



# Banking Fraud and Nigeria Economy: A Case Study of Selected Deposit Money Banks from Nigeria

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## Abstract

This study examines banking fraud and its effects on the Nigerian economy, focusing on selected deposit money banks: Ecobank, Union Bank, Skye Bank, Keystone Bank, Stanbic IBTC, and United Bank for Africa (UBA). Fraud has become pervasive in Nigerian banking, with fraudsters continually devising new methods to circumvent detection measures, often in collaboration with dishonest bank staff. Adopting an ex post facto research design, the study analyses time-series data from 2011 to 2024 using multiple linear regression. The dependent variable is GDP growth rate per capita, while independent variables include bank credit to the private sector, growth in liquid liabilities, and net interest margin. Findings reveal that bank credit exerts a positive and significant impact on economic growth in Nigeria. Similarly, growth in banks' liquid liabilities and net interest margins positively and significantly influence economic expansion. The study concludes that banking operations have contributed favourably to Nigeria's economic growth, though fraud remains a threat to public confidence and financial stability. It recommends directing credit to priority sectors such as manufacturing and agriculture, and that government legislation encourage private-sector financing through targeted incentives and a stable macroeconomic environment.

**Keywords:** Banking fraud, Economic growth, Deposit money banks, Nigeria

## INTRODUCTION

In Nigeria, the term "fraud" is widely used. Nigerian society has been deeply impacted by fraud, particularly in the twenty-first century. Self-control and integrity among bank employees are the only solutions to this unpleasant scenario; otherwise, this degradation will continue. Fraud: What is it? Some well-read people have tried to simplify the topic to make it easier to understand. In his book "Understanding Practical Auditing and Investigation" described fraud as irregularities including

the use of criminal deception to acquire an unfair or illegal benefit.<sup>1</sup> The term “irregularity” refers to both the deliberate falsification of financial statements for whatever reason and the theft of assets. According to “fraud in the contemplation of Civil Court of Justice, may be said to include all acts of omission and concealment, justify reposed and are injurious to another by which undue or unconscientiously is taken of another.”<sup>2</sup> According to fraud is defined as deception that is purposefully used to obtain unfair or illegal gain.<sup>3</sup> Fraud is defined as “a conscious, premeditated action by a person or group of people with the intention of selfish or personal monetary gain.” It involves trickery and deceit and occasionally requires cleverness and expertise. Such conduct typically manifests as outright stealing or document forgery.<sup>4</sup>

For millions of households (individuals and families) and most local government units (school districts, cities, countries, etc.), banks are the primary source of credit (loanable funds), according to Mansor. She went on to say that banks are frequently the primary source of credit for small local companies, such as grocery stores and car dealers, to stock them with goods or replenish a dealer’s showroom with new vehicles.<sup>5</sup> States that businesses and individuals often use bank-provided cheque books, credit or debit cards, or electronic accounts linked to a computer network to pay for goods and services. Additionally, the banker is the person people consult most frequently for assistance and counsel when they need financial knowledge and financial planning. According to<sup>6</sup>, banks are financial service companies that provide expert management of the public’s funds in addition to carrying out a variety of other economic functions such as intermediation, payments, guarantee, agency, and policy.<sup>7</sup> Asserts that the banking sector is the center of productive activity in Nigeria because it plays a crucial role in financial intermediation, ensuring a sound payment system, and supporting the execution of monetary policy. Financial intermediation is the process by which financial institutions (banks and non-banks) mobilize and distribute financial resources through the financial (money and capital) market, employing financial instruments (loans, securities, and savings).<sup>8</sup> According to the writers, the degree of development of a nation’s financial system significantly affects the efficacy and efficiency of financial intermediation in any economy. In actuality, the relative inefficiency of financial intermediation in most developing nations can be attributed significantly to their immature financial systems. Banks, which usually have an oligopolistic structure and prioritize short-term loans over long-term investments, control most financial systems in these nations.

The prevalence of fraud in Nigeria today has reached pandemic proportions. It has permeated every part of our lives to the point where a three-year-old child can discuss 419, the term for the recently uncovered charge scam that is plaguing our country. Fraud is intentional dishonesty used to gain an advantage. Therefore, an activity must be meant to profit the perpetrator at the

<sup>1</sup> Sanusi, L. S. (2020). The Nigerian banking industry: What went wrong and the way forward. Convocation Lecture, Bayero University, Kano.

<sup>2</sup> Abdullahi, R. & Mansor, N. (2015). Forensic Accounting and Fraud Risk Factors: The Influence of Fraud Diamond Theory. The American Journal of Innovative Research and Applied Sciences. 1 (5), 186-192.

<sup>3</sup> Association of Certified Fraud Examiners (2010). Report to the Nation on Occupational Fraud. <https://acfe.com/documents/2010R>

<sup>4</sup> Tuuli, K. (2022). Do efficient banking industries accelerate economic growth in transition countries? *BOFIT Discussion Paper No. 14/2022*.

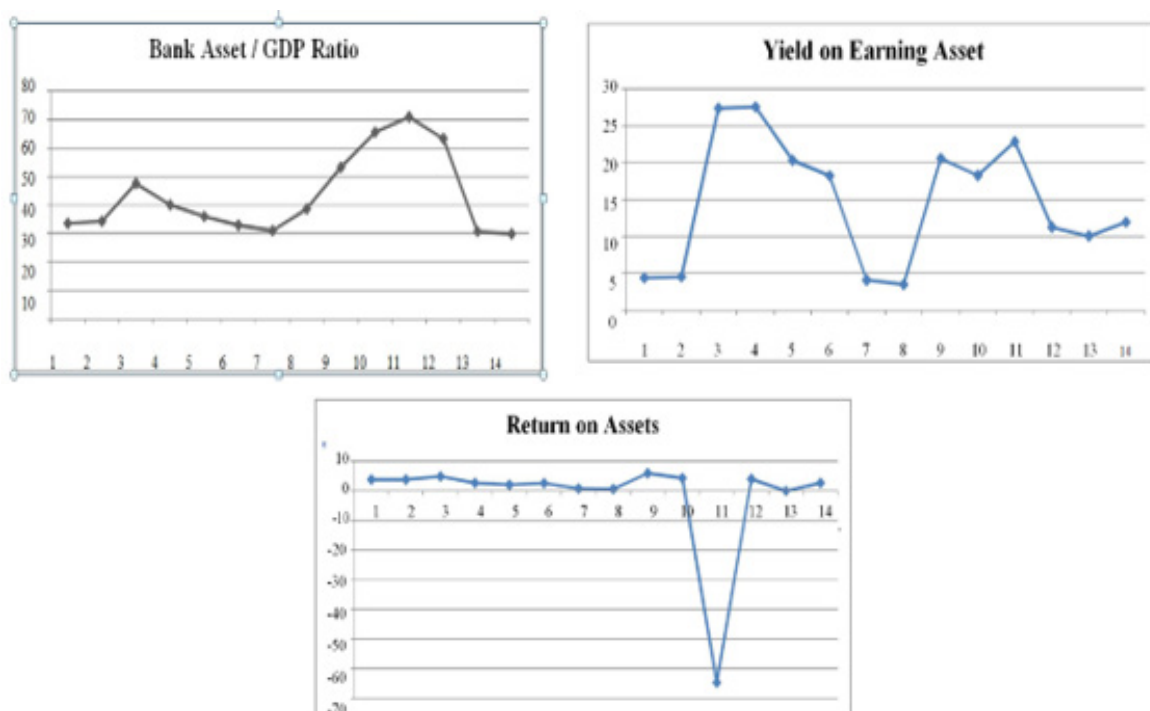
<sup>5</sup> Ogunleye, G. A. (2010). Perspectives on the Nigerian Financial Safety – Net, Abuja, Nigeria, Printed by Adolness Nigeria Ltd.

<sup>6</sup> Akindele, R. I. (2011). “Fraud as a Negative Catalyst in the Nigerian banking industry”. *Journal of Emerging Trends in Economics and Management Sciences*, 2(5), 5357-5363 Chicago: Fraud prevention series.

<sup>7</sup> Sanusi, L. S. (2022). Banking reforms and its impact on the Nigerian economy. *CBN Journal of Applied Statistics*, 2(2), 115-122.

<sup>8</sup> Adebayo, O. G. & Topson, A. O. (2014). Bank Frauds and Forgeries in Nigeria: A Study of the Causes, Types, Detection and Prevention. *IOSR Journal of Economics and Finance (IOSR-JEF)* 4 (2), 41-50 [www.iosrjournals.org](http://www.iosrjournals.org)

expenses of another person to qualify as fraud.<sup>9</sup> The frequency of fraud, with varying degrees of complexity, has continued to rise in banks. According to a report from the Nigeria Deposit Insurance Corporation (NDIC), “Banking Industry has lost billions of naira to fraudulent activities, indicating a continuing increase in banking fraud” in Nigeria in the twenty-first century.<sup>10</sup> This shows that while bank management works to prevent fraud and malpractice, dishonest bank employees keep finding new ways to bypass those procedures. The detrimental effects and implications of these are then highlighted.<sup>11</sup> It is claimed that fraud and malpractice result in needless losses of enormous sums of money. This financial loss severely hampers the bank’s operations and transactions. Each instance of fraud also erodes public trust in banks, leading people to doubt the industry’s ability to safeguard their money and handle everyday transactions. Bank fraud and malpractice slow or delay the development of Nigeria’s banking sector. People avoid banks because they fear losing their money to fraud. Bank fraud and malpractice keep bank management vigilant, forcing them to waste time and resources on fraud detection and prevention. The banking sector is one of the most significant financial sectors in any country’s economy. No bank is impervious to fraud, a serious problem in every aspect of life and in the banking sector. For efficient intermediation, the banking public demands accountability, equity, and openness in their day-to-day operations. Therefore, this study examines financial fraud and its impact on the Nigerian economy.



<sup>9</sup> Benjamin, E.O. et al. (2015): The impact of forensic investigative methods on corporate fraud detection in banks in Nigeria. *European Journal of Accounting Auditing and Finance Research*, vol.3(4); Berney, L. (2008). For online Merchants, Fraud Prevention can be a balancing act. *Cards & Payments*, 21(2), 22-37.

<sup>10</sup> Sajombo, A. D. (2021). Effective marketing of banking services under present day challenges. *Swift Publishers*, 3(1).

<sup>11</sup> Chiezey, U. & Onu, A. (2013). Impact of Fraud and Fraudulent Practices on the Performance of Banks in Nigeria. *British Journal of Arts and Social Sciences*, 15, 12-28.

## Literature Review

The impact of fraud and fraudulent behaviors on the performance of Nigerian banks was examined. Their findings revealed that fraud exposes both banks and consumers to a range of financial challenges. Nevertheless, the study did not establish the direct effects of banking fraud and financial mismatch on certain economic indicators, such as gross domestic income, unemployment rates, and per capita income.<sup>12</sup>

It also investigated factors eliciting fraud in the Nigerian banking sector. High bank deposits were found to be the main cause of a high rate of fraudulent activity in the Nigerian banking sector, especially management fraud. This was because most banks were unable to fulfil their primary function of lending to the real sector of the economy, resulting in an abundance of idle funds in banks that made management fraud and other insider abuse necessary. High interest rates, limited commercial bank lending, and inadequate regulation by the Central Bank and other financial regulatory organizations were additional factors that contributed to these incidents. Additionally, the analysis did not demonstrate how these characteristics affected bank performance and, in turn, the country's economy.

Employees of Deposit Money Banks engaged in fraud initiation, execution, and concealment to enrich themselves at the expense of their customers, unaware of the collateral damage such acts portend for public confidence and trust in the provision of banking services, according to an investigation into the causes and prevention of fraud in the Nigerian banking sector. According to Akinyomi, the report, the main reason why both domestic and foreign fraudsters commit fraud is greed. Additionally, the study found that 82% of the 200 respondents said computer fraud was the most common, with detrimental effects such as lost revenue and diminished client confidence.<sup>13</sup>

According to Ekpeyong's analysis, banks' contribution to economic growth in Nigeria during the 28 years from 1980 to 2008 was negligible.<sup>14</sup> Their results led to the conclusion that other elements, such as human resources, educational standards, political stability, electricity supplies, and other social infrastructure, might be more crucial to the expansion of the Nigerian economy.<sup>15</sup> Conducted a study on ways to reduce fraud in the Nigerian banking sector. The study's conclusions showed that a wide range of factors, including poor policy and procedure management, subpar working conditions, bank employees staying in the same job for long periods, and employees feeling dissatisfied due to low pay, contributed to the prevalence of fraud in banks.

According to Adepaju, bank clients have grown to rely on and trust automated teller machines (ATMs) to fulfil their financial demands conveniently; however, ATM fraud has increased in the nation recently.<sup>16</sup> As ATM fraud has become more common, banks must manage the risks involved and lessen its impact. This is because fraud strategies have become more sophisticated. The "challenges of automated teller machine (ATM) usage and fraud occurrence in Nigeria banking

<sup>12</sup> Uchenna, C. & Agbo, I. C. (2013). Impact of Fraud and Fraudulent Practices on the Performance of Banks Nigeria, *British Journal of Arts and Social Sciences*, 15 (1), 12- 28.

<sup>13</sup> Akinyomi, O.J. (2012): Examination of Fraud in the Nigerian Banking sector and it's prevention. *Asian Journal of Management Research*.Vol.3 issue 1.

<sup>14</sup> Ekpeyong, D. B., & Acha, I. A. (2013). Banks and economic growth in Nigeria. *European Journal of Business Management*, 3(4), 120-131.

<sup>15</sup> Idowu, A. (2009); An assessment of frauds and it's management in Nigerian commercial Banks. *European Journal of Social Sciences*. Vol.10 (4).

<sup>16</sup> Adepaju, A. S., & Alhassan, M. E. (2020). Challenges of automated teller machine (ATM) usage and fraud occurrences in Nigeria. *Journal of Internet Banking and Commerce*, 15(2),

industry” were the subject of a study.<sup>17</sup> According to the survey, the biggest contributors to bank fraud were inadequate training, communication gaps, and weak leadership. He recommended implementing sufficient internal control mechanisms and ensuring employees’ comfort and satisfaction. According to the research, Nigerian banks must take more proactive steps, like using forensic accounting methods.<sup>18</sup>

Using descriptive and inferential statistics,<sup>19</sup> the study investigated the kind, scope, and financial impact of fraud on bank deposits in Nigeria. According to the study, bank deposits and fraud in Nigeria’s banking sector are positively correlated. They examined several types of fraud and how they affected bank deposits in Nigerian institutions between 1993 and 2010. They examined the overall deposit liabilities of insured money banks in Nigeria in relation to the quantity of bank cash lost to fraud. The study used both descriptive and inferential statistics. They found a substantial correlation between bank deposits and sums lost due to fraudulent withdrawals.

Additionally,<sup>20</sup> examined the many types of fraudulent behaviors, their effects, and the reasons behind different types of industry change. He used a descriptive study design. He discovered that 485 (37%) of the 1283 personnel implicated in fraudulent conduct between 2002 and 2006 were managers and supervisors, while 431 (33.59%) were executive officers/accountants and executive assistants.<sup>21</sup> Assessed how fraud affected Nigerian commercial banks’ performance between 2001 and 2011. Using regression analysis, he closely examined the relationship between ATM fraud, forged checks, clearing checks, and bank performance. According to the report, fraud has a major effect on Nigerian commercial banks’ performance.

Similarly,<sup>22</sup> the study investigated how fraud affected Nigeria’s banking sector socially. The study used an ex post facto research design. The Nigerian Deposit Insurance Corporation and commercial bank statements of account covering 1990–2014 were the data sources. The data were analyzed using Ordinary Least Squares (OLS) and its Best Linear Unbiased Estimate (BLUE) Property. They found that Nigerian banks prosper due to high fraud rates, and that fraud has a detrimental social impact on the country’s financial sector.<sup>23</sup> Conducted an empirical test to determine whether deposits and the following explanatory variables fraud, actual/expected loss, and money laundering were significantly correlated between 1989 and 2004. OLS regression was applied. The correlation coefficient, t-test, f-test, and standard error tests were used to examine the relationships. The findings indicated a positive correlation between deposit volume and money laundering and a negative correlation between deposits and fraud and real or anticipated loss. Using empirical analysis, the study examined fraud and its effects on Nigerian banks’ performance.<sup>24</sup>

<sup>17</sup> Akindele, S. T. (2020). “A Critical Analyse of Corruption and its Problems in Nigeria” *Anthropologist*, 7 (1), 7 – 18

<sup>18</sup> Onuorah, A. C., & Appah, E. (2011). Department of Accounting, Banking and Finance Delta State University. *Business Management Publisher*.

<sup>19</sup> Kanu, S.I. and Okorafor, E.O. (2013): The nature, extent and Economic impact of fraud on Bank deposit in Nigeria. *Inter disciplinary Journal of Contemporary Research in Business*. Vol.4(9). NDIC Annual Report (1995-2014) NDIC Publication.

<sup>20</sup> Owolabi, S.A. (2010): Fraud and fraudulent practices in Nigerian Banking industry. *An international multi-disciplinary Journal*, Ethiopia. Vol.4 (3b).

<sup>21</sup> Odi, N. (2013). Implication of fraud on commercial banks performance in Nigeria, *International Journal of Business and Management* 8(15), 144-150.

<sup>22</sup> Inaya, L., & Isito, E. O. (2016). An empirical analysis of social impact of fraud on the Nigerian banking industry, *Research Journal of Finance and Accounting* 7(4), 12-17.

<sup>23</sup> Ikpefan, O. A. (2006). Growth of bank frauds and impact on Nigerian banking industry Enprint.convenantuniversity.edu.ng/1316/1/fraud.pdf.

<sup>24</sup> AbdulRasheed, A., Babaita, I. S., & Yinusa, M. A. (2022). Fraud and its implications for bank performance in Nigeria. *International Journal of Asian Social Science*, 2(4), 382–387.

Information was gathered from the 2004–2009 NDIC annual reports. Data were analyzed using Pearson Correlation and parametric tables. Banks had the highest number of fraud incidents in 2008. Hypothesis testing showed that the overall amount involved in fraud cases and the bank's profit are significantly correlated. This made up most of the fraud.

Like this,<sup>25</sup> looked at fraud as a problem for accurate financial reporting, concentrating on the banking industry. They used survey research. It was shown that failing to account for fraud in the organization's financial statements could mislead users and fail to present a truthful and fair picture of the financial statements.<sup>26</sup> Investigated how fraud affected Nigerian banks' performance between 2000 and 2007. For analysis, OLS regression was used. The results showed a substantial inverse link between commercial banks' investment and the total number of reported fraud instances, the amount involved in the frauds, and the actual predicted loss owing to the frauds.

## Methods

The ex post facto research design will be used in this investigation. Ex post facto research, according to<sup>27</sup>, is a methodical empirical investigation in which the circumstances for the study already exist or have occurred; hence, the researcher has no control or manipulation over the independent variables. The report compiles historical data from 2011 until 2024. The study is implicitly a time series analysis. To maximize the information included in their analysis, most publications along this line employ time-series analysis of annual observations and even quarterly data.<sup>28</sup> claims that time series analysis officially addresses simultaneity bias by adjusting the standard errors appropriately and performing a variety of sensitivity checks. This study used a multiple linear regression approach, consistent with research on bank fraud and economic growth. The independent variables are lending and deposit rates, the ratio of interest rate margin to total bank assets, the ratio of liquid liabilities to GDP, and the ratio of private-sector loans to GDP, while the dependent variable is the growth rate of gross domestic product per capita.

## Model Specification

The multiple regression analysis is. specified thus:

$$Y = f(X_1, X_2, X_3, X_4)$$

Where:

$Y$  = Total GDP of Nigeria (N)

$X_1$  = amount involved in fraud (N).

$X_2$  = Total expected Loss (N).

$X_3$  = Total number of fraud cases.

$X_4$  = Total number of staff involved in fraud.

$e$  = Error term.

<sup>25</sup> Aruomoaghe, J. A., & Ikyume, J. C. (2013). Accounting for fraud in Nigeria: The banking sector in focus, *International Journal of Research in Management* 3(6), 59-73.

<sup>26</sup> Adediran, S., & Olugbenga, E. (2010). Impact of fraud on banks' performance in Nigeria, *The Nigerian Academic Forum* 19(1).

<sup>27</sup> Duffield, G. & Grabosky, P. (2001). *The Psychology of Fraud. Trends and Issues in Crime and Criminal Justice Series*, <http://www.aic.gov.au/publications/tandi/ti199>. [http://wikipedia.org/wiki/Political\\_corruption](http://wikipedia.org/wiki/Political_corruption)

<sup>28</sup> Levi, M. (2008). Organized Frauds and Organizing Frauds: Unpacking Research on Networks and Organization. *Journal of Criminology and Criminal Justice*, (7), 389- 419.

The Pearson's correlation coefficient is specified thus:

$$r = \frac{\sum(x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum(x_i - \bar{x})^2 - \sum(y_i - \bar{y})^2}}$$

## Result and Discussion

This hypothesis was used to test the impact of bank credit on economic growth in Nigeria. Growth in gross domestic product was proxy for economic growth while bank credit to the private sector was the explanatory variable. At prob > F value of 0.000 less than 0.005 percent as shown in Table 4.4.1 above, the OLS model is very significant and fitted the data reasonably well. Again, the adequacy of the model was found to be of good fit with the coefficient of determination computed at 0.736.

## Variables Entered/Removed

**Table 1: Model Summary**

| Model Summary      |                   |                             |                   |                            |        |                    |
|--------------------|-------------------|-----------------------------|-------------------|----------------------------|--------|--------------------|
| Model              | R                 | R Square                    | Adjusted R Square | Std. Error of the Estimate |        |                    |
| 1                  | .870 <sup>a</sup> | .756                        | .736              | 9360080.40                 |        |                    |
| ANOVA <sup>B</sup> |                   |                             |                   |                            |        |                    |
| Model              |                   | Sum of Squares              | Df                | Mean Square                | F      | Sig.               |
| 1                  | Regression        | 3.3E+015                    | 1                 | 3.264E+015                 | 37.253 | ..000 <sup>a</sup> |
|                    | Residual          | 1.1E+015                    | 12                | 8.761E+013                 |        |                    |
|                    | Total             | 4.3E+015                    | 13                |                            |        |                    |
|                    |                   |                             |                   |                            |        |                    |
|                    |                   | Unstandardized Coefficients |                   | Standardized Coefficients  |        |                    |
| Model              |                   | B                           | Std. Error        | Beta                       | t      | Sig.               |
| 1                  | (Constant)        | 3549722                     | 3758069           |                            | .945   | .364               |
|                    | PRIVATE SECTOR    |                             |                   |                            |        |                    |
|                    |                   | 4.044                       | .663              | .870                       | 6.104  | .000               |
|                    | CREDIT            |                             |                   |                            |        |                    |

In other words, approximately 74% of the changes in gross domestic product are attributed to changes in the explanatory variable, i.e. growth in private sector credit for the period under review. The coefficient of the statistics at 4.044 is positive and significant.

**Table 2:** Variables Entered/Removed

| Model | Variables Entered              | Variables Removed | Method |
|-------|--------------------------------|-------------------|--------|
| 1     | GROWTH<br>IN LIQUID LIABILITIE |                   | Enter  |

**Table 3:** Further Regression

| Model Summary      |                   |                |                   |                            |        |                    |
|--------------------|-------------------|----------------|-------------------|----------------------------|--------|--------------------|
| Model              | R                 | R Square       | Adjusted R Square | Std. Error of the Estimate |        |                    |
| 1                  | .912 <sup>a</sup> | .833           | .819              | 7758686.49                 |        |                    |
| ANOVA <sup>B</sup> |                   |                |                   |                            |        |                    |
| Model              |                   | Sum of Squares | Df                | Mean Square                | F      | Sig.               |
| 1                  | Regression        | 3.6E+015       | 1                 | 3.593E+015                 | 59.683 | ..000 <sup>a</sup> |
|                    | Residual          | 7.2E+014       | 12                | 6.020E+013                 |        |                    |
|                    | Total             | 4.3E+015       | 13                |                            |        |                    |

**Table 4:** Further Estimation

|       |                    | Unstandardized Coefficients |            | Standardized Coefficients |       |      |
|-------|--------------------|-----------------------------|------------|---------------------------|-------|------|
| Model |                    | B                           | Std. Error | Beta                      | t     | Sig. |
| 1     | (Constant)         | 1051980                     | 3278161    |                           | .321  | .754 |
|       | GROWTH IN          | 3.737                       | .484       | .912                      | 7.725 | .000 |
|       | LIQUID LIABILITIES |                             |            |                           |       |      |

This hypothesis tested the impact of growth in liquid liabilities on economic growth in Nigeria. Growth in gross domestic product was used as proxy for economic growth while growth in liquid liabilities was the independent variable. At the prob>F value of 0.000, which is less than 0.005, the OLS model is highly significant and fits the data reasonably well. Again, the model was found to fit the data well, with a coefficient of determination of 0.819. In other words, approximately 82% of the changes in gross domestic product are attributed to growth in liquid liabilities of the commercial banks in Nigeria. The coefficient of the statistics at 3.737 is positive and significant. Based on the results obtained, we reject the null hypothesis and accept the alternative hypothesis. Therefore, we conclude that growth in liquid liabilities of banks exerts positive and significant impact on economic growth in Nigeria.

**Table 5:** Variables Consideration

| Model | Variables Entered              | Variables Removed | Method |
|-------|--------------------------------|-------------------|--------|
| 1     | NET<br>INTEREST<br>A<br>MARGIN |                   | Enter  |

<sup>a</sup>. All requested variables entered.

<sup>b</sup>. Dependent Variable: GDP

| Model Summary |                   |          |                   |                            |  |  |
|---------------|-------------------|----------|-------------------|----------------------------|--|--|
| Model         | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |  |  |
| 1             | .729 <sup>a</sup> | .532     | .493              | 12978060.4                 |  |  |

| ANOVA <sup>b</sup> |            |                |    |             |        |                   |
|--------------------|------------|----------------|----|-------------|--------|-------------------|
| Model              |            | Sum of Squares | Df | Mean Square | F      | Sig.              |
| 1                  | Regression | 2.3E+015       | 1  | 2.294E+015  | 13.620 | .003 <sup>a</sup> |
|                    | Residual   | 2.0E+015       | 12 | 1.684E+014  |        |                   |
|                    | Total      | 4.3E+015       | 13 |             |        |                   |

### Objective 1: Evaluate the Impact of Bank Credit on Economic Growth in Nigeria

According to the study's first objective, which is to assess how bank credit affects Nigeria's economic growth, this goal was achieved, as seen by the regression results. Bank credit was substituted with private sector credit as a percentage of GDP. The coefficient is noteworthy and positive. The conclusion is that Nigeria's economic growth is positively impacted by banking sector credit advancement, as measured by private sector credit/GDP. This implies that the goal of private sector credit, which was anticipated to have a favorable effect on economic growth after several banking reforms, has been accomplished. However, given the recently revised GDP, there are concerns that these encouraging numbers will be maintained. This result contrasts with <sup>29 30</sup> research.

### Objective 2: Evaluate the Impact of Growth in Liquid Liabilities (M2) of banks on Economic growth in Nigeria

The study's second goal is to examine the effects of growth in Nigerian banks' liquid liabilities (M2). One broad indicator of the banking industry's deepening is the growth in liquid liabilities. These financial deepening metrics can be used to assess bank performance. The various metrics of financial deepening, such as liquid liabilities (M2), financial savings, credit to the private sector, credit to the public sector, etc., showed an increasing pattern in absolute terms during the study period, according to empirical results. Several depth metrics indicate that the Nigerian economy has deepened significantly. While the ratio of deposit liabilities to GDP climbed from 6.33% to 36.74%

<sup>29</sup> Nwankwo, O. (2013) Implications of fraud on commercial Banks' performance in Nigeria. *International Journal of Business and Management*. Vol. 8 (15).

<sup>30</sup> Nwaze, C. (2008). "Quality and Internal Control Challenges in Contemporary Nigerian Banking" *Zenith Economic Quarterly*, 3 (2), 21 – 32

during the same period, the ratio of financial assets to GDP increased from 33.5% in 2011 to 63.26% in 2022.

Additionally, except for the slow period from 2015 to 2018, the percentage of deposits in assets grew over time, suggesting a greater mobilization of savings in the economy. Furthermore, the economy's credit intermediation did not increase in proportion to the expansion in liquid liabilities. However, the study found that an increase in the banking sector's liquid liabilities has a favorable and substantial effect on economic growth. The second goal is achieved after these observations and explanations. This empirical result supports the opinions.<sup>31</sup>

### **Objective Three: Evaluate the Impact of Net Interest Margin in Banks on Economic Growth in Nigeria**

Lastly, this study's final goal is to assess how net interest margin in banks affects Nigeria's economic growth. A stand-in for bank profitability and efficiency was the net interest margin. Metrics such as operating cost management, earnings optimization, the bank profitability index, total factor productivity of banks, financial deepening impact, and the operating efficiency index (defined as the ratio of operating expenses to operating income) have been used to assess banking sector efficiency. However, the study used the ratio of banks' input expenses to their operating margins to gauge banking efficiency. Bank deposit rates serve as a proxy for input costs, and the difference between the average lending rate and the deposit rate measures operating profit. According to the study, banks' net interest margins positively and significantly affect Nigeria's economic growth. Additionally, the study evaluated the effect of bank profitability on economic growth using three book metrics. These consist of return on equity, return on assets, and yield on earning assets. Yield on earning assets is the ratio of total interest margin to total bank earning asset value. Return on assets is the rate of return attributable to all assets used in banking operations, including both income-earning assets and fixed assets. In contrast, interest margin is the difference between total interest generated and interest paid on interest-earning assets. It is calculated as the ratio of total assets to earnings before taxes. Return on equity, which is calculated as the ratio of profit after taxes to total equity stake or total shareholders' funds, is the rate of return to equity shareholders. According to the study's findings, all three profitability ratios declined significantly over the study period.

Furthermore, in 2021 specifically, return on equity and return on assets were negative. Nonetheless, the analysis shows that bank profitability significantly and favorably influences economic growth. Considering these findings, the study's third goal was wisely achieved. This result is consistent with Aurangzeb's findings, which verified a favorable and noteworthy influence in Pakistan from 1981 to 2010.

### **Conclusion**

The summary shows that the banking industry plays a crucial role in the economy; therefore, its operations need to be continuously examined and analyzed. Key players' cooperation and dedication to the work's objectives may be responsible for the banking sector's moderate success. According to the report, the main goal of any government policy should be to reposition banks so they can

<sup>31</sup> Sanusi, L. S. (2020). The Nigerian banking industry: What went wrong and the way forward. Convocation Lecture, Bayero University, Kano; Ibrahim, A, et al. (2014): Managing Bank frauds and forgeries through effective control strategies. A case study of Central Bank of Nigeria. International Journal of Business and management inventions. Vol.3 (4).

perform better in their primary roles and positively affect the nation's economic growth. Therefore, over the study period of 2011 to 2024, banking operations in Nigeria had a beneficial effect on the nation's economic growth, as indicated by gross domestic product.

## Recommendations

Banks should lend more to priority sectors like manufacturing and agriculture, with government legislation encouraging private sector financing and a stable macroeconomic environment to attract investors. Deposit interest rates should be lowered, as high rates raise borrowing costs and fuel inflation; regulations restricting banks' investable cash should be relaxed, and banks should support developmental financing rather than profit alone. The government should also reduce banks' interest costs to ease borrowers' burdens. Since growth in banks' liquid liabilities positively and significantly affects Nigeria's economic growth, the government and banks must jointly ensure this growth is real, promote lending based on new capacities, and safeguard financial stability and depositors' funds through effective regulation.

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