NIGERIA: SEEING NO OBVIOUS EVIL

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The consensus on the streets of Nigeria is that the country is insulated from the global financial meltdown, but behind closed doors, the policy makers and market regulators are very worried about its possible devastating impact on the financial health of the country. In the media, there is an obvious lack of enthusiasm to decode the dynamics, whereas in the intellectual community, there is some disquiet on official pronouncements that Nigerian economy is immune to the crisis. Government officials maintain that the global crisis is the child of the mortgage mess – and, Nigeria, being a country where mortgage is virtually non-existent, has nothing to worry about.

Nigeria is an oil-producing country: petrodollars account for between 70-80 per cent of foreign exchange earnings and account for nothing less than 60 per cent of national spending. Manufacturing, once on the rise, slumped in the grip of Dutch Disease in the 1970s and has never really recovered as Nigeria hops from one economic crisis to another, adopting all sorts of first-aid and intensive care measures that have not been too effective. In 2005, however, the new governor of the central bank came up with what he saw as a masterplan to put Nigeria on the global financial map: he asked banks to consolidate, re-strategise and play a major role in financing Nigeria's industrial development.

In one year, the number of banks shrank from 89 to 25, capital base and deposits shot up astronomically (funded mainly by a booming crude oil market), and a lucrative stock market emerged as virtually every bank became listed to raise capital. Foreign investors flooded the market; stocks boomed beyond belief; profit margins for speculators went as high as 500 per cent in less than six months in some instances. But nothing lasts forever. The stock market has been on a sharp fall ("self-correction", the experts call it) since March 2008. The capitalisation fell from a historic value of over N12.6 trillion (US$106.7 billion) in the first week of the month to close at N11.43 trillion (US$96.8 billion) in the first week of May. That was N1.17 trillion (US$9.9 billion) or 9.3 per cent shed in roughly two months. In the first week of November, capitalisation was N7.969 trillion (US$67.5 billion).

So what went wrong? Several reasons are cited, but significantly, foreign investors, under intense heat as a result of a failing market back home, began to sell their stocks, take profit and return home. The unending selling activities depressed the market as a result of a glut: demand consequently fell and prices began to tumble. Banks, seeing the value of shares flushing down the drain, began to panic. Their exposure to 'margin loans' (loans advanced to customers to buy shares) was extensive. Share certificates, used to secure the loans, were daily losing value.

In the money market, foreign financial institutions, which had invested in Nigerian banks or had entered into partnerships and strategic relationships with them, also had to revise their dealings following the global financial meltdown. To avoid a crisis of confidence, much of the information is kept secret. There is no official confirmation of the impact of this on the banks. But the CBN governor has re-assured Nigerians again and again that all is well. The measures adopted in 2005, he said, pre-empted the global crisis. Banking consolidation and an indirect restriction of wholesale foreign ownership of Nigerian banks, he said, had effectively insulated Nigeria from the global crisis.

He could be right, but events in the stock market tend to suggest that there is more than Nigerians are being told.

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