

Banking Crisis in Nigeria: Causes, Consequences, Resolution Options and Preventive Measures

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Abstract

The period between 1929 and 1952 was regarded as the era of 'free banking' in Nigeria, Just as the banks were being established, they were falling like packs of cards. There were virtually no regulations guiding their operations as most of them had little or no capital base to cushion the effect of any shock that may have arisen in the ordinary course of their banking business. The emergence of the first Banking Ordinance of 1952 could not halt the spate of bank failures either. In 1959 the Central Bank of Nigeria commenced operation and it brought banking examination and supervision under its umbrella. In 1986, however, the Structural Adjustment Program (SAP) occasioned the liberalization of the financial sector and quite a number of banks sprang up between the period 1988-1990. The political instability of 1992/1993 threw the entire financial arena into a state of pandemonium as there were runs on the deposits of the banks and this consequently led to a protracted crisis in the sector. The consequences were quite grave as a number of the banks met their Waterloo between 1993- 2004. This made the CBN to introduce the consolidation policy into the sector to mitigate the effect of these crises. This paper has examined the causes and the consequences of banking crises in Nigeria. It has also come up with the various options necessary for their resolution. In the financial analysis, measures to prevent the continuous threat of these systemic crises to the sector are succinctly recommended.

Keywords: Banking Crisis, Central Bank, Financial Sector, Resolution, Ordinance, Deposits