Macroeconomic Snapshot

Research & Insights | KPMG in Nigeria

Tuesday 5 December 2023

Crude Oil Price

$79.90 ↓ 3.27%

$82.6 Previous

FX Reserve

$32.97b ↓ 0.10%

$33.0b Previous

Market Capitalization

N39.08tr ↓ 0.23%

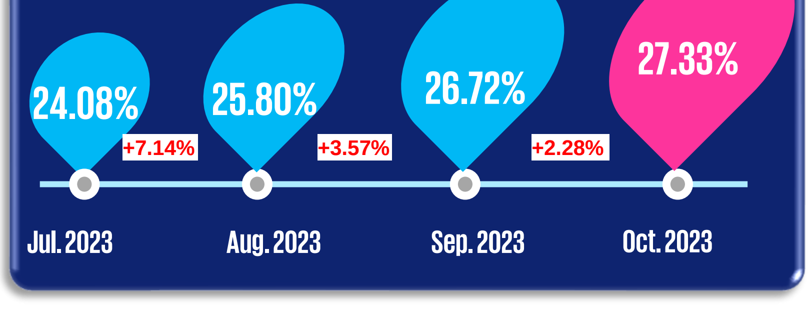
N39.17tr Previous

Debt Stock

N87.4tr

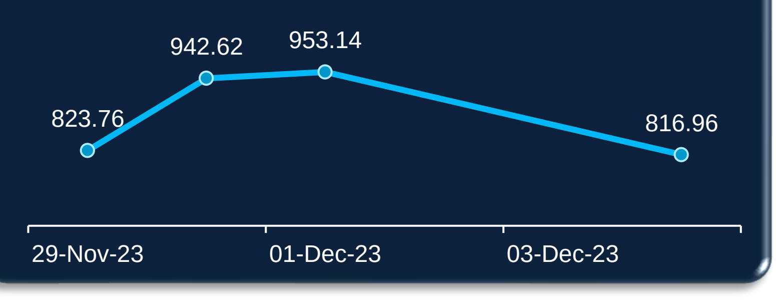
$113.4bn

Inflation Rate

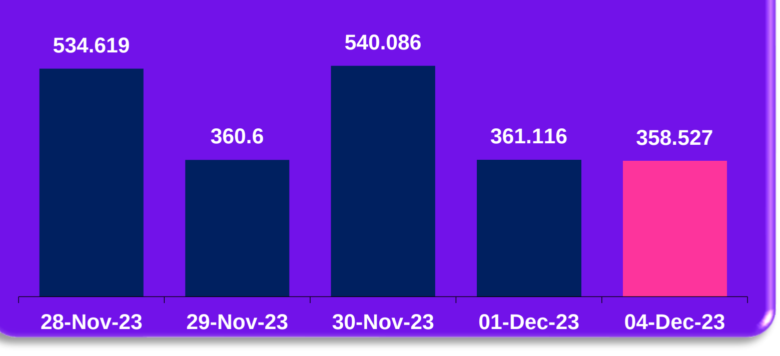


Exchange Rate Movement (CBN)

₦816.96:$1



NSE Volume Traded (millions NGN)



KPMG Analysis: CBN's Proposed Recapitalisation of Nigerian Banks

This week, we highlight the proposed recapitalisation of Nigerian Deposit Money Banks recently announced by the Governor of the CBN, Yemi Cardoso. The pronouncement, according to the governor, comes against the backdrop of the policy drive of the Federal Government to grow Nigeria's Gross Domestic Product (GDP) to an ambitious $1 trillion by 2030, which the CBN argues that the current capital base of Nigerian banks cannot sustainably support.

Due to the pivotal credit-mobilization role played by banks and the need for sufficient capital to meet the growing needs of the financial system, we view the proposed recapitalisation with optimism and anticipate that the policy, if well implemented, will enhance the ability of Nigerian banks to stimulate investments and consumer spending by channeling more credit to businesses and individuals, thereby supporting the growth agenda of the government.

Furthermore, in addition to boosting public confidence in the financial system, the proposed recapitalisation is also expected to promote greater financial stability by raising the capital adequacy ratio of banks, making them better positioned to cope with financial stress that may arise from economic downturns or non-performing loans and reducing the risks of insolvency. Adequate capitalisation acts as a buffer, providing banks with the necessary resilience to navigate through inflationary periods, maintain liquidity, and contribute to the stability of the financial system.

Also, well-capitalised banks are better positioned to assess borrowers' creditworthiness, adjust interest rates, and manage loan portfolios effectively, thus safeguarding the financial system and supporting credit growth in a high inflation environment and may provide a stable and secure environment for investors, which is essential for attracting the necessary capital to support Nigeria's goal of becoming a $1 trillion economy.

However, we note that the proposed recapitalisation could be thwarted by issues such as the source of its financing. Recapitalisations based on CBN bailouts are known to carry the potential to incentivize risk-taking behaviour by banks. The removal of the Standing Deposit Facility (SDF) limit may however minimise this incentive since banks can simply place added resources at the CBN rather than take risks in the uncertain macroeconomic environment.

Accordingly, we recommend that the apex bank should complement its proposed bank recapitalisation policy with stronger controls targeted at minimising unnecessary risk-taking, improving operational effectiveness, promoting transparency and accountability to safeguard the interests of stakeholders, and boosting market confidence to maintain a robust and stable banking system. These enablers are necessary to ensure that Nigerian banks successfully play a central role as conduits for delivering accelerated economic growth as envisioned by the CBN to propel Nigeria towards its ambitious economic goals.

Sources: CBN, NGX, NBS, DMO & KPMG Research

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