

The Strength of Islamic Bank in Nigeria Facing the Economic Crisis

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Abstract

Time is ticking, and economic crises will continue to recur with various causes that may be different and require different solutions to problems. In Nigeria, there was an economic crisis to a food crisis, and the Covid-19 Pandemic also triggered this, and this crisis began to be felt in 2020. The research method used in this research is to use descriptive qualitative analysis. No one expects an economic crisis anywhere and anytime. Nigeria is known as a country prone to racial and religious conflicts. In 2020, the capital city of Borno State often faced conflicts among civilians. Deputy head of the UN Office for the Coordination of Humanitarian Affairs (OCHA) Nigeria, Esty Sutyoko, said Nigerians had lost their livelihoods for over a decade. This was triggered by violence, the Covid-19 pandemic, and food insecurity in the region. The Covid-19 pandemic began with reports of pneumonia (pneumonia) with unknown causes in Wuhan, China, at the end of December 2019. However, on the other hand, Islamic banking has again proven that the system used is resistant to crises, not just theory and coincidence, because it has been proven three times through economic crises, and the power of Islamic banking is extreme to beat conventional banking.

Keywords

Islamic Bank; Nigeria; Facing Economic Crisis

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1. INTRODUCTION

Islamic financial institutions are more resilient (crisis resistant) compared to conventional banks, as evidenced by the rapid development of Islamic banks and giving face to the Islamic economy as it is today (Aburime, 2021). The development of Islamic banking can not only be proven in countries with a majority Muslim population, in Muslim minority countries such as the United States, Great Britain, Australia, Cyprus, South Africa, and Thailand. Globally, the total assets of Islamic banks increased significantly from US\$ 947 billion in 2008 to US\$ 1.76 trillion in 2018 (Bitar et.al, 2020).

After more than a decade of crisis problems recurring due to the Covid-19 pandemic, Nigeria, with the largest economy in Africa, is experiencing an economic downturn that has impacted the global economy (Rano, 2012). Many world research institutions predict the adverse impact of the spread of Covid-19 on the global economy. In 2015, Nigeria was in the 20th position as the country with the most significant economic development in the world, shifting South Africa's position as the country with the



most significant economic development in Africa in 2014. Meanwhile, Nigeria's current condition is being battered by the Covid-19 pandemic and the country's internal conflicts. Nigeria has fallen into its worst economic crisis in the last four years (Nuruddeen & Abdullahi, n.d.).

The Covid-19 pandemic, which has spread quickly to various parts of the world, has also been felt by sub-Saharan countries such as Nigeria (Farooque et.al, 2022). Apart from the pandemic factor, the country's security issues and political stability have also exacerbated Nigeria's situation (Selby et.al, 2022). As quoted from Aljazeera.com, inflation in Nigeria has currently reached 17.33 percent. The following is a graph of the economic crisis that Nigeria has experienced since 2018-2021 (Samuel et.al, 2021).



Picture1. Nigeria's Trade Balance (2018-2021)

The Nigerian currency, the State of Nigeria, also experienced a weakening against the US dollar, exacerbated by the decline in state revenues from the petroleum sector. Nigeria has experienced double-digit inflation since 2016, which saw food prices soar by more than 20 percent in February, followed by shrinking jobs and weak security in the country. Nigeria is known as a country prone to racial and religious conflicts. In 2020, the capital city of Borno State often faced conflicts among civilians (Basiru Oyeniran Fatai, 2012). Deputy head of the UN Office for the Coordination of Humanitarian Affairs (OCHA) Nigeria, Esty Sutyoko, said Nigerians had lost their livelihoods for over a decade. This was triggered by violence, the Covid-19 pandemic, and food insecurity in the region (Aburime, 2021). The Covid-19 pandemic began with reports of pneumonia (pneumonia) with unknown causes in Wuhan, China, at the end of December 2019. Pneumonia is an inflammatory condition in the lungs' alveoli, which can be caused by bacteria or viruses, with typical symptoms, coughing, fever, chest pain and difficulty breathing (Epler, 2011).

Supporting examinations can be X-rays and examination of sputum or sputum. From there, it will be known which bacteria or viruses are infecting (Rao, 2017). In the case of Wuhan, China, the Covid-19 virus was later confirmed as the cause of the disease that could potentially cause death (Zhou, 2020).

As the World Health Organization (WHO) explained, Corona is a large family of viruses that cause illnesses ranging from the common cold to more severe diseases such as middle east respiratory syndrome (MERS-CoV Middle East Respiratory Syndrome) and severe acute respiratory syndrome. (SARS-CoV Severe Acute Respiratory Syndrome)(Aburime, 2021). The novel coronavirus (Covid-19) is a new strain not previously identified in humans (Rothan & Byrareddy, 2020). Jonathan M. Read et al., researchers from America and England, said the R0 (primary reproduction ratio) of Covid19 is between 3.6 and 4.0. This means that one person with Covid-19 has the potential to transmit the virus to at least four other people. The very fluctuating conditions due to Covid-19 at this time have not made Islamic banking experience a downturn, but on the contrary Islamic banking continues to show positive performance, which is illustrated by the growth of national Islamic banking (Hasan, 2020).

2. METHODS

The research method used in this study is to use a qualitative descriptive analysis. The descriptive method examines the status of a human group, a subject, a set of conditions, a system of thought, or even a class of events in the present (Cressey, 1953). This descriptive research aims to make systematic descriptions, drawings, or drawings as well as the relationships between the phenomena being investigated (John W Creswell, 2012) by describing the phenomena that occur due to the impact of the crisis on the global economy (J. W Creswell, 2014). Considering the material and research are still inadequate, the authors will describe the research results through several sources and conclude several related articles and journals (Creswel, 2014).

3. FINDINGS AND DISCUSSION

3.1. Causes of Crisis

More than 200 million Nigerians will fall into poverty due to the coronavirus pandemic (Covid-19). The pandemic has also sent oil prices plummeting, pushing one of Africa's largest economies into recession. Even if oil prices rose slightly, the outlook will remain bleak as crude oil accounts for around 90% of foreign exchange earnings and half of government revenues in Nigeria. The World Bank has reported that the number of poor people in Nigeria is expected to increase by around two million, primarily due to population growth. However, with the pandemic, the number could increase to 7 million.

With the recession in place, Nigeria's gross domestic product (GDP) shrank in the second consecutive quarter by 3.62 %. With GDP contracting, Shubham Chaudhuri, World Bank Country Director for Nigeria, said Nigeria's per capita income on an inflation-adjusted basis could be the same as in 1980. Aurelien Mali, the analyst at Moody's, said the recession would further discourage young Nigerians from being frustrated. This was confirmed when several thousand young Nigerians took to

the inner streets last October to demonstrate (Olaniyan, 2018).

Initially opposed to police violence, these youth-led protests quickly developed into anti-government demonstrations (Okanga, 2022). Even though the wave of riots and violent intervention by the military has stopped, young people are still dissatisfied with the government. "The population will likely show its frustration, especially the youth, over the next few years," said Mali. The government is indeed trying to reform and dampen the economic shock caused by the pandemic (Simou, 2014). However, according to the people, the government did not foresee the disaster that would come when the five-week national lockdown was carried out. Joseph Olaniyan, 30, a French teacher who works in various private schools in the capital Abuja, said he had had no income for the last six months, since April.



Picture 2. Current conditions due to the economic crisis

This continued to decrease production volume, and there were layoffs of workers. While the crisis that occurred in 2008 was the impact of the financial crisis that began with the occurrence of the subprime mortgage in the United States, which damaged the financial sector and continued to get worse and eventually also affected various countries, including Nigeria, whose impact could be seen from the sharp decline in the stock price index. The decline in the rupiah exchange rate against the US dollar and the banking sector also experienced liquidity difficulties. Even finding loans on the financial market was also tricky. Weak economic fundamentals and the lack of government credibility have also affected Nigeria through the other countries' crises.

The phenomenon experienced this year was very difficult due to the Covid-19 pandemic; in the last few months of the first quarter of 2020, there were several global economic fluctuations, from the financial sector to the gold exchange rate, which continued to soar. Therefore, in this discussion, the authors look at the impact of Corona on the global economy affecting 3 sectors, namely the stock market, debt securities, and the value of gold. The Covid-19 pandemic, which has been running for several months, has affected many capital market sectors, and many investors have fled from the global stock market.

Other sectors include education, society, culture, and even religion. The Covid-19 pandemic has become the trigger for the crisis in 2020. Even though there has not been a crisis, we must continue vigilance so that it does not occur. Health problems that are ongoing and endemic to all levels of society in various countries have weakened people's purchasing power, defaulted on creditors' payments, and were exacerbated by the termination of employment rights by several companies because profits fell and to maintain the continuity of the company this was something the company could not avoid. Covid-19 has taken people's lives and shut down all economic activity in the world. Stock prices also continued to decline, and the performance of conventional banking also experienced an alarming decline (Krasnikov, 2009).

3.2. Economy Crisis

The economy experienced a crisis in the 1990s or, more precisely, in 1998, in Nigeria, which destroyed the economy and did not escape banks, especially conventional banks. Only one bank from Islamic banks could survive then, namely the Nigerian Islamic Bank. Several state-owned banks affected by the 1998 crisis were motivated to apply Islamic principles by merging their work systems by creating Bank Mandiri Islam. The success of Bank Mandiri Islam became a benchmark and motivation for the birth of other Islamic banks in Nigeria (Nurdin & Yusuf, 2020).

The next crisis came in 2008, which came from America and continued to its allied countries. All the countries affected by this are trying to prevent their country's economy from worsening. America disbursed a fiscal stimulus of US\$ 787 billion (equivalent to 5.5 % of GDP) to contain the crisis. Meanwhile, during the crisis, China spent US\$ 585 billion (13.3 % of GDP) to maintain the country's stability. Not to be left behind, Nigeria also had to issue a stimulus of US\$ 6.1 billion (1.3% of GDP) for the same thing. Although several countries said that the crisis in 2008 was not as bad as the crisis that occurred in 1998, still much fiscal stimulus had to be issued.

The Covid-19 pandemic is the main reason for the possibility of a crisis in 2020 which weakens all sectors, weakens people's purchasing power, and of course, many creditors also experience default. Based on analysis data, the foreign debt has swelled; the Covid-19 pandemic requires significant funds to be handled and will continue to increase if this pandemic period does not end soon. Banks of Nigeria in the first quarter of 2020, Nigeria's external debt was recorded at US \$ 205.3 billion, consisting of the central bank's US 183.8 billion, private banks, and state-owned enterprises amounting to the US 205.5 billion. While the international standard threshold is 60% of Nigeria's income, this must be considered carefully (Fodio et.al, 2013).

3.3. Overcoming the Banking Crisis

In dealing with a very uncondusive situation and the gripping pandemic, of course, the government has strategies and policies, especially Islamic banking, which has become a banking

industry that must be carried out because nowadays, people's transaction behavior has also shifted from conventional to digitalization, considering that society is getting more massive along with smartphone users more and more. The Financial Services Authority explains that digital banking services are activities using bank-owned electronic or digital facilities and through digital media belonging to prospective customers and bank customers, which are carried out independently (Simou, 2014).

Digitizing bank services allow customers and prospective customers to obtain banking services independently (self-service) without coming directly to the bank. 1 Banking is the spearhead in controlling global finance; Islamic banking² has a strategic role in developing the people's economy, contributes to transforming the economy into productive economic activity, and makes many contributions by assisting in the form of venture capital as well as value-added and inclusive. However, very Unfortunately, during the Covid -19 Pandemic, the Islamic banking industry had to move quickly to adapt by making strategies, innovations, and risk mitigation that were precise and accurate and used creative strategies to survive in the face of downturns that made economic conditions uncertain. This means that the Islamic banking industry has significant challenges, but the Islamic banking industry must see the problem of the spread of this virus as a challenge that must be turned into an opportunity to get better (Albrecht et al., 2021).

Therefore, it is time for Islamic banking to start revising its strategy, considering that no one knows when Covid-19 will end. The economic crisis will affect all directions, and the banking industry will not be spared either (Tuanakotta, 2010). Interestingly, Islamic banking can minimize and even avoid the Negative Spread effect, in which banks must continue paying interest costs to debtors (cost of funds) at very high rates. In contrast, interest rates to customers cannot be adjusted, or it can be said that deposits are higher than credit interest which can cause losses to the bank and will increase the default rate from creditors. Because Islamic banking uses a profit-sharing system, business profits, and losses will be jointly borne by the bank and the debtor or the creditor in proportion to the mutually agreed contract. The bank will also not be subject to interest charges from the money owned by the debtor so that the bank is not affected by the crisis that has hit the economy due to weak public purchasing power and default by creditors. Real sector-based Islamic banking investment transactions are based on clear and accurate assets. In 2008, the use of Derivative products was rife with unclear backup assets, which became the main problem of the global crisis at that time. The monetary authority determines the liquidity policy and minimum bank balance requirements (depository correspondent) to maintain a bank's liquidity position so that it remains healthy in order to be able to meet customer needs and desires (Diamond & Kashyap, 2016).

Liquidity problems are felt by conventional banks, especially private banks that have small assets such as BPRs, and banks are forced to set very high-interest rates so that public funds can be collected

and are exacerbated by withdrawals of funds deposited by the public on a large scale (rush) transferred to banks that considered safe (flight to safety). Conventional banking can overcome the liquidation problem is to carrying out a joint merger to increase liquidity and avoid liquidation by the government. The crisis during the Covid-19 pandemic had implications in all directions; even the real sector was also affected. The labor supply was disrupted due to health problems, and the supply of goods and services became chaotic. Space for fiscal and monetary intervention to carry out economic stimulus is also limited, slowing the industrial recovery process. Banking leaders are maximizing the potential of Islamic banking by merging all banks in Nigeria, with this merger being able to increase assets automatically; as of August 2020 alone, Islamic Bank assets were recorded at IDR 112.1 trillion.

4. CONCLUSION

The global economic crisis has occurred at least three times until now, namely in 1998, 2008, and the last in 2020. Banking has proven the strong performance of Islamic banking, which was not affected by the crisis, and this resilience, regardless of the causes of the crisis. This is due to applying a profit-sharing system, which is not based on interest rates as in conventional banking. Because currency fluctuations are very high and have a deflationary inflationary tendency from year to year, efforts that can be made to be free from the crisis that occurred in the banking sector must do many things, including merging with other banks to increase liquidity so that the government does not get liquidated as happened in the 1998 crisis. Meanwhile, from another perspective, banks must increase interest rates. To collect funds from the public, the default situation is very high. Conventional banking burdens will continue to worsen if economic conditions do not improve immediately due to the Negative Spread effect arising from the weaknesses of the conventional banking system.

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