Nigeria Economic Performance and Bank Recapitalization Policy: The Role of Bank Branch and Deposit Trends

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Abstract
Given series of reforms in the banking sub sector in Nigeria, with the 2004 recapitalization policy in focus, the paper examine whether the was any significant differences in both bank deposit and new office growth and its correlation with changes in some macroeconomic indicators namely: per capita GDP, Unemployment rate, interest rate, loan to small business enterprise and population 5-year before and 5-year after bank recapitalization in 2005. Data on the selected variables were obtained from Central Bank of Nigeria (CBN) and National Bureau of Statistic (NBS) Annual abstract of statistics. Percentage changes and trend analysis was employed in analyzing the data obtained. The result reveals that, all the variables – change in per capita GDP, loans to small enterprise, population and unfortunately unemployment and interest rate appear to be highly correlated with the high average percentage change in bank branch and deposit during 5-year post bank consolidation policy. A sharp fall in bank branch and deposit trends in 2008 was also accompanied by greatest falls in per capita GDP and loans to small enterprise, and highest rise in unemployment. In general, bank recapitalization policy led to stronger economic performance in Nigeria with 2008 financial crisis as a breaker of progress and gains of bank recapitalization policy.
Key word: Economic performance, Bank Branch, deposits, Recapitalization, Nigeria

I. INTRODUCTION

Economic reforms generally refer to the process of getting policy incentives right and/or restructuring key implementation institutions. As part of economic reforms, financial sector reforms focus mainly on restructuring financial institutions and markets through various policy measures. As a component of the financial sector, the reforms in the banking sector seeks to get the incentives right for the sector to take the leading role in enhancing the intermediation role of the banks and enable them contribute to economic growth (Balogun, 2007; and Iganiga and Usifo, 2013).

As articulated by Omoruyi (1991); CBN (2004) ; Balogun (2007); and Iganiga and Usifo (2013) banking sector reforms in Nigeria have been embarked upon to achieve among other things improvement in the regulatory and surveillance framework, fostering healthy competition in the provision of service, and laying the basis for inflation control and economic growth through real sector development.

Four distinct phases of banking sector reforms are easily discernible in Nigeria (Anyanwu, 2010). The first occurred during 1986 -1993, when the banking industry was deregulated in order to allow for substantial private sector participation. Hitherto, the landscape was dominated by banks which emerged from the indigenization programme of the 1970s that left the federal and state governments with majority stakes. The second was the re-regulation era of 1993 -1998, following the deep financial distress. The third phase was initiated in 1999 with the return of
liberalization and the introduction of the era of one-stop – shop and the adoption of universal banking system. The fourth phase commenced in 2004 with banking sector recapitalization as a major component. Thus, banks were mandated to raise funds aggressively and commence the process of mergers and acquisitions, if unable to meet the stipulated minimum capital base at the end of the recapitalization exercise, the number of banks dropped from 89 to 25 and eventually to 24 following a merger of the two consolidated banks.

Given these series of reforms in the banking sub sector with the 2004 recapitalization policy in focus, how does recapitalization policy correlate with some major macroeconomic indicators? The answer to this question forms the fulcrum of this paper. Specifically, the paper will examine the trends in each of the selected economic and demographic variables to identify areas of correlation with the change in the number of bank branch and deposit 5-year before and 5-year after bank recapitalization in 2005. The required data are annual time series data on bank branch, bank deposit, per capita GDP, Unemployment rate, interest rate, loan to small business enterprise and population from 1999 to 2010.

The choice of 1999 to 2010 will also confined our analysis to the democratic dispensation which started in 1999. Data were obtained from Central Bank of Nigeria (CBN) Statistical Bulletins 2010 and National Bureau of Statistic (NBS) Annual abstract of statistics (various issues). The trends in each of these economic and demographic variables are reviewed to identify areas of correlation with the change in the number of bank branch and deposits 5-year before and after bank recapitalization in 2005.

The analysis begins with a presentation of data on the change and trend in the total number of commercial banks and total deposits over the two periods 2000-2004 and 2006- 2010. The second part of the study then examines trends and growth in some economic variables, including per capita GDP growth, unemployment rate, interest rate, loans to small business and population for the two periods under consideration. Lastly, the conclusions which will highlight economic indicator(s) that appear to be growing or lagging, and having a steady and strong time-trend with bank branch and deposits before and after bank recapitalization policy.

II. BANK BRANCH AND DEPOSIT GROWTH AND TRENDS: 2000 – 2004 VERSUS 2006- 2010

An examination of percentage change in bank branch and deposits 5-years (1999 - 2004) before the bank recapitalization policy reveals that the average percentage growth in both bank branch and deposits were lower than that of 5-year post recapitalization period (2005-2010). The average percentage change in bank branch was 10.61% for 1999-2004 compare to 11.47% for 2005-2010. While there was slight improvement in bank branch, bank deposits showed a very remarkable increase/improvement after recapitalization. The average percentage growth in deposits 5-year before and after recapitalization was 50.41 and 149.34 respectively (see table 1 below).

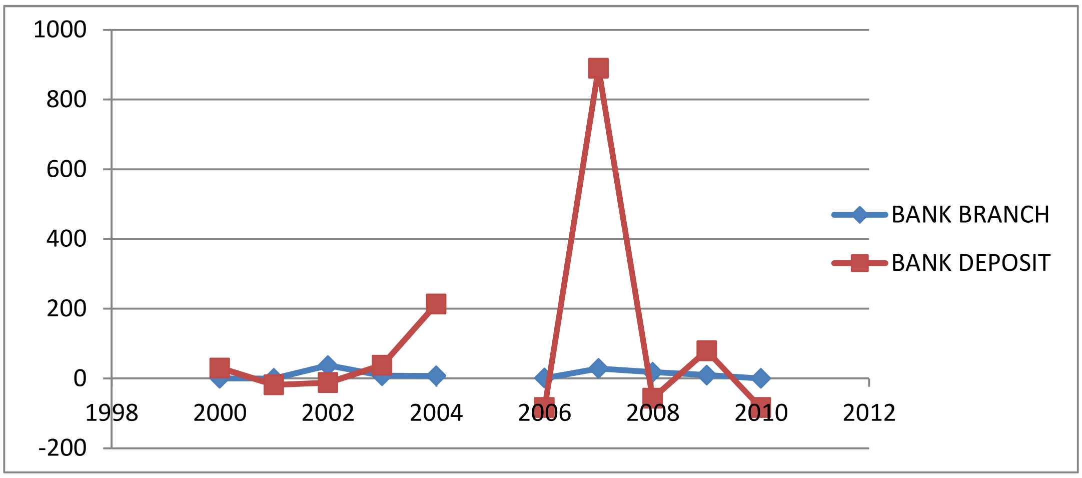
Table1: percentage change in bank branch and deposits 5-year before and after recapitalization (199-2004 and 2005-2010) compared.

year	No. of Bank Branches	No. of Bank Deposits	% change in Branch	% change in Deposits
1999	2185	15860		
2000	2193	20640.9	0.366132723	30.1443884
2001	2193	16875.9	0	-18.2404837
2002	3010	14861.6	37.25490196	-11.93595601
2003	3247	20551.8	7.873754153	38.2879367
2004	3492	64490	7.545426548	213.7924659
Ave. rate 1999-2004(5years pre- recapitalization)			**10.60804308**	**50.40967025**
2005	3233	18461.9	-	-
2006	3262	3118.6	0.896999691	-83.10791414
2007	4200	30882.3	28.75536481	890.2616559
2008	4952	13411.8	17.9047619	-56.57123984
2009	5436	24102	9.773828756	79.70742182
2010	5436	3953.1	0	-83.59845656
Ave. rate 2005-2010(5years post- recapitalization)			**11.46619103**	**149.3382934**

Sources: CBN Statistical Bulletin 2010 and author's computation.

Figure 1 below shows annual percentage changes in bank branch and deposits covering the two periods of our analysis. The trend in bank branch was very stable, relative to the wide trends in bank deposits over both periods, with post recapitalization period having a higher increasing trend in bank branch than the previous 5-year period (1999-2004). Whereas, the bank deposits had a fair stable trend 5-year before recapitalization policy began, with 2007 having the highest percentage change (+890.26%) in bank deposits due to compliance to the policy as stipulated by Central Bank of Nigeria (CBN) and confidence by depositors on banks.

Figure1: Trends in bank branch and deposits



However, bank deposits began to show a very unstable and declining trend after recapitalization with the lowest in 2010. This could be as results of the financial crisis of 2008-2010 were some banks were giving a bail-out by the CBN, and resultant loss of confidence on banks by depositors. Hence, on average, both bank branch and deposits percentage changes were greater in post than pre recapitalization period with bank branch showing a stable increasing trend while, bank deposits depicts unstable trend after recapitalization due post recapitalization financial crisis and loss of confidence by depositors.

III. ECONOMIC INDICATORS AND RECAPITALIZATION

A. UNEMPLOYMENT AND PER CAPITA GDP

Table2: % changes in unemployment and per capita GDP 5-year before and after recapitalization

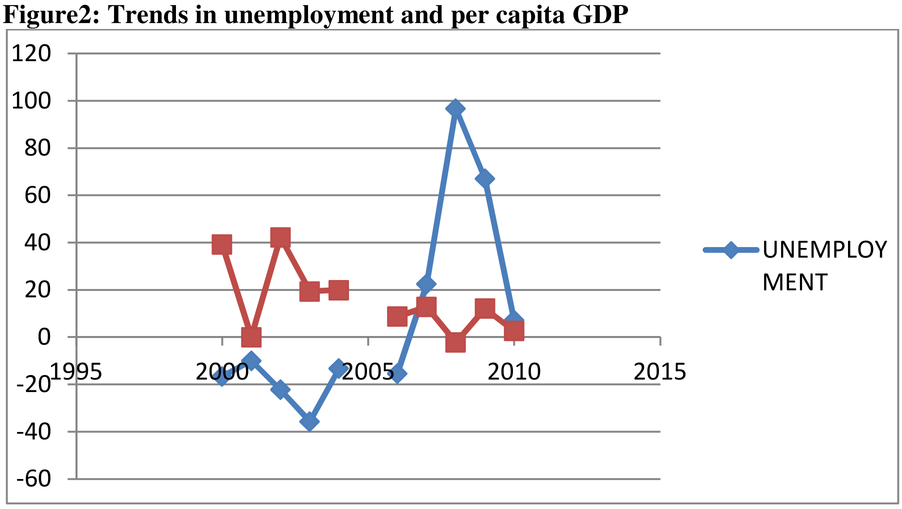
year	UNEMPLOMENT RATE	PER CAPITA GDP	% CHANGE IN UNEMPLOYMENT	% CHANGE IN PER CAPITA GDP
1999	12	28571.6		
2000	10	39768.5	-16.6667	39.18891
2001	9	39773.5	-10	0.012573
2002	7	56584.7	-22.2222	42.26734
2003	4.5	67561.1	-35.7143	19.39818
2004	3.9	81013.7	-13.3333	19.91175
Ave. rate 1999-2004(5years pre- recapitalization)			**-19.5873**	**24.15575**
2005	5.8	138036.9		
2006	4.9	150147.7	-15.5172	8.773596
2007	6	169405.8	22.44898	12.8261
2008	11.8	165633.4	96.66667	-2.22684
2009	19.7	185759	66.94915	12.15069
2010	21.1	190678	7.106599	2.648055
Ave. rate 2005-2010(5years post- recapitalization)			**35.53083**	**6.83432**

Sources: CBN Statistical Bulletin 2010 and author's computation.

From table2, there was a decrease in unemployment (increase in employment) on average by 19% during 5-year pre recapitalization period as indicated by (-19, where the minus sign depicts decrease). Thus, unemployment fell at rate even greater than the changes in bank branch (10.61%) but less than the changes in bank deposits (50.41%). At the same time the per capita Gross Domestic Products (GDP) change by 24.16% during this period. Whereas, the higher percentage changes in bank branches (11.47%) and deposits (149.34%) during post recapitalization correlate with a high unemployment rates (+35.53%), and a smaller % change in per capita GDP (6.83) compare to 5-year before recapitalization policy.

Part of the explanation may lie in the fact that the Nigeria economy was much slower to recover from the sharp job losses during the recapitalization process and imported financial/economic recession that began in 2008 and continued into the second quarter of 2009. This is evidence from the trends presented in figure2 below, where percentage change in unemployment was very high (99.66%) and coincided with a fall (-2.22%) percentage change in per capita GDP in 2008.

Figure2: Trends in unemployment and per capita GDP



B interest rate and loan to small business enterprise

From table3, the average percent change in interest rate for 1999-2004 (5-year pre-recapitalization policy) was –o.6817% while that of 2005-2010 (5-year post-recapitalization policy) was -0.3545%. Hence, interest rate fell on average in both periods with 5-year pre-recapitalization policy having falling interest rate than 5-year post-recapitalization policy in spite of the relative lower average percentage changes in bank branch and deposits 1999-2004 vis-à-vis 2005-2010. On the other hand, the relative higher average percentage changes in loan to small business enterprises of 25.91% for 5-year post-recapitalization policy compare to 8.10% for 5-year pre-recapitalization policy correlates with higher changes in bank branch and deposits of 5-year post-recapitalization policy. Thus, loans to small scale enterprises strongly coincide with bank branch and deposits changes during 5-year post-recapitalization policy while changes in interest rate contradict it.

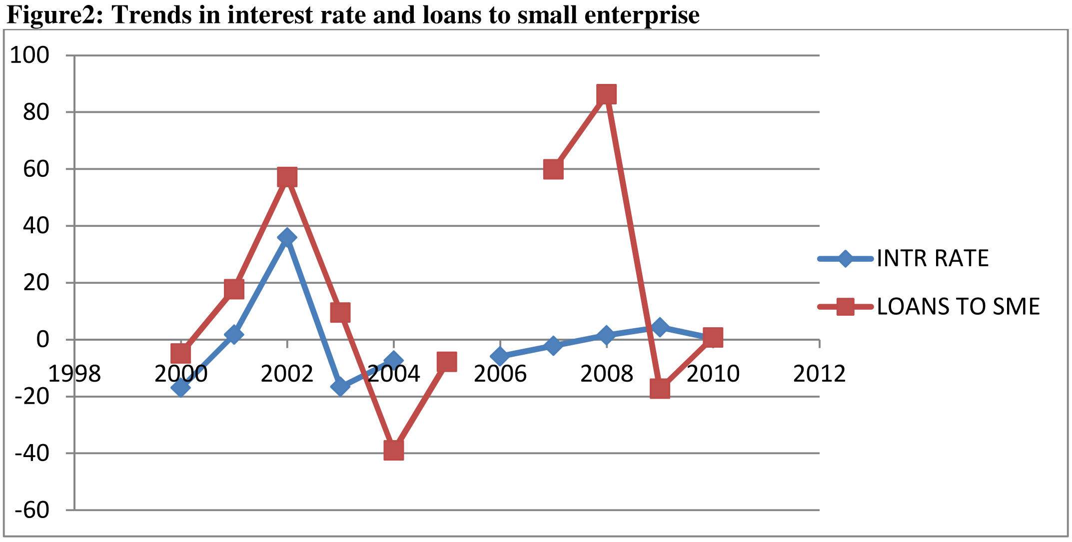
Table3: % changes in interest rate and loan to small business enterprise 5-year before and after recapitalization

year	INTEREST RATE	LOAN TO SMALL ENTERPRISES (# m)	% CHANGE IN INTEREST RATE	% CHANGE IN LOAN TO SMALL ENTERPRISE
1999	21.65	46,824.0	-	-
2000	17.98	44,542.3	-16.9515	-4.87293
2001	18.29	52,428.4	1.724138	17.70474
2002	24.85	82,368.4	35.86659	57.10645
2003	20.71	90,176.5	-16.65996	9.479485
2004	19.18	54,981.2	-7.387735	-39.0293
Ave. rate 1999-2004(5years pre- recapitalization)			**-0.681693**	**8.077681**
2005	17.95	25,713.7	-	-
2006	16.89	41,100.4	-5.905292	59.83853
2007	16.52	76,565.3	-2.190645	86.28845
2008	16.77	63,300.5	1.513317	-17.3248
2009	17.50	63,769.4	4.353011	0.740752
2010	17.58	25,713.7	0.457143	59.83853
Ave. rate 2005-2010(5years post- recapitalization)			**-0.35449**	**25.90858**

Sources: CBN Statistical Bulletin 2010 and author's computation.

The trend in total small business loan contrasts somewhat with the change in interest rate during 5-year pre-recapitalization period with years of high interest rate matching high loan to small enterprises (see figure3 below). It is also pertinent to note that the year 2008 saw the lowest percentage fall (-17.32%) in loans to small enterprise during the post policy period.

Figure2: Trends in interest rate and loans to small enterprise



C: POPULATION, BANK BRANCH AND DEPOSITS

The average change in population during the 5-year pre consolidation of banks was 5.58% which was slightly less than that of post bank consolidation of 2.75. The higher percentage change in population during post recapitalization was in line with a percentage changes in bank branch and deposits during this period. The table4 clearly illustrate the percentage changes in population between these two periods.

Table4: % changes in population 5-year before and after recapitalization

year	POPULATION	% CHANGE IN POPULATION
1999	122876727	2.545856
2000	126004992	2.555176
2001	129224641	2.573429
2002	132550146	2.602113
2003	135999250	2.637251
2004	139585891	2.545856
Ave. rate 1999-2004(5years pre- recapitalization)		**2.582765**
2005	143314909	2.702052
2006	147187353	2.731707
2007	151208080	2.759733
2008	155381020	2.784613
2009	159707780	2.808345
2010	164192925	2.702052
Ave. rate 2005-2010(5years post- recapitalization)		**2.75727**

Sources: CBN Statistical Bulletin 2010 and author's computation.

There is a strong correlation between population growth and growth in total deposits.

A study conducted by Walser and Anderlik (*FDIC Banking Review, 2005)* found considerable evidence that the trend toward depopulation of the nation's rural counties has direct implications for their long-run economic vitality and for the banks that serve these areas. The authors found a significant correlation between declining population in many areas and both the shrinking size of agriculture in local economies, and in the acceleration of out-migration among younger residents between the ages of 20 and34. They also note the relationship to county economic viability of labor force quality and size and of the 'commercial structure' of an area. Here, they refer to the concept of "central place theory", defined by the notion that "businesses require a minimum number of customers to be viable," and that "the greater the number and complexity of goods and services available in a central place, the higher its rank in (an economic) hierarchy."

IV. CONCLUSION

This study has examined the significance of several economic variables in relation to bank branch and deposit trends 5-year before and 5-year after bank recapitalization in Nigeria. With the exception of seemingly contradictory high average growth in unemployment rate, the findings provide support for the argument that indicators of economic strength are strongly correlated with new deposit and branch office growth of post recapitalization era with 2008 financial/economic recession being a breaker of progress and gains of the policy. Specifically, all the variables – change in per capita GDP, loans to small enterprise, population and unfortunately unemployment and interest rate appear to be highly correlated with the high average percentage change in deposit during 5-year post bank consolidation policy. The relationship between the change in deposit activity and change in per capita GDP, loans to small enterprise, population and sadly, unemployment reveals a strong correlation that may be a predictor of total deposit trends in the post bank consolidation policy. A sharp fall in bank branch and deposit trends in 2008 was also accompanied by greatest falls in per capita GDP and loans to small enterprise, and highest rise in unemployment. In general, bank recapitalization policy led to stronger economic performance in Nigeria.

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