

Nigeria: Country and Global Financial Downturn

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Nigeria is still a spectator as the world's financial turmoil deepens. The collapse of the fourth largest US investment bank, Lehman Brothers seems to have been the pin that burst the flying global financial balloons.

Coming in a tsunami fashion, its effect has been felt in the European, Asian and African markets (Egypt and South Africa), even as speculation is rife that Nigeria is not impervious.

Even as the firestorm of credit woes threatens to claim more victims, the country has relaxed some of its credit policies through the Central Bank of Nigeria (CBN).

While experts say there is no cause for alarm, Nigeria's apex bank is not resting in its oars.

Coming in pari pasu with the softening crude oil prices, skeptics say Nigeria's faith is hanging on a cliff.

Already, the global financial crunch forced Russia's main stock exchange to close shop for three consecutive days, as government tried to halt a sharp crash in share prices and restore hope in the economy.

Last week's financial downturn saw the Dow Jones' index of leading US stocks falling by more than 4%.

But there seems to be hope in the offing for US Europe and the Asia as six of the world's top central banks have taken steps to calm the credit markets around the world.

Central banks from UK, US, Europe, Canada, Switzerland and Japan are releasing \$180 billion into their markets. The move is the fourth such concerted effort since the onset of the credit crisis last year.

In a similar move, the CBN last Thursday called for an emergency Monetary Policy Committee (MPC) meeting to review developments in domestic and international economies.

At the end of the meeting, Nigeria resolved to cut its Monitoring Policy Rate (MPR) from 10.25% to 9.75% while the Cash Reserve Requirements (CRR) was reduced to 2% from 4%.

Addressing newsmen soon after an emergency Monetary Policy Committee (MPC) meeting yesterday in Abuja, CBN Governor Chukwuma Soludo said: "The MPC also reduced the liquidity ratio from 40% to 30%; allow repo transactions against eligible securities for 90 days, 180 and 360 days. Finally, CBN will now buy, (we were not buying before) and sell securities through the two-way quotes."

Mr. Soludo said in view of the growing financial linkages with the rest of the world, Nigeria cannot afford to be unmindful of the international financial developments.

He however said the economic fundamentals remain very strong and the impact of the global financial tumult is expected to be limited.

He said: "Foreign exchange reserves are high at US 63.0 billion, representing about 16 months of total foreign exchange disbursements. Inflow of foreign investment remained strong at about US 8.5 billion dollars by the end of August 2008, compared to US 5.8 billion dollars for the corresponding period of 2007."

He said the Committee noted that while headline inflation and food prices have been on the increase, core inflation has been in single digit.

"The outlook on output for 2008 is strong, with non-oil GDP growing at over 8%. The committee acknowledge that growth in M2 and credit to the private sector have been high. Credit to the core private sector grew about 70.6% at annualised rate by end of August 2008," he said.

He assured Nigerians that the CBN will continue to monitor developments in both domestic and international economies and will be ready to take appropriate actions to ensure the smooth functioning of the financial markets and the economy in general.

According to him, "The Banks are sound and safe, our reserve are safe and sound and growing. All the fundamentals are strong and there is no course to worry much."

Earlier, CBN's Director of Banking Supervision, Odufi Imala had told Daily Trust that the collapse of the Lehman Brothers bank could be linked to their lack of supervision of credit worthiness of investors.

He said most investment banks invested in instruments they are not sure of but "here in Nigeria our institutions are insured. We make sure that all banks followed the laid requirements. You cannot see that kind of thing in Nigeria, because we are on top of the situation."

The Bankers' Committee had last Tuesday also dismissed insinuation that it would affect Nigerian economy.

Group Managing Director of the Access Bank Aigoje Aig-Imoukhuede said: "I doubt if there investment would have any effect on the Nigerian economy."

Dr. Obadia Mailafia, an economist also argued in the same direction that the fall of the bank would not affect Nigeria in the short run.

He said: "The Nigerian economy is not very networked with other economies. The linkages are weak unlike a country like Singapore with financial high-tech. This weakness has become advantageous to us. It may take time before it affects our economy."

Ambassador Mohammed Saliu Umoru, an economist, banker and investor told Daily Trust also that Lehman Brothers collapse will not affect Nigerian economy.

"I don't think that action is going to impact on the Nigerian economy because we don't have a Nigerian bank that is a correspondent to the US bank as it is the case in these economies that have reacted," he said.

The one time CBN bank controller in Kano noted that the markets that are reacting are intricately linked to the bank and US economy.

"Our stock market is not globally linked to other markets so their wouldn't be any impact on Nigerian's economy, however Nigeria's banking system is not immune to similar collapse because of the way they are structured," he added.

He said the ways the banks were merged did not conform to best practices.

"Even the banks in Nigeria may collapse if drastic measures are not taken. We still don't have the required manpower to run mega banks. Merger is a function of specialised integration management which did not happen in Nigeria. Several banks were brought together without a specialist, integration manager, doing the job. Hence, the banks resorted to sustain raising of money at the capital market and are declaring capital gains profit, an obvious aberration in the banking principles" he said.

Mr. Emma Okoh of the Finmal Finance Services Limited said it would not have any direct impact on the Nigerian economy and our stocks.

The financial analyst noted: "There would be no immediate reaction but there are possibilities for long term effect because the confidence in the market will reduce.

"If the trend continues Nigerians would become jittery that it would affect us as investors may begin to withdraw their investments" he said.

Also Mr. Segun, a stock broker assured that there is no cause for panicking as the development would have no significant effect on Nigeria's economy.

Meanwhile, the credit crunch in the US and Europe is radically changing the global credit equation, and thus creating a new world order in the banking and finance sector. It's a world order in which China's cash-rich institutions could end up owning more or the entire financial system of the US and the UK.

However, the bitter lesson from the Lehman's tragedy for credit institutions around the world is that should not be too dependent on any one source of funding - because in the stormy conditions on world markets, that funding could disappear.

For now, Nigeria may not be affected because its economy is not highly networked unlike those of Singapore and Egypt, but Dr. Mailafia says the country may not be unaffected in the long run.

Source: allAfrica.com