



# Nigerian Banking Outlook 2024:

Banks Stand Firm Amid Macroeconomic Pressures

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**S&P Global**  
Ratings

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Jan. 18, 2024

*This report does not constitute a rating action*

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# Key Takeaways

- Despite persistent macroeconomic pressures, including a weakening Nigerian naira, S&P Global Ratings thinks that the Nigerian banking sector's positive net open position and strong earnings will mitigate the negative impact of currency movements on banks' capital adequacy ratios. However, we do not exclude the possibility of individual small banks breaching their minimum regulatory requirements.
- Foreign-currency shortages will persist, considering the widening gap between the official and parallel rates and weak supply fundamentals. In December 2023, the naira traded at approximately NGN900/\$1 in the official market and above NGN1100/\$1 in the unofficial market.
- Pressure on asset quality will persist amid high inflation and interest rates. We estimate that the credit loss ratio will be high, at about 3.5% for 2023, but will moderate to about 2.0% in 2024. Because of the naira depreciation, gross loans will be inflated, which will result in the nonperforming loan (NPL) ratio remaining below the 5.0% regulatory limit.
- We estimate that foreign currency-denominated loans will average 55% of system loans in 2023, up from about 30% prior to June 2023.
- We anticipate that the banking sector's external asset position will stabilize at about 3% of systemwide domestic loans through 2025. The financial sector is vulnerable to investor sentiment as U.S. dollar scarcity persists and the country remains on the Financial Action Task Force's (FATF's) grey list.

# Key Risks For Nigerian Banks In 2024



## Global liquidity

- The Nigerian banking sector has a net external asset position. However, some banks will need to refinance their external debt in a context of higher interest rates and investor risk-off sentiment.
- Negative real interest rates, U.S. dollar shortages, and a backlog of foreign-currency transactions are keeping investors away, while the equity market prepares for banks' right issuances and public offerings.
- Nigeria remains on the global anti-money laundering and terrorist financing watchdog's grey list. A prolonged stay on the FATF's list could further increase financing costs.



## Weaker asset quality

- Credit cycles are intrinsically linked to the oil and gas sector and foreign-currency risk.
- Higher interest rates and inflation will likely affect small businesses and households, weighing on asset quality indicators in 2024.
- We expect impairment charges to rise to about 3.5% in 2023 and to moderate in 2024 to about 2.0%. This reflects currency movements and tight macroeconomic conditions, with negative implications for capitalization.
- Positive trading gains from the naira depreciation led banks to strengthen their coverage ratios and shore up capitalization, which would otherwise be affected by inflated risk-weighted assets.



## Policy choices

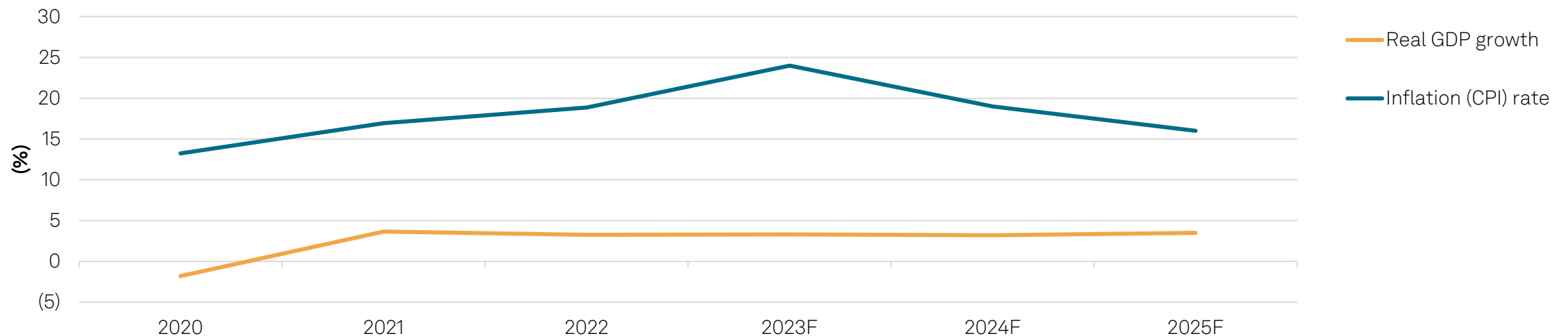
- The Central Bank of Nigeria's (CBN's) monetary policy (MP) stance will remain tight in 2024 because of high inflation and pressure on the naira. This will constrain credit demand but support net interest margins. Inflation will remain high in 2024 after rising to 28.9% in December 2023.
- Banks' holdings of government securities stood at about 10% of total assets in 2023. Banks have the capacity to absorb additional government debt thanks to their liquid balance sheets.
- Operationalization of the CBN's MP is ineffective, stemming from the inadequate nature of the CBN's framework and tools to tackle excess liquidity in the system.



# Lingering High Inflation Exacerbates Macroeconomic Instability

- Inflation has risen in Nigeria to nearly 30% in December 2023 and will remain elevated in 2024. The removal of oil subsidies and the liberalization of the exchange rate have exacerbated inflationary pressures. The CBN last hiked rates to 18.75%, as the inflation outlook remained well outside its 6.0%-9.0% range.
- We forecast that the Nigerian economy will grow by a moderate 3.3% in 2023, largely driven by the non-oil sectors. GDP will average annual growth of 3.5% over 2024-2026, while GDP per capita growth will remain low at about 1.4%.
- We expect oil production to remain below the 1.74 million barrels per day OPEC quota in 2024, affecting export receipts and international reserves. Fiscal constraints and inflationary pressure--largely stemming from high food prices and imported inflation--will weigh on consumption and investment growth.

## High inflation and low growth underscore economic instability

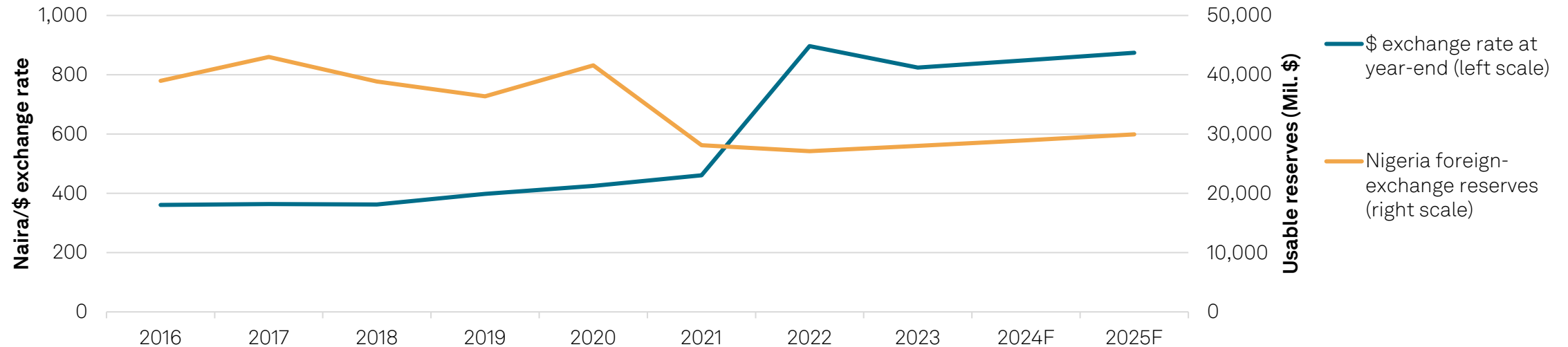


F--Forecast. CPI--Consumer price index. Source: S&P Global Ratings.

# The Exchange Rate Will Depreciate Further Amid Broadly Flat FX Reserves

- Higher import costs, arrears of FX transactions, and lower FX receipts stemming from oil exports will constrain growth in FX reserves. We forecast usable FX reserves of \$28 billion in 2024. The CBN has made efforts to clear approximately \$2 billion out of a \$7 billion backlog of FX transactions, while Saudi Arabia has pledged FX support.
- We expect the current account to record a small surplus averaging below 1% through 2025 as the import bill increases faster than oil exports due to high prices.
- While the naira trades closer to a managed float rather than being a fully free-floating currency, the exchange rate is now significantly more in line with market demand and weak supply fundamentals. The exchange rate fell below NGN1,200/\$1 in December 2023, recovering to about NGN850/\$1 thereafter.

## The naira will continue to depreciate because of structural supply constraints



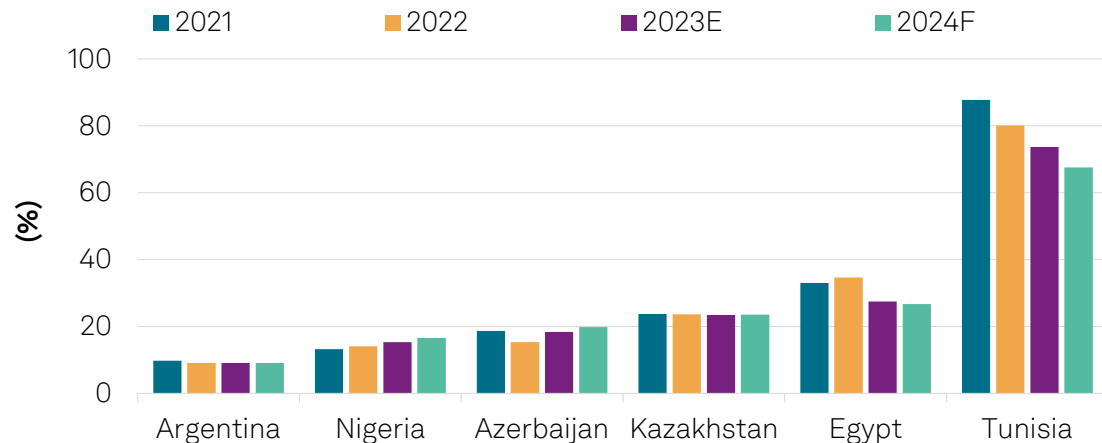
F--Forecast. Source: S&P Global Ratings.

# Credit Leverage Will Remain Low Despite Double-Digit Credit Growth

- Headline credit expansion will reflect the currency depreciation in 2023. We forecast that loan growth will average nearly 14% in 2024-2025. Increased refinery capacity will support lending to the oil and gas sector.
- Household and corporate leverage metrics are among the lowest in Nigeria's peer group. Banks essentially serve large and established corporations, while lending to small and midsize enterprises remains marginal in banks' loan portfolios.
- Low wealth levels per capita and a large informal economy contribute to low financial intermediation.

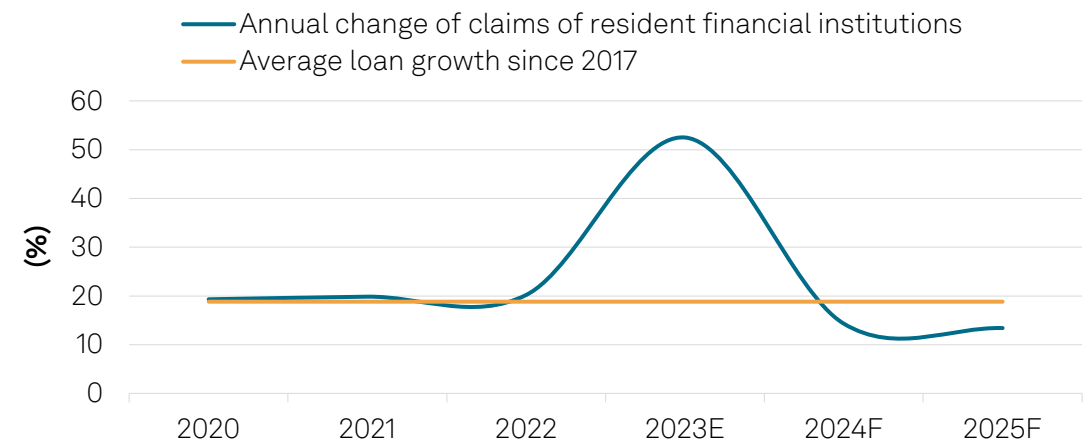
## Credit intermediation is among the lowest in the peer group

Claims of resident depository institutions in the resident nongovernment sector as a % of GDP



E--Estimate. F--Forecast. Source: S&P Global Ratings.

## Loan growth will normalize well above the headline GDP growth rate

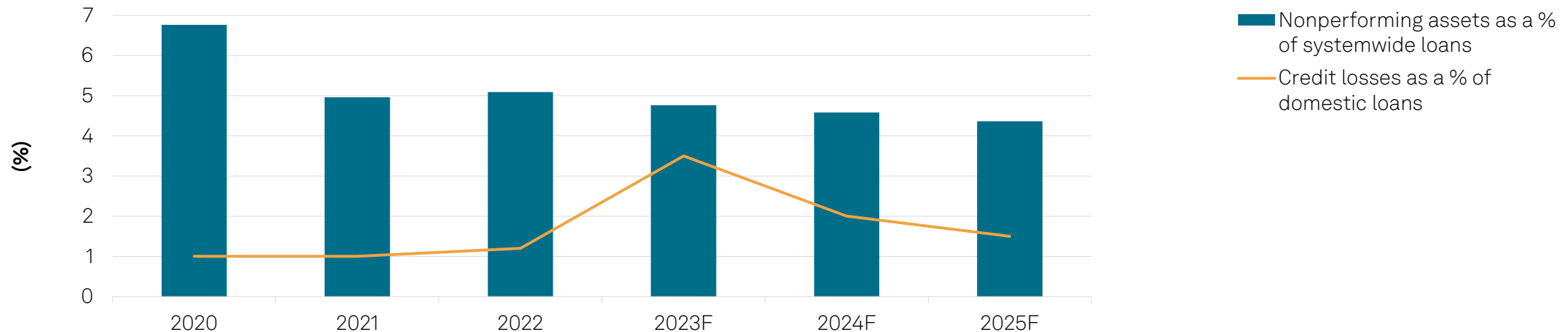


F--Forecast. Source: S&P Global Ratings.

# Currency Depreciation And Inflation Will Put Pressure On Asset Quality

- We expect credit losses for the sector to rise sharply to 3.5% in 2023, reflecting the currency depreciation, high interest rates, and inflation, while the sector's NPL ratio will moderate in 2023 and hover below the 5.0% regulatory limit because of the currency effect on gross loans.
- Credit cycles are inherently correlated to oil prices and currency depreciation. Further rate hikes are possible due to the gap between inflation and the CBN's benchmark rate. This will put pressure on borrowers as banks pass the full rate increase on to them.
- Credit risks also stem from energy transition risks, because loans to the hydrocarbon sector still represent a sizable share of the banking sector's loans, at about 30% of total loans. The banking system's dollarization will increase following the naira depreciation in June 2023. We estimate that FX loans will reach 55% of total loans.

## Credit losses will reach a cyclical high in 2023



F--Forecast. Source: S&P Global Ratings.

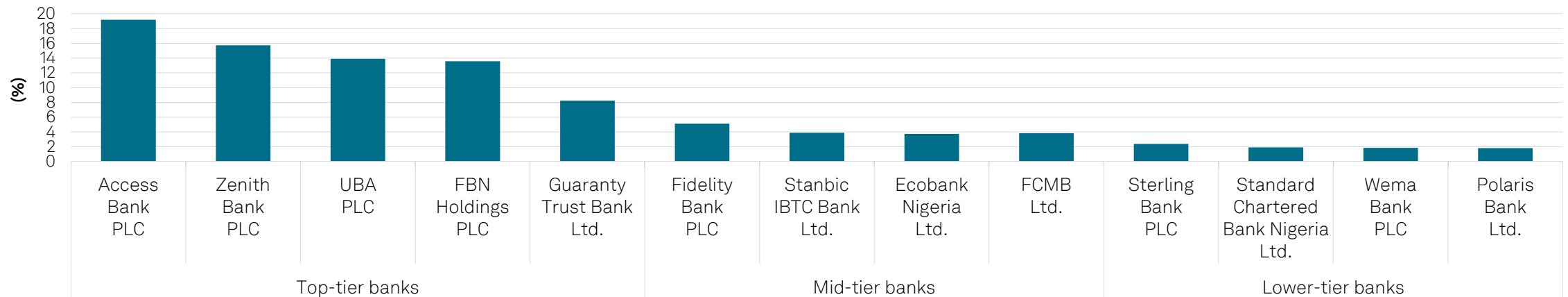


# Competitive Dynamics Reflect Some Degree Of Concentration

- Top-tier banks account for about 70% of the system's assets, which underpins its stability. The sector has shown a high degree of resilience and profitability. We expect it to maintain an adequate risk-adjusted return of 20% in 2024 following an exceptional return on equity of 30% in 2023, supported by unrealized gains stemming from banks' positive net open position.
- Banks' business models are technology-led as they built digital channels to deepen their reach and financial inclusion. Nigerian customers are highly responsive to and early adopters of new technology. The adoption of digital channels supports banks' efficiency, noninterest revenues, and service delivery.
- A challenging operating environment and infrastructure gaps tend to exacerbate banks' operating costs in Nigeria. The Asset Management Corporation of Nigeria (AMCON) levy accounts for about 20% of banks' operating costs. The CBN created AMCON in 2010 for a period of 10 years to clean up asset quality in the banking system, but it will remain in place for a longer period.

## Competitive dynamics are stable

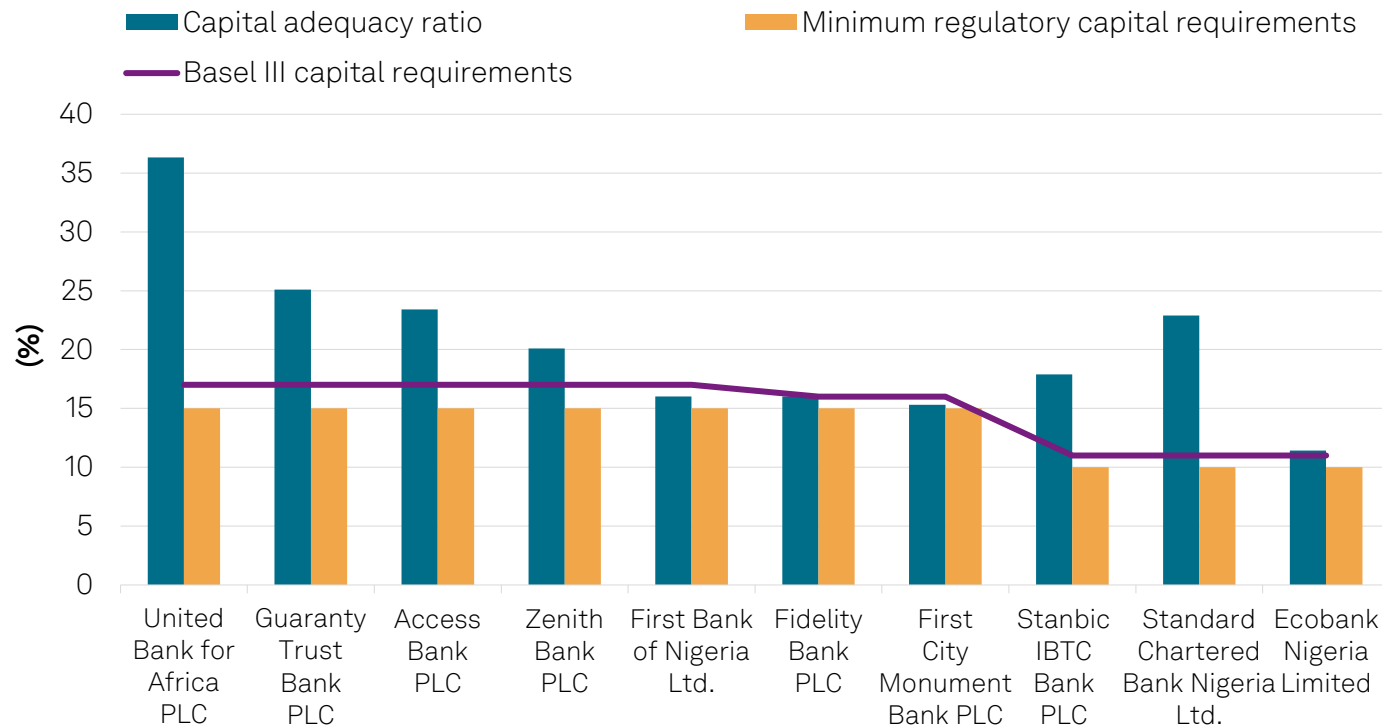
Individual bank assets as a percentage of bank system assets



Source: S&P Global Ratings.

# Nigerian Banks' Capital Requirements Will Change

Regulatory capital buffers have improved for most top-tier banks following the naira depreciation



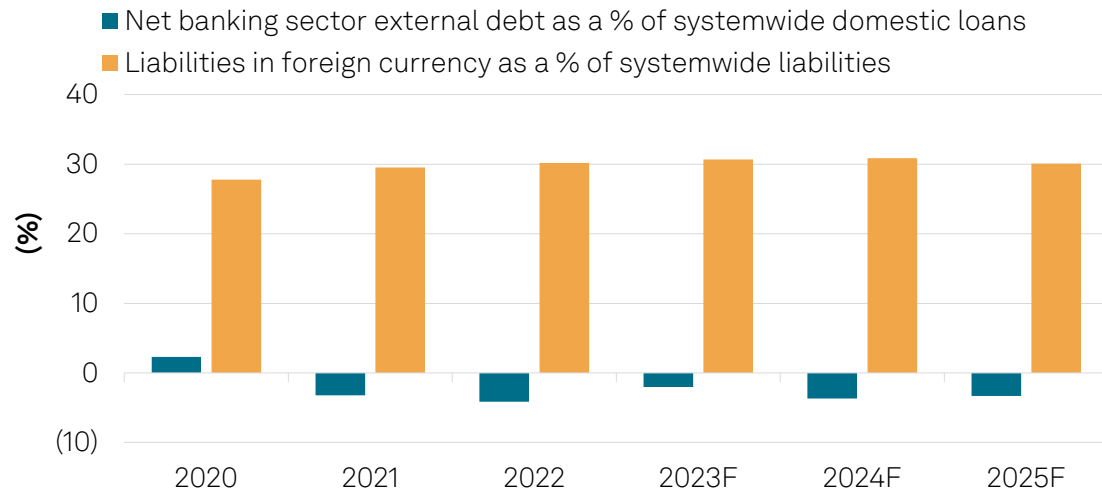
CAR--Capital adequacy ratio. Source: Banks' financial statements, Sept. 30, 2023. United Bank for Africa PLC: June 30, 2023; Standard Chartered Bank Nigeria Ltd: Dec. 31, 2022. Requirements are national minimum. Basel III capital requirements exclude countercyclical buffers.

- The currency depreciation will result in higher risk-weighted assets, leading to a breach of the single obligor limit for some banks and reducing their capital adequacy ratios.
- Trading gains stemming from banks' long U.S. dollar position will support earnings and capitalization as the CBN has restricted dividend distributions. Banks have instead increased their NPL coverage levels to protect capital from further asset quality pressure.
- Naira depreciation has led to a strengthening of capitalization for most top-tier banks. Capital buffers averaged 9% for top-tier banks, compared with about 6.8% prior to the devaluation.
- We think that banks' regulatory capitalization is less at risk today than in 2016, but we do not exclude pressure on individual banks' capitalization in the case of a prolonged weakening of the naira.
- The CBN's new governor signaled an increase in banks' capital and capitalization. It is unclear whether the Basel III capital buffers, tested in 2021, will be implemented in 2024, but banks have been issuing additional tier 1 bonds and are looking for right issuances in 2024 on the back of more favorable market valuations.

# External Refinancing Risks Are Manageable

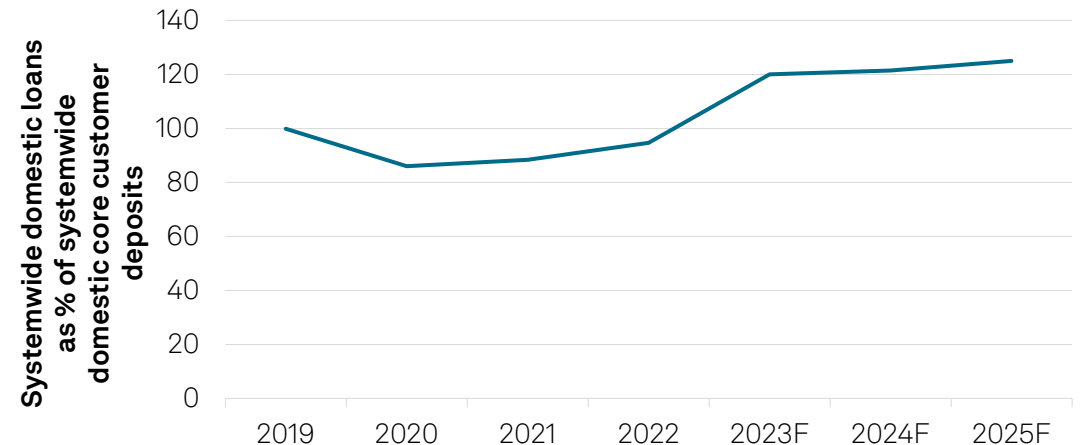
- Taking advantage of their subsidiaries in the U.K. and the U.S., Nigerian banks increased their foreign assets by 25% in 2022. We expect external liabilities to double, while external assets will grow by nearly 10% in 2023. We anticipate that the banking sector's external asset position will stabilize at about 3% of systemwide domestic loans through 2025. The financial sector is vulnerable to investor sentiment as U.S. dollar scarcity persists and the country remains on the FATF's grey list.
- Nigerian banks' funding profile largely comprises customer deposits, which grew by 20% in 2022, broadly in line with loans. Our loan-to-deposit ratio assumes that only half of private-sector deposits come from corporates. We expect the loan-to-deposit ratio to reach 120% in 2023 as the currency depreciation inflates loans. We expect the ratio to stabilize slightly above 120% through 2025 because loans will grow more quickly than deposits.
- The CBN has been using unorthodox MP tools to manage liquidity in the system. The cash reserve requirement still stands at a high 32.5%. The CBN recently announced the suspension of new intervention funds, and the issuance of open market operations bills to strengthen the MP transmission mechanism.

## External refinancing risks have stabilized for the sector



F--Forecast. Source: S&P Global Ratings.

## Naira depreciation affected the loan-to-deposit ratio



F--Forecast. Source: S&P Global Ratings.

# Sovereign Creditworthiness Constrains Most Bank Ratings

## Nigerian banks: Ratings and outlooks

Banks	SACP	ICR and outlook	National scale ratings
Access Bank PLC	b+	B-/Stable/B	ngBBB+/-/ngA-2
Ecobank Nigeria Ltd.	N/A	B-/Negative/B	NR
FBN Holdings PLC	N/A	B-/Stable/B	ngBBB-/-/ngA-3
First Bank of Nigeria Ltd.	b+	B-/Stable/B	ngBBB+/-/ngA-2
Fidelity Bank PLC	b	B-/Stable/B	ngBBB-/-/ngA-2
First City Monument Bank Ltd.	b-	B-/Stable/B	ngBBB-/-/ngA-3
Guaranty Trust Bank Ltd.	b+	B-/Stable/B	ngBBB+/-/ngA-2
Guaranty Trust Holding Company PLC	N/A	B-/Stable/B	ngBBB-/-/ngA-3
Stanbic IBTC Bank PLC	b	B-/Stable/B	ngBBB-/-/ngA-2
Standard Chartered Bank Nigeria Ltd.	b-	B-/Stable/B	NR
United Bank for Africa PLC	b+	B-/Stable/B	ngBBB+/-/ngA-2
Zenith Bank PLC	b+	B-/Stable/B	ngBBB+/-/ngA-2

SACP--Stand-alone credit profile. ICR--Issuer credit rating. N/A--Not applicable. NR--Not rated. Data as of Jan. 15, 2024. Source: S&P Global Ratings.

- We assess most rated banks' stand-alone credit profiles one or two notches higher than the sovereign's creditworthiness because of banks' resilient performance through the cycle. While some banking groups have exposure outside Nigeria, they remain predominantly exposed to credit risk in the country.
- We do not rate financial institutions in Nigeria above our 'B-/B' global foreign currency and 'ngBBB+/ngA-2' national scale sovereign ratings, due to the direct and indirect effects that sovereign stress would have on banks' operations and creditworthiness.
- We have a stable outlook on the ratings on all rated banks in Nigeria, except Ecobank Nigeria Ltd. The stable outlook largely reflects that on the sovereign ratings. The bank ratings will move in tandem with the sovereign ratings, but an upgrade is unlikely in the next 12 months.

## Related Research

- [Banking Industry Country Risk Assessment: Nigeria](#), Nov. 30, 2023
- [Global Banks: Our Credit Loss Forecasts Asset Quality Faces Rising Risks](#), Nov. 17, 2023
- [Outlooks On 12 Nigerian Banks Revised To Stable After Same Action On Sovereign; Several National Scale Ratings Raised](#), Aug. 11, 2023
- [Research Update: Nigeria Outlook Revised To Stable From Negative On Reform Momentum; B-/B Ratings Affirmed](#), Aug. 4, 2023
- [Sub-Saharan Africa's Fading Tailwinds And Missed Opportunities](#), May 30, 2023

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