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NIGERIA AND THE GLOBAL ECONOMIC CRISIS

UDK / UDC: 338.124.4(669:100)
JEL klasifikacija / JEL classification: G01, O55
Prethodno priopćenje / Preliminary communication
Primljeno / Received: 16. prosinca 2010. / December 16, 2010
Prihvaćeno za tisak / Accepted for publishing: 30. svibnja 2011. / May 30, 2011

Abstract

Oil fouls everything in southern Nigeria. It spills from pipelines, poisoning soil and water. It stains the hands of politicians and generals, who siphon-off its profits. It taints the ambitions of the young, who will try anything to scoop up a share of the liquid riches – fire a gun, sabotage a pipeline, (and) kidnap a foreigner. (Tom O'Neill, 2007).

Key words: Nigeria, global economic crisis

1. INTRODUCTION

Nigeria is one of the world's resource rich economies most at risk from the current economic crisis. A poor African nation blessed with enormous wealth, beset with lack of leadership, poor institutions and contradictory visions of prosperity since oil first gushed from the marshy ground of the Niger Delta in 1956. The Nigerian crude oil described as a "sweet", low-sulphur liquid called Bonny Light pumped petrodollars into the nation's confers that by the mid-1970s, the country had joined the Organisation of Petroleum Exporting Countries (O'Neill, 2007). Why Nigeria is at risk from the current economic crisis and what may be done to ameliorate it? This paper sets out to provide further evidence following the framework by Fosu and Naude (2009) which posits that recovery measures should among other recognise the role of good governance and a 'syndrome free' policy environment. Syndrome free policy environment according to Fosu and O'Connell (2006) is a policy trust that is largely free from anti-growth or precarious adverse effects of various policy combination, such as; *state controls* (direct and indirect controls of prices, state production and distribution), *redistribution of resources* to cronies in favour of regional constituencies, ethnicity and polarization of the citizenry. Other anti-growth polices are *suboptimal intertemporal allocation*; bloated public spending above inter-temporal optimal allocation of resources which could aggravate a 'bust' and *state breakdown*, a situation that may lead to violent conflict, such as arm struggle, arm conflict, civil war or a *coup d'état*, resulting to a breakdown of law. The presence or occurrence of these four canons of policy syndromes as hypothesized could retard per capita GDP growth and reverse the marginal gains recorded in recent years from high commodity prices (oil export revenue).

Indeed the sustainability of the gains has been threatened since the global economic crisis and the tumble-down of commodity prices. As such pitfalls like inflation, boom-bust growth, policy summersault, corruption and inept leadership should be avoided. This may position the Nigerian economy in the cushioning of the current and future global crisis.

The rest of the paper is structured as follows. Following the introduction in section 1, a review of some salient causes of the global economic crisis is epilogued briefly in section 2. In section 3 an overview of the Nigerian economy and the global financial crisis shock is x-rayed. Then in section 4 we examine how resilient the Nigerian economy is vis-à-vis the four canons of policy syndromes. Emphasis on good governance is equally discussed. In section 5 some policy responses by various institutions including the Nigerian government will be examined. Section 6 concludes the paper with some remarks.

2. CAUSES OF THE ECONOMIC CRISIS

The global economic crisis which started initially as a financial crisis in 2007 is now a global phenomenon and no country seemed to have been spared. The global economic crisis may still be far from over although some signs of recovery are in words being recorded in the United States of America that spread the financial virus, the reality still swings. What explanations can be offered for the crisis? This section modestly addresses the why(s) though not exhaustively.

The global economic crisis as earlier noted was triggered as a liquidity distress in August 2007 by the U.S. subprime crisis and the explanations so far offered according to Reddy (2009) which go beyond the U.S. subprime can be divided into two. On the one hand are macro-economic management and other hand are financial market behaviour. These could have reinforced each other.

2.1 Macro-economic and Management Explanations

First is market imbalances created particularly by the U.S. whose large current account deficits accumulated over the years. The other sword was the significant current account surpluses by some countries (China and India, notably) which built over the years. The surplus current account nations, lent to and invested in the U.S. and as the market imbalances persisted and increased, the markets dynamics moved for corrections.

Second is the deficiency in aggregate demand coupled with excessive financialisation of the economy and excessive leverage[1] (Reddy, 2009). During the years of economic expansion in the U.S., the profits pushed investors to find investments that would generate higher rates of return; inevitably using money to go after higher-risk projects. Precisely, subprime mortgages in the U.S. reset higher interest rates and this began to trigger residential defaults. Holders of mortgage-backed securities started to hoard cash to rebalance their asset balance sheets (Stratfor, 2009). Consequently, banks in the U.S., Europe and Asia severely restricted lending in order to shore up their cash reserves. This action led to a reduction in the amount of credit available to everyone globally.

Third, the large domestic savings in some countries such as China, India, etc; that could not be fully channelled into the required domestic investments due to the underdeveloped nature of their financial markets.

Fourth, multilateral institutions like the IMF, which were saddled with the responsibility of surveillance, failed to bring out the extent of vulnerabilities of some powerful countries who dominated it. Those countries were equally not willing to subject their economies to objective surveillance as they influenced the institutions' operations towards excessive market-oriented ideology.

Sixth, the *excessive accommodation* nature of the U.S. monetary policy which allowed increased money supply accompanied by low interest rates. The excess liquidity found its way into speculative activities as investors went in search of high yield ventures and under-price risks. This caused the asset bubbles that eventually bust.

Seventh, failure of some central banks (CBs) to act against dictate of the markets. The perceived under-pricing of risks was bashed with assertions that the CBs could not sit in judgement on prices set by market forces. Proponents of this view assured policy markers that the markets would correct themselves automatically. In addition, the CBs ignored the economic imbalances and asset bubbles that were building up and concentrated exclusively on price stability (in some cases inflation targeting) and provided forward guidance to financial markets in the name of transparency.

Finally, the over-dependence of the global economy on one reserve currency – the U.S. dollar, as the universal measurement and expression of value. This made the global economic system to be subjected to the policy failures of the U.S.

2.2 Financial Sector Regulation

The second strand of explanations relate to the functioning of the regulatory environment of financial markets. The explanations so far canvassed are summarised in this sub-section.

First, the variety and complexities of market innovations overwhelmed the skills possessed by regulators in the financial sectors.

Second, regulators had a narrow perception of the systemic risks that the individual – regulated institutions operated. The regulatory institutions did not recognise the need for counter-cyclicality[2] in regulation. Thus, they amplified the boom and bust cycle.

Third, non-bank entities such as investment banks, hedge funds, private equity firms were outside the focus of regulators. Thus, the regulators concentrated their efforts and resources on regulating commercial banks.

Four, in the implementation of Basel 2, the regulators over-relied on the ratings assigned by Credit Rating Agencies. The ratings were eventually found to be unreliable.

Fifth, cross-border institutions' regulation and supervision was weak, despite the understanding that the financial markets were globalised.

Sixth, the greed to develop global financial centres made London and New York to adopt 'light touch regulation' or minimal regulation.

A critical review of the above explanations may make one erroneously conclude that they relate more to the US and the UK. So why and how did the problem become a global crisis?

2.3 The Synergy

The crisis obviously is a failure of both the market and the state-: failure of governance in both private and public sectors. Significant political economy factors drove the inactions and inept of the CBs and governments. These were excessive accommodative monetary policy which was accompanied by greedy and soft regulation in many economies. As observed in Reddy (2009"347), a cynic had remarked that under socialism, the governments took over the banks, and under capitalism banks took over the governments.

The failure of the market system and governments at all levels was a failure of the entire economic system. The free market system had a companion – capitalism, and propaganda machine – democracy. The engine of spread is globalisation driven by liberalization and information technology. "The Fallacy of Aggregation", according to Bhagwati (2000:19 and 20) made:

People think of globalization as a great big blob. They do not distinguish between the different dimensions on which you globalize, but just assume that everything goes together. If you are a free trader you must be for free immigration, you must be for free capital flows, you must be for free foreign investment, you must be for free love, you must be for free everything". These are dangerous for poor and developing economies.

In all of the above there is merit in asking the question; what does the global crisis and its implications have for Nigeria? Frankly, Nigeria like other

African nations is innocent of this crisis and did not contribute to the imbalances. So how did Nigeria get caught-up?

As earlier noted the bubble bust in sub-prime mortgages in the U.S. and was transmitted to the credit markets. The deep integration of domestic financial markets in Nigeria with global financial institutions; and some of the financial instruments which later proved toxic in the derivative markets were distributed across several economies. Thus, there was a global spread of the contagion of distress and Nigeria was not spared. This cup must pass by!

3. BRIEF PROFILE OF THE NIGERIAN ECONOMY IN RECENT YEARS

Nigeria is Africa's most populous country with over 140 million people. In 1960, agricultural products such as groundnut, palm oil and cacao beans made up nearly all Nigeria's exports. Today, Nigeria is show-cased as Africa's highest oil exporting nation, yet quality of life rates below all other major oil exporting nations; from Libya to Indonesia (O'Neill, 2007). Oil accounts for 95 percent of Nigeria's export earnings and 80 percent of its revenue. The country hosts one of the world's largest wetlands – the delta (Niger Delta) where the oil is deposited. The features of the Niger Delta are horrible tales. They are characterised by decades of oil spills, acid rains from gas flares, and the stripping away of the mangroves swamp forest for oil pipelines. These are some causes of the sense of relentless crisis that has deepened in the region. In recent times, there have been intensified attacks on oil platforms and pumping stations. Militants in the region who prime themselves as freedom fighters have killed soldiers and security guards, kidnapped oil workers (citizens and foreigners), short down daily flow of more than 500,000 barrels of oil. Effective from July 8th – 5th October, 2009, the federal government extended an olive branch in form of amnesty to the militants in the region; after using the Nigerian armed forces to destroy the oil producing villages in the region more recently among them is Gbaramatu (a suspected hideout for the militants). In all of these, the World Bank's categorization of Nigeria as "fragile state", beset by risk of armed conflict, epidemic disease, and failed government (O'Neill, 2007) is still reminiscent and nostalgic.

3.1 Emerging Facts from the Economy before and during the Global Economic Crisis

- Real GDP growth increased from 6.2% in 2007 to an estimated 6.8% in 2008 with non-oil sectoral growth at 9.5%, while the oil sector declined by 4.5%.
- GDP in absolute terms stood at an estimated US $179.7 billion in 2008, while GDP per capita was US $1228.3 billion during the same year. However, in mid-2009, the GDP growth rate of 6.8% recorded in 2008

dropped to 4.85%. It is expected that this may rise further given improvement in price of crude oil ($72.52 on 20 August, 2009) and the relative peace expected in the Niger Delta region.

- Stock market capitalisation fell by 46% over 2008, and All Share Index lost a total of 67% from March 2008 to March 2009. It further declined to 58.68% at September 4, 2009.
- Moving to domestic bank lending, there seems to be evidence of increased tightening credit conditions. Prime lending rate increased to 18.16% in half year of 2009 from 17.52% average in 2008. The ratio of NPLs (none performing loans) which fell to 8.44% from 18.12% in 2005, increased to 28% in 2008. Still net domestic credit tends to be on the increase.
- There is evidence of foreign portfolio withdrawals as total financial inflows in Nigeria exhibits. Between 2007 and 2008, total financial inflow increased by 21% from US $95,900 million to US $115,777. It is predicted that FDI inflows may reduce as evidenced by mid-2009 record total of financial inflows to the tune of US $71,133.
- Capitalised value of quoted banks has been on the decline since the crisis started. From the activity indicator, for instance, banking index depreciated 14.33% to close in the week ending 21/08/09 at 237.91 points. In the preceding week, the banking index depreciated by 7.02%. In addition, the heed to liberalisation, deregulation and integration with world markets, the Nigerian markets may be destabilised further. According to Ajakaiye and Fakiyesi (2009), the capital market has been shrinking; major international ledge funds have been withdrawn and international credit line fast fading out of loanable funds for the private sector.
- Exports from Nigeria rose by 23.5% in 2008 to an estimated US $76.3 billion from US $61.8 billion in 2007; higher prices of oil exports accounted for this.
- Imports to Nigeria increased by 15.7% to an estimated US $44.9 billion in 2008 from US $38.8 billion in 2007.This is due to the fact that Nigerian economy is import dependent and influenced by high import revenue.
- In 2008, a trade surplus of over 36.5% growth was recorded to US $31.4 billion from US $23 billion in 2007.
- External reserves grew by 16.4% from US $51.3 billion in 2007 to an estimated US $59.7 billion in 2008. The Nigerian government has been steadily amassing its reserves since 2003 due to improved terms of trade and greater commitment to saving oil windfall against rainy days. It is expected by end of 2009, external reserves could increase since price of

oil has been hovering above \$60 per barrel; and the 2009 budget hinged on \$45 per barrel.

- The official exchange rate between the Nigerian naira and the United States dollar has been a matter of concern. The rate has been depreciating since the crisis started. Improved external trade saw the exchange rate average ₦119.28/US\$1 in 2008 from the previous year average of ₦125.81/US\$1 in 2007. The rate has however depreciated further to ₦156.12/US\$1 since June, 2009.

- The inflation estimate for 2005 was 17.9%. This rate was higher than one digit rate of 2006 (8.59) and 2007 (9.80). Owing to commodity price boom, inflation rate rose strongly as Nigeria started experiencing a two-digit inflation rate from the third quarter of 2008. To be precise average inflation rate recorded at end of 2008 stood at 11.5%. Should prices of exportable decline, inflationary pressures should subside. The inflation rate so far recorded in half year of 2009 stand at 11.10%.

- Remittances in recent times have become a major source of external financing for many Africa low-income countries (including Nigeria) thus it is important to monitor its trend. Data from the World Bank suggest that in 2007, remittances represent a fair sizeable component of economy; accounting for over 6% of GDP. As observed by te Velde, et. al. (2009:15); remittance inflow into Nigeria experienced a decline in the last quarter of 2008.

- Revenue from export of commodities is recognised as one main driver of growth in the African continent. Strong growths recorded in the industrialized countries of China and India is one factor of importance that led to increased demand and commodity prices. Nigeria benefited much from the increased commodity prices. One of the benefits was the country's external debt repayments especially to the Paris Club. In addition, most of the revenue (foreign exchange earnings) that led to Nigeria's increased external reserves is credited to improved trade prices and not trade volumes. Nigeria as mono-export (crude oil) dependent economy is susceptible to shocks in the movements of such a commodity price. This is why the reality of the global recession is beginning to be fully appreciated in Nigeria. The sharp decline in the international price of crude oil from the unprecedented amount of US \$147/barrel in July 2008 to about \$50/barrel in January, 2009 is worrisome. Although some improvements are being recorded due to the response of the U.S. economy to its bail-out programmes, overcoming the recession/crisis the advanced economies is in one way a bail-out on its own of the Nigeria economy. It is interesting to note that the price of crude oil has hovered above US \$65 as the market entered August, 2009 on a bullish note.

- Nigeria debt profile decreased to US $17,349.69 billion in 2006 from US $46,259.45 billion in 2004. This was due to the repayment of the substantial amount owed by the country to the Paris Club. In 2007 and 2008, the debt profile again increased to US $22,229.88 billion and US $23,383.98 billion respectively. Domestic debt share accounted for over 84% of the total. The debt profile might increase further in 2009 since the government is funding the 2009 fiscal budget through loans (domestic/external). The information in Table 1 highlights the downturn of the global economic and financial crisis that has been continuously transmitted across all sectors through both trade and financial channels into the Nigerian economy.

Table 1

Nigeria Key indicators, 2004-2009 (half year)

Indicators	2004	2005	2006	2007	2008	2009 HY
GDP at market prices (N billions)	9,575	13,557	16,187	17,822	21,440	NA
Real GDP growth (%)	6.4	6.5	6.0	6.2	6.8	4.85
Oil Sector GDP growth rate (%)	3.30	0.50	-4.51	-5.1	-5.1	NA
Non-oil Sector GDP growth rate (%)	7.82	8.60	8.59	9.80	9.67	NA
Consumer Price Inflation (av., %)	15.00	17.90	8.20	5.40	11.50	11.10
External Debt Stock (US$ billions)	35.94	21.22	3.54	3.397	3.397	NA
Interest Paid on External debts (N Billions)	193.70	193.70	122.11	66.00	66.00*	NA
Domestic Debt Stock (N Trillions)	1.37	1.53	1.80	2.15	2.15	NA
Interest Paid on Domestic debts (N Billions)	203.60	200.30	212.00	306.20	306.20	NA
External Reserves (US$ Billions)	16.96	28.28	42.30	51.33	59.69	43.46
Credit to the Private Sector (N Billions)	1,507.89	1,950.38	2,490.38	5,042.30	6763.8	8,556.94
Net Domestic Credit (N Billions)	2,020.17	2,313.39	753.81	2,212.67	3,701.30	5,677.16
Population (millions)	134.60	137.50	140.40	143.30	146.30	147.80
Total Financial Inflow (US$ million)	NA	NA	NA	95,900.00	115,777.00	71,133.00
Remittance Inflows (US$ million)	2,273.00	3,329.00	5,435.00	9,221.00	9,979.00	NA
Unemployment Rate (%)	11.80	11.90	5.30	5.80	11.80	NA
Banks Total Assets (N Billions)	3,392.90	4,389.30	6,738.00	10,431.00	10,156.40	NA

Indicators	2004	2005	2006	2007	2008	2009 HY
Banks NPLS (% of Total Credit)	21.6	18.12	8.76	8.44	28	NA
Total Banks Deposits (N Billions)	1,623	2,478	3,441	5,358	5,358	693.90
Appreiation (Depreciation), N/US$ (%)	3.03	2.90	1.57	8.03	0.15	NA
Exchange Rate (av., N:US$) Local Currency is Naira	132.89	131.27	128.65	125.81	119.28	156.12
Time Deposit (Over 12 months) (%)	12.71	6.10	9.88	9.64	10.33	13.06
Prime Lending Rate (%)	18.91	17.80	17.76	17.60	17.52	18.16
MPR (%)	15.00	13.00	10.00	9.50	10.25	8.00
NSE all share index growth rate (%) N	18.46	1.01	37.80	74.73	- 3.52	-57.10
NSE all share index growth rate (%) US$	21.49	3.91	39.35	82.76	3.37	NA
Year End Market Cap US$ (billions)	16.00	22.00	36.00	105.00	80.00	NA
91-day T-bill rate (year end) (%)	14.50	11.89	7.25	8.50	9.25	4.70
182-day T-bill rate (year end) (%)	16.00	14.50	9.99	8.75	9.54	5.40
365-day T-bill rate (year end) (%)	N/A	17.00	9.23	7.93	9.20	5.60
Exports fob (US$ millions)	36,890	50,162	59,144	61,800	76,277	NA
Imports fob (US$ millions)	19,442	25,639	31,113	38,787	44,880	NA
Current Account Balance (US$ millions)	4,319	8,021	13,796	2,197	4,771	NA

Sources: (a) World Bank (March 2009 revision)

(b) CBN (2006, 2008)

(c) http://www.gnexid.org/country/Nigeria.pdf [17-08-09]

(d) www.dmo.gove.ng/documents/debtprofils/external.

4. NIGERIA'S RESILIENT: THE FOUR CANONS OF POLICY SYNDROME AND GOOD GOVERNANCE

In the wake of global financial crisis in 2007 presumably triggered by the sub-prime crisis, the Nigerian economy recorded excellent economic growth precisely before July 2008. The drivers of this strong growth (averaging over 6 percent annually) among others were global high demand for crude oil whose price rose unprecedentedly among other commodities, rising capital inflows etc.

At the moment the recession that the global economy plugged into is yet to be over. This section of the paper discusses the weight of vulnerability of the Nigerian economy against its resilience using four canons of policy syndromes and governance that are detrimental to growth. These canons are (*a la* Fosu, 2009b); *state controls*, *adverse redistribution*, *suboptimal inter-temporal resource allocation* and *state breakdown/failure*.

4.1. State Controls

A country is classified as having 'state controls' if in a given year, the government heavily distorts major economic fundamentals (labour, finance, domestic and international trade, and production). In recent years before the global economic crisis, the Nigerian economy though was not fully integrated with world markets, it pushed further into liberalisation, privatisation of state own corporations and integration of its financial markets. This is at variance with pre-1986 structural adjustment programmes when government policy and operation was more of socialist orientation. Thus most policies since 1986 and more recently favoured inward-looking, state-led development strategy and deregulation. Notable examples are the ₦25 billion Commercial banks recapitalisation, National Economic Empowerment Development Strategy (NEEDS), Vision 2020, 7-point Agenda etc. Some of these strategies induced the use of state controls that may be detrimental to productivity growth.

4.2. Adverse Redistribution

This is a situation where redistributive policies favour constituencies of respective government leaders, usually regional, ethnic undertones etc. It is expected that such policies would breed inefficient resource allocation by misallocating public investments. Many examples exist in Nigeria since the current administration first under the leadership of Late Alhaji Umaru Musa Yar'Adua came into power in August 2007. The President and Commander-in-Chief of the Nigerian Armed Forces, Alhaji Musa Yar'Adua hails from the Northern part of Nigeria, dominated by the Hausa-Fulani ethnic nationality. The regime has been accused of *northernising* the Nigeria federation that is made up of over 50 ethnic groups, mostly concentrated in southern Nigeria. This accusation follows the heel of appointments of only Hausa-Fulanis into influential positions in the administration of Nigeria like the Ministry of Finance, Ministry of Economic Planning, Ministry of Petroleum Resources, and Governor of the Central Bank of Nigeria etc.

These appointments have also led to the sitting of a Petroleum Management Institute in Kaduna in the Northern part of Nigeria with a take-off grant of ₦25 billion. Crude oil deposits and the main driver of the Nigerian economic growth are in the south-south of the country. Whereas, the University of Petroleum Resources in Effurun in south-south of Nigeria (established in 2006) is underfunded. In addition, the current reforms being pursued by the Central bank Governor has been perceived in some quarters as a northern agenda and his experience and tenacity has been questioned.

The establishment of the Petroleum Management Institute in Kaduna is seen as a duplication and waste of scarce resources, given that a Petroleum Training Institute and a University of Petroleum Resources already exist in the south prior to its establishment. From all indications, the establishment of the Petroleum Management Institute in Kaduna does not have any economic value as the resources for its establishment could have be channelled into more productive sectors like power and energy that have beset the development of the Nigerian economy. Moreover, adverse redistribution syndrome could also result from downright looting such as the regime of Nigerian head of state; Gen. Sanni Abacha (1993-98) and in recent times, some former state governors of Bayelsa and Plateau among others in the third republic.

4.3. Suboptimal Inter-temporal Resource Allocation (SIRA)

SIRA is a syndrome of revenue misallocation over time. It amounts to over spreading in commodity booms and insufficient expenditure during subsequent bust (Fosu, 2008, 2009b). Some number of projects undertaken in Nigeria have no economic justifications (e.g. FESTAC '77) by the Olusegun Obasanjo regime in 1977 (first coming), the National Identity Card saga in 2005 by Olusegun Obasanjo (second coming) among others. Series projects especially at the state levels are abandoned due to fiscal difficulties when the booms ended (example is the Warri Cosmopolitan Water Project), the federal railway project from Itakpe in Kogi state to Ovwian-Aladja Steel Plant in Delta state, etc. Such misallocation and waste of resources can deter economic growth.

4.4. State Breakdown/Failure

State breakdown refers to open warfare, such as civil wars, arm struggle, militias, coup d'état that can results in instability of breakdown of law and order (see Fosu and O'Connell, 2006 and Fosu, 2009b). State breakdown could also results to human suffering, interrupts production and distribution as well as inefficient allocation of resources from the social sector into non-productive military sector. Example is the relentless crisis in the Niger Delta (South of Nigeria) since 2006, when a secretive group of armed militants under the name of Movement for Emancipation of the Niger Delta (MEND), intensified attacks on oil platforms and pumping stations, most operated by Shell Nigeria, Chevron etc. The attacks led to shut down of daily flow of more than 1,000,000 barrels of oil, lost of revenue, lives (civilians and foreigners). With each disruption, the daily price of oil on the world market climbed (O'Neill, 2007). Other than the lost of revenue, the Nigeria government mobilised the Nigeria Armed Forces for counter-insurgence and security. Billions of US$ were allocated for the operations, spent and the amount shrewd in secrecy without accountability in the name of security votes.

The recourse to military resource allocation from productive and social sector no doubt reduces investment as well. The public universities in Nigeria have been on a nation-wide strike due to poor conditions of service. Resources spent on the military as a result of the crisis in the Niger Delta are enough to enhance the education sector and sustain it for almost a decade.

Although a bust period was attained and experienced in the last three years, there was no output or production growth of crude oil due to the disruption caused by the militants. The militant arm-struggle was due to a long period of neglect in the development of the region that hosts the crude oil deposits. The environmental degradation caused by oil exploitation and gas flaring made fishing and farming (the main occupation of the people in the Niger Delta) difficult and unproductive. Revenue derived from the region was rather used for the development of other regions. This inequity is a mismatch and misallocation of resources. The entire country still suffers from poor infrastructure and even worst in the region where oil is produced. The huge amount now being spent on security is incongruent with economic growth and a characteristic of poor state leadership that is inept in policy design. This can result to diminishing factor productivity as the Nigerian experience is.

4.5. The Syndrome-free Regime

A syndrome-free year in a country is the year when none of the above syndromes is experienced. The regime of the year as reiterated by Fosu and O'Connell (2006), experiences a combination of political stability and a convincing market-friendly policies. Nigeria in the last five years seemed to have been characterised by dominance of the syndromes; with little reversals. This *little* due to market-oriented reforms may have accounted for the phenomenal economic growth rate of over 6% in the past five years. What this holds is that the country would have done better should these syndromes be absent. An argument that has not been amplified in the literature, though recognised in the literature is the role of good governance in the sustenance of a 'syndrome-free' (SF) regime. The next subsection evaluates this.

4.6. Good Governance

Good governance is evident in improved political governance (a measure of executive constraint). Good governance besets the absence of the syndromes, thus able to combine political stability with people-friendly policies. Some measures that can be used to measure good governance are democracy ranking, political system (political rights, civil liberties etc), gender equality, economy, knowledge, health and environmental sustainability. Interestingly, Campbell and Polzlbauer (2009) ranked 103 countries on their quality of democracy using the disaggregated instruments mentioned earlier.

Nigeria is one of the 13 countries ranked. On democracy, Nigeria scored 26.46 points over 100 point continum in 2002 – 2003 and ranked 100th. The total score obtained in 2005 – 2006 was 29.59 and ranked 102th gaining 3.1 points comparatively. The conclusions to be deduced by these performances are (i) Nigeria falls within the lowest third of all countries in terms of total scores; (ii) In terms of rank, Nigeria is among the 10 worst countries, and (iii) Nigeria since 2002 to 2006 had a margin gain of 3.1 points in democracy score.

Next, political systems which encompass political rights and civil liberties. The political system score of Nigeria in 2002 – 2003 was 26.52 over a scale of 100 points. This increased to 32.35 points in 2005 – 2006. Though Nigeria recorded a gain of 5.83 points, the country falls within the lowest third of all countries. Nigeria equally recorded *red* in the measure of gender equality scores, having pooled 24.22 points in 2002 – 2003 and 24.59 points in 2005 – 2006. The marginal gain of 0.37 point did not improve its ranking position of third worst country.

Let us consider the economy and knowledge scores of Nigeria as both measures are thought to reinforce each other or best, knowledge drives economy. Nigeria pooled 14.65 points and 15.28 points in 2002 – 2003 and 2005 – 2006 respectively in economy scores, ranked the seventh worst. For knowledge scores, Nigeria recorded 14.55 points and 15.36 points in 2002 – 2003 and 2005 – 2006 respectively. Using both instruments to evaluate, Nigeria is within the worst third of all countries.

On health performance, Nigeria lost 0.34 points, having scored a total of 18.82 points and 18.48 points in 2002 – 2003 and 2005 – 2006 respectively. This abysmal performance appropriately grouped the country within the lowest third of all countries and ranked worst sixth.

Environmental sustainability scores of Nigeria looked impressive from the points – 59.81 and 60.46 in 2002 – 2003 and 2005 – 2006 respectively. However when analysed critically, especially in relation to other countries in the African continent, the rank of 17th worst country not only places the country within the lowest third of all countries, the performance is unprintable. Other than Peru that ranked 10th in the highest third of all countries, the first fifteen countries are African countries. This may not be unconnected with the level of industrialisation, as other advanced countries fell within the medium third.

If the instruments evaluated above are used as measures of democracy quality and good governance, then it may be concluded that the poor quality of governance would have had negative effect on the prevalence of growth in Nigeria. Consequently, the vulnerability of Nigeria *vis-a-vis* some relevant absence of syndrome-free regimes put together make the country less resilient to global economic and financial crisis.

5. POLICY MEASURES AND RESPONSES

The above analysis implies that Nigeria is still vulnerable and its resilience has marginally improved. The advanced economies have taken some bold steps in terms of mobilizing funds to get their economics back on the growth path. The African continent is equally not left out in policy responses to the global economic crisis. Nigeria as a country has equally taken some measures. The following sub-sections do the discussions.

5.1. Agenda so far for Reforms to Stem Future Threats to Financial Stability

Extensively at the global level, multilateral institutions like the UN, World Bank, IMF, regional development banks, OECD, ILO etc have reported on the impact, implications, responses required and perceived appropriate reforms needed. These bodies and some national authorities particularly the US, the UK and the Euro areas have equally made extensive efforts at constituting *Ad hoc* groups to advice on the exit way. Of interest is the comprehensive report of the Commission of Experts of the President of General Assembly on Reforms of International Monetary and Financial System. The report has the added benefits of inputs from member countries of the UN, while the Commission is made up of representation from policy makers and academics from different parts of the world (Reedy, 2009).

According to Bergsten (2009), some countries like China and the United States, have adopted sizable fiscal and monetary stimulus programs that will be extremely helpful. Others, including most of Europe and some of the emerging-market economies, have done relatively little. With private financial markets still largely frozen and consumer confidence at record lows, ambitious new government stimulus will be the only way to restore adequate growth of demand in the world economy for the foreseeable future. To date, the G-20 countries have adopted stimulus programs amounting to 1.4 – 1.7 percent of their aggregate GDP (see Table 2). No more than half a dozen of them have adopted expansions equalling two percent of their economies, which has been the notional international target advanced by the International Monetary Fund (IMF) and others to this point. There is no doubt that the global economic and financial crisis requires a global policy response.

5.2. Africa's Policy Response

Africa's policy response as observed by Fosu and Naude (2009) should focus on (i) mitigation, (ii) coping and (iii) risk reduction within the context of each individual country, given that circumstances of each country differs. The responses of proposed policies are outlined in Table 3.

5.3. Nigeria's Policy Response

The impact and nature of the global crisis as now recognised is frustrating and risk the growth and development of Nigerian economy. However, this crisis like other global crises of the past is not insurmountable. In the last months, some policy measures have been taken. Some of the measures are discussed under mitigation, coping and risk reduction strategies as highlighted in Fosu and Naude (2009) propositions.

Table 2

Estimates of Fiscal Stimulus in 2009, Percent of GDP

Country	IMF	JP Morgan	IMF-JP Morgan	JP Morgan as Percent of IMF
Argentina	1.3	0.5	0.8	38
Australia	0.8	2.4	-1.6	300
Brazil	0.3	0.3	0	100
Canada	1.5	1.1	0.4	73
China	2	2.1	-0.1	105
France	0.7	1	-0.3	143
Germany	1.5	1.3	0.2	87
India	0.5	5	-0.4	1000
Indonesia	1.3	0	1.3	0
Italy	0.2	0.1	0.1	50
Japan	1.4	2	-0.6	143
Korea	1.5	1.1	0.4	73
Mexico	1	1.4	-0.4	140
Russia	1.7	1.1	0.6	65
Saudi Arabia	3.3	NA	NA	NA
South Africa	1.3	1.6	-0.3	123
Spain	1.1	1.9	-0.8	173
Turkey	0	0	0	NA
United Kingdom	1.4	1.6	-0.2	114
United States	1.9	2	-0.1	105
Total-GDP Weighted PPP	1.4	1.8	-0.3	124
US$	1.4	1.7	-0.2	115

Source: Bergsten (2009)

Mitigation Action

Mitigation actions tend towards restoring financial confidence, expand trade and finance. Under this action, the Central Bank of Nigeria has improved on its monitoring and supervision operations in order to strengthen the banking sector. In one swoop in August 2009, the Central Bank of Nigeria (CBN) sacked the entire management including managing directors and chief executives of five banks for mismanagement and granting of loans without adequate collateral. The Central Bank of Nigeria equally injected the sum of N410 billion (US$2.7 billion) into these banks to avert presumed collapse. Efforts are also being put in place by the CBN to introduce Islamic Banking. In addition, the expanded discount window facility to banks stood at N275 billion in early 2009 down from N1 trillion as banks repay the temporary loans. These are just some measures taken in the finance sector. The capital market is not left out also. For example, the Nigerian Stock Exchange de-listed 19 stagnant companies, while the Security and Exchange Commission (SEC) has released new guidelines/rules on market makers. SEC has also introduced a limit of 15% on share buyback.

On expansion of trade, this may be a little difficult since the Nigeria economy is import dependent and mono-export (oil) economy. It is expected that economic recovery in the US, the major importer of Nigeria's crude oil may rob-off on the country.

Coping Action

The Central Bank of Nigeria proposed on January 21, 2009 to spend 3 trillion naira (US$20 billion) of the country's reserves. Since then there has been a draw down on the external reserves in order to cope with declining foreign exchange reserve. See Table 1 for more information. Equally as a coping action, militants in the Niger Delta have been given amnesty. The amnesty offer lapses on October 4, 2009 for disarmament. A resettlement programme has also been put in place.

Risk Reduction Strategies

The Nigerian government is still continuing with the power sector projects aimed at achieving 6000mw and 10,000mw power generation target in December 2009 and 2010 respectively. This is expected to reduce the cost of production and improve the living standards of Nigerians and all efforts are being put in place to fund the projects. On social cohesion, efforts have been put in place to promote peace across the country and project nation building through the rebranding programme of the government.

There are some improvement in contract enforcement, however much is still needed on the rule of law and ensuring that striking public universities teachers and other workers resume. Government should obey the principle of collective bargaining.

Table 3

Policy responses to the global economic crisis in Africa

Objectives	Action
MITIGATION ACTION Restore financial confidence	• Monitoring, supervision and regulation of financial institutions • Recapitalization of banks where needed
Expand trade	• Avoid protectionism • Maintain competitive exchange rate policies • Obtain balance-of-payments support • Obtain trade finance support • Aid for trade
Expand finance	• Increase aid and accelerate aid disbursement • Attract FDI • Facilitate remittances • Stop and return illicit funds/flight capital
COPING ACTION Expand domestic demand	• Undertake public works programmes • Prevent unemployment escalating • Provide social security, e.g., cash transfers, school feeding programmes • Consider tax reductions
Absorb financial losses	• Draw down reserves and utilize short-term international financial assistance
Expand self-employment	• Relax business regulations
Technical assistance	• Obtain assistance in planning and coordinating responses • Ensure the targeting and distribution of assistance • Provision of information and monitoring of the impact
Peacekeeping	• Monitor violent conflict • Address grievances • Contain violence and spillovers • Plan for displacements and migrations
RISK REDUCTION STRATEGIES Export and production diversification	• Expand south-south trade • Promote manufacturing (e.g., through agro-industries) • Promote tourism • Invest in infrastructure
Banking system strengthen and financial deepening	• Expand access to finance • Encourage financial innovation • Maintain adequate bank capital requirements • Encourage domestic banking expansion
Social cohesion	• End conflicts/promote peace • Participatory and inclusive governance • Protect minorities • Nation-building
Good governance and institutional development	• Build strong and effective government • Strengthen basic institutions, i.e., property rights, rule of law, contract enforcement, independent judiciary
Reform of international financial architecture	• Give greater voice to SSA • Advance the Doha Round, with more development content • Reform Bretton Woods • More development role for G-20 • Reform aid architecture: volumes and effectiveness • Address global imbalances

Source: Naudé (2009), cited in Fosu and Naude (2009).

5.4. Pitfalls in Policy Responses

The policy responses of the Nigerian authorities have not been too popular among its citizenry. Much effort to mobilise public support is required. However, pitfalls in the various policy responses must be checked. Some are enumerated in this subsection.

The attempt being made to remove fuel subsidy must be treated withsome caution, given that it is an exclusive policy that narrows the safety net of poor people.

Generation of another debt trap as experienced in the 1990s should be avoided. This is because the current crisis is likely to put pressure on the country's expenditures (given the global calls for fiscal expansion).

The gains made in the last two years before the crisis should be sustained as reversing them could be detrimental. Attempts made to privatise some state owned corporations like Nigerian National Petroleum Corporation and Power Holding Plc. should be re-visited. These corporations suffer from *suboptimal inter-temporal resource allocation syndrome* and their continued state ownership is detrimental to long-term development of the country.

6. CONCLUDING REMARKS

Nigeria no doubt is at risk from the global economic crisis. Its GDP growth rate target between 7% and 9% for 2009 has been slashed from 6% to 4%. Exports mainly crude oil and gas has shrunk due to declining commodity price and disruptive activities of militants. The exchange rate has also depreciated from N117/$1 to N135 per US dollar at end-December 2008 and currently exchanges for N152.6 to the US dollar. The consequences are unpalatable and scorching. Fall in real incomes is on the increase, crime rate is rising as kidnappings of innocent Nigerians have increased. There is widespread malnutrition and food insecurity that may not be far fetched from corruption in high places. The country has moved back to the years of two-digit inflation. Other than militant activities in the Niger Delta, some new disturbances have been recorded (*Boro Haram)* in the North of Nigeria.

Recovery from the recession is not insurmountable. A 'syndrome-free' recovery is recommended as it has the advantage of overcoming the pitfalls of policy responses and improved governance. Sequel to 'syndrome-free' recovery strategy, there is the need to diversify the Nigerian economy away from its monoculture oil and gas dependence. Efforts to boost agricultural output; minimise expansionary fiscal and monetary policies on inflation are advocated. The current peace move and promises to develop the Niger Delta must be a sustainable action. Robust policies at overcoming the electricity power supply failure and promotion of a knowledge driven economy is canvassed.

Endnotes

1. Excessive leverage is the use of a far larger proportion of borrowed funds or others' money relative to one's own in undertaking risky business.
2. Counter-cyclicality implied the need to tighten regulation when the economy was experiencing an excessive exuberance and relaxing it during period of unjustified pessimism.

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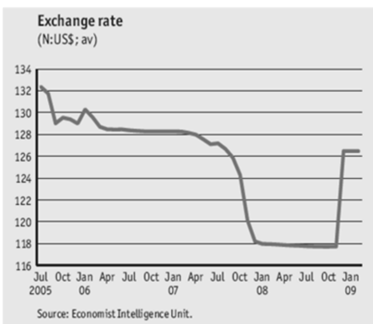
APPENDIX A

Figure 1



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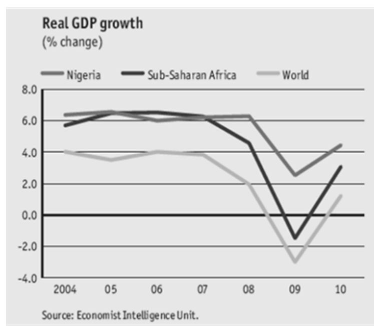

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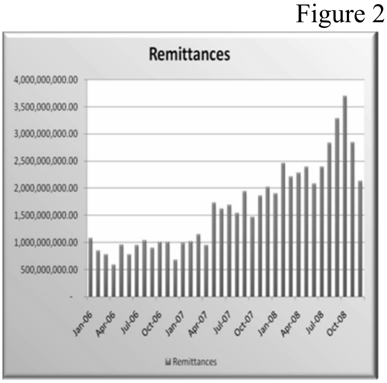

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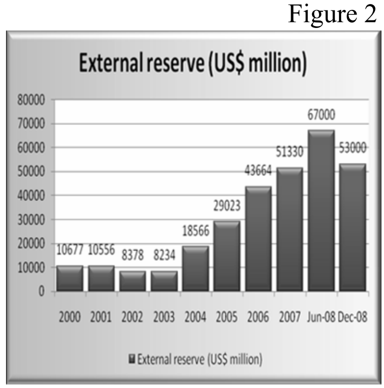

Figure 3

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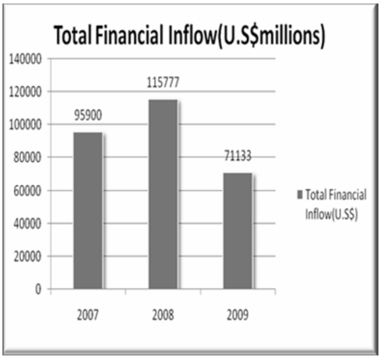
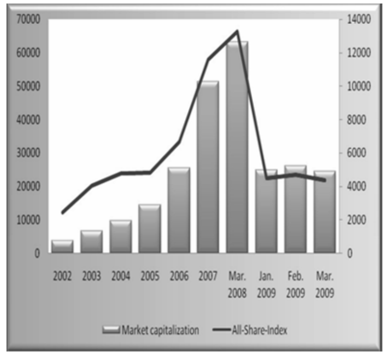
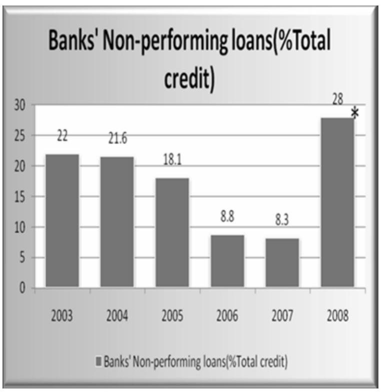


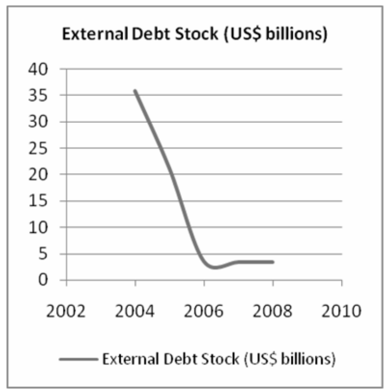


Source: Ajakaiye and Fakiyesi (2009)

Figure 5

Figure 2





Source: Ajakaiye and Fakiyesi (2009)

Note: * Indicates estimated value based on the amount of margin loan swept by the crash in the capital market. The total margin loan (N1 trillion), represents 20% of total credit. If the crisis continues, most of the loans will enter the NPL profile

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NIGERIJA I GLOBALNA GOSPODARSKA KRIZA

Sažetak

Nafta zagađuje sve u južnoj Nigeriji. Istječe iz cjevovoda i zagađuje tlo i vodu. Zbog nafte su političarima i generalima koji prisvajaju profit prljave ruke. Nafta kvari ambicije mladih ljudi koji će učiniti sve da pridobiju dio tekućeg bogatstva – pucaće, sabotirati cjevovode, i otimati strance.

Klučne riječi: Nigerija, globalna gospodarska kriza

JEL klasifikacija: G01, O55