BAD LOAN, BANK CREDIT AND DEPOSIT MOBILISATION IN NIGERIA: THE AFTERMATH OF THE GLOBAL FINANCIAL CRISIS

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Abstract

The concept of globalisation has come to most countries of the world primarily as a necessity and rarely a matter of choice. For most countries, the sector that first gets entangled with the global web is the financial sector, no doubt, because of the pivotal role performed by this sector. Nigeria has not been left out. The nation's financial sector did all it could in order to be counted and recognised among the leading financial institutions of the world. Their effort was compensated with the weight and dimension of juicy foreign capital that flowed into the banking industry during and after bank consolidation. They were soon to learn that globalisation also carries with it, a baggage of complications which implies that an error of judgement or recklessness on the part of partnering nations can have a direct impact on other nations that are part of the web, the soundness of their banking practice notwithstanding. The effect was the build up of nonperforming loans, low savings and deposit mobilisation and a depressed economy. For the purpose of this study, two periods were identified; pre-consolidation (1999-2003) and the post consolidation period (2004-2008). We employed data from CBN annual reports using the ordinary least square regression method to establish that the nonperforming loans that were the direct effect of the financial crisis affected loans and advances and the savings and deposit mobilisation of banks. We recommend that Nigeria should first develop an effective local policy before looking forward to benefitting from global affiliation

Key words: Globalisation, nonperforming loans (bad loans), loans and advances savings and deposit mobilisation

Introduction

The current global economic crisis started as a financial crisis in the United State of America in 2007. It has it root in credit contraction in the banking sector due to certain laxities in the US financial system.

In the years leading up to the start of the crisis in 2007, significant amounts of foreign money flowed into the U.S. from fast-growing economies in Asia and oil-producing countries. This inflow of funds made it easier for the Federal Reserve to

keep interest rates in the United States too low (by the Taylor rule) from 20022006 which contributed to easy credit conditions, leading to the United States housing bubble (Jameson, 2008). Loans of various types (e.g., mortgage, credit card, and auto) were easy to obtain and consumers assumed an unprecedented debt load (McMahon et al, 2008). As part of the housing and credit booms, the amount of financial agreements called mortgage-backed securities (MBS) and collateralized debt obligations (CDO), which derived their value from mortgage payments and housing prices, greatly increased. Such financial innovation enabled institutions and investors around the world to invest in the U.S. housing market. As housing prices declined, major global financial institutions that had borrowed and invested heavily in subprime MBS reported significant losses (Murphy, 2009).
According to Boni, (2006), the International Monetary Fund estimated that large U.S. and European banks lost more than $1 trillion on toxic assets and from bad loans from January 2007 to September 2009. These losses are expected to top $2.8 trillion from 2007-10. U.S. banks losses were forecast to hit $1 trillion and European bank losses will reach $1.6 trillion. This development led to the use of credit contraction by financial institutions in the US to tighten their standards in the light of their deteriorating balance sheets. In addition, financial institutions stopped lending and recalled their credit lines to ensure capital adequacy (Aluko, 2009).

The crisis rapidly developed and spread into a global economic shock, resulting in a number of European bank failures, declines in various stock indexes, and large reductions in the market value of equities and commodities. The financial crisis at the early stage manifested strongly in the sub-prime mortgages because households faced difficulties in making higher payments on adjusted mortgages (Soludo, 2009).

Since the use of credit contraction by foreign banks began, the Nigerian banking system has seriously been entangled in a financial crisis. The global financial crisis is expected to reduce external inflows into African economies. FDI, aid, export earnings, remittances, etc. are all expected to be affected by the financial crisis. Moreover, the crisis is making it more difficult and more expensive to attract private capital than before. Indeed it will require more effort to access the same level or even lower levels of external resources than before. There have been long held views that efforts to attract foreign resources always take away from initiatives to mobilize domestic resources for African development (Adam and O'Connell, 1997). At the moment, the banks are unable to carry out their statutory function in the Nigerian economy. No doubt, the fallout of the financial crisis has driven a dramatic shift in savings behaviour and profitability outlook for the banking sector across the globe. In addition, the crisis has eroded the confidence of the general public in the entire Nigerian banking industry.

This paper seeks to address the following questions:

- What was the impact of globalisation on the financial position of Nigerian banks especially in the period after consolidation?
- What was the position of banks before the global financial crisis in terms of loan assets and deposit mobilisation?
- How has globalisation made Nigerian banks victims of the global financial crisis?

The objectives of this paper are as follows:

- To show the existing lag in the intermediary role of the banking industry
- To highlight the consequences of inadequate intermediation on the economy as a whole
- To establish the need for the development of domestic capital as against the dependence on FDI in our banks

Theoretical and Conceptual issues

Definition of Banks and the Art of Intermediation

Several attempts have been made to offer a comprehensive and acceptable definition for a bank. Starting from the time of J W Gilbart, he defined a banker as a dealer in capital, or more appropriately, a dealer in money. J W Gilbart regarded banks as intermediate parties between the borrower and the lender (Iganiga, 1998). This is because the banks borrow from one party and lend to another. It will be observed that this definition emphasizes the two traditional functions of a bank i.e. the mobilization of deposition and the granting of loans and advances. But in recent time banks business has been expanded considerably and as a result Gilbart's definition cannot be regarded as complete or comprehensive. In 1969, the Banking Act of England defined Banking by the following activities: (i) the business of receiving money from outside sources as deposit irrespective of the payment of interest (ii) the granting of loan, acceptance of credit or the purchase of bills, cheque and sales of securities and (iii) the purchase and sales of securities on behalf of customers (Isedu, 2001).

This definition fits better into the modern day role of banks in the economy, because the definition goes beyond mere collection of depositor's fund. The banks, be it central, clearing merchant, saving or whatever form, pursue similar goals (Umole, 1983). They contribute significantly to achieve the stated macroeconomic objective of economic transformation. Transformation in the economy implies a movement from a particular level of development to a more acceptable level of development (Todaro, 1997). Rapid transformation of an economy depends on the available resources, manpower and capital. Capital is defined as a factor of production, not required for immediate consumption but to help expedite the production process, and therefore capital is often regarded as the nucleus of economic development in any nation. Capital accumulation in any economy depends on the roles of the banks which include the following.

Offering liquidity: Liquidity in Banking refers to assets that can easily be converted into cash. Money in the form of cash is regarded as the most liquid asset in the banking Industry (Freixas & Rochet, 2008). Historically, the existence of Banks is credited to this unique function of providing liquidity to people and cooperative bodies to carry out their daily business activities. In order to perform this role Banks offer saving, deposit and current account facilities to the public. When a customer decides to operate an account, and pay a minimum amount as specified by the banks, the amount deposited on the various account is held by the bank as deposit liability. In addition to this, banks help in keeping other convertible equities, like certificate of occupancy, share certificate, deeds of conveyance etc. The bank is therefore requested by law to make a certain percentage of their deposit liabilities and capital funds available to the general public, to meet customer demand (Idahosa, 2000).

Payment Service: A Bank is under obligation to pay back to the customer any amount as specified by the customer according to the value of the account held (Freixas & Rochet, 2008). A bank customer may also want his cheque cashed up to a stated amount and within a specified period, at another branch of the bank or another bank. Conversely, the customer can also receive money through the bank when a debtor has decided to pay from a distance with crossed or open cheque.

Lending function: The deposits kept in banks need not be left idle, because from experience banks are aware that depositors may not need all the deposits at a time. It is therefore prudent of the banker to lend such money to investors at a higher rate which brings some revenues to them. They achieve this through overdraft, loan, bills discounting or through direct investment (Idahosa, 2000).

International trade services: Banks help to provide the link through which payments for goods and services bought or sold by importers and exporters can be settled. In addition to this, they provide guarantee to exporters who need such guarantees before they can release their goods (Isedu, 2001).

Currency transaction: Banks trade on foreign currencies, especially US Dollars and Pound sterling. They engage competitively in foreign currency transaction as it provides them a significant source of revenue. However, foreign exchange transactions laws in every country are very stringent.

Performance bond services: A performance bond is issued on behalf of customers in the real sector of the economy where they are required to supply the bond before they can tender for contract. The bond guarantees that the company has adequate financial resources to execute the contract successfully. When a bank gives such a guarantee it usually takes an indemnity from the customer so that it can claim against him in case of default (Umole, 1983).

Factors that Determine 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, 2008).

Lending Rate: This is the rate of interest at which a Bank lends to it 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 gives 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, 2006).

Somayo & Ilo,(2009s) also discussed the impact of lending on bank performance. They pointed out that the Nigerian government, through the CBN, set the lending rate for financial intermediaries at their various prevailing levels in the banking industry. To buttress their argument, they argued that the CBN set the rate to favour specific sectors in order to encourage or discourage lending to various sectors of the economy. However, the banks' desires to achieve favourable return on investment notwithstanding, the environmental factors play a vital role in banks' lending behaviour. The environmental factor of banks refer to aggregate macroeconomic condition which consists of Gross Domestic Product (GDP), employment level, energy utilization, inflation, money supply and exchange. An overview of the various CBN annual reports indicates that the lending rate, which is a major determinant of performance, is not within the control of the banks.

Depositors Rate: This is defined as the interest paid on cash deposited by customers (Freixas & Rochet, 2008). According to Ogunleye,(2002) banks' deposits depend on a numbers 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.

The distinction between fund deposit in banks and banks' lending in the Nigerian banking industry was examined in Somayo & Ilo, (2009). They argued that lower deposit rates do not attract customers, and that this accounted for the reason the CBN introduced the recapitalization exercise in the industry. This, they contended, made deposit rates low in relation to the lending rate. They pointed out further that, like the lending rate, the government, through the CBN, regulate banks' deposit rates to avoid slow growth of the economy. During periods of high deposit rates investors choose to deposit their funds in the banks instead of the capital market where the money would be needed for long term investment in the production of goods and services.

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, 1996). 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 banks decision (Idahosa, 2000).

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, 2006).

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 out put growth. In a highly concentrated market, the structure of the market is believed to have a positive effect on cooperate profits (Atemnkeng & Nzongang, 2006).

The Relationship between Bad Loans, Bank Credit and Deposit Mobilisation

A loan becomes non-performing when it cannot be recovered within certain stipulated time that is governed by some respective laws. So, non-performing loan is defined from the institutional point of view, generally from the lending institutions side. Loan may also be non-performing if it is used in a different way other than that for which it has been taken. This is the user's point of view. From the Institutional point of view, loan becomes non-performing when it is classified as bad and a loss on the banks assets. Under Basel-II, loans past due for more than 90 days are non-performing.

In a theory developed by Mohammad Islam et al (2005), they identified the 'capital formation-investment-recovery loop: a direct consequence of non-performing loan, model. Under the model, they discussed that economic development will always be at its infancy if sufficient capital cannot be formed. Capital formation has at least two dimensions i.e. domestic and international. Domestic capital basically involves the function of thrift organisations, like banks and other financial Institutions, to motivate the households to save from their small earnings. The attraction is institutionalised so that the savings can be utilised in economic process. Households should be motivated to save and deposit the same so that the idle savings can be used economically.

Savings can be held in different forms; as financial assets, as stores of value, as well as informal financial assets such as informal financial institutions. The financial liberalisation paradigm maintains that savings in the informal sector are as a result of inefficient and repressed financial markets. The lack of access to financial saving instruments and the market fragmentation, means that people have to resort to non-financial savings (Gupta, 1985). On getting the small savings from the households, financial institutions form large capital so that it can be invested in the development of various sectors like industry, business, development and others. When savings get investing status, it works for the economic development, provided that the investment is rightly done. If the investment funds can be captured timely, it can again form new capital creating a good option of re-investment or consumption. Both of these re-investment and consumption functions create a positive impact on the economy. Because economy gets some value added jobs to do. But, in case of non-recovery, the investing party should have to go a long way that is not expected and sometimes this unexpected happenings cause a great harm to the economic framework and structure.

Review of Empirical Studies

Challenges of Financial Intermediation in Africa

The main problem with domestic resource mobilization in Africa has been that not enough savings are being generated to facilitate the required investment (Aryeetey 2004). Also, the types of savings available do not easily make financial intermediation possible.

African countries' low and stagnant savings rates have not compared well with those of Asia, giving Sub-Saharan Africa the lowest savings rate among the developing regions Hadjimicheal, et al (1995). The most available measure of savings performance is the gross domestic savings (GDS). GDS in Sub-Saharan Africa amounted to 17.6 percent of GDP in 2006, compared with 26.0 percent in South Asia, 24.0 percent in Latin America and the Caribbean, and nearly 42.9 percent in East Asia and Pacific countries (World Bank 2007). The savings rate for Sub-Saharan Africa has broadly evolved over the years in the following pattern. From 1960 to 1974, it increased steadily from 17.5 percent to 24.3 percent of GDP (World Bank 2007). It then experienced much higher volatility before reaching its highest rate (nearly 26 percent) in 1980. In 1992, savings in Africa basically collapsed, reaching an all-time low of 15 percent and generally remained that way, albeit with a slight recovery at 17.6 percent in 2005 (World Bank 2007). Table 1 below shows the trend in saving rates in SSA for the period 2000-2005, with a majority of the countries showing very low rates.

Table 1
Distribution of savings rates in Africa, 2000-2005
(Number of countries)

Negative	0–10% of GDP	10–20% of GDP	20–30% of GDP	Over 30% of GDP
11	14	13	7	5

Source: World Development Indicators 2007

The last two decades have seen a growing reliance by African countries on external resources to finance investments. With Gross Domestic Savings at over 25 percent of GDP in 1980 and Gross Domestic Investment at 22 percent of GDP, there was hardly a gap to be filled. Foreign direct investment came to only 0.7 percent of GDP. The East Asia and Pacific region invested 32 percent of

GDP and saved 30 percent of GDP at the time. As savings figures have dropped in SSA, they have left a growing gap to be filled by foreign resources. The reality is that SSA countries are not investing as much as is necessary and most of the investment done has, for a long time, been with public and foreign resources. The very significant use of public and foreign investment would also explain why employment generation has not been a major outcome of the associated growth processes (Ndulu et.al 2008). Not surprisingly the low rate of investments, especially private investment, is attributed, even if partially only, to the dearth of credit to the private sector in SSA countries (Honohan and Beck 2007). Honohan and Beck (2007) show that by 2005 the claims that banks in SSA had on the private sector was less than 30 percent of their total assets compared to more than 60 percent in East Asia and the Pacific and also in South Asia. In Latin America this was almost 70 percent of total assets. The ratio of private credit to GDP was only about 18 percent in SSA in 2005. In South Asia this was as much as 30 percent. For the low-income countries in SSA the ratio of private credit to GDP falls to as low as 11 percent (Honohan and Beck 2007). African financial systems are reported to show a low intermediation ratio. This means they have a low share of deposits going into private sector credit.

Challenges of Nigerian Banks Post-Consolidation

Before the global financial crisis 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 Nigeria. 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 global financial crisis in the sector.

Returns on investment According to Adeyemi (2005), 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. Therefore the pressure to meet this target by the management of banks has been forcing them to be more innovative and creative in coming up with new products and financing the real sector, which has been neglected for a long period.

System integration Adeyemi (2005) 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 emerging entity as one group is a daunting challenge which the consolidating banks had to face. In relation to this, Hall (1999) 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 (2005) 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 billon 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 (2004) 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 dis-integration and collapse of banks. This argument is further buttressed by Adeyemi (2005) 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, 2008).

Short term view of banking stocks According to Mobolaji (2008) 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 Annual 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- capitalisation: According to Soludo (2005), one of the conditions for participating in the management of the nation's 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 (2005) 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.

The Financial Crisis and the Effect on Bank Credit and Deposit Mobilisation in Nigeria

Before the crisis began, the global financial markets were beginning to exert some influence on resource mobilization in SSA(Sub-Sahara Africa) by increasingly providing standards that could be used to measure the performance of financial institutions (Ayeetey, 2009).The adoption of the International Financial Reporting Standards (IFSR) by banks in the region was significant in this regard. After the improvements in the regulatory environment for African institutions, there emerged the beginnings of interaction between the financial markets of African economies and those in Europe. A few African governments began to issue sovereign bonds in 2007 that were assigned through consortia of local and international financial institutions, and this development was generally seen as marking a new entrance onto the global financial system. Banking in Africa was being modelled increasingly along those of banks in advanced economies.

In Nigeria, in the wake of the global financial crisis, the CBN annual report (2008) records that in order to cushion the impact of the global financial crisis and ensure adequate bank liquidity, the Monetary Rate of Policy (MRP) was reduced from 10.25% to 9.75% and the Cash Requirement Ratio (CRR) was also reduced from 4% to 2%. In addition to this, the rate at which banks lend to each other, the Inter Bank rate was also increased from 14.01% to 15.79%.

The impact of the global financial crisis on the Nigerian banking industry was also reflected in the Broad and Narrow money. During this period, the Broad and Narrow money contracted by 1.9% and 3.9% respectively, compared to the preceding quarter. According to the CBN Quarterly report (2008) the decline in Broad money was as a result of the fall in the asset values of the banking system caused by the global financial crisis.

Furthermore, the lending and deposit rates have increased since the global financial crisis began. Evidence from the CBN annual Report (2008) indicates that the maximum lending rate has widened from 8.13% to 9.97%. Also, the margin between average saving deposit and maximum lending rate has widened from 16.62% to 19.33% during this period of crisis (Ojeaga, 2009). These various impacts led to a confidence crisis in the banking industry and consequently to the capital market downturn. Presently, disinvestment by foreign investors with attendant tightness has resulted in capital market downturn. The ASI (All Share Index) has declined, exhibiting a secular bear posture since July 17^{th}, 2008 when at ASI-52,910 the index fell below 20% of its all-time high, and continued to fall (Aluko, 2009). In terms of capital decline, the Nigeria capital market has since March 5^{th}, 2009 lost to date about 4.5trillion or about 38.7%. This fall was a direct consequence of the fall in value and market price of the shares of most of the Nigerian banks who dominated the stock exchange. Most of the loans especially margin loans that were given out during the capital boom became trapped in the stock market. The value of the equities purchased with these loan had fallen and could no longer measure up with what had been collected let alone make return. Just like the experience in America and Europe, the result was mass default. Even though that of America was triggered by mass default in mortgage loans, a trend can be established in the relationship of this situation and the default in Nigeria. Just like in America and Europe, the Nigerian Stock Market had been trading on empty securities with no real value. Most of the value would have probably been lost to some smart speculators in the wake of the capital boom

Research Methodology

Data collection

This study relied mainly on secondary sources. Relevant data were obtained from CBN Annual Report and Statistical Bulletin, Banking

Supervision Annual Reports.

Model specification

Bank loans and advances = f (Non-performing loans)

Deposit Mobilisation = f (Non-performing loans)

Economic Performance (GDP) = f (Bank credit; loans and advances)

The regression equations are as follows:

$$LA_i = \alpha + \beta NPL_i + \varepsilon_i \text{ ....} (1)$$

$$STD_i = \alpha + \beta NPL_i + \varepsilon_i \text{ ....} (2)$$

$$GDP_i = \alpha + \beta LA_i + \varepsilon_i \text{ ....} (3$$

Where Bank Loans and advances= LA, Non-performing Loans = NPL, Deposit Mobilisation= STD, Economic Performance = GDP.

Table 2
Deposits, Loans and GDP (199-2008)

Year	Savings and Time deposit with Banks (₦' billion)	Loans and advances (₦' billion)	Non-Performing loans (₦' billion)	GDP at current Prices (₦' billion)
1999	241,604	485.0	101.0	3,194,0
2000	343,174	652.0	109.0	4,582,12
2001	451,953	789.0	126.0	4,725,08
2002	556,011	929.0	187.0	6,912,38
2003	655,739	915.0	236.0	8,487,03
2004	797,517	1,346.0	306.0	11,411,066
2005	1,316,957	1,477.0	357.0	14,572,24
2006	1,739,538	2,081.0	222.0	18,564,59
2007	2,693,554	3,802,0	388.0	20,657,25
2008 (Q_1)	3,452,094	6,170.0	464.0	23,842,19
2008 (Q_2)	3,619,857			
2008 (Q_3)	4,438,497			
2008 (Q_4)	1,118,172			

Source : CBN Annual Report 2005, 2008

Data Analysis

The Ordinary least square method was employed to establish the relationship among variables while the descriptive method was used to explain the peculiarities of the different phases in the financial intermediation activities of banks in Nigeria. The period under consideration is separated into two: 1999-2003, 2004-2008

The Effect of Non Performing Loans on Savings and Deposit Mobilisation

Tables 3.1, 3.1.2, 3.2, 3.2.2, 3.3 and 3.3.2 presents the result of the relative effect of the variables on each other; we estimated our parameters using a least square technique both before consolidation and after consolidation. This was done to see how our variables behave before and after consolidation.

From Tables 3.1 and 3.1.2, 1.00 and -0.06 is the partial regression coefficient of non performing loans both before and after consolidation respectively. This tells us that when the non performing loans increased by 1 percent on the average, savings and time deposit with banks also increased by 1 percent before consolidation, also the coefficient -0.06 tells us that on the average, an increase of 1 percent in non-performing loans resulted in a 0.06 percent decrease in savings and time deposit with banks . The intercept value of about 7.9 and 14.5, mechanically interpreted, means that if the value of non performing loans was fixed at zero (i.e. if there is no increase in nonperforming loan) the mean savings and time deposit with banks would be about 7.9 and 14.5 percents per one percent increase before and after consolidation respectively. The R^2 value of about 0.86 and 0.001 means that 0.86 percent of the variation in savings and time deposit with banks is explained by non performing loans before consolidation, while 0.001 percentage of the variation in savings and time deposit with banks is explained by non performing loans after consolidation

Table: 3.1

Dependent Variable: LOG(STD)
Method: Least Squares
Date: 04/27/10 Time: 00:11
Sample: 1999 2003
Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.965132	1.180727	6.745954	0.0067
LOG(NPL)	1.004875	0.237176	4.236827	0.0241
R-squared	0.856807	Mean dependent var		12.95689
Adjusted R-squared	0.809076	S.D. dependent var		0.396462
S.E. of regression	0.173234	Akaike info criterion		-0.379176
Sum squared resid	0.090030	Schwarz criterion		-0.535401
Log likelihood	2.947941	F-statistic		17.95070
Durbin-Watson stat	1.474565	Prob(F-statistic)		0.024069

Table: 3.1.2

Dependent Variable: LOG(STD)
Method: Least Squares
Date: 04/27/10 Time: 00:27
Sample: 2004 2008
Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.52483	5.562574	2.611171	0.0796
LOG(NPL)	-0.063266	0.954738	-0.066265	0.9513

R-squared	0.001462	Mean dependent var	14.15656
Adjusted R-squared	-0.331385	S.D. dependent var	0.459945
S.E. of regression	0.530710	Akaike info criterion	1.859972
Sum squared resid	0.844959	Schwarz criterion	1.703748
Log likelihood	-2.649931	F-statistic	0.004391
Durbin-Watson stat	1.538015	Prob(F-statistic)	0.951336

Table:3.2

The Effect of Non Performing Loans on Loans and Advances

Dependent Variable: LOG(LA)
Method: Least Squares
Date: 04/27/10 Time: 00:15
Sample: 1999 2003
Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.424705	1.094706	3.128426	0.0521
LOG(NPL)	0.638726	0.219897	2.904659	0.0623

R-squared	0.737694	Mean dependent var	6.597599
Adjusted R-squared	0.650259	S.D. dependent var	0.271586
S.E. of regression	0.160613	Akaike info criterion	-0.530467
Sum squared resid	0.077389	Schwarz criterion	-0.686692
Log likelihood	3.326167	F-statistic	8.437042
Durbin-Watson stat	1.362957	Prob(F-statistic)	0.062266

Table:3.2.2

Dependent Variable: LOG(LA)
Method: Least Squares
Date: 04/27/10 Time: 00:30
Sample: 2004 2008
Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.729420	6.108314	-0.119414	0.9125
LOG(NPL)	1.469207	1.048407	1.401371	0.2556

R-squared	0.395629	Mean dependent var	7.822800
Adjusted R-squared	0.194173	S.D. dependent var	0.649205
S.E. of regression	0.582778	Akaike info criterion	2.047152
Sum squared resid	1.018889	Schwarz criterion	1.890927
Log likelihood	-3.117880	F-statistic	1.963842
Durbin-Watson stat	1.175263	Prob(F-statistic)	0.255639

From Tables 3.2 and 3.2.2, 0.63 and 1.47 is the partial regression coefficient of nonperforming loans both before and after consolidation respectively, this tells us that when the non performing loans increased by 1 percent on the average, loans and advances increased by 0.63 percent before consolidation, and 1.47 percent after consolidation. The intercept value of about 3.42 and -0.73, mechanically interpreted, means that if the value of non -performing loans was fixed at zero, the mean loans and advances would be about 3.42 and 0.73 percents per one percent increase before and after consolidation respectively. The R^2 value of about 0.74 and 0.39 means that 0.74 percent of the variation in loans and advance is explained by non performing loans before consolidation, while 0.39 percent of the variation in loans and advances is emphasized by non performing loans after consolidation.

The Effect of Loans and Advances on Gross Domestic Product

From table 3.3 and 3.3.2, 4.53 and-0.43 is the partial regression coefficient of loans and advance both before and after consolidation respectively, this tells us that when loans and advances increased by 1 percentage on the average, GDP increased by 4.53 percent before consolidation. Also, the coefficient -0.43 tells us that on the average, when loans and advances increased by 1 percent, GDP decreases by 0.43 percent after consolidation. The intercept value of about -17.18 and 18.18, mechanically interpreted, means that if the value of loans and advances was fixed at zero, the mean GDP would be about 17.18 and 18.18 percents per one percent increase before and after consolidation respectively. The R^2 value of about 0.85 and 0.12 means that 0.85 percent of the variation in GDP is explained by loans and advances before consolidation, while 0.12 percentage of the variation in GDP is explained by loans and advances after consolidation.

Table:3.3.1

Dependent Variable: LOG(GDP)
Method: Least Squares
Date: 04/27/10 Time: 00:17
Sample: 1999 2003
Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-17.18677	7.254605	-2.369084	0.0986
LOG(LA)	4.532075	1.098838	4.124425	0.0258
R-squared	0.850082	Mean dependent var		12.71404
Adjusted R-squared	0.800109	S.D. dependent var		1.334977
S.E. of regression	0.596857	Akaike info criterion		2.094897
Sum squared resid	1.068716	Schwarz criterion		1.938673
Log likelihood	-3.237243	F-statistic		17.01088
Durbin-Watson stat	2.478141	Prob(F-statistic)		0.025843

Table:3.3.2

Dependent Variable: LOG(GDP)
Method: Least Squares
Date: 04/27/10 Time: 00:32
Sample: 2004 2008
Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18.17837	5.374253	3.382493	0.0430
LOG(LA)	-0.429262	0.685114	-0.626556	0.5754
R-squared	0.115715	Mean dependent var		14.82034
Adjusted R-squared	-0.179046	S.D. dependent var		0.819236
S.E. of regression	0.889559	Akaike info criterion		2.892991
Sum squared resid	2.373943	Schwarz criterion		2.736767
Log likelihood	-5.232479	F-statistic		0.392573
Durbin-Watson stat	1.887822	Prob(F-statistic)		0.575387

Discussion of Results

Globalisation opened up the Nigerian Financial system to adopt the International Financial Reporting Standards (IFSR), it was to make their operations and activities acceptable in the eye of their foreign counterparts. Again Banks in Nigeria and Africa alike began to model their operations in line with those of advanced economies mostly Banks in America. No doubt they saw a vogue in the reckless and misguided credit culture of the American Banks as the same was replicated by their reckless credit administration especially in the period after consolidation. A lot of FDI came in as equity and debt into some of the Nigerian Banks and business specification was given to them by these foreign investors to concentrate their lending activities on the juicy areas of the economy. As a result, margin loans were given to stock market speculators who only wanted to make quick money as against investing the money in the stock market in order to boost the economy.

From the regression results in Table 3.1-3.1.2, it is established that increases in non-performing loans brought the same measure of increase in savings and deposits meaning that some of these loans were given to productive sectors who though were not paying back were building their savings. It's likely the loan recovery drive during this period could have been low. In the post-consolidation period, nonperforming loan brought about a decrease in savings meaning that as at then, nonperforming loan had started taking its toll on savings. A lot of recovery move were made during this period and we observe that there was a decline in the nonperforming loans from 357.0 in 2005- 222.0 in 2006. The high determination value of nonperforming loan in the pre-consolidation period reveals that the increases experienced in savings and time deposits during this period was largely explained by increases in non-performing loans. The low determination in the post-consolidation period reveals that nonperforming loans no longer majorly explained changes in savings and deposits. Other factors such as increases in loans and advances occasioned by increase in bank capital and the renewed confidence in the banking system explained the changes in savings and deposits during this period.

From the regression result in Table 3.2-3.2.2, increases in nonperforming loans was more than increases in loans and advances in the pre-consolidation period. This means that increases in the amounts given out as loans resulted in a more than proportionate amount in nonperforming loans. In the post consolidation period, increases in nonperforming loans measured up with a higher than proportionate increase in loans and advances. The implication of these is that both increased during the post consolidation period but the higher increase in loans and advances can be adduced to the increases in bank capital which encouraged more loans to be given out irrespective of the default recorded. The high determination value of nonperforming loans against loans and advances in the pre-consolidation period reveals that most of the changes that occurred in loans and advances were explained by nonperforming loans. The implication of this is that Bankers were propelled to give more loans and advances as a result of the huge nonperforming loans on ground in order to boost the businesses of the defaulters and encourage payback. The low determination of nonperforming loans against loans and advances in the post consolidation period reveals that Bankers were no longer pressurised by the volume of nonperforming loans. Other factors such as increases in bank capital influenced changes in their loans and advances.

Form the regression results in Table 3.3 increases in loans and advances measures with a more than proportionate increase in GDP in the pre consolidation period. This confirms the result in Table 3.1 that the loans and advances received were actually invested in productive sectors which in turn yielded high savings. In the post consolidation period, increases in loans and advances measured with a less than proportionate decrease in GDP. This means that most of the loans and advances given during this period were not invested in productive sectors. Increases in GDP during this period must have been brought about by other factors. Increases in savings can also be adduced to some other factors. The high determination value of loans and advances against the GDP in the pre consolidation period reveals that changes in loans and advances explained to a large extent changes in GDP. The low determination value of loans and advances against the GDP in the post consolidation period reveals that changes in loans and advances explained just a little of the changes that occurred during this period. Other factors such as increase in government expenditure could have explained a major part of the change.

A look at the 2008 data reveals that as at the last quarter of the year in the middle of the financial crisis, non performing loans had started taking its toll on savings. This is due to the loss of confidence in the banking system and the loss on previous investments in capital market.

Conclusion

No doubt the impact of globalisation on the Nigerian financial system has been a "sweet-sour" tale. On the one hand, globalisation brought changes and sophistication to the practice of banking in Nigeria. May be these changes would have started to yield good benefits to individuals, corporations and the entire economy by now but for the spiral effect of the global financial crisis. It is observed that most of the advanced countries where the crisis originated from have "built-in stabilisers" for their economy so that in case of any economic crisis, the economy adjusts itself automatically and overtime, the situation is brought under control. On the other hand, the "disadvantages" that globalisation opened our economy to was that the banking sector was the only sector of the economy that caught the globalisation wave. Most of the other sectors were highly localised and unfortunately the high class banking sector could not find a suitable prospect in any of these other sectors. This as it were, marked the beginning of the journey to failure for most of the banks.

Recommendations

The outcome of this study has necessitated the following recommendations:

If Nigeria is truly interested in adopting globalisation, then all the sectors of the economy should be opened up to meet up with global standards and practice

Nigeria as a country must learn to develop its own standards and guidelines for practice and will only have to amend, adjust or out rightly set them aside for international ones when we are convinced of their supremacy and adequacy in getting things done

Globalisation will only benefit Nigeria when the economy shifts from a highly consuming nation to a highly producing nation. If Nigeria remains an importing nation, globalisation will only bring more problems to the economy in the form of trade deficits and reduced foreign reserves occasioned by ease of flow of goods, services and information coming from other countries.

The Nigerian financial system must have in-built stabilizers to correct shocks and cushion the economy against likely effects of fluctuations coming from the external business environment

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