GLOBAL FINANCIAL CRISIS AND COMMERCIAL BANKS' PROFITABILITY IN NIGERIA: A CASE STUDY OF UNITED BANK FOR AFRICA (UBA)

[1]Musa, Ahmed Baba and AYAKA, Mathew Ayuba[2]
[1]Department of Social Sciences, Nasarawa State Polytechnic, Lafia.
[2]Department of Monitoring and Evaluation, Nasarawa State Community and Social Development Agency, Lafia.
[1]ahmedbaba319@yahoo.c om [2]mathew .ayaka@gmail.c om

ABSTRACT
In this study we examined the effect of Global Financial Crisis on Commercial Bank's profitability particularly United Bank for Africa (UBA). The main objective was to evaluate the level of commercial bank gross earnings considering particularly lending rate (LR) and return on investment (ROI). First differenced least square technique was employed in the analysis. The findings of the study revealed that lending rate and returns on investment have a positive correlation with commercial banks' earning. The research concludes that the global financial crisis has a positive effect on United Bank for Africa(UBA) profitability in Nigeria. However, the gross earning is not statistically significant. Therefore, we recommend that to improve productive efficiency of the economy, monetary policy rate (MPR) should be reduced while market rate be sustained to increase the rate of return on investment in Nigeria.

Keywords: Global Financial Crisis, Commercial Bank Profitability, United Bank for Africa (UBA), Central Bank of Nigeria.

INTRODUCTION
The crisis of credit which led to financial disruption triggered off in the United States sub-prime mortgage market in July, 2007 and spread very fast to other economies of the world. The crisis led economies to plunge into recession widely known as "Global Economic Meltdown". The global economy was hit by the worst economic crisis since 1930's great depression. What started as credit crisis in United States (US) sub-prime market in 2007 became global epidemic in 2008, wiping out trillions of dollars of financial wealth, undermining global trade and investment and putting real economy on a course of protracted recession around the world (Ilo 2009; World Bank, 2009;

Igbatayol, 2009). The causes of the crisis according to Aburine (2009) are liberalization of global financial regulation, new financial architecture, poor credit rating, and high risk loans and government policies.
The worldwide losses from the crisis, measured in terms of write downs on assets originating in the USA, Europe and Japan, could be as high as $4.1billion (IMF, 2009). The world GDP for the first time after the World War II experienced the steepest fall. The European GDP fell by four (4) percent in 2009 and had a dramatic effect on labour market. In October, 2008 the IMF, the EU and the World Bank put in place a more comprehensive rescue package to the tune of 20billion pounce (IMF, 2008). The banks were observed to have registered a sudden pessimistic decrease in their profitability. The negative sign of the indicators show how bad the crisis had affected the commercial banks' profitability in Europe. Consequently, in 2007 forty (40) US banks were reported to have failed in 2008, twenty-nine (29) banks also collapsed (Obannuyi 2013).

African economy at the early stage of the crisis of credit, enjoyed robust economic growth. Until food and fuel price shocks of 2007 and 2008 that preceded the current global financial crisis weakened the external position of the net importers food and fuel, causing inflation to accelerate and dampened growth prospects (IMF, 2009). Countries like Burundi, Guinea-Bissau, and Liberia who were dependent on concessional financing, were seriously affected. The developing countries were highly devastated by the crisis as a result of modeling their economy along the path of casino capitalization without solid production base (Onyekakeyah, 2008).

Nigerian crude oil price dropped from $147 per barrel in 2007 to $56 average per barrel in 2008. The stocks and securities in stock market loosed value thereby reduced investors' confidence. In 2009, equally prices dropped by 33% from the record in 2008. The turmoil witnessed investment fund withdrawals. The banking sector requiring urgent measure to stem the tide, the CBN injected N400billion into the vulnerable banks to forestall systemic collapse of ailing banking system through recapitalization (Soludo, 2009).The Nigeria banks were less profitable than their counterparts in Europe and US before, during and after the crisis, basically because of inadequate production base and low return on investment.

The outcome of the Global Financial Crisis on the national economy in terms of exchange rate, price index, unemployment, output and banks profitability were unprecedented and the severity of credit contraction affected most of the banking profitability. The loss of confidence in financial market led banks to fail in carrying out their financial intermediation role.
The objective of this work was to find out commercial banks' profitability between the periods 2006-2015, in Nigeria. And this led to the following research questions:

1. What has been the outcome of commercial banks' profitability in relationship with the global financial crisis?
2. What are the effects of the crisis on lending rates, returns on investment and its resultant effects on commercial banks' profitability?

The remaining part of the study proceeds with section two which briefly reviews literature; as methodology is explained in the third section; results are presented and discussed in section four; while section five concludes with policy recommendations.

LITERATURE REVIEW

Minsky's theory of financial crisis

According to Hyman Minsky, financial crisis which was developed in the content of domestic economy, the financial instability on the international economy, however, suggest that it would be useful to examine his theory in a more global environment. He takes into consideration the expanding economy (globalization).

As the expansion increases optimism also increase, and the convention about proper level of debt and risk being to change. The price of financial assets rises and the general level of speculation increases. Speculation is taken to be the attempt to bet on the future direction and psychology of the market (Keynes, 1936) and also the more general process of financing assets whose value depends on the future development (Minsky, 1975).

The brief about risk and good liability take a new dimension, the financial system becomes increasingly fragile. Minsky saw the debt grows as fragile increase, the proportion of short-term debt rise, liquidity decrease and speculative and ponzi firms increases (Minsky 1977). The value of short-term

loans or debt increases as banks take advantage of the yield while long-term interest rates are high than the short-term rate.
The classification rally round the relationship between cash receipts due to normal operations and cash payment liabilities due to debt. Firms meet their cash payment with cash receipts. Firms with high speculation find it difficult meeting its liability payment in short-term. This could also lead to an increase in interest rate.

In Minsky's view, the decline in investment spending negatively affect profit profile of banks which worsen the debt obligation. The debt-depletion rises and aggregate demand decreases. The debt deflation, however, shows that defaulters resolve using the central banks to finance their debt obligations. It is emphasized that the lender of last resort operation and prevention of debt-deflation process are not sufficient. In order to prevent financial crisis from reoccurring, policy makers are advised to have financial innovation that will prevent the crisis from reappearing.

However, loans are advanced forward to financial institutions by the lender of last resort, they extend it to borrowers in the economy. What become increasingly relevant for borrowers is the stance of monetary policy and the direction of interest rate. The increasing interest rate in Japan was the cause of Asian financial crisis, as profit from carry-trade was threatened. As fragility worsen, it is capable of initiating a financial crisis.

Minsky's theory can be adjusted in an event of increasing financial fragility to cross-over national borders and increase investment in economies of the world.

Hawtrey Monetary Theory
Hawtrey Monetary Theory of trade cycle is explicit on financial crisis. It states that "trade-cycle is purely a monetary phenomenon". The changes that occur in monetary demand on the part of businessmen and banks accepting deposits from customers to balance up deficits and surpluses in the economy. The idea leads to prosperity, which expected bubbles will generally cause recession and depression in an economy.

Income and savings increase to help accumulate resources expansion in the economy. Hawtrey opines that non-monetary factors such as wars, drought, strikes, earthquakes and many more, cause a partial depression in an economy but not a general depression. Cyclical fluctuation may be caused by the expansion return on assets, return on equity, Capital Adequacy Ratio, Liquidity Ratio, Treasury Bills and others, or contraction of bank credit such as required reserve ratio and Open Market Operation, are instruments of monetary policy used by Central Bank of Nigeria (CBN) to contract the available liquidity (cash) in the economy. According to Charles Duligg, financial crisis is a liquidity crisis which emanated from loss of confidence by the investors in the investment profile of a country as reported by the New York Times (March 23rd, 2008).

The increase in demand means increase in productive activities (Hawtrey, 1926) the evidence is in Nigerian economy the fundamental is shown in the quantum of Nigeria foreign reserve that stood at $63billion as at October 1, 2008 while the Foreign Direct Investment (FDI) moved to $8.3billion. The variation in the strategical figures shows that the vulnerability of an economy to financial crisis is basically due to fluctuations in financial stocks. Most Nigerian banks were affected by the global financial crisis 2009. The scenario forced banks to increase rate and reduce their lending.

Empirical Literature

Rachidi (2013) using regression analysis to examine macro-economic determinants on bank profitability before (2000-2006) and during the global financial crisis (2007-2010). The study found that before the United States (US) subprime market crisis, capital adequacy, liquidity, bank size and real GDP growth affected positively the performance of the banking sector. The research also discovered that yearly growth of deposit and inflation are negatively correlated across all measures of banking profitability.

Soyemi, Akinpelu and Ogunleye (2013), while analyzing the bank (DMBS) in Nigeria post consolidated exercise used descriptive statistics and panel annual bank level. The research revealed five internal determinants, three of the variables were found to contribute to the profitability of the banks; the banks size, total assets and capital adequacy ratio, which is significantly related to profitability. The external determinants and macroeconomic variables used showed no influence on profitability. The finding further indicated that some banks in Nigeria may be suffering from diseconomy of scale which as a result of inefficiencies associated with large organization.

Aigheyisi and Edore (2014) considering the effects of economic openness and inflation on commercial bank's profitability: they used panel data evidence from Nigeria, post banking sector consolidation (2005-2012). The research work employed panel data estimation techniques to examine the effect. Hausman test result indicated that the impact of financial openness on commercial bank's profitability was positive and statistically significant. The study further reveals that there was a down turn trends on the assets of most of the commercial banks. The research suggested greater integration of the country's economy with the global market; participation of commercial bank on merchant banking and establishment of foreign branches in countries with fast growing economies to enhance profitability.

Idowu and Awoyemi (2014) in their analysis of the impact of credit risk management on the commercial banks performance in Nigeria, a panel regression model was employed for the estimation. In the model, return on asset (ROA) and return on equity (ROE) were performance indicators while on performing loans (NPL) and capital adequacy ratio (CAR) as credit risk management indictors. The study findings revealed that risk management had a significant impact on the profitability of commercial banks in Nigeria. That credit risk is by far the most significant risk force by banks and success of the business depends on accurate measurement and efficiency in management of the risk.

The various literature threads highlighted above have shown their search light on commercial bank profitability. At the same time the literature search revealed that most studies used panel regression whereas this research is case specific. The gap in knowledge and literature on profitability issues is what this study set out to fill and supply.

METHODOLOGY

This research used first differenced least square method and reposes on time series data on United Bank for Africa (UBA) statement of annual report for the period of 2006-2015 and Central Bank of Nigeria statistical bulletin of 2014 and 2015. The choice of data source is relevant because Central Bank of Nigeria is considered most authoritative and genuine. This is for the fact that problems related to data capture which often leads to conflicting results and difficulties in replication and streamlined to the barest minimum.

Mode of Specification

In theory, a wide range of factors has been used to explain the behavior of bank profitability models. Some are universal, while others are peculiar to the peculiarity of the country.

Again, some factors or determinants are clearly defined in their relation with profitability model, while others are ambiguous. In order to properly model bank profitability determinants, it is important to sift the factors to conform to the prevailing economic conditions of the environment. It is in the light of this, we identify the following determinants of bank profitability model.

a	Lending Rate (Interest Rate)	=	L
b	Return on Investment	=	R
c)	Global Financial Crisis (Dummy variable)	=	DM

The model for this study is specified as indicated below:

Ges = f (LR + ROI + DM - - - - - - 1

Log Ges_t = $\beta_0 + \beta_1 LR_t + \beta_2 \text{Log } ROI_t + \beta_3 DM_t + U_t$ - - 2

Where

LogGes = Log of Gross profit of commercial bank (Gross Earnings)

LR = Lending Rate (Investment Rate)

ROI = Return on Investment

DM = Dummy Variable representing the Global Financial Crisis.

β_0 = The Constant Term

$\beta_1, \beta_2, \beta_3$ = Coefficient of respective variables

The apriori expectation or presumptive signs are:

$\beta_1 > O$ $\beta_2 > O$ $\beta_3 < O$

The expectation was that there should be a positive relationship between the commercial bank's profitability (GES) with the lending rate and returns on investment. While the dummy variable (DM) was expected to have a negative relationship.

Results and Major Findings

The result in a tabular form is presented in table below

Table 1: Regression result for commercial bank's profitability

Variable	Coefficient	Std. error	E-stats	Prob.
C	29152.52	9583.049	3.042092	0.0287
D (LR)	18793.34	2431.942	7.727768	0.0006
D (ROI)	0.063389	0.004953	12.79696	0.0001
D (DM)	13579.11	9939.361	1.366195	0.2301

R-squared	0.974101	Mean dependent	142013.9
Adjusted R-	0.958562	S.D dependent var	62647.73
S.E of regression	12752.75	Akaike	22.04598
Sum squared resid.	8.13E +	Schwarz criterion	22.13364
Log likelihood	-95.20693	Hannan-Quinu criterion	21.85682
f-statistic	62.68679	Durbin-Watson Stat	2.023148
Prob. (F-statistic)	0.000218	Wald F-statistic	287.9726
Prob. (wald F-	0.000005		

Model Estimation: From table 1, a cursory look at the regression results shows that the estimated equation was largely satisfactory both in terms of signs and statistical significance of the predictive variables. For example, we noted that lending rate variable is positive; this confirms the apriori expectation signs. This positive sign can be explained by the fact that, when interest rate increase, it encourages depositor of fund to increase their funds which culminate to more gross earnings.

We note from the result that returns on investment are positively related to gross earnings and a percentage increase in the returns on investment increased the gross earnings of UBA by 6 percent. The global financial crisis is also positively signed but not statistically significant, implying that commercial bank made some profits but not as much as expected because of the economic meltdown.

The diagnostic tests obtained from our regression are quite impressive. For example, the R square and adjusted R square ranges from 95 percent to 97 percent which is a good fit for the research. This indicates that the parameter estimates are jointly statistically significant, since 95 percent of systemic variation in commercial bank's profitability is explained by the three variables taken together. Thus the implication is that government should employ effective policy measures to enhance economic growth and curtail future economic meltdown. A favorable disposition of the performance of the economy will lead to increase in bank mobilization efforts in the economy.

Conclusion and Recommendations

The study investigated the effects of the financial meltdown on commercial banks' profitability over the years. This determination was done using theoretical and empirical approaches in which the gross earnings of UBA was verified with respect to the global financial crisis. There was positive relationship between gross earnings of UBA and its return on investment as well as its lending rate. Global financial crisis was directly proportional to bank's profitability but not statistically relevant. Therefore, we recommend that government should ensure high productivity and increase lending capacity of commercial banks, by reducing monetary policy rate and sustaining market rate to enhance productivity so that returns on investment could increase at a faster rate. And necessary mechanisms be put in place to checkmate any form of financial uncertainty in future.

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APPENDIX I

Table: Gross earnings lending rate, return on investment, and dummy variable as proxy to global financial crisis (2004-2013).

Year	Gross earnings	Lending rates	Returns	Dummy variable
2006	23928	20.82	226865	0
2007	25506	19.49	266630	0
2008	86079	18.70	898862	0
2009	101106	18.36	1267169	1
2010	154093	18.70	1708248	1
2011	220467	22.62	1588598	1
2012	157666	22.51	1620362	0
2013	141506	22.42	1825523	0
2014	177429	23.79	2153382	0
2015	214273	24.69	2476955	0

Source: United Bank for Africa (UBA) statement of Annual Report for various year and Central of Nigeria statistical bulletins of 2014 and 2015.

Appendix II

Dependent Variable: GES
M ethod: Least Squares
Date: 07/31/17 Time: 14:29
Sample (adjusted): 2007 2015
Included observations: 9 after adjustments
HAC standard errors & covariance (Bartlett kernel, Newey-West fixed bandwidth = 3.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	29152.	9583.049	3.04209	0.02
D(LR)	18793.	2431.924	7.72776	0.00
ROI	0.0633	0.004953	12.7969	0.00
DUM	13579.11	9939.361	1.366195	0.2301

R-squared	0.9741	M ean dependent	14201
Adjusted R-squared	0.9585	S.D. dependent	62647.
S.E. of regression	12752.	Akaike info	22.045
Sum squared resid	8.13E+	Schwarz criterion	22.133
Log likelihood	-	Hannan-Quinn	21.856
F-statistic	62.686	Durbin-Watson	2.0231
Prob(F-statistic)	0.0002	Wald F-statistic	287.97
Prob(Wald F-statistic)	0.0000 05		