on the Nigerian economy

If consideration is given to the differences in the economic, social, political and cultural setting of individual countries, it would be discovered that the impact of the global financial crisis vary from one country to another. While the effect in some countries can best be described as mild, it affected some other countries so much that they are more threatened with instability and had to resort to external assistance before normalcy could be restored.

In Nigeria, there was genuine apprehension from social critics, economists, businessmen, journalists and public about the impact of global economic meltdown which they fear may worsen the economic problems, the country has been experiencing since the 1980s. In attempts to allay the fear of Nigerians, government officials led by the governor of the Central Bank of Nigeria at the time, Prof. Charles Soludo had to state publicly that the Nigerian Economy would not suffer serious adverse impact of the global economic meltdown because of its low integration into the global economy (Vanguard October, 20, 2008).

The then Governor of the CBN also went as far as reassuring the public and the legislature that all Nigeria Banks are safe". And promising that the CBN would do whatever that is necessary to keep the banks healthy. (this day, November, 1, 2008) But as events turned out political and economic leaders realized lately that the Nigeria had not escape the negative effects of the global financial crisis. In fact the senate president then David Mark alleged recently that the former CBN governor, Prof. Chukwuma Soludo. Did not revealed the true status of Nigerian banks at the beginning of the global financial meltdown in 2008 when he said that, "we have found ourselves where we are today as a result of one thing that is the inability of the central banks to supervise the banking system properly", (Abdul-Raman Abubakar and Turaki T. Hassan 2010).

In order to know how and when the Nigeria Economy got infected by the global financial meltdown, we have to go back to the time of Soludo, when the banks were ordered to consolidate to a minimum net shareholders fund or capital base of 25 billion with a condition that any bank that failed to meet up with the minimum recapitalization by 31st December, 2005 will cease to exist. With this order almost all the banks became guests of the Nigerian capital market in their bid to meet up without due consideration for financial risk and the human capacity to manage such funds.

By the time the recapitalization policy was over, the number of banks has been reduced from 89 to 25 through merger and acquisition methods. Fourteen of the hitherto existing banks that were unable to find merger, partners or acquires and unable to meet up with the recapitalization conditions had their operating licenses revoked. Shortly, after the banking consolidation exercise, the CBN promised any bank that could build up its shareholders fund to 1 billion naira stand the opportunity to manage some of Nigerian's foreign resources. It was this latter development that triggered off a second round of consolidation exercise at a much lower level than the first.

Policy options adopted through the globe to mitigate the impact of the meltdown

The lingering financial crisis has caused unwanted havoc to economics of nation and the globe generally, our insight into the situation of few economics including Nigeria. This work points specific harm that the crisis has caused individual nations of the world. On a general note, it has dislocated capital market as characterized by fallen market stocks values due to loss of investors' confidence in markets. It caused massive operating losses to companies with accompanying rise in unemployment rates. Economics have witnessed sharp rises in food prices, inflation rates devaluation of currencies, some unrest, declines in external reserves and foreign exchange earnings. Investors have suffered losses. The attention of governments diverted from the business of pursuing to formulated plans to finding ways of salvaging their embattled corporations. Since the inception of the crisis, varying policy options have been adopted by governments to solve their embattled corporations and economics from the vagaries of the crises. Popular among the policy options adopted is the stimulus packages designed for bailout and stimulating economic activities. In US for example, trillions of dollars have been directed and earmarked for the purpose. The Bush administration in the wake of the crisis offered \$700 billion in bailout plan for the financial system. In November, 2008 another \$800 billion stimulus package was

approved by the government to buy up mortgage-backed securities and to freezing the consumer credit market Barack Obama administration also signed a N789 billion stimulus package under the American recovery and re-investment plan. There are yet such other plans in pipeline. Many other countries in Europe and Asia have design one stimulus package or the other with such huge commitment in the name of stimulus packages. One may quick ask: How effective has the stimulus packages being in these economics in addressing the crisis? According to Sampson (2009) these packages are yielding fruits in the US where much have been channel in stimulus packages, some financial institutions that were saved by it have return to profit, such that others have started returning government bailouts granted them, our review on performance indexes of same Economics (US, Japan, UK, and China) in recent times also shows that capital market are making up gradually. These are indications that the stimulus packages are yielding very well on expected. The desired turn around home is a call another governments yet to thing in the direction to do this by adopting option to there circumstances.

There is also other stimulus package adopted by governments at the macroeconomic level such as increase borrowing reduction in interest rate, reduction in tax rates, increase spending on public work like infrastructure etc while individual countries are making concerted effort to teakle the problem of the global meltdown as it affects their institutions and economics. Many economist and analysis including Zimmommann (2008) Classesns (2008) Burda (2008) have advocated for global comprehensive approach to addressing the crisis for more effective results. The immediate action suggested by Portes are the recapitalization of banks and liquefying the term finding markets. On his part, Zimmonmann (2008) observes that governments need to adopt a mired strategy of short-term and long-term measure to handle the crisis especially as it pattern to the situation in Europe.

The causes of global financial crisis in Nigeria.

- i. Overdependence of the nation on petroleum as source of income, according to Sanusi (2009) Nigerian gets over 95% of her revenue from oil.
- ii. Resource mismanagement that just petroleum but national gas as well. Countries like Malaysia and Singapore in the 1970s had the same revenue with Nigeria but it is not so today, Babagide (2008).

iii. Niger-Delta militant activities, the factors has worsened the situation as barrels of crude oil produced per day, has dropped due to militant activities such as kidnapping, stopping operations and damage to oil wells.

IV. High rate of importation this has always been a great manance to the Nigeria economy as many commodities are imported.

V. The debt game (at all levels). Nigeria as a country is still heavily indebted to the World Bank and international monetary fund (IMF).

VI. The changing dynamics of over population has also affected the Nigerian economy because adequate plan have not been n put in place for the nations increasing population.

VII. Outright corporate greed exhibited by various companies and | services provides also have a major contribution to the economic situation in the country.

VIII. The national relocation of employment and changing means ,of labour also have a part, many people are migrating to major cities like Abuja, Port-Harcourt causing these cities to be over populated and people are left to form other states.

IX. Growing gap between the elite and the impoverished also has it fair sharó nation's economics meltdown. Other factors are erosion of human dinity.

Effects of the economic crisis on Nigeria

Stock market: The harsh effect of the recession is more reflected in the nation's capital market. The capitalization of the Banks And their streamlining to 25 from over 80 banks in the last ten years resulted to greater interest and investment by Nigerians in capital market with the financial crisis piercing harder and eredit becoming scare, foreign investors sold off their investment en- masse on the stock exchange and this precipitated a rapid decline a share price and market capital capitalization investors this watched helplessly as the value of their investments degenerated by more than 70% from 2008 to 2009. While some were able to transact their stocks the core conservative left their stocks in the hand of their brokers who in turn left them redundant till the price crashed with the economic downtun.

Banking sector: The banking sector was however faced more hit than other sectors. But for the sharp regression in the crude oil price and the stock exchange, the Nigerian banking system would not have experienced much from the global economic recession. The first impact of the crisis on the sector was the withdrawal or reduction of credit lines to Nigerian Banks by foreign banks this resulting to paucity of funds in the industry. The greatest impact however came indirectly through loans granted by banks to oil companies which incurred heavy losses and could not repay the loan borrowed from banks also as share price fell on the stock exchange investors suffered heavy capital losses which eroded the value of investors and hence they could not repay the share purchase loan. These two factors led to severe scarcity of funds in the banking industry and huge non-performing loans.

Oil sector: The global financial crisis occasioned credit freeze which led to declining consumer and industrial demand in the developed countries. As a result demand for crude oil as well as crude oil price fell drastically and light dropped to 561.14 per barrel by June 30 2009. The federal government collected 138.74 per barrel as at June 30 2008 average price of Nigerian's crude-Bonny revenue fell to 1.04 Billion from 1.88 trillion during the same period also instead of net foreign exchange inflow of 50.9 billion recorded by the central bank of Nigeria (CBN) as at June 30" 2009. Also reflecting, the impact of the global economic recession then nation's external reserve dropped from a high of and 4.2 billion according to (Chuks Nwaze 2009).

Industrial sector: Another sector that was had hit by the crisis is the industry. The devastating impact of the global financial crisis which hit the country in the second half of 2008, through the price of crude oil, which accounts for over 80% of the country's foreign exchange ushered in spates of declining industry activities and massive closure of industries. No sector was left out from food, beverages and tobacco sector to the textile, iron and steel, electrical and electronics, motor vehicles and assembly sector and others the strong is the same.

Implication of the financial crisis on Nigeria economy

The unprecedented fall by 40% in the international price of oil, while was further compounded by the persistent crisis in the Niger-Delta region of Nigeria signals that if the financial meltdown persists, Nigeria could suffer a major setbacks. The effects of the crisis on agricultural and rural development indeed the Nigerian economy as a whole ranges from

disincentives to foreign investors, decay infrastructures likely to weaken the supply side of the nations' food market, bearish features of the capital market, panic withdrawals of deposited funds from banks by entrepreneurs and industrialists in apprehension of future uncertainties.

The current global depression has reduced energy consumption and consequently crude oil demand, the Nigerian economy needs to be repositioned for possible shocks and fiscal adjustments. There is also the need to deepen the economy as well as revitalizing the service sectors.

Recommendations

Human resources remain the biggest assets in any organization public or private in an increasingly inter dependent and global ized market environment. There is need to create a new breed of players, employees, managers and entrepreneurs, who understand the dynamics of the global economy and the intricacies of the market mechanism.

The nation's education system needs to be re-oriented towards an emergent economy driven by information and communications technology (ICT) and the new skills and knowledge necessary to excel in the increasingly dynamic environment. Therefore, policy makers must shift emphasis and embrace education and learning mechanisms that foster innovation; creativity, leadership skills and knowledge necessary to compete successfully in the 21st century. This is necessary to educate and equip both present and future managers in the various sectors of the economy if the nation must compete successfully in the global environment.

One of the major challenges of the Nigerian economy is the imperatives of an export led economic framework. The nation is in dire need of an economic transformation agenda, functioning diversification of its exports away from crude oil and embracing non-oil export in Agriculture, solid minerals and and manufactured goods, in addition to primary commodities which and already manufacturers. The challenges also include the production of both intermediate in abundance. A break-through in export orientation would enhance the revenue profile of Nigerian and diversify its foreign exchange earnings it would all remove the vulnerability associated with the nation's petroleum driven economy, which is prove to incessant market validity that characterizes the global oil and gas industry. An export-led economy therefore provide Nigeria with gateway into lucrative markets in both industrialized

and emerging economies as well as the springboard towards a stable prosperous and dynamic industrial economy for sustainable development.

Conclusion

The global financial crisis compounded by the climate change, food and fuel crisis, has caused unprecedented changes in the world order, global health inclusive and loss of share value in capital markets left many investors deprived and devastated. Especially those with compromised state of health, people adopt different coping behaviour as a result of the shock. Reduction in the standard of living increased family violence, prostitution, drug addiction, meaningful illness and premature deaths have been reported in different countries. In this contention the proactive leadership is needed to navigate through these difficult times and be able to catch up with the upturn when it arrives and ensuring of through recapitalization and strict regulation and supervision, and strong-base and reliable insurance industry capable of compensating momental losses that may arise from breakdown in any sector of the economy.

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