Original Research Article

The 2008/2009 Banking Crisis In Nigeria: The Hidden Trigger of The Financial Crash.

Abstract

It is observed that, while existing literature on the 2008/2009 Nigerian banking crisis has emphasised causal factors, which can be classified as remote causes, it is silent on the immediate cause of the financial crash. Therefore, this study seeks to identify the trigger of events that culminated to the 2008/2009 banking crisis in Nigeria. The paper makes a conjecture that the trigger, lies hidden in the remote causes which, although regarded as causes of the banking crisis, do not make a definite specification of the trigger. Thus, this study sets out to examine the data of FDI and FPI inflows to Nigeria during the years of financial liberalisation. Using the applicable logic in Minsky's financial instability hypothesis, it concludes that the sudden divestment of FPI in 2009 from the Nigerian economy, was the trigger of the financial crash.

KEY WORDS—Banking Crisis; Financial Shenanigan; Minsky Typology;Foreign Portfolio Investment

JEL Classification ---E6;G2; M2.

1 Introduction

The 2008/2009 financial crash in Nigeria is said to have emanated from the ripple effect of the 2007/2008 global financial crisis; and the report of the Growth Commission [1] admits in its preface, that the "crisis was a destructive malfunction of the financial sectors of the advanced economies, which spread rapidly to the real economy and to the rest of the globe. Even countries far from the source of the crisis had to cope with capital volatility, tight credit, and rapidly falling trade". The origin is summarized in Konzelmann [2], as the collapse of American subprime real estate bubble in 2007, followed by failure in 2008, of Lehman Holdings incorporated—which was the fourth largest investment Bank in the United States (US). This created panic in the financial markets; and it spilled over to the real economy, causing a deflationary crisis that threatened the total collapse of large financial institutions; but further havoc was prevented via bailout of banks by national governments. As stated in Kuye *et al* [3],the US was the first country to package a bail out of $750 billon for its financial sector in 2008. Financial bail-out is explained in Levitin [4]as an inevitable product of interconnectedness of firms in modern economies, thus implying that the entire economy bears the risk of an individual firm's failure. Hence, as explained in Sanusi[5], the Central Bank of Nigeria (CBN) adopted the US-bailout prescription for Nigerian banking symptoms, that were similar to those of the US, by injecting NGN620 billion in a bailout operation on ten[(1)] Nigerian troubled banks to rescue them from illiquidity, stabilize the banking system and return confidence to the financial market.

This paper notes that while the trigger of the US banking crisis is identified in Bris [8] as the inducement of the volatile stock market by the subprime market, leading to the default of Lehman Holdings and subsequently to a massive global crisis; the existing literature on the 2008/2009 Nigerian banking crisis has emphasised causal factors which can be classified as remote causes, but silent on the immediate cause that triggered the crisis. Thus, the need is brought to the fore for identification of the specific causal factor that triggered commencement of events, that culminated in the Nigerian banking crisis; especially, as Bris {8] has cautioned and emphasised the need to "wonder what the cause of the next crisis will be". This way, policy makers and the regulatory authority in Nigeria, would be placed in a position to proactively formulate necessary policies that are designed to mitigate or avert occurrence of future banking crisis.

2 Literature Review

2.1 Causes of The 2007/2008 Global Financial Crisis.

Blundell-Wignall *et al* [9] aver that the 2007 financial crisis was caused at two levels, identified as (i)"global macro policies affecting liquidity" and (ii) "a very poor regulatory framework that, far from acting as a second

line of defence, actually contributed to the crisis in important ways". Firstly, the set of policies affecting liquidity are likened, in metaphoric terms, to a dam that is overfilled with flooding water. The flooding water, is metaphor for excess liquidity that was created by low interest rates of one percent in the US, zero percent in Japan, China's fixed exchange rates; and the accumulation of reserves in Sovereign Wealth Funds, all of which helped to fill the liquidity reservoir to overflowing, resulting to the asset bubbles and excess leverage. The second metaphor is "faults in the dam" as proxy for the regulatory system that started at about 2004, directing the water in a more forceful manner into some very specific areas, namely mortgage securitisation and off balance sheet activity. The pressure became so great that the dam collapsed, to cause enormous damage. In other words, the crisis itself was not independent, it originated from distortions and incentives created by past policy actions which, after 2004, gave rise to a veritable explosion in Residential Mortgage Backed Securities (RMBS)-- a class of assets, which was in the vortex of the crisis. The policy actions included the following:-

(i) zero equity mortgage that enabled acquisition of mortgages by low income families;
(ii) a change in the regulatory framework that gave rise to the shadow banking system;
(iii) acceleration of banks' off-balance sheet activities, enabled by Basel 11 accord; and
(iv) changes in regulation, that allowed investment banks to manage their risks.

Crotty [10] posits the thesis, that although the 2007 financial crisis was triggered by problems in the US subprime mortgage market, its deep cause on the financial side, is to be found in the flawed institutions and practices of the financial regime, often referred to as the New Financial Architecture (NFA):--defined as "the integration of modern day financial markets with the era's light government regulation". The author expressed the belief that the NFA is built on a very weak theoretical foundation, which is based on the argument that supports "light regulation of commercial banks, even lighter regulation of investment banks and little, if any, regulation of the 'shadow banking system'—hedge and private equity funds and bank-created Special Investment Vehicles (SIVs)----"; and that this lax regulation is "reinforced by the central claim of neoclassical financial economics that capital markets price securities correctly with respect to expected risk and return. Buyers and sellers of financial securities were, it was argued, able to make optimal decisions that led to risk being held only by those capable of managing it". Furthermore, the author explains that there was accelerated deregulation after 1980, accompanied by rapid financial innovation which stimulated powerful financial booms that always ended in crises. The response of governments to financial crises have always been in the form of bailouts because of the fear of financial and economic collapse; and this has induced unprecedented government rescue efforts that have been, to date, unable to end the crisis. New bailouts allowed new expansions to begin; and these in turn ended in crises, which triggered new bailouts.

Soludo [11] analysed the global economic crisis, stating that it started in August 2007 as a financial crisis with roots in banking, rather than securities market or foreign exchange; and metamorphosed into a global economic crisis that led to severe credit and capital crunch. He noted that even countries, not affected by the financial crisis became affected by "second round effects" as the crisis became economic when, by the fourth quarter of 2008, it spilled over from sub-prime loans into consumer and other credits. There was credit squeeze that resulted to a reduction in lending to the real sector (supply side); with ripple effects on the demand side-- in the form of reduced lending to households. It created a negative wealth effect via decreased asset values (e.g. stocks and real estate) and this led to loss of consumer confidence and a precipitous decline in consumption which translated into sharp decline in economic activities. Massive job losses resulted from the decreased economic activity in most sectors of the economy. The author expressed his agreement with other writers who identified the causes as financial innovations, "loose regulatory regimes and several unregulated financial markets and products"; uncoordinated and late interventions by Governments and Central Banks; easy monetary policy in the aftermath of 9/11 to avoid a recession" in the US. He identified other causes as "crash of structured products and mortgage market "while consumer loan and mortgage market distress led to counter-party risks; while rising illiquidity made banks to stop lending, preferring to recall some of their loans. There was also, a burst in stock markets and pressure on banks that had huge write-downs.

Chowdbury [12] avers the near consensus, that the financial and economic crisis of 2007 is the result of regulatory failure; and that financial regulation is in two categories, each with its distinct objective. The first is Economic Regulation which effects controls over interest rates and credit allocation; and designed to mitigate market failures in allocation of resources. The second is Prudential Regulation, which aims to protect stability of the financial system (i.e prevent systemic failures or financial crisis) and to protect depositors. He explains

further that this distinction was often missed or ignored in the haste to liberalise,. Most importantly, the point is clarified that "while the original theory of financial repression argued for liberalisation of economic regulation on the grounds of improving efficiency and financial deepening, there was no coherent theory for dismantling prudential regulation. Nonetheless, measures of prudential regulation were slackened on the grounds of encouraging innovation; and that a laissez-faire approach, with an emphasis on self-regulation, would encourage competition; but this gave rise to "too big to fail" mega-banks and complex financial institutions that resulted from mergers and take-overs. Thus, instead of a competitive financial sector, what emerged was a highly oligopolistic market structure to the detriment of consumers".

Simkovic [13] explains the bank lending methodology of"Securitization ", which appears as the nexus for banking products that were causal factors of the 2007 financial crash. The author defines the term as a "method of financing, whereby loan receivables or other cash flows are bundled into securities and sold to investors". He explains further that mortgage securitization divides lending into four functions, generally handled by four different types of specialized financial institutions. The first is origination, which refers to the initial step of making loans to individual borrowers. The second is servicing, which includes all processes of managing the on-going relationship with individual borrowers and collecting payments. The third is securitization, which involves buying large numbers of loans from originators and packaging them into investments that can be sold to investors; and the last is funding, which refers to buying Mortgage Backed Securities (MBS) from securitizers and holding them in portfolio as an investment. Securitization provides a long-term source of funding; hence it reduces the financial institutions' exposure to fluctuations in prevailing rates of interest. The author states further that the US government had taken responsibility for credit risks of mortgages that they bought through "Fannie Mae", which was originally established as a division of the government in 1938; but privatised in 1968 to reduce the liability of the federal government. In 1970, a similar Government Sponsored Enterprise (GSE), in the name of "Freddie Mac" was created to serve a slightly different set of mortgage originators and to compete with Fannie Mae. "Large-scale private mortgage securitization by non-GSEs re-emerged in the early 1980s. In the mid-2000s, competition between mortgage securitizers—large investment banks, commercial banks, and the GSEs—intensified, with non-GSE securitization overtaking GSE securitization in 2005". Following high default rates for securitized subprime mortgages, private non-GSE securitization collapsed in late 2007 and early 2008.

2.2 Causes of The 2008/2009 Nigerian Banking Crisis

The ripple effects of the 2007 global financial crisis, on the Nigerian financial system, are specified in Soludo [11], in the following terms:--

(i) There was collapse in the prices of commodities, especially crude oil which is the mainstay of Nigeria's economy; and this resulted to a contraction of revenue to the federal government.
(ii) There was decline in capital inflows to the economy, followed by de-accumulation of foreign reserves and pressure on exchange rates.
(iii) The global financial crunch impacted negatively on availability of foreign trade finances for Nigerian banks; and credit lines became unavailable.
(iv) There was a downturn in capital market operations, which witnessed divestment by foreign investors.
(v) There was manifestation of counter party risks vis-a-vis external reserves; however, the author added that, CBN took prompt measures to safeguard the reserves; and that Nigerian banks were sufficiently robust to withstand the shocks.

Sanusi [5] is a convocation address, delivered at Bayero University Kano, when the author was Governor of the CBN. The address is seen as an authoritative articulation; and ***raison d'etre*** **for** the Nigerian banking crisis. It made a reference to the global financial crisis; and that the country, like many others, felt the pain of the financial meltdown; most evident of which is a slowdown of credit to the economy. Additionally, bad lending decisions necessitated huge provisions that eroded the capital of some Banks. Thus, a financial bailout was made to stabilize the system. In sum, the lecture describes the CBN's bailout and subsequent actions as a fire to open a "salvo in what could potentially be a revolutionary battle against the nexus of money and influence that has held the country to ransome for decades". The author proceeded further, to describe the root of the Nigerian banking crisis in metaphoric terms viz:- **"In previous crises we said some banks had failed- a passive and complicit phrase that masked a gross irresponsibility and crass insensitivity. "The bank has failed". This is somewhat like coming across the corpse of a man whose throat was slit, or whose body is covered with knife wounds or riddled with bullets and saying "the man died." The man did not die. He was killed. He was murdered. And he did not kill himself. To use the term "death" instead of "murder", excuses us from the responsibility of finding the killers and bringing them to book. And that is exactly what happens when we refer to "failed banks" as if the bank itself, some impersonal structure made up of branches and computers, somehow collapsed on its own. By using-or abusing- the term "failed bank" we are able to**

mask what is almost always a monumental fraud". The paper proceeded further to describe the culprits as people who parade themselves as role models in society, owners and managers of banks, who go on to become governors and senators; while some of the bad debtors are multi- billionaires, who having taken the money belonging to those poor dead souls, did not pay back.The lecture summarized the contributory causal factors as:-
(i) Macro-economic instability caused by large and sudden capital inflows.
(ii) Major failures in corporate governance at banks.
(iii) Lack of investor and consumer sophistication.
(iv) Inadequate disclosure and transparency about financial position of banks.
(v) Critical gaps in regulatory framework and regulations.
(vi) Uneven supervision and enforcement.
(vii) Unstructured governance and management processes at the CBN/Weaknesses within the CBN.
(viii) Weaknesses in the business environment.
The paper contains a list of itemized solutions which he author labelled as "Pillars"viz:
Pillar 1: Enhancing the quality of banks
Pillar 2: Establishing financial stability
Pillar 3: Enabling healthy financial sector evolution
Pillar 4: Ensuring that the financial sector contributes to the real economy.

Kuye *et al* [3], attempted to analyse the rationale behind government's bailout of cash distressed Nigerian banks in the financial crisis. The study made a comparison with the Japanese financial crisis, which emanated principally from very low rate of interest on banking loans and advances, resulting in operating losses. In contrast, the Nigerian banking crisis has been traced to absolute financial shenanigans; which included falsification of shareholders' funds. In the words of the authors, the CBN "had a process of capital verification at the beginning of consolidation to avoid bubble capital. For some inexplicable reason, this process was stopped. Subsequent investigation revealed that in many cases, consolidation was a sham". In effect, the Nigerian banking crisis was not a product of macro-economic policies or mis-allocation arising from policy prescriptions. There were excessive risks, absolute fraud by top management of banks who engaged in high level financial malpractices; and most were routed through stockbrokers. Additionally, there was high risk behaviour in management of Banks which, as it is conjectured, was a response to immense pressure on the desire to satisfy shareholders' demand for high returns on investment, following banking consolidation which brought high liquidity to the system. The paper concluded that in view of the high degree of financial malpractice, government intervention via bailout strategy, became justified because of the consideration of the generality of small savers, depositors and systemic risks which are capable of creating a cascade of business failures that can impact negatively on the economy.

2.3 Financial Stability and Financial Instability

Financial stability is defined in Schinasi[14] as "a condition in which an economy's mechanisms for pricing, allocating, and managing financial risks (credit; liquidity; counterparty; market; etc) are functioning well enough to contribute to the performance of the economy, However, Allen and Wood [15] have defined financial stability, in terms of its features which they identify as (i) public's welfare; (ii) an observable state of affairs;(iii) subject to control or influence by public authorities; (iv) property of a clearly defined politically significant entity; (v) broad enough to embrace every facet of the economy; and (vi) should not stigmatise any change as evidence of instability. The system absorbs shocks primarily via self-corrective mechanisms that prevent adverse events from disrupting the real economy or from spreading over to other financial systems.
Financial stability is paramount for economic growth because, most transactions in the real economy are made through the financial system. In effect, financial stability is inextricably intertwined with economic stability—which, as stated in IMF[16], entails "avoiding economic and financial crisis, large swings in economic activity, high inflation and excessive volatility in foreign exchange and financial markets".
The position in Blaise and Kaushik[17] seem to indicate a consensus however, that, due to interdependence and the complex interactions of different elements of the financial system, financial stability may not be easy to measure; and this is further complicated by the time and cross-border dimensions of such interactions .

The contrast to financial stability is financial instability; which, on the basis of its dual descriptions in Schinasi [14], can be said to exist when a financial system "is threatening to impede the performance of an economy";

and “when it is impeding performance and threatening to continue to do so”. As stated in Stiglitz[18],” instability has persistent effects on economic growth—growth is slowed down for several years after a crisis has occurred”; and IMF[16] explains further that “Instability can increase uncertainty, discourage investment, impede economic growth and hurt living standards”.

Minsky[19] postulated the financial instability hypothesis, describing it as “an interpretation of the substance of Keynes’ General Theory “. He states that the empirical aspect of the hypothesis is drawn from observed phenomena in capitalist economies that, from time to time, exhibit inflations and debt deflations which seem to have the potential to spin out of control. The author avers that “in such processes, the economic system's reactions to a movement of the economy, amplify the movement – inflation feeds upon inflation and debt-deflation feeds upon debt deflation.----“. In other words, people are momentum investors by nature, not value investors; and they naturally take actions that expand the high and low points of cycles. He states further that “these historical episodes are evidence supporting the view that the economy does not always conform to the classic precepts of Smith and Walras”; who imply that the economy can best be understood by assuming that it is a self-sustaining system that constantly seeks equilibrium. The argument states further that the accumulation of debt by the non-government sector is a key mechanism that pushes an economy towards crisis; and he identifies three types of borrowers (abbreviated in this paper as“ Minsky Typology”) that contribute to the accumulation of insolvent debt. The first is the "hedge borrower”, who can make debt payments, including interest and principal, from current cash flows of investments. The second is the "speculative borrower", whose cash flow from investments can service the debt, i.e., cover interest charges, but the borrower must regularly roll over, or re-borrow, the principal. The third is the "Ponzi borrower" (named after Charles Ponzi,) who borrows on the belief that the appreciation in value of the asset will be sufficient to refinance the debt but could not generate sufficient cash flows to make payments of interest or principal of the investments. Hence, the author formulated his financial instability hypothesis in two parts—(i)”that the economy has financing regimes under which it is stable ;and financing regimes in which it is unstable”; and (ii) “over periods of prolonged prosperity, the economy transits from financial relations that make for a stable system to financial relations that make for an unstable system”. He avers further that “business cycles of history are compounded out of (i) the internal dynamics of capitalist economies; and (ii) the system of interventions and regulations that are designed to keep the economy operating within reasonable bounds”.

McCulley [20] examined the shadow banking system in relation to Minsky’s hypothesis, stating that “creative financing played a massive role in propelling the global financial system to hazy new heights-before leading the way into the depths of systemic crisis”; and that it did not happen within the confines of a regulated banking system, that submits to strict regulatory requirements in exchange for “government back stopping”. Instead, creative financing was exacerbated through the rise of the shadow banking system, which operated legally, yet almost completely outside the realm of banking regulation. The author explained that, shadow banks obtained their finance via uninsured short term funding which “ may or may not be back stopped by liquidity lines from real banks” . These unregulated intermediaries operated in the shadows without control from the Federal Reserve’s discount lending window or access to deposit insurance. Rather, their finance was obtained from “the non-deposit markets” , notably unsecured debt such as interbank borrowing and commercial papers, as well as secured borrowing such as reverse repo and asset backed commercial papers; thus, being unregulated, their operations had no meaningful constraints of leverage, size of liquidity buffers on their type of lending or investing . “The bottom line is that the shadow banking system created explosive growth in leverage and liquidity risk outside the purview of Fed.”

2.4 Capital Flows in a Liberalised Financial System

In general terms, capital flows refer to the movement of money for the purpose of investment, trade or business production. According to Moreno [21],”capital flows between countries can yield significant benefits. They allow investors to diversify their risks and increase returns; they allow residents in recipient countries to finance rapid rates of investment and economic growth and to increase consumption”. Also, Rogoff [22] avers that **liberalization of capital flows enhances the level of free trade in financial claims; reduces the misallocation of resources and increases investment.; and IMF[23] states that**“global capital flows have multiplied many times over in recent years mainly between advanced economies, but increasingly also to emerging markets, reflecting the general reduction in regulatory and informational barriers”; and global portfolio allocations and reallocations have profound effects on world economy. Additionally, Dadush *et al* [24] have noted that the surge in Private Capital Flows (PCF) to developing countries since the 1990s has greatly

facilitated their rapid growth.. However, Mishkin [25] warns that capital flows can fuel a lending boom which leads to excessive risk-taking on the part of banks**.**

Capital flow occurrence is common within corporations in the form of investment capital and capital spending on research and development, as well as operations. Ott[26] explains that "International capital flows are the financial side of international trade"; and a country is deemed to have a current account deficit when its imports are in excess of its exports. In this scenario, the foreign trading partners who hold net monetary claims can continue to hold their claims as monetary deposits or currency, or they can use the money to buy other financial assets, real property, or equities (stocks) in the trade-deficit country. In essence, the flow of capital is usually in the opposite direction to the goods and services that give rise to them. As stated in UNCTAD [27; P15], "Private capital flows (PCF) consist of three main categories –foreign direct investment, portfolio investment, and one other; the latter including international banking flows"; and that "a compositional breakdown reveals a rise in the role of FDI and portfolio flows and relative decline in international bank lending flows".
On the question of sustainability, Moreno[21] warns that "sudden shifts in capital flows can be devastating"; and UNDP [28,P 86] explains that PCF is highly volatile, capable of creating a financial shock in the event of sudden reversal or sharp decline in capital inflows. This notwithstanding, UNDP[28, P.86] identifies PCFas "an increasing significant source of investment in developing countries, indicating the high degree to which developing countries have become integrated into the global economy and thus, how exposed they are to any financial shock; however, the caveat in Kirabaeva and Razin [29] is apt that "with information asymmetry between foreign and domestic investors, a country which finances its domestic investments through foreign debt or foreign equity portfolio issue will inadequately augment its capital stock"; and that FDI flows have the potential of generating an efficient level of domestic investment.

FDI is defined in World Bank [30] as "the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital"; and UNDP[28, P.88] states that "FDI is by far the most important component of PCF to developing (and transition) economies. By 2009, these economies absorbed almost half of global FDI inflows ; it triggers "technology spillovers", assist human capital formation, contributes to international trade integration, helps to create a more competitive business environment and enhances enterprise development;---all of these contribute to higher economic growth.

In the same vein, FPI is defined as securities and other financial assets that are passively held by foreign investors. This type of investment does not confer direct ownership of financial assets on the investor who, for this reason, cannot have direct right to manage the company. FPI is relatively liquid, depending on the volatility of the market into which the investment is made; and it is most commonly used by investors who do not want to be involved in the management of a firm that is domiciled abroad.[(2)]

Udoh and Egwakhide [31] examined the effect of exchange rate volatility and inflation uncertainty on FDI in Nigeria. They aver that the flow of FDI to developing countries is influenced by complex and interrelated factors which the authors identified as viz:-
The first is the Push Factor Theory which attributes the direction of capital flows to happenings in the international arena; and these include reductions (or a fall) in international interest rates, business cycles in industrialised countries and a rise in international diversification. Additionally, increasing tax burdens in the home countries of multinational corporations has also been found to be a key push factor. In other words, where lower interest rate, for instance, is the observed driving force behind an upsurge of capital flows to a developing economy; the upsurge of capital flow would reverse with heightened interest rates.
The second is the Pull Factor which attributes capital flows to domestic factors, such as autonomous increases in domestic money demand and domestic productivity of capital; improvement in external creditor relations; adoption of sound monetary and fiscal policies; and neighbourhood externalities. Other domestic pull factors are macroeconomic performance; the investment environment; infrastructure and resources; and the quality of institutions.
The third is tagged as Macroeconomic Volatility; and it states that FDI, like other forms of investments, "depends on non-economic factors such as risk, macroeconomic volatility and political instability". This implies that FDI is a forward looking activity, based on investors 'expectations regarding future returns and the confidence that they can place on these returns.
On the basis of the foregoing, the authors formulated their model, which is predicated on the Portfolio Allocation Theory. This theory postulates that foreign investment flows are determined by rates of return and level of risk. The assumption is that investors seek to maximize the present value of their utility, derived from net expected return on a portfolio of capital assets. Using data from CBN, complemented by data from the

World Bank for the period 1970-2005, they estimated their model; and obtained results which indicate that volatility is more persistent in exchange rate. The estimation revealed that FDI responded adversely to exchange rate volatility and inflation uncertainty. The policy implication is the need to pursue stability in exchange rates, and the macro economy, so that increased FDI can be attracted to Nigeria.

Obiechina]32] believes that the motivation, behind formulation of most economic policies is the desire to attain multiple objectives of economic growth, low inflation and sustainable Balance of Payment (BOP), but that these objectives have been constrained over time, by interplay of forces which include level of domestic savings and investments, as well as shortage of foreign exchange. He noted that the emergence of integrated financial markets, enabled by increasing globalization of world economies, has predisposed developing economies to volatility of capital flows with consequent loss of market confidence, which often result in severe financial crisis. He explains that the nature and source of capital flow has a critical role in determining the impact of its surge; and that Foreign Portfolio Investment (FPI), which is becoming a very important component of the BOP of many emerging economies such as China, Hong Kong, India, Singapore, Taiwan, Brazil, South Africa etc, is the most volatile; and its destabilizing effects were the cause of financial crisis, suffered by Mexico in 1994, East Asian Countries in 1997 and Russia in1998. This notwithstanding, the nature of capital flow, over a medium or long term period in an economy, is expected to have influence on the monetary aggregates, inflation, real exchange rates, aggregate output (GDP) and domestic interest rates. Hence the paper posits the need for the design and implementation of proactive policy measures that can forestall the ravaging impact of increasing capital flows, especially Net Portfolio Investment (NPI) in the under-developed Nigerian economy. The paper suggests the under listed measures as policy framework:-
(i) Adequate prudential supervision and regulation, derived from the fact that an increase in capital flows could lead to expansion of bank credit because of increased money balances and bank reserves. The increased commercial bank reserves, in particular, could encourage excessive risks via lending to unprofitable and speculative activities.
(ii) Prudent Fiscal Policy as an effective measure to counter the effect of massive flow of capital, using the tool of stabilization. While the policy option, in instances of destabilization caused by massive short term flows or capital reversals, is imposition of capital controls; the paper notes that, the adoption of prudent fiscal policy should be a temporary measure to sterilize the effect of surge in capital flows or sudden capital reversal; because when capital controls are in place for a long time, they tend to become less effective and may hinder financial system development.
iiii) As a means of assessing the macroeconomic impact of capital flows, the need to understand the composition of the flows and what drives them is emphasised.
(iv)Though the building of large foreign reserve is not sufficient as a solution to financial crisis, it may constitute a temporary solution to an economy, in the face of growing financial market turmoil, external shocks and its consequences on growth. Hence, "developing comprehensive strategies that would forestall macroeconomic volatility, and strengthen an economy's ability to absorb both internal and external shocks is fundamental in managing financial crisis".
(v)A country that opens its economy to capital flows must take necessary steps to cope with vulnerability of capital flows. The steps include liberalization of its capital account in an orderly and structured manner, in line with the country's level of economic development.

IMF [33] affirms the position that "liberalization of capital flows can benefit both source and recipient countries by improving resource allocation, reducing financing costs, increasing competition and accelerating the development of domestic financial systems"(see also Levine [34]; Prasad *et al*[35];Mishkin[25]); and posit what can be described as axioms of international capital flows viz:
(i)"Liberalizing capital flows is generally beneficial but also poses trade-offs". Additionally, liberalisation promotes cross border risk sharing; accelerated development of domestic financial systems due to greater competition; and policy discipline which enhances growth and welfare.
On the other hand, liberalisation can promote an increase in macroeconomic volatility and vulnerability to crisis, especially in emerging economies.
(ii) "In a canonical neoclassical model, capital should flow from rich to poorer countries, where it is relatively scarce, until the marginal product of capital is equalized"; however, such large flows do not occur, because of credit market failures and restrictions on movement of capital.
(iii) Empirical evidence on the benefits of liberalizing capital flows is fairly mixed.
(iv) Each country has its peculiar characteristics on the benefits from capital flows; for instance, foreign capital inflows may be more conducive to economic growth in financially more developed countries or countries with higher human capital.
(v) The main cost of capital flow liberalization is vulnerability to financial crisis, brought on by large and volatile capital flows.

(vi) Many empirical studies do not find a systematic link between crisis and liberalization of capital flows.
(vii) Crisis induced capital outflows are associated with depreciation of the currency and a fall in domestic asset prices; exacerbated by fire sale of domestic assets of over leveraged domestic borrowers, which leads to further pressure on the exchange rate, financial stress, debt crisis and bankruptcies.
(viii) Capital Flow Management Measures (CFM) can play a role, both in redirecting the likelihood of excessive capital inflow surges; and in mitigating their impact.
(ix) The literature on capital controls often indicate that controls on inflows are successful in shifting the composition of liabilities towards less risky flows.
(x) The evidence on the effectiveness of capital controls appears fairly mixed.
(xi) Recent literature suggests that capital controls can reduce the risk of capital inflows.

3 Conceptual Framework and Methodology

3.1 Conceptual Framework

It is conjectured that the trigger of the 2008/2009 financial crash in Nigeria, lies encapsulated and hidden in the statement bySanusi [5] **that** one of the causes of Nigerian banking crisis is macro-economic instability, caused by large and sudden capital inflows [3]. Additionally, Soludo[11] avers that **there was decline in capital inflows to the economy, followed by de-accumulation of foreign reserves and pressure on exchange rates[4].** Thus, as macro-economic instability is inextricably intertwined with financial instability, and consequent upon the position in Mishkin [25] that capital flows can fuel a lending boom which leads to excessive risk-taking on the part of banks; and the position in UNDP[28,P 86] that PCF is highly volatile, capable of creating a financial shock in the event of sudden reversal or sharp decline in capital inflows, this conceptual framework is guided to a critical examination of the Nigerian banking crisis from the viewpoint of Minsky's financial instability hypothesis (see 2.3 above); and the analysis in McCulley [20], on application of the Minsky Typology, is relevant. The analysis shows how Minsky's hypothesis translates to the subprime mortgage crisis--using three types of borrowing categories of the US mortgage market. The first is the hedge borrower, who has a mortgage loan and repaying both principal and interest. The second is the speculative borrower, who has an interest only loan, i.e. he repays only interest and must refinance to repay the principal at a later date. The third is the Ponzi borrower, who has a negative amortization loan; i.e. the repayments would cover neither the interest nor the principal, thus the principal would continuously increase. From the view point of Lenders, funds are provided to Ponzi borrowers because of the belief that housing values would rise continuously. McCulley points out that the progression through the three borrowing stages in the Minsky Typology, was evident in the credit and housing bubbles that became manifest in approximately August 2007. Firstly, the demand for housing was both a cause and effect of rapidly expanding shadow banking system, which helped in funding the shift to more Speculative and Ponzi type of lending in more risky mortgage loans at higher levels of leverage. Secondly, the rapidly expanding shadow banking system, helped to drive the housing bubble, because the ready availability of credit encouraged higher home prices. Thirdly, the burst of the bubble, created a reverse progression in the Minsky Typology—businesses deleveraged; lending standards were raised; and the share of borrowers started to shift gradually from the Speculative and Ponzi to the Hedge types of borrowing.

3.2 Methodology

This paper aims at a search for the hidden truth on the actual trigger of the 2008/2009 banking crisis in Nigeria. In this regard therefore, the paper examines current literature on the causes of the 2007 global financial crisis- - said to be the source of the Nigerian crisis; and proceeds to find answers to the pertinent question of how the global crisis was able to trigger a financial crisis that had devastating effects on the value of financial instruments, financial assets, which investors had acquired through the Nigerian stock exchange; and the overall Nigerian Macro economy. On the basis of existing knowledge of the Nigerian crisis, suitable conjectures are made to inform a decision on the required data for analysis. Being a historical and explanatory study, the utilised data is secondary because they have a pre-established degree of validity and reliability which need not be re-examined. The study derived immense benefit from the World Wide Web, through which most of the materials were freely extracted and freely downloaded; and it was the gate way for purchases of some required materials.

4 Data Presentation and Analysis

The secondary IMF data, which show the volume of FDI and FPI inflows to Nigeria are presented in Tables A and B respectively. The annual data in Table A is for the reviewed perio0d of 1986 to 2011, covering the years

of financial liberalisation in Nigeria. **Table B is the available FPI data, covering the period 2005 to 2011which are within the years of financial liberalisation in Nigeria.**
The data in each Table is grouped to show the trend of their annual and cumulative values.

TABLE A ***FDI INFLOW TO NIGERIA DURING THE PERIOD OF FINANCIAL LIBERALISATION 1986--2011***

% of GDP Value	Year	Value of Net FDI inflows in US Dollars	Cumulative Net FDI Inflows in US Dollars
0.96	1986	**193,214,900**	**193,214,,900**
2.66	1987	**610,552,100**	**803,767,000**
1.66	1988	**378,667,100**	**1,182,434,100**
2.90	1989	**1,884,250,000**	**3,066,684,100**
2.06	1990	**587,882,900**	**3,654,567,000**
2.61	1991	**712,373,400**	**4,366,940.400**
2,74	1992	**896,641,300**	**5,263,581,700**
6.30	1993	**1,345,369,000**	**6,608,950,700**
8.28	1994	**1,959,220,000**	**8,568,170,700**
3.84	1995	**1,079,272,000**	**9,647,442,700**
4.51	1996	**1,593,459,000**	**11,240,901,700**
4.25	1997	**1,539,446,000**	**12,780,347,700**
3.27	1998	**1,051,326,000**	**13,831,673,700**
2.89	1999	**1,004,917,000**	**14,836,590,700**
2.48	2000	**1,140,138,000**	**15,976,728,700**
2.48	2001	**1,190,632,000**	**17,167,360,700**
3.17	2002	**1,874,042,000**	**19,041,402,700**
2.96	2003	**2,005,390,000**	**21,046,792,700**
2.13	2004	**1,874,033,000**	**22,920,825,700**
4.44	2005	**4,982,535,000**	**27,903,360,700**
3.34	2006	**4,854,417,000**	**55,806,721400**
3.64	2007	**6,034,971,000**	**61,841,692,400**
3.96	2008	**8,196,606,000**	**70,038,298,400**
5.07	2009	**8,554,841,000**	**78,593,139,400**
2.65	2010	**6,048,560,000**	**84,641,699,400**
3.62	2011	**8,841,953,000**	**93,483,652,400**

Source: International Monetary Fund, Balance of Payments Statistics Year book and data files.

Extracted 23/5 2015 From Index Mundi (http://www.indexmundi.com/facts/nigeria/foreign-direct-investment**)**

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Table B ***FOREIGN PORTFOLIO INVESTMENT (FPI), NET (BOP Current US DOLLARS) 2005 To 2011***

YEAR	VALUE in US Dollars	Cumulative Net FPI Inflows (in US Dollars)
2005	487,949,800	487,949,800
2006	(1,288,035,000)	**(800,085,200)**
2007	(799,533,800)	**(1,599,619,000)**
2008	3,402,863,000	**1,803,244,000**
2009	345,258,700	**2,148,502,700**
2010	(2,596,027,000)	**(447,524,300)**
2011	(3,540,675,000)	**(3,988,199,300)**

Source: International Monetary Fund, Balance of Payments Statistics Year book and data files.
Extracted on 23/5 2015 From Index Mundi http://www.indexmundi.com/facts/nigeria/portfolio-investment

FIGURE I (GRAPHICAL REPRESENTATION OF TABLE B-- FPI INFLOWS TO NIGERIA 2005 to 2011)

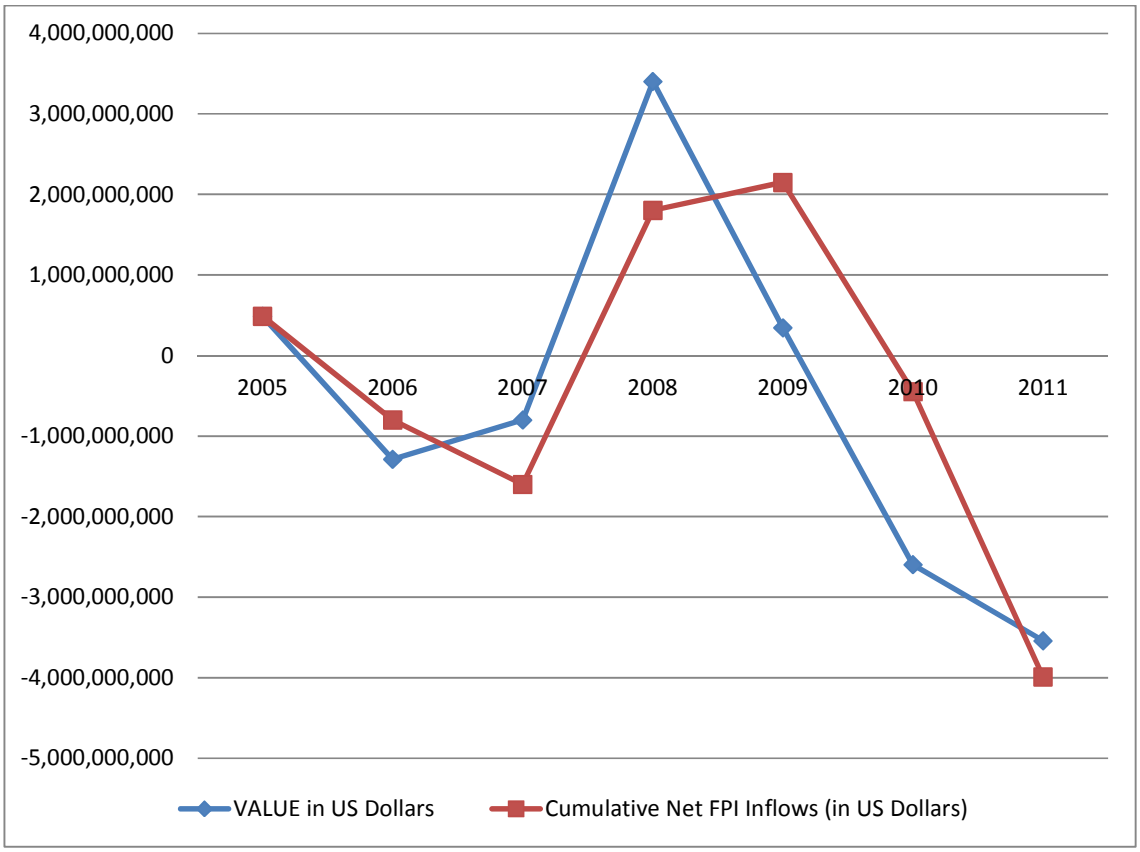

Table A indicate a continuous growth in FDI inflows, the banking crisis notwithstanding; hence, it does not help the search for the trigger of the Nigerian banking crisis.

However, Table B indicates sharp movements in FPI inflows during the period of the financial crash

FPI consist of securities and other financial assets that are passively held by foreign investors; and they are characterised by high volatility.
As shown in the table, annual FPI inflow was at its peak by the end of year 2008 which recorded an inflow of USD3,402,863,000. This was followed by a sharp decline in annual inflow to USD 345,258,700 in year 2009; but the cumulative inflow was at its peak of USD 2,148,502,700. By year 2010—2011, all the investments had been divested, followed apparently, by their repatriation with all the yields, indicating a total capital outflow of USD3,988,199,300 within the two years. It is important to note that while cumulative FPI inflow between 2005 and 2009 amounted to USD2,148,502,700, the capital outflow, generated by the inflow, was USD3,988,199,300 .The movements are illustrated in Figure 1 above.

5 Discussion

5.1 The Precursors to The Trigger

The precursors to trigger of the banking crisis in Nigeria are the remote causes, which are summarised as fraudulent acts in bank lending practice, orchestrated by excess funds in the banking system, money laundering and other unwholesome manipulations that are encapsulated in the term "Financial Shenanigans"(see Kuye et al[3];Sanusi[5], Soludo[11]).

It is important to note that following the banking consolidation directive of the CBN that stipulated minimum paid-up share capital as twenty-five billion naira (see for instance Adeyemi[36]), the banks increased their

authorised share capital and sold shares in the primary market of the Nigerian Stock Exchange to raise funds in their effort to comply with the re-capitalisation directive. In this regard, Sanusi [37, P.98] states that "fresh capital raised between 2006 and first quarter of 2008, amounted to NGN1,603 billion. This, coupled with poor risk management practices, ultimately led to a concentration of assets ----in margin lending and oil trading marketing."; There was excess cash in the banking system; and according to Sanusi [37]"banks were increasingly under pressure to create risk assets, amidst limited product innovation and diversification". In effect, apparently lacking the requisite technical competence to manage the sudden upsurge of funds, the managements of banks became confused; and were unable to create required strategy for profitable deployment of the idle cash. Hence, Okeowo [38], states that "the Nigerian market was too small to accommodate so much money, particularly the margin loans the banks were freely providing. The money corrupted everyone"; and he adds further that "once the big banks established themselves, they, like banks around the world, turned to finding quick sure ways to deploy their capital.----Nigeria's big banks were not financing agriculture and manufacturing; they were profiting on fraud and rampant margin lending."

5.2 The Trigger of The Financial Crash

The excess cash in the banking system was used to induce and stimulate transactions in the stock exchange and the result was a bubble in the stock market. As described in Okeowo [38], "we were giving too much money to people chasing the same assets, the few available assets, and stocks rose abnormally way above their true values. You come with one million naira, make two or three hundred thousand, go to the club, buy champagne, and come again the next day, --"; and the CBN states, in Sanusi [37, P.99], that " Nigerian banks were exposed to the tune of NGN1.6 trillion as at December 2008", to the capital market. Hence, viewed from the perspective of half-hearted compliance with banking regulations, (most of which were breached); the high level of financial shenanigans and other unbridled malpractices, the tendency is to lend credence to widespread speculation of that time, that bank managements advanced huge sums of money to their subsidiary companies and stock brokers for the purpose of inducing speculation in the stock exchange; through manipulation of prices of their own stocks (i.e. shares of the lenders/banks). The borrowers were instructed by the Lenders to utilise the funds in mopping-up operations by purchasing any of the Lenders' shares that were offered for sale in the secondary market. This way, the lenders/banks were able to induce upward movements in prices of target stocks and this enabled attainment of their objective –to obtain a more than commensurate yield from new issues of their shares in the primary market. This was a common practice during the banking consolidation exercise that witnessed several issuances of new shares by most banks who sought for funds through the stock exchange to meet mandatory recapitalisation requirement.

This paper posits that these events provide a fitting example of the progression through the three borrowing stages in the Minsky Typology. First, the high demand for stocks in the secondary market was both a cause and effect of excess funds in the banking system, which provided easy loans to finance speculative demand for stocks. Secondly, the ready availability of bank credit encouraged higher prices for stocks, especially the blue-chips. In particular, the loans, which were granted for the purpose of inducing high prices for target stocks of banks; and similar advances to finance purchases in the stock market, can be classified as Ponzi borrowings. The Speculative and Ponzi borrowings enabled creation of artificial scarcity that encouraged higher prices of target stocks; relative to actual book values. Generally, there was a rise in prices of stocks because of the ready availability of bank credit. In other words,, there was a stock market bubble. Thirdly, the bubble collapsed, following second round effects of the US banking crisis; and the ripple in Nigeria was via massive divestment of FPI in 2008-2009---shown in Table B and illustrated by the graphical representation in Figure 1.The situation is reminiscent of the description in UNTAD [27; P.15] that FPI "reversed direction as the system went into cardiac arrest, fleeing back towards the core countries of global finance that were the epicenter of the crisis"; as well as the position in UNDP[28] that PCF is highly volatile, capable of creating a financial shock in the event of sudden reversal or sharp decline in capital inflows. In other words, FPI manifested its characteristic, as predicted in Moreno [21] that sudden shifts in capital flows can be devastating. Hence, Soludo [11] admits that "**there was a downturn in capital market operations, which witnessed divestment by foreign investors**". This created a panic, resulting to massive rush to divest from the capital market and the consequence was the crash in prices of stocks, including shares of banks that were involved in the bubble. Hence, the reverse progression of the Minsky Typology (i.e. from ponzi to speculative to hedge borrowings) ; was activated, via

loan recalls and other recovery measures by banks. As immediate recovery of the ponzi and speculative borrowings could not be made as urgently desired, coupled with trapped funds in other unrecovered advances in margin loans and oil trading marketing, there was massive erosion of the capital of affected banks, leading to their capital inadequacy and the cash crunch, which created the urgent need for a bailout by CBN.

6 Conclusion and Policy Implication

This paper is the product of a rigorous study, designed to identify the trigger of the 2008/2009 financial crash in Nigeria; and it must be emphasised that the findings are meant to complement, rather than challenge or replace existing postulations and findings that are well documented in the literature.
In the main, this paper postulates that the 2008/2009 financial crash in Nigeria was triggered by sudden divestment of FPI from the economy; and this was aggravated by existing stock market bubble that was created by excess cash in the banking system.

The policy implication is simple, that the monetary authorities should formulate policies that are aimed at controlling excess inflow of FPI into the Nigerian economy. Additionally, there is the evident need for closer supervision by the CBN, of banking operations and, lending activities by Nigerian commercial banks; and to ensure mitigation/ prevention of further incidence of financial shenanigans; as well as other unbridled financial malpractices by bank managements.

NOTES

{1) The ten Nigerian troubled banks are listed in an undated CBN document as Afribank Nig. PLC;Finbank PLC; Intercontinental Bank PLC;Oceanic Bank PLC;Union Bank Nigeria PLC; Bank PHB PLC; Spring Bank PLC; Equatorial Trust Bank PLC;Wema Bank PLC;and Unity Bank PLC. The document is titled *CBN Targets April For Sale of Rescued Banks*. It Is available in the World Wide Web-- http://www.proshareng.com/news/9257.html Extracted 14th October 2015

(2)Definition of Foreign Portfolio Investment--See Investopedia web site http://www.investopedia.com/terms/f/foreign-portfolio-investment-fpi.asp

{3}Sanusi was Governor of the CBN when he made his presentation.

{4}Soludo was Governor of the CBN when he made his presentation

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