

**EFFECT OF ECONOMIC RECESSION ON THE
PERFORMANCE OF THE NIGERIAN BANKING INDUSTRY**

BY

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**BEING A DISSERTATION SUBMITTED TO THE
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FEBRUARY, 2018

DECLARATION

I hereby declare that this dissertation is my original work and has not been previously presented wholly or in part for the award of other degrees.

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Signature.....

Date.....

CERTIFICATION

We the undersigned, certify that this research dissertation titled Impact of economic recession on the performance of the Nigerian banking industry (1981-2017): An Empirical Review is the original work of the candidate and has been fully supervised, and found worthy of acceptance in partial fulfillment of the award of Master of Science (M.Sc) Degree in Banking and Finance.

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DEDICATION

This Dissertation is dedicated to Almighty God and His only Son, Jesus Christ; through Him I was able to accomplish this research work.

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ABSTRACT

This study examines the effect of economic recession on the performance of the Nigerian banking industry with the use of annual time series data from 1981-2017. The work utilized loans and advances, bank job loss, reduction in bank branches, number of liquidated banks as the proxies for Economic recession; and return on investment as the proxy for bank performance of which data were obtained and computed from the Central Bank of Nigeria, World Bank Indicators and Nigeria Deposit Insurance Corporation statistical bulletins using aggregated number of banks. The data were analysed using both inferential and descriptive statistics and the formulated hypotheses were tested by means of ordinary least square estimation technique. Based on the analysis of the data, it was revealed that a unit increase in the loans and advances and reduction in bank branches can lead to 2.36% and 2.05% increase in the level of return on investments. Also, it was found that there is significant relationship between loans and advances, reduction in bank branches and return on investments. Besides, there is no significant relationship between the number of liquidated banks, bank job loss and return on investments. On the basis of the above, it was recommended among others that the regulatory agencies of banks in Nigeria should continue in their quest in liquidating non-performing banks since this study has shown that the number of liquidated banks have not contributed significantly to the level of return on investments of the Nigerian banking industry. As a matter of fact, banks in Nigeria should not be discouraged to build their employee capacity since this study has shown that bank job loss have not contribute significantly to the level of return on investments of the Nigerian banking industry.

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CHAPTER ONE

INTRODUCTION

1.1. Background to the Study

Every economy (country) is affected by business cycle (or economic cycle). Business cycle refers to economy-wide (nationwide) fluctuations in production, trade and general economic activities over medium-to-long-term in a free market system. Free market economy is one where there is no government intervention in economic activities; rather demand and supply interact to correct disequilibrium (anomalies) in the market. The business cycle is the upward and downward movements of levels of gross domestic product (GDP), and refers to the period of expansions and contractions in the level of economic activities (business fluctuations) around its long-term growth trend. These fluctuations involve shifts over time between periods of relatively rapid economic growth (boom), and periods of relative stagnation or decline (a contraction or recession).

The collapse of the economic ideology of free market forces is the most important reasons of economic recession; the economic recession has the potential to escalate into unmanageable proportions for the financial system dominated by banking sector, which reflect many facts such as global aggregate demand has fallen while commodity prices collapsed (Ashamu and Abiola, 2012). The economic recession which has many causes, which to a large extent interact into each other when the value of financial assets sudden wide-scale drop or in the financial institutions managing those assets, and often in both, its noted that economic recession may be has a variety of causes and factors such as negative investment sentiment, fear or panic and this led to that some financial institutions or assets suddenly lose a large part of their value for example (Maiwada, 2013, Batrancea et al., 2014).

Recession is a business cycle contraction, and it refers to a general slowdown in economic activity for two consecutive quarters. During recession, there is usually a decline in certain macroeconomic indicators such as GDP, employment, investment spending,

capacity utilization, household income, business income, and inflation, with the attendant increase in the rate of unemployment. Technically, when an economy recorded two consecutive quarters of negative growth in real GDP, it can be said to be in recession. GDP is the market value of all legitimately recognized final goods and services produced in the country in a given period of time, usually one year.

Since the advent of economic recession in Nigeria, the economy continues to break records on the downside. Inflation was at 18.63 percent being the highest in 11 years. Foreign reserves currently at N24.5Bn are their lowest in 11 years at which time the country's GDP stood at US\$112Bn, less than a quarter of where it stands today. The naira continues to hit new lows against international currencies, the National Bureau of Statistics has stated that Q2 capital importation of \$647.1 million fell by 76 percent relative to the second quarter of 2015 and is the lowest level on record and finally it is predicted that Nigeria's economy may shrink by 1.7 percent in 2017 which would mark a full year in recession last seen 25 years ago.

Economic recession according to National Bureau of Economic Research (NBER) (2015) is "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in a real gross domestic product (GDP), real income, employment, industrial production and wholesale-retail sales." Economic Recessions generally occur when there is a widespread drop in spending (an adverse demand shock). This may be triggered by various events, such as a financial crisis, an external trade shock, an adverse supply shock or the bursting of an economic bubble (Wikipedia, 2011).

Economic recession can also be defined as a negative real Gross Domestic Product growth rate lasting for more than two consecutive quarters (first and second quarters) (Noko, 2016). He noted that there's a drop in the following five economic indicators: real GDP, income, employment, manufacturing, and retail sales. Noko (2016) argued that recession cannot only be determined by negative real GDP growth rate since a recession can quietly begin before the quarterly Real GDP is out.

Discussing Economic Recession on Nigeria Macroeconomic performance Udeh (2011) sees recession from the angle of persistent inflation when he noted that, recession is a generalized increase in the level of price sustained over a long period in an economy, that is, a persistent rise in the price levels of commodities and services, leading to a fall in the currency's purchasing power. In the context of Nigeria, Recession has been attributed to many factors, Noko (2016) argued that Nigeria current recession is caused by poor economic policy, fall in oil output due to activities of the Niger – Delta militants and subsequent fall in oil price, others include over dependence on oil export, inflation due to ban on some basic foods like rice, and infrastructural decay in the country.

It is worthy of note that during the period of economic recessions there is reduction in bank branches, increased number of job loss in banks, increase in number of liquidated banks, merger and acquisition will be skyrocketing the state of general economic downturn.

Nwuzor (2016) noted that during the period of economic recession, economic hardship knows no limits and boundaries, it affects livelihood of everybody in one-way or the other, and this naturally gives impetus to survival strategies as people work harder and more effectively to tackle the new economic situation. Families with little or no investment to resist the effect of recession are most likely to be hit severely – but there are ways this unfortunate condition could be managed. It reduced income during period of economic recession leads to reduced employment, health care, and social amenities that often leads to general reduction in well-being (Noko, 2016).

Because during economic recession there is slow in economic activities, poor circular flow of money resulting to low earnings by the households. This ultimately reduces their social and economic well-being especially the low income households and as such often led the low income households to start looking for alternative sources of income to support their families towards improving their well-being (Nwuzor, 2016).

The direct effect of the economic recession on Nigeria economies has thus far been enormous as most commercial banks in the country refrained from loan and advances. This

is why most commentators argue that Nigeria is so far insulated from the direct effects of economic recession.

(Caprio et al., 2014) investigated economic recession in different countries and found that the recent crisis has four major features similar to the earlier ones: in most countries, the asset prices grew significantly before the crisis; the several key economies experienced the credit booms in the pre-crisis period; there was a high expansion in a variety of marginal loans; the regulation and the supervision of financial institutions failed to keep up with developments. These researchers also found that the recent crisis differs from the previous in four main aspects: there was a widespread use of complex and opaque financial instruments; the interconnectedness among financial markets nationally and internationally had increased in a short time period; the financial institutions' leverage accelerated sharply; the households played a central role.

The economic and financial development of a country has the direct implications for banks' profitability. During the recession, the demand for loans declines together with the demand for investments. At the same time, the decline in asset prices and the sharp increase in bank job loss leads to more loan delinquencies, charge-offs, and loan loss provisions, directly reducing banks' profits. When the economic recovery gains traction, the loan demand strengthens, albeit moderately. At the same time, better economic conditions and balance-sheet repair improves the borrowers' credit quality, allowing banks to release loan reserves and boost earnings (Federal Reserve Bank of Chicago, 2014). As the profitability of banks and the credit risk parameters of the debtors are highly related, (Castro, 2013) has shown that the credit risk of banks loan portfolio depends especially on the economic environment

Since distress crept into the banking system in the early 1990s culminating in liquidation of some banks, depositors have been the major casualties whenever a bank ails terminally. According to the CBN report, by June 2004, about 25 of the 89 banks in the system were dead. This confirms rumour making the round over seven years ago that there was widespread distress in the banking sub-sector. Many banks reportedly recourse to name dropping of other banks at that time. It is quite unimaginable what would have

happened to the economy if over a quarter of the banks had gone down with depositor's money. Emma, (2013) stated that between 1892 and 1952, the issue of dominance of the industry by expatriate banks and that of setting up of a viable and strong indigenous bank was the main problem. As many as 25 indigenous banks were set-up between 1972 and 1952 with only 3 surviving beyond 5 years of their inception. Most banks failed in this period as a result of inadequate capital, poor management fraud, rapid expansion of branches and over trading aggressive competition by expatriate banks and inadequate supervision by the government. This period has come to be known as the first fall of banking in Nigeria. Since the 1960's bank failure or liquidation seemed to have no doubt become a Siamese twin of the critical economic effects on the banking industry in Nigeria. However the number of banks officially classified as problems banks especially in recent times have continually to be of serious concern to the government and the regulatory authorities. By the end of 1991 for example 8 banks (more than 6% of the insured banks in Nigeria) were officially classified as distressed (i.e technically insolvent) (CBN, 2010). By the end of 1996 the number of banks has increased to 50. A situation which was in no double a visible expression of a complex set of inter-related problems. This pathetic situation led to the recapitalization increase in 1996, and eventual liquidation of about 26 of these banks in 1997, among which were financial merchant bank. Alpha Merchant Bank, capital Merchant Bank and United commercial Bank whose licenses were withdrawn even before the liquidation date. This calamity has created fear not only on the customers of the banks affected but also on all banks customers about the general instability and illiquidity threatening the sector which has led to loss of confidence in the sector (Ajayi, 2016) Chambers dictionary defined liquidation as the termination of a business operation by using its assets to discharge its liabilities. Hori and Takahashi (2014) define liquidation as the process of converting a business real asset into cash. This definition means that when a banks is terminated or bankrupt. Its assets are sold and proceeds pay to creditors. By law, liquidation is the process by which a company or part of a company is brought its liabilities. Banking crises may have cause serve macroeconomic consequences in Nigeria but a framework for convincingly demonstrating that consequence in the real economies has

proven abortive. Hence, the issue of how banking failures are linked to liquidation is of a great interest in banking industry stability and this can as a result lead to reduction in bank branches which has been triggered by a decline in economic activities. As in Mason (2015), when a bank fails a trustee is charged with selling assets maximizing creditors returns. Hence, each period the trustee can sell assets at the current market price or wait another period and incur a positive opportunity cost. In this manner bank failures transform liquid deposits into illiquid investment with uncertain maturity. The longer it takes to return funds to depositors, the longer funds remain unavailable for investment or consumption.

If banks are short of liquidity, they will be less willing to lend money to firms and consumers. In particular, banks will be reluctant to lend to business which are taking risky investments. Therefore, firms who wish to borrow money to finance investment may find it difficult to get a satisfactory loan. As a consequence, the firm will reduce investment and employ few workers. If there is a significant fall in loans and advances, then this will lead to lower economic growth and higher job loss.

1.2 Statement of the Problem

Since the problem of the use of credit contraction by foreign banks began, the Nigerian banking system has seriously been entangled in a financial crisis. At a time, the banks were unable to carry out their statutory function in the Nigerian economy. Like most developing countries, Nigeria felt the effect of the financial crisis largely through trade and capital flows because of the openness of the economy and the near total reliance on crude oil exports for government revenue and foreign exchange earnings. The news of the financial crisis came as a shock to the Nigerian economy. This is because, prior to the recession, the Nigerian banking industry experienced remarkable changes after the consolidation exercise. Shortly after the recapitalization of the capital base in the industry, the public confidence in the industry became very high which can be seen from the increase in bank's depositors' funds. Thus, the banks went into project financing in the real sector of the Nigerian economy.

Therefore, they were able to support the process of economic growth and development of Nigeria. Before the consolidation exercise started in 2005, the Nigerian banking industry witnessed a lot of stress, uncertainty and anxiety. Investor's and depositor's funds were not guaranteed, thereby making many of the banks to come under stress due to capital inadequacy. Moreover, the value of investor shares in the Stock Market was also depreciating. These problems greatly impaired the quality of the bank's assets as non-performing assets became unbearable and became huge burdens on many of the banks. The financial intermediation role of the banks became heavily impaired while the macroeconomic activities seriously slowed down. This eroded the confidence of the general public which used to be a great asset of the banking sector in the past.

It was against this background, that the Central Bank of Nigeria (CBN) announced a major reform in the entire Nigerian banking industry and economy. The recapitalization of the capital base of banks constituted the first phase of the reform policy in the entire banking sector of the Nigerian economy. Though, the impact of the crisis through the financial system was not as direct or devastating as those of developing and emerging market economies where there was a near obliteration of the entire financial system because of the limited integration with the global financial markets. However, when the impact of the crisis permeated Nigeria's financial system, the soundness and stability of the system was seriously threatened prompting a decisive intervention of the Central Bank of Nigeria (CBN) to mitigate the emerging crisis and restore public confidence. The aim of this research study therefore was to ascertain the effect of economic recession on the performance of the Nigerian banking industry.

The economic and financial development of a country has the direct implications for banks' profitability. During the recession, the demand for loans declines together with the demand for investments. At the same time, the decline in asset prices and the sharp increase in bank job loss leads to more loan delinquencies, charge-offs, and loan loss provisions, directly reducing banks' profits. When the economic recovery gains traction, the loan demand strengthens, albeit moderately. At the same time, better economic

conditions and balance-sheet repair improves the borrowers' credit quality, allowing banks to release loan reserves and boost earnings (Federal Reserve Bank of Chicago, 2014). As the profitability of banks and the credit risk parameters of the debtors are highly related, (Castro, 2013) has shown that the credit risk of banks loan portfolio depends especially on the economic environment.

1.3 Research Questions

Based on the crises experienced in the banking industry in the post consolidation on which was fueled partly by the economic recession, this study intend to find answers to the following research questions;

1. What impact does the loans and advances have on return on investment of the Nigerian banking industry?
2. What impact does the number of liquidated banks have on return on investment of the Nigerian banking industry?
3. What impact does bank job loss have on return on investment of the Nigerian banking industry?
4. What impact does reduction in bank branches have on return on investment of the Nigerian banking industry?

1.4 Objectives of the Study

The aim of the study was to ascertain the effect of economic recession on the performance of the Nigeria Banking Industry.

The specific objectives are to:

1. Examine the extent to which the loans and advances has affected the return on investments of the Nigerian banking industry.
2. Determine the extent to which the number of liquidated banks has affected the return on investments of the Nigerian banking industry.

3. Ascertain the extent to which bank job loss has affected the return on investments of the Nigerian banking industry.
4. Assess the extent to which reduction in bank branches has affected the return on investments of the Nigerian banking industry

1.5 Research Hypotheses

Ho₁: There is no significant relationship between the loans and advances and return on investments of the Nigerian banking industry

Ho₂: There is no significant relationship between the number of liquidated banks and return on investments of the Nigerian banking industry.

Ho₃: There is no significant relationship between bank job loss and return on investments of the Nigerian banking industry

Ho₄: There is no significant relationship between reduction in bank branches and return on investments of the Nigerian banking industry

1.6 The Scope of the Study

This research seeks to evaluate the effect of economic recession on the performance of the Nigerian banking industry. The study covered a period of 37 years (1981-2017) of aggregated number of banks, using secondary data of an annually Time series data. Sourced from Central Bank of Nigeria (CBN) statistical bulletin, World Bank Development Indicators and Nigerian Deposit Insurance Corporation (NDIC) statistical bulletin.

1.7. Significance of the Study

This research work is significant in that

- i. It provides the government insight over the problems, causes and impacts of economic recession.
- ii. It ensures bridges are enunciated to bind the gap created by the crunch in Nigerian Banking Industry.

iii. It provides Central bank of Nigeria and its ally's detailed information on the extent the crunch strained the gains that were made in the banking sector as well as the economy of Nigeria.

iv. It provides fundamental guidelines to policy makers, bankers, investors as well as student.

v. It enables reservoir of retrieval of materials for academia, resources persons, and interest group.

vi. It creates awareness about the situation of the economy in prospective as well reports in real terms.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This Chapter reviews relevant literatures that are related to the subject matter. Issues to be reviewed amongst other things are the meaning of economic recession, the Genesis of economic recession, reasons for the economic recession, and Major causes of economic recession. economic recession and the Nigeria Banking experience, empirical and theoretical Framework of the Study.

2.2 Conceptual framework

2.2.1 Regulatory institutions in the Nigerian banking industry

The Nigerian banking industry plays a very important role in the economic growth and development of Nigeria. This role has been enormous, particularly since the adoption of the structural adjustment program in the mid 1980's (Idehai, 2013). Since banking institutions in the financial system are directly related to the economic system, it is imperative that the government, through the various regulatory bodies, keeps a watchful eye on the system so as to eliminate all forms of deficiencies and malpractice that could destroy the entire system. In addition to this, banks' regulatory institutions determine the performance of the entire banking system. This section will therefore address the role of two major regulatory institutions in the Nigerian banking industry.

Central Bank of Nigeria

The Central Bank of Nigeria (CBN) plays a vital role in the Nigerian banking industry. Osiegbu (2015) argued that the performance of banks depends on the governmental monetary policy, implemented by the Central Bank of Nigeria. He argued further that, one of the traditional functions of the Central Bank of Nigeria is to manage the nation's money and economy through the use of monetary regulations. These are specifically designed to regulate and control the volume, cost and direction of the money and lending in the entire economy. These assertions were further buttressed by Nnanna (2014), who claimed that the success of the CBN to effectively implement the monetary policies depends on the

mandate of the Central Bank of Nigeria as specified in the CBN Act of 1958. He pointed them out as follows:

- I. To maintain the Nigerian external reserves
- II. To promote monetary stability and sound financial structure in the banking industry.
- III. To safe guard the international bale of the currency.
- IV. To act as a banker and financial adviser to the federal government of Nigeria.
- V. Ensuring that banks keep adequacy of equity, liquidity and reserve funds.
- VI. Regulating the lending pattern of banks to foreign and indigenous enterprise.

The Central Bank is generally regarded as the hub of the monetary and banking system of each country. Therefore, the stability of the entire system depends on how effectively the CBN discharges it mandated role in the banking industry.

Nigeria Deposit Insurance Corporation (NDIC)

Ogunleye (2014) pointed out that the establishment of NDIC was driven by the need to reform the banking industry in the Nigerian economy. Most especially, one purpose was to provide polices relating to bank shareholder funds because of the bitter experience of bank distress in Nigeria and the lessons from other countries with bank deposit insurance schemes. He emphasized specifically that the institution was established to provide the following functions in the Nigerian banking industry:

- a. Insuring all deposit liabilities of licensed banks and other financial institutions operating in Nigeria so as to create confidence and trust in the mind of the public.
- b. Giving assistance in the interest of depositors, in the case of imminent or actual financial difficulties of banks, particularly where suspension of payments is threatened and avoiding damage to public confidence in the banking system. Such assistance include the following:

- I. Taking over the management of a distressed bank.
- II. Specific changes recommended to be made in the management of the distressed banks.
- III. Recommending cases of merger and acquisition in cases of distress or financial weakness.
- IV. Guaranteeing payments to depositors in case of imminent or actual suspension of payment by insured banks or financial institutions, up to the maximum amount of #50,000 of assessable deposit of an insured bank in the event of a failure.
- V. Assisting monetary authorities in the formulation and implementation of banking policies so as to ensure sound banking practice and fair competition of money banks in the country.

Ogunleye (2014) emphasized further that, the institution has made impacts in two areas, namely in developing banks' directors and top management as well as assisting in banking with serious distress. The crucial role of this institution is to assist banks in mobilizing deposit money from the public for lending purposes.

2.2.2 Reasons for Economic recession

The reasons for this financial crisis are varied, complex and largely attributed to a number of factors in both the housing and credit markets, which developed over an extended period of time. Though the global meltdown is generally attributed to the subprime mortgage crisis of 2007, other scholars have been precipitated by so many other factors that have been brewing up for over a decade. (Osaze and Adamu, 2014) reconciled that the crisis was caused by complex credit mortgage products, which include Collateralised Debt Obligations, Residential Mortgage Backed Securities (RMBS) and other Asset Backed Securities (ABS), in the USA and their effects on hedge funds worldwide. (Jickling, 2013) opined that speculative excesses and error can cause liquidity to dry up and disrupt markets. (Chossudovsky, and Adamu, 2015) blamed speculation (which involves buying stocks with the hope that it will increase in profit) as one of the causes of

the crises, especially real estate speculation. The financial meltdown is intimately related to the unregulated growth of high leveraged speculative operations. Chossudovsky further iterated the cause to a totally deregulated financial environment characterized by extensive speculative trade and dates the history of deregulation back to the beginning of the Regan's Administration. This economic crisis is the outcome of a process of macroeconomic and financial restructuring initiative in the early 1980s, it is the result of a policy framework, trade and financial sector reforms under World Trade Organization (WTO) auspices, not to mention the imposition of the International Monetary Fund's (IMF) deadly macroeconomic reforms commonly referred to as the Structural Adjustment program (SAP). According to Crotty (2013) as also viewed by Adamu (2014), is a globally integrated system of giant bank conglomerates and the so called shadow banking system of investment of investment banks, hedge funds and bank create Special Investment Vehicle (SIV). This makes excessive risk to build up in giant banks during the boom and the NFA generated high leverage and high systemic risk with channels of contagion that transmitted problems in the US sub-prime mortgage market around the world. Other factors that have been blamed for the economic recession include poor credit rating, high risk loan, government policies and the growing bubble in the capital market that defied correction.

Although the events leading to the financial crisis are connecting, the attribution of these events to only one factor provides an incomplete picture; there is no doubt that the balance sheet deterioration of financial intermediaries also played an important role.

2.2.3 Challenges of the banking industry before the economic recession

Before the economic recession spread into the Nigerian banking industry, the banks had passed through different kinds of reforms and restructuring policies initiated by the Nigerian government through the Central Bank of Nigerian. The reforms gave the banks a lot of challenging issues, because for the first time in the history of the Nigerian banking

sector such major reforms were introduced. Some of these challenging issues preceded the economic recession in the sector.

Returns on investment: According to Adeyemi (2015), after the consolidation period, a lot of challenging issues came up for the banks with the minimum capitalization of 25billion naira. This, he contended, made the managements of the banks to operate under pressure from shareholders who needed quick and maximum returns on their shares. He argued further that, before the consolidation exercise, the average returns on invested capital (ROIC) in the Nigerian banking industry was estimated to be about 38%. With the substantial increase in shareholder fund following from the consolidation exercise, each bank needed to generate an averaged minimum of 9.5billion naira in profit before tax in order to maintain the same rate of return.

System integration: Adeyemi (2015) also argued that after the merger and acquisition exercise, integration poses a lot of challenges to the banking institutions that are involved. He argued that most of the consolidated banks lacked the flexibility to respond to global banking challenges that requires technical skills for good judgments on asset management. Furthermore, he contended that the integration of the operation, processes, procedures, people and products as well as allowing the consuming public to see the 12emerging entity as one group is a daunting challenge which the consolidation banks had to face. In relation to this, Hall (2014) pointed out that experience of consolidation from developed countries shows that the integration of system and human capital sometime takes between 3 to 4 years. Therefore, the urgency at which the CBN carried out the exercise, coupled with the need to have a computerised operation was a basic challenging issue in the banks. Adeyemi (2015) further buttressed his argument that, financial players in the banking industry have constantly argued that computerisation of the entire sector will cost a total of 300 billion naira and some of the banks have already commenced the exercise. He contended that, the successful consolidation and system integration of the 25 big banks notwithstanding, system integration is also required in other sectors like telecommunication, insurance, trade

and commerce, power supply, fiscal policy etc. The absence of this would come with the tendencies for disruption in the entire macro-economic development.

Human capital Integration: According to Nnanna (2014) harmonisation of cultural differences in the merging banks is a big challenge that needs to be addressed. This is because the merging banks will come with their different attitudes, processes and priorities. He argued further that where integration is not properly done it could lead to disintegration and collapse of banks. This argument is further buttressed by Adeyemi (2015) who argues that two-thirds of mergers worldwide fail due to irreconcilable differences in corporate culture and management squabble. Therefore, the emergence of mega banks in the post consolidation era was an uphill task which required the skills and competencies of boards and management. In the light of this, the integration of human capital in consolidated banks became a burden which a lot of the big banks contended with before the present economic meltdown (Osunkeye, 2014).

Short term view of banking stocks: According to Mobolaji (2013) investors who subscribed to bank shares in the consolidation exercise took a short term view of the bank stocks because they invested in the IPO of banks with the intention of making quick money. He added further that these investors were basically gambling on short term volatility which fundamentals of consolidation do not support. These kinds of short-term appreciation particular with shareholders of consolidated banks are some of the challenges banks faced in the post consolidation era. Aluko (2009) buttressed this assertion when he pointed out that the short term investment by shareholders made bank shares to be heavily traded on the floor of the Nigerian stock exchange, with cases of buy back of shares.

Corporate governance: The CBN financial report (2005) pointed out that a survey of the Nigerian economy by the SEC shows that about 40% of quoted companies in the stock exchange market, including banks, have no recognized code of corporate governance in place. In addition to this, two thirds of mergers worldwide are said to fail due to inability to integrate personnel and systems as well as irreconcilable differences in corporate culture

and management squabbles. These are the reason why banking experts say that unless the CBN releases codes of corporate governance, the post consolidation banking sector would still contend with the challenges of high turnover in board and management staff, inaccurate reporting and non-publication of annual accounts.

Re- capitalization: According to Soludo (2005) one of the conditions for participating in the management of the nations external reserve is to re-capitalize to the tune of one billion US dollar. In addition, he stated that any foreign bank that is wishing to manage Nigerian external reserves in the succeeding year must be ready to partner with one or more local banks to develop them into world class players. In contrast, local Banks that recapitalized to the tune of one billion US dollars will receive at least five hundred million US dollar from the reserves to manage. In order to meet the post consolidation requirement some the banks approached the Nigerian stock exchange market either through public offers or right issues. For instance Zenith Bank and Guaranty Trust Bank in early 2008 raised additional fund from the stock market to comply with these directives.

Stock market: According to Al-Faki (2015) the consolidation and the spring up of highly capitalised mega-banks has had tremendous concentration effects on the NSE; a development which he says could exacerbate market volatility and instability. He further remarked that SEC and the NSE must constantly monitor the market for signs of weakness in order to protect investors. In addition, he noted that consolidation would create mega banks that would threaten the competing market space with monopolistic tendencies, remarking that SEC will have to be particularly active to prevent this.

2.2.4 Causes of Economic Recession

Many factors accounted for the present economic recession. This study will attempt to discuss some of the causes briefly.

I. Liquidity: Excess liquidity in the United State of America's financial system made institutions lend to sub-prime borrowers in droves because they wanted quick returns on investor funds. This resulted in cases of poor judgments by lenders,

speculation in the financial market, and higher personal and corporate debt with disregards to sound regulation (Aluko, 2014).

II. Credit Contraction: Banks and other financial institutions restored to credit contraction when 25% of the loans granted turned out to be bad loans and 9.5% of all mortgages loans were reported to be delinquent (Komolafe, 2008). The use of this financial instrument minimized the amount of credit that was made available to prospective consumers, particularly when financial institutions were facing difficulties in recovering doubtful debt from the public. According to Soludo (2015) the use of credit contraction made it harder for customers to obtain credit facilities from banks and other financial institution.

III. Stock Market: The financial institutions in the United States of America did not prevent what could be regarded as over-size corporate risks which slacked and created turmoil in the stock market of the United State of America. This made the stock market inaccessible to raise fresh funds for capital investments. Even the existing stock of investors was consistently depreciating in values, which resulted into loss of confidence and interest in the capital market by investors (Aluko, 2014)

IV. Pressure to raise funds: The reckless lending led to serious capital inadequacy in many of the financial institutions. And their inability to raise funds from the capital market created another problem. This is what led to credit line recalls by various banks and financial institution across the globe (Soludo, 2015).

2.2.5 Determinants of banks' performance in an economy

A Bank's performance is measured by its capacity to maximize returns on investor's funds. In the Nigerian economy bank performance is determined by a number of factors, namely lending rates, deposit rate, management effect, ownership and control, market structure etc (Somayo & Ilo, 2013). In order to have an effective and efficient financial system both the banks and the regulatory institutions exert a lot of concerted efforts. This accounted for the reason why the CBN initiated the consolidation exercise in 2005.

Lending Rate: This is the rate of interest at which a Bank lends to its customers. In Nigeria, banks' major roles are financial intermediation and promoting the payment system to

ensure efficient and effective allocation of depositor's money. Banks' objectives are to give out loans because they need to generate income to meet the minimum rate of return on investor funds. Banks make the bulk of their income from lending out depositors' money. However, the volume of loan grants by banks depends on size, depositor's base, liquidity, credit policy and internal factors (Ologunde, 2016).

Depositors Rate: This is defined as the interest paid on cash deposited by customers (Freixas & Rochet, 2013). According to Ogunleye (2014) banks' deposits depend on a number of factors namely, public perception of the soundness of banks, the prevailing rate paid on deposits by the banks and the rate of inflation. He emphasized that the volume of deposits that banks receive determines their ability to grant loans and generate income, and that at the peak of business boom in the Nigerian banking industry deposit fund reflects a substantial amount on the balance sheets of many of the banks. He finally mentioned that the NDIC was established to protect depositor funds in the various Banks.

Ownership and control: Ownership, direct intervention and control in the internal management of banks are a major determinant in banks performance in any economy. Before the recapitalization exercise, ownership contributed to the financial distress in some of the Nigerian banks (Idehai, 2013). Ownership and control of banks is determined by the shareholders of banks. The shareholders constitute the Boards of Directors and also appoint the chairman of Boards of Directors. One outstanding feature of this determinant is that individuals or corporate bodies with larger numbers of shares exert considerable influences on most of the bank decision (Idahosa, 2013).

Management effects: Banks need highly competent personnel to handle products in a fiercely competitive market environment. Good management of banks ensures that the bank complies with all regulatory rules governing banking operation in the system. In addition, the management teams study the major macroeconomic indicators, to know when and how to invest shareholders funds to maximum return on investments (Ologunde, 2014).

Market Structure: Bank market structure refers to the number and the characteristics of the sellers and buyers of products. The bank market structure reveals a relationship between the level of development of the banking sector of the economy and its long term output

growth. In a highly concentrated market, the structure of the market is believed to have a positive effect on cooperative profits (Atemnkeng & Nzongang, 2015).

2.2.6 The Impact of Economic Recession on Nigeria

The integration of different countries' economies made any crisis in one country's economy to spread to other economies of the world. This became more evident when the crisis occurred in the more advanced countries of America and Europe

I. Liquidity and credit crunch: The use of credit contraction by financial institution in Europe and United States of America led to serious liquidity and credit crunches in almost all the financial industry across the globe. Liquidity and credit crunches manifest strongly among the investment banks that act as intermediaries to companies and investors in London and other parts of the world (Komolafe, 2013).

II. Credit Lines recall: When financial institution could not approach the stock exchange for fresh capital and the need for capital adequacy in their balance sheet became necessary, the banks and institutions began the process of recalling their credit lines which they had extended to other banks and institutions. Credit lines are facilities given to banks to boost their foreign exchange transactions. In the past, credit lines were usually not recalled immediately but gradually. But this time, because of the present global financial crisis, and its effects on the balance of banks, they had to recall these credits lines immediately (Soludo, 2015).

III. Financial Institutions Revenue contraction: Bank liquidity is characterized by a high level of trading, and therefore the amount of liquid assets held by a bank determines its capacity to meet customers' demands (Iganiga, 2015). One major outcome of credit recalls by banks and financial institutions was a liquidity crisis in various banks across the globe. As a result of this, banks could not meet their customer's demands for loans and advances that could have earned them revenue.

IV. Capital market downturn: The use of credit contraction to contain credit facilities by banks and institutions, led to disinvestments by foreign investors and the collapse of stock markets across the globe (Aluko,2014).

From the above analysis it became obvious that the crisis was well spread, despite having its roots in the United State of America. And this was made possible because of improvements in communication and globalizations concepts.

2.2.7 Pressure Points for Banks

Pressure Points for Banks were:

- i. Liquidity Pressures.
- ii. Potential Toxic Assets due mainly to capital market lending.
- iii. Economic meltdown: impact on quality and growth rate of balance sheet (higher loan-loss provisioning, lower profitability, and depletion of capital).
- iv. Possible contagion effects of global crisis of confidence.
- v. Exchange Rate risks.
- vi. Counter-party risks.
- vii. Challenges of frozen global capital flows, including overpriced lines of credit.
- viii. Surviving the unguarded media onslaught/ de-marketing campaign. (Soludo, 2013) noted further outcomes as follows; No bank has failed or gone out of clearing, total outstanding borrowing on Expanded Discount Window as at March 26, 2009 is N370 billion, Banks total exposure to Capital market as at end January 2009 is N 784 billion or 10% of total loans,

Banks total risk assets as at end of Feb. 2009 = N12.78trn. Non-performing risk assets as at end Feb. 2009 = 4.74%, Banks total loans as at end of Feb. 2009 = N 8.13trn, Total Non-performing loans as percentage of total as at Feb. 28, 2009 = 6.2%, Estimated non-performing loans as at end of December 2009 = about 7.4%. Amount banks are prepared to turn over to an Asset management company (AMCON) if such were set up by end of

the year = N350, N 400 billion or approx 4-5% of loans as at Feb. 2009. About 15 banks would have no need for AMCON. Of those that indicated interest in AMCON, there is hardly any for which it would threaten their solvency, CAMELS rating of the banks as at end- December 2008, showed an average composite score of 62 per cent and average industry rating is satisfactory. Total shareholders' fund as at end of December 2008 was Average capital adequacy ratio of 22 percent, among the highest in the world.

2.3 Theoretical Framework

The following are various theories on economic recession on both banks and financial markets:

2.3.1 Learning and Herding Models on Recession

According to (Banerjee, 2013) many models seek to explain the position of asset values and iterated that the asset value may spiral excessively up or down as investors learn from each other. Banerjee noted that purchase of an asset by a few agents often prompts other buyers to invest in that same asset, and not because the true value of the asset actually increases during buying periods, but because investors come to believe that the true value of the asset is high when they observe others purchasing them. Banerjee call the later, "Strategic complementarity" which he refers to "these models that seek to explain asset value by a few agent". Accordingly, (Chari and Kahoe, 2013) fined that an important fact about Herding Models is that investors although fully rational, only have access to partial information about the economy. In this models when a few investors buy some type of assets, it implies that they have some Positive information about that asset and this increase the rational incentive of others to buy the asset too. The duo noted that although this is a fully rational decision, it may sometimes lead to mistakenly high asset values and a subsequent market crash, given that the first investors may, by chance have made a mistake. According to (Cypriani and Guarino, 2015) in adaptive learning or adaptive expectations models, investors are assumed to be imperfectly rational, basing their reasoning on recent experience only. On the basis of such reasoning if the price of a given asset rises for some

period of time, there is a tendency for investors to believe that its price always rises. Consequently, their tendencies to buy increase and thus drive up the price further. By the same token, observing a few price decreases may give rise to a downward price spiral. However, in a model of this kind, large fluctuations in asset prices may occur on the basis of adaptive learning expectations. In their words, (Mckinnon and Shaw, 2016) observed that economic recession is correlated with sluggish growth in developing economies. (Nnanna and Dogo, (2017) further asserted that such economies are characterized by high and volatile inflation and distorted interest and exchange rate structures low savings and investments and low level of financial intermediation. Financial deepening which runs counter to financial meltdown implies the ability of financial institutions like banks to effectively mobilized savings for investment purposes. (Nnanna and Doga, 2017) purported that financial deepening represents a system free from financial repression (meltdown). Their findings established the fact that negative real interest rates did not encourage greater investments but rather encouraged the bank to be more risk averse and more hesitant to lend.

2.3.2. Minsky and Marxist Theories on Economic Recession

In Minsky and Marxist theories separate opinions, John and Cooper (2015), hold that Hyman Minsky proposed a post-Keynesian explanation that is most applicable to a closed economy. In their relatives, financial fragility is a typical feature of any capitalist economy and that the degree of fragility has implication for the occurrence of a financial crisis. He iterates that high fragility leads to a higher risk of a financial crisis. Minsky further identified three approaches to financing which firms may choose, depending on their tolerance of risk. They include, Hedge Finance, where income flows are expected to meet financial obligations in every period, including the principal and interest on loans; Speculative Finance, in which a firm is expected to roll over its debt because income flows

are expected to cover only interest costs, with none of the principal paid off, and Ponzi Finance, where expected income flows will not even cover interest cost. Furthermore, the firm is forced to borrow more or sell off assets in order to service its debt with the hope that either the market value of asset or income will rise high enough to pay off interest and principal. Cooper and John elucidate further that financial fragility levels move together with the business cycle, which consist of Recession, Depression, Recovery and Boom. After a recession, firms having lost much financing, may chose only to hedge, the safest. However as the economy grows and expected profit rise, firms begin to believe that they can cope with speculative financing since they know that the profits will not cover all the interest all the time. But firms anticipate a rise in the profit and when that happens, the loans will eventually be repaid without much trouble. Increase in loan portfolio stimulates investment and a subsequent economic growth, through the multiplier effect. In the same vein, lenders also start to have confidence that they will still recover all their lending. Hence, they are ready to part with the firms without full guarantee of success. In other words although lenders know that such firms will have problems repaying still they are optimistic that these firms will refinance from elsewhere as their expected profit rise. In this direction the economy has taken on enough risk credit and it is only a question of time before some big firms start defaulting, this is the perspective of Ponzi financing. He observes that when firms begin to default, lenders stop giving credit very easily owing to their understanding of the actual risks in the economy. Therefore, financing becomes impossible for many, and more firms default. If no new money comes into the economy to allow the refinancing process, a real economic crisis begins with devastating impact on all the sectors of the economy, including the financial sector according to them. During recession firms will begin to hedge and thus bring the cycle to a close. In Marxian's theory, (Eichenbaun, Rebelo and Burnside, 2013), resulted that recession can precipitate financial crises which precedes depression, they iterate that the Recurrent major depressions in the world economy at the pace of 20 and 50 years have been the subject of studies since the first theory of crisis was proposed between 1773 and 1842 by jean Charles Leonard de Sismondi in a critique of classical political economy's assumption of equilibrium between

supply and demand. Burnside, et al (2013) discover that development in an economic crisis theory becomes the central recurring concept throughout Karl Marx mature work, which asserted that there is a tendency for the rate of profit to fall. Marx theory borrowed many features from John Stuart Mills's discussion of the tendency of profit to a minimum, (principles of political economy Book IV Capt IV). In their words, empirical and econometric researches on financial crisis are ongoing especially in the world system theory and in the debate about Nikolai Kondratiev and his popular theory on 50 years Kondratiev waves. Accordingly, (Moore, 2016) explained that "a bank needs to hold liquid assets to meet the cash requirements of its customers ... if the institution does not have the resources to satisfy its customers' demand, then it either has to borrow on the inter-bank market or the central bank". It follows therefore that a bank unable to meet its customers' demands leaves itself exposed to a run and more importantly, a systemic lack of confidence in the banking system. Bordo et al (2014) suggest two explanations on the cause of liquidity runs on deposit money banks. They explained that runs on banks are a function of mob psychology or panic, such that if there is an expectation of financial crisis and people take panic actions in anticipation of the crisis, the financial crisis becomes inevitable. Bordo et al also "asserts that crises are an intrinsic part of the business cycle and result from shocks to economic fundamentals. When the economy goes into a recession or depression, asset returns are expected to fall. Borrowers will have difficulty repaying loans and depositors, anticipating an increase in defaults or non-performing loans, will try to protect their wealth by withdrawing bank deposits. Banks are caught between the illiquidity of their assets (loans) and the liquidity of their liabilities (deposits) and may become insolvent." Using a single bank, (Diamond and Dybvig 2014), developed a model which showed that bank deposit contracts can provide allocations superior to those of interbank markets, offering an explanation of how banks subject to runs can attract deposits. (Brighi 2016), however show that abandoning the hypothesis of a single bank increases the relevance of the interbank market. Further, the probability of a banking crisis at a single bank decreases when interbank transactions are introduced - relative to a stand-alone bank. Indeed, (Diamond and Dybvig 2014) acknowledge that "if many banks were introduced into the

model, then there would be a role for liquidity risk-sharing among banks". According to (Brighi, 2016), in a theoretical framework where liquidity crises are not only caused by bank runs, and where there is uncertainty about the proportion of depositors who may want to withdraw deposits, doing away with the assumption of an autarchic banking system decreases the risk of bank failure as a single bank on its own would be unable to meet depositors' demands. To manage their liquidity risk and take decisions on how much cash and other liquid assets they should hold, Agenor et al (2016) hypothesize that "banks internalize the fact that they can draw funds from either the interbank market or the central bank in case of unexpected contingencies." They added that in the event of illiquidity, banks must borrow the missing reserves at a penalty rate; this is the opportunity cost of not holding sufficient reserves. Peter examined the impacts of the global financial crisis on the Nigerian banking industry before and after the financial crisis. Findings obtained from the research show that the banking sector before the global financial crisis was sound and vibrant enough to support the nation's economic growth and development. This is evident from the questionnaire that was distributed to stakeholders in the banking industry. However, the crisis has eroded the confidence of the general public in the Nigerian banking industry, despite their consolidation. Even the Nigerian Stock Market (NSM) which is expected to act as buffer of fund is not left out of the financial crisis. He argued that the banks became vulnerable because of their over reliance on foreign financial institution and banks for credit lines. Peter suggested that to avoid this, the Nigerian government through the CBN should organize and strengthen the growth of institutions like the pension fund, Housing fund, Health insurance fund through a financial liberalization policy. Furthermore, the Nigerian government should find alternative ways to fund budget deficit so as to reduce the pressure of financing projects in the real sector of the Nigerian economy by banks. The recent time global financial crisis and its impact on the Nigerian Banking Sector has shown that CBN's daily forecasts of Banking Sector liquidity is not sufficient in assessing the liquidity requirements of the sector as several banks remain relatively fragile and incapable of withstanding periodic liquidity shocks. According to Alford "Following the special examination and during the period from December 2008 to

December 2009, Nigerian banks wrote off loans equivalent to 66% of their total capital; most of these write offs occurred in the eight banks receiving loans from the CBN". Most of the banks also suffered panic runs and flights to safety during the period. A point to note in the above analysis is that findings were inconclusive due to the closeness of the research to the incidence of the financial crisis. However, this research project will embrace a much larger time period.

2.4 Empirical Framework

Here are some empirical literatures based on this work which were linked to the performance of the Nigerian banking industry.

Loan and advances is a serious threat to the performance of banks; therefore various researchers have examined the impact of loan and advances on banks in varying dimensions.

Kargi (2014) evaluated the impact of loan and advances on the profitability of Nigerian banks. Financial ratios as measures of bank performance and loan and advances were collected from the annual reports and accounts of sampled banks from 2004-2008 and analyzed using descriptive, correlation and regression techniques. The findings revealed that loan and advances has a significant impact on the profitability of Nigerian banks. It concluded that banks' profitability is inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress. Epure and Lafuente (2015) examined bank performance in the presence of risk for Costa-Rican banking industry during 1998-2007. The results showed that performance improvements follow regulatory changes and that risk explains differences in banks and non-performing loans negatively affect efficiency and return on investment while the capital adequacy ratio has a positive impact on the net interest margin. Kithinji (2013) assessed the effect of loan and advances on the profitability of commercial banks in Kenya. Data on the amount of credit, level of non-performing loans and profits were collected for the period 2004 to 2008. The findings revealed that the bulk of the profits of commercial banks are not influenced by the amount of loans and non-performing loans,

therefore suggesting that other variables other than credit and non-performing loans impact on profits. Chen and Pan (2013) examined the credit risk efficiency of 34 Taiwanese commercial banks over the period 2005-2008. Their study used financial ratio to assess the credit risk and was analyzed using Data Envelopment Analysis (DEA). The credit risk parameters were credit risk technical efficiency (CR-TE), credit risk allocative efficiency (CR-AE), and credit risk cost efficiency (CR-CE). The results indicated that only one bank is efficient in all types of efficiencies over the evaluated periods. Overall, the DEA results show relatively low average efficiency levels in CR-TE, CR-AE and CR-CE in 2008.

Felix and Claudine (2014) investigated the relationship between bank performance and credit risk management. It could be inferred from their findings that return on equity (ROE) and return on assets (ROA) both measuring profitability were inversely related to the ratio of non-performing loan to total loan of financial institutions thereby leading to a decline in profitability.

Ahmad and Ariff (2016) examined the key determinants of loan and advances of commercial banks on emerging economy banking systems compared with the developed economies. The study found that regulation is important for banking systems that offer multi-products and services; management quality is critical in the cases of loan-dominant banks in emerging economies. An increase in loan loss provision is also considered to be a significant determinant of potential loan and advances. The study further highlighted that credit risk in emerging economy banks is higher than that in developed economies.

Al-Khouri (2013) assessed the impact of bank's specific risk characteristics, and the overall banking environment on the performance of 43 commercial banks operating in 6 of the Gulf Cooperation Council (GCC) countries over the period 1998-2008. Using fixed effect regression analysis, results showed that credit risk, liquidity risk and capital risk are the major factors that affect bank performance when profitability is measured by return on assets while the only risk that affects profitability when measured by return on equity is liquidity risk. Ben-Naceur and Omran (2015) in attempt to examine the influence of bank regulations, concentration, financial and institutional development on commercial banks' margin and profitability in Middle East and North Africa (MENA) countries from 1989-

2005 found that bank capitalization and loan and advances have positive and significant impact on banks' net interest margin, cost efficiency and profitability.

Ahmed, Takeda and Shawn (2013) in their study found that loan loss provision has a significant positive influence on non-performing loans. Therefore, an increase in loan loss provision indicates an increase in loan and advances and deterioration in the quality of loans consequently affecting bank performance adversely. The development of banking activities in Nigeria can be classified as free banking era, regulated banking era, deregulated banking era, consolidated banking era and post consolidated banking era (Somoye, 2015).

Ayodele (2015) used descriptive survey to study the emerging structure of Nigerian Banking Industry from 2007 to date. The study found that the structure of Nigerian Banking industry stability is the way in which the parts of banking industry are been connected together, arranged or organized so that the goal of the establishment will be attained. This is because the aim of arrangement of the banking industry is to ensure stability and quality services providing in the banking industry of the country so as to meet up with the vision 2020.

Jonathan Emenike & Victor Malaolu (2013) also investigated the impact of informality on bank performance and it was identified that informality has no significant impact bank performance. (Using panel data regression model). Asedioten (2015) opined that Recapitalization may raise liquidity in short term but will not guarantee a conducive macroeconomic environment required to ensure high asset quality and good profitability. In his comment, Soludo (2015) said that low capitalization of the banks has made them less able to Finance the economy and more prone to the unethical and unprofessional practices. These include poor loan quality of up to 24% of shareholder fund compared to 1-2 percent in Europe and America, overtrading abandoning the true function of banking to focus on quick profit ventures such as trading in force and titling their funding support in favor of import – export trade instead of manufacturing; reliance on unstable public sector fund for

their deposit base, forcing their Female marketing staff in an unwholesome conduct to meet unjustifiable targets in deposit mobilization, and high cost of fund.

Jika (2014) as cited in Aminu and Aderinokun (2013) maintained that increasing the capital base of bank in Nigeria would strengthen them and in the process deepen activities within the industry. Growing the Nigeria economy is about the number of banks that have the capacity to operate in all states of the Federation, fund agriculture and manufacturing concern and in the process, generate employment for Nigerians.

According to Adeneura, Ogbulu and Ndugbu (2013), Bank performance implies the ability of a bank to realize its predetermined objectives within a given period of time. Furthermore, Ruse (2014) noted that a fair evaluation of any bank's performance should start by evaluating whether it has been able to achieve the objectives set by the management and shareholders. Generally, bank performance over the years has been measured in terms of three major indications or variables, namely, profitability, Return on Equity (ROE) and Return on asset (ROA). Nicolai and Bazley (1997) posited that the amount of net income earned in relation to total assets is an indication of how efficient a company uses its economic resources. Brevley, Myers and Marcus (2004) affirmed that most managers' measures the performance of their banks by the ratio of net income to total assets otherwise referred to as ROA.

Kolapo, Ayeni and Oke (2015) carried out an empirical investigation into the qualitative effect of credit risk on the performance of commercial banks in Nigeria over the period of 11 years (2000-2010) using 5 commercial banking firms. Panel model analysis was used to estimate the determinants of the profit function. The results showed that the effect of credit risk on bank performance measured by the Return on Assets of banks is cross sectional invariant. That is the effect is similar across the banks in Nigeria, though the degree to which individual banks are affected is not captured by the method of analysis employed in the study. Mohammed (2014) studied the impact of corporate governance on the performance of banks in Nigeria. The study made use of secondary data obtained from the financial reports of Nine (9) banks for a period of 10 years (2001-2010). The data were

analyzed using multiple regression analysis. The study supported the Hypothesis that cooperate governance positively affects performance of banks.

Abaenewe, Ogbulu and Ndugbu (2013) investigated the profitability performance of Nigeria banks following the full adoption of electronic banking system, using Judgmental sampling method to collect data from 4 Nigeria banks. The profitability performances of the banks were measured in terms of returns on equity (ROE) and returns on assets (ROA). The study found that the adoption of electronic banking has positively and significantly improved the returns on equity (ROE) of Nigeria banks. While it has not significantly improved the returns on assets.(ROA)

2.5 Literature Gap

The gap which this research has filled is the number of years covered in this work. It covers 37 years (1981-2017) as the span of study and most recent, as against other works that end their research in 2015 and for some few years. Having a longer span of study which was extended to 2017. Therefore seeing reasons why it is appropriate to suggest the need for government intervention in Nigeria in order to fully insulate the economy against the contagious effects on the Nigerian banking industry.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

Here the study dealt with the methodology and model employed to evaluate all areas of the study. The choice of research design and the nature of data given determine the possible weight in the phenomena under study. Suffice to say that the study examines the nature, type and sources of data used in the research; the method of data presentation, the method of data analysis as well as the specification of models were employed in the study. It discusses the research methods that were employed as well as provide the models and the analytical tools that were also employed in the study.

3.2 population and sample size

This research work looked into the Nigerian banking industry growth as the dependent variable measured by return on investment, and economic recession as the independent variables measured by loan and advances, number of liquidated banks, bank job loss, and reduction in bank branches for a period of 38 years (1981-2017).

3.3 Research Design

The research design covered the population of the study sample and sampling design. The study is a longitudinal survey and research design is *expost Facto*, since, the researcher is not in any position to alter the independent variables. The research was directed towards the determination of the effect of economic recession on the growth of the Nigerian banking industry.

3.4 Method of Data Collection

These data are: return on investment which stood as a proxy for the Nigerian banking industry performance and loan and advances, numbers of liquidated banks, bank job loss, and reduction in bank branches as proxies for economic recession.

3.5 Method of Data Analysis

The study dealt with the methods and mode employed to evaluate all areas of the study. The data obtained were analysed using both inferential and descriptive statistics and formulated hypotheses tested with the Ordinary Least Square estimation technique. The analysis was done via the STATA 13.0 statistical software.

3.6. Model Specification

3.6.1. The model specification was concerned with analyzing the effect of economic recession (loan and advances, number of liquidated banks, bank job loss, reduction in bank branches) on the performance of the Nigerian banking industry (return on investment). Hence, the regression model below was specified:

$$ROI = f(LAD, NLB, BJL, RBB)$$
$$ROI_t = \alpha_0 + \alpha_1 LAD_t + \alpha_2 NLB_t + \alpha_3 BJL_t + \alpha_4 RBB_t + \epsilon_t$$

Where:

ROI = Return on Investments (dependent variable)

While the independent variables are:

LAD = Loans and Advances of Banks

NLB = Number of Liquidated Banks

BJL = Bank Job Loss

RBB = Reduction in Bank Branches

ϵ_t = Error Term

3.7. Summary

However, all the independent variables (loans and advances, number of liquidated banks, bank job loss and reduction in bank branches) were logged in order to reduce scaling problem since the dependent variable (return on investments) is computed in ratio. The period under study spanned from 1981 – 2017. The research analysis was carried out using the STATA 13.0 econometric statistical package.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter considered the presentation and analysis of data from economic recession and the growth of the Nigerian banking industry for the period of 1981-2017, collected from the Central Bank of Nigeria (CBN) statistical bulletin, World Bank Development Indicators and Nigerian Deposit Insurance Corporation (NDIC) statistical bulletin. This part of the research work is necessary in order to test the validity of the hypotheses stated in chapter one.

4.2 Data Presentation

Table 4.2.1: Dependent and independent variables for Bank performance in Nigeria (1981-2017)

PERIOD	ROI	LogLAD	LogNLB	LogBJL	LogRBB
1981	0.054798	0	0.301030	0.000000	0.000000
1982	0.043896	1.5551	0.477121	1.544068	2.086360
1983	0.456348	1.6454	0.301030	1.643453	2.068186
1984	0.667245	1.7649	0.000000	1.763428	2.149219
1985	0.120318	2.0603	0.000000	2.056905	1.681241
1986	0.096554	2.5724	0.698970	2.436163	1.845098
1987	0.068657	2.6927	0.903090	2.465383	2.064458
1988	0.217001	2.8195	0.698970	2.413300	2.262451
1989	0.218989	3.5707	1.041393	2.354108	2.278754
1990	0.215031	3.6749	0.845098	2.285557	1.929419
1991	0.179099	3.7754	0.000000	2.204120	1.924279
1992	0.209345	3.2777	0.000000	2.103804	2.399674
1993	0.231454	4.0378	0.000000	1.973128	1.919078
1994	0.324787	3.2047	0.000000	1.785330	1.653213
1995	0.120318	3.9375	0.000000	1.447158	1.544068
1996	0.096554	3.6446	0.000000	1.698970	1.602060
1997	0.068657	4.0476	1.000000	1.579784	0.000000
1998	0.217001	4.0738	0.000000	1.851258	2.346353
1999	0.218989	3.8750	0.000000	2.017033	0.000000
2000	0.215031	4.0473	1.556303	2.136721	0.903090
PERIOD	ROI	LogLAD	LogNLB	LogBJL	LogRBB
2001	0.179099	4.0914	0.000000	2.230449	0.000000
2002	1.456938	3.9514	0.000000	2.307496	2.912222
2003	1.669613	4.0512	0.000000	2.372912	2.374748
2004	0.597584	4.5330	1.079181	2.429752	2.389166

2005	0.534459	4.2070	1.806180	2.480007	2.332438
2006	0.512982	4.3852	0.301030	2.525045	2.371068
2007	0.579370	4.4356	0.000000	2.565848	2.371068
2008	0.580440	4.6677	0.000000	2.603144	2.348305
2009	0.341781	4.1929	0.000000	2.637490	2.389166
2010	0.231891	4.2190	0.000000	2.669317	2.371068
2011	0.209345	4.3006	0.000000	2.699838	2.336460
2012	0.231454	4.3537	0.000000	2.726727	2.423246
2013	0.342577	5.8692	0.000000	2.752048	2.442480
2014	1.456938	5.9950	0.000000	2.775974	2.423246
2015	1.669613	6.0925	0.301030	2.798651	2.440909
2016	0.597584	6.1417	0.000000	2.820201	2.396199
2017	1.382024	6.0915	0.000000	2.840733	2.336460

Source: Central Bank of Nigeria, World Bank & Nigeria Deposit Insurance Corporation Statistical Bulletins

Table 4.2.1 reports the data for economic recession (loans and advances, number of liquidated banks, bank job loss and reduction in bank branches) and the Nigerian banking industry performance (return on investments). From the above table, it was observed that in 1981, loans and advances was 1.5551 and in 1982 it increased to 1.6454. In 1984, it increased again to 1.7649 with a continuous increase till 1998. In subsequent periods such as 1989-2000, it increased with a slight drop in 1994 (3.2047) when compared with these periods. The periods 2001-2017 experienced a dramatic increase in the loans and advances of the Nigerian banking industry. However, the period 2016 recorded the highest remarkable (6.1417) increase in the level of loans and advances of the Nigerian banking industry. In terms of number of liquidated banks, in 1981, the number of liquidated banks was 2, increased in 1982 to 3, and reduced back to 2 in 1983. There was later an increase in 1987 to 8 and reduced in 1988 back to 5, increased again in 1989 to 11 and dropped in 1990 to 7. There was none recorded in 1991. It later increased to 10 in 1997 and none in 1998 and 1999 but increased much more in 2000 to 36 and none in 2001 and 2002; just 1 in 2003, increased in 2004 to 12 and increased much more in 2005 to 64. It reduced in 2006 to 2 due to the merger and acquisition process down to 2009; there was none recorded in 2010, 1 was recorded, it dropped to 0 in 2011 down to 2015 were 2 and 1 in 2016 and 2017 respectively.

Furthermore, the highest number of bank job loss was recorded in earlier periods of 2011-2017 with values 501.0 in 2011, 533.0 in 2012, 565.0 in 2013, 597.0 in 2014, 629.0 in 2015, 661.0 in 2016 and 693.0 in 2017. In respective increases in the number of bank job loss may be attributable to the closure of some bank branches that were not performing effectively and efficiently by the statutory body regulating the Nigerian banking industry. In the case of reduction in bank branches, it was observed that the periods 2002, 2013 and 2015 recorded the highest number of bank branches reduction in the Nigerian banking industry. For instance, in 2002, it was observed that 817 bank branches were closed, in 2013, 277 and in 2015, 276. This closure or reduction in the bank branches depicts the high level of regulation of this industry in Nigeria. Besides, return on investments, in 1981, return on investment was 0.054798 and in 1983 it increased to 0.456348. In 1985, it reduced to 0.120318 and later in 1988 there was a slight increase up to 1995 were it dropped back to 0.120318 and 1998 it increased to 0.217001 and reduced in 2007 to 0.579370; but in 2002, there was an increase that moved it to 1.456938 and in 2004, it dropped again to 0.597584. While in 2014 and 2016, it increased to 1.456938 and 1.669613 and later dropped in 2017 to 1.382024.

4.3 Data Analysis

The data analysis dealt with the descriptive statistics, skewness/kurtosis tests for normality, Pearson correlation, heteroskedasticity and unit root test results

4.3.1 Analysis of Descriptive Statistics

Table 4.3.1: Descriptive Statistics of Dependent & Independent Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Roi	37	.4490207	.4671599	.043896	1.669613
Loglad	37	3.833943	1.336357	0	6.1417
Lognlb	37	.3056872	.487996	0	1.80618
Logbji	37	2.216089	.548263	0	2.840733
Logrbb	37	1.927439	.7665727	0	2.912222

Source: Statistical Software – STATA, 2018

Table 4.3.1 presents the descriptive statistics of the dependent and independent variables of the study. The mean return on investments (roi) was .04490 with standard deviation of 0.4672. It is obvious from the descriptive statistics that the maximum return on investments was 1.6696 which occurred in 2003. The loans and advances (lad) was 3.8339 with standard deviation value of 1.3364. It is clear from the descriptive statistics that the maximum loans and advances was 6.1417 which occurred in 2016. Furthermore, the mean values for number of liquidated banks (nlb), bank job loss (bjl) and reduction in bank branches (rbb) were 0.3057, 2.2161 and 1.9274 respectively while the standard deviation values for nlb, bjl and rbb were 0.4880, 0.5498 and 0.7666 respectively. Besides, the gargantuan variation of the variables over the period under review was captured by the maximum and minimum values.

The maximum value for lad was ₦6.1417, nlb (64), bjl (693) and rbb (817)) while the minimum values for the variables were 0, indicating periods where there were no data reported. The implication is that there were significant variations in all the variables over the period under review. Besides, the standard deviation is an indication that all the variables are not constant over time. In view of the fact that all the variables are not constant during the period, the relationship between economic recession and performance of the Nigerian banking industry was permissible.

4.3.2 Skewness/Kurtosis Tests for Normality

Table 4.3.2: Skweness/Kurtosis Test of Normality of the Dependent and Independent

Variables	_____joint_____					
	Variable	Obs	Pr (Skewness)	Pr (Kurtosis)	adj chi2 (2)	Prob>chi2
Roi	37		0.0002	0.0519	13.50	0.0012
Loglad	37		0.1683	0.1708	3.99	0.1361
Lognlb	37		0.0004	0.0525	12.74	0.0017
Logbjl	37		0.0001	0.0005	20.41	0.0000
Logrbb	37		0.0002	0.0305	14.51	0.0007

Source: Statistical Software – STATA, 2018

The skewness/kurtosis test of normality of the dependent and independent variables are presented in table 4.3.2. The kurtosis, roi (0.0519), lad (0.1708), nlb (0.0525), bjl (0.0005) and rbb (0.0305) are platykurtic. This implies the presence of fatter tail than the normal distribution. The distribution of a series is said to be leptokurtic when the kurtosis is greater than three (3) but platykurtic when the kurtosis is less than three (3). A variable is said to be normally distributed on the basis of the kurtosis when the value is exactly three (3). From the above, it shows that none of the variables were exactly three (3); hence since none of the variables satisfies the condition of the normality, it is observed that they are not normally distributed. Hence, we conducted a statistical test in order to resolve the normality problem of the dependent and independent variables.

4.3.3 Correlation Matrix Results

Table 4.3.3: Correlation Matrix Result

	roi	loglad	lognlb	logbjl	logrbb
roi	1.0000				
loglad	0.5017	1.0000			
lognlb	-0.1879	-0.1325	1.0000		
logbjl	0.4068	0.7554	-0.0233	1.0000	
logrbb	0.4345	0.3432	-0.1335	0.6099	1.0000

Source: Statistical Software – STATA, 2018

The correlation matrix was used to test for the presence/absence of multi-collinearity among the dependent, independent and control variables of the study. Multi-collinearity implies interdependence among independent variables. It is an econometric problem that nullifies the result of the ordinary least square and leads to wrong statistical implications as well as misleading policy decisions in research. Thus, to examine the presence/absence of interdependence among the variables, a pair-wise correlation test was performed. The result revealed that there is the association between each pair of the variables employed. Thus, the correlation matrix revealed that all the other variables (lad, bjl and rbb) were positively correlated with roi except nlb. Also, variable of lad correlation coefficients

exceeded 0.7, suggesting the presence of multi-colinearity among the variables under investigation. Furthermore, we conducted heteroskedasticity test so as to resolve the multi-colinearity problem.

4.3.4 Heteroskedasticity Results

Table 4.3.4: Variance Inflator Factor (VIF)

Variable	VIF	1/VIF
Logbjl	3.61	0.277154
Loglad	2.58	0.388057
Logrbb	1.75	0.572443
Lognlb	1.07	0.930578
Mean VIF	2.25	

Source: Statistical Software: STATA Output, 2018

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of roi

Chi2 (1) = 8.52

Prob > chi2 = 0.0035

From table 4.3.4, the mean VIF for all the variables did not exceed the standardized VIF level ($2.25 < 10.0$) and the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity ($\text{chi2} = 8.52 > 0.0035$), suggests that there is no heteroscedasticity problem between the dependent and independent variables of the study.

4.3.5 Unit Root Tests

Table 4.3.5: Unit Root Test for roi

Dickey-Fuller test for unit root		Number of obs = 36		
		Interpolated Dickey-Fuller		
Test		1% Critical	5% Critical	10% Critical
Statistic		Value	Value	Value
Z(t)	-2.777	-3.675	-2.969	-2.617

Mackinnon approximate p-value for Z(t) = 0.0616

Source: Statistical Software: STATA Output, 2018

The Augmented Dicker Fuller (ADF) test at first difference I(1) for roi is $-2.777 < 2.960$ at 0.05 level of significance, this shows unit root and that the series is not stationary.

Table 4.3.6: Unit Root Test for lad

Dickey-Fuller test for unit root		Number of obs = 36		
		Interpolated Dickey-Fuller		
Test		1% Critical	5% Critical	10% Critical
Statistic		Value	Value	Value
Z(t)	-2.634	-3.675	-2.969	-2.617

Mackinnon approximate p-value for Z(t) = 0.0861

Source: Statistical Software: STATA Output, 2018

The Augmented Dicker Fuller (ADF) test at first difference I(1) for lad is $-2.634 < 2.960$ at 0.05 level of significance, this shows unit root and that the series is not stationary.

Table 4.3.7: Unit Root Test for nlb

Dickey-Fuller test for unit root		Number of obs = 36		
		Interpolated Dickey-Fuller		
Test		1% Critical	5% Critical	10% Critical
Statistic		Value	Value	Value
Z(t)	-4.449	-3.675	-2.969	-2.617

Mackinnon approximate p-value for Z(t) = 0.0002

Source: Statistical Software: STATA Output, 2018

The Augmented Dicker Fuller (ADF) test at first difference I(1) for nlb is $-4.449 > 2.960$ at 0.05 level of significance, this shows no unit root and that the series is stationary.

Table 4.3.8: Unit Root Test for bjl

Dickey-Fuller test for unit root		Number of obs = 36		
		Interpolated Dickey-Fuller		
Test		1% Critical	5% Critical	10% Critical
Statistic		Value	Value	Value
Z(t)	-5.499	-3.675	-2.969	-2.617
Mackinnon approximate p-value for Z(t) = 0.0000				

Source: Statistical Software: STATA Output, 2018

The Augmented Dicker Fuller (ADF) test at first difference I(1) for bjl is $-5.498 > 2.960$ at 0.05 level of significance, this shows no unit root and that the series is stationary.

Table 4.3.9: Unit Root Test for rbb

Dickey-Fuller test for unit root		Number of obs = 36		
		Interpolated Dickey-Fuller		
Test		1% Critical	5% Critical	10% Critical
Statistic		Value	Value	Value
Z(t)	-5.172	-3.675	-2.969	-2.617
Mackinnon approximate p-value for Z(t) = 0.0000				

Source: Statistical Software: STATA Output, 2018

The Augmented Dicker Fuller (ADF) test at first difference I(1) for rbb is $-5.172 > 2.960$ at 0.05 level of significance, this shows no unit root and that the series is stationary.

4.4 Regression Results and Hypotheses Testing

Table 4.3.10: Ordinary Least Square (OLS) Output Result

Source	SS	df	MS	Number of obs = 37		
Model	2.78487689	4	696219223	F(4, 32)	=	4.39
Residual	5.07170427	32	.158490758	Prob > F	=	0.0061
Total	7.85658116	36	.218238366	R-squared	=	0.354
				Adj R-squared	=	0.2738
				Root MSE	=	.39811

roi	Coef.	Std. Err.	t	p>/t/	(95% Conf. Interval)	
loglad	.1883727	.0797041	2.36	0.024	.0260209	.3507246
lognlb	-.0677255	.1409477	-0.48	0.634	-.3548265	.2193755
logbji	-.2006435	.2292262	-0.88	0.388	-.667562	.266275
logrbb	.2341084	.1144014	2.05	0.049	.0010804	.4671364
_cons	-.2590725	.2797828	-0.93	0.361	-.8289713	.3108263

Source: Statistical Software: STATA Output, 2018

Table 4.3.10 shows the result of the ordinary least square. Loans and advances (lad) and reduction in bank branches (rbb) are positive in the coefficient column which connotes that a unit increase in the loans and advances and reduction in bank branches can lead to 2.36% and 2.05% increase in the level of return on investments of Nigerian banking sub-sector. On the other hand, number of liquidated bank (nlb), bank job loss (bjl) are negative in the coefficient column which connotes that a unit increase in the number of nlb and bjl can lead to a decrease in the level of return on investments of Nigerian banking sub-sector.

The test of hypotheses was based on the p-values of the variables of the study. However, on the overall the f-ratio =4.39, indicates that economic recession has contributed significantly to the performance of Nigerian banking industry in Nigeria.

Hypothesis I

Ho: There is no significant relationship between the loans and advances and return on investments of the Nigerian banking industry.

Decision: Based on the p-value of 0.024 which is lesser than the level of significance of 0.05, it implies a rejection of the null hypothesis and acceptance of the alternative hypothesis. This means that there is significant relationship between the loans and advances and return on investments of the Nigerian banking industry. The policy implication is that loans and advances have contributed to the level of performance of the Nigerian banking industry.

Hypothesis II

Ho: There is no significant relationship between the number of liquidated banks and loans and advances of the Nigerian banking industry.

Decision: Based on the p-value of 0.634 which is greater than the level of significance of 0.05, it implies a rejection of the alternative hypothesis and acceptance of the null hypothesis. This means that there is no significant relationship between the number of liquidated banks and return on investments of the Nigerian banking industry. The policy implication is that the number of liquidated banks has not contributed to the level of performance of the Nigerian banking industry.

Hypothesis III

Ho: There is no significant relationship between bank job loss and loans and return on investments of the Nigerian banking industry

Decision: Based on the p-value of 0.388 which is greater than the level of significance of 0.05, it implies a rejection of the alternative hypothesis and acceptance of the null hypothesis. This means that there is no significant relationship between bank job loss and return on investments of the Nigerian banking industry. The policy implication is that bank job loss has not contributed to the level of performance of the Nigerian banking industry.

Hypothesis IV

H₀: There is no significant relationship between reduction in bank branches and return on investments of the Nigerian banking industry

Decision: Based on the p-value of 0.049 which is lesser than the level of significance of 0.05, it implies a rejection of the null hypothesis and acceptance of the alternative hypothesis. This means that there is significant relationship between reduction in bank branches and return on investments of the Nigerian banking industry. The policy implication is that reduction in bank branches have contributed to the level of performance of the Nigerian banking industry.

4.5 Discussion of Findings

This study sought to investigate the effect of economic recession on the performance of the Nigerian banking industry during the period 1981-2017. However, the study has some insightful revelations. First, it was observed that in 1981, loans and advances was 1.5551 and in 1982 it increased to 1.6454. In 1984, it increased again to 1.7649 with a continuous increase till 1998. In subsequent periods such as 1989-2000, it increased with a slight drop in 1994 (3.2047) when compared with these periods. The periods 2001-2017 experienced a dramatic increase in the loans and advances of the Nigerian banking industry. However, the period 2016 recorded the highest remarkable (6.1417) increase in the level of loans and advances of the Nigerian banking industry. In terms of number of liquidated banks, in 1981, the number of liquidated banks was 2, increased in 1982 to 3, and reduced back to 2 in 1983. There was later an increase in 1987 to 8 and reduced in 1988 back to 5, increased again in 1989 to 11 and dropped in 1990 to 7. There was none

recorded in 1991. It later increased to 10 in 1997 and none in 1998 and 1999 but increased much more in 2000 to 36 and none in 2001 and 2002; just 1 in 2003, increased in 2004 to 12 and increased much more in 2005 to 64. It reduced in 2006 to 2 due to the merger and acquisition process down to 2009; there was none recorded in 2010, 1 was recorded, it dropped to 0 in 2011 down to 2015 were 2 and 1 in 2016 and 2017 respectively.

In addition to the above descriptive results, the highest number of bank job loss was recorded in earlier periods of 2011-2017 with values 501.0 in 2011, 533.0 in 2012, 565.0 in 2013, 597.0 in 2014, 629.0 in 2015, 661.0 in 2016 and 693.0 in 2017. In respective increases in the number of bank job loss may be attributable to the closure of some bank branches that were not performing effectively and efficiently by the statutory body regulating the Nigerian banking industry. In the case of reduction in bank branches, it was observed that the periods 2002, 2013 and 2015 recorded the highest number of bank branches reduction in the Nigerian banking industry. For instance, in 2002, it was observed that 817 bank branches were closed, in 2013, 277 and in 2015, 276. This closure or reduction in the bank branches depicts the high level of regulation of this industry in Nigeria. Besides, return on investments, in 1981, return on investment was 0.054798 and in 1983 it increased to 0.456348. In 1985, it reduced to 0.120318 and later in 1988 there was a slight increase up to 1995 were it dropped back to 0.120318 and 1998 it increased to 0.217001 and reduced in 2007 to 0.579370; but in 2002, there was an increase that moved it to 1.456938 and in 2004, it dropped again to 0.597584. While in 2014 and 2016, it increased to 1.456938 and 1.669613 and later dropped in 2017 to 1.382024 (see Table 4.3.0)

Second, the mean return on investments (roi) was .0.4490 with standard deviation of 0.4672. It is obvious from the descriptive statistics that the maximum return on investments was 1.6696 which occurred in 2003. The loans and advances (lad) was 3.8339 with standard deviation value of 1.3364. It is clear from the descriptive statistics that the maximum loans and advances was 6.1417 which occurred in 2016. Furthermore, the mean values for number of liquidated banks (nlb), bank job loss (bjl) and reduction in bank branches (rbb) were 0.3057, 2.2161 and 1.9274 respectively while the standard deviation

values for nlb, bjl and rbb were 0.4880, 0.5498 and 0.7666 respectively. Besides, the gargantuan variation of the variables over the period under review was captured by the maximum and minimum values. The maximum value for lad was ₦6.1417, nlb (64), bjl (693) and rbb (817)) while the minimum values for the variables were 0, indicating periods where there were no data reported. The implication is that there were significant variations in all the variables over the period under review. Besides, the standard deviation is an indication that all the variables are not constant over time. In view of the fact that all the variables are not constant during the period, the relationship between economic recession and performance of the Nigerian banking industry was permissible (see Table 4.3.1).

Third, the kurtosis, the kurtosis, roi (0.0519), lad (0.1708), nlb (0.0525), bjl (0.0005) and rbb (0.0305) are platykurtic. This implies the presence of fatter tail than the normal distribution. The distribution of a series is said to be leptokurtic when the kurtosis is greater than three (3) but platykurtic when the kurtosis is less than three (3) (see Table 4.3.2). From the above, it shows that none of the variables were exactly three (3); hence since none of the variables satisfies the condition of the normality, it is observed that they are not normally distributed. Hence, we conducted a statistical test in order to resolve the normality problem of the dependent and independent variables.

Fifth, the mean VIF for all the variables did not exceed the standardized VIF level ($2.25 < 10.0$) and the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity ($\chi^2 = 8.52 > 0.0035$), suggests that there is no heteroscedasticity problem between the variables of the study (see Tables 4.3.3 & 4.3.4).

Sixth, the Augmented Dicker Fuller (ADF) test at first difference I(1) for roi and lad are $-2.777 < 2.960$ (see Table 4.3.5) and $-2.634 < 2.960$ (see Table 4.3.6) at 0.05 level of significance, this shows unit root and that the series is not stationary. Also, ADF test for first difference I(1) for nlb is $-4.449 > 2.960$ (see Table 4.3.7), bjl is $-5.498 > 2.960$ (see Table 4.3.8) and rbb is $-5.172 > 2.960$ (see Table 4.3.9) at 0.05 level of significance, this shows no unit root and that the series is stationary.

Finally, the result of the ordinary least square revealed that loans and advances (lad) and reduction in bank branches (rbb) are positive in the coefficient column which connotes

that a unit increase in the loans and advances and reduction in bank branches can lead to 2.36% and 2.05% increase in the level of return on investments of Nigerian banking sub-sector. On the other hand, number of liquidated bank (nlb), bank job loss (bjl) are negative in the coefficient column which connotes that a unit increase in the number of nlb and bjl can lead to a decrease in the level of return on investments of Nigerian banking sub-sector. The p-value for nlb ($0.634 > 0.05$) and bjl ($0.388 > 0.05$) implies that there is no significant relationship between the number of liquidated banks, bank job loss and return on investments of the Nigerian banking industry. Contrarily, the p-value for lad ($0.024 < 0.05$) and rbb ($0.049 < 0.05$) indicated that there is significant relationship between loans and advances, reduction in bank branches and return on investments of the Nigerian banking industry. On the overall the f-ratio = 4.39 with p-value 0.0061, indicates that economic recession has contributed significantly to the performance of Nigerian banking industry in Nigeria.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The banking sector stimulates growth and development in an economy by serving as the transmission channel for resources to the real sector. It provides access to financial services and improves the efficiency of other financial intermediaries in a stable macroeconomic environment.

Sound, efficient and stable financial system is very critical to the development of an economy. Economic recession and the post consolidation weakness in the Nigerian financial system, occasioned by illegal and criminal activities in some of the Nigerian Banks have given rise to a fragile financial system.

5.2 Conclusion

- i. The following below are the conclusion of the results: That there is significant relationship between the loans and advances and return on investments of the Nigerian banking industry. The policy implication is that loans and advances have contributed to the level of performance of the Nigerian banking industry.
- ii. That there is no significant relationship between the number of liquidated banks and return on investments of the Nigerian banking industry. The policy implication is that the number of liquidated banks has not contributed to the level of performance of the Nigerian banking industry.

- iii. That there is no significant relationship between bank job loss and return on investments of the Nigerian banking industry. The policy implication is that bank job loss has not contributed to the level of performance of the Nigerian banking industry.
- iv. That there is significant relationship between reduction in bank branches and return on investments of the Nigerian banking industry. The policy implication is that reduction in bank branches have contributed to the level of performance of the Nigerian banking industry.

5.3 Recommendations

Based on the conclusion, the following are the recommendations:

1. The variable of loans and advances has the most significant effect on the level of performance in the Nigerian banking industry. Hence, bank management should keep a close check on the loans and advances and ensure that these loans and advances are performing.
2. That the regulatory agencies of Nigerian banking industry should continue in their quest in liquidating non-performing banks since this study has shown that the number of liquidated banks have not contributed significantly to the level of return on investments of the Nigerian banking industry.
3. As a matter of fact, banks in Nigeria should not be discouraged to build their employee capacity since this study has shown that bank job loss have not contributed significantly to the level of return on investments of the Nigerian banking industry.
4. That the regulatory agencies of Nigerian banking industry should continue in their quest of reducing the number of bank branches that are not performing effectively and efficiently since this study has shown that reduction in bank branches does

contribute significantly to the level of return on investment of the Nigerian banking industry.

5.4 Contribution to Knowledge

1. This research work successfully developed a predictive model for economic recession and bank performance in Nigeria as:

$$\text{ROI} = -0.2591 + 0.18837\text{LAD} - 0.6773\text{NLB} - 0.2006\text{BJL} + 0.2341\text{RBB}$$

2. This study contributed to knowledge by including new variables (return on investments) to economic recession variables such as loans and advances, bank job loss, reduction in bank branches and number of liquidated banks which other studies have not looked into before.

3. Also the study added to knowledge by ascertaining the variable that has more significant effect on the performance of the banking industry in Nigeria.

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APPENDIX

APPENDIX I

PERIOD	ROI	LAD	LogLAD	No. of Banks	NLB	BJL	No. of Bank Branches	RBB
1981	0.054798	0	0	20	2	0	862	0
1982	0.043896	35.9	1.5551	22	3	35.0	984	122
1983	0.456348	44.2	1.6454	25	2	44.0	1101	117
1984	0.667245	58.2	1.7649	27	1	58.0	1242	141
1985	0.120318	114.9	2.0603	28	1	114.0	1290	48
1986	0.096554	373.6	2.5724	29	5	273.0	1360	70
1987	0.068657	492.8	2.6927	34	8	292.0	1476	116
1988	0.217001	659.9	2.8195	42	5	259.0	1659	183
1989	0.218989	3,721.1	3.5707	47	11	226.0	1849	190
1990	0.215031	4,730.8	3.6749	58	7	193.0	1934	85
1991	0.179099	5,962.1	3.7754	65	0	160.0	2018	84
1992	0.209345	1,895.3	3.2777	65	1	127.0	2269	251

1993	0.231454	10,910.4	4.0378	66	1	94.0	2352	83
1994	0.324787	1,602.2	3.2047	65	1	61.0	2397	45
1995	0.120318	8,659.3	3.9375	64	0	28.0	2362	35
1996	0.096554	4,411.2	3.6446	64	0	50.0	2402	40
1997	0.068657	11,158.6	4.0476	64	10	38.0	2402	0
1998	0.217001	11,852.7	4.0738	54	0	71.0	2180	222
1999	0.218989	7,498.1	3.8750	54	0	104.0	2180	0
2000	0.215031	11,150.3	4.0473	54	36	137.0	2188	8
2001	0.179099	12,341.0	4.0914	90	0	170.0	2188	0
2002	1.456938	8,942.2	3.9514	90	0	203.0	3005	817
2003	1.669613	11,251.9	4.0512	90	1	236.0	3242	237
2004	0.597584	34,118.5	4.5330	89	12	269.0	3487	245
2005	0.534459	16,105.5	4.2070	25	64	302.0	3732	215
2006	0.512982	24,274.6	4.3852	25	2	335.0	3977	235
2007	0.579370	27,263.5	4.4356	25	0	368.0	4222	235
2008	0.580440	46,521.5	4.6677	25	0	401.0	4467	223
2009	0.341781	15,590.5	4.1929	25	0	434.0	4712	245
2010	0.231891	16,556.0	4.2190	24	1	467.0	4957	235
2011	0.209345	19,980.3	4.3006	24	0	501.0	5202	217
2012	0.231454	22,580.0	4.3537	22	0	533.0	5447	265
20 13	0.342577	739,923.3	5.8692	23	0	565.0	5692	277

2014	1.456938	988,587.87	5.9950	23	0	597.0	5937	265
2015	1.669613	1,237,252.4	6.0925	23	2	629.0	5182	276
2016	0.597584	1,385,916.92	6.1417	21	1	661.0	5427	249
2017	1.382024	1,234,581.4	6.0915	21	1	693.0	5672	217

Source: Central Bank of Nigeria, World Bank & Nigeria Deposit Insurance Corporation Statistical Bulletins

Data for Economic Recession & Nigerian Banking Industry Performance (Logged)

PERIOD	ROI	LogLAD	LogNLB	LogBJL	LogRBB
1981	0.054798	0	0.301030	0.000000	0.000000
1982	0.043896	1.5551	0.477121	1.544068	2.086360
1983	0.456348	1.6454	0.301030	1.643453	2.068186
1984	0.667245	1.7649	0.000000	1.763428	2.149219
1985	0.120318	2.0603	0.000000	2.056905	1.681241
1986	0.096554	2.5724	0.698970	2.436163	1.845098
1987	0.068657	2.6927	0.903090	2.465383	2.064458
1988	0.217001	2.8195	0.698970	2.413300	2.262451
1989	0.218989	3.5707	1.041393	2.354108	2.278754
1990	0.215031	3.6749	0.845098	2.285557	1.929419
1991	0.179099	3.7754	0.000000	2.204120	1.924279
1992	0.209345	3.2777	0.000000	2.103804	2.399674
1993	0.231454	4.0378	0.000000	1.973128	1.919078
1994	0.324787	3.2047	0.000000	1.785330	1.653213
1995	0.120318	3.9375	0.000000	1.447158	1.544068
1996	0.096554	3.6446	0.000000	1.698970	1.602060
1997	0.068657	4.0476	1.000000	1.579784	0.000000
1998	0.217001	4.0738	0.000000	1.851258	2.346353
1999	0.218989	3.8750	0.000000	2.017033	0.000000
2000	0.215031	4.0473	1.556303	2.136721	0.903090
2001	0.179099	4.0914	0.000000	2.230449	0.000000
2002	1.456938	3.9514	0.000000	2.307496	2.912222
2003	1.669613	4.0512	0.000000	2.372912	2.374748
2004	0.597584	4.5330	1.079181	2.429752	2.389166
2005	0.534459	4.2070	1.806180	2.480007	2.332438
2006	0.512982	4.3852	0.301030	2.525045	2.371068
2007	0.579370	4.4356	0.000000	2.565848	2.371068
2008	0.580440	4.6677	0.000000	2.603144	2.348305

2009	0.341781	4.1929	0.000000	2.637490	2.389166
2010	0.231891	4.2190	0.000000	2.669317	2.371068
2011	0.209345	4.3006	0.000000	2.699838	2.336460
2012	0.231454	4.3537	0.000000	2.726727	2.423246
2013	0.342577	5.8692	0.000000	2.752048	2.442480
2014	1.456938	5.9950	0.000000	2.775974	2.423246
2015	1.669613	6.0925	0.301030	2.798651	2.440909
2016	0.597584	6.1417	0.000000	2.820201	2.396199
2017	1.382024	6.0915	0.000000	2.840733	2.336460

APPENDIX II

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/___ /___ /___ /___ /___
___/ /___ /___ /___ /___ 13.0
Statistics/Data Analysis

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StataCorp
4905 Lakeway Drive
College Station, Texas 77845 USA
800-STATA-PC http://www.stata.com
979-696-4600 stata@stata.com
979-696-4601 (fax)

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Descriptive Statistics of Dependent & Independent Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
roi	37	.4490207	.4671599	.043896	1.669613
loglad	37	3.833943	1.336357	0	6.1417
lognlb	37	.3056872	.487996	0	1.80618
logbjl	37	2.216089	.5498263	0	2.840733
logrbb	37	1.927439	.7665727	0	2.912222

Skweness/Kurtosis Test of Normality of the Dependent and Independent Variables

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
roi	37	0.0002	0.0519	13.50	0.0012
loglad	37	0.1683	0.1708	3.99	0.1361
lognlb	37	0.0004	0.0525	12.74	0.0017
logbjl	37	0.0001	0.0005	20.41	0.0000
logrbb	37	0.0002	0.0305	14.51	0.0007

	roi	loglad	lognlb	logbjl	logrbb
roi	1.0000				
loglad	0.5017	1.0000			
lognlb	-0.1879	-0.1325	1.0000		
logbjl	0.4068	0.7554	-0.0233	1.0000	
logrbb	0.4345	0.3432	-0.1335	0.6099	1.0000

Correlation Matrix Resu

Variance Inflator Factor (VIF)

Variable	VIF	1/VIF
logbjl	3.61	0.277154
loglad	2.58	0.388057
logrbb	1.75	0.572443
lognlb	1.07	0.930579
Mean VIF	2.25	

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of roi

chi2(1) = 8.52

Prob > chi2 = 0.0035

Unit Root Test for bjl

Dickey-Fuller test for unit root		Number of obs =		36
		Interpolated Dickey-Fuller		
Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value	
Z(t)	-5.499	-3.675	-2.969	-2.617
MacKinnon approximate p-value for Z(t) = 0.0000				

Unit Root Test for rbb

Dickey-Fuller test for unit root		Number of obs =		36
		Interpolated Dickey-Fuller		
Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value	
Z(t)	-5.172	-3.675	-2.969	-2.617
MacKinnon approximate p-value for Z(t) = 0.0000				

Ordinary Least Square (OLS) Output Result

Source	SS	df	MS	Number of obs = 37		
Model	2.78487689	4	.696219223	F(4, 32) = 4.39		
Residual	5.07170427	32	.158490758	Prob > F = 0.0061		
Total	7.85658116	36	.218238366	R-squared = 0.3545		
				Adj R-squared = 0.2738		
				Root MSE = .39811		

roi	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
loglad	.1883727	.0797041	2.36	0.024	.0260209	.3507246
lognlb	-.0677255	.1409477	-0.48	0.634	-.3548265	.2193755
logbjl	-.2006435	.2292262	-0.88	0.388	-.667562	.266275
logrbb	.2341084	.1144014	2.05	0.049	.0010804	.4671364
_cons	-.2590725	.2797828	-0.93	0.361	-.8289713	.3108263