

The Impact of the Global Financial Crisis on Sub-Saharan Africa—Outlook for the Nigerian Economy

Charles N. O. Mordi
Research Department
Central Bank of Nigeria
May 19, 2009

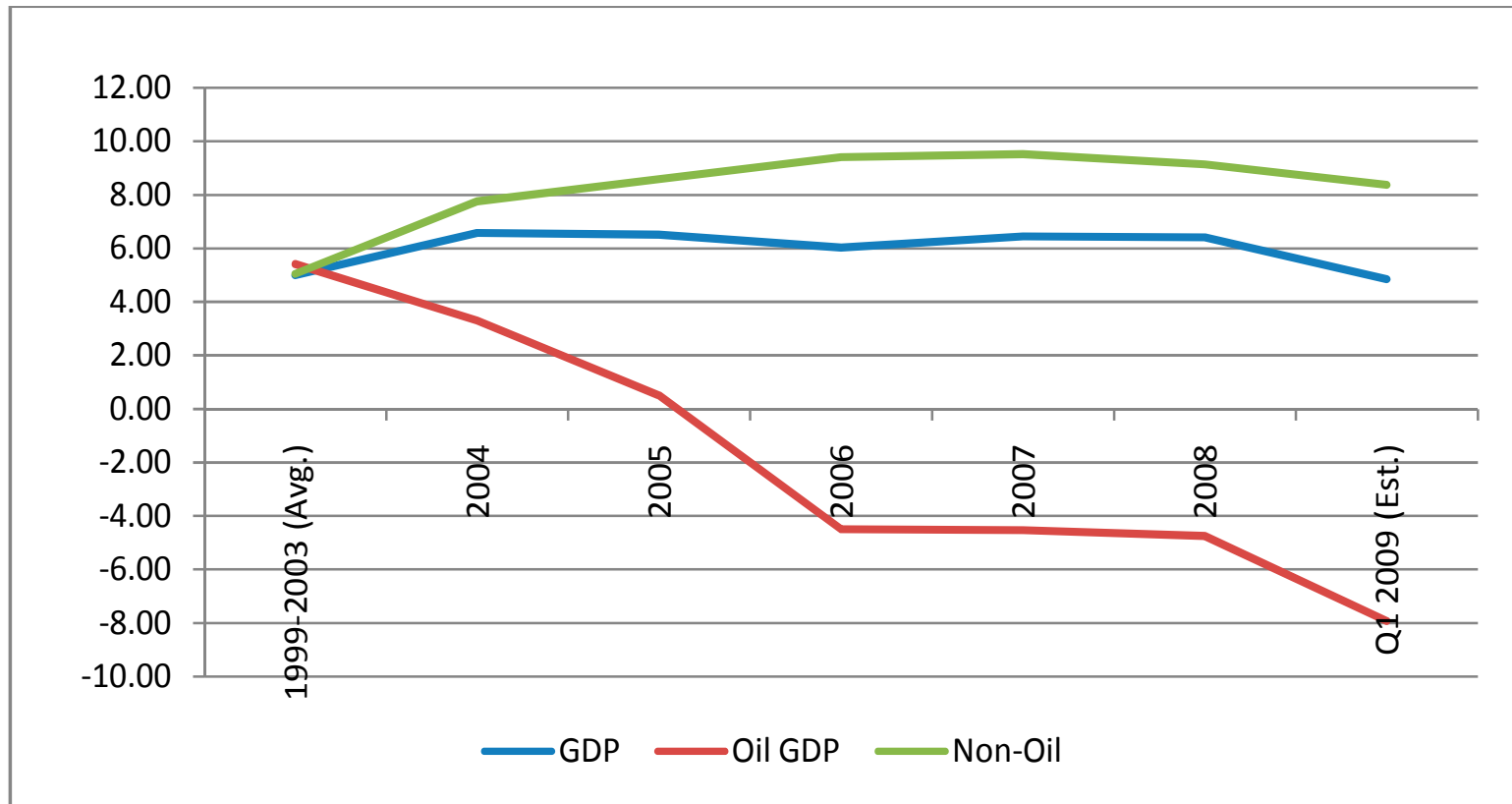
The views expressed herein are entirely mine and should not be attributed to the Central Bank of Nigeria, its Board, or its Management.

Outline

- Recent developments in the Nigerian economy—some key indicators
- Impact of the global financial crisis on Nigeria
- Response by Nigerian authorities
- Near-term economic outlook
- Way forward
- Conclusion

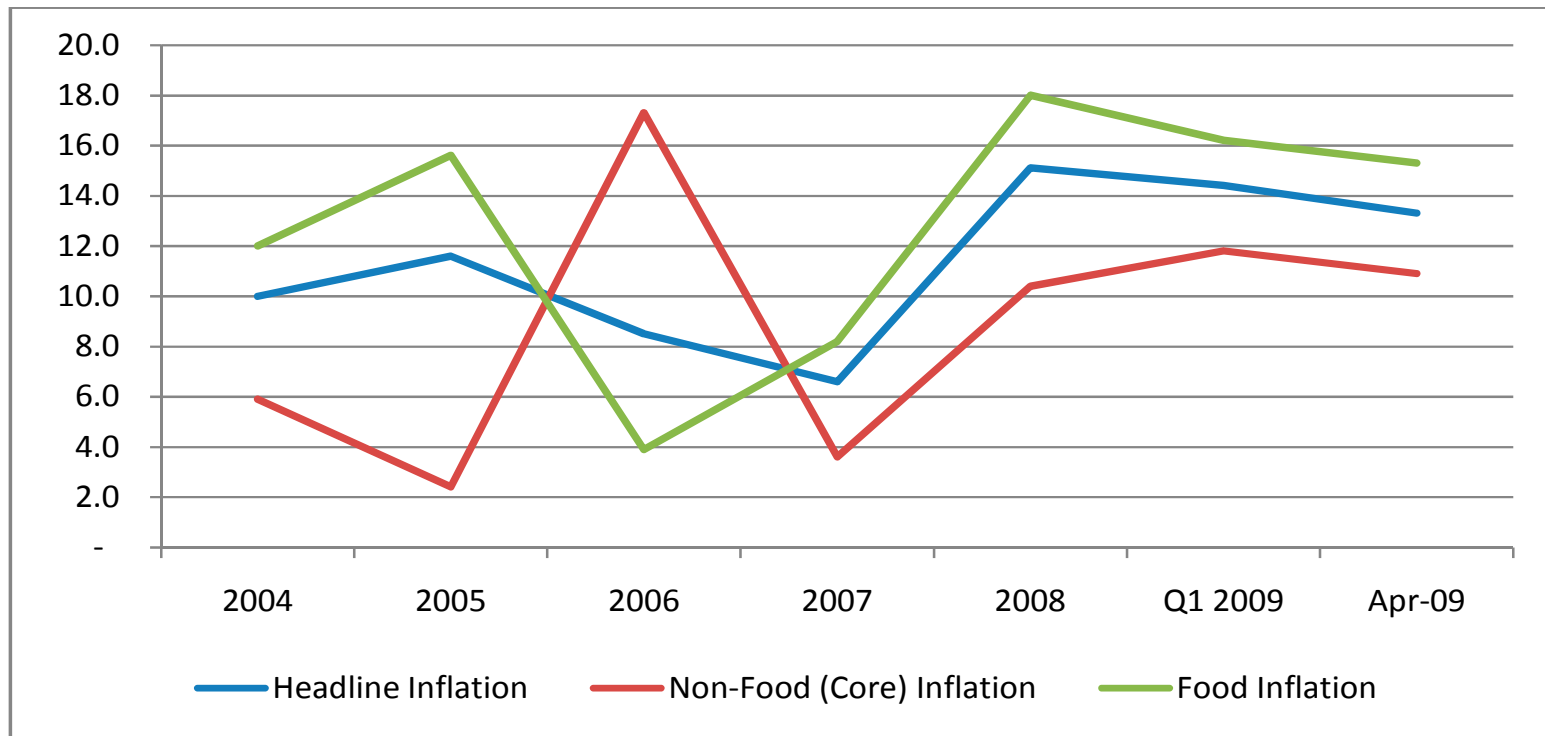
Recent Developments in the Nigerian Economy—Some Key Indicators

Real GDP Growth (1999-2009: Q1) (Percent)



Recent Developments in the Nigerian Economy—Some Key Indicators

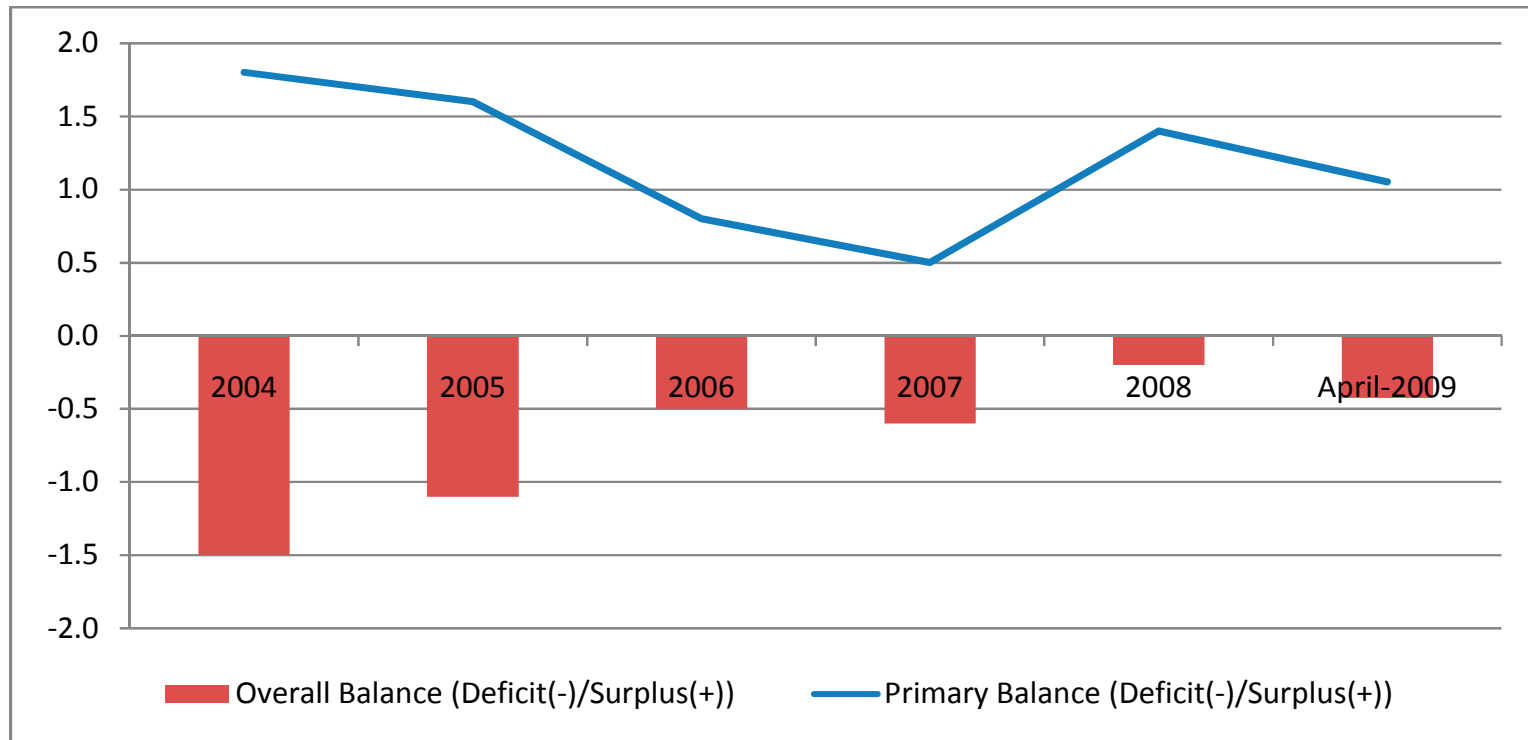
Inflation (Year-on-Year) (Percent)



Source: National Bureau of Statistics (NBS)

Recent Developments in the Nigerian Economy—Some Key Indicators

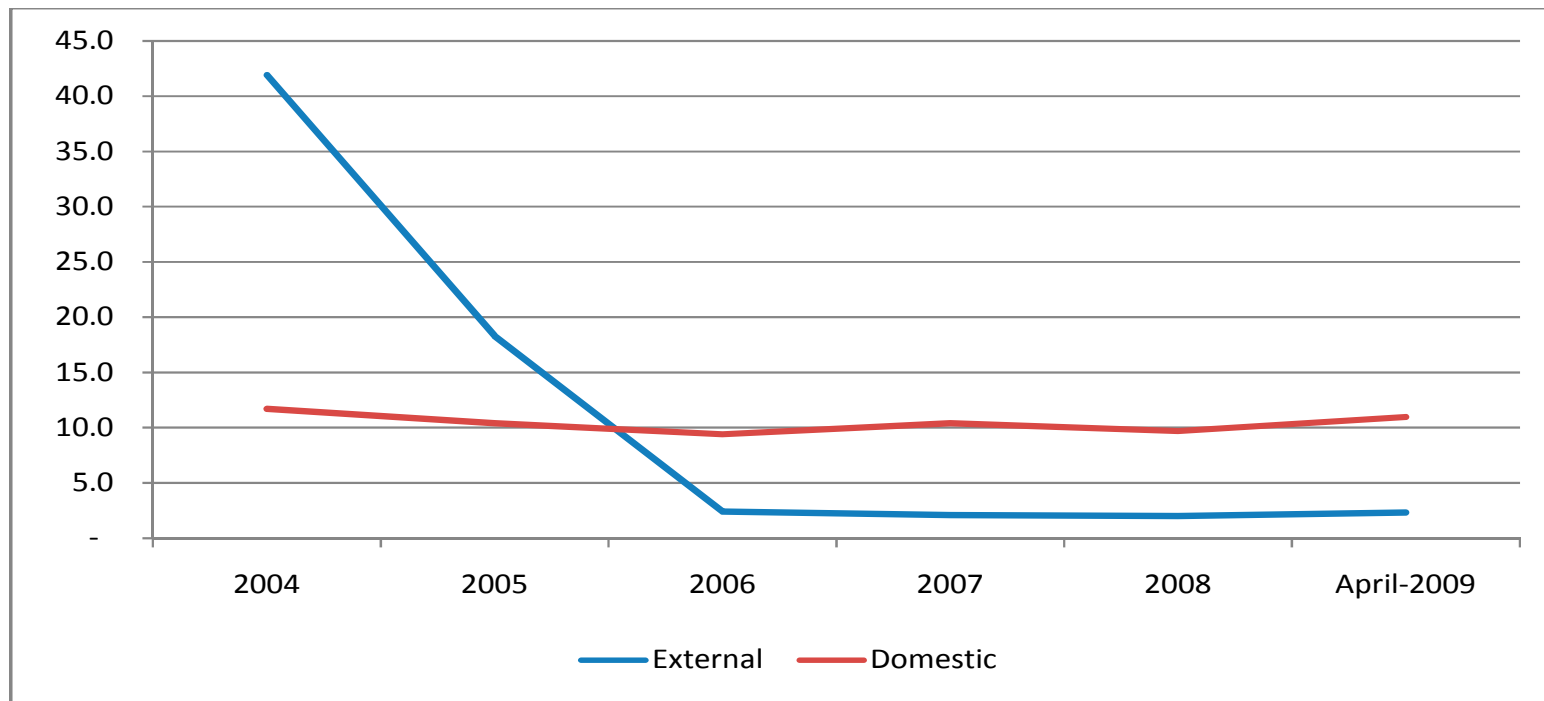
Fiscal Deficit (-)/Surplus (+) As Percent of GDP



Source: Central Bank of Nigeria (CBN).

Recent Developments in the Nigerian Economy—Some Key Indicators

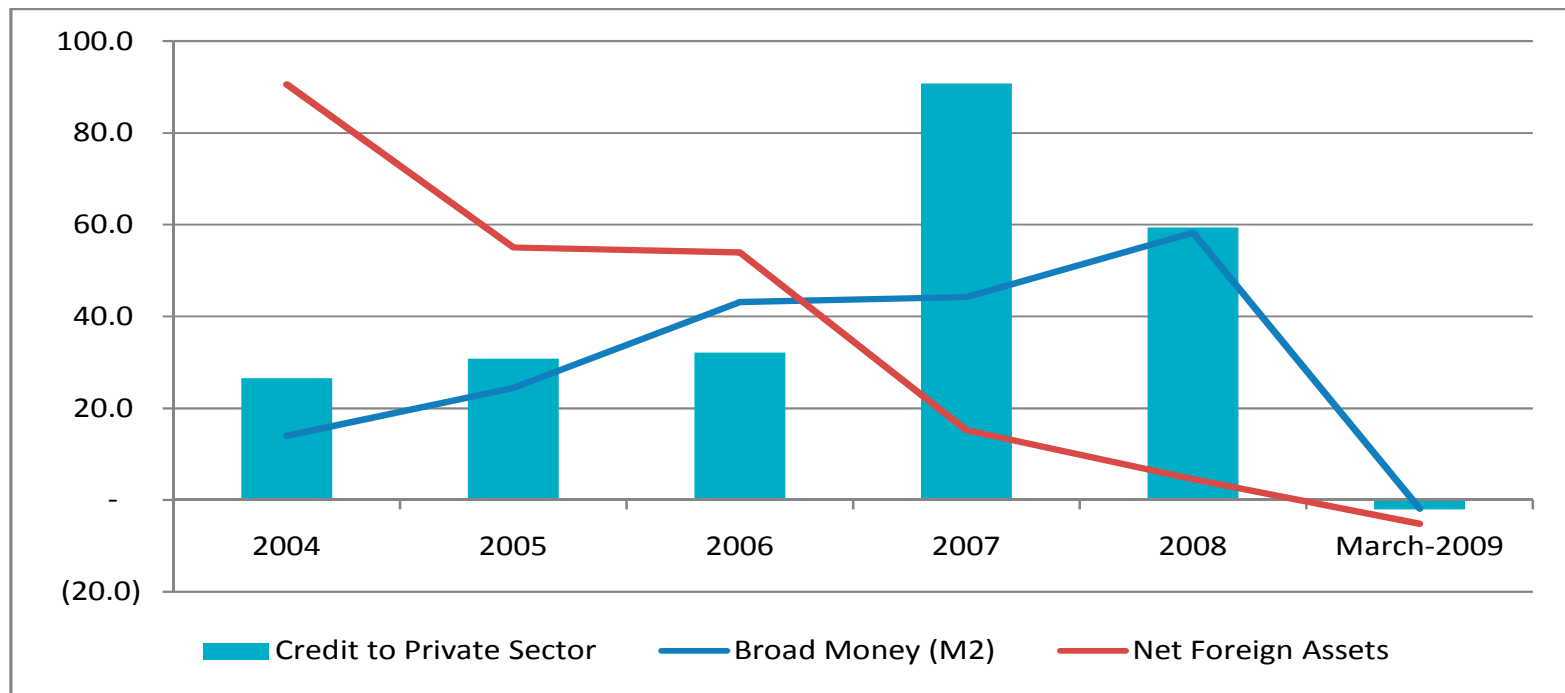
Consolidated Government Debt (% of GDP)



Source: Central Bank of Nigeria (CBN).

Recent Developments in the Nigerian Economy—Some Key Indicators

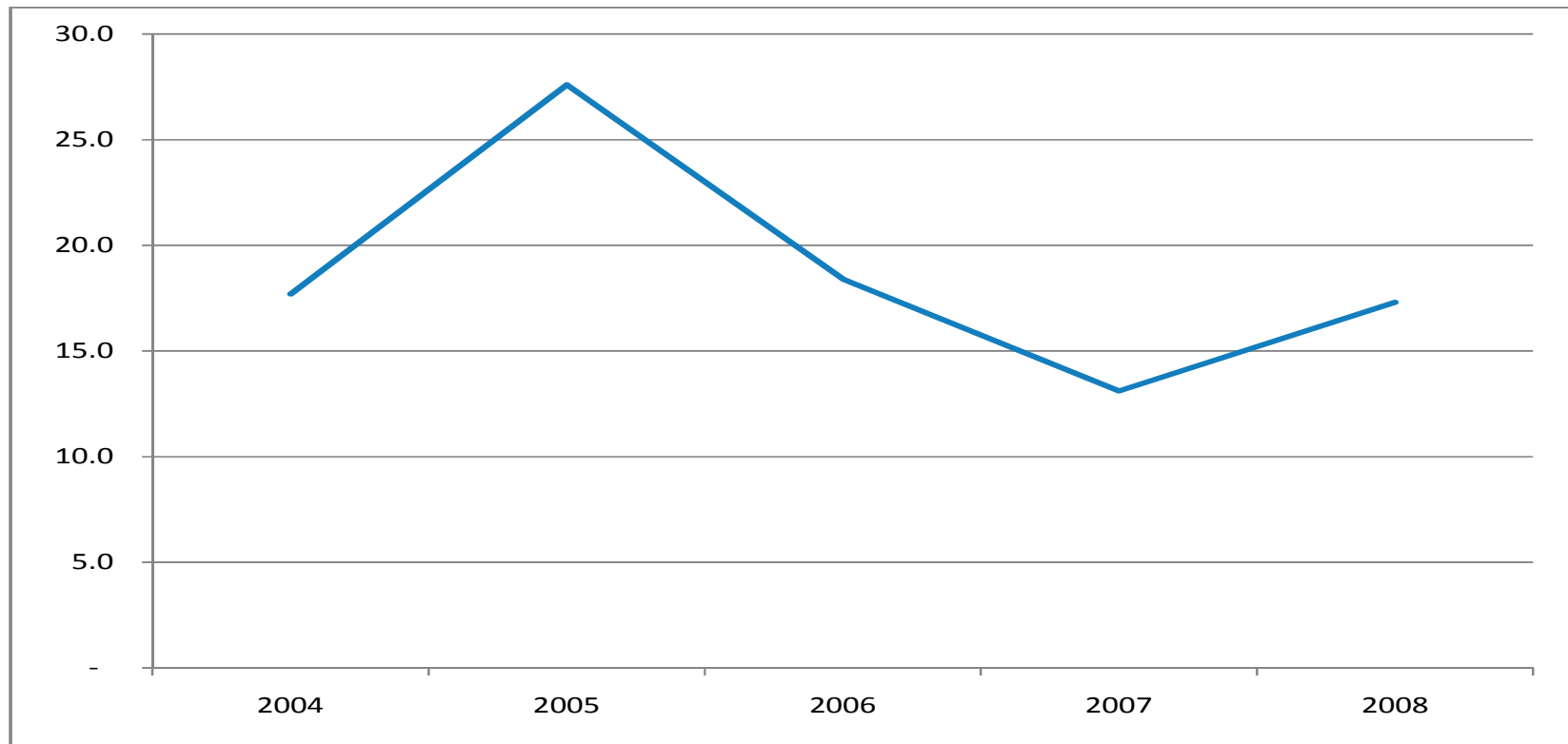
Growth in Broad Money, Credit to Private Sector and Net Foreign Assets (Percent over December)



Source: Central Bank of Nigeria (CBN).

Recent Developments in the Nigerian Economy—Some Key Indicators

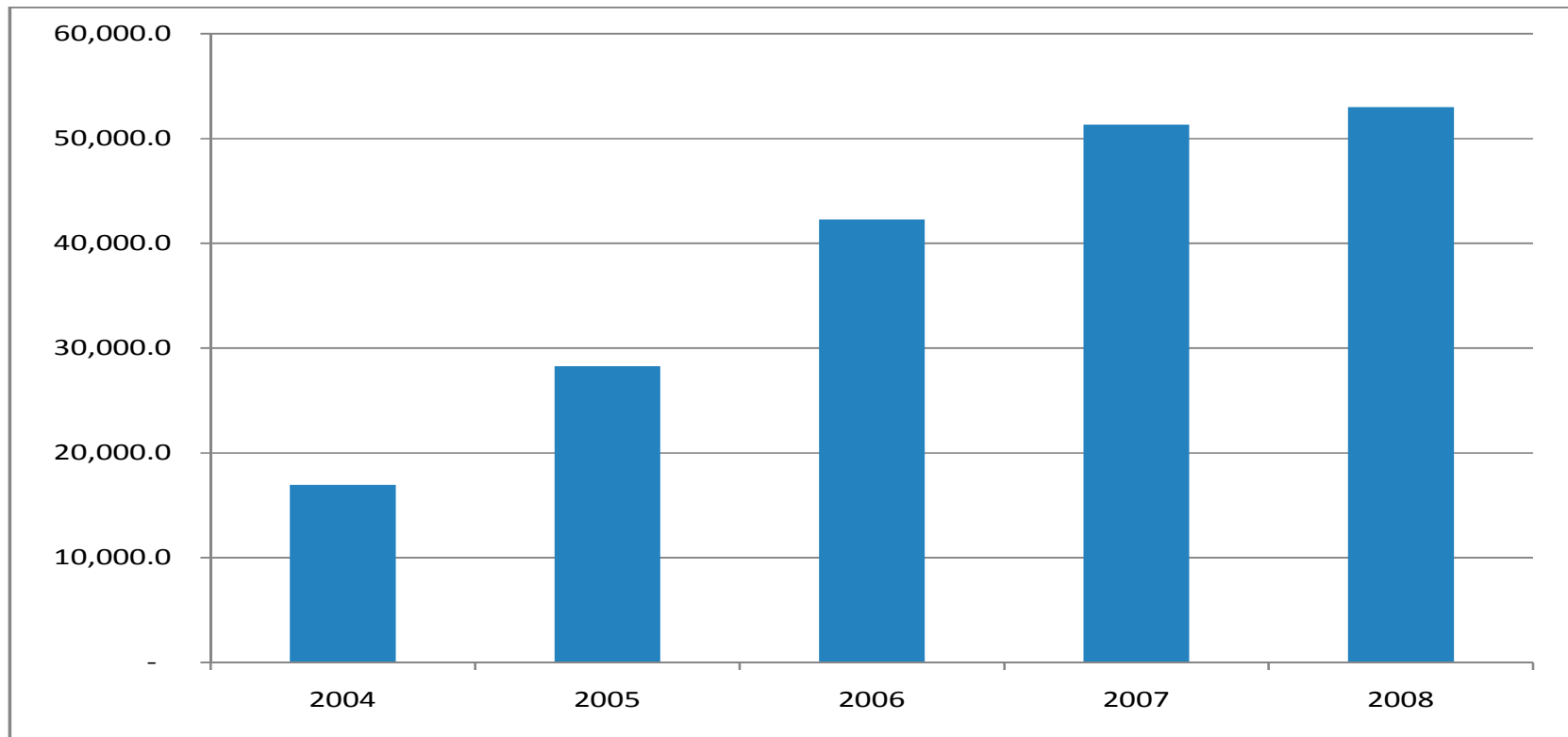
Current Account Balance (% of GDP)



Source: Central Bank of Nigeria (CBN).

Recent Developments in the Nigerian Economy—Some Key Indicators

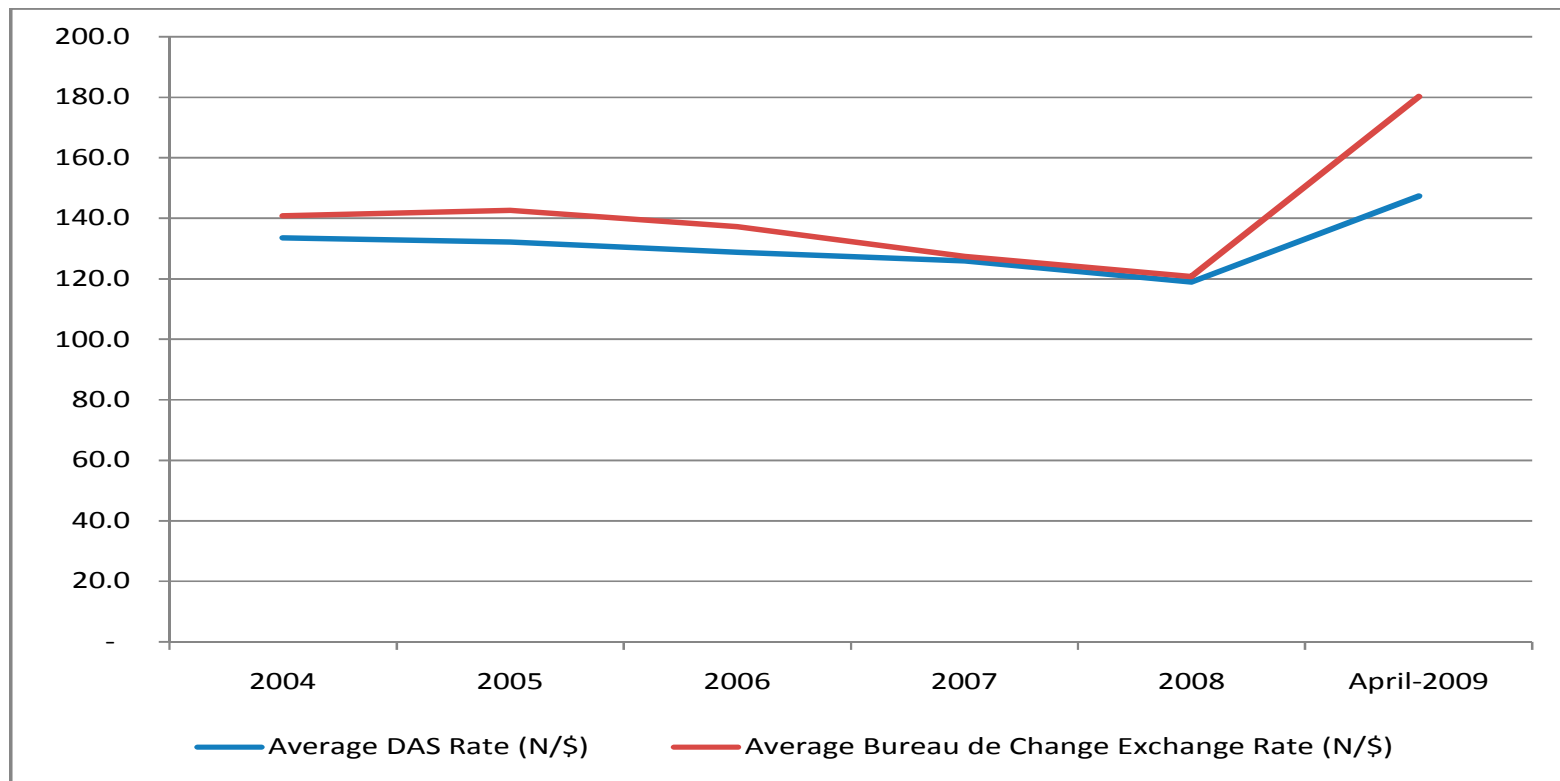
External Reserves (US\$ Millions)



Source: Central Bank of Nigeria (CBN).

Recent Developments in the Nigerian Economy—Some Key Indicators

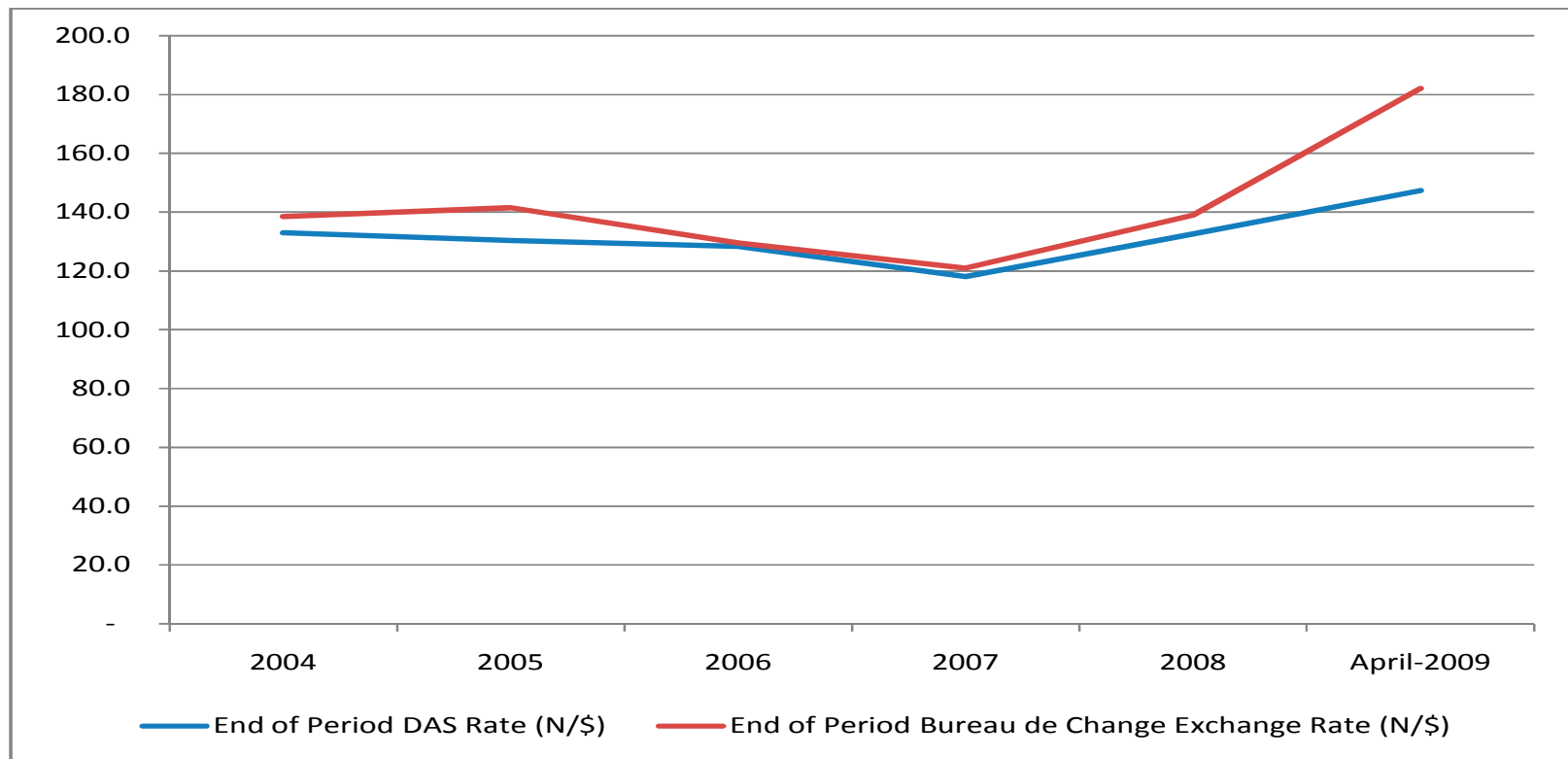
Average Exchange Rate (N per US\$)



Source: Central Bank of Nigeria (CBN).

Recent Developments in the Nigerian Economy—Some Key Indicators

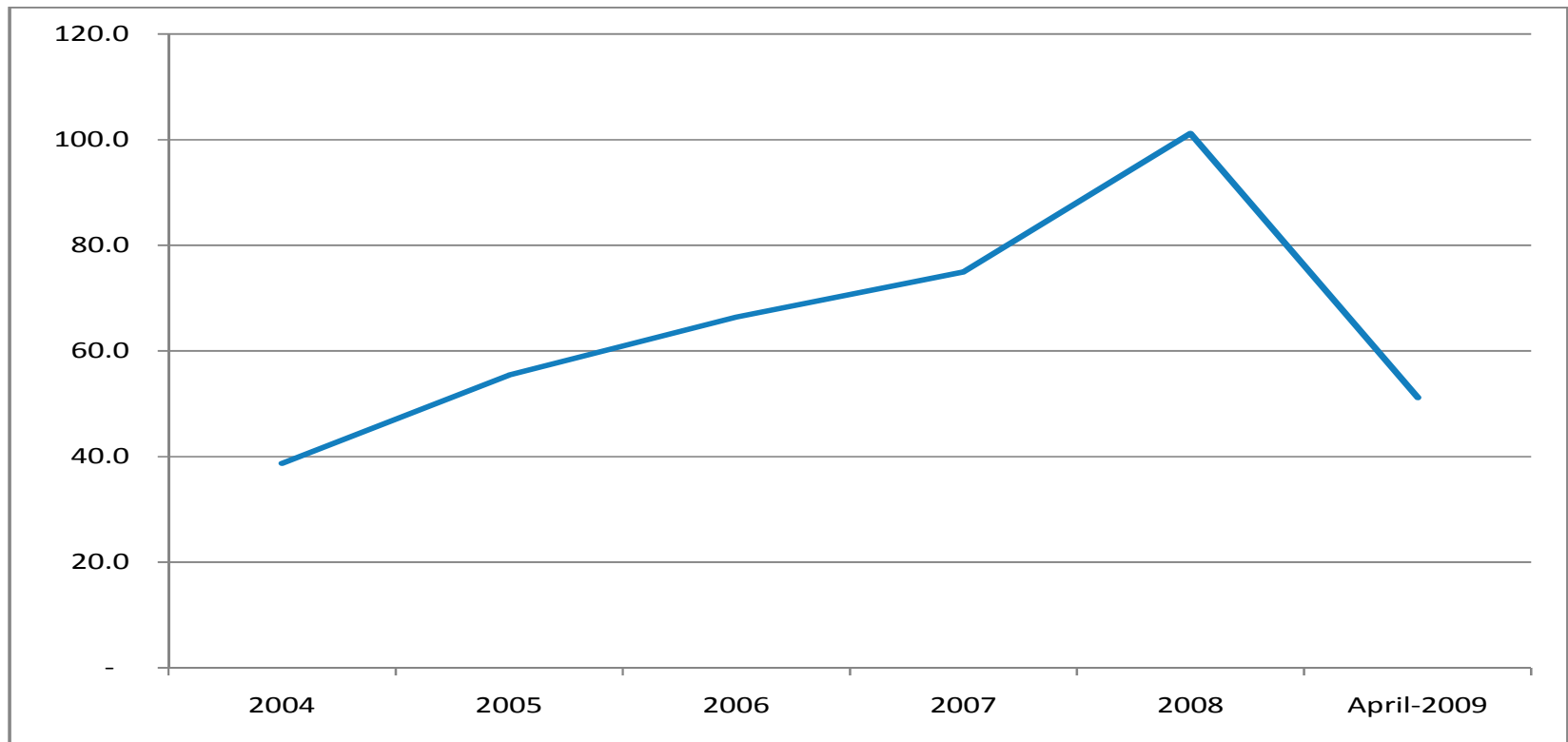
End Period Exchange Rate (N per US\$)



Source: Central Bank of Nigeria (CBN).

Recent Developments in the Nigerian Economy—Some Key Indicators

Average Crude Oil Price (US\$ per barrel)



Source: Central Bank of Nigeria (CBN).

Impact of the Global Financial Crisis on Nigeria

- Low demand for Nigeria's major export commodity—oil; consequently lower oil exports
- Collapse of commodity prices—sharp decline in Nigeria's main commodity export (oil)
- Falling foreign exchange receipt; hence government revenue contraction
- Declining foreign capital inflows—FDIs, portfolio and remittances from Nigerians in diaspora
- Low accretion to foreign exchange reserves since Q3 2008 and resumed demand pressure in the foreign exchange market ; hence pressure on exchange rate

Impact of the Global Financial Crisis on Nigeria

- Foreign trade finance significantly reduced for banks and/or credit lines literally dried-up for some banks
- Prolonged downturn in capital market induced by significant divestment by foreign investors—lingering liquidity tightness; waning public confidence; panic selling by domestic investors; possible second round effects on the balance sheet of banks through increased provisioning for bad debts and lower profitability

Impact of the Global Financial Crisis on Nigeria

- Counterparty risks pose serious threats to Nigeria's external reserves
- Banks faced liquidity problem culminating in credit crunch/unwillingness to extend credit

Impact of the Global Financial Crisis on Nigeria

- Notwithstanding the identified impact of the financial crisis on the Nigerian economy, the overall negative impact on economic performance in 2008 has been minimal as evidenced by:
 - Sustained robust economic growth
 - Buoyant external sector position
 - Stock of external reserves
 - Low fiscal deficit-GDP ratio
 - Low external debt/external debt service
 - Significant credit flow to core private sector

Response by Nigerian Government and Various Regulatory Agencies in the Financial Sector

- Presidential Advisory team on capital market to deliberate on measures to reverse the declining trend in Nigerian Capital market
- Presidential Steering Committee on Economic Crisis
- Reduction of fees by SEC, NSE and all capital market operators by 50 per cent
- Daily price movements harmonized to 5 per cent either way in October 2008
- Guidelines on market makers released by SEC
- NSE reviewed trading rules and regulations
- NSE de-listed 19 moribund companies

Response by Nigerian Government and Various Regulatory Agencies in the Financial Sector

- Share-buy back limited to 15 per cent
- Strict enforcement of NSE listing requirements
- Review of budget to cut financing requirements
- Fiscal stimulus through drawdown from oil savings to augment monthly revenue to three tiers of government to mitigate the adverse effect of substantially lower current revenue receipts
- Cut in foreign exchange financed expenditure e.g. overseas trips by government officials

Response by Nigerian Government and Various Regulatory Agencies in the Financial Sector

The CBN, in line with global experiences, substantially eased monetary policy to mitigate the negative effects of the financial crisis on liquidity in the banking system through a combination of measures:

- Monetary policy rate (MPR) reduced gradually from 10.25 percent to the current 8.0 percent
- Cash reserve requirement (CRR) reduced gradually from 4.0 percent to current 1.0 percent
- Liquidity ratio reduced gradually from 40 .0 percent to current 25.0 percent

Response by Nigerian Government and Various Regulatory Agencies in the Financial Sector

- Deposit money banks advised to restructure margin loans up to 2009
- Expanded lending facilities to banks up to 360 days
- Introduced expanded discount window facility
- Liquidity mop-up suspended since September 2008
- Surveillance activities intensified and resident bank examiners introduced in a bid to detect any early warning signal
- Exchange rate allowed to adjust
- Reintroduction of the Retail Dutch Auction System

Near-Term Economic Outlook

- Real GDP growth projected to slowdown to less than 6 percent in 2009-2010; non-oil sector remain main driver as oil sector GDP projected to decline substantially
- Inflation started to moderate already and is likely to be sustained for the remainder of 2009 as aggregate demand remain constrained
- Fiscal outturn expected to weaken as revenue profile remain weak on account of continued fluctuation in crude oil prices and lower than programmed crude oil export
- External sector position likely to come under pressure on account of weak oil sector performance

Near-Term Economic Outlook

- Credit to private sector likely to slowdown significantly
- Stock market may witness modest recovery as confidence returns
- Capital inflows may resume but at much slower pace than in the recent past

Conclusion

- The outlook remains uncertain as the trough of the current financial crisis are not yet identified
- The extent of contagion on other sectors have not been fully understood
- Global coordination remains key to finding lasting solution to the global crisis particularly as it affects developing and emerging economies in Sub-Saharan Africa
- Authorities should not shy away from taking appropriate measures when necessary
- Overall, the global financial crisis offers great opportunities for Nigeria to move aggressively towards the diversification of the economy

Way Forward

- Constant monitoring of the domestic and international events to identify potential threats to the economy
- Safeguarding financial stability to be given prominence
- Active and flexible monetary policy to check unfavourable developments as they arise
- International cooperation and collaboration with other countries on information, financial assistance arrangements to reduce crisis management costs
- Cooperation of the fiscal authorities required to ensure fiscal prudence and support for monetary policies
- Sound and timely regulation and supervision

Way Forward

- Conduct own risk assessments and rely less on classifications by rating agencies
- Improve market confidence
- Stringent demand for transparency in the financial sector
- Transparency in structured credit instrument should be improved for the assessment of associated risk

Thank you for your attention