

**CENTRE FOR THE PROMOTION OF PRIVATE ENTERPRISE (CPPE)  
POLICY BRIEF**

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**BANK RECAPITALISATION: STRONG PROGRESS, BUT URGENT NEED  
TO RECONNECT BANKS TO THE REAL ECONOMY**

The Centre for the Promotion of Private Enterprise (CPPE) commends the Central Bank of Nigeria (CBN) for the successful implementation of the bank recapitalisation programme as the exercise draws to a close. This marks a significant milestone in the ongoing effort to strengthen the resilience, stability and capacity of the Nigerian banking system.

The exercise has been notably orderly, non-disruptive and confidence-enhancing. Evidence indicates that 32 banks have already met the new minimum capital requirements as at Friday 27<sup>th</sup> March 2026, with no reports of depositor losses, forced mergers, job losses or erosion of shareholder value. This marks a significant improvement over past consolidation episodes and reflects stronger regulatory capacity, improved market discipline and greater resilience within the banking system.

This outcome is commendable and represents a major milestone in Nigeria's financial sector reform journey.

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**Capital Strength Achieved—But Real Sector Linkages Remain Weak**

However, while recapitalisation has significantly strengthened the capacity of banks to absorb shocks, support large-ticket transactions and enhance financial system stability, the critical question now is whether this stronger banking system will sufficiently support the real economy. The evidence suggests that this linkage remains weak.

Private sector credit as a percentage of GDP in Nigeria is still only about **17% as of 2025**, compared to a sub-Saharan African average of about **25%** and approximately **34%** for lower-middle-income countries. Peer economies such as South Africa (57.5%), Mauritius (69.8%) and Cape Verde (66.3%) demonstrate significantly stronger financial intermediation.

This gap underscores a persistent structural disconnect between the financial system and productive sectors of the economy.

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### **Severe Credit Constraints in the Real Economy**

The situation is even more concerning when disaggregated across key segments of the economy.

Consumer credit in Nigeria remains extremely low at about **7% of total credit**, compared to a sub-Saharan African average of **15-25%**. This weak consumer credit environment constrains domestic demand and limits growth prospects across multiple sectors.

More critically, credit to small and medium enterprises (SMEs) is alarmingly low. SME credit accounts for only about **1% of total credit**, compared to an average of about **5%** in sub-Saharan Africa. This is particularly troubling given that SMEs contribute approximately **50% of GDP and over 80% of employment**, with an estimated financing gap of about **₦48 trillion [according to PWC]**.

This represents one of the most significant weaknesses in Nigeria's financial architecture.

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### **Structural Weaknesses in Credit Allocation**

There are also important structural concerns regarding the nature and distribution of credit in the economy.

A large proportion of bank lending remains short-term in nature. Credit with maturity of less than one year accounts for about **55% of total credit**, while long-term credit (above three years) accounts for only about **25%**. This structure is not aligned with the financing needs of critical sectors such as manufacturing, agriculture, infrastructure and real estate.

In addition, the sectoral allocation of credit remains skewed. The services sector accounts for about **55% of total credit**, while manufacturing receives about **14%** and agriculture just **5%**. This pattern is inconsistent with Nigeria’s aspirations for economic diversification, industrialisation and job creation.

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### **Drivers of the Disconnect**

Several factors continue to constrain the effective transmission of financial sector strength to the real economy:

- The crowding-out effect of high government borrowing
  - A tight monetary policy environment and elevated interest rates
  - High risk perception and stringent collateral requirements for SMEs
  - Incentive structures that favour short-term, low-risk financial investments over real sector lending
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### **The Next Phase of Reform: Deepening Financial Intermediation**

With recapitalisation largely achieved, the CPPE urges the Central Bank of Nigeria and the fiscal authorities to prioritise the next critical phase of reform—**reconnecting the banking system to the real economy**.

This should include deliberate policy measures to:

- Increase private sector credit as a percentage of GDP to at least **30% in the medium term**
- De-risk lending to SMEs through credit guarantees and improved credit infrastructure
- Strengthen monetary policy transmission to ensure lower policy rates translate to real sector lending
- Incentivise long-term financing for productive sectors
- Promote a more balanced sectoral allocation of credit

- Expand access to consumer credit to stimulate aggregate demand
  - Address the crowding-out effects of public sector borrowing
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## Conclusion

The recapitalisation programme has successfully strengthened the resilience and stability of Nigeria's banking system. The Central Bank of Nigeria deserves commendation for delivering a reform process that has been both effective and non-disruptive.

However, the ultimate success of this reform will be determined not just by stronger balance sheets, but by the extent to which the banking system supports investment, enterprise, job creation and economic transformation.

At this critical juncture, the priority must shift from **capital adequacy to economic impact**.

**Nigeria needs not just stronger banks, but banks that work for the economy.**

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