E-ISSN: 1115 - 8530 P-ISSN: 3026-8958
MPRI-JFRBD | INTERNATIONAL JOURNAL OF FINANCIAL RES. AND BUSINESS DEVELOPMENT
VOL. 05 NO. 7 – JULY, 2024

IMPACT OF ECONOMIC ELEMENTS ON PERFORMANCE OF NIGERIA DEPOSITS MONEY BANKS

[1]UMAR HALIDU AHMAD, PHD; [2]EKPE MARY – JANE; & [3]ABBAH GRACE OJOCHENEMI

[1]Department of Banking and FinanceFederal Polytechnic Nasarawa – Nigeria[2&3]Department of Accountancy, Federal Polytechnic Nasarawa – Nigeria.

Abstract

Financial performance, in a broader sense, demonstrates the degree to which financial purposes over a given time period were attained. It is the process of determining a firm's and its operations' financial success. Stakeholders bank management analyst, policy makers and the general public have all expressed serious concerns about appropriate banking performance throughout time. The objective of the study is to assess the performance of Nigeria deposit money banks using the Central Bank of Nigeria (CBN) statistical bulletin for 2003-2022. The finding revealed that the significance of macroeconomic factors in the role played by deposit money banks in effectively contributing to the prosperity of any nation and profitability of banks cannot be overstated. The study recommended that banks should investigate tactics that will minimize operational costs associated with deposit attraction while also broadening their deposit sources. Nigerian banks should dedicate themselves to the goal of price stability in addition to strengthening the monitoring and guiding outlines to ensure a robust sector for effective intermediation in order to prevent the effects of inflation.

Key Words: Banks Performance, Interest Rate, Money Supply, Return On Asset, Profitability

Introduction

Macroeconomic factors like the interest rate (IR) have the power to rise or drop bank lending activity via certain channels and, in turn, the money supply. Reduced macroeconomic performance has the potential to endanger the distribution of credit and banking deposits in the economy, which could have a negative impact on bank performance (Alaba, 2002). According to Uboh (2005), the 1980s and 1990s banking crises were attributed to the period's challenging business environment and subpar macroeconomic performance .Given that Nigerian banks have overseas offices and that the country's economy is overly dependent on crude oil export revenues from abroad, the global monetary climate has the potential to have an impact on the performance of the banking segment. For example, the 2007 global financial crisis had a negative impact on Nigerian banks (Akani, Nwanna, and Mbachu, 2016). Toby (2006) stated that the failure of the financial institutions to respond to shocks from macroeconomic factors can be linked to performance. For example, the macroeconomic plan unpredictability, extraordinary risk attentiveness, and liquidity crunch that describe the nation pose a challenge to the survival of deposit money institutions. Yusuf (2011) contends that a bank's performance is based on its ability to generate stable profits that will pay for ongoing costs and boost shareholder value.

Statement of the Problem

Interest rate (IR), money supply (MS), inflation level (IL), unemployment rate (UR), and exchange rate (ER) are macroeconomic factors (MF) that directly affect the economy.. According to Adegbaju and Olokoyo (2008), "stakeholders, bank management analysts, policy makers, and the general public have all expressed

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

serious concerns about appropriate banking performance throughout time". Bawa et al (2021) noted that Banks support economic growth, employment, capital formation, and lubricate the production engine turbine of all economies through this function. These Interest rate (IR), money supply (MS), inflation level (IL), unemployment rate (UR), and exchange rate (ER) are economic elements that directly affect the economy. Political fluctuations, international liquidity fluctuations, monetary policy fluctuations, and macroeconomic surprises all have a direct impact on the health of the institutions and the functioning of the banking industry.

Objective of the Study

To assess the impact of economic elements on performance of Nigeria Deposits money Banks

Review of related literature

Banks Performance and economic elements

Financial performance, according to Richard et al. (2009), is a measure of the variance in an organization's financial situation or its financial outcomes of managerial choices and the execution of the choices made by the management of the organization. Bawa, et al (2023) observed that that improving liquidity facilities investment will result in high-return initiatives that promote productivity growth in the long run. Choice of the metrics that indicate the performance of a certain organization is done based on the conditions of the organization being graded because the consequences are not widespread in nature but heavily rest on the organizational situation. Financial performance, according to Ravinder and Muskula (2013), is essentially the manager's activity of doing financial tasks within a company. Financial performance, in a broader sense, demonstrates the degree to which financial purposes over a given time period were attained. It is the process of determining a firm's and its operations' financial success. It is utilized to assess a company's complete financial feasibility of a specific time and can be employed as well to relate and contrast parallel companies within an industry or to aggregate industries or sectors. Adebaju and Olokoyo (2008) asserted that monetary policy throught, macroeconomic, political, and global liquidity problems have a direct bearing on bank performance and the general wellness of the entities. Alaba (2002) indicated that disastrous macroeconomic outcome has the potential to endanger bank deposit mobilisation and credit distribution in the economy that may adversely impact the bank performance, while Akani, et al. (2016) showed that interest rates have the potential of either increasing or decreasing bank borrowing behavior via the banking borrowing network via the MS. The success of the banking sector is highly correlated with how much macroeconomic factors affect banks. Carton(2004) stated as thus :these financial outcomes are split into five (5) main categories: The first group of evaluations includes profitability metrics like return on equity, return on assets, return on capital, return on sales, and operating margin; the second group of metrics includes growth metrics based on sales, total assets, and total employees; the third group includes leverage, liquidity, and cash flow metrics like debt to equity ratio, operating cash flow to equity, and growth rate of operating cash flow; there are also growth metrics based on total assets, total employees, and sales; and the fourth group includes growth metrics based on total assets, total. Financial performance, according to Richard et al. (2009), is a measure of the variance in an organization's financial situation or its financial outcomes of managerial choices and the execution of the choices made by the management of the organization. Choice of the metrics that indicate the performance of a certain organization is done based on the conditions of the organization being graded because the consequences are not widespread in nature but heavily rest on the organizational situation. Financial performance, in a broader sense, demonstrates the degree to which financial purposes over a given time period were attained. It is the process of determining a firm's and its operations' financial success. It is utilized to assess a company's complete financial feasibility of a specific time and can be employed as well to relate and contrast parallel companies within an industry or to aggregate industries or sectors especially the banking sectors

Empirical Review

Popoola and Mlanga (2019) looked into whether and how macroeconomic conditions and firm-specific factors affected the financial performance of Nigeria's DMBs between 2005 and 2014. They used information from the yearly reports of 15 Nigerian deposit money institutions as well as the CBN's yearly statements. Panel data were utilized for the analysis, and the multiple regression methodology was applied with the random effects method. The results showed that bank-specific characteristics such as cash source, loan quality, liquidity, management quality, and effort orientation significantly influenced the financial results of the banks,

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

although capital strength was determined to be unimportant .Additionally, it was discovered that the three macroeconomic variables under consideration—economic growth, inflation, and the yearly loan rate-had a considerable impact on the financial results of Nigeria's DMBs during the research period. To improve the results of such banks by eradicating dishonesty and fostering and assuring transparency in these institutions, better effective corporate governance is advised.

Gikombo and Mbugua (2018) assessed the impact of a few economic factors on the profitability of Kenyan's banks.The study's exact goals are to: inspect the influence of real IRs on commercial banks' profitability in Kenya; ascertain the influence of GDP, ERs, and IL on this profitability; and inspect the impact of real interest rates, GDP, and exchange rates on commercial banks' profitability in Kenya. The descriptive design was employed in the study to gather data that characterizes the state of the variables under investigation, and the longitudinal design assisted in monitoring changes over time. All 44 of Kenya's banks with licenses as of December 2016 were the subject of the study. A census was conducted since all 44 banks were comprised in the investigation. Using SPSS version 23.0, descriptive and inferential statistics were executed, and The outcomes were displayed in tables. The analysed results revealed that when ROA was used as a metric of banks' profitability, the real IR, GDP, ER and IL had p-values under 0.05. When using ROE to measure performance, real rates of interest are less than 0.05.

Ifionu and Akinpelumi (2015) assed the effects and consequences of a few macroeconomic elements on the MS using obtained secondary data from the CBN Statistics Bulletin (2013) and econometric approaches like the OLS, causality test, and co-integration to evaluate the causality and long- and short-term connections of the employed variables.The results demonstrated that every other indicator, such as GDP, was shown to have an affirmative influence on the MS, with the exception of IL, which was found to have a negative association with MS and ER. The findings also demonstrated the presence of long-run correlations between the variables examined as well as the fact that all elements were stationary at varying lags. Therefore, it was advised that Nigerian banks should dedicate themselves to the goal of price stability in addition to strengthening the monitoring and guiding outlines to ensure a robust sector for effective intermediation in order to prevent the effects of inflation. The unsustainable growth in Nigeria's total money supply needs to be reined in by the government.

Akani et al. (2016) investigated the effects of a few macroeconomic elements on Nigerian banks in order to ascertain how particular economic changes (such as the IL, GDP, IR, ER, broad MS, and UR) would impact the operations of Nigerian banks (estimated in terms of ROAs and ROE). The researchers used the Granger Causality Tests, the Vector Error (VECM), the Unit Root Test, and three different multiple regression models. The data showed that the real GDP, IL, ER, MS, IR, and UR had very little impact on the ROA and ROE. The overall finding showed a strong and positive link between the operation of banks and the selected macroeconomic measure.

Combey and Togbenou (2017) employed the pool mean group estimator to analyses the short and long-term relationships between the profitability of banks (ROA and ROE) and three key macroeconomic indicators: growth in the GDP, the real effective ER, and IL.The results revealed that, in the short run, there is no relationship between banks' ROA and ROE and macroeconomic elements; nevertheless, banks' ROA is favourably impacted by their capital-to-assets ratio and bank size, while banks' ROE is adversely affected by their capital-to-assets ratio. While it was discovered that real GDP growth, real effective ER, and IL had a significant and negative long-term effect on banks' ROAs, the IL has no substantial impact on banks' ROE over the long run.Outcomes over a longer period of time also indicated that real GDP growth, real effective ER, and IL have a detrimental long-term effect on banks' ROE.

Research Methodology

The study used secondary data obtained from the Central Bank of Nigeria statistical bulletin base on Return On Assets data for banks for the period of 2003 – 2022.

Model of the Study

$ROA = \beta_0 + \beta_1 INFR + \beta_2 GDP + \beta_3 INTR + \beta_4 M2 + et$

Where:

ROA = Return on assets, INFR= Inflation rate ,GDP= Gross domestic product ,INTR= Interest rate ,M2= Broad money supply ,et= Error term (unexpected variations)

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Regression Analysis

Dependent Variable: ROA

Variable	Coefficient	Std. Error	T-statistics	Prob.
INFR	1.803699	3.760976	0.479583	0.6401
GDP	0.89055	2.147545	0.414685	0.6857
INTR	9.659496	5.026904	1.921560	0.0787
M2	0.006117	0.002389	2.560375	0.0250
R-squared	0.614080	Prob (F-statistics)	0.015475	
Adjusted r-square	0.485440	Durbin – Watson stat	1.261020	
F-statistics	4.77368			

Source: E-view 7.0 Author's computation (2024)

The simple interpretation of the R2 value of 0.6140 is that, between 2002 and 2021, modifications to the explanatory constructs of IL, MS, IR, and GDP explained almost 61% of the disparity in the dependent parameter (ROA). The MS and IR were statistically significant at the one per cent level, based on the model's general level of significance by the F-statistics of 4.773638, while the coefficient of IL and GDP were statistically insignificant despite having a positive impact on ROA. This shows that the regression and the dependent variable have a meaningful linear connection. Accordingly, it can be claimed that the MS and IR have a substantial impact, whereas the IL and GDP have a substantial impact on ROA. The variables may be missing, according to the Durbin Watson (DW) statistics of 1.261020.Based on the aforementioned table, the investigation was on the influence of inflation (IL) GDP, interest rates (IR), and money supply (MS) on the asset that symbolizes deposits' profitability in banks. The outcome matches the a priori anticipation. The coefficients of the independent parameters show the anticipated signs and concur with theoretic predictions.

The Findings

Thus, according to the study, growth in the money supply would enhance bank profits assets and broaden its investment base for profit. For the greater performance of corporate organisations, an increase in GDP indicates a healthy economy. This discovery supports the hypothesis of bank assets serving as early warning signals.The significance of macroeconomic factors in the role played by deposit money banks in effectively contributing to the prosperity of any nation and the profitability of banks cannot be overstated. According to a straightforward reading of the R2 value of 0.6140, changes to the explanatory constructs of IL, MS, IR, and GDP between the years of 2002 and 2021 accounted for over 61% of the change in the dependent parameter (ROA). Based on the model's general significance level by the F-statistics of 4.773638, the MS and IR were statistically significant at the 1% level, whereas the coefficient of IL and GDP were statistically insignificant despite having a favorable effect on ROA. This demonstrates a meaningful linear link between the dependent construct and the regression.The study's a-priori prediction of the outcome is consistent with the positive impact that IR, IL, MS, and GDP have on the dependent variable. Thus, according to the study, growth in the money supply would enhance bank profits assets and broaden its investment base for profit. For the greater performance of corporate organisations, an increase in GDP indicates a healthy economy. This discovery supports the hypothesis of bank assets serving as early warning signals.As a result of this study's conclusions, ROA will increase by 1.803699 units, 0.066117 units, 9.659496 units, and 0.89055 units, respectively, for every unit change in INF, M2, INT, and GDP. The management of Nigerian banks needs to be cautious when establishing economic policy so as to not interfere with the operations of banks. This will ensure the wise utilization of deposits and the maximization of income, both of which should have a significant impact on the economy. The fact that the influence on inflation rate is positive supports the a priori assumption of the outcome and the principle of money value, according to which $1,000 today is worth more than $1,000 tomorrow.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Conclusion and Recommendations

Political fluctuations, international liquidity fluctuations, monetary policy fluctuations, and macroeconomic surprises all have a direct impact on the health of the institutions and the functioning of the banking industry. By implementing lending-friendly policies, such as lowering the monetary policy rate (MPR), effectively employing contraction and expansion measures, and formulating development in output, the economy would benefit from an expansion of credit as well as invariably higher returns and profitability for DMBs. Banks should investigate tactics that will minimize operational costs associated with deposit attraction while also broadening their deposit sources. Deposit money banks should work to increase there internal operational effectiveness and productivity in handling and producing a well-diversified portfolio of risk assets. This will make sure that both interest-sensitive risk assets and liabilities are used to maximize returns. Nigerian banks should dedicate themselves to the goal of price stability in addition to strengthening the monitoring and guiding outlines to ensure a robust sector for effective intermediation in order to prevent the effects of inflation.

References

Adegbaju, A.A. & Olokoyo, F.O. (2008). Recapitalization and bank's performance: A case study of Nigerian banks. *African Economic and Business Review*, 6(1), 1-17.

Adegbaju, A.A. &Olokoyo, F.O. (2008). Recapitalization and banks' performance: A case study of banks. *African Economic and Business Review*, 6(1), 1-17.

Akani, H.W., Nawana, I. &Mbachu, A. (2016). Effect of selected macroeconomic variables on commercial banks performance in Nigeria. *IJARD International Journal of Business and Finance*, 2(3), 34-75.

Akani, J.W., Nwanna, I. &Mbachu, A. (2016). Effects of selected macroeconomic variables on commercial banks performance in Nigeria. IIARD. *International Journal of Banking and Finance Research*, 2(3), 34-75.

Alaba, O.B. (2002). Exchange rate uncertainty and foreign direct investment in Nigeria. Trade Policy Research and Training Programme (TPRTO): Department of Economics, University of Ibadan, Ibadan, Nigeria.

Bawa, I., Adamu, Y.A, & EL- Mustapha ,M.H. (2023) Examining the dynamics of buying and selling in Nigeria stock market: an issue to maximize business potentials. *International journal of financial research and management science,* 14(7), 62-70 . ISSN 2773-1040.

Bawa ,I., Chiebonam O.G. & Abdulsalami, Z. (2021) Analysis of banking sector returns on Nigeria economic growth: an issue for competitive global market (1980 - 2020). *International journal of advanced research in statistics, management and finance.* 8 (2), 45 – 58 ISSN: 2354 - 1644

Carton, R. (2004). Measuring organizational performance: An exploratory study: A dissertation submitted to the graduate faculty of the University of Georgia in partial fulfillment of the requirements for the degree doctor of philosophy, Athens, Georgia.

Combey, A. &Togbenou, A. (2017). The bank sector performance and macroeconomics environment: Empirical evidence in Togo. *International Journal of Economics and Finance*, 9(2), 180-188.

Gikombo, E.M. &Mbugua. D. (2018). Effect of selected macroeconomic variables on performance of listed commercial banks in Kenya. *International Academic Journal of Economics and Finance*, 3(1), 80-109.

Ifionu, E. &Akinpelumi, O.F. (2015). Macroeconomic variables and money supply; evidence from Nigeria. *AFRREV*, 9(4), 288-307.

Popoola, A. &Mlanga, S. (2019). Effects of firm-specific characteristics and macro-economic factor on financial performance of banks in Nigeria. *European Journal of Social Science*, 57(4), 443-452.

Ravinda, D. &Muskula, A. (2013). Financial analysis: A study. *IOSR Journal of Economics and Finance* (IOSR-JEF), 2(3) 10-22.

Richard, P.J., Devinney, T.M., Yip, G.S. & Johnson, G. (2009). Measuring organizational performance towards methodological best practice. *Journal of Management,* 35, 718-804

Toby, A.J. (2006). Banking system soundness; theory and practice. Hamhrey Publisher Port Harcourt.

Uboh, G.A.T (2005). Selected essays on contemporary issues in Nigerian banking system. Ibadan: University Press PLC.

Yusuf, O.S. (2011). A theoretical analysis of the concept of informal economy and informality in developing countries. *European Journal of Social Sciences*, 20(4), 624-636.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]