International Journal of Advances in Engineering and Management (IJAEM)
Volume 8, Issue 01 Jan. 2026, pp: 63-65 www.ijaem.net ISSN: 2395-5252

The Effect of Banking Policy on the Performance of the Aviation Industry in Nigeria

Abubakar Sadiq Gabdo
The Federal Polytechnic Mubi

Date of Submission: 01-01-2026 Date of Acceptance: 08-01-2026

ABSTRACT
This paper investigates the impact of banking policies on the performance of Nigeria's aviation industry between 2015 and 2024. The aviation sector, which is central to trade, tourism, and national development, has experienced persistent financial instability, with several airlines folding up within a decade of operation. Using a mixed-method approach, the study analyzed secondary data from selected airlines, Central Bank of Nigeria (CBN) reports, and industry publications, alongside semi-structured interviews with financial managers. The findings reveal that restrictive credit policies, high interest rates, and foreign exchange allocation bottlenecks significantly undermine airline profitability, fleet expansion, and international competitiveness. While banking reforms strengthened the financial sector, they did not translate into affordable and accessible credit for the aviation industry. The study concludes that reforms in banking policies—particularly improved access to long-term credit and stable forex availability—are essential for sustainable growth in Nigeria's aviation sector.

Keywords: Banking policy, Aviation industry, Nigeria, Foreign exchange, Credit access, Interest rates.

I. INTRODUCTION

The aviation industry is one ofa critical component of Nigeria's economy, contributing to connectivity, investment flows, and global integration. According to the International Air Transport Association (IATA), Nigeria's aviation industry supports over 216,700 jobs and contributes more than $2.5 billion in 2023 to the national GDP. There are different ways of measuring air transport's impact on an economy. Two key indicators are the number of jobs and the contribution to gross domestic product (GDP) generated by the aviation sector, including airlines, airport operators and on-site businesses, air navigation service providers (ANSPs), and manufacturers ("direct" aviation players). In Nigeria, 39,500 people are directly employed in aviation, generating USD 702.0 million of economic output, equal to 0.2% of total GDP.

Additional benefits are generated by the wider supply chain, employee spending, and tourism activities contributing a total of USD 2.5 billion to GDP and 216,700 jobs.

Tourism supported by aviation contributes USD 454.1 million to the country's GDP and employs 66,600 people. International tourists to Nigeria are estimated to contribute USD 760.2 million annually to the economy through the purchase of goods and services from local businesses. Additional be Despite its strategic importance, the industry has been plagued by financial instability, evidenced by the collapse of several domestic airlines such as Air peace, Ibom Air, and most recently Arik Air's near-insolvency.

One of the major external determinants of the aviation sector's performance is banking policy. Banks provide the financial infrastructure for capital-intensive industries like aviation through credit facilities, foreign exchange (forex) support, and liquidity management. However, in Nigeria, banking policies have often been misaligned with the needs of the aviation industry. High lending rates—averaging between 18% and 25%—have constrained fleet modernization. Furthermore, restrictive forex allocation policies have made it difficult for airlines to access dollars for aircraft maintenance, spare parts, and lease payments, leading to flight disruptions and reduced competitiveness.

This paper investigates how banking policies influence the performance of Nigeria's aviation industry. Specifically, it addresses the following research questions:

International Journal of Advances in Engineering and Management (IJAEM)
Volume 8, Issue 01 Jan. 2026, pp: 63-65 www.ijaem.net ISSN: 2395-5252

1. How does credit accessibility affect the operational performance of Nigerian airlines?
2. What role do foreign exchange policies play in shaping aviation industry sustainability?
3. How do interest rate regimes influence airline profitability and expansion?

II. LITERATURE REVIEW

2.1 Banking Policy and Industrial Performance

Banking policies directly shape industrial outcomes by determining credit allocation, lending terms, and risk perception. Anyanwu (2020) argues that banking policy in Africa often prioritizes financial stability over sectoral growth, thereby limiting access to affordable credit.

2.2 Aviation Financing in Global Context

Globally, airlines rely heavily on long-term credit, lease agreements, and government-backed financing. Anderson (2019) found that in developed economies, banking systems and export credit agencies play a vital role in financing aircraft purchases. Conversely, in emerging markets, limited financing options constrain fleet modernization.

As of mid-2024, the aviation industry is experiencing a strong rebound, with global airline seat capacity nearing pre-pandemic levels, achieving 99% of 2019 levels by the end of 2023, according to recent data from IATA. This recovery has been largely supported by effective aviation financing structures that have allowed airlines to rebuild and expand their fleets and adapt to new market realities, such as Air France. (Centre for Aviation).

2.3 Nigerian Experience with Banking and Aviation

In Nigeria, banking reforms of the mid-2000s consolidated the sector, improving capital adequacy (Okeke, 2020). However, these reforms did not address the financing gap faced by high-risk industries like aviation. Eze (2022) reported that forex restrictions between 2016 and 2022 led to over $700 million of trapped funds belonging to international airlines in Nigeria, a situation that strained bilateral air service agreements.

According to Emperor Chris Baywood Ibe the President and Chief Executive, Tropical Arctic Logistics Limited, Nigerian banks see huge risks in aviation; the reason we did not approach any bank for money. Our investment in this airline is from proceeds from our other businesses.

He added that because there is poor corporate governance. it is difficult for banks to support the airlines with huge funds, noting that there is poor legal system and lack of integrity in the management of some of the airlines.He noted that the banks are yet to know how the industry works and until their personnel are trained to understand the aviation sector, banks may not be able to fund huge investments in the sector (C. Baywood, personal communication July 10, 2018).

2.4 Research Gap

While several studies (IMF, 2021; Mutua, 2021) have examined banking policies and credit allocation in developing economies, few have directly analyzed the impact of banking policies on the aviation industry in Nigeria. This paper bridges that gap.

III. METHODOLOGY

3.1 Research Design

The study employed a mixed-method design combining secondary financial data with qualitative interviews to ensure both depth and breadth of analysis.

3.2 Population and Sample

The population includes Nigerian airlines and commercial banks active in aviation financing. A purposive sample was drawn from four leading airlines—Air Peace, Arik Air, Ibom Air, and Max Air—and three commercial banks involved in aviation lending.

3.3 Data Sources

Secondary Data: Annual financial statements of selected airlines (2015–2024), CBN monetary policy circulars, and IATA reports.

Primary Data: Semi-structured interviews with finance managers of airlines and credit officers in commercial banks.

3.4 Data Analysis

Quantitative: Descriptive statistics on profitability ratios, debt-equity ratios, and fleet expansion trends.
Qualitative: Thematic analysis of interview transcripts focusing on banking policy impacts.

IV. RESULTS AND FINDINGS

4.1 Credit Accessibility

The study found that airlines faced limited access to long-term financing. Loans offered by Nigerian banks were predominantly short-term (2–5 years) with interest rates averaging 20%. This was inadequate for capital-intensive investments like aircraft acquisition, which typically require financing tenures of 10–15 years.

4.2 Foreign Exchange Allocation

Forex restrictions were a major constraint. Airlines reported delays in accessing dollars for critical expenses, including aircraft lease payments and spare parts procurement. As of 2023, foreign airlines had $812 million in trapped funds in Nigeria due to forex allocation bottlenecks.

4.3 Interest Rate Regimes

High interest rates significantly eroded airline profitability. Air Peace official highlighted that Nigerian airlines face significantly higher borrowing costs, with interest rates around 30% compared to the 3% paid by foreign airlines. servicing. In contrast, Ibom Air, supported by government subsidies, was able to expand its fleet and improve on-time performance.

4.4 Performance Impact

The combined effect of restrictive banking policies was poor industry sustainability. Airlines with better access to forex and government-backed financing performed relatively better, while privately financed airlines struggled with operational inefficiencies.

V. DISCUSSION

The findings confirm that banking policies in Nigeria have both direct and indirect effects on the aviation sector. Restrictive lending practices reflect banks' perception of aviation as a high-risk industry (Okeke, 2020). However, this approach undermines fleet modernization and competitiveness.

Forex restrictions, intended to stabilize the naira, had unintended negative consequences for aviation, leading to trapped funds and strained international relations (Eze, 2022). The results align with Anderson (2019), who emphasized that sustainable aviation growth requires reliable access to foreign exchange and long-term financing.

The high interest rate regime in Nigeria highlights the policy-industry mismatch: while banks prioritize profitability and risk minimization, aviation requires long-term affordable credit to thrive. This tension exemplifies the efficiency-equity trade-off in policy design (IMF, 2021).

VI. CONCLUSION AND RECOMMENDATIONS

Conclusion

This study concludes that banking policies in Nigeria significantly constrain the performance of the aviation industry. Limited credit access, high interest rates, and forex restrictions have collectively undermined profitability, fleet expansion, and sustainability. Unless banking policies are recalibrated to align with the needs of strategic industries like aviation, the sector will continue to underperform despite its economic potential.

Recommendations

1. CBN-backed Aviation Finance Facility: Create a special credit facility offering single-digit interest loans with tenures of 10years for aircraft acquisition.
2. Forex Prioritization: Aviation should be classified as a priority sector for forex allocation to ensure timely settlement of international obligations.
3. Risk-Sharing Mechanisms: Establish government-backed loan guarantees to reduce banks' risk exposure to aviation.
4. Policy Alignment: CBN should periodically review banking policies to align them with the strategic objectives of the aviation sector.
5. Public-Private Partnerships (PPP): Encourage joint financing of infrastructure, such as maintenance hangars, to reduce reliance on foreign service providers.
6. Special Bank: An Aviation Development Bank should be established to provide structured financing and attract investment for the growth and infrastructure development of the aviation sector.

REFERENCES

[1]. Anderson, P. (2019). Financing airlines in developing economies. Journal of Transport Economics, 55(2), 77–93.
[2]. Anyanwu, J. (2020). The role of banking policy in industrial performance in Africa. African Development Review, 32(3), 250–265.
[3]. Eze, C. (2022). Foreign exchange policies and the Nigerian aviation industry. Nigerian Journal of Business and Policy Studies, 18(1), 101–120.
[4]. International Air Transport Association (IATA). (2023). Economic impact of aviation in Nigeria. Montreal: IATA Publications.
[5]. International Monetary Fund (IMF). (2021). Financial sector reforms and access to credit in developing economies. Washington, D.C.: IMF Policy Paper.
[6]. Okeke, I. (2020). Banking reforms and credit allocation in Nigeria. Journal of African Financial Studies, 12(4), 88–105.
[7]. Mutua, S. (2021). Tax exemptions and fiscal stability in Sub-Saharan Africa: Evidence from Kenya and South Africa. African Journal of Public Administration, 15(2), 112–130.