

MANAGING THE IMPACT OF THE GLOBAL FINANCIAL MELTDOWN ON THE NIGERIAN ECONOMY

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Abstract

This paper examines the Nigerian situation in the light of the lingering financial crisis and proffers policy recommendations which may be adopted by relevant authorities to mitigate the economy against the vagaries of the crisis. It also traces the genesis of the crisis, x-rays the situation of a few economies in the face of the crisis as well as policy options that have been adopted by governments and the success recorded so far. The paper observes that in spite of contentions of the weak integration of Nigeria with the rest of the globe, impact of the global crisis is gradually and steadily taking deeper roots in the economy as marked by declining government revenue, unprecedented fall in stock market values, significant depreciation in the value of the naira, rising inflation rate and depleting external reserves. To mitigate the present and secure the future against similar crisis, the paper recommends among others the channelling of the external reserve which is being used to subsidize foreign exchange speculators into a financial stabilisation fund to enable banks and equity traders reinforce their liquidity and hence restore confidence in the dwindling stock market; stricter regulation and monitoring of activities in the

financial and other sectors and ensuring of through recapitalization and strict regulation and supervision; a strong-base and reliable insurance industry capable of compensating monumental losses that may arise from breakdown in any sector of the economy.

Keywords: Financial meltdown, sub-prime mortgage lending, securitization, stimulus packages

Introduction

Human advancement especially in the area of Information and Communication Technology (ICT) has turned nationalities world over which before now were more or less seen in isolation into a global village. This integration is further enhanced by a realization of governments of various countries that their economies cannot be developed and sustained in isolation. Hence, government of countries have sought and become integrated in terms of trade, capital flows, ideas, etc all in a bid to foster primarily their own development and in general that of other countries. Similarly, entrepreneurs to exploit business opportunities have looked beyond their countries

of origin. It is now a common phenomenon that government and entrepreneurs of nations invest in securities and even own companies directly or indirectly in others. This economic links has been greatly facilitated by the emergence of multinational companies. The scenario which is known as "globalisation" has been most monumental in the last two decades. Infact, as observe by Uzor (2008) "...The wind of globalisation has swept through the world and integrated the world economy in an unimagined fashion especially in the last two decades. The movement of goods, services, ideas and capital across national borders has increased tremendously..."

With the increase inter-dependence and pace with which business ideas and investments move across national boundaries (globalization), there has ever been an implied risk that any shake down in some economies may cause ripples in others. This however was not obvious until the wake of the US sub-prime crisis in 2007. Since the fall of the crisis, like wide fire, it has spread more quickly than any one could anticipate beyond the originating country (America) to the economies of other countries; inflicting them grievously. In spite of earlier assumptions that the third world economies because of their weak integration with the globe are less vulnerable to the crisis, as it is, the crisis has resulted to a global financial meltdown that threatens the foundations of virtually all economies-advanced as well as the third world.

Considering the unprecedented scale at which the crisis has spread across the globe, some questions are pertinent: what is the situation of the Nigerian economy? What policy measures can be adopted to mitigate the impact on the economy? Efforts would be made in this paper to address these questions and other issues surrounding the crisis. The papers' main objective however is to examine the situation of the Nigerian economy in the light of the global financial meltdown and to provide possible policy

recommendations that may be adopted by the authorities to mitigate the crisis impact on the economy.

The paper is structured into four (4) main sections. Section one is the foregoing introduction, section two is literature review, section three covers policy recommendations for the Nigerian government and section four concludes the paper.

Literature Review

GENESIS OF THE GLOBAL FINANCIAL MELTDOWN

The lingering financial crisis that has paralysed financial and non-financial institutions, economies of nations and is forcing the globe into a recession has its roots in real estate and the sub-prime mortgage lending crisis in the US. The idea of mortgage lending became prominent as a means to promote home ownership especially among the low income group who could hardly afford the cost of erecting homes themselves from their meagre resources.

At the aftermath of the 1930's great depression, banks in the US for a long time were not borrowing to low-income earners to enable them own homes as a result of the massive mortgage foreclosures experienced during the period. Therefore, there aroused home ownership crisis for this category of persons who constituted a greater majority of the population. In response to the crisis, the US government in 1933 created the Home Owners Lending Corporation (HOLC) to handle the immediate problems of mortgage foreclosures. But to provide a long term solution for stabilizing and managing the housing market, the Federal Housing Administration (FHA) was created in the same year. In 1938, Fannie Mae was chartered as a government institution to facilitate the home mortgage lending market and in 1968 was subsequently chartered as a private corporation. In the same vein, Freddie Mac was also chartered in 1970 under the Federal home loan mortgage

corporation Act. Thus, making Fannie Mae and Freddie Mac the first chartered entities to be involved in mortgage lending. Though chartered to make home loans directly with consumers, Fannie Mae as reported by Beckford, Houlgate and Cushing (2008) involved mortgage bankers, brokers and other primary mortgage market partners to help ensure they have funds to lend to home buyers at affordable rates. This was how most financial and non-financial institutions became participants in the sub-prime mortgage lending.

Sub-prime lending according to the Wikipedia encyclopedia refers to "the practice of making loans to borrowers who do not qualify for market rate because of problems with their credit history or the inability to prove that they have enough income to support the monthly payment on the loan for which they are applying". The same source explain the word "Sub-prime" to mean "the credit-worthiness of the borrower (being less than ideal) and does not refer to the interest rate of the loan". Similarly, Beckford, Houlgate and Cushing (2008) opines the concept of sub-prime lending to mean providing loans to borrowers with low credit ratings or poor loan repayment histories.

As a result of increasing rent during the period 1996-2006, mortgage institutions in the US in order to better meet the housing needs of the country particularly the low-income earners evolved a programme to build houses which were given to people (home owners) to be paid installmentally. But because of the associated high risk of default, financial instruments were developed via a financial engineering called "securitization" (a structured finance process in which assets, receivables or financial instruments are acquired, classified into pools and offered as collateral for third-party investment) through which many mortgage lenders passed the rights to the mortgage payment and related credit/default risk to third party investors via Mortgage-Back Securities (MBS). Mortgages were further dispersed by

mortgage and investment banking community into securitization structures call "Collateral Debt Obligations (CDO's), with consumer credit debt dispersed into slice of securities called "tranches". CDO's and tranches were complicated securities designed to further reduce the risk of mortgage debt.

The mortgage securitization process was very successful during the period 1990's-2000. As rents were on a continuous rise, mortgages rarely went into foreclosure and even when they did their impact inside an MBS or CDO as stated by Beckford, Houlgate and Cushing (ibid) was mitigated. However, in the early 2000's when sub-prime loans became the primary mortgage used in securitization, the associated risk (systematic risk) rose significantly. Thus, in 2006-2007 when housing rents started to drop down many portfolios of these securities fell below book value. As reported by Beckford, Houlgate and Cushing (2008) because the big investment banks and large hedge funds were allowed to borrow excessively on huge margin calls, the drop in value due to mark to market accounting forced the investment banks to write down the security or portfolio values as a defensive measure against even greater losses. The rapid drop in value of securitized assets that followed also forced margin calls as some hedge funds, for example, did not have sufficient additional collateral to protect against the margin call.

To worsen the situation, creditors who required certain margin and capital ratios to lent money to investment banks also refused to extend additional credit to investment banks as the value of their assets dwindled. Hence, the refinancing which was available became more difficult. This resulted to credit squeeze crisis that dramatically collapsed the market capitalization values of many of the key players in the mortgage industry and in the investment banking community. The credit squeeze intensified and impacted on all institutions

in the financial sector. This was how Bear Stearns, Lehmann Brothers, Merrill Lynch and Citigroup; the first to be affected were forced on their knees into take over, merger, bankruptcy and cessation as investment bank respectively.

Due to the high level linkage of the US economy with economies of other countries, and because the securitization of the financial instruments were developed and held beyond the shore of its economy, the crisis rapidly spread across the globe cumulating into the current global financial meltdown that analyst have adjudged the worse ever since 1945.

From the foregoing it is pretty clear that the crisis bursted partly due to over speculation by financial institutions. But one issue that need consideration is whether or not the crisis was predicted since sub-prime mortgages were no doubt risky loans. Available sources indicate that it was but negligence allowed it happened. To start with, Alan Greenspan's rhetoric on "irrational exuberance", a term he coined during the stock market (dot.com) boom of the 1990's had warned on the very practice of securitization but was ignored by both governments, regulators and rating agencies. Similarly, some economist such as Raghuram Rajan the current Indian prime minister's economic adviser and former chief economist of the IMF in 2005 called for caution but was ignored and at other quotas said to be ridiculed. Investors themselves either took caution because of the attractive high returns on these securities, for example, investors in the equity class were entitle to or looking for a return of between 15-20%. Many authors including Sampson (2009) and Bird and Fortune (2008) had observed the neglect to the fact that it translated to economic prosperity. Indeed, securitization was seen as the greatest innovation in the 20th century. Unfortunately, the disaster brought by it can better still be explained as a mystery of the decade!

While securitization can be construed as the main

force behind the global financial meltdown, several economist and analyst seems to agree and disagree on what cause the crisis in the first place. Some of the generally identified causes includes; the inability of home owners to make their mortgage payments, poor judgement by either the borrowers or the lenders, inappropriate mortgage incentives and rising adjustable mortgage rates as well as declining home prices which made refinancing more difficult (Sutton, 2002; Reinhart and Kenneth, 2008). To Bird and fortune (2008) the instruments that allowed securitization cause the current problems. However, they duo elsewhere maintained that derivatives did not cause the financial meltdown but they did accelerate it once the sub-prime mortgage collapsed because of the interlinked investments. On their part, Beckford, Houlgate and Cushing (2008) vehemently argued that sub-prime loans by themselves were not the prime movers of the 2008 financial crisis. Stressing rather that it was the securitization of these loans into supposedly AAA rated securities. We tend to concord to a large extent with this argument because the AAA rated securities did drastically increased the risk element of the mortgages. In a similar but different view, Alan Greenspan is reported on the Wikipedia to opine that the securitization of home loans for people with poor credit-not the loans themselves-were to blame for the global credit crisis.

Whereas we are in agreement with these views, we retain some reservations to point-out specifically that the US insistence of a free market which ignore government regulation holding firmly on the believe that the market regulates itself is a primary responsible factor. How wrong this ideology has been proven in the wake of this crisis! We believe Chossudovsky (2008) has also reasoned in the same direction by submitting impart that: "the world wide scramble to appropriate wealth through financial manipulation is the driving force behind this crisis". Adding that "what prevail is a totally deregulated financial

environment characterized by extensive speculative trade". Though Chossudovsky in the same article upheld that; "the current financial meltdown has nothing to do with market forces but is characterized by financial warfare between competing institutional speculators", he no doubt acknowledge the deregulation of the system as a factor.

We equally ascribe the root of the crisis to the problem of managing risk. The strategies which were built in the system to cover securitization associated risk, in truth were only lofty but far from

been capable to handle any turbulent burst of the magnitude witnessed.

World Economies In The Face Of The Crisis

History shows that economic breakdown and depression has befallen countries and the world as a whole have witness recession of varying lengths at one time or the other. Instructive here is the Great Depression of the 1930's and the aftermath of the World War II. The US, for example, from 1969 to date has experience economic recessions including the current, seven times (see table 1 below)

Table 1: US Economic recession, 1967-Date

Start of Recession	End of Recession	Months/Duration
December 1969	November 1970	11
November 1973	March 1975	16
January 1980	July 1980	6
July 1981	November 1982	16
July 1990	March 1991	8
March 2001	November 2001	8
August 2007	?	?

Source: US National Bureau of Economic Research (Adopted from Sampson, 2009 pp 58)

Each of these recessions is in a way peculiar in that they were driven by different forces, had varying durations and effects on the economy. The current financial meltdown facing the US and the rest of the world is another of its kind given that it is driven by innovation in financial instruments widely acknowledged as the greatest invention of the century and fuelled by globalisation.

The crisis has not only cause huge losses, collapse of corporations including world most largest financial institutions, unimaginable fall in values of stock markets, seriously affected internal and

foreign revenue earnings of governments, the situation has crippled economic growth in many countries. And while its agony might have been thought to start and end in the financial sector were it was originated, it is already encroaching on the real sector of economies. Sampson (2008) earlier on had describes the scenario thus: "Business titans are failing; forced corporate nuptials are being consummated; major economies are getting bankrupt; banks are failing to perform their traditional functions; giant insurance firms are taking refuge in governments; stock markets are crashing; house owners are faced with

homelessness; parliament members, technocrats, treasury officers are working through the nights, struggling to fathom a way out..." But now no one is in doubt of these calamities and no concert way has been evolve to tackle it. Governments globally (including those that advocates perfect capitalism-free market system) are forced to evolve urgent intervention measures to arrest or at least mitigate the calamities that have besiege their institutions and economics. The condition of a few economies shall be x-rayed for a grim of their situation in the wake of the crisis.

United States: Being the originator economy, the US has been seriously affected by the crisis. Its financial institutions including Lehman Brothers, Bear Stearns, Washington Mutual and many others have collapse with some like Merrill Lynch acquired while other such as Fannie Mae, Freddie Mac-the mortgage giants, American international group, Morgan Stanley, Goldman Sachs have to be saved from the fate. Its stock market in 2008 alone was reported to shed about 35% of its value (Sampson, 2009a). Unemployment rate has been on a continuous rise ever since the crisis began as more and more jobs are been shed off every month. Staggering between 6.5% in 2008, the unemployment rate is projected to climb to 7.5% or even 8% by the end of 2009 (Andrews, 2008). Government revenue base has suffered a serve decline and the country's position and image as the world superpower has equally suffered a set back. By and large, the crisis has had devastating effects on the US financial sector were it originated. The real sector (authomobile industry) recently has also come under its pleasure. This has cumulated to a very low growth rate of the economy. The growth rate for 2009 has been projected as low as 0.5%.

Around **Europe** a number of major financial institutions have failed with many others needing rescuing. In a country like Island were the economy is largely dependent on the financial sector, it is engulf in a myriad of problems. Russia's economy

has also contracted sharply with increasing unemployment rate and threatening poverty by day. Russia among other countries in the region is already experiencing capital flight to safer distinctions, particularly to third world countries.

Around **Asia** the situation is not any different as economies face the hard hit of the crisis. Many countries of the continent stock markets and currency values are on the downward trend with soaring unemployment rates. For instance; the Chinese stock market in 2008 shredded \$292 billion in value. India and China the fastest growing and largest economies only next to Japan within the region have witness drop in their growth rates. By the end of the first quarters of 2009, India's growth rate was projected by performance evaluators to slowdown by 7.1% while that of China by 8%. Japan, the world's second leading economy in January 2009 alone saw its industrial production fell by 10%; the biggest monthly drop since its records began in 1955. The stock prices of its key economic drivers such as Toyota Motor Corp has suffered critical losses as the companies go through dwindling fortunes arising from drastic cuts in export demand.

The **third world** (Africa in particular) is not spared from the impact of the crisis. South Africa for instance considered being the most advance economy and having the most globalize stock market in Africa is experiencing the impact. Its market capitalisation went down by 20.2% from a value of \$824.4 billion beginning in 2007 to close at \$477 billion by end of 2008. While the All-share index fall by 25.7% points in the same period. The projected GDP growth rate for 2009 is below 2%. The same fate is been suffered by other countries within the region.

Early assumptions were that because of the weak integration of third world countries with the rest of the global economy, many of them will not be affected by the crisis. These however have been

proven to the contrary. As Sampson (2009a) observes "after months of cautious optimism, it is now clear that initial assumptions about the possible immunity of developing economies from the raging storm were too hasty. In much of less developed economies, the spreading crisis have significantly impacted capital markets, foreign exchange earnings, value of local currencies, foreign reserve positions, fiscal stability etc". The World Bank as cited in Onyinke (2009) reiterated this by retaining that some emerging economies are likely to face serious challenges including bank failures and currency crisis, even if global bail-out plans start restoring confidence in financial markets.

The truth is that if this crisis is going to linger longer and visit its full wrath on the third world economies, they would be in a state of jeopardy (suffer dislocation) that may be difficult to rebuild since they themselves unlike the developed countries lack the necessary machinery to reposition their economies.

The Nigerian Situation

The Nigerian economy compare to that of other countries to a large extent is less vulnerable to the crisis. This development can be ascribed to the weak linkage of the economy with the rest of the world. Igbegu (2008) specifically notes "Nigeria is not as interdependent on the global capital systems as other nations on the continent- and there is little that Nigeria exports (with the exception of oil) to really throw it into crisis. What is aiding Nigeria further is that unlike other nations, it has no significant foreign ownership in the United State except its foreign reserve that is currently lodged in the United States and European Banks, hence it is not directly connected to the US economy which was the first to spur the meltdown". Uzor (2009) who share Igbegu's view submitted that "...the main channel of transmission of the global crisis to Nigeria is crude oil price".

Advancing more concert reasons for Nigerian's less vulnerability, analysisist Sampson (2009a) maintained that the recently concluded bank consolidation exercise has played a significant role in mitigating the impact (effect) of the crisis on the economy. A similar opinion was shared by the African Press Organization on November 19, 2008. The basis of these opinions may drive from the fact that unlike banks in other economies, Nigerian banks as a result of the consolidation are liquid and still willing to lend in the face of the crisis.

Notwithstanding, it is observable that the consequences of the crisis are gradually and steadily taken deeper roots in the Nigerian economy. Okeke (2009) in a review of the economy in the first quarter of 2009 remark thus "Events during the quarters proved Nigeria to be an integral part of the 'global village' vulnerable to the vagaries of issues and activities even in far-flung climes of the globe". According to the review, the first quarter was marked by the continued sliding and unsteady prices of crude oil, declining external reserves, persisting bear run in the capital market, fast depreciating local currency and persisting double digit inflation. Infact, the remote effects of the crisis on the economy are becoming more visible and intense. The dwindling oil prices in the world market which alone account for about 80% of government revenue and 95% of foreign exchange earning as well as the OPEC quota limiting oil production mainly caused by the lingering crisis, rises uncertainty to the nation. With the 2009 budget formulated at \$45 per barrel and the continued sliding and unsteady prices of oil averaging \$42.90 per barrel in the first quarter of 2009, there is greater uncertainty of the attainment of the 2009 budget in the first place. Similarly, the seven (7) point agenda of the Yar Adua's administration is in doubt to see the light of day because of the current revenue situation which is imperative to support the realization of the agenda.

Perhaps, as things are, the Millennium Development Goal may equally be seriously affected since foreign aids anticipated from wealthier nations are bound to become slimmer even as they themselves go through the financial crisis. We also fear what the fate of victims will be like if the HIV/AIDS aids from international organisations is similarly affected. From an IMF statement that oil rich countries are better place to absorb the losses cause by the meltdown, we envisage, depending on how long the crisis lingers, the country may be face with debt repayment problems from international bodies that it is indebted to for the purpose of enabling support interventionist measures in non-oil rich countries most affected by the crisis. That is, if greater understanding and maturity is not displayed by these bodies.

In the financial sector, the impact of the crisis is tense as stock market values has fallen to an unimaginable level. Within the developing world, Sampson (2009a) notes that the Nigeria stock market was one of the first to be hit by the crisis due to its already vulnerable state. Sources indicate that in 2008, the Nigerian stock market capitalisation of N13.30 trillion suffered a dropped of 28.1% to close the year at N9.56 trillion. In like manner, by end of the first quarter of 2009 it further went down by 53.1% to close at N4.48 trillion. The NSE All-share index which stood at 66,371.20 at the beginning of 2008 close the year at 26,539.44 and by the end of first quarter of 2009 further fall to 19,851.89 indicating drops of 60.0% and 25.2% respectively. Commenting on the position of events on the Nigerian stock market, Nwanama (2008) stated that some equities in banks had as at July, 2008 lost up to 30% in value, worse still stocks in other sectors lost up to 40% in value. This are proves of how vulnerable the Nigeria stock market has being in the face of the crisis. Nevertheless, recently publications in dailies have shown that the prices of stock market are beginning to pick up.

Though the foregoing may heighten the public anxiety about the Nigerian stock market, Onyiuke (2009) sees hope and assures "the fundamentals of our stock market remained strong as indicated by strong corporate earnings and growth potentials". Notwithstanding the fact that the drastic fall in the stock market values is seen by many to hinge on the global financial crisis, Uwanama (2008) and Uzor (2009) argues to the contrary by observing that the level of integration of the domestic economy with the global market is low and not capable of a direct consequence of that scale. This implies that there are varying factors responsible for the situation and not just the global crisis.

The country has also witness a remarkable depreciation in value of currency in the face of international currencies especially the dollar. Whereas at the end of 2008, the Naira was officially exchanging hand with the dollar at N351/\$1, by end of first quarter of 2009 it was N147/\$1 signifying a fall in value of 58.1%. This in addition to the rising inflation rate which in the first quarter of 2009 fluctuated at a double digit between 14-15% far from the 8.20% projected in the 2009 budget, has far reaching implications on the economy. For example; imports have become dearer, exports cheaper with its attendant effect on the manufacturing sector which before now was operating below optimal capacity, reduction in output and foreign exchange earnings etc. Infact, Uzor (2009) have specifically noted that the manufacturing sector is severely experiencing the impact of the meltdown.

The rising food prices in the local market can either be traced to factors without including the crisis. Prices of commodities such as rice etc. fuelled by the crisis have risen sharply around the globe. With Nigeria supplementing much of its domestic production of these commodities from countries like China, the crisis has assumed its impact on local prices of food items. The crisis which has cause fall in oil prices contracting revenue of the

government has force it to also resort to the use of accumulated external reserves to augment shortfall in subvention at the various tiers. This means depleting external reserves for the country. In the mist of the foregoing crisis, the country's growth rate of 9% projection for 2009 is highly in doubt, most especially as the government could not go ahead to issue bonds to finance infrastructure as planned because of the loss of investors' confidence in the stock market which is cardinal in stimulating economic activities hence growth.

We strongly believe that Nigeria is having its fair share of the impact of the crisis and wish to observed that if the crisis continue to deepen its roots to impact seriously on key sectors like the financial sector, manufacturing sector, etc. which are already experiencing it, then efforts towards averting poverty, creating employment, building a virile infrastructural base and in general enhancing and sustain economic growth and development will not only be constrained but dashed.

Policy Options Adopted Through the Globe to Mitigate/arrest the Impact of the Meltdown

The lingering financial crisis has cause unwanted havoc to economies of nations and the globe generally. Our insight into the situation of few economies including Nigeria in this work points specific harm that the crisis has cause individual nations of the world. On a general note, it has dislocated capital markets as characterised by fallen market stocks values due to loss of investors confidence in markets, cause massive operating losses to companies with accompanying rise in unemployment rates. Economies have witness sharp rises in food prices, inflation rates, devaluation of currencies, social unrest, declines in external reserves and foreign exchange earnings. Investors have suffered huge losses, the attention of governments' diverted from the business of pursuing formulated plans to finding ways of salvaging their embattled corporations etc.

Since the inception of the crises, varying policy options has and are been adopted by governments to save their embattled corporations and economies from the vagaries of the crisis. Popular among the policy options adopted is the stimulus packages designed for bailout and stimulating economic activities. In the US for example, trillions of dollars have been directed and earmark for the purpose. The Bush administration in the wake of the crisis offered \$700 billion in bailout plan for the financial system. By November 2008 another \$800 billion stimulus package was approved by the government to buy up mortgage-backed securities and to unfreezing the consumer credit market. Barrack Obama administration also signed a \$789 billion stimulus package under the American Recovery and Re-investment plan. There are yet such other plans in pipeline. Many other countries in Europe and Asia have design one stimulus package or the other.

With such huge commitment in the name of stimulus packages, one may be quick to ask: How effective has the stimulus packages being in these economies in addressing the crisis? According to Sampson (2009b), these packages are yielding fruits. In the US where much have been channel in stimulus packages, some financial institutions that were saved by it have return to profit, such that others have started returning government bailouts granted them. Our review on performance indexes of some economies (US, Japan, UK, and China) in recent times also shows that capital markets are picking up gradually. These are indications that the stimulus packages are doing the desired turnaround hence it is a call on other governments yet to think in the direction to do thus by adopting the option to their circumstances.

There has also being other stimulus packages adopted by governments at the macroeconomic level such as increase borrowing, reduction in interest rates, reduction in tax rates, increase spending on public works like infrastructures etc

(see Krugman, 2008 for detail discussion on the working of these stimulus packages). Nationalization of banks has also been an integral option-though a last resort in some countries.

While individual countries are making concerted effort to tackle the problem of the global meltdown as it affects their institutions and economies, many economist and analyst including Zimmermann (2008), Claessens (2008), Porters (2008), Burda (2008) have advocated for a global comprehensive approach to addressing the crisis for more effective results. The immediate action suggested by Portes are the recapitalisation of banks and liquefying the term funding markets. On his part, Zimmermann observes that governments need to adopt a mixed strategy of short-term and long-term measures to handle the crisis especially as it pattern to the situation in Europe. In the short-run he recommends thus: unsecured interbank lending has to be re-established by guarantees to be provided by the central banks, and providing a harmonized level of insurance for bank deposits is essential. While in the long-run like Porters he stated that measures to recapitalize the banking system need to be taken adding that state funds are a useful means to this end. He maintained that the nationalization of banks should be a last resort to stop the crisis and also reiterated that it is necessarily to refocus regulations on judging the global strategies of financial institutions.

Policy Recommendation for the Nigeria Government

Notwithstanding the fact that events in the Nigerian economy may also be attributed to other factors outside the global financial meltdown, we want to state categorically that the country is not spare from the impact of the crisis. Hence, government need to adopt some policy measures to protect her institutions and the entire economy from the immediate and future impact of the crisis.

The management of companies especially banks

and other financial institutions that are eager to take a lead in the local market and catch up with their counterparts at the international scene henceforth need to be caution of their products innovations. The regulatory authorities should take steps to screen all propose product innovation and monitor closely the performance of same to avoid distortion in the sector. The experience in the US shows that innovations of such nature even where they cause economic prosperity should not be left unmonitored and regulated. The foregoing should not exclude their lending policies. Infact, there is need for strict supervision of bank lending activities because with the huge funds available to them from the consolidation exercise many are all-out to trade with these funds. This vigour may lead to lending activities that circumvent not only regulatory stipulations but get funds in the hands of borrowers that may not be able to repay in the event of any shock in the system. Banks lending activities are becoming worrisome because most funds borrowers are individual borrowers who normally apply the funds in non-productive ventures such as buying personal cars, building residential homes, marrying more wives etc with collateral usually been salary. Many banks have evolved packages specifically for these purposes. While this cannot be totally discouraged, in an economy most uncertain like ours, the concentration of loans of these types means venturing into increase risk.

There is equally need for the formulation of appropriate policies that would ensure a strong-base and reliable insurance sector capable of compensating monumental losses that may arise from any failure in the system. Ensuring this would not only guarantee home and abroad investors confidence in the operation of the economy hence increase investment, it will significantly spare government interventionist measures such as bailout in the event of any form of breakdown in the economy. Recapitalisation and strict regulation and supervision are recommended here.

Government should also look inward to creating a special reserve which would be applied for intervention purposes in the event of economic breakdown in any of the sectors. As an immediate measure to rescue the stock market which is already hard hit by the crisis, we reason with Uzor (2009) by also recommending that the external reserve which is being used to subsidize foreign exchange speculators be channelled into a financial stabilisation fund to enable banks and equity traders reinforce their liquidity positions.

While we commend the efforts of the Federal government by way of setting up a financial service regulation coordinating committee with the responsibility to monitor and review developments in the financial services industry as well as that of the chief financial economic regulator the CBN for adopting policies to reduce inflation to single digit rate, a new paradigms in its supervision approach as in the "consolidated supervisory framework" etc we add that the coordinating committee's scope of responsibility should be extended to cover all sectors of the economy. This is important especially now that the real sectors of other countries are experiencing the crisis. This may also call for a change in the nomenclature of the committee to something more embracing. Further more, we observe that the rise in interest rate by the CBN targeted at curtailing the double-digit inflation rate to single-digit is appropriate but in the light of the prevailing global meltdown which impact is gradually growing serve on the economy, reconsideration may be necessary if the crisis take deeper roots. By and large, we call on government to consolidate on measures adopted so far as a means to prevent the crisis from having a huge impact on the economy.

Conclusion

The sub-prime mortgage crisis which started in the US over two years ago has tremendously impacted on institutions and economies. It has bred a financial meltdown that is now global in nature. It

consequences are gravely as economies experience unimaginable fall in stock market values, collapse of financial and non-financial institutions; rising inflation, unemployment and food prices rates, devaluation in currencies; worsen human rights and health conditions; social unrest and is pushing the globe into a recession. The crisis have inflicted great burden on home owners, workers, investors and tax payers especially in the US and have compel governments to sacrifice resources meant for the development of their nations for bailout of affected financial institutions as well as in addressing other associated problems.

In the wake of the crisis so many questions demand answer and a lot stand to be learned by financial institutions and government the worlds over. One fundamental question posed by Stiglitz (2009) is about globalisation which before now was supposed to help diffuse risk. Whereas need to take more measured risk management approach and atleast instituting some form of economic regulation remain lessons for both financial institutions and governments respectively.

Notwithstanding the fact that the crisis have done graven harm to individual investors, families, financial institutions and the economies of nations and even as it continues to press hard on America and the rest of the world, there abound hope that it would come to rest as countries intensify on measures to that end. Though how soon this will be cannot be said with certainty!

At the movement, why policy measures in form of stimulus packages appear to be doing some amends in America and elsewhere, as noted by Sampson (2009b), at the entire global scene there are still high unemployment rates, lower wages, record trade and budget deficits, huge public debt, low consumer demand etc which are indicative signs of lingering trouble. One thing is however certain that while individual countries map out strategies to rescue their troubled institutions and reposition the

foundation of their economies, a collective approach to the crisis is the more needed since the crisis has assume a global dimension. Such a collective concerted effort need be urgent and is necessarily for the benefit of third world nations with less machinery for immunizing themselves and to forestall a world recession which the crisis points to.

While we await to see the end of the crisis, its memories would definitely linger as it has not only dislocated the foundations of economies of nations which had taken years to built, visited hardship on investors and families, it has arose the potential of affecting the rapid recovery and growth of corporations especially those in the financial sector which prior to the crisis were aggressive in growth strategies through innovations.

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