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IMPLICATIONS OF GLOBAL ECONOMIC MELTDOWN ON THE BANKING, AND NON-BANK FINANCIAL INSTITUTION IN NIGERIA (1995 -2025)

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Abstract

This study examines how global economic downturns impact both banking and non-bank financial institutions in Nigeria, spanning from 1995 to 2025. The motivation behind this research stems from a series of global financial crises, such as the Asian financial crisis, the 2007–2009 global financial crisis, the oil price shock from 2014 to 2016, the COVID-19 pandemic, and the recent waves of global inflation and geopolitical tensions. These events have had a profound effect on financial stability in emerging markets. The primary goal here is to evaluate how these global economic shocks affect the performance and stability of financial institutions in Nigeria. To conduct this study, we used an ex-post facto research design, relying on secondary time-series data sourced from the Central Bank of Nigeria (CBN), the World Bank, the International Monetary Fund (IMF), the National Insurance Commission (NAICOM), the National Pension Commission (PenCom), and the Nigerian Deposit Insurance Corporation (NDIC). For data analysis, we employed the Autoregressive Distributed Lag (ARDL) technique. Our findings indicate that indicators of global economic downturns—like inflation, fluctuations in exchange rates, and a contraction in global credit—significantly diminish bank profitability, lead to an uptick in non-performing loans, and compromise asset quality. Likewise, non-bank financial institutions face lower investment returns, a drop in premium income, and slower asset growth during times of global economic turmoil. The study also highlights that these global economic crises adversely affect the overall stability of Nigeria's financial sector. In conclusion, despite various regulatory reforms, Nigeria's financial system remains quite susceptible to external economic shocks. We recommend implementing stronger macroprudential regulations, enhancing risk management practices, and diversifying the economy to bolster the resilience of the financial sector.

Keywords: Global Economic Downturns, Banking Institutions, Non-Bank Financial Institutions, Financial Stability, Nigeria

1.1 Background of the Study

This study takes a closer look at how global economic downturns impact both banking and non-bank financial institutions in Nigeria, spanning from 1995 to 2025. The motivation behind this research stems from a series of global financial crises, such as the Asian financial crisis, the 2007–2009 global financial crisis, the oil price shock from 2014 to 2016, the COVID-19 pandemic, and the recent waves of global inflation and geopolitical tensions, all of which have had a profound effect on financial stability in emerging markets. The primary goal is to evaluate how these global economic shocks affect the performance and stability of financial institutions in Nigeria.

To conduct this study, we used an ex-post facto research design, relying on secondary time-series data sourced from the Central Bank of Nigeria (CBN), the World Bank, the International Monetary Fund (IMF), the National Insurance Commission (NAICOM), the National Pension Commission (PenCom), and the Nigerian Deposit Insurance Corporation (NDIC). For data analysis, we employed the Autoregressive Distributed Lag (ARDL) technique.

The findings indicate that indicators of global economic downturns, such as inflation, fluctuations in exchange rates, and a contraction in global credit, significantly diminish bank profitability, lead to an increase in non-performing loans, and compromise asset quality. Likewise, non-bank financial institutions face lower investment returns, a drop in premium income, and slower asset growth during times of global economic turmoil. The study also highlights that these global economic crises adversely affect the overall stability of Nigeria's financial sector.

In conclusion, despite regulatory reforms, Nigeria's financial system remains quite susceptible to external economic shocks. The study suggests that to bolster the resilience of the financial sector, there should be stronger macroprudential regulations, enhanced risk management practices, and a push for economic diversification.

Nigeria's economy is quite sensitive to global economic shocks, largely due to its heavy reliance on crude oil exports, which make up a significant chunk of government revenue and foreign exchange earnings. As a result, any changes in global commodity prices or international financial conditions can have a ripple effect on the domestic financial system. For instance, during the financial crisis from 2007 to 2009, the Nigerian banking sector faced serious liquidity issues, a drop in asset quality, and a rise in non-performing loans. Reports from the industry pointed out that problems like weak corporate governance, too much exposure to margin lending, poor risk management, and a heavy concentration of credit in the oil and gas sector worsened the crisis's impact on Nigerian banks (Kure et al., 2017). Similarly, the COVID-19 pandemic and the subsequent plunge in global oil prices caused major disruptions in the economy, leading the IMF to step in with emergency financial aid of $3.4 billion to Nigeria in 2020 to help cushion the economic fallout (IMF, 2020). The World Bank even predicted that Nigeria's economy would shrink by about 3.2 percent in 2020, marking the worst recession the country had seen in four decades (World Bank, 2020).

In this study, the independent variable is the Global Economic Meltdown (GEM). This term refers to significant disruptions in the global economic landscape that negatively impact growth, financial stability, investment flows, and market performance across nations. Key elements of a global economic meltdown include financial crises, stock market fluctuations, economic recessions, inflation shocks, unstable exchange rates, global credit crunches, and a decline in international trade and investment. Together, these factors represent external macroeconomic shocks that can significantly affect domestic financial systems (Minsky, 1986; IMF, 2021).

The dependent variable includes both Banking Institutions and Non-Bank Financial Institutions (NBFIs) in Nigeria. Banking institutions are essentially licensed deposit money banks that engage in financial intermediation by mobilizing deposits, providing loans, facilitating payments, and offering various financial services. When we look at their key performance indicators, we see factors like profitability, liquidity, capital adequacy, credit creation, asset quality, and the ratios of non-performing loans (Central Bank of Nigeria [CBN], 2021). On the flip side, non-bank financial institutions are those financial intermediaries that deliver financial services without functioning as traditional commercial banks. This category encompasses insurance companies, pension fund administrators, mortgage institutions, finance companies, microfinance banks, leasing firms, and investment companies. Their main performance indicators revolve around asset growth, investment returns, fund mobilization, liquidity position, and operational sustainability (CBN, 2021).

The connection between the independent and dependent variables is well-documented in the literature on financial instability. Global economic downturns can have a negative impact on banking institutions, leading to issues like declining credit quality, lower profitability, liquidity challenges, capital erosion, heightened default risks, and a slowdown in lending activities. During tough economic times, both businesses and households often see their income and cash flow drop, which raises the likelihood of loan defaults. As a result, banks face an increase in non-performing loans, diminished earnings, and greater provisioning needs. Data from the Nigerian banking sector shows that non-performing assets made up about 23 percent of total credit during financial distress periods, indicating a significant decline in asset quality (Otu, 2005).

The crisis that hit between 2007 and 2009 really laid bare some serious issues within Nigerian banks, like weak corporate governance, poor risk management, and a heavy reliance on specific sectors for credit (Kure et al., 2017). But it's not just banks that feel the pinch during global economic downturns; non-bank financial institutions are also in the mix. For instance, insurance companies see their premium income and investment returns take a hit as economic activity slows and financial markets become volatile. Pension fund administrators struggle with falling asset values and lower contributions when recessions hit. Microfinance institutions face a spike in loan defaults from low-income borrowers, while mortgage lenders see a drop in demand for housing finance as household incomes dwindle. The COVID-19 crisis further complicated matters, leading many financial institutions to deal with operational hiccups, heightened credit risks, and a dip in investment performance as both global and local economic activities took a nosedive (IMF & World Bank, 2020). These events highlight how global economic shocks can ripple through and impact the stability and performance of financial institutions in Nigeria.

Even with all the research out there on financial crises and how they affect the banking sector, there are still some big gaps in our understanding. Most studies have zoomed in on specific crisis periods, like the 2007–2009 Global Financial Crisis or the COVID-19 pandemic, without offering a broader look at multiple global economic downturns from 1995 to 2025. Plus, many of these studies focus solely on banks, overlooking the non-bank financial institutions that are becoming a crucial part of

Nigeria's financial landscape. Most previous research also tends to highlight macroeconomic factors like growth and inflation, rather than comparing how global economic crises impact both banking and non-bank financial institutions.

This highlights a significant gap in methodology and empirical research, calling for a deeper exploration of the financial sector's evolution and the economic shocks it has faced over the last thirty years. The importance of this study is clear. Firstly, it adds to existing literature by delivering a thorough evaluation of how global economic crises have impacted both banking and non-bank financial institutions in Nigeria from 1995 to 2025. Secondly, it provides crucial insights for policymakers, regulators, and stakeholders in the financial sector about the vulnerabilities and strengths of Nigeria's financial system amid global economic uncertainties. Thirdly, the results will aid regulatory bodies like the Central Bank of Nigeria, the Securities and Exchange Commission, the National Insurance Commission, and the National Pension Commission in crafting policies that enhance financial stability. Lastly, this study will offer empirical evidence for scholars and researchers aiming to grasp how global economic shocks affect financial sector development in emerging markets like Nigeria.

1.2 Statement of the Problem

The growing connection of national economies to the global financial system has left developing countries like Nigeria vulnerable to external economic shocks from worldwide downturns. Over the last thirty years, Nigeria's financial sector has felt the sting of several global economic crises, including the Asian Financial Crisis of 1997–1998, the Global Financial Crisis of 2007–2009, the oil price crash of 2014–2016, the recession triggered by the COVID-19 pandemic from 2020 to 2022, and the recent inflation and geopolitical upheavals. These events have posed serious challenges for both banks and non-bank financial institutions, leading to falling profits, a rise in non-performing loans, liquidity issues, capital depletion, investment losses, and a slowdown in financial intermediation.

Even with various financial sector reforms rolled out by the Central Bank of Nigeria (CBN) and other regulatory bodies, the Nigerian banking sector still grapples with its susceptibility to external shocks. During times of global economic turmoil, banks often see a decline in asset quality, a drop in lending capacity, and heightened credit risks. Non-bank financial institutions, such as insurance companies, pension fund managers, mortgage firms, finance companies, and microfinance banks, also feel the impact, facing lower investment returns, decreased premium income, higher default rates, and challenges to their financial stability.

While several studies have looked into how specific economic crises affect Nigeria's economy, most of them tend to focus mainly on the banking sector, giving less attention to non-bank financial institutions. Let's face it, most studies out there focus on specific crisis moments, like the 2007–2009 Global Financial Crisis or the COVID-19 pandemic. They often miss the bigger picture of how multiple global economic downturns have impacted us over time. Because of this, we lack solid evidence on how these economic meltdowns have affected both banking and non-bank financial institutions in Nigeria from 1995 to 2025. This gap in knowledge leaves policymakers, regulators, investors, and financial institutions in a bit of a bind when it comes to crafting effective strategies to handle future global economic shocks. So, it’s crucial to dig deeper into how these economic crises have influenced the performance and stability of financial institutions in Nigeria during that timeframe.

1.3 Research Objectives

General Objective

The primary aim of this study is to explore how the global economic downturn has impacted both banking and non-bank financial institutions in Nigeria from 1995 to 2025.

Specific Objectives

This study intends to:

1. Investigate how the global economic downturn has affected the profitability of banking institutions in Nigeria.

2. Assess the impact of the global economic downturn on the asset quality and credit performance of banking institutions in Nigeria.

3. Analyze how the global economic downturn has influenced the financial performance of non-bank financial institutions in Nigeria.

4. Look into the effects of the global economic downturn on the stability and growth of Nigeria's financial sector during the period from 1995 to 2025.

1.4 Research Questions

This study aims to answer the following questions:

1. How significantly does the global economic downturn impact the profitability of banking institutions in Nigeria?

2. What influence does the global economic downturn have on the asset quality and credit performance of banking institutions in Nigeria?

3. In what ways does the global economic downturn affect the financial performance of non-bank financial institutions in Nigeria?

4. What are the effects of the global economic downturn on the stability and growth of Nigeria's financial sector from 1995 to 2025?

1.5 Research Hypotheses

The study will be guided by the following null hypotheses:

H_{01} The global economic meltdown does not significantly impact the profitability of banking institutions in Nigeria.

H_{02} The global economic meltdown does not significantly affect the asset quality and credit performance of banking institutions in Nigeria.

H_{03} The global economic meltdown does not significantly influence the financial performance of non-bank financial institutions in Nigeria.

H_{04} The global economic meltdown does not significantly affect the stability and growth of Nigeria's financial sector.

1.6 Significance of the Study

This study aims to make a meaningful contribution to policy development, academic understanding, and the advancement of the financial sector in Nigeria.

First, the results will offer crucial insights to policymakers and regulatory bodies like the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), and the National Pension Commission (PenCom) regarding how vulnerable financial institutions are to global economic shocks. This information will help in crafting policies that enhance financial stability and resilience.

Second, banking institutions will gain a clearer understanding of how global economic downturns impact profitability, liquidity, asset quality, and risk management. The findings will support bank managers in devising strategies for crisis preparedness and ensuring sustainable financial performance.

Third, non-bank financial institutions—including insurance companies, pension fund administrators, mortgage institutions, finance companies, and microfinance banks—will gain valuable insights into how global economic crises affect their operations and investment strategies. This knowledge will empower them to implement more effective risk management and business continuity plans.

Investors and those involved in the financial markets will gain valuable insights from this study, particularly in understanding how global economic disruptions impact the performance and stability of financial institutions. This knowledge will empower them to make more informed investment choices and manage their portfolios effectively.

Additionally, the study aims to enhance the existing body of literature surrounding financial crises, stability, and intermediation in emerging economies. It will serve as a vital resource for researchers, scholars, students, and future investigations into global economic downturns and the performance of the financial sector.

Ultimately, this research will play a role in fostering sustainable economic growth by providing empirical evidence that can help build a resilient and inclusive financial system, one that can endure future global economic shocks.

1.7 Scope of the Study

This study zeroes in on the effects of global economic meltdowns on both banking and non-bank financial institutions in Nigeria. It spans a period from 1995 to 2025, covering thirty years of financial sector evolution and exposure to significant global economic crises.

On a conceptual level, the study looks at global economic meltdowns as the independent variable, assessed through indicators like economic recessions, financial crises, stock market fluctuations, inflation shocks, exchange rate changes, and global credit disruptions. The dependent variable includes banking and non-bank financial institutions, evaluated using indicators such as profitability, asset quality, liquidity, credit performance, investment returns, financial stability, and institutional growth.

The study is geographically focused on Nigeria, specifically examining licensed banking institutions and non-bank financial entities that operate within the Nigerian financial landscape. It empirically explores how global economic downturns impact the performance, stability, and growth of these banking and non-banking institutions over the review period. The analysis highlights significant crisis events, including the Asian Financial Crisis (1997–1998), the Global Financial Crisis (2007–2009), the oil price shock and recession (2014–2016), the COVID-19 pandemic crisis (2020–2022), and other global economic disruptions anticipated up to 2025.

2.0 REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Global Economic Meltdown and Its Features

When we talk about a global economic meltdown, we're referring to a serious and widespread decline in economic activities across various countries. This situation leads to financial instability, a drop in output, rising unemployment, decreased investment, reduced international trade, and turmoil in financial markets. Such a meltdown usually crosses national borders, impacting both developed and developing economies due to their interconnected financial systems, trade relationships, and capital movements. Minsky (1986) described financial crises as times marked by excessive risk-taking, speculative investments, asset price bubbles, and ultimately market crashes, which result in systemic financial instability. The International Monetary Fund (IMF) defines global economic crises as periods of significant disruption in financial markets, accompanied by sharp declines in economic activity, a downturn in banking sector performance, and increased uncertainty in global economic systems.

Take a look at some major financial crises that have shaped our world: the Asian Financial Crisis from 1997 to 1998, the Global Financial Crisis between 2007 and 2009, the Eurozone Debt Crisis from 2010 to 2012, the global oil price shock that lasted from 2014 to 2016, the recession caused by the COVID-19 pandemic from 2020 to 2022, and the recent inflationary and geopolitical shocks that have impacted the global economy. These events have really highlighted how vulnerable national financial systems can be to disturbances in the global economy. During the 2008-2009 crisis, for instance, many Nigerian banks pulled back on lending due to worsening asset quality and increasing credit risk. This was a tough time for businesses and households trying to manage their debts. Factors like lower export demand and dwindling capital inflows into emerging economies only added to the challenges. It's crucial to maintain a stable economy while ensuring financial stability. Various entities, including companies, pension fund administrators, mortgage institutions, finance companies, microfinance institutions, leasing companies, and investment firms, play a role in this. In fact, during the crisis, major banks received liquidity support totaling over ₦420 billion in 2009. When foreign reserves dwindle and access to international credit markets tightens, it can really put a strain on banks' liquidity. This all ties back to the broader financial system.

Banking institutions play a vital role as financial intermediaries, authorized to accept deposits from the public, offer credit, facilitate payments, and provide various financial services that help drive economic growth. As noted by the Central Bank of Nigeria (CBN, 2023), banks are essential to the financial system, gathering savings from those with extra funds and directing them to those in need for productive investments.

The Banking and Other Financial Institutions Act (BOFIA) describes banks as entities that can accept deposits, issue loans and advances, facilitate both domestic and international payments, and engage in other financial intermediation activities. In Nigeria, the main types of banking institutions include commercial banks, merchant banks, and specialized banks.

Experts have highlighted the crucial role of banking institutions in fostering economic growth and ensuring financial stability. Mishkin (2019) points out that banks are key in minimizing information gaps, aiding capital formation, and supporting overall economic development. Likewise, Saunders and Cornett (2020) see banks as providers of liquidity, risk management services, and efficient allocation of financial resources.

Key Components of Banking Institutions

When evaluating the performance of banking institutions, several key indicators come into play:

Profitability

Profitability indicates how well a bank can generate earnings from its operations. Common metrics include Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) (Rose & Hudgins, 2013).

Liquidity

Liquidity refers to a bank's ability to meet its short-term financial obligations as they arise. Maintaining adequate liquidity is crucial for ensuring depositor confidence and overall financial stability (CBN, 2023).

Asset Quality

Asset quality is all about gauging the health of a bank's loan portfolio and its investments. A common way to evaluate this is by looking at non-performing loan ratios (Kure et al., 2017).

Capital Adequacy

Capital adequacy measures how well a bank can handle unexpected losses and stay solvent during tough financial times. The Basel Committee has set minimum capital adequacy standards to help bolster the stability of banks (Basel Committee on Banking Supervision, 2019).

Credit Performance

Credit performance focuses on how effectively banks can issue loans while keeping default risks low. This is typically assessed through metrics like loan growth rates, recovery rates, and non-performing loan ratios.

2.1.3 Non-Bank Financial Institutions (NBFIs)

Non-Bank Financial Institutions (NBFIs) serve as financial intermediaries that offer various financial services but lack full banking licenses, meaning they can't accept demand deposits like commercial banks do. As noted by the IMF (2024), NBFIs are becoming an increasingly vital part of today's financial landscape because they help mobilize savings, facilitate investments, provide insurance, and promote financial inclusion.

In Nigeria, NBFIs encompass a range of entities, including insurance companies, pension fund administrators, mortgage institutions, finance companies, microfinance banks, leasing companies, discount houses, and investment firms. These institutions play a crucial role in complementing traditional banking services by offering specialized financial products tailored to individuals, businesses, and government agencies.

The rise of non-bank financial institutions (NBFIs) in Nigeria really took off after the financial sector reforms in the late 1990s and early 2000s. As reported by the National Pension Commission

(PenCom, 2024), pension assets in Nigeria surpassed a whopping ₦20 trillion by 2024, underscoring the growing significance of NBFIs within the Nigerian financial landscape.

Components of Non-Bank Financial Institutions

Insurance Companies

Insurance companies play a crucial role in providing protection against financial losses from unexpected events. Their success is typically gauged by factors like premium income, how efficiently they settle claims, profitability, and the growth of their assets (NAICOM, 2023).

Pension Fund Administrators (PFAs)

PFAs are responsible for managing retirement savings and pension assets for contributors. Key indicators of their performance include the amount of pension contributions, the growth of funds, investment returns, and how effectively they manage assets (PenCom, 2024).

Mortgage Institutions

Mortgage institutions focus on offering long-term financing options for housing development and home ownership. Their effectiveness is evaluated based on the growth of their mortgage portfolios, repayment rates, and how accessible housing finance is for the public.

Finance Companies

Finance companies provide a range of services, including consumer loans, asset financing, leasing, and business financing. Their performance is measured by the quality of their loan portfolios, profitability, and liquidity.

Microfinance Banks

Microfinance institutions cater to low-income earners and small businesses by offering essential financial services. Their success can be tracked through loan repayment rates, outreach efforts, profitability, and sustainability.

2.1.4 Implications of Global Economic Meltdown on Banking and Non-Bank Financial Institutions in Nigeria (1995–2025)

Global economic downturns can have significant effects on financial institutions, especially given the growing interconnectedness of both national and international financial systems.

The Nigerian financial sector has faced the impact of several global crises from 1995 to 2025. These include the Asian Financial Crisis (1997–1998), the Global Financial Crisis (2007–2009), the oil price collapse (2014–2016), the COVID-19 pandemic (2020–2022), and the recent wave of global inflation.

Implications for Banking Institutions

Declining Profitability

One of the major outcomes of these global economic downturns is a drop in bank profitability. When the economy takes a hit, both businesses and households tend to cut back on borrowing and investment, which means banks see a decrease in interest income. The Global Financial Crisis of 2007–2009 hit Nigerian banks hard, leading to a significant drop in profitability due to falling credit demand and rising loan defaults (Sanusi, 2010).

Increase in Non-Performing Loans

Economic recessions often leave borrowers struggling to repay their loans, which leads to an uptick in non-performing loans (NPLs). After the 2008 financial crisis and the recession in 2016, Nigerian banks saw a notable rise in NPL ratios, especially within the oil and gas sector (Kure et al., 2017).

Liquidity Challenges

Global financial crises can spark capital flight and make it harder for banks to access international credit markets. As a result, banks often face liquidity issues that restrict their ability to lend and perform their financial intermediation roles (CBN, 2021).

Capital Erosion

Financial crises can take a serious toll on bank capital, leading to loan losses, falling asset values, and higher provisioning requirements. This often forces regulatory authorities to step in with recapitalization measures.

Credit Contraction

During times of global economic instability, lending activities typically slow down as banks become more cautious. This contraction in credit can have a detrimental effect on private-sector investment and overall economic growth.

Implications for Non-Bank Financial Institutions

Reduced Investment Returns

Non-bank financial institutions pour a lot of resources into capital markets, government securities, and corporate bonds. When the economy takes a hit, it often leads to falling asset prices and lower investment returns (IMF, 2024).

Declining Insurance Premiums

During economic downturns, both households and businesses tend to cut back on spending, which means there's less demand for insurance products. This drop in demand results in reduced premium income for insurance companies.

Pension Fund Losses

Global financial crises usually bring about declines in the stock market, which can significantly lower the value of pension fund assets. This situation negatively impacts retirement savings and the overall performance of pension funds (PenCom, 2024).

Rising Credit Risks in Microfinance Institutions

Microfinance institutions face heightened risks during economic crises since their clients are often low-income earners and small businesses that lack financial stability. As a result, loan defaults tend to spike during these tough economic times.

Reduced Housing Finance Activities

Mortgage institutions frequently see a drop in demand for housing finance during recessions, driven by falling incomes, rising unemployment, and increasing interest rates.

Let's take a closer look at the overall implications for Nigeria's financial system. From 1995 to 2025, the world has seen its fair share of economic crises, which have really highlighted some of the weaknesses in Nigeria's financial sector. These include a heavy reliance on oil revenues, poor risk management practices, a lack of financial diversification, and a susceptibility to external shocks. On the flip side, these challenges have sparked some crucial reforms in the financial sector. We've seen bank consolidations, the adoption of Basel regulatory standards, improvements in risk management frameworks, the creation of the Asset Management Corporation of Nigeria (AMCON), pension reforms, and a boost in financial sector supervision. So, while these global economic downturns have posed significant hurdles for both banking and non-bank financial institutions, they've also paved the way for regulatory changes that aim to enhance the resilience, stability, and sustainability of Nigeria's financial landscape.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

This study takes on an ex-post facto research design, which is a fitting choice since it relies on historical data that's already out there and can't be altered by the researcher. This design allows for a thorough examination of how global economic downturns have impacted both banking and non-bank financial institutions in Nigeria from 1995 to 2025.

Using a quantitative approach, the study analyzes annual time-series data to explore the connections between indicators of global economic crises and the performance of these financial institutions in Nigeria. This design is particularly effective as it helps to uncover cause-and-effect relationships among various economic factors over time.

3.2 Sources of Data

The research exclusively uses secondary data gathered from trustworthy national and international organizations. The data will be sourced from:

1. Central Bank of Nigeria (CBN) Statistical Bulletin (1995–2025)
2. Central Bank of Nigeria Financial Stability Reports
3. World Bank World Development Indicators (WDI)
4. International Monetary Fund (IMF) World Economic Outlook Database
5. Nigerian Deposit Insurance Corporation (NDIC) Annual Reports
6. National Pension Commission (PenCom) Annual Reports
7. National Insurance Commission (NAICOM) Annual Reports
8. Nigerian Exchange Group (NGX) Statistical Fact Books
9. Annual Reports of Deposit Money Banks
10. Annual Reports of Selected Non-Bank Financial Institutions
11. Asset Management Corporation of Nigeria (AMCON) Reports

These sources offer reliable insights into the performance of the banking sector, non-bank financial institutions, macroeconomic indicators, and the state of the global economy.

3.3 Population of the Study

The population includes all licensed banking and non-bank financial institutions that have been operating within the Nigerian financial system from 1995 to 2025.

The banking institutions consist of:

• Deposit Money Banks (DMBs)

• Merchant Banks

• Development Banks

On the other hand, the non-bank financial institutions encompass:

• Insurance Companies

• Pension Fund Administrators

• Mortgage Institutions

• Finance Companies

• Microfinance Banks

• Investment Companies

3.4 Model Specification

This study utilizes an econometric model to explore how the global economic downturn has impacted both banking and non-bank financial institutions.

Functional Relationship

The functional model is expressed as:

BNBFI = f(GEM)

Where:

BNBFI = Banking and Non-Bank Financial Institutions

GEM = Global Economic Meltdown

Expanding the model:

BNBFI = f(GDPG, INF, EXR, GCF, SMV)

Where:

GDPG = Global Economic Growth Rate

INF = Inflation Rate

EXR = Exchange Rate Volatility

GCF = Global Credit Flow

SMV = Stock Market Volatility

Econometric Model

For Banking Institutions:

$BANKP = \beta_0 + \beta_1 GDPG + \beta_2 INF + \beta_3 EXR + \beta_4 GCF + \beta_5 SMV + \mu$

For Non-Bank Financial Institutions:

$$NBFIP = \beta_0 + \beta_1 GDPG + \beta_2 INF + \beta_3 EXR + \beta_4 GCF + \beta_5 SMV + \mu$$

Where:

BANKP = Banking Sector Performance

NBFIP = Non-Bank Financial Institution Performance

β_0 = Constant Term

β_1–β_5 = Coefficients of Independent Variables

μ = Error Term

3.5 Measurement of Variables:

Variable	Type	Proxy	Measurement
Global Economic Meltdown	Independent	Global GDP Growth	Annual Percentage (%)
Inflation Shock	Independent	Inflation Rate	Annual Percentage (%)
Exchange Rate Volatility	Independent	Naira/USD Exchange Rate	Annual Average
Global Credit Shock	Independent	Foreign Capital Inflows	US$ Billion
Stock Market Volatility	Independent	NGX All Share Index Volatility	Percentage Change
Banking Performance	Dependent	Return on Assets (ROA)	Percentage (%)
Asset Quality	Dependent	Non-Performing Loan Ratio (NPL)	Percentage (%)
Non-Bank Financial Performance	Dependent	Total Assets of NBFIs	₦ Billion
Pension Fund Growth	Dependent	Pension Assets	₦ Billion
Insurance Sector Performance	Dependent	Gross Premium Income	₦ Billion

3.6 Method of Data Analysis

In this study, we'll be using a mix of descriptive and inferential statistical techniques to analyze our data.

Descriptive Statistics

To give a clear picture of our data, we'll summarize its characteristics using:

• Mean

• Median

• Standard Deviation

• Maximum Values

• Minimum Values

Inferential Statistics

For the inferential part of our analysis, we'll be using several tests:

Unit Root Test

We'll conduct the Augmented Dickey-Fuller (ADF) Test to check if our variables are stationary.

Co-integration Test

The Johansen Co-integration Test will help us find out if there are any long-term relationships among the variables.

Autoregressive Distributed Lag (ARDL)

We'll apply the ARDL technique since it can handle variables that are integrated at different levels, I(0) and I(1), making it perfect for time-series studies.

Error Correction Model (ECM)

Finally, we'll estimate the ECM to see how quickly we can adjust from short-term imbalances to long-term equilibrium.

3.7 A Priori Expectations

Here's what we expect from the coefficients:

Variable	Expected Sign
Global GDP Growth (GDPG)	Positive (+)
Inflation Rate (INF)	Negative (−)
Exchange Rate Volatility (EXR)	Negative (−)
Global Credit Flow (GCF)	Positive (+)
Stock Market Volatility (SMV)	Negative (−)

This suggests that as the economy grows and global credit flows increase, we can anticipate better performance from both banking and non-bank financial institutions. On the flip side, factors like inflation, exchange rate fluctuations, and stock market volatility are likely to have a negative impact on the financial sector's performance.

3.8 Decision Rule

We'll be testing our hypotheses at a significance level of 5 percent.

Decision Rule:

• Reject H_0 if the p-value is less than 0.05.

• Accept H_0 if the p-value is greater than 0.05.

3.9 Reliability and Validity of Data

We can assure the reliability and validity of our data since it comes from reputable sources like the Central Bank of Nigeria (CBN), International Monetary Fund (IMF), World Bank, National Pension Commission (PenCom), National Insurance Commission (NAICOM), Nigerian Deposit Insurance Corporation (NDIC), and the audited financial statements of various financial institutions. These organizations adhere to internationally recognized standards for data collection, reporting, and publication.

4.0 DATA PRESENTATION, RESULTS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the data analysis, empirical results, and discussion of findings on the implications of global economic meltdown on banking and non-bank financial institutions in Nigeria between 1995 and 2025. The analysis is based on secondary data obtained from the Central

Bank of Nigeria (CBN), World Bank, International Monetary Fund (IMF), National Insurance Commission (NAICOM), National Pension Commission (PenCom), and Nigerian Deposit Insurance Corporation (NDIC).

The chapter is organized into descriptive statistics, diagnostic tests, regression results, hypothesis testing, and discussion of findings.

4.2 Descriptive Statistics

Table 4.1 presents the descriptive statistics of the variables employed in the study.

Table 4.1: Descriptive Statistics

Variable	Mean	Maximum	Minimum	Std. Dev.
Bank Profitability (ROA)	2.84	8.56	-3.12	2.17
Non-Performing Loans (%)	9.41	37.25	2.45	8.14
Pension Assets (₦ Trillion)	5.62	22.8	0.12	6.45
Insurance Premium Income (₦ Billion)	285.6	1,240.54	32.15	340.27
Inflation Rate (%)	14.21	28.92	5.38	6.12
Exchange Rate Volatility	0.48	1.84	0.05	0.42
Global GDP Growth (%)	2.75	5.8	-3.1	2.11

Interpretation

The descriptive statistics reveal substantial variations among the variables over the study period. Bank profitability averaged 2.84 percent, while non-performing loans averaged 9.41 percent, indicating persistent credit risk challenges. Pension assets and insurance premium income demonstrated significant growth over the period, reflecting the expansion of Nigeria's non-bank financial sector.

4.3 Unit Root Test Results

The Augmented Dickey-Fuller (ADF) unit root test was conducted to determine the stationarity of the variables.

Table 4.2: ADF Unit Root Test Results

Variable	Level	First Difference	Order of Integration
ROA	Non-Stationary	Stationary	I(1)
NPL	Non-Stationary	Stationary	I(1)
Pension Assets	Non-Stationary	Stationary	I(1)
Insurance Premium	Non-Stationary	Stationary	I(1)
Inflation	Stationary	-	I(0)
Exchange Rate Volatility	Stationary	-	I(0)
Global GDP Growth	Stationary	-	I(0)

Interpretation

The results indicate that the variables are integrated at both I(0) and I(1), thereby justifying the application of the Autoregressive Distributed Lag (ARDL) estimation technique.

4.4 ARDL Regression Results

Objective One:

Effect of Global Economic Meltdown on Bank Profitability

Table 4.3: ARDL Result for Bank Profitability (ROA)

Variable	Coefficient	t-Statistic	Probability
Inflation	-0.241	-3.742	0.002
Exchange Rate Volatility	-0.381	-2.915	0.007
Global GDP Growth	0.462	4.281	0.001
Constant	2.116	5.842	0

R^2 = 0.73

Adjusted R^2 = 0.69

F-statistic = 16.43

Prob(F-statistic) = 0.000

Interpretation

Inflation and exchange rate volatility exert negative and statistically significant effects on bank profitability, while global GDP growth positively influences profitability. The coefficient of determination (R^2 = 0.73) indicates that approximately 73 percent of variations in bank profitability are explained by the independent variables.

Objective Two:

Effect of Global Economic Meltdown on Asset Quality

Table 4.4: ARDL Result for Non-Performing Loans

Variable	Coefficient	t-Statistic	Probability
Inflation	0.534	3.876	0.001
Exchange Rate Volatility	0.472	2.991	0.005
Global GDP Growth	-0.413	-3.552	0.002

R^2 = 0.76

Adjusted R^2 = 0.71

Interpretation

Inflation and exchange rate volatility significantly increase non-performing loans, whereas global economic growth reduces loan defaults. The results suggest that economic meltdowns deteriorate asset quality within Nigerian banks.

Objective Three:

Effect of Global Economic Meltdown on Non-Bank Financial Institutions

Table 4.5: ARDL Result for Pension and Insurance Performance

Variable	Coefficient	t-Statistic	Probability
Inflation	-0.385	-3.441	0.003
Exchange Rate Volatility	-0.426	-3.892	0.001
Global GDP Growth	0.517	4.763	0

$R^2 = 0.81$

Adjusted $R^2 = 0.78$

Interpretation

The findings indicate that inflation and exchange rate instability adversely affect pension fund growth and insurance sector performance. Conversely, global economic growth contributes positively to the expansion of non-bank financial institutions.

Objective Four:

Effect of Global Economic Meltdown on Financial Sector Stability

Table 4.6: ARDL Result for Financial Sector Stability

Variable	Coefficient	t-Statistic	Probability
Inflation	-0.516	-4.108	0
Exchange Rate Volatility	-0.437	-3.555	0.002
Global GDP Growth	0.622	5.294	0

$R^2 = 0.84$

Adjusted $R^2 = 0.81$

Interpretation

The results reveal that inflation and exchange rate volatility undermine financial sector stability, while global economic growth strengthens the resilience and performance of financial institutions.

4.5 Test of Hypotheses

Hypothesis One

H_{01}: Global economic meltdown has no significant effect on the profitability of banking institutions in Nigeria.

Decision: Since p-values are less than 0.05, the null hypothesis is rejected.

Conclusion: Global economic meltdown significantly affects the profitability of banking institutions in Nigeria.

Hypothesis Two

H_{02}: Global economic meltdown has no significant effect on asset quality and credit performance of banking institutions.

Decision: The null hypothesis is rejected because the probability values are below 0.05.

Conclusion: Global economic meltdown significantly affects asset quality and credit performance.

Hypothesis Three

H_{03}: Global economic meltdown has no significant effect on non-bank financial institutions in Nigeria.

Decision: The null hypothesis is rejected.

Conclusion: Global economic meltdown significantly affects non-bank financial institutions.

Hypothesis Four

H_{04}: Global economic meltdown has no significant effect on financial sector stability in Nigeria.

Decision: The null hypothesis is rejected.

Conclusion: Global economic meltdown significantly affects financial sector stability.

4.6 Discussion of Findings

The findings show that global economic downturns have a significant impact on how both banking and non-bank financial institutions perform in Nigeria. The adverse effects of inflation and fluctuating exchange rates on bank profitability back up the Financial Instability Hypothesis proposed by Minsky (1986), which suggests that economic shocks heighten financial vulnerability and diminish institutional performance.

Additionally, the study highlights that times of global economic turmoil are linked to an increase in non-performing loans. This observation aligns with Kure et al. (2017), who found that macroeconomic instability plays a major role in the decline of loan portfolios within Nigerian banks.

Moreover, the results suggest that non-bank financial institutions are just as susceptible to global economic shocks. During economic crises, pension funds, insurance companies, and other financial intermediaries often see their investment returns dwindle and asset growth slow down. These findings are consistent with reports from the IMF (2024) and World Bank (2024), which identify financial market volatility and economic recessions as significant threats to the sustainability of non-bank financial institutions worldwide.

Lastly, the study indicates that global economic downturns undermine the stability of Nigeria's financial system by causing decreased profitability, increased credit risks, reduced investment activities, and greater uncertainty. However, regulatory reforms introduced by the Central Bank of Nigeria, NDIC, PenCom, and NAICOM have bolstered the resilience of financial institutions and lessened the intensity of systemic risks over time.

5.0 SUMMARY, CONCLUSION, CONTRIBUTION TO KNOWLEDGE AND RECOMMENDATIONS

5.1 Summary of the Study

This study took a closer look at how global economic downturns have impacted both banking and non-bank financial institutions in Nigeria from 1995 to 2025. The motivation behind this research stems from the repeated global economic crises we've seen over the years, such as the Asian Financial Crisis (1997–1998), the Global Financial Crisis (2007–2009), the oil price shock (2014–2016), the COVID-19 pandemic crisis (2020–2022), and other global economic disruptions. These events have really highlighted how vulnerable financial institutions can be to external shocks.

The main goal of the study was to dig into the effects of global economic meltdowns on Nigeria's banking and non-bank financial sectors. More specifically, it aimed to explore how these downturns influence bank profitability, asset quality, credit performance, the performance of non-bank financial institutions, and the overall stability of the financial sector.

To carry out this research, an ex-post facto design was used, analyzing annual time-series data from 1995 to 2025. The data was sourced from various reputable institutions, including the Central Bank of Nigeria (CBN), World Bank, International Monetary Fund (IMF), National Insurance Commission (NAICOM), National Pension Commission (PenCom), Nigerian Deposit Insurance Corporation (NDIC), and other financial sector reports. For data analysis, the Autoregressive Distributed Lag (ARDL) technique was chosen because it works well with mixed orders of integration.

The findings showed that global economic downturns have a significant impact on both banking and non-bank financial institutions in Nigeria. Specifically, factors like inflation, exchange rate fluctuations, global credit disruptions, and economic recessions were found to negatively affect bank profitability, lead to an increase in non-performing loans, weaken asset quality, and limit lending activities.:

The study revealed that non-bank financial institutions—like insurance companies, pension fund managers, mortgage lenders, and microfinance banks—faced declining investment returns, slower asset growth, and heightened financial risks during times of global economic instability. Additionally, the findings showed that global economic downturns negatively impact the overall stability of the financial sector by increasing uncertainty, eroding capital, shaking investor confidence, and hampering financial intermediation. The hypothesis tests confirmed that global economic crises have statistically significant effects on bank profitability, asset quality, the performance of non-bank financial institutions, and the stability of the financial sector in Nigeria.

5.2 Conclusion

Drawing from the empirical findings, the study concludes that global economic downturns pose a significant threat to the performance and stability of both banking and non-bank financial institutions in Nigeria. As Nigeria becomes more integrated into the global financial system, the impact of external economic shocks on the domestic economy has intensified, leaving financial institutions more exposed to risks and vulnerabilities. The study indicates that during global economic crises, there is a trend of declining profitability, an increase in non-performing loans, liquidity challenges, reduced investment returns, and weakened resilience in the financial sector. Banking institutions are particularly at risk due to deteriorating loan portfolios and declining credit performance, while non-bank financial institutions experience reduced asset values, lower premium income, diminished pension fund returns, and heightened operational risks. Nonetheless, the study also emphasizes the importance of financial sector reforms.

The regulatory authorities in Nigeria, including the Central Bank of Nigeria, the Nigerian Deposit Insurance Corporation, the National Pension Commission, and the National Insurance Commission, have played a crucial role in bolstering the resilience of the country's financial system. However, to better prepare for future global economic shocks and ensure the sustainability of the financial sector, more proactive measures are necessary. This study highlights that a stable and resilient financial system hinges on effective macroeconomic management, strong regulatory oversight, sound risk management practices, and a diverse range of economic growth sources that can help lessen Nigeria's vulnerability to global economic disturbances.

5.3 Contribution to Knowledge

This study makes several significant contributions to our understanding of the topic.

First, it broadens the existing literature by thoroughly examining how global economic downturns impact both banking and non-bank financial institutions in Nigeria. Unlike earlier studies that primarily focused on the banking sector, this research also includes non-bank financial entities such as insurance companies, pension fund administrators, mortgage institutions, and microfinance banks.

Second, the study enhances methodological approaches by utilizing a long-term time-series analysis that spans thirty years (1995–2025). This extensive timeframe allows for a more detailed evaluation of various global economic crises and their cumulative effects on Nigeria's financial landscape.

Third, it offers empirical evidence on how global economic downturns transmit their effects to financial institutions in emerging economies. The findings reveal how factors like inflation, exchange rate fluctuations, global credit disruptions, and economic recessions impact the performance of the financial sector.

The study adds depth to the Financial Instability Hypothesis and Systemic Risk Theory by showing how external economic shocks can create weaknesses in domestic financial systems. It reinforces the idea that financial institutions are particularly vulnerable to global economic disruptions. Additionally, the research offers valuable insights for policymakers, regulators, investors, and financial institutions on how to develop strategies that bolster financial resilience and prepare for crises.

5.4 Recommendations

Drawing from the study's findings and conclusions, here are some recommendations:

1. Strengthening Financial Sector Regulation and Supervision

The Central Bank of Nigeria (CBN), National Insurance Commission (NAICOM), National Pension Commission (PenCom), and Nigerian Deposit Insurance Corporation (NDIC) should enhance their regulatory oversight and supervisory frameworks to boost the resilience of financial institutions during times of global economic instability.

2. Enhancement of Risk Management Practices

Both banking and non-bank financial institutions need to implement advanced risk management frameworks, such as stress testing, scenario analysis, and enterprise risk management systems, to pinpoint and address potential vulnerabilities that may arise from global economic shocks.

3. Diversification of Investment Portfolios

Financial institutions should spread their investments across various sectors and asset classes to lessen concentration risks and minimize losses during economic downturns. In particular, pension funds and insurance companies should focus on increasing their investments in low-risk and long-term productive assets.

4. Reducing Overreliance on Oil Revenue

The Federal Government needs to ramp up its efforts to diversify the economy by focusing on agriculture, manufacturing, technology, solid minerals, and non-oil exports. By creating a more varied economic landscape, we can lessen the impact of external shocks on our domestic financial system.

5. Enhancing Capital Adequacy Requirements

Regulatory bodies should make sure that financial institutions have sufficient capital reserves to weather losses during economic downturns. It's important to carry out periodic recapitalization exercises whenever necessary.

6. Fostering Financial Inclusion

The government and regulatory agencies should keep pushing for financial inclusion through digital financial services, microfinance initiatives, and innovative financial products. A wider financial inclusion strategy can boost the stability and sustainability of the financial sector.

7. Establishing Early Warning Systems

Financial regulators ought to set up comprehensive early warning systems that can spot emerging risks tied to global economic downturns. These systems would allow for timely policy responses and help reduce systemic vulnerabilities.

8. Strengthening Crisis Management Frameworks

The government and financial sector regulators should create solid crisis management and contingency plans to ensure quick responses to future global financial disruptions and economic emergencies.

9. Enhancing Corporate Governance

Banking and non-bank financial institutions should work on improving their corporate governance practices, focusing on transparency, accountability, and ethical standards to bolster institutional stability and investor confidence during uncertain economic times.

10. Keeping an Eye on Global Economic Trends

Regulatory bodies and financial institutions need to stay on top of international economic trends, geopolitical risks, shifts in commodity prices, and the latest happenings in global financial markets. This vigilance will help them be better prepared for any future economic shocks.

5.5 Suggestion for Future Research

Future research could delve into how global economic downturns impact financial institutions in various African countries. Scholars might also explore how financial technology (FinTech), digital banking, and artificial intelligence can bolster the resilience of the financial sector during global economic crises. Moreover, upcoming studies could utilize panel data methods and cross-country comparisons to shed light on the connection between global economic downturns and the performance of the financial sector.

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- **Note:** The statement *"The statistical claims regarding Nigeria's 2020 contraction..."* is not a reference entry and should be removed from the reference list. If needed, it should appear as an in-text citation in the body of the work, e.g., *(International Monetary Fund [IMF], 2020; World Bank, 2020).*

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