INFORMATION BRIEF

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Banking Sector Recapitalisation: Legislative Imperatives for Economic Impact and Financial Stability in Nigeria

Authors:
Dr. Ganiyu Ejalonibu Dr. Nsisong Boniface Udoakang & Dr. Etimbuk Obot
Institute for Legislative and Democratic Studies (NILDS)

Executive Summary

Nigeria's banking sector has recently concluded a major recapitalisation exercise led by the Central Bank of Nigeria (CBN), with 33 banks collectively raising approximately ₦4.6 trillion to meet higher minimum capital thresholds. This marks one of the most significant capital injections into the financial system in recent history, aimed at strengthening bank resilience, enhancing shock absorption capacity, and positioning Nigerian banks for greater global competitiveness. However, past banking reforms in Nigeria have shown that stronger capital bases do not automatically translate into increased lending to the real sector, as credit has often remained concentrated in low-risk and government-linked instruments rather than productive economic activities.

While the recapitalisation strengthens financial system stability, several policy concerns arise. There remains a weak linkage between banking sector growth and real sector development, with limited access to credit for small and medium enterprises (SMEs), agriculture, and manufacturing. High interest rates, stringent collateral requirements, and structural inefficiencies continue to constrain borrowing by productive sectors. There is also a risk that newly raised capital may be misallocated to non-productive or short-term investments, limiting its developmental impact. In addition, the crowding-out effect of government borrowing continues to restrict private sector access to finance, raising concerns about whether the benefits of recapitalisation will translate into inclusive economic growth.

These challenges underscore the need for deliberate policy direction to ensure that financial sector strengthening aligns with national development priorities. Without clear accountability mechanisms, the recapitalisation exercise risks remaining a balance sheet expansion with limited impact on employment generation, industrialisation, and economic diversification.

Given its constitutional oversight responsibilities, the National Assembly has a critical role in ensuring that the recapitalisation translates into measurable economic outcomes. Legislative engagement is necessary to strengthen oversight of credit allocation, address systemic barriers to financing, promote financial inclusion, and ensure that banking sector reforms support inclusive growth and long-term development.

Accordingly, the National Assembly, through its Committees on Banking and National Planning, may consider the following actions:

1. Invite the Central Bank of Nigeria (CBN) and commercial banks to present detailed sectoral lending frameworks, with a view to tracking how recapitalised funds are allocated across priority sectors of the economy.

2. Enact legislative and policy measures that incentivise increased lending to critical sectors such as SMEs, agriculture, manufacturing, and infrastructure. This may include

supporting the development of credit guarantee schemes and risk-sharing mechanisms to de-risk lending.

3. Encourage the CBN to implement policies that facilitate access to long-tenor financing, particularly for industrial and infrastructure projects that require patient capital.
4. Engage the CBN and financial institutions to assess existing legal and institutional frameworks governing collateral, credit reporting, and lending practices, with the aim of improving access to finance, promoting financial inclusion, and enabling alternative financing channels.
5. Strengthen oversight of loan quality and sectoral exposure, while advocating for the consistent enforcement of sanctions against chronic loan defaulters to maintain credit discipline within the system.
6. Urge the CBN to deepen coordination between monetary and fiscal authorities to reduce crowding-out effects and ensure that government borrowing does not undermine private sector access to credit, while promoting synergy in financing national development priorities.

The ₦4.6 trillion recapitalisation of Nigeria's banking sector represents a landmark opportunity to drive economic transformation. However, its success will depend on the effective deployment of these resources toward productive sectors that support job creation and inclusive growth. Sustained legislative oversight will be essential to ensure that this financial strengthening delivers tangible benefits to the Nigerian economy and does not remain merely a financial sector milestone.

Background:

Nigeria's banking sector has recently concluded a major recapitalisation exercise driven by the Central Bank of Nigeria, with 33 banks collectively raising about ₦4.6 trillion to meet significantly higher minimum capital thresholds[1]. This marks one of the most substantial capital injections into the financial system in recent history, aimed at strengthening bank resilience, improving shock absorption capacity, and positioning Nigerian banks to compete globally.

Historically, banking sector reforms in Nigeria, including past recapitalisation exercises, have focused primarily on stability and solvency, often with less emphasis on ensuring that increased capital translates into broad-based economic development[2]. Evidence has shown that despite stronger balance sheets, the transmission of bank credit to the real sector, particularly SMEs,

[1] Komolafe, B. & Egwuatu, P. (2026, March 30). Deadline Tomorrow: N4.6trn banks' recapitalisation sparks sectoral battle for funds. Vanguard. https://www.vanguardngr.com/2026/03/deadline-tomorrow-n4-6trn-banks-recapitalisation-sparks-sectoral-battle-for-funds/

[2] Iwedi, M., Okey-Nwala, P. O., & Wachukwu, I. P. (2024). CBN recapitalization policy and banking system soundness in Nigeria. *International Journal of Management Innovation Systems, 9*(1), 1–12. https://doi.org/10.5296/ijmis.v9i1.22338

agriculture, and manufacturing, has remained weak, with lending often concentrated in low-risk, short-term, or government-linked instruments[34].

The current recapitalisation therefore presents both an opportunity and a risk. While it enhances financial system stability, there is no automatic guarantee that these funds will be channelled toward productive sectors that drive employment, industrialisation, and inclusive growth. Analysts have already raised concerns about potential misallocation of capital, slow return on equity, and the persistence of structural barriers such as high interest rates, stringent collateral requirements, and crowding-out by government borrowing.

In this light, proactive legislative oversight becomes critical. Without clear policy direction and accountability mechanisms, the recapitalisation could remain largely a balance sheet expansion exercise with limited real economic impact. The National Assembly has a strategic role to ensure that this significant financial mobilisation aligns with Nigeria's development priorities and delivers measurable benefits to citizens.

Issue:

Despite the significant improvement in bank capitalisation, critical structural challenges persist within Nigeria's financial system. There remains a weak linkage between the strengthened banking sector and real sector growth, with limited flow of credit to key productive areas such as SMEs, agriculture, and manufacturing. Lending practices continue to be dominated by short-term, low-risk instruments, while high interest rates and stringent collateral requirements further constrain access to finance for many businesses.

Additionally, there is a growing risk that the newly raised capital may be misallocated or concentrated in non-productive sectors, thereby limiting its developmental impact. This is compounded by the crowding-out effect of government borrowing, which continues to restrict the availability of credit to the private sector. Collectively, these challenges raise concerns about whether the benefits of recapitalisation will translate into inclusive economic growth.

Rationale for Legislative Actions:

The recapitalisation exercise presents a unique policy window for aligning financial sector growth with national development objectives. Legislative action is necessary to:

- Ensure that increased bank capital translates into inclusive economic growth and job creation
- Strengthen oversight of the Central Bank of Nigeria in guiding credit allocation
- Address systemic barriers limiting access to finance for critical sectors
- Promote financial stability while mitigating emerging risks
- Enhance transparency, accountability, and developmental impact of bank lending

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[3] Othihiwa, A. (2024, July). Nigeria's Banking Recapitalisation What Lies Ahead. KMPMG. https://kpmg.com/ng/en/home/insights/2024/07/nigeria-banking-recapitalization.html

[4] Adeoye, A. (2024, October 20). Nigerian banks race to raise capital after order to bolster balance sheets. Financial Times. https://www.ft.com/content/f0ab4983-f946-4245-8dc9-6b1bb755c0cb

Recommendations to the National Assembly:

The National Assembly, through its Committees on Banking and National Planning, may wish to consider the following actions:

1. Invite the Central Bank of Nigeria (CBN) and commercial banks to present detailed sectoral lending frameworks, with a view to tracking how recapitalised funds are allocated across priority sectors of the economy.

2. Enact legislative and policy measures that incentivise increased lending to critical sectors such as SMEs, agriculture, manufacturing, and infrastructure. This may include supporting the development of credit guarantee schemes and risk-sharing mechanisms to de-risk lending.

3. Encourage the CBN to implement policies that facilitate access to long-tenor financing, particularly for industrial and infrastructure projects that require patient capital.

4. Engage the CBN and financial institutions to assess existing legal and institutional frameworks governing collateral, credit reporting, and lending practices, with the aim of improving access to finance, promoting financial inclusion, and enabling alternative financing channels.

5. Strengthen oversight of loan quality and sectoral exposure, while advocating for the consistent enforcement of sanctions against chronic loan defaulters to maintain credit discipline within the system.

6. Urge the CBN to deepen coordination between monetary and fiscal authorities to reduce crowding-out effects and ensure that government borrowing does not undermine private sector access to credit, while promoting synergy in financing national development priorities.

Conclusion:

The ₦4.6 trillion recapitalisation of Nigeria's banking sector is a landmark achievement with the potential to transform the economy. However, its success will ultimately depend on whether these resources are effectively deployed to support productive activities and national development priorities.

Proactive and sustained legislative oversight by the National Assembly is essential to ensure that this financial strengthening translates into real economic value, job creation, and inclusive growth, rather than remaining a purely financial sector milestone.

Contact
National Institute for Legislative and Democratic Studies
National Assembly
Plot 307 Cadastral Zone
Umaru Musa Yar'adua Expressway, Airport Road
Abuja Nigeria
E-mail: info@nils.gov.ng
Website: http://nils.gov.ng

NILDS Liaison Office
Suite 214 Senate Wing
National Assembly Complex
Mobile: +234 806 694 5075