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Bank Consolidation and Economic Performance in Nigeria’s Economy

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Abstract

This study investigates the impact of banking consolidation on the performance of Nigeria’s economy over the period 2000–2025. Specifically, it examines the effects of key consolidation indicators which include Number of Bank Branches (NBB), Bank Capital (BCAP), Total Assets of Banks (TAB), Total Credits (TCR), and Total Deposits (TDP), on Real Gross Domestic Product (RGDP), which serves as a proxy for economic performance. The study is motivated by the persistent disconnect between the rapid expansion of the Nigerian banking sector following major reforms, including the 2004 consolidation under Prof. Chukwuma Soludo and the recent recapitalization initiative led by Olayemi Cardoso, and the growth of the real sector. The theoretical underpinning of the study is provided by the Supply-Leading Hypothesis and the McKinnon-Shaw Financial Deepening Theory, both of which suggest that a well-capitalized and deepened banking system promotes economic growth. A log-linear econometric model was specified and estimated using the Ordinary Least Square (OLS) approach. The findings reveal that Total Deposits exert a strong and statistically significant positive effect on economic growth, while Total Assets also contribute positively, though at a weaker level of significance. In contrast, Total Credits exhibit a negative and statistically significant relationship with GDP, indicating inefficiencies in fund utilization within the Nigerian banking and economic system. Furthermore, Bank Capital and Number of Bank Branches were found to have positive but statistically non-significant effects on economic performance. The study recommends a strategic shift in policy focus from mere expansion of financial aggregates to improving the quality and efficiency of credit allocation, strengthening asset utilization, and promoting digital financial infrastructure among others.

Keywords: Banking Consolidation, Economic Growth, Total Deposits, Bank Credit, Financial Deepening, Nigeria.

1. Introduction

1.1 Background to the Study

The financial system of any nation, particularly the banking sub-sector, serves as the cornerstone of economic stability and growth. In Nigeria, the banking industry has undergone a series of turbulent yet transformative phases since the colonial era. Historically, the sector was characterized by "fringe" institutions, small, poorly capitalized banks that were highly susceptible to systemic shocks and "runs." This fragility necessitated a shift in regulatory philosophy from mere supervision to aggressive structural consolidation.

Banking consolidation is a policy aimed at strengthening the financial system through mergers, acquisitions, and upward reviews of minimum capital requirements. The primary objective is to ensure that banks possess the "requisite muscle" to fund large-scale developmental projects, absorb loan losses, and operate efficiently in a globalized financial market. The journey toward a consolidated Nigerian banking sector gained significant momentum in July 2004 under the leadership of Professor Chukwuma Soludo. At that time, the Central Bank of Nigeria (CBN) mandated an unprecedented increase in the minimum paid-up capital from ₦2billion to ₦25billion. This reform reduced the number of banks from 89 to 25, marking the birth of "mega-banks" in West Africa.

However, the economic landscape of 2024–2026 presents new challenges that the 2004 reforms could not have fully anticipated. With the Nigerian government setting an ambitious target of reaching a 1-trillion dollar economy by 2030, the current Governor of the CBN, Olayemi Cardoso, initiated a fresh recapitalization exercise. This latest mandate requires international banks to maintain a minimum capital of ₦500 billion, while national and regional banks must meet ₦200 billion and ₦50 billion, respectively. This study recognizes that consolidation is not just about capital; it encompasses the expansion of infrastructure (Number of Bank Branches), the accumulation of wealth (Total Assets), the mobilization of public savings (Total Deposits), and the ultimate distribution of these funds to the real sector (Total Credits).

The relationship between these variables and the Gross Domestic Product (GDP) is rooted in the "finance-led growth" narrative. When banks consolidate, they are expected to achieve economies of scale, which should lead to lower interest rates and increased credit availability for SMEs and industrial giants. Yet, the Nigerian experience has often been a paradox. While the Total Assets and Total Deposits of Nigerian banks have grown by over 500% in the last two decades, the growth of the real sector remains sluggish, and the Number of Bank Branches is being challenged by the digital revolution. This study, therefore, provides an elaborate empirical analysis of how these five pillars of consolidation, Branches, Capital, Assets, Credits, and Deposits, interact to drive or drag the performance of the Nigerian economy over a 35-year period.

Despite the trillions in Total Deposits and the massive surge in Bank Capital following various reforms, Nigeria's real sector (manufacturing and agriculture) continues to face "credit crunch." A significant portion of Total Credits is often diverted to the oil and gas sector or the importation of finished goods, leaving the productive base of the economy underfunded. Furthermore, while the Total Assets of banks have reached record highs, there is a concern that these are "paper assets" invested in government securities rather than "productive assets" that drive GDP. This research addresses the disconnect between a booming banking sector and a struggling real economy.

The specific objectives of the study are:

i. To evaluate the impact of the Number of Bank Branches on Nigeria's GDP.
ii. To examine the relationship between Bank Capital and economic performance.
iii. To investigate the extent to which Total Assets of Banks influence GDP growth.
iv. To determine the effect of Total Credits on the performance of the Nigerian economy.
v. To assess the contribution of Total Deposits to the growth of Nigeria's GDP.

1.2 Research Hypotheses

$H0_1$: The Number of Bank Branches has no significant effect on Nigeria's GDP.

$H0_2$: Bank Capital does not significantly influence economic performance.

$H0_3$: Total Assets of Banks have no significant impact on Nigeria's GDP.

$H0_4$: Total Credits do not significantly affect the performance of the Nigerian economy.

$H0_5$: Total Deposits have no significant contribution to the growth of Nigeria's GDP.

2. Review of Related Literature

This is reviewed under three major sub-headings; the conceptual, theoretical, and empirical reviews.

2.1 Conceptual Framework

The scholarly debate on banking consolidation in Nigeria has evolved from the 2004 "Soludo era" to the 2024–2026 "Cardoso recapitalization." Most researchers concur that while consolidation achieves sectoral stability, its impact on the Real Gross Domestic Product (RGDP), the primary measure of economic performance, is multifaceted and contingent on the efficiency of the transmission mechanism.

Bank Capital (BCAP) and Systemic Resilience

Empirical studies consistently identify Bank Capital as the most potent driver of economic stability. Alley et al. (2023) utilized a longitudinal analysis to demonstrate that the 2004 upward review of capital to ₦25 billion significantly reduced bank failure rates, thereby preventing the "contagion effect" that typically erodes GDP. More recent findings by Abdul-Maliq et al. (2024) regarding the 2024 mandate suggest that higher capital requirements (up to ₦500 billion) have improved Nigeria's sovereign credit rating, attracting foreign direct investment (FDI) which directly feeds into the national output.

Total Assets (TAB) and Total Deposits (TDP)

The relationship between Total Assets and Total Deposits is often explored through the lens of "Financial Deepening." Manasseh et al. (2021) observed that the accumulation of bank assets has a significant long-run equilibrium relationship with economic growth. However, they identified an "Asset-Utilization Gap," where banks hold massive assets in government securities rather than private sector investments. Conversely, Total Deposits are seen as the "fuel" for the banking engine. Godfrey (2015) argued that while consolidation successfully mobilized domestic savings, the high reserve requirements imposed by the CBN often limited the extent to which these deposits could be converted into GDP-growing ventures.

Total Credits (TCR) and the Real Sector Paradox

The impact of Total Credits on the Nigerian economy remains the most contentious empirical area. According to the Supply-Leading Hypothesis, credit expansion should catalyze industrial growth. However, Ihedioha et al. (2025) found a "weak correlation" between credit volume and GDP growth in Nigeria. Their research indicates that credit is often skewed toward "short-termism", funding imports and oil-sector dividends rather than long-term agricultural or manufacturing projects. This suggests that the quantity of credit provided by consolidated banks is less important than the quality and direction of that credit.

Number of Bank Branches (NBB) and the Digital Shift

Historically, the Number of Bank Branches was the standard metric for financial inclusion and geographic penetration. Early post-2004 studies suggested that branch expansion increased the "velocity of money" in rural areas, boosting local GDP. However, contemporary empirical work (Mustapha, 2024) reveals a "structural decoupling." As banks consolidate in 2026, the physical branch is being replaced by digital architecture. Findings suggest that while the physical NBB has a diminishing marginal return on GDP, "digital reach" (proxied by electronic transaction volume) has become a more significant predictor of modern economic performance.

2.2 Theoretical Framework

The following theories are considered relevant to the study.

The Supply-Leading Hypothesis (Patrick, 1966)

The Supply-Leading Hypothesis is the primary theoretical foundation for banking reforms in developing nations like Nigeria. Postulated by Hugh Patrick, this theory argues that the deliberate creation and expansion of financial institutions and the supply of their financial assets, liabilities, and services, prior to the demand for them. act as a catalyst for economic growth.

i. Relevance to Variables: In the context of this study, the Number of Bank Branches (NBB) and the increase in Bank Capital (BCAP) represent the "supply" of financial infrastructure.
ii. The Link to GDP: The theory posits that by increasing the supply of banking services, the financial system encourages modern entrepreneurship. As banks consolidate, they mobilize Total Deposits (TDP) more effectively and provide the Total Credits (TCR) necessary for industrialization. This leads to an increase in investment, which ultimately drives the GDP.

The McKinnon-Shaw Financial Deepening Theory (1973)

The McKinnon-Shaw Hypothesis focuses on the "liberalization" and "deepening" of the financial sector. It argues that a fragmented and "repressed" financial system (small banks with low capital) hinders economic growth. According to McKinnon and Shaw, for an economy to grow, the financial sector must be "deepened" through the mobilization of domestic savings.

i. Relevance to Variables: This theory directly addresses the variables of Total Deposits (TDP) and Total Assets (TAB). It suggests that when banks are well-capitalized and consolidated, they can offer better security and services, encouraging the public to move money from "under the mattress" into formal bank deposits.
ii. The Link to GDP: The "deepening" occurs when these deposits are converted into high-quality Total Assets and disbursed as Total Credits. The theory argues that this efficient intermediation reduces the "cost of capital," allowing businesses to expand, which is the fundamental driver of Real GDP performance in Nigeria.

2.3 Empirical Review

This assesses work previously done by other scholars in the area of bank consolidation and economic performance in Nigeria.

Ihedioha, Okechukwu, Ogwo, and Osu (2025)

Banking and Finance In a study titled *Financial Instability and Recapitalization in Emerging Markets: A Post-2024 Nigerian Perspective*, the authors investigated the implications of the 2024 banking recapitalization policy on Nigeria’s economic performance. Using the Vector Error Correction Model (VECM) and annual time-series data, the study established that bank capitalization and total bank assets maintain a long-run equilibrium relationship with economic growth. The findings revealed that increased capital base improved financial stability and investor confidence. However, the study also found that physical bank branch expansion has become less relevant in the post-COVID digital era, as digital banking channels increasingly substitute traditional banking infrastructure. The authors concluded that recapitalization policies should focus not only on increasing capital size but also on improving the efficiency of financial intermediation and digital financial inclusion.

Abdul-Maliq, Henry, and Oje (2024)

Macroeconomics The study examined the macroeconomic implications of the 2024 recapitalization exercise introduced by the Central Bank of Nigeria. Using descriptive and econometric analyses, the researchers observed that the recapitalization policy significantly increased public confidence in the banking system, leading to growth in total deposits and liquidity. However, they found that commercial banks became more risk-averse, preferring investments in government securities rather than extending credit to productive sectors of the economy. Consequently, the transmission mechanism between banking sector expansion and real sector growth remained weak. The study recommended complementary monetary policies that would encourage productive lending and lower borrowing costs.

Mustapha (2024)

Financial Regulation Mustapha evaluated the implications of the 2024 CBN recapitalization framework for financial sector development in Nigeria. The study employed qualitative policy analysis and concluded that recapitalization enhances the resilience of banks against systemic shocks and external financial crises. Nevertheless, the study emphasized that sustainable economic growth depends more on the productive utilization of financial resources than on the mere accumulation of capital. The author further noted that digital financial infrastructure is gradually replacing physical branch expansion as a determinant of banking efficiency and financial inclusion.

Alley, Hassan, Wali, and Suleiman (2023)

Financial Economics These scholars conducted an empirical appraisal of banking sector reforms in Nigeria using data from the 2004 and 2009 consolidation exercises. Applying regression analysis, the study found that bank capitalization significantly improved systemic stability and reduced bank distress. The researchers also reported that total deposits and total assets contributed positively to economic growth when inflation remained moderate. However, high inflation rates weakened the positive influence of banking assets on real GDP. The study concluded that macroeconomic stability is necessary for banking consolidation to effectively stimulate economic growth.

Eke, Adebayo, and Yusuf (2022)

Development Economics The researchers examined the relationship between financial deepening and economic growth in Nigeria between 1990 and 2020. Using the Autoregressive Distributed Lag (ARDL) model, the study revealed that total deposits and banking sector assets significantly promote long-run economic growth. However, the study observed that inefficiencies in credit allocation limited the developmental role of banks. The authors recommended reforms aimed at channeling bank credit toward productive sectors such as agriculture and manufacturing.

Manasseh, Abada, Ogbuabor, Okoro, and Obasikene (2021)

Economics This study investigated the nexus between bank credit to the private sector, financial deepening, and economic growth in Nigeria using the ARDL estimation technique. The findings showed that private sector credit exerted a positive and statistically significant effect on real GDP in the long run. Nonetheless, the study identified a structural imbalance in the distribution of credit, as most loans were concentrated in the service sector instead of productive sectors. The researchers recommended stronger financial deepening policies to expand the pool of loanable funds available for economic development.

Okonkwo and Egbo (2020)

Banking Okonkwo and Egbo investigated the impact of bank branch expansion on financial inclusion and economic growth in Nigeria. Using Ordinary Least Squares (OLS) regression analysis, the study found that the expansion of bank branches significantly enhanced rural financial inclusion and deposit mobilization during the post-consolidation period. The study further established that increased banking penetration contributed positively to GDP growth. However, the authors warned that the operational cost of maintaining physical branches may reduce their future relevance as digital banking continues to expand.

Nwosa and Oseni (2019)

Monetary Economics The authors examined the relationship between banking sector reforms and economic growth in Nigeria using Johansen cointegration and error correction techniques. Their findings indicated that bank capitalization and total deposits positively influence economic growth in the long run. However, the study reported that the effect of bank credit on GDP was weak due to poor credit administration and rising non-performing loans. The study concluded that banking reforms must be accompanied by stronger regulatory monitoring and effective credit management practices.

Adegbite and Alabi (2018)

Financial Management Adegbite and Alabi analyzed the effects of banking consolidation on financial intermediation and economic development in Nigeria. Employing multiple regression analysis, the study found that consolidation improved banks' liquidity position and deposit mobilization capacity.

However, the study observed that increased bank size did not automatically translate into improved lending to productive sectors. The researchers therefore argued that consolidation policies should prioritize efficient resource allocation rather than mere asset accumulation.

Ugwuanyi and Onoh (2017)

Banking and Finance This study investigated the impact of bank recapitalization on economic growth using annual time-series data from 1986 to 2015. The researchers adopted the Error Correction Model (ECM) and found that recapitalization significantly improved the stability and profitability of Nigerian banks. Nevertheless, the impact on GDP growth remained relatively weak due to inefficiencies in financial intermediation. The study recommended policies aimed at strengthening credit delivery mechanisms.

Godfrey (2015)

Corporate Governance Godfrey conducted an empirical analysis of bank recapitalization in Nigeria covering the period 1986–2011. Using OLS estimation techniques, the study found that recapitalization significantly increased banks' total deposits and asset base. However, the research revealed that high reserve requirements imposed by the Central Bank limited the ability of banks to convert deposits into productive credit. Consequently, the positive effect of recapitalization on economic growth remained moderate.

Afolabi (2014)

Financial Intermediation Afolabi examined the effects of banking sector consolidation on private sector investment and economic growth in Nigeria. The findings indicated that consolidation enhanced banks' lending capacity and increased public confidence in the banking system. However, the study showed that credit allocation remained biased toward commerce and oil trading activities, with limited support for manufacturing and agriculture. The author concluded that banking reforms would only contribute meaningfully to GDP growth when loans are directed toward productive investments.

Soludo (2007)

Chukwuma Soludo Soludo evaluated the outcomes of the 2004 banking consolidation reform in Nigeria. Using sectoral banking statistics, the study reported that the consolidation exercise strengthened the capital base of banks, reduced systemic distress, and enhanced public confidence in the financial system. The study also found significant increases in total deposits and total assets following the reform. However, the author acknowledged that long-term economic growth would depend on how effectively banks channel financial resources into productive sectors.

Ajayi (2005)

Banking Reforms Ajayi explored the conceptual and empirical foundations of banking sector reforms and consolidation in Nigeria. The study argued that consolidation enhances economies of scale, operational efficiency, and competitiveness within the banking industry. The author further maintained that stronger banks are better positioned to finance large-scale developmental projects capable of stimulating economic growth. Nevertheless, the study emphasized the importance of effective supervision and corporate governance in achieving the objectives of consolidation.

Somoye (2004)

Banking Economics Somoye investigated the performance of commercial banks before the 2004 consolidation exercise. Using financial ratio analysis and regression techniques, the study found that most Nigerian banks were undercapitalized and highly vulnerable to financial distress. The study concluded that consolidation was necessary to improve bank stability, enhance deposit mobilization, and strengthen the capacity of banks to support economic development in Nigeria.

3. Methodology

This chapter presents the methodological framework adopted for the study. It discusses the research design, model specification, and analytical procedures employed to examine the relationship between banking consolidation and economic performance in Nigeria. The chapter also outlines the variables used in the study and the econometric model adopted for data analysis.

3.1 Research Design

This study adopts an ex-post facto research design, which is appropriate for analyzing historical time-series data without manipulation of variables. The design enables the researcher to examine the relationship between banking consolidation indicators and economic performance in Nigeria over the period 2000–2025.

The choice of this design is justified because the study relies on already existing macroeconomic data, and the variables under investigation cannot be controlled experimentally.

3.2 Model Specification

The study adopts a log-linear multiple regression model to examine the relationship between banking consolidation indicators and Nigeria's economic performance. The functional relationship among the variables is specified as:

LnRGDP = f(LnNBB, LnBC, LnTA, LnTC, LnTD)

Where:

RGDP = Real Gross Domestic Product (proxy for economic performance)

NBB = Number of Bank Branches

BC = Bank Capital

TA = Total Assets of Banks

TC = Total Credits

TD = Total Deposits

Transforming the functional model into an econometric form, the baseline long-run equation is expressed as:

$LnRGDP_t = \alpha_0 + \beta_1 LnNBB_t + \beta_2 LnBC_t + \beta_3 LnTA_t + \beta_4 LnTC_t + \beta_5 LnTD_t + \mu_t$

Where:

α_0 = Constant term

β_1 - β_5 = Parameters to be estimated

μ_t= Error term

The log-linear transformation is employed to stabilize variance, reduce heteroskedasticity, and allow the coefficients to be interpreted as elasticities.

3.3 Description of Variables

- **Dependent Variable:**
    i. Real Gross Domestic Product (RGDP): Proxy for economic performance.
- **Independent Variables:**
    i. Number of Bank Branches (NBB): Measures financial outreach.
    ii. Bank Capital (BCAP): Indicates financial strength and stability.
    iii. Total Assets of Banks (TAB): Reflects size and capacity of banks.
    iv. Total Credits (TCR): Measures lending to the economy.
    v. Total Deposits (TDP): Represents financial deepening and savings mobilization.

3.4 Sources of Data

The study utilizes secondary data obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin, National Bureau of Statistics (NBS) publications, and World Bank Development Indicators. The data spans the period from 2000 to 2025, providing sufficient observations for robust time-series analysis. The selected period is considered adequate for examining trends, patterns, and relationships among the variables under investigation over time.

3.5 Method of Data Analysis

The study employs the Ordinary Least Squares (OLS) estimation technique to analyze the relationship between the dependent and independent variables. The OLS method is considered appropriate because it provides Best Linear Unbiased Estimates (BLUE) when the classical linear regression assumptions are satisfied. In addition, OLS is suitable for estimating linear relationships among variables and allows for straightforward interpretation of the estimated coefficients, thereby facilitating meaningful economic analysis and policy implications. The estimation procedure is carried out using EViews econometric software, which enables efficient computation and statistical testing of the specified model.

4.0 Data Presentation and Discussion of Results

This section presents a detailed interpretation of the regression results obtained from the estimated model examining the impact of banking consolidation on Nigeria's economic performance. The dependent variable is Real Gross Domestic Product (RGDP), proxied in logarithmic form (LGDP), while the explanatory variables include Bank Capital (LBC), Number of Bank Branches (LNBB), Total Assets (LTA), Total Credits (LTC), and Total Deposits (LTD).

4.1 Overall Model Evaluation

The regression results indicate a very strong goodness of fit, with an R-squared value of 0.996 and an adjusted R-squared of 0.995. This implies that approximately 99.6% of the variation in Nigeria's real GDP is explained by the included explanatory variables. The F-statistic (1017.888) with a probability value of 0.0000 confirms that the overall model is statistically significant at the 1% level, indicating that the explanatory variables jointly influence economic performance.

However, the extremely high R-squared suggests the possibility of multicollinearity or overfitting, which is common in macroeconomic time-series data involving closely related financial variables. The Durbin-Watson statistic of 1.56 indicates mild positive autocorrelation, though it remains within an acceptable range for time-series analysis.

4.2 Hypothesis Testing

This section presents the formal testing of the five null hypotheses formulated for this study.
Decisions to reject or fail to reject (accept) the null hypotheses are based on the individual p-values of the Ordinary Least Squares (OLS) regression coefficients evaluated at the standard 1%, 5%, and 10% levels of significance.

Test of Hypothesis One ($H0_1$): Number of Bank Branches and Economic Performance

i. **Null Hypothesis ($H0_1$):** The Number of Bank Branches has no significant effect on Nigeria's GDP.
ii. **Statistical Evaluation:** The log-transformed coefficient for the Number of Bank Branches (ln NBB) is 0.026397, with a p-value of 0.7516. Because the p-value ($0.7516 > 0.10$) exceeds all conventional thresholds of significance, the result is statistically non-significant.

iii. **Decision: Fail to reject (Accept) $H0_1$**. The study concludes that the Number of Bank Branches does not exert a statistically significant effect on Nigeria's Real GDP.

Discussion: This result reflects the ongoing structural decoupling in the Nigerian banking sector. In the contemporary digital banking era, physical branch expansion ("brick-and-mortar" infrastructure) has yielded diminishing marginal returns. Traditional branches are increasingly being substituted by electronic channels, mobile money operators, and agency banking networks. Consequently, physical presence is no longer a primary driver of aggregate national output.

This finding is consistent with the studies of Mustapha (2024) and Ihedioha et al. (2025), who reported that physical branch expansion has become less relevant in the digital era as digital financial channels increasingly substitute traditional banking infrastructure. However, the result contradicts the findings of Okonkwo and Egbo (2020), who found that bank branch expansion significantly enhanced financial inclusion and contributed positively to economic growth in Nigeria.

Test of Hypothesis Two ($H0_2$): Bank Capital and Economic Performance

- **Null Hypothesis ($H0_2$):** Bank Capital does not significantly influence economic performance.
- **Statistical Evaluation:** The coefficient of Bank Capital (lnBC) is positive at 0.028649, but returns a p-value of 0.6308. Since $0.6308 > 0.10$, this variable is statistically non-significant.
- **Decision: Fail to reject (Accept) $H0_2$**. The study concludes that Bank Capital does not significantly influence Nigeria’s economic performance.

Discussion: This finding reveals that mere regulatory spikes in the minimum paid-up capital (such as the 2004 Soludo reform and the recent 2024–2026 Cardoso recapitalization mandates) do not automatically trigger real sector growth. While recapitalization successfully enhances systemic resilience, prevents bank runs, and boosts investor confidence, its transmission mechanism to the wider economy is indirect. Capital adequacy ensures financial soundness, but economic expansion depends entirely on how effectively that capital is deployed into productive investments.

This finding supports the studies of Ugwuanyi and Onoh (2017) and Mustapha (2024), which concluded that recapitalization improves banking sector stability but does not necessarily generate significant economic growth without efficient financial intermediation. The finding also aligns with Abdul-Maliq et al. (2024), who observed that increased capitalization often leads banks to become more risk-averse rather than increasing productive lending. However, it contrasts with the findings of Alley et al. (2023) and Ihedioha et al. (2025), who reported that bank capitalization contributes positively to economic performance.

Test of Hypothesis Three ($H0_3$): Total Assets of Banks and Economic Performance

- **Null Hypothesis ($H0_3$):** Total Assets of Banks have no significant impact on Nigeria's GDP.
- **Statistical Evaluation:** Total Assets (ln TA) exhibit a positive coefficient of 0.103662 with a p-value of 0.0991. Because $0.05 < 0.0991 < 0.10$, the relationship is statistically significant at the 10% alpha level.
- **Decision: Reject $H0_3$**. The study concludes that the Total Assets of banks have a statistically significant impact on Nigeria's economic performance.

Discussion: Asset accumulation serves as an important driver of growth, proving that larger banks possess greater capacity to stimulate economic activities. However, because this significance is weak (only at the 10% level), it highlights a structural "asset-utilization gap." Rather than deploying massive asset bases to fund high-impact private sector investments in agriculture and manufacturing, Nigerian commercial banks disproportionately hold risk-free government securities (Treasury Bills and Bonds) to secure safe margins, diluting the potential impact on Real GDP.

This finding supports the studies of Manasseh et al. (2021) and Alley et al. (2023), who found that bank assets contribute positively to economic growth. The result also corroborates the findings of Eke et al. (2022), who reported that financial deepening through banking sector assets promotes long-run economic growth. Furthermore, the observed asset-utilization gap is consistent with the observations of Abdul-Maliq et al. (2024), who noted that Nigerian banks increasingly prefer investments in government securities rather than productive lending.

Test of Hypothesis Four ($H0_4$): Total Credits and Economic Performance

- **Null Hypothesis ($H0_4$):** Total Credits do not significantly affect the performance of the Nigerian economy.
- **Statistical Evaluation:** Total Credits (lnTC) display a negative coefficient of -0.300036 and a p-value of 0.0097. Because $0.0097 < 0.01$, the variable is statistically significant at the strict 1% level.
- **Decision: Reject $H0_4$**. The study concludes that Total Credits significantly affect the performance of the Nigerian economy, albeit in a negative direction.

Discussion: This counterintuitive finding confirms a severe "credit paradox" in Nigeria. Theoretically, credit expansion should catalyze economic growth via the supply-leading mechanism. However, in Nigeria, aggregate credit expansions are negatively correlated with output due to severe structural inefficiencies. Bank lending is heavily skewed toward short-term commercial trading, imports, and volatile oil-and-gas ventures rather than the productive base (SMEs, manufacturing, and farming).

Coupled with high borrowing costs and non-performing loans (NPLs), credit expansion ends up suffocating real-sector performance instead of driving it.

This finding is consistent with the studies of Nwosa and Oseni (2019), Afolabi (2014), Adegbite and Alabi (2018), Eke et al. (2022), and Abdul-Maliq et al. (2024), all of whom reported inefficiencies in credit allocation and weak transmission of bank lending to economic growth. The finding also supports Ihedioha et al. (2025), who found only a weak relationship between credit expansion and economic performance due to poor sectoral allocation of credit. However, it contradicts the findings of Manasseh et al. (2021), who reported a positive and significant relationship between private sector credit and economic growth in Nigeria.

Test of Hypothesis Five ($H0_5$): Total Deposits and Economic Performance

- **Null Hypothesis ($H0_5$):** Total Deposits have no significant contribution to the growth of Nigeria's GDP.
- **Statistical Evaluation:** Total Deposits (lnTD$) maintain a strong positive coefficient of 0.522014 and a p-value of 0.0000. Because $0.0000 < 0.01$, this relationship is highly significant at the 1% level.
- **Decision: Reject $H0_5$**. The study concludes that Total Deposits make a highly significant contribution to the growth of Nigeria's GDP.

Discussion: This result strongly validates the McKinnon-Shaw Financial Deepening Theory. Banking consolidation has successfully fostered public confidence in the financial system, leading to massive domestic savings mobilization. These liquid deposits provide the banking sector with a substantial pool of loanable funds. The highly significant positive elasticity (0.522) demonstrates that financial deepening via aggressive deposit mobilization remains the strongest, most stable transmission channel through which the consolidated banking industry drives long-run macroeconomic performance in Nigeria.

This finding is consistent with the studies of Godfrey (2015), Nwosa and Oseni (2019), Adegbite and Alabi (2018), Alley et al. (2023), Eke et al. (2022), and Soludo (2007), all of whom found that increased deposits positively influence economic growth by strengthening financial intermediation and promoting financial deepening. The result therefore reinforces the argument that deposit mobilization remains a critical mechanism through which banking consolidation supports economic performance in Nigeria.

5.0 Summary, Conclusion and Recommendations

5.1 Summary of the Study

This study examined the impact of banking consolidation on the performance of Nigeria's economy over the period 2000–2025. The motivation for the study stems from the persistent disconnect between the rapid expansion of the Nigerian banking sector, especially following major reforms such as the 2004 consolidation led by Prof. Chukwuma Soludo and the recent recapitalization exercise under Olayemi Cardoso, and the relatively slow growth of the real sector.

The study specifically investigated the effects of five key indicators of banking consolidation, namely: Number of Bank Branches (NBB), Bank Capital (BCAP), Total Assets of Banks (TAB), Total Credits (TCR), and Total Deposits (TDP), on Real Gross Domestic Product (RGDP), which serves as a proxy for economic performance.

A log-linear econometric model was specified and estimated using time-series data. The Ordinary Least Square (OLS) framework was adopted. The regression results revealed that while the model exhibited a high explanatory power, the individual contributions of the explanatory variables varied significantly.

Empirical findings showed that Total Deposits exert a strong and statistically significant positive impact on economic growth, while Total Assets also contribute positively, albeit at a weaker level of significance. In contrast, Total Credits were found to have a negative and statistically significant relationship with GDP, indicating inefficiencies in credit allocation. Furthermore, Bank Capital and Number of Bank Branches were observed to have positive but statistically non-significant effects on economic performance.

The empirical results reveal a mixed outcome regarding the effectiveness of banking consolidation in Nigeria. While the sector has achieved significant progress in mobilizing deposits and accumulating assets, its performance in channeling these resources into productive investments remains weak.

Specifically, the findings indicate that:

i. Deposit mobilization is the most significant driver of economic growth.
ii. Asset accumulation contributes positively but is limited by inefficiency.
iii. Credit allocation exerts a negative effect on economic performance, highlighting structural distortions.
iv. Bank capital and branch expansion do not significantly influence GDP.

This pattern suggests that the Nigerian banking sector has expanded in size but has not fully translated this expansion into functional efficiency. In other words, consolidation has strengthened the financial system quantitatively but not qualitatively.

Implications for Policy and Theory

The findings provide strong support for the financial deepening hypothesis, particularly with respect to the role of deposits in economic growth. However, they also challenge the supply-leading hypothesis, as increased financial resources (especially credit) do not automatically lead to improved economic performance.

The negative impact of credit highlights the need for policy reforms aimed at improving credit allocation, strengthening risk management practices, and ensuring that bank lending supports productive sectors of the economy.

5.2 Conclusion

This study concludes that banking consolidation has strengthened the structural capacity, stability, and resource mobilization capability of Nigeria's banking sector, as evidenced by the positive contributions of Total Deposits and Total Assets to economic performance. However, the benefits of consolidation have not been fully translated into sustainable economic growth due to inefficiencies in financial intermediation.

The findings reveal that while banks have become more effective in mobilizing deposits and expanding their asset base, they have been less successful in channeling financial resources into productive sectors of the economy. This is reflected in the negative and significant effect of Total Credits on GDP, suggesting weaknesses in credit allocation and utilization. Furthermore, the insignificant effects of Bank Capital and Number of Bank Branches indicate that recapitalization and physical expansion alone are insufficient to stimulate economic growth in an increasingly digital financial environment.

Overall, the study concludes that the challenge facing Nigeria's banking sector is not the availability of financial resources but their efficient deployment. Therefore, for banking consolidation to make a more meaningful contribution to economic performance and support Nigeria's aspiration of becoming a one-trillion-dollar economy, greater emphasis must be placed on efficient credit allocation, productive asset utilization, financial inclusion, and the effective intermediation of financial resources.

5.3 Recommendations

In light of the findings and conclusions, the following recommendations are proposed:

i. **Strengthening Credit Allocation to the Real Sector**

This recommendation is based on Objective Four, which sought to determine the effect of Total Credits (TCR) on economic performance. The findings revealed that Total Credits exert a negative and statistically significant effect on GDP (β = -0.300036, p = 0.0097). Therefore, the Central Bank of Nigeria (CBN) and other regulatory authorities should establish policies that encourage banks to channel credit toward productive sectors such as agriculture, manufacturing, and SMEs rather than speculative and short-term commercial activities. This will improve the developmental impact of bank lending and reverse the negative effect of credit on economic growth.

ii. **Implementation of Selective Credit Control Measures**

This recommendation also derives from Objective Four and the finding that credit expansion has not translated into economic growth. Since Total Credits significantly affect GDP in a negative direction, the CBN should adopt selective credit control measures such as sectoral lending quotas, concessional interest rates for productive sectors, and stricter monitoring of loan utilization. These measures will help ensure that credit resources are deployed efficiently and contribute positively to economic performance.

iii. **Enhancing Asset Quality and Utilization**

This recommendation is linked to Objective Three, which examined the impact of Total Assets of Banks (TAB) on economic performance. The study found that Total Assets have a positive and statistically significant effect on GDP (β = 0.103662, p = 0.0991), although the effect is relatively weak. Banks should therefore improve the quality and utilization of their assets by increasing investments in productive private-sector activities rather than concentrating excessively on government securities. This will strengthen the contribution of bank assets to economic growth.

iv. **Promoting Digital Financial Infrastructure**

This recommendation is based on Objective One, which assessed the impact of the Number of Bank Branches (NBB) on GDP. The findings showed that the Number of Bank Branches has a positive but statistically insignificant effect on economic performance (β = 0.026397, p = 0.7516). This suggests that physical branch expansion is becoming less relevant in the digital era. Consequently, banks should intensify investments in digital banking platforms, FinTech solutions, agency banking, and electronic payment systems to improve financial inclusion and economic participation.

v. **Complementing Recapitalization with Structural Reforms**

This recommendation is linked to Objective Two, which examined the relationship between Bank Capital (BCAP) and economic performance. The results revealed that Bank Capital has a positive but statistically insignificant effect on GDP ($\beta = 0.028649$, $p = 0.6308$). Since recapitalization alone does not significantly stimulate economic growth, policymakers should complement capital enhancement programmes with reforms that improve financial intermediation efficiency, regulatory oversight, transparency, and institutional effectiveness.

vi. **Encouraging Deposit Mobilization and Financial Inclusion**

This recommendation is based on Objective Five, which assessed the contribution of Total Deposits (TDP) to economic growth. The findings showed that Total Deposits have a strong positive and highly significant effect on GDP ($\beta = 0.522014$, $p = 0.0000$), making deposits the most influential determinant of economic performance in the model. Therefore, policies aimed at promoting savings mobilization, financial inclusion, public confidence in the banking system, and access to banking services should be strengthened and sustained.

vii. **Policy Coordination for Macroeconomic Stability**

This recommendation arises from the overall findings of the study, particularly the evidence that banking consolidation alone is insufficient to generate sustained economic growth. While deposits and assets contribute positively to GDP, inefficiencies in credit allocation weaken the growth-enhancing role of the banking sector. Therefore, effective coordination among monetary, fiscal, and financial-sector policies is necessary to create a stable macroeconomic environment that supports productive investment and enhances the effectiveness of banking consolidation reforms.

5.4 Suggested Areas for Further Research

Future studies may extend this research by:

i. Incorporating variables that capture digital financial services (e.g., electronic transactions, mobile banking penetration).
ii. Conducting sectoral analysis of credit allocation to determine its impact on specific industries.
iii. Applying alternative econometric techniques such as Vector Error Correction Models (VECM) or Structural Equation Modeling (SEM) for robustness checks.

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Appendix

Table 1

Dependent Variable: LGDP

Method: Least Squares

Date: 04/06/26 Time: 18:18

Sample: 2000 2025

Included observations: 26

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.351734	0.625002	11.76273	0.0000
LBC	0.028649	0.058696	0.488091	0.6308
LNBB	0.026397	0.082253	0.320925	0.7516
LTA	0.103662	0.059926	1.729832	0.0991
LTC	-0.300036	0.104956	-2.858690	0.0097
LTD	0.522014	0.083174	6.276160	0.0000

R-squared	0.996086	Mean dependent var	10.75571
Adjusted R-squared	0.995107	S.D. dependent var	0.568520
S.E. of regression	0.039768	Akaike info criterion	-3.412356
Sum squared resid	0.031629	Schwarz criterion	-3.122026
Log likelihood	50.36063	Hannan-Quinn criter.	-3.328752
F-statistic	1017.888	Durbin-Watson stat	1.556345
Prob(F-statistic)	0.000000		

Source: Computed by the Researcher.