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Impact of Covid-19 Lockdown on Savings Mobilization in Nigeria

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Abstract

This study examines the impact of COVID-19 lockdown on savings mobilization by banks in Nigeria. An ordinary least square regression was applied to annual aggregate data to determine the type of relationship that exist, between the dependent and independent variable. Savings mobilization of the selected Bank was the independent variable, while the financial performance was the dependent variable. The financial performance of the four selected Banks is measured by some financial performance indicators; Profit after Tax (PAT). Multiple linear regression models and four hypotheses were specified the four selected Banks to ascertain the type of relationship that exist between the dependent and the independent variable. The findings show that savings mobilization of Banks during Covid-19 lockdown has a positive and significant impact on the dependent variables; Profit after Tax (PAT). In conclusion the study indicated that the savings mobilization of the selected Banks enhances their financial performance during the period under review which means that Covid-19 was of no significant impact on savings mobilization. A number of Policy recommendations were made based on the outcome of the research and prominent among them is the need for Banks to invest more on their outsourcing strategies to enhance their financial performance and savings mobilization.

Keywords: COVID-19, Savings Mobilization, financial Performance, Lockdown, Nigeria

1.1 Introduction

The Coronavirus pandemic that broke out in the city of Wuhan, China affected the macroeconomic outlook of Nigeria and indeed the whole world (World Bank, 2020). The coronavirus pandemic affects the world in a way that has not been seen since World War II (International Monetary Fund [IMF], 2020). The pandemic has led to loss of lives, and death tolls around the world are, in many cases, unacceptably high (WHO, 2020). In Nigeria, the government introduced a total lockdown of activities except for some business and offices that provides essentials goods and services. This action by the government has a serious implication on commercial bank activities.

Low savings, low income and lack of banking habit are characteristics of Africa (Magaji & Yahaya, 2012). The issue of domestic savings mobilization is an important issue in development across the globe. The baseline for this necessary concern is the traditional ISLM curve where the level of domestic savings is

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very instrumental in determining the level of investment in a nation. According to Magaji & Darma (2021), lower saving level may put a nation's economy in continuous low level of growth. Thus, nation needs to do something that will boost their level of savings to equivalently generate equal and opposite level of investment (Ekong &Mbobo, 2021).

One of the primary functions of the Commercial Banking System is the collection of all deposit taking and payment financial institutions in Nigeria. However, the function of commercial bank is classified into Micro and Macro functions. The micro functions are but not limited to Collection of deposit, Credit extensions, Receiving interest, Creation of medium of exchange, Issuing of cheque, Circulation of money; whereas in the macro functions, activities like, Capital formation role, Role in economic development, Transmission of money role, and role in industrial development may be considered (Okoroafor, Magaji & Eze, 2018 and Ekong & Mbobo, 2021).

The pandemic has caused different problems to the activities of financial institutions globally which include loan disbursement, recoupment of loan, physical meeting of clients, and reorganization of organizational structure and flow of activities (Dąbrowska, Koryński & Pytkowska, 2020). The performance of financial institutions that accept savings and rely heavily on deposits to make loans especially in Sub-Saharan Africa regions were extremely impacted (Igwe, Magaji & Darma, 2021 and Dąbrowska, et al., 2020). This paper however seeks to examine savings mobilization by banks during the lockdown period in some selected banks in Nigeria.

1.2 Research Questions

The research question for this study is as follows:

What is the impact of COVID-19 lockdown period on savings mobilization by banks?

1.3 Statement of Hypotheses

The following hypothesis is formulated to guide this study:

Ho1: COVID-19 lockdown period has no significant impact on savings mobilization by banks

2.0 Literature Review

2.1 COVID-19 and the Economy

The COVID-19 pandemic, like other pandemics in the past, do not only produce health shocks, but they also transmit economic shocks (Jackson et al., 2020). For instance, the IMF (2020) projects that every 10% decline in oil prices will, on the average, lower growth in oil-exporting countries by 0.6% and increase overall deficits by 0.8% of gross domestic product. For Nigeria, which is just recovering from a recession in 2016, the coronavirus pandemic effect on oil prices (the main source of revenue to the government) and lockdown on economic activities may completely wipe out the gains the country has recorded since coming out of recession in 2018. This will have impacts on the livelihood of households as well as performance of firms in Nigeria (Onuka, 2021).

The Financial sector has been greatly affected by the continuous rise of COVID-19. The pandemic which present sudden macroeconomic distress to financial system globally recently led to recession which has been experienced by different economy in the

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world. Important institutions which the pandemic affected are microfinance institutions and commercial banks. Microfinance institutions and commercial banks globally are faced with the difficulties of continually directing credit to small business and less privilege group of the economy despite falling economic activities while also managing rising risks (Financial Stability Board, 2020).

Thus, it is expected that the socio-economic harm induced by COVID-19 pandemic may influence the financial performance of commercial banks negatively. Foremost, the failure of small-scale businesses and less privilege household to repay debt caused by COVID-19 will lead to weakening of commercial banks performance. The pandemic will bring about cash strap to businesses due low cash flow to service debt collected as result of shutdown of machines, disruption in supply chain and unexpected decline in the demand for goods and services (Ogden & Bull, 2020).

2.2 Empirical Review

Most scholars have agreed that there is positive or negative relationship between bank saving mobilization and COVID-19 lock down period. However, scholars have differed on the direction of causality between bank savings mobilization and COVID-19 lock down period.

Ekong &Mbobo (2021) examine the effectiveness of monetary policy in enhancing the performance of the Nigerian Commercial Banks in terms of domestic savings mobilization for the period 1980 to 2019. The monetary policy variables used were, monetary policy rate, Treasury bill rate and money supply growth. Applying Autoregressive Distributed Lag Technique on the variables, we found that overall, monetary policy conduct was ineffective in enhancing commercial banks performance in domestic savings mobilization over the period. Our result shows that throughout the study, key variables of monetary policy were weak in driving domestic savings in Nigeria. Monetary policy rate variances only produces short term deposit impact that fades away over time. However, the economy's level of income showed evidence of accelerating domestic savings.

Dąbrowska, et al., (2020) analyse the effect of COVID-19 pandemic on the microfinance sector in Europe. The study based it analysis on data collected by Microfinance Centre (MFC) through a survey of microfinance institutions across Europe. The result of study shows that the epidemic affected all counties in Europe, however, the extent of the impact depends on the nature and strangeness of the country. Also, it was established that the lockdown imposed by countries to contain the pandemic influence microfinance banks and their clients negatively.

Okumoko & Akarara (2016) examine the impact of monetary policy on national savings mobilization drive and the possible transmission to investment in Nigeria from 1960 to 2016. The study used variables such as Monetary Policy Rate, Savings Rate, Total investment and Gross Domestic Product growth. Invoking Vector Autoregressive (VAR) technique on the variables obtained for the study, they found convincing evidence of strong impact of monetary policy on savings mobilization and by extension on investment in Nigeria in the period under review. Specifically, shocks such as increase in monetary policy rate increases both Savings and Investment in Nigeria in the short-run but

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not in the long-run. In the long run, monetary policy impact on savings and investment diminishes drastically.

OECD (2020) examines the consequences of the COVID-19 crisis on financing for sustainable development in low- and middle-income countries eligible for official development assistance (ODA). The current global context, however, risks a significant reduction in the financing available to developing economies. The result shows that external private finance inflows to developing economies drop by USD 700 billion in 2020 compared to 2019 levels, exceeding the immediate impact of the 2008 Global Financial Crisis by 60%. This exacerbates the risk of major development setbacks that would, in turn, increase vulnerability to future pandemics, climate change and other global public bads.

Ayeni & Adekunle (2021) investigate the effects of COVID-19 pandemic on the activities and performance of microfinance banks with special focus on South West Region of Nigeria. Data were collected from 100 heads of department selected from 20 randomly picked microfinance banks. Data were analyzed with simple percentage and regression technique. It was discovered that, COVID-19 impedes the activities of microfinance banks through fall in loans repayment, declining deposits mobilization, low customers patronage, poor operational efficiency, and high nonperforming loans. The study concludes that, COVID-19 imposed constraints on the activities of microfinance banks which negatively affect financial performance. They suggest that, there is need for quick response of regulatory authorities to microfinance banks. Financial and regulatory supports should be initiated to stop the declining activities of microfinance banks because microfinance banks play supporting role to small business and less privilege in the economy.

Hamzeh & Dania (2021) examine the effect of COVID-19 indicators and policy response on the Saudi banking index. COVID-19 variables that were applied are: new confirmed and fatal COVID-19 cases in Saudi Arabia; lockdowns; first and second decreases in interest rates; regulations, and oil prices. They implemented the analysis by running a stepwise regression analysis then building an artificial neural network (ANN) model. According to regression findings, oil prices and new confirmed cases have had a significant positive effect on the Saudi banking index. Nevertheless, the lockdown announcements in Saudi Arabia and the first decrease in interest rates had a significant negative effect on the Saudi banking index. To enhance the performance of the linear regression model, the ANN model was built. Findings show that the ranking of the variables in terms of their importance is: oil price, number of confirmed cases, lockdown announcements, decrease in interest rates, and regulations.

Barua & Barua (2020) in their study, COVID-19 implications for banks: evidence from an Emerging Economy, examine that the COVID-19 pandemic is damaging economies across the world, including financial markets and institutions in all possible dimensions. For banks in particular, the pandemic generates multifaceted crises, mostly through increases in default rates. This is likely to be worse in developing economies with poor financial market architecture. The study utilizes Bangladesh as a case study of an emerging economy and examines the possible impacts of the pandemic on the country's banking sector. Bangladesh's banking sector already has a high level of non-performing loans (NPLs)

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and the pandemic is likely to worsen the situation. Using a state-designed stress testing model, the study estimates the impacts of the COVID-19 pandemic on three particular dimensions—firm value, capital adequacy, and interest income under different NPL shock scenarios. Findings suggest that all banks are likely to see a fall in risk-weighted asset values, capital adequacy ratios, and interest income at the individual bank and sectoral levels. However, estimates show that larger banks are relatively more vulnerable. The decline in all three dimensions will increase disproportionately if NPL shocks become larger. Findings further show that a 10% NPL shock could force capital adequacy of all banks to go below the minimum BASEL III requirement, while a shock of 13% or more could turn it to zero or negative at the sectoral level. Findings call for immediate and innovative policy measures to prevent a large-scale and contagious banking crisis in Bangladesh.

3.0 METHODOLOGY

3.1 Model Specification

We used sample of four banks for the research. The data obtained was analyzed using a multiple linear regression model

$$PAT = \beta 0 + \beta 1OTSG + \beta 2OTSZ + \beta 3OTSA + \beta 4OTSU + U \text{¬¬¬¬¬¬¬-------(3.1)}$$

Where: Profit after Tax (PAT) is used as proxy to measure the Financial Performance of the selected banks

OTSG= saving mobilization of GTBank PLC

OTSZ= Saving mobilization of Zenith Bank PLC

OTSA= saving mobilization of Access Bank PLC

OTSU= savings mobilization s of UBA

Ut = Error Term

β0 = Intercept

β1, β2, β3, β4 = Slopes of the model

3.2 Method of Data Analysis

The technique used in estimating the parameters of the specified model is the Ordinary Least Squares (OLS) estimation method. The justification for choosing the OLS as the estimation technique was due to the desirable properties its estimate possess called the BLUE properties. These properties ensure good inference making, and efficient as well as non-misleading conclusion and recommendations.

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4.0 Results and Discussions

4.1 Result

Dependent Variable: PAT				
Method: Least Squares				
Date: 04/01/22 Time: 10:22				
Sample: 2020-2021				
Observations: 5				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	486167.9	932639.8	0.459242	0.6527
OTSG	2.369929	0.285607	9.291730	0.0000
OTSZ	0.266588	0.248578	1.068689	0.0039
OTSA	9.865943	1.060996	9.298595	0.0000
OTSU	-35787.88	43156.52	-0.828916	0.4169
R-squared	0.991904	Mean dependent var		7099970.
Adjusted R-squared	0.989897	S.D. dependent var		9064458.
S.E. of regression	914995.3	Akaike info criterion		30.48883
Sum squared resid	1.66E+13	Schwarz criterion		30.79416
Log likelihood	-390.4898	F-statistic		489.9608
Durbin-Watson stat	1.723047	Prob(F-statistic)		0.000000

Source: Author's E-view Results Output, 2022

The estimated regression model is:

PAT = 426167.9 + 2.369919OTSG + 0.265588OTSZ + 9.865743OTSA - 35767.88OTSU

S.E = (932039.8) (0.255607) (0.248518) (1.060995) (43150.52)

t = (0.457242) (9.271730) (1.068687) (9.298575) (-0.828910)

R^2 = 0.99 Adjusted R^2 = 0.98

F = 489.9008 D.W (d) = 1.72

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4.2 Discussion of Results

The coefficients of the explanatory variables; (OTSG), (OTSZ) and (OTSA) are positive indicating that there is a positive relationship between dependent variable (PAT) and the above independent variables. Furthermore, it implies that outsourcing strategies of GTBank, Zenith Bank and Access Bank impact positively on the financial performance of the three Banks during the period under review. On the other hand, the coefficient of the explanatory variable (OTSU) was negative; indicating that there was a negative or inverse relationship between the Dependent Variable (PAT) and the Independent Variable (OTSU). This suggest that outsourcing strategies of UBA does not impact positively on the financial performance of the bank within the period under review. The outsourcing strategies of UBA (OTSU) has a negative and insignificant impact on the dependent variable (PAT). This further implies that outsourcing strategies of UBA does not impact positively on the financial performance of the Bank during the period under review. These findings is in line with the previous studies conducted by Ibrahim and Isiaka (2019) that found a positive relationship between outsourcing and financial performance of banks as well as that of Uzoamaka & Onwuchekwa, (2018) that founds a negative relationship between the two variables. Coefficient of Determination: This shows that about 99% of total variations in the dependent variable (PAT) were explained by the changes in explanatory variables of the estimated model. This implies that the estimated model has a good fit. Similarly, the adjusted coefficient of determination (R^2) also shows that the estimated model has a good fit (that is, Adjusted $R^2 = 0.98$). This suggests that 98% of the total change in the dependent can be attributed to the Independent variables.

5.0 Conclusion and Recommendations

This study examines the impact of Covid-19 lockdown on savings Mobilization by selected banks in Nigeria. We however, found that Covid-19 lockdown has no significant impact on savings mobilization during the period (perhaps the impact may be in bank lending). This may be due to increase in transfers from abroad by Nigerians during the period and reduced luxury consumptions. We therefore recommend further research on the impact of Covid-19 on bank lending.

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