

**GLOBAL ECONOMY IN CRISIS: A RE-THINKING OF RECEIVED  
ECONOMIC DOCTRINE WITH SOME EVIDENCE FROM NIGERIA**

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## ***Abstract***

*Nigeria's recent economic performance appears reversible. The global economic downturn has threatened to reverse the economic growth of the last decade. This paper examines the impact, policy responses and implication of the global financial crisis on Nigeria. It also reviews the received economic doctrine which has fundamentally contributed to the crisis and calls for a re-thinking of the dominant economic dogma which emphasizes minimal government and freedom of private resource owners to seek maximum private profits even at the expense of the generality of the people. In addition, the paper cautions that care must be taken in involving the government especially for a country like Nigeria where weak institutions persist. This is because basic institutional arrangements and safeguards must be put in place to manage the demands of alternative government intervention strategies. The challenge, therefore, is for economists to rethink the existing economic paradigm in line with current reality. More fundamentally, it would be appropriate to strengthen regulation in the financial system and re-examine the free market rationality assumption given the fact that greed and self-interest have been at the core of the current global economic crisis.*

**Key Words:** Financial Crisis, New theory, Policy Responses, Nigeria.

**JEL Classification Numbers:** P17, N27, N17, G28

**Conference Sub-Theme:** The Political Economy of Policy Responses to the Global Economic and Financial Crisis.

## **I. INTRODUCTION**

The global economy has been in crisis since the emergence of sub-prime mortgage crisis in 2007 in the US. The recession later spread to Europe, Asia and other parts of the world. Leading economists describe it as one financial crisis with profound consequences as the Great Depression of the 1929-30s. Globally, the effects are widespread and characterized by failure of key businesses, declines in consumer wealth, substantial financial commitments incurred by governments, and a significant decline in economic activity. The immediate outcome has been the collapse of many banks<sup>1</sup> and other financial institutions posing great challenges to researchers and policymakers on the way forward. Indeed, the instability has spread from one sector to the other starting from housing into banking and other financial markets, and then to all parts of the real economy. It has also cut across the public-private boundary as well as national borders within the developed, emerging and developing countries and thus threatens the significant economic progress of recent years.

Recently, a growing consensus was beginning to emerge that the rest of the world could continue to grow despite significant slowdown in the US. The decoupling theorists usually pointed to the fact that emerging markets now constitute 30 percent of the global economy and contribute 60 percent of world growth. They also hold that consumption in emerging markets has risen to the extent where it can substitute consumption declines in the US. In terms of demographics, important pro-growth factors support emerging markets (Obiora, 2009).

However, recent global economic turmoil has serious reverberations in emerging economies and developing countries generally. Although the crisis was triggered by events in the United States housing market, it has spread to all regions of the world with grim consequences for global trade, financial development and growth. Indeed, the crisis represents a serious setback for Africa because it is taking place at a time when the region was making significant progress in economic performance and macroeconomic management<sup>2</sup>. In fact, the global financial crisis threatens to reverse these rare and remarkable gains in economic performance and management in Africa.

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<sup>1</sup> *These banks made huge losses from the crisis and had to either declare bankruptcy (Lehman Brothers), be sold (Merrill Lynch, Wachovia), or bailed out by the US government (Bear Stearns, AIG, etc). Others (Goldman Sachs, JP Morgan Chase, etc) survived but not without scars (Obiora,2009).*

<sup>2</sup> *From 2002-2007, African average growth rate of real output was above 6.2 percent and inflation had declined to single digits. Net private capital flows to Africa increased from \$17.1 billion dollars in 2002 to \$81 billion dollars in 2007 (ECA and APF, 2008).*

Analysts were initially optimistic that the impact of the global financial crisis on Sub-Saharan Africa would be negligible but the effects of the crisis vary in the continent<sup>3</sup>. The direct effect has been on the financial and service sectors. Stock market volatility has increased since the onset of the crisis and wealth losses have been observed. Africa's most powerful economies have proven particularly vulnerable to the downturn: South Africa is experiencing a recession for the first time in nearly two decades. In Egypt, the stock market indices declined by about 67 percent between March 2008 and March 2009. In Kenya, about 12,000 job losses have been recorded in the tourism sector at the height of the crisis. The indirect effect occurred because African countries trade with developed countries where the crisis was pronounced. As it stands, the crisis is expected to dampen prospects for reducing African poverty and achieving millennium development goals by 2015 because at least 7% annual growth is generally considered necessary for outpacing population growth and making significant progress in alleviating the toll of hunger, unemployment, and diseases.

In Nigeria, the debate was intense on whether the global financial crisis will affect the country or not. Most commentators were of the opinion that the banking<sup>4</sup> sector would weather the storm due to the fact that (i) the financial system is not strongly integrated into the international financial architecture, (ii) the relatively simple nature of the financial products and (iii) the strong capitalisation and liquidity of Nigerian banks (Lamido, 2009). However, the reality is that the global crisis has seriously affected Nigeria through sharp declines in the value of oil exports, rapid depreciation of exchange rate, worsening investor sentiments in the banking sector, fall in foreign direct investment and remittances. In addition, as foreign investors divested from the Nigerian stock exchange, market capitalisation plunged drastically.

The pertinent question for policy is what should be the economic direction for Nigeria in the face of the global economic crisis and its negative consequences? How can the recent gains in economic

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<sup>3</sup> *With the heterogeneous nature of African countries, the crisis is surely going to affect some countries much more than others. For example, the decline in economic growth expected in 2009 will be more severe in Angola, Botswana, South Africa, Equatorial Guinea and the Sudan, which are expected to lose more than 4 percentage points in growth. In Egypt, Kenya, Cape Verde, Nigeria, Ethiopia, Tunisia, Namibia, Mozambique, Sierra Leone, Lesotho, Ghana and the Democratic Republic of the Congo, growth is expected to decline by between 2 and 3 percentage points in 2009.*

<sup>4</sup> *While Nigeria's financial system in general can absorb and survive the crisis, the effects on the various banks differ as few banks continue to display signs of failure with high concentration and exposure to volatile sectors like capital market and oil and gas sub-sectors. Also in Nigeria, as a result of some unethical practices, the ratio of non-performing loans to gross loans increased significantly in some banks, prompting the central bank, based on audit report, to intervene by sacking the chief executives of eight banks with signs of distress.*

performance be sustained? Given the policy response from the developed economies in form of bailouts to the financial crisis, what are the measures adopted by Nigeria to protect the economy? Isn't it about time Nigeria adopted a new economic paradigm to protect her economy, at least, from a crisis that never originated from her borders? More fundamentally, to what extent are the Nigerian and African economists involved in re-examining the existing theories of economics?

The position of this paper is that the Nigerian economy needs a fundamental policy re-assessment given the recurrent crises, to guard against negative spillovers emanating from other countries. Specifically, reforms are needed in key sectors like finance, education, agriculture, manufacturing, power etc to strengthen and diversify the economy away from oil. In doing this, strong institutional framework must be built to regulate the various reform processes. Indeed, strong regulation, risk management and corporate governance especially in the banking and financial sectors are critical. Generally, the framework must be Keynesian with strong regulation as a policy of unfettered market system has proved unreliable given the greed and self-interest nature of the market economy.

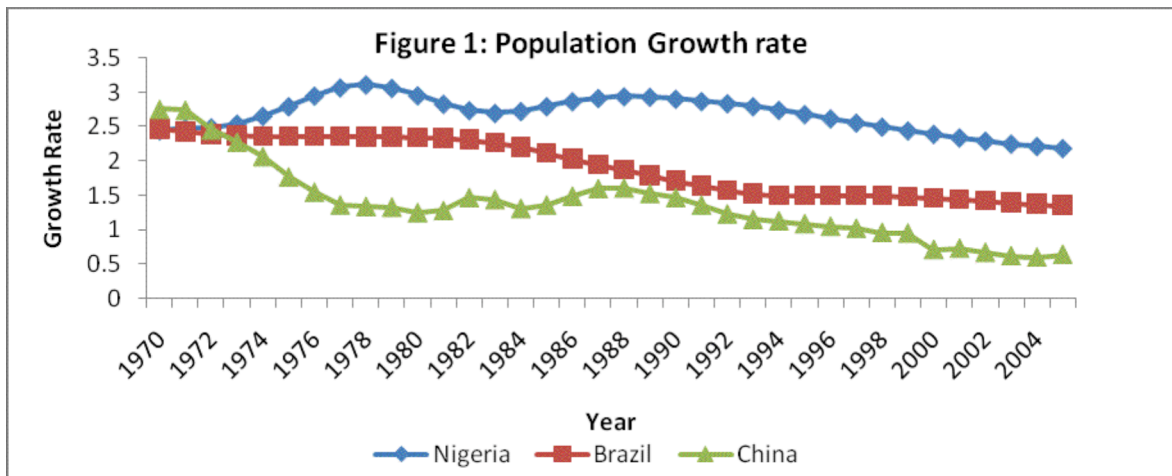
The main objective of this paper is to examine the impact of the global financial crisis on the Nigerian economy and provide some measures that can insulate the Nigerian economy from negative spillovers from developed economies. The paper also advocates for a re-assessment of received economic doctrine and calls for a broad-based review of existing economic system especially as it affects the financial system, to correct the observed discrepancies. The paper, through the impact, identifies the key transmission channels of global financial crisis to Nigeria and examines recent policy measures taken by the Nigerian government to cushion the effect of the crisis in the country.

The paper is organised as follows. Following the introduction is section 2 which discusses the stylized facts of the Nigerian economy. In section 3, the impact and policy responses of the global economic crisis on Nigeria are examined. Section 4 re-assesses existing economic system and the need for a 'new' theory for Nigeria and also presents policy implications. Conclusion follows in section 5.

## **II STYLIZED FACTS ON NIGERIA IN THE GLOBAL ECONOMY**

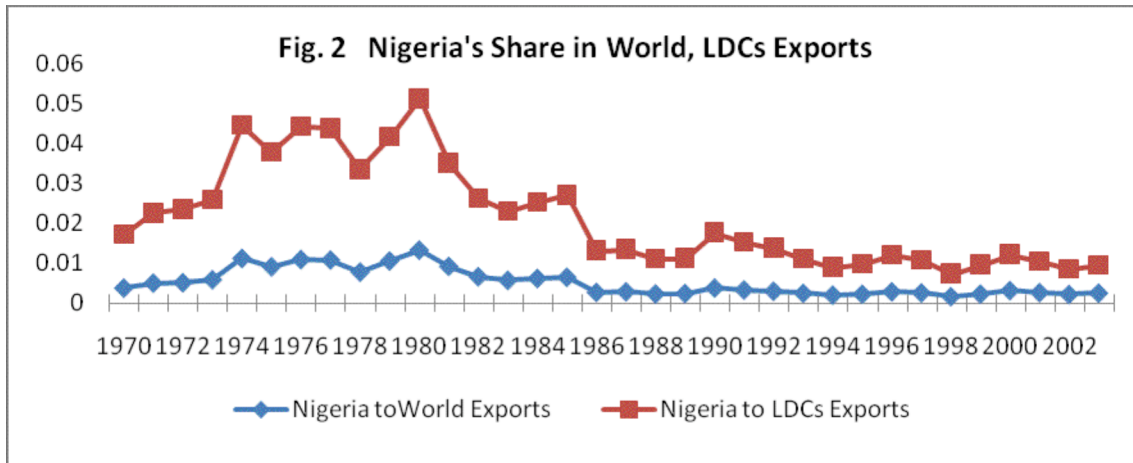
The population of Nigeria is presently put at 140 million persons based on the last census in 2006. The growth rate of the population is high with the mean value of 2.80 per cent in the period 1970-2005. As depicted in Fig. 1, Nigeria's population growth rate is consistently higher than those of other emerging economies of Brazil and China. The issue of high population growth in Nigeria must therefore be given careful consideration in any policy decision that considers Nigeria's development path. This is because for the economy to realize a breakthrough from poverty, it must grow at a higher rate than the population growth rate.

Nigeria's share in the total world's output is consistently less than one per cent with a paltry average of 0.27% in the period spanning 1970 -2005; an average share in the first half of the 2000 decade was only 0.17%. Given the commitment of government to ensure that Nigeria becomes one of the leading 20 economies of the world by 2020, it becomes imperative to raise the output across key sectors in the economy so as to increase Nigeria's share in the global output level.

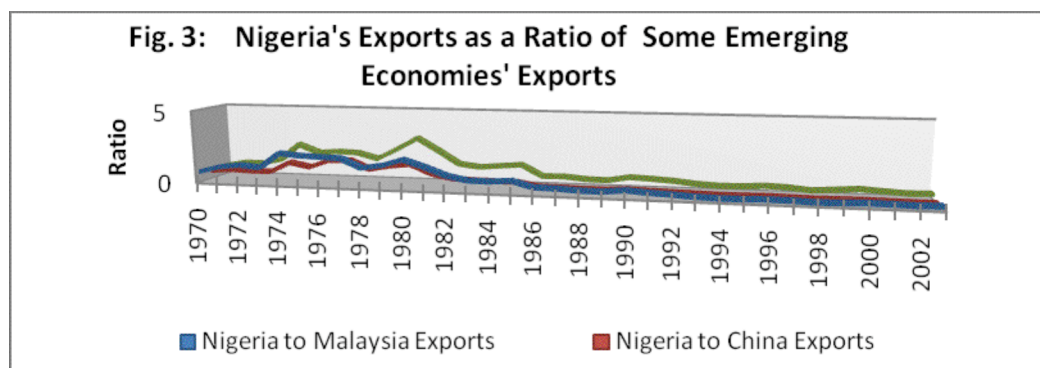


Although Nigeria is one of the major oil producing and exporting countries in the world, in terms of trade flows, her share of world's total export is less than 1 percent on the average (in fact 0.53%) in the period 1970 to 2005. Nigeria's export share in less-developed countries export shows that the country accounts for 1.62% mean value for the period 1970-2005. In fact, the trend of Nigeria's contribution to the world exports and to exports from LDCs has been declining since the 80s (see fig. 2). This may still be blamed on the mono-cultural exports as the demand for Nigeria's oil depends on the quota given by OPEC. Again, another factor could be the crisis in the Niger

Delta region of Nigeria where oil exploration activities have been seriously hampered by militants' agitations/activities.

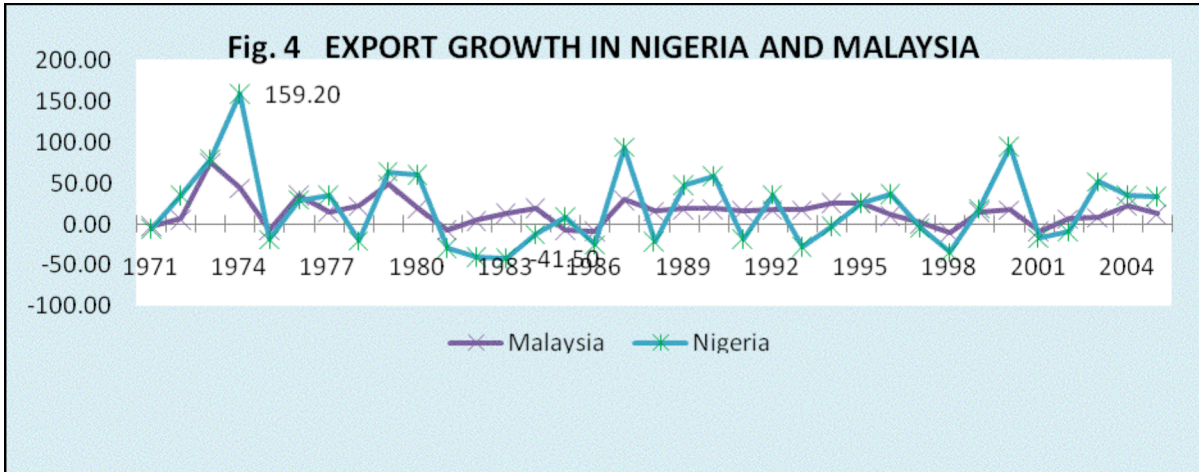


When compared with other emerging economies like China, India and Malaysia, the export performance of Nigeria is presented in ratio terms (fig. 3). Various ways can be adopted to interpret Nigeria's exports as a ratio of the other countries' exports. The export earnings in Nigeria, for example, during the oil boom era of 1970s was over three times (or 300%) that of India, about twice (200%) that of Malaysia and about one and half times (150%) the Chinese export value. Beginning from 1986, the situation has completely changed as Nigeria's exports as a ratio to those countries' have declined to less than 50% of their individual exports. Many factors can also be adopted to explain this declining share of Nigeria's exports. Basically, export penetration and improvement of economic activities in the countries chosen for this comparison are major explanatory factors.



Another factor worth considering here is the trend of export growth in Nigeria. The country's export performance is characterized by high moments of leaps and bounds cycles. The

growth rate of Nigerian exports, as depicted in fig. 4, rose to 159.2% in 1974 and nose-dived to (-41.50) between 1980 and 1983. On its part, Malaysia's exports growth is more predictable and stable. Clearly, Nigeria's export growth pattern is very volatile. The same trend of volatility of Nigeria's export is depicted when compared with China and India (see figure 5).

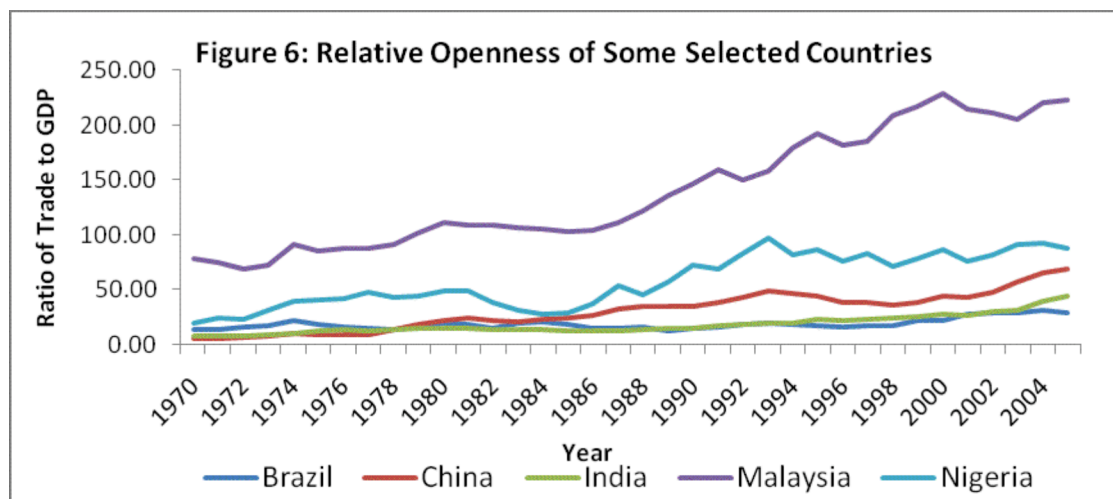


In considering the link between the Nigeria with the global economy, it is imperative to evaluate how much transaction takes place between her and the global economy. The concept of openness is conventionally adopted and is usually measured by the value of total trade involving the country (value of exports plus value of imports) as ratio of the country's GDP. A higher value of openness indicates greater interaction between an economy and the global economy. Advocates of globalization insist that higher openness of an economy is necessary for faster economic growth and competitive advantages. Nevertheless, it is not undoubtedly conclusive that higher relative openness



would lead to faster rate of economic growth and development. In fact, recent economic performance has greater support for the fact that countries require some level of trade restriction initially, for it to grow and develop pivot industries before opening itself up to unrestricted competitive trade. The latter has been true in economic development process of Japan and China and other south-east Asian economies (Akpan and Afangideh, 2009).

Thus, viewed from the degree of openness, fig. 6 shows that apart from Malaysia, Nigeria is relatively more open to trade than Brazil, China and India as her trend curve for openness lies consistently above those of these countries in the period 1970-2005. It is of course not debatable that these countries grow and develop faster than Nigeria.



In addition to the above facts, table 1 below provides an overview of key macroeconomic indicators in Nigeria. The GDP growth which was 8.2 per cent in 1990 dropped to 4.6 per cent in 2001 and increased to 9.6 per cent in 2003 due to the growth in the oil sector. The growth of the oil sector was negative during the period 2005 to 2007 partly due to the increased activities of the militants in the Niger Delta Region of the country. It is interesting to note that the non-oil sector registered significant growth rates during the period 2004 to 2007; non-oil sector growth jumped from 5.2 per cent in 2003 to 9.2 per cent in 2007; sustaining such growth would be healthy for the economy because it connotes diversification away from oil.

**Table 1: Macroeconomic Indicators for Nigeria, 2000 - 2007**

Economic / Social Indicators	1990	2000	2001	2002	2003	2004	2005	2006	2007
GDP Growth (%)	8.2	5.4	4.6	3.5	9.6	6.6	5.8	5.3	5.7

Oil Sector Growth (%)	5.6	11.1	5.2	-5.2	23.9	3.3	-1.7	-3.7	-5.9
Non-oil Sector Growth (%)	8.6	4.4	2.9	4.5	5.2	7.8	8.4	9.5	9.2
Budget Deficit/ GDP	-2.9	-2.3	-4.3	-5.5	-2.8	-2.6	-0.2	0.3	0.7
Ext. Reserves (% of GDP)	Na	Na	Na	Na	7.7	11.4	24.4	36.5	42.6
Ext. Reserves (Months of Import cover)	Na	13.6	11.3	7.8	7.2	12.2	18.6	23.0	20.9
External Debt /GDP	106.5	64.9	57.3	72.1	61.1	84.5	69.2	7.4	4.0
Domestic Debt/ GDP	31.3	32.2	36.6	26.1	28.6	25.3	20.8	18.6	19.2
Savings-Invest. GDP	9.9	16.4	4.4	6.4	1.5	(0.9)			
Overall BOP/GDP	-2.1	6.9	0.5	-10.3	-2.3	5.2	10.5	12.7	1.4
Inflation Rate	7.5	6.9	18.9	12.9	14.0	15.0	17.6	8.4	5.4
Average Official Exch. Rate	7.9	101.7	111.9	121.0	127.8	132.8	132.9	128.5	127.4
Lending Rate	27.7	21.6	21.3	22.5	22.9	20.7	19.2	18.6	18.7
Narrow Money Growth	30.7	28.7	28.1	15.9	13.8	8.6	9.3	20.4	0.6
Broad Money Growth	44.9	48.1	27.0	21.6	16.9	6.5	18.9	29.1	11.0
Population Growth Rate (%)	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	3.2
Life Expectancy (years)	Na	Na	54.0	54.0	54.0	54.0	54.0	54.0	54.0
Adult Literacy Rate (%)	na	57	57	57	57.0	62.0	57.0	64.2	64.5
Incidence of Poverty (%)	70.0	66.0	Na	Na	Na	54.4	54.4	54.4	54.4

Sources: CBN Annual Reports and Statements of Accounts (Various years).

Other economic fundamentals indicate that there was a better attempt to better manage the economy during the period 2000 to 2007. Budget deficit as a ratio of GDP began to improve between 2005 and 2007 while external reserves could cover about 20 months of imports during the same period. All other economic fundamentals seem to move in the right direction. However, the incidence of poverty remains quite high for a country endowed with enormous human and natural resources.

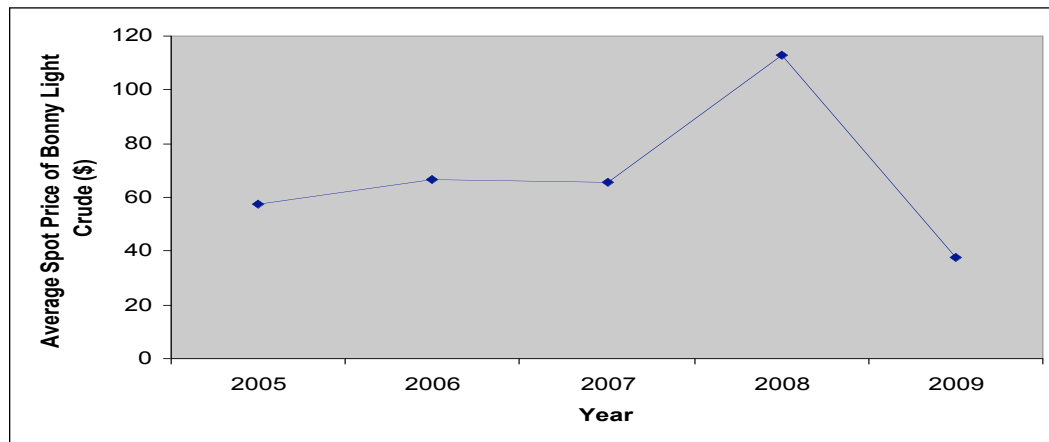
### III. IMPACT OF THE CRISIS ON NIGERIA

At the onset of the current global financial crisis, the debate in Nigeria on its impact on the economy was mixed even amongst policy makers. On the one hand, there was the widely held view that the impact on Nigeria will be minimal. Others, however, argued that the impact will be much howbeit indirectly, given the fact that Nigeria's trading partners are greatly affected by the financial crisis. The initial argument was that given the non-toxic nature of the financial products and the fact that the financial system is not as sophisticated as in the developed countries, then its integration into the global economy will be slow. This implies that the country may be insulated from the crisis. Also, banking sector consolidation of 2004 was considered by some as robust enough to protect the financial sector. But Laishley (2009) quote Nigeria's Finance Minister, Mansur Muhktar as saying "We thought we were safe from the impact of the crisis on the financial sector but, today, no country is safe". The implication here is that the global financial crisis has significantly affected (and still affecting) the Nigerian economy in so many ways including the following:

- ***Fall in commodity prices***

Oil export remains Nigeria's major revenue earner. The current global economic crisis has brought about a radical decline in crude oil prices. From the peak price of \$147 per barrel in 2008, oil prices dipped under \$37.57 per barrel as at 20th February, 2009 (figure 7). Though the price of oil hovers around at \$69 per barrel in September 2009, an improvement on the figure for the early part of the year, the implication is that government revenue will contract with the emergence of budget deficit. The 2009 budget was put at N2.87 trillion and a deficit of N1.09 trillion. Thus, alternative sources of revenue including borrowing (Aderinokun, 2009) will have to be exploited. The immediate action will result in cuts of government spending which in the wake of the global financial crisis are some of the risks that stare the economy in the face. It should be noted that the US economy constitutes more than 20 per cent of the global output and consumes more than 20 per cent of the global oil supply with Nigeria as the leading supplier in Sub-Saharan Africa (Sasore, 2005). A contracting US economy is bound to result in significant decline in demand for oil, with negative consequences on prices and Nigeria's revenues.

**Figure 7: Average Spot Price of Bonny Light (Nigeria's Reference Crude)**



**Source:** CBN Annual Report and Statement of Accounts (various Issues).

- ***Impediment to Government Projects***

With about 90% of government's revenue coming from crude oil export, the free fall in oil prices between July 2008 and January 2009 implies that government must revise its budget to be in line with current reality. Thus, in March 2009, it finally adopted on the basis of an oil price of USD 45/barrel and supply rates of 2.29 mio/bpd (Schweizerische, 2008). The reality is that the current financial crisis would have a negative effect on both short-term and long-term programmes of government. Indeed, the shortfall in oil revenues might lead to abandonment, postponement or outright cancellation of large investment projects. This would have negative multiplier effects on employment, poverty reduction, achieving vision 2020, the 7 point agenda of government etc. Also, revenue contraction could lead to a decline or inability to achieve infrastructural development which would in turn worsen the infrastructure-finance gap; thereby making it difficult to actualize the Nigeria's various development goals e.g. the lingering problem of electricity (Polycarp, 2009).

- ***Setback on economic growth and meeting MDGs***

The decline in economic growth which the current global financial crisis portends for Nigeria would likely reverse the progress that has been made in the economy the past decade. Available statistics indicate that GDP growth rate projection for Nigeria as at March 2008 was 5.30 % for the year 2008 and 3.30% for the year 2009 (Accenture, 2009). Of course, these are all below

the required ratio. The latest estimates of economic outlook of Sub-Saharan Africa shows that a lower rate of output growth is expected in 2009. Indeed, a lower economic growth would slowdown the fight against poverty, unemployment and inequality. Thus, the prospects of meeting the MDGs target of halving the number of the poor people by 2015 would remain a mirage.

- ***Waning Capital Inflows in the Economy***

Among the capital inflows which include, foreign direct investment and portfolio investments, inward remittances, bilateral and multilateral aid resources, amongst others, their reduction would result in sharp reduction in investment. It is projected that the FDI will fall and this will jeopardize the country's hope of realizing \$600 billion in FDI before 2020 to further its vision of being one of the world's top 20 economies by 2020. To further endanger Nigeria's FDI prospects is the negatively volatile nature of oil prices since the last quarter of 2008. It is interesting to note that most FDI inflows to the country are directed to the oil sector (Obi, 2009).

When developed countries are faced with a major financial crisis, aid resources to developing countries are usually the key targets. Also affected negatively are inward remittances from Nigerians in Diaspora which has implication for Banks. This is because revenues banks make by way of commission on remittances will decline. This is serious because remittances could be larger than revenues from most exports, except oil. Remittances can also serve as poverty reduction mechanism. With the current global financial crisis, remittance flow to Nigeria is expected to decline with its attendant pressure on exchange rate. When this happens, the economic outlook for the year will be further worsened.

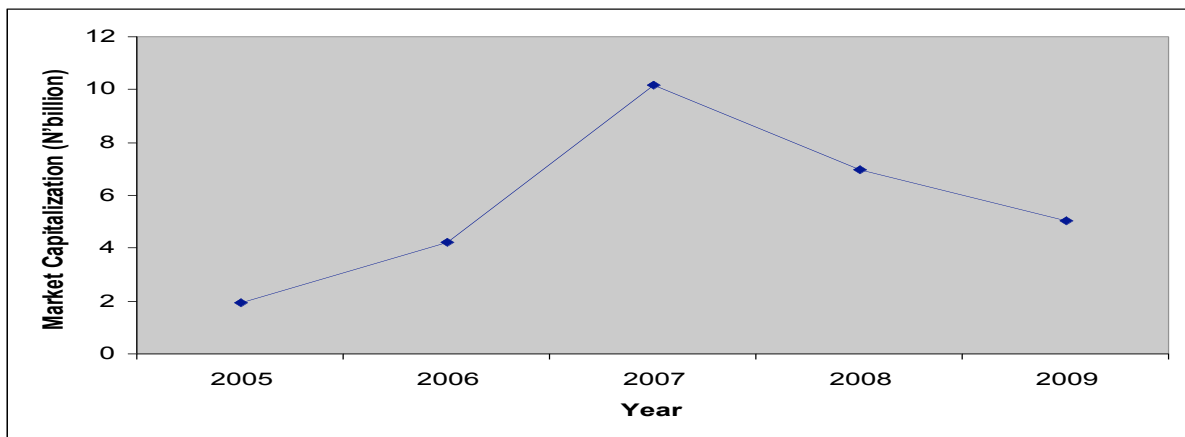
- ***A Downturn in the Capital Market***

The current financial crisis has affected the capital market in Nigeria. Starting from August, 2008, share trading value of the capital market drastically reduced from about N13trillion down to about N5trillion. The worsening economic climate has made investors to be cautious, resulting in significant divestment (flight of capital) back to their home economies. This resulted in foreign investors withdrawing some \$4 bn from the Nigerian capital market in 2008 (Laishley, 2009). With about 65% of the value of the entire Nigerian stock market being held by banks, they are the most affected by the crisis in the stock market. Having lost an estimated N1 trillion from their exposure to the stock market, banks are now frantically sourcing for money as this has affected their balance sheet with increased build-up of bad debt and decreased profitability. Indeed, as shown in the diagram below, the Nigerian capital market has been bearish since the start of the current global

financial crisis. Particularly, the capital market has been consistently recording downward trend in its major indicators since April 2008. The Standardbankresearch.com has shown that market capitalization fell, from N10.18 trillion in January 2008, to N6.957 trillion January 2009 and further to N5.02 on 7<sup>th</sup> May 2009 (Figure 8).

A huge loss of about N3 trillion was recorded by the market on August 22, 2008 and this is larger than the total budget of the government for 2008.

**Figure 8: Nigerian Stock Exchange: Market Capitalization for Selected Years (N' trillion)**



*Source: www.standardbankresearch.com*

- ***Intense Pressure on Exchange Rate***

The severe fall in crude oil price from a peak of \$147 in 2008, has brought about intense pressure on the exchange rate. The foreign exchange market came under enormous pressure at the onset of the crisis in the country. The naira declined by 10 percent and increased the cost of imported intermediate inputs with great consequences for production, output and employment. With the depreciation of currency and Nigeria being a net importer of food which is a major component of consumer price index, domestic prices of consumer goods in the country will increase with a reduction in access to food by the vulnerable groups. Exchange-rate depreciation will also increase exchange-rate risks faced by domestic firms and increase the likelihood that they will default on loans owed to domestic banks, thereby increasing the vulnerability of these banks. According to the

central bank of Nigeria, the official exchange rate was N150.6/\$US on 28 August, 2009 against N119.30/\$US in 2008 (Table 2 below).

**Table 2: Official Naira Exchange Rates**

	2003	2004	2005	2006	2007	2008	2009 ( 28/08)
Naira(N)/U.S Dollar(\$)	129.4	133.5	130.6	128.7	125.8	119.3	146.0

*Source: CBN Annual Report and Statement of Accounts (Various Issues)*

- ***Fall in Nigeria’s Foreign Reserves***

The Central Bank of Nigeria (2009) has shown that Nigeria’s foreign reserve has declined from \$53 billion in 2008 to about \$47 billion in 2009 (Table 3). This is not unconnected to the fall of oil price at the international oil market. Further depletion could be experienced if political pressure persists to spend the excess crude. The fall in value of the external reserves may be due to frequent and large intervention to smoothen volatility of the Naira which increases drawdown and un-curtailed withdrawal by the fiscal authorities as well as servicing of foreign commitments. The outcome of course would be reduced accumulation of external reserves due to the fall in crude oil prices. In fact, income generation and safety concerns on external reserves will set in. The likelihood of renewed external debt build-up and the resultant effect of debt servicing on the external reserves cannot be ruled out. Table 3 below indicates sustained rise in foreign reserves from 2003 to 2008.

**Table 3: Nigeria’s Foreign Exchange Reserves (\$’billion)**

	2003	2004	2005	2006	2007	2008	2009
U.SDollar(\$)	7.47	16.96	28.28	42.30	51.33	53.00	47.0

*Source: Central Bank of Nigeria (2009)*

- ***Credit Management Difficulty***

In the event of foreign credit line slowing down to domestic banks due to the vagaries of the financial crisis, credit management would become difficult. The result will be higher cost to the

Central Bank of Nigeria if it engages in credit guarantee and reduced savings by the public. According to Mordi (2009), fiscal deficit and crowding out of private sector credit may result with the tendency of the financial sector hoarding cash if liquidity squeeze occurs.

- ***Loss of confidence by investors***

Many investors have become risk-averse following the declining fortunes of Nigeria's capital market. Even among the speculators, there is reduced desire for risk among investors. Government bonds, the financial product associated with reduced risk, are the preferred destination for most investors now. However, there are those investors who have decided to deposit their cash with banks thereby enabling deposit money banks to perform their traditional role of intermediation more efficiently.

## **POLICY RESPONSES TO THE CRISIS**

Various measures have been adopted by the government and the regulatory agencies in Nigeria to stem the negative effects of the global financial crisis. Such measures are discussed here as follows:

### ***(i) GOVERNMENT MEASURES***

The federal government of Nigeria responded to the global financial crisis by constituting some committees to assess the impact as well as advice government. These various bodies include:

- Presidential Advisory team set up to deliberate on measures to reverse the declining fortunes of the Nigeria capital market (set up in August 2008).
- The Presidential Steering Committee on global economic crisis (set up on the 16<sup>th</sup> of January, 2009) to assess the impact of the recession on Nigeria's economy with special reference to the 2009 budget.
- On the 2<sup>nd</sup> of February 2009, National Economic Management Team was inaugurated and constituted to design and execute the Federal Government's economic policies, as well as to support the work of the Presidential Steering Committee on Global Economic Crisis (PSCGEC).



- Government recently approved N200 billion special agricultural fund for large scale agriculture.
- Government has also proposed to inject N3trillion as safety net into the economy to serve as shock- absorber.

***(ii) MEASURES BY THE FINANCIAL SECTOR REGULATORY AUTHORITIES***

**(a)The APEX Bank-Central Bank Of Nigeria**

At the emergence of the global financial crisis, the CBN reacted by relaxing monetary policy conditions, adjusting the exchange rate, and strengthening the supervision of banks. In recognition of the need to enhance its regulatory and supervisory roles, the CBN from January, 2009, deployed resident examiners to the head offices of all the banks. Guidelines were also released by the CBN for credit bureau that would compile the credit information on individuals and entities regarding their credit repayments, court judgments, bankruptcies etc; and subsequently create a databank of such for sale to lending institutions. The CBN expanded lending facilities to banks up to 360 days and also issued a directive to banks that they could restructure margin loans up to 2009.

At the end of its monetary policy meeting on the 8<sup>th</sup> of April 2009, the CBN took further measures in further reaction to the global economic crisis as follows: MPR cut from 9.75% to 8%, Cash Reserve Requirement cut from 2.0% to 1.0%, Reduction of liquidity ratio from 30.0% to 25.0%. All these measures were taken to enhance liquidity in the system (CBN, 2009).

In August 2009, the CBN, under a new management, took far more reaching measures to sanitise the banking sector as five chief executive officers of banks were sacked due to various offences including lack of full disclosure and weak corporate governance. This was the outcome of an initial audit report by the apex bank on 10 commercial banks. Same measures were applied to three more chief executives in September 2009 when the audit report for the remaining 14 banks was concluded. To ensure that none of the banks is allowed to fail, the CBN provided a bailout package to the tune of N620 billion to the sick banks.

**(b) Securities and Exchange Commission (SEC)**

On its part, there has been 50% reduction of fees by the Securities and Exchange Commission (SEC), the Nigerian Stock Exchange (NSE) and all capital market operators.

Guidelines have been released by SEC on market makers. Towards the end of 2008, three market makers namely: Greenwich Trust, Chapel Hill Denham, and Diamond Capital were appointed. Their duty was to stabilize the market by ensuring continued liquidity, facilitate a smooth trading atmosphere, and promote price discovery. Also, strict enforcement of NSE listing requirements now exist and NSE also de-listed 19 inactive companies. Share buy-back which is market-oriented measure to refuel the capital market has been adopted (Polycarp, 2009).

The above policy responses are attempts to bail out an economy that is essentially capitalist with received economic orthodoxies. For example, there is a heavy dose of neo-keynesian policy prescriptions.

#### **IV. RE-ASSESSMENT OF EXISTING ECONOMIC CRISIS AND NEED FOR ‘NEW’ THEORY**

Despite the initial debate on whether the global financial crisis will affect Nigeria or not, it must be realized that the Nigerian economy is subject to a typical business cycle. This is not unconnected with the prevailing economic system in the country which is built around ‘free market’ economic doctrine that is preferred, supported, and promoted by some of the powerful countries and international economic institutions. Some analysts have blamed the capitalist economic system and the attitudes and approaches of its proponents as the root cause of the current crisis.. Shah (2009) argues that the problem could have been avoided if ideologues supporting the current economic models were not so vocal, influential and inconsiderate of others’ viewpoints and concerns. According to Shah (ibid) the financial crisis is ‘a result of a system heavily grounded in bad theories, bad statistics, misunderstanding of probability and ultimately, greed’<sup>5</sup>.

Proponents of free market economy hold that remarkable progress has been made in Nigeria following the economic policies of the past especially the last decades. Such policies include deregulation of the economy, privatization of state-owned enterprises, liberalization of trade, investment and financial transactions including the determination of interest rates. The system prescribes minimal government and freedom of private resource owners to seek maximum profit. According to Akpakpan (2009), it is this prescription which is a major part of the ‘Washington

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<sup>5</sup> See Akpakpan (2009).

Consensus' that effectively weaken the influence of government in the economy and handed the system over to the private profit seekers. Specifically, it is financial liberalization which created conditions for massive speculation in financial transactions and other greedy practices by financial institutions that triggered the current crisis. In fact, subprime lending and trading in financial assets, including national currencies, occur largely due to lax regulation resulting from the rule of minimal government. Great risks being taken as a result of greed are at the root of the current crisis. Unfortunately, when they fail, the system breaks down and the effects consume everybody. The issue therefore is not to blame 'lax regulation and deep flaws in the functioning of financial markets', but to re-examine the apparent conditions that allows the laxity (Akpakpan, 2009). Thus, 'free market' enterprise economy with its excessive deregulation has presented itself for serious questioning especially as it has rendered developing countries quite vulnerable to severe external shocks. This questioning of the system is even more reasonable for the case of Nigeria because the so-called progress of the last decade was not sufficiently focused on poverty and unemployment reduction. Thus, the new set of ideas should be people-oriented. Government can no longer afford to sit back and watch. The role of minimal government will have to be seriously reviewed to increase government direct involvement in economic activity as shown by the stimulus packages in US and Europe.

The foregoing has shown that the appropriate role for government to manage the post-crisis economy is to carry out short-term intervention in the financial system to curtail the current crisis. In the long-term, a 'new' set of rules (theory) which is multidisciplinary will have to be developed to allow for a new economic order. For the particular case of Nigeria where the institutions of state are weak, the key challenge to policy in reversing minimal government lies in having the political will to reform the polity in order to strengthen the democratic principles of free and fair elections, rule of law, minority rights, etc. This is because basic institutional arrangements and safeguards must be put in place to manage the demands of alternative government intervention strategy.

However, the point has to be made that the capitalist system as is currently operated is synonymous with crisis. As observed by Akpakpan (2009), the rules of the system especially minimal government and freedom of private resource owners to seek maximum profit, created conditions for the problems we are facing. This is even more so for the case of the Nigerian economy because the economy lacks the basic technology and revolves around exporting raw materials to industrialized economies and importing finished products from the later. A distressing

issue which is typical of the Nigerian economy is that the period of boom(s) either in the commodity or financial sector is always not linked with increased growth in the real sector. Each boom came and went yet the economy remained backward and underdeveloped (Ekpo, 2008). The implication is that the Nigerian economy has been in crisis even before the advent of the current global economic crisis. Despite good economic policies and governance, the recent growth of the economy would slowdown as a consequence of the current global financial crisis.

Thus, a re-examination of the Nigerian economy must take cognizance of the existing crisis before the current one. What is important here is that the current crisis has afforded the opportunity for the whole crises to be tackled simultaneously. Some of these crises which have engulfed the Nigerian economy and which are traceable to the existing economic paradigm are: high level of poverty and unemployment despite economic growth, corruption, poorly coordinated macroeconomic management, lack of transparency and accountability in governance, over-reliance on Breton Wood Institutions by successive governments, lack of quality leadership, low level of human capital development, poor and decaying infrastructure, weak institutions, religious and political tension, and Niger Delta problem.

This rethinking for the particular case of Nigeria will, as observed by Ekpo (2009), include the following:

- ❖ How relevance is economic science to human development? Is economics people-oriented? Is it still a social science?
- ❖ The degree of sophistication; the matter of mathematical elegance and the attempt to solve practical problems;
- ❖ The role of non-economists in the realm of human problems;
- ❖ Market economy and competition; is the competitive model a better benchmark for examining any economy? How realistic is this particularly in investigating the problems of developing economies?
- ❖ Is there an end to crisis under capitalism?
- ❖ Can a crisis-free economy be theoretically conceptualised, modelled and implemented?
- ❖ How can human behaviour be examined and incorporated into economic theory? Is rationality still valid given the elements of greed, corruption etc? and
- ❖ What is the weight given to the quality of leadership and a host of other variables under governance?

These are the issues currently being debated by theorists and practitioners and it would be interesting given the peculiar Nigerian situation to see how they are being addressed in the country.

These are some of the many crises or challenges facing the Nigerian state. The present global financial crisis has presented an opportunity to debate and brainstorm on the way forward by Nigerians especially economists. Accordingly, the need to develop a 'new' way of thinking has become imperative. The paramount issue here is that new ways of thinking must be evolved and this new ideas must act as a break from the past. However, some positive attributes of the old theory must not be abandoned but form part of the evolving new theory. It is important for Nigerian economists to use this opportunity to join their counterparts in other parts of the world to tinker with new ideas in order to evolve a solution to the current crisis. The new idea as observed by Ekpo (2009) should start with some questions on the possibility of developing a 'new' theory that incorporates the crisis. According to him, the new theory for the Nigerian economy must see the people as the focus of development and must as well stress change as the essence of all phenomena. The framework for this new theory is multidisciplinary and incorporates anthropology, religion, sociology, psychology, mathematics, logic etc. The point to make here is that this new theory does not negate other methods rather it swallows them up. This new theory has religion as a variable to be examined; hence it deviates from the standard dialectical and historical analysis of social phenomenon. Thus, the new theory would be all-embracing and recognizes the role of metaphysics in socio-economic development.

## **POLICY IMPLICATIONS FOR NIGERIA**

The global financial crisis originated from the US and has directly and indirectly affected the Nigerian economy with grave consequences. The various governments in the developed countries have responded to the crisis by adopting Keynesian interventionist approach to bail-out the troubled financial institutions. As short term measures, it will be appropriate for the government of Nigeria to adopt a similar approach in the short term. However, in the medium-term, it will be more important to re-examine the prevailing economic orthodoxy in line with the recurrent crisis associated with the system especially as it affects the Nigerian economy.

More fundamentally, it would be appropriate to re-examine the free market assumption of rationality given the fact that greed and self-interest have been at the core of the current global economic crisis.

History has shown that it is in time of crisis like this that scholars think and bring out new ideas to solve economic problems (Keynes during the great depression of 20s and 30s). A re-thinking would provide insights on how best to grapple with the twin problems of rising GDP growth with increased poverty as well as growth in GDP and increasing rate of unemployment in addition to compelling issues of banks declaring huge profits without economic growth (Ekpo, 2009). Indeed, a restructuring of the Nigerian economy to address these issues is very fundamental to the achievement of the MDGs<sup>6</sup>. It is this type of policy shift that will touch on the heart of Nigeria's economic problem by critically looking at the challenges that explains how a country so blessed in human and natural resources yet remain perpetually backward from virtually all positive economic indicators. For the particular case of Nigeria, it would be important to strengthen the regulatory framework of the financial system by way of granting more powers to the various regulatory agencies like CBN, SEC, and NDIC. These various regulatory agencies must pay particular attention to high levels of financial innovation which is usually driven by greed and self-interest of higher yields. This should curtail excessive deregulation of the financial markets and strengthen supervision.

## VI. CONCLUSION

We have examined the global economic crisis and show how Nigeria has attempted to reduce the impact of the crisis by applying received economic dogma. We also argued that it was necessary to rethink and perhaps develop a 'new' theory based on the existing realities. This 'new' theory would have to include other disciplines if the objective is to address social problems such as poverty, unemployment and the desire by government to achieve the MDGs.

We have drawn attention to the impacts of the crisis on the economy and raised some policy implications. In particular, we have called on economists in Nigeria to take up the challenge and be involved in some critical thinking along with their colleagues from other parts of the world to evolve 'new' ideas based on the flaws noticed on the dominant free market economic system especially the assumption of rationality given the greed and self-interest that characterize the

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<sup>6</sup> Chete (2009) *explores the implications of the economic crises for the achievement of the MDGs and prescribes the need to make economic growth more broad-based and employment inducing so as to make a dent on poverty*

system. These elements have been perceived as the root cause of the global financial crisis; we cannot leave the development of the economy in the hands of gamblers (Casinos).

The analysis has also shown that one of the channels by which the crisis affects Nigeria is through the volatile price of oil which is internationally determined. A more diversified and robust oil-rich economy would have even benefited from the crisis in the developed economies rather than being at the receiving end of the crisis. In particular, the manufacturing and agricultural sectors must be made more dominant in the economy to curtail the vulnerabilities of the economy from external shock; for example, the growth of the non-oil sector and its contribution to GDP during the period 2004 to 2007 indicate that the economy can reduce the dependence from oil.

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