



# BANKING BUSINESS AND PERFORMANCE OF PRIVATE SECTOR IN NIGERIA: INVESTIGATING THE NEXUS

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## -----ABSTRACT-----

*The study investigates the relationship between the reforms of banking business and performance of private sector in Nigeria; for the period (1998-2023). Secondary data is use and collects from the Central Bank of Nigeria Statistical Bulletin, 2023. The study employs Private Sector Growth (PSG) as the dependent variable to measure the performance of Private Sector in Nigeria; while, Lending (LR), Credit to the Private Sector (CPS) and Total Bank Deposits (TBD) are also employed as the explanatory variables. Hypotheses were formulated and tested using time series econometric models. The study reveals that the variables do not have unit roots. The study indicates a long-run equilibrium relationship between banking business reforms and the performance of private sector and the result confirms about 78% short-run adjustment speed from long-run disequilibrium. The coefficient of determination shows that about 62% of variation in the performance of private sector economy can be explain by changes in banking business reforms variables. The study reveals a causality between banking business reforms and the performance of private sector economy in Nigeria. The study recommends that government and monetary authorities should be more proactive in bank supervision and to ensure vibrant supervisory framework based on prudence and professionalism. Monetary policies should be properly managed and structured towards stimulating and deepening the private sector economy. Banking institutions should ensure effective management of their resources that will enable them to intermedate in the private sector economy of Nigeria.*

**KEYWORDS:** *Reforms, Banking Business, Private Sector Economy, Nigeria-----*

## INTRODUCTION

Banking industry appears to be the most regulated sector in the Nigerian financial institutions; because, the business of is all about confidence buildinin (Andabai & Chukwunulu, 2018). In July, 2004, the Central Bank of Nigeria launched a 13-point agenda that was aimed at the development of bigger banks with stronger balance sheets, ensuring safe and sound banking practice and enhancing effective regulatory capacity to supervise the industry. The study by Oluwatobi and Ogunrinola (2017) stated that the key element of the reform agenda was the increase in minimum capital base of banks from N2billion to N25billion by December, 2005. Hence, the study further revealed that the reforms program was driven by the following factors: Nigeria banks were small, and dependent on government or public sectors deposits and unable to meet the liquidity needs of the economy and banking penetration was low and retail offerings were limited. For example, deposits in the hands of small business and individuals at 80% of the total currency in circulation, because of this, the industry was fragmented and many banks operated as fringe players. Consequently, corporate governance was poor as a result of insider abuse and sharp practices by directors and related parties that were rampant.

The study carried out by Onuorah & Ozurumba, (2017) stated that the banking system reforms was to address issues concerning banking system with the vision to make Nigeria the financial hub of Africa; and, to reposition the industry in order to compete favorably with foreign banks. Hence, the program also encouraged consolidation through mergers and acquisitions that will enhances professionalism in the conduct of banking business; and, making the banking system safer and sound to engender depositors' confidence. The study by Andabai (2017) also posited that the overall goal is to ensure rapid growth and development of the Nigerian economy with a view to make it one of the 20th largest economies in the world by 2020. The banking system in any economy plays a vital function of promoting growth and development through the process of financial intermediation in the economy Imalagha & Chinwendu (2017).



The works of some notably development economists such as Dewett (2005), Dwivedi (2008), Todara (2003), Smith (2006) and Roma (1986) revealed that the existence of vibrant financial institutions and markets constitute an important factor in the process of growth and development in the private sector economy. Thus, the followings are some of the ways the banking system promoting growth and development in the private sector (Okpalami & Ofoluewa, 2018): (i) improving the efficiency of resource immobilization by pooling individual savings; (ii) increasing the proportion of societal resources devoted to interest yielding assets and long-term investment which in turn facilitate economic growth; (iii) reducing the risk faced by firms in their production process by providing liquidity and also a veritable platform for an effective monetary policy implementation; thereby enhancing effective management of the economy. The banking system has been functioning as one of the channels through which government carries out its policy of stabilizing the economy (Olujewu, Ukinju & Eliminia, 2017). This could be achieved through the manipulation of some key variables such as interest rate and the quantum of credit, which will able to influence borrowing and spending within the economy. The work of Andabai, Gbalam and Egoro (2017) reaffirmed that these in turn will positively affect employment, production and prices of goods and services in the private sector economy. Consequently, some of the stipulated guidelines for banking system reforms are (Onodugo, Kalu & Anowor, 2016): (i) a minimum share-holder's funds of N25billion must be achieved by all deposit money banks; (ii) through fresh capital injection, where applicable, but most importantly banking system encouraged to explore mergers and acquisitions arrangement with other banks; (iii) withdrawal of public sector funds from banks starting in July 2004; (iv) adoption of risk focused and rule based regulatory framework especially in data/information reporting; (v) all returns by banks will henceforth be signed by the managing director of the bank, the so-called re-called re-engineering or manipulation of account especially hiding of information under the asset/liabilities and off-balance sheet items will attract serious sanctions; (vi) establishing hotlines, confidential internet address for all Nigerians wishing to share any confidential information with governor of CBN; and strict enforcement of the contingency planning framework for systemic banking distress. The establishment of an assets management company is one of the important elements of distress management, promotion of the enforcement of dormant laws, especially those relating to the various liabilities of the board members of the banks (Andabai, 2018).

### **Theoretical Framework**

This study is anchored on the "Big Push" theory by Rosentein-Rodian (1961); which posited that Big Push or large comprehensive program is needed in the form of high minimum amount of investment to achieve economic growth and development in a market-free economy (Jhingan, 2004). Theoretical work of Nzotta (2014) stated that the growth and development of the private sector economy also determined by an effective capital formation and investments. Therefore, banking industry being a major source of financing investments is thus, crucial for growth and development of the economy. Ogubunjo (2018) stated that the reform was designed to ensure a diversified, strong and reliable banking system, which will ensure the safety of depositors' money and play active developmental roles in the economy. The study by Uzor (2017) revealed that the goal of the reforms was to help banks to become strong players; and, in a manner that will ensure longevity and hence high returns of shareholders' wealth and promote greater impact on the Nigerian economy through effective intermediation processes.

The work of Shalau (2017) posited that the major problems that plagued the banking system includes: (i) weak corporate governance evidenced by high tune-over in board and management staff; (ii) inaccurate reporting; (iii) non-compliance with regulatory requirement and falling ethical standards. (iv) late or non-publication of general accounts and operating results; (v) insolvency as evidenced by negative capital adequacy ratio and stock holders fund that were completely eroded by operating losses; (vi) weak capital base even for those banks that had met the minimum capital requirement of N25Billion or US \$15billion for new banks when compared with US \$526Million in Malaysia. Thus, the monetary authority (CBN) stipulates for the strengthening of the banking sector to adequately perform its essential function and support the growth of the economy. A key element of the reform program was the increase in minimum capital base of banks from N2billion (US \$ 15million) to N25billion by December 2005. The work of Imalagha and Chinwendu (2017) stated that the result of the consolidation efforts indicated that 89 banks were in existence before the consolidation, 65 banks were small; while, 9 were larger banks. The remaining 15 banks had their operating licenses revoked preparatory for their formal liquidation.

### **Empirical Review**

Okonwo, Mujiajwu and Uziwan (2018) evaluated the effect of bank credit on the private sector growth in Nigeria using time series data. Gross Domestic Product (GDP), Bank Credit to Private Sector (BCPS), Inflation and Interest



Rates were included in the study as variables. Data were obtained from Central Bank of Nigeria Statistical Bulletin for the period 1990-2015. Augmented Dickey-Fuller (ADF) statistic was used for stationarity test. Ordinary Least Square (OLS) was applied to ascertain the impact of bank credit to the private sector on economic growth. The result of the analysis shows that bank credit to the private sector has a positive significant relationship with Gross Domestic Product (GDP) in Nigeria.

Olujewu, Ukinju and Eliminia (2017) used Ordinary Least Square (OLS) regression model to investigate the impact of bank credit on the economic growth in Nigerian economy over the period (1980-2016). Gross Domestic Product, Total Credit, Exchange Rate, Gross Fixed Formation, Inflation and Interest Rate were used as variables. The results of the estimation show that bank credit to the manufacturing sub-sector has significant effect on its growth both in the long-run and short run. The study concludes that increased credit to the real sector will engender higher growth and development.

Yusuf and Aliyu (2017) adopted a multiple regression analysis to ascertain the impact of bank private sector credit on the real sector growth in Nigeria over the period of (1986-2016). GDP at Per- Capita, Bank Credit to Government as Share of GDP, Lending Rate, Inflation were used as the variables for the study. The study shows a positive significant impact of bank credit to private sector on the real sector growth in Nigeria. Ochendu and Adeobi (2018) determined the sectoral allocation of bank credit and private sector growth in Nigeria over the period 1986-2016. The study used six variables namely: Gross Domestic Product, Deposits, Investments, Advances, Profitability and Interest Earning; using Multiple Regression Analysis. The results show that only credit allocated to government, personal and professional have significant positive effect on economic growth in Nigeria.

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### Methodology

The study adopted *ex-post-facto* research design. Secondary data were collected from the Central Bank of Nigeria Statistical Bulletin. Private Sector Growth (PSG) was employed as the dependent variable to measure the performance of private sector economy; while, Lending Rate (LDR), Credit to the Private Sector (CPS) and Total Bank Deposits (TBD) were also employed as the independent variables to measure banking sector reforms as indicated on appendix 1.

### Model Specification

Multivariate linear regression model is used to test the null hypotheses proposed for the study: There is no causality between banking system and Gross Domestic Product in Nigeria. Based on this, a model is adapted from the work of (Aniekan & Babuala, 2018). The functional model is stated as:  $GDP = f(TBD, LDR, CPS)$

Where: GDP = Gross Domestic Product as proxy for performance of Nigerian economy, (CPS) = Credit to the Private Sector. (LDR) = Lending Rate and (TBD) = Total Bank Deposits.

The above model is modified in this study by introducing Private Sector Growth (PSG) and was employed as dependent variable. Thus, the modified functional model is written as:

$$PSG = f(LDR, CPS, TBD) \dots \dots \dots (i).$$

The econometric model is stated as:

$$\ln(PSG) = \delta_0 + \ln(\delta_1 LDR) + \ln(\delta_2 CPS) + \ln(\delta_3 TBD) + \mu \dots \dots \dots (ii)$$

Where: PSG = Private Sector Growth as proxy for performance of private sector in Nigeria, LDR= Prime Lending Rate, CPS = Credit to the Private Sector, TBD = Total Bank Deposits

### DATA PRESENTATION AND DISCUSSION

The test for stationary of the variables was done using the Augmented Dicker Fuller (ADF) Unit Root Test. The results on table 1 show that all the variables are integrated at levels i.e. 1(1) at the 5% or 1% level of significance.



**Table 1: Unit Root Tests Analysis**

| Variables | ADF test Statistics | Mackinnon critical vale @ 5% | No of the time difference | Remark     |
|-----------|---------------------|------------------------------|---------------------------|------------|
| PSG       | 2.758645            | -3.867508                    | 1(I)                      | Stationary |
| TBD       | 6.859486            | -1.483906                    | 1(I)                      | Stationary |
| LDR       | -5.95040            | -2.084978                    | 1(I)                      | Stationary |
| CPS       | 1.859790            | -2.659467                    | 1(I)                      | Stationary |

**Notes:** (1)1% level of significance, 5% level of significance, 10% level of significance. (2) The tests accepted at 5% level of significance. (3) Decision rule -The critical value should be larger than the test statistical value for unit root to exist. **Source:** Researcher’s Estimation using- E-views 10.1

**Test for Co-Integration**

The Johansen Co-integration procedure was used to ascertain whether Private Sector Growth (PSG), Total Bank Deposits (TBD), Lending Rate (LDR) and Credit to the Private Sector (CPS) are co-integrated in the same order. The results of the test are presented on table 2 and the null hypothesis of no co-integration among the variables (that is,  $r=0$ ) is tested against the alternative hypothesis of no co-integration is rejected at the 5 percent significance level. Hence, the null hypothesis that  $r \leq 1$  could not be rejected against the alternative  $r=1$ ,  $r=2$  and  $r=3$  suggesting the presence of a unique co-integrating relationship among the variables. Thus, table 2 shows that a long-run relationship exists among the variables as indicated by the likelihood ratio that is greater than the critical values both at 1 percent and 5 percent level of significance.

**Table 2: Multivariate Johansen’s Co-Integration Test Result.**

| Null hypotheses | Alternative hypotheses | Eigen value | Likelihood ratio | Critical vales 5% | Critical value 1% | Hypothesized No. of CE(s) |
|-----------------|------------------------|-------------|------------------|-------------------|-------------------|---------------------------|
| $r=0$           | $r=1$                  | 0.95761     | 96.98048         | 74.65             | 54.06             | None **                   |
| $r \leq 1$      | $r=2$                  | 0.86064     | 73.95768         | 67.40             | 46.07             | At most 1                 |
| $r \leq 2$      | $r=3$                  | 0.73968     | 62.86057         | 58.85             | 36.57             | At most 2                 |
| $r \leq 3$      | $r=4$                  | 0.69687     | 19.74978         | 36.48             | 28.68             | At most 3                 |

Source: E-views Econometrics- 10.1, Note: \* (\*\*\*) denotes rejection of hypothesis at 5% (1%) significance level.

**Vector Error Correction Model**

The error correction coefficient contains information about whether the past values affect the current values of the variable under study (Gujarati, 2004). The ECM is related to the speed of adjustment of the system towards long-run equilibrium and the short-run dynamics are captured through the individual coefficients of the difference terms.

**Table 3: Vector Error Correction Estimates Results**

Included observations: 26

Sample: 1998-2023

Date: 06/12/2023

Dependent Variable: GDP

Method: Least Squares, Time: 08:45

| Variables            | Coefficient | Std. Error            | t-Statistic | Prob.    |
|----------------------|-------------|-----------------------|-------------|----------|
| (ECM <sub>1</sub> )  | -0.780263   | 10.95743              | 16.86975    | 0.000035 |
| D(PSG <sub>1</sub> ) | 4.856477    | 0.007654              | 0.648795    | 0.000066 |
| D(PSG <sub>2</sub> ) | 5.968586    | 8.657448              | 2.465872    | 0.000020 |
| TBD                  | 6.378793    | 0.648676              | 3.179776    | 0.000037 |
| LDR                  | 7.734603    | 0.547352              | 4.978268    | 0.000054 |
| CPS                  | 2.748966    | 0.658405              | 0.867593    | 0.000016 |
| C                    | 6.113405    | 0.465875              | 2.100050    | 0.000038 |
| R-squared            | 0.643665    | Mean dependent var    |             | 278.4650 |
| Adjusted R-squared   | 0.584658    | S.D. dependent var    |             | 61.65896 |
| S.E. of regression   | 32.04755    | Akaike info criterion |             | 24.06879 |
| R-correlation        | 0.649687    | Schwarz criterion     |             | 10.76896 |



|                    |          |                    |          |
|--------------------|----------|--------------------|----------|
| Log likelihood     | -135.758 | F-statistic        | 7.968795 |
| Durbin-Watson stat | 1.957463 | Prob (F-statistic) | 0.000000 |

Source: Source: E-views Econometrics- 10.1

The results on table 3 show that the error-correction coefficient is statistically significant and has a negative sign, which confirms a necessary condition for the variables to be co-integrated. There is also a long-run equilibrium relationship between banking business reforms and the performance of private sector economy. Thus, the result confirms that about 78% short-run adjustment speed from long-run disequilibrium. The coefficient of determination indicates that about 64% of the variations in growth of private sector economy can be explained by changes in the banking business reforms variables (TBD, CPS, LDR) in the economy. This implies that a good portion of economic growth trends in the performance of private sector economy is explained by the banking system business variables. The F-statistics of 7.968795 which is significant at 5% confirms the relationship between banking business reforms and the growth of private sector economy. The influence of the explanatory variables on the dependent variable is statistically significant and this is also confirmed by the F-probability which is statistically zero.

### Granger-Causality Test

To determine the direction of causality between the variables, the Engle and Granger (1987) causality test was performed on the variables as indicated on table 4.

**Table 4: Result of Pairwise Granger-Causality Test (1998-2023) with 2-period Lag length**

| Null Hypothesis:               | Obs | F-Statistic | Probability | Decision  |
|--------------------------------|-----|-------------|-------------|-----------|
| LDR does not Granger Cause GDP | 24  | 5.86769     | 0.00009     | Causality |
| PSG does not Granger Cause LDR |     | 5.65787     | 0.00098     | Causality |
| CPS does not Granger Cause PSG | 24  | 6.37589     | 0.00081     | Causality |
| PSG does not Granger Cause CPS |     | 5.03546     | 0.00084     | Causality |
| TBD does not Granger Cause PSG | 24  | 8.85669     | 0.00033     | Causality |
| PSG does not Granger Cause TBD |     | 5.64538     | 0.00022     | Causality |
| CPS does not Granger Cause LDR | 24  | 7.86759     | 0.00076     | Causality |
| LDR does not Granger Cause CPS |     | 6.94857     | 0.00010     | Causality |
| TBD does not Granger Cause CPS | 24  | 8.99752     | 0.00074     | Causality |
| CPS does not Granger Cause TBD |     | 9.31563     | 0.00013     | Causality |
| TBD does not Granger Cause LDR | 24  | 8.56439     | 0.00104     | Causality |
| LDR does not Granger Cause TBD |     | 5.75604     | 0.00018     | Causality |

**Note:** The decision rule of a causality test states that if the probability value of the estimate is higher than the 5% (0.05) level of significance, we accept the null hypothesis, and vice versa. **Source:** E-views Econometrics- 10.1

The results on table 4 indicate that Private Sector Growth (PSG) has causality with lending rate (LDR), Credit to the Private Sector (CPS) and Total Bank Deposits (TBD). This implies that there is causality between banking system variables and the growth of private sector economy in Nigeria.

### CONCLUSION AND RECOMMENDATIONS

The study concludes that banking business reforms has a direct causality with the growth of private sector economy. However, the Nigerian banking sub-sector reforms seems to be a recurring issue in the Nigerian financial industry; thus, the essence is to provide efficient service delivery in line with international best practices. This corroborates the study carried out by Ogubunjo (2018) which revealed that the survival of a bank largely depends on the character and the quality management particularly where standard is not compromised. The study recommends that government and monetary authorities should be more proactive in bank supervision and pursue a vibrant supervisory framework based on prudence and ensure best practices. Monetary and fiscal policies should properly align toward deepening the economy. Banks and operators should ensure effective and efficient management of their resources focusing on risk management and ensure good corporate governance. Banks should also need to ensure training and retraining of staff for high skill and efficient service delivery to the customers. Monetary policies should be properly managed and structured towards stimulating and deepening the private sector economy. Banking institutions should ensure effective management of their resources that will enable them to intermediate in the private sector economy of Nigeria.



### Contribution to Knowledge

The study was able to modify the model and expanded the existing contemporary literature, empirical review, geographical spreads and updated the data of the study that will enable researchers and scholars to use it for further studies. Thus, from the results this study has also contributed to knowledge by discovering that banking system reforms has a direct causality with the growth of private sector economy in Nigeria.

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**Appendix 1:  
Banking Business and Private Sector Performance in Nigeria (1998-2023)**

| YEAR | Private Sector Growth<br>(₦'BILLION) | Credit to Private<br>Sector<br>(₦'BILLION) | Prime Lending Rate<br>(%) | Total Bank<br>Deposits<br>(₦'BILLION) |
|------|--------------------------------------|--|---------------------------|---------------------------------------|
| 1998 | 22,332.87                            | 351.96                                     | 5.49                      | 76.13                                 |
| 1999 | 22,449.41                            | 431.17                                     | 5.33                      | 93.33                                 |
| 2000 | 23,688.28                            | 530.37                                     | 5.29                      | 115.35                                |
| 2001 | 25,267.54                            | 764.96                                     | 5.49                      | 154.06                                |
| 2002 | 28,957.71                            | 930.49                                     | 4.15                      | 161.93                                |
| 2003 | 31,709.45                            | 1,096.54                                   | 4.11                      | 241.60                                |
| 2004 | 35,020.55                            | 1,421.66                                   | 4.19                      | 343.17                                |
| 2005 | 37,474.95                            | 1,838.39                                   | 3.83                      | 451.96                                |
| 2006 | 39,995.50                            | 2,290.62                                   | 3.14                      | 556.01                                |
| 2007 | 42,922.41                            | 3,668.66                                   | 3.55                      | 655.74                                |
| 2008 | 46,012.52                            | 6,920.50                                   | 2.84                      | 797.52                                |
| 2009 | 49,856.10                            | 9,110.86                                   | 2.68                      | 1,316.96                              |
| 2010 | 54,612.26                            | 10,157.02                                  | 2.21                      | 1,739.64                              |
| 2011 | 57,511.04                            | 10,660.07                                  | 1.41                      | 2,693.55                              |
| 2012 | 59,929.89                            | 14,649.28                                  | 1.70                      | 4,118.17                              |
| 2013 | 63,218.72                            | 15,778.31                                  | 2.17                      | 5,763.51                              |
| 2014 | 67,152.79                            | 18,134.13                                  | 3.38                      | 5,954.26                              |
| 2015 | 69,023.93                            | 18,4315.9                                  | 3.58                      | 6,531.91                              |
| 2016 | 67,931.24                            | 19,026.36                                  | 3.75                      | 8,062.10                              |
| 2017 | 68,490.98                            | 19,923.92                                  | 20.55                     | 8,943.30                              |
| 2018 | 69,810.02                            | 16,846.97                                  | 20.35                     | 9,897.65                              |
| 2019 | 72,373.64                            | 17,234.56                                  | 17.45                     | 10,986.56                             |
| 2020 | 75,931.24                            | 19,026.36                                  | 3.75                      | 13,062. 10                            |
| 2021 | 78,490.98                            | 19,748.92                                  | 20.55                     | 13,943.30                             |
| 2022 | 79,698.02                            | 19,846.97                                  | 20.35                     | 14,,897.65                            |
| 2023 | 84,363.55                            | 19,934.56                                  | 17.45                     | 15,932.56                             |

Source: Central Bank of Nigeria Statistical Bulletin, 2023