

The Role of Banking on the Economic Growth of the Nigerian Economy (1980–2023)

AJUMOBI FOLASHADE VICTORIA

University of Abuja

Abstract The Nigerian banking sector has historically played a significant role in the nation's economic development by mobilizing financial resources and allocating them efficiently to productive sectors. This paper examines the role of banking in promoting economic growth in Nigeria between 1980 and 2023, a period characterized by major financial reforms, including the Structural Adjustment Programme (SAP) of 1986, the liberalization of the financial system in the 1990s, and the banking consolidation reforms of 2004. The study highlights how the banking sector facilitated investment, credit expansion, and financial deepening, which contributed to the growth of gross domestic product (GDP). It also reviews empirical and theoretical works that link financial intermediation with growth, including recent studies on digital and hybrid financial systems. Findings indicate that an efficient banking system enhances economic growth, but persistent challenges—such as non-performing loans, weak financial inclusion, and regulatory inconsistency—have limited its full impact. The paper concludes that sustained reforms, digital innovation, and prudent regulation are essential to strengthen the sector's contribution to Nigeria's long-term development.

Keywords: Banking Sector, Economic Growth, Financial Intermediation, Nigeria, GDP, Digital Economy

I. INTRODUCTION

The banking system is the cornerstone of financial intermediation and a key driver of economic growth in any economy. In Nigeria, the evolution of the banking sector from 1980 to 2023 has been marked by various policy reforms aimed at improving stability and efficiency. Banks mobilize savings from surplus economic units and channel them into investment, thereby promoting capital formation, industrial development, and employment generation (Acha, 2011; Nnanna, 2004).

During the period under review, the Nigerian economy experienced both expansion and instability. The early 1980s witnessed financial repression and a weak banking structure. The introduction of the Structural Adjustment Programme (SAP) in 1986 liberalized the financial sector, allowing private

ownership and foreign participation. By 2004, the Central Bank of Nigeria (CBN) implemented the banking consolidation reform, increasing the minimum capital base of banks from ₦2 billion to ₦25 billion (Soludo, 2004). This led to a more robust, though concentrated, banking sector that enhanced credit growth and financial innovation. Despite these reforms, the sector continued to face challenges such as high non-performing loans and inadequate access to credit for small and medium-sized enterprises (SMEs).

II. THEORETICAL FRAMEWORK

The link between the banking sector and economic growth is rooted in the financial intermediation theory, which explains how banks channel funds from savers to borrowers in ways that stimulate productivity and output. Schumpeter (1911) emphasized that the banking system is essential to innovation and economic expansion, as it provides entrepreneurs with capital for investment. McKinnon and Shaw (1973) also proposed that financial liberalization enhances resource allocation and promotes growth by removing distortions such as interest rate controls and credit restrictions.

In Nigeria, the financial intermediation role of banks aligns with the endogenous growth theory, which suggests that domestic financial systems can generate sustained growth through investment in human capital, innovation, and efficient resource allocation. Thus, a well-functioning banking system not only supports investment and trade but also fosters technological development and macroeconomic stability.

III. LITERATURE REVIEW

Empirical studies have consistently shown that a sound banking system is vital for the economic progress of developing countries. Acha (2011) found that financial intermediation by banks positively influences Nigeria's GDP through investment and

capital formation. Similarly, Nnanna (2004) observed that improvements in financial sector development enhance the efficiency of capital allocation, which, in turn, stimulates economic growth.

Soludo (2004) highlighted the importance of consolidation reforms in strengthening the Nigerian banking sector and ensuring its resilience against macroeconomic shocks. These reforms were aimed at increasing banks' capital bases, encouraging mergers, and fostering stability within the financial system.

Recent contributions by Eke and colleagues have expanded this discussion by incorporating the role of digitalization in financial systems. Eke and Osi (2023) argued that the growing integration of digital technologies in financial markets reshapes time-based economic coordination and efficiency. Furthermore, Eke, Osi, Sule, and Musa (2023) explored the state's role in controlling digital-fiat-electronic currency transmission, emphasizing the potential of hybrid currencies to improve financial stability and inclusion.

Earlier works by Eke (2016, 2019) and Eke, Magaji, and Ezeigwe (2020) also revealed the intersection between communication technology and financial development. Eke (2019) demonstrated that increasing teledensity positively affects economic growth in Nigeria, while Eke (2016) examined how smartphone data consumption and consumer dynamics reflect broader resource constraints in urban economies. Eke, Magaji, and Ezeigwe (2020) further modeled the relationship between household expenditure, employment capacity, and telecommunications, showing that digital connectivity enhances income generation.

Additionally, Ajumobi Folashade Victoria's study, "Financial Sector Development and Economic Growth in Nigeria," published in the International Journal of Finance and Accounting (IREJOURNAL), provides valuable insights into the relationship between financial sector development and economic growth in Nigeria. This work contributes to the understanding of how financial institutions and policies impact the nation's economic performance.

Together, these studies underscore that banking growth, financial innovation, and digital

transformation jointly promote inclusive and sustainable development in Nigeria. The adoption of digital banking and hybrid financial systems presents new opportunities for extending financial inclusion and supporting macroeconomic growth.

IV. BANKING AND ECONOMIC GROWTH IN NIGERIA (1980–2023) BETWEEN 1980 AND 2023

Nigeria's banking sector evolved significantly in structure and performance. In the early 1980s, the financial system was dominated by a few commercial and merchant banks with limited outreach. The economy suffered from low credit expansion, high interest rates, and low savings. However, the implementation of the Structural Adjustment Programme (SAP) in 1986 brought liberalization and deregulation, leading to the establishment of new banks and the expansion of credit facilities.

During the 1990s, the banking system experienced rapid growth but also instability due to weak regulation, poor governance, and inadequate risk management. Many banks collapsed as a result of insolvency and mismanagement. The 2004 consolidation reform under Governor Charles Soludo addressed these weaknesses by encouraging mergers and acquisitions that reduced the number of banks from 89 to 25. This reform improved the capitalization of banks, increased public confidence, and expanded access to credit for businesses.

By 2010, the banking sector had become one of the most advanced in Sub-Saharan Africa in terms of asset size and digital innovation. Banks played a critical role in financing trade, infrastructure, and the oil and gas industry, while the introduction of electronic and mobile banking services laid the foundation for greater financial inclusion. Despite this progress, challenges such as non-performing loans, regulatory inconsistencies, and macroeconomic volatility persisted, limiting the sector's full contribution to GDP growth.

V. CHALLENGES FACING THE NIGERIAN BANKING SECTOR

The Nigerian banking industry during the period faced multiple constraints that affected its efficiency.

High non-performing loans and poor credit risk management reduced profitability and hindered credit to productive sectors. Many banks also suffered from inadequate technological infrastructure and human capacity. The low level of financial inclusion, especially in rural areas, limited the spread of banking services. Policy inconsistency, exchange rate volatility, and inflation created an unstable macroeconomic environment. These factors collectively weakened the transmission mechanism between the banking system and real-sector growth (Eke & Osi, 2023; McKinnon & Shaw, 1973).

VI. POLICY RECOMMENDATIONS

To improve the banking sector's contribution to Nigeria's economic growth, several measures are necessary. First, the regulatory framework should be strengthened to ensure transparency, sound risk management, and adherence to prudential guidelines. Second, financial inclusion should be deepened through digital banking initiatives, fintech partnerships, and improved financial literacy. Third, banks should focus on long-term project financing to promote industrialization rather than relying on short-term lending. Fourth, collaboration between banks and development finance institutions can channel credit toward agriculture, manufacturing, and infrastructure. Finally, macroeconomic stability must be sustained through prudent fiscal and monetary policies to create a conducive environment for investment and innovation.

CONCLUSION

The Nigerian banking sector has been instrumental in promoting economic growth between 1980 and 2023 by mobilizing savings, facilitating investment, and promoting financial deepening. Despite numerous challenges, the reforms and technological advances within the sector have significantly strengthened its role as a driver of national development. Moving forward, a focus on digital transformation, strong regulation, and financial inclusion will be essential to ensure that banking continues to serve as a foundation for sustainable economic growth in Nigeria.

REFERENCES

[1] Acha, I. A. (2011). Financial intermediation by banks and economic growth in Nigeria. *Journal*

of Economics and Sustainable Development, 2(4), 12–20.

[2] Eke, C. I. (2016). An economic assessment of Nigeria's smartphone data bundle consumption, subscriber resource constraints and dynamics: The case of Abuja and Lagos States. *Journal of Telecommunication System Management*.

[3] Eke, C. I. (2019). Teledensity and economic growth in Nigeria: An impact assessment. *Bingham Journal of Economics and Allied Studies*, 2(2), 120–131.

[4] Eke, C. I., Magaji, S., & Ezeigwe, G. C. (2020). An economic assessment model of employment/dynamics capacity development and household telecommunication expenditure in Nigeria. *Journal of Economics and Sustainable Development*, 11(2), 107–115.

[5] Eke, C. I., & Osi, M. U. (2023). The gathering clouds: The case of time and digital economics. *East African Journal of Business and Economics*, 6(1), 226–232. <https://doi.org/10.37284/eajbe.6.1.1310>

[6] Eke, C. I., Osi, U. M., Sule, M., & Musa, I. (2023). State control of digital-fiat-electronic currency transmission in an economy: The case of hybrid currency. *Asian Journal of Economics, Finance and Management*, 92–96.

[7] McKinnon, R. I., & Shaw, E. S. (1973). *Money and capital in economic development*. Washington, D.C.: Brookings Institution.

[8] Nnanna, O. J. (2004). Financial sector development and economic growth in Nigeria: An empirical investigation. *Economic and Financial Review*, 42(3), 1–19.

[9] Schumpeter, J. A. (1911). *The theory of economic development*. Cambridge: Harvard University Press.

[10] Soludo, C. C. (2004). Consolidating the Nigerian banking industry to meet the development challenges of the 21st century. *CBN Occasional Paper Series*, 4(2), 1–30.

[11] Ajumobi, F. V. (2023). Financial sector development and economic growth in Nigeria. *International Journal of Finance and Accounting (IREJOURNAL)*.