EVENTS 2011: Rolling Down a Slope

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The year 2011 did not bring good tidings for the Nigerian economy contrary to the high expectations that the country would start reaping the fruits of President Goodluck Ebele Jonathan’s economic reform. Ironically, major economic indicators witnessed a downturn during the year. For example, investors in the Nigerian stock market lost N1.3 trillion during the year. The Nigerian Stock Exchange, NSE, opened trading in January 2011 at a market capitalisation of N7.8 trillion and closed business on December 31 at N6.5 trillion. Inflation rate was 11.5 percent in spite of the desire expressed by the federal government in the 2011 budget proposal to rein it back to a single digit. Also bank lending rate went up as high as 25 percent. The Naira was officially devalued by the Central Bank of Nigeria, CBN, in November when it adjusted the floating band of the Naira to the US dollar from N150 to N160. By the end of the year, the Naira exchanged at N164 to a dollar. The performance of the oil and gas sector was equally disappointing. The sector’s contribution to the gross domestic product decreased during the year under review. In the second quarter of 2011, the sector contributed 14.49 percent against the 15.7 percent it contributed in the second quarter of 2010. In the same manner, the manufacturing sector’s contribution to the GDP in 2011 was 3.91 percent compared to the 3.93 percent it contributed in 2010. According to the September report of the Nigeria Bureau of Statistics, NBS, released by Yemi Kale, statistician general of the federation, about 32.5 million Nigerians were jobless in spite of government’s claim that the economy grew by 7.72 percent in the second quarter of 2011. In his reviewing of the performance of the economy in 2011, Mike Obadan, professor of economics, University of Benin, said that it would not be unfair to state that the economic situation in the country remained poor. “The ordinary people did not witness any improvement in their living conditions in 2011. They have entered 2012 with more pains deliberately inflicted on them through avoidable policies. They live in perpetual fear because of various dimensions of insecurity all over the country,” Obadan said. Obadan was not comfortable with the macroeconomic indicators. For example, savings deposit rates have remained very low while lending rates remain outrageously high. While the low deposit rates discourage savings in financial institutions, the high lending rates discourage investment and push Small and Medium Enterprises, SMEs, into huge debts. The official inflation rates which are doubtful are in double digits making life unbearable for the ordinary Nigerians. These same Nigerians would be exposed to even more hardships and pain in 2012 following the recent deregulation of petrol prices by the federal government, which in turn, has resulted in tripling or quadrupling of transportation costs and retail prices of goods and services. The continued depreciation of the Naira in foreign exchange markets in 2011 created uncertainties and also increased costs of production and prices of goods and services. Even the growth in the GDP which the government put at 7.72 percent brought little improvement in the wellbeing of Nigerians. Some economists believed that so many things are wrong with the purported growth. “It is growth which was not inclusive and did not generate meaningful jobs for the teeming employment seekers. In other words, the number of jobless youths tended to continue in 2011. Contrary to the expectation, the per capita income is still low at a little over US $1,000 and the growth rates are very much below the economy’s potential and the expected double digit growth rates. Generally, the economy has not achieved any meaningful transformation and has remained underdeveloped. The contribution of manufacturing sector to the GDP was abysmally low at about four percent. The condition of the sector is not helped by the government’s total dependence on crude oil revenue to the disadvantage of other revenue sectors like agriculture as well as the parlous infrastructure, high cost of funds and energy and a generally disenabling environment. “Thus, even though the government boasts of improved growth performance, it has not meant much in welfare and structural transformation terms,” Obadan said. The infrastructural situation is still nightmarish. The nation is still in darkness. The government’s target of generating 5,000 mega watts of electricity by the end 2011 turned out to be a mirage. By last November or December, various reports pointed to sharp drops in power generation from about 4,000 to less than 3,000 mega watts. Ayo Teriba, an economist and chief executive officer of Economic Associates, attributed the poor performance of the economy in 2011 to CBN’s tight monetary policies, which focused more on the control of inflation. “It was wrong for the CBN to follow the line that it did in 2011 on monetary tightening that was based on a narrow objective of reducing inflation while ignoring the vulnerabilities of the real sectors and real activities to the tightening policies,” Teriba said. Nevertheless, 2011 was the year the apex bank resolved the cases of the nine sick banks whose management it sacked intervened in 2009. Four of the banks, namely Intercontinental Bank PLC, Oceanic Bank International PLC, Finbank PLC and Equatorial Trust Bank Limited, have been acquired by Access Bank PLC, Ecobank PLC, First City Monumental Bank PLC and Sterling Bank PLC respectively. But Union Bank PLC, which is one of the intervened banks, is recapitalizing its operation through issuance of public offers. The year also witnessed the creation of three bridge banks to resolve the cases of three banks that failed to meet the September recapitalisation deadline. The three bridge banks, which acquired the assets and liabilities of the defunct BankPHB PLC, Afribank PLC and Spring Bank PLC were Keystone Bank, Mainstreet Bank and Enterprise Bank respectively. Its advantage, according to A.A. Adeleke, director of Assets Management Department, Nigeria Deposit Insurance Corporation, is that it saved the distressed banks from liquidation. It also engendered public confidence in the banking system by fully protecting all the depositors and creditors of the banks. But it has other implications. “All shareholders would lose their investments. It could also be costly. And the bridge banks could fail, thus postponing the evil day and aggravating the cost of resolution,” Adeleke said. Currently, the shareholders of the nine affected banks (excluding the ETB) are in court to reclaim the ownership of their banks. Year

2011 would also be remembered for its controversies. Notable among them is the controversy that trailed the attempt by the CBN to introduce Islamic banking in Nigeria with the licencing of Jaiz Bank, which was billed to commence banking operations in June. The move was staunchly opposed by the Christain Association of Nigeria and the Pentecostal Fellowship of Nigeria. The two christain bodies perceived the commencement of the Jaiz Bank as a grand plan to Islamise Nigeria. The rancour it generated forced Jaiz to shelve its plans to throw its doors open for business. However, the CBN has denied the allegation that the creation of non-interest financial institutions would in any way lead to the islamisation of the country. Rather, it would facilitate financial inclusion, poverty alleviation and the creation of alternative banking model to take care of the peculiar needs of certain segments of the country’s population. The apex bank also vowed not to give in to those opposed to the introduction of NIFI in the country because it is not ready to abdicate its powers of control over the creation, operation and liquidation of banks to ensure effective functioning of the banking industry in the country. Perhaps, these indicators contributed to the poor rating of the Nigerian economy by the Standard and Poor, S&P, a United States-based rating agency. It declared the country as a high risk business environment in November 2011. It said that having reviewed the banking sector of the Federal Republic of Nigeria’s B+/Stable/B in the light of its updated Banking Industry Risk Assessment methodology, it has come out with the opinion that Nigeria is a “very high risk” country in economic resilience, a ‘high risk” in terms of economic imbalance and a “very high risk” in credit risk in the economy. “Our industry risk score of seven for Nigeria is based on our opinion that the country faces very high risk in its institutional framework. In our view, credit risk in the economy is very high because of Nigeria’s low wealth creation” According to the rating agency “a sharp correction of global commodity prices will negatively affect countries (which include Nigeria) that rely heavily on commodity exports and commodity-related fiscal revenue.”