Nigerian Banking Outlook 2025

Resilient Performance Amid Macroeconomic Pressures

S&P Global Ratings

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This report does not constitute a rating action

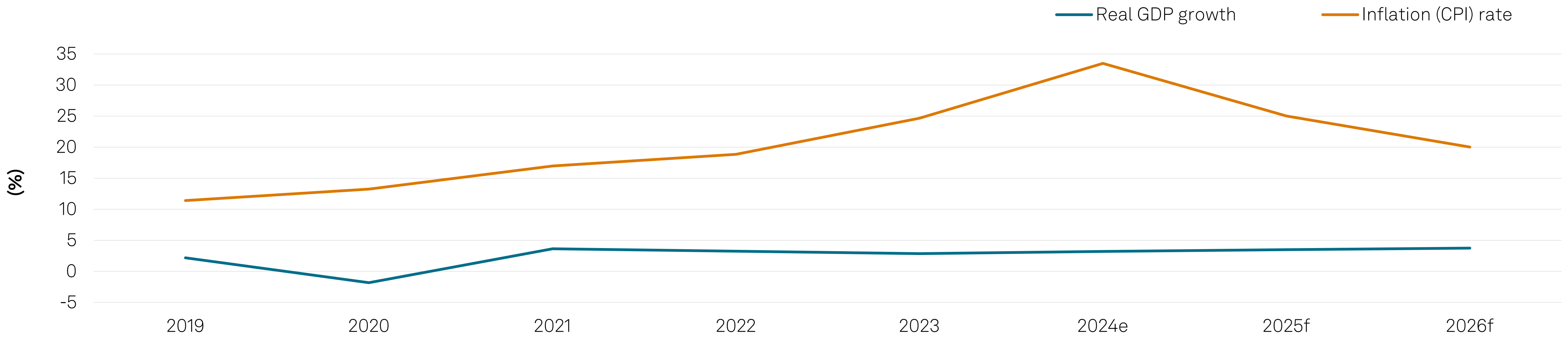
Key Takeaways

- **The macroeconomic environment remains challenging,** characterized by persistent high inflation and interest rates, a strained fiscal position, foreign currency (FX) supply constraints, and a weak Nigerian naira (NGN).
- **Pressure on asset quality will persist,** and we estimate that the credit loss ratio will remain elevated at about 2.5%-3.0% in 2025.
- **We expect overall bank capitalization to improve** as banks raise capital to meet the new paid-up capital requirements, but we do not rule out persistent capitalization constraints at smaller banks.
- **We expect banks to maintain strong financial performance,** supported by increased net interest income in a higher interest rate environment with an average return on equity (ROE) of 20%-25% in 2025.
- **Banks have limited external financing risk,** as they are largely funded by customer deposits. However, 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) gray list.

Lingering High Inflation Exacerbates Macroeconomic Instability

- Inflation has risen in Nigeria and averaged 33.5% in 2024 because of the currency depreciation, the removal of oil subsidies, and high food inflation.
- We expect inflation to remain elevated, but it should gradually decrease to about 25% in 2025. Due to the level of inflation, the Central Bank of Nigeria (CBN) hiked interest rates by 8.75 percentage points in 2024 to 27.5%.
- We forecast that the Nigerian economy will grow by 3.5% in 2025, driven mainly by the non-oil sector and a slight increase in hydrocarbon production.

We expect inflation to remain elevated while growth remains below potential

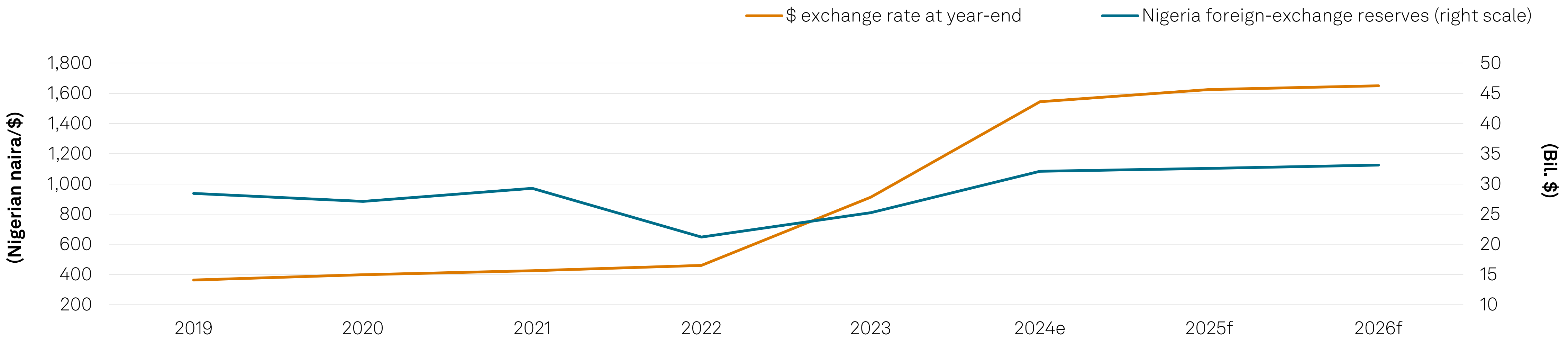


f--Forecast. e--Estimate. CPI--Consumer price index. Source: S&P Global Ratings.

A Weak Naira Amid FX Supply Constraints

- The naira has significantly depreciated since the liberalization of the exchange rate regime in June 2023. In 2024, following changes to the pricing mechanism, the naira depreciated by 70% to NGN1,544/$ in December 2024 from about NGN900/$ in December 2023.
- We expect the naira to remain broadly stable and trade between NGN1,625/$ and NGN1,650/$ over 2025-2026.
- We project usable foreign currency reserves (gross reserves minus reserves held for forwards) will increase slightly to about $32.6 billion in 2025 as imports remain subdued (because of a weaker currency and lower demand) but export receipts hold up.

The naira will remain broadly stable at weak levels

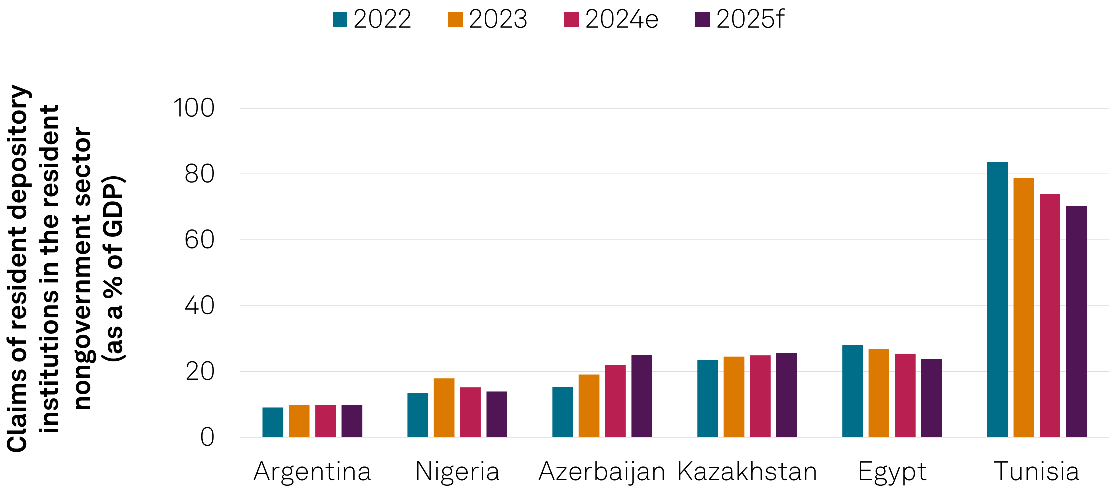


e--Estimate. f--Forecast. Source: S&P Global Ratings.

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

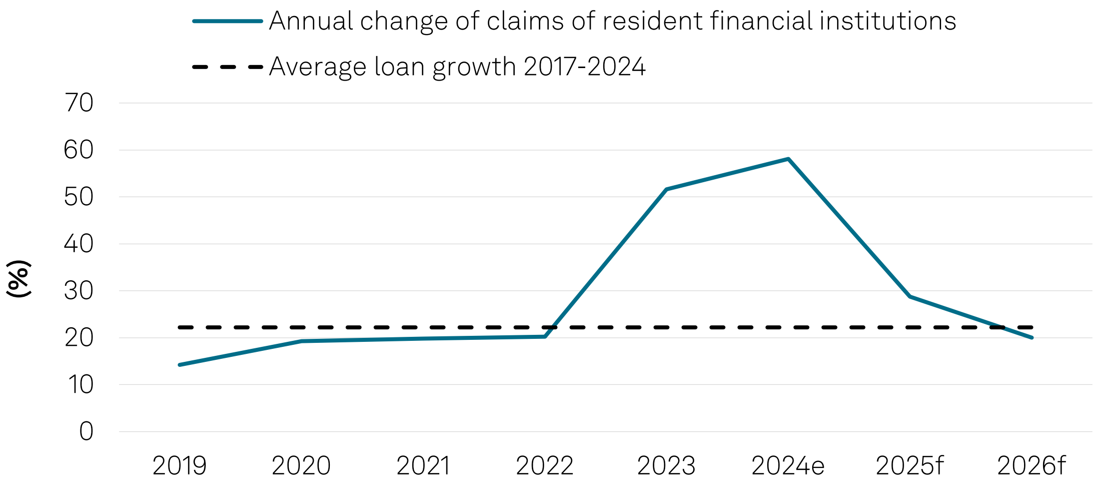
- The naira depreciation inflated the amount of loans in 2023 and 2024, with nominal loan growth of 50%-60%, but real loan growth has been muted.
- We forecast that loan growth will average 25%-30% in 2025. Increased refinery capacity will support lending to the oil and gas sector, while the recapitalization of the banking sector will increase banks' lending firepower.
- Nigeria's household and corporate leverage metrics are among the lowest of the country's peer group. 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



e--Estimate. f--Forecast. Source: S&P Global Ratings.

Nominal loan growth will taper in 2025

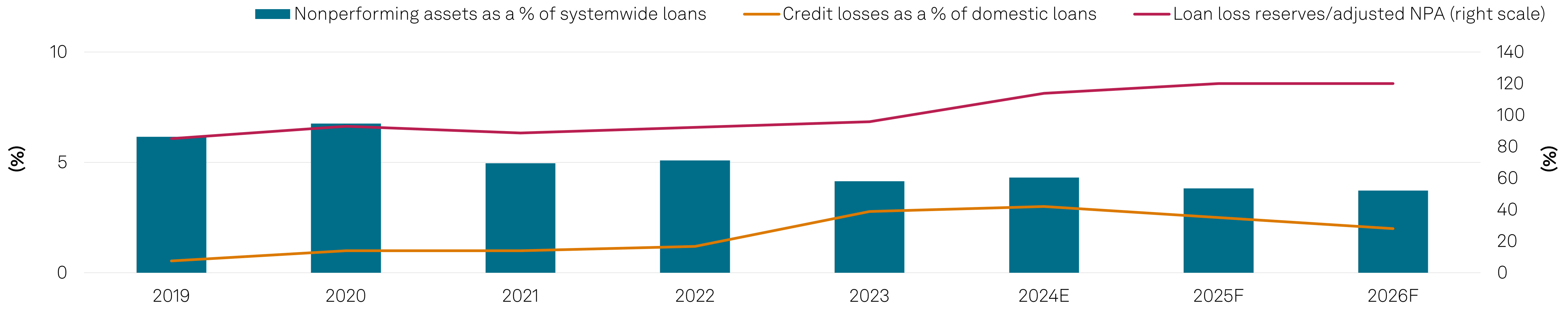


e--Estimate. f--Forecast. Source: S&P Global Ratings.

High Inflation And Interest Rates Will Put Pressure On Asset Quality

- We expect credit losses for the sector will remain elevated in 2025 at about 2.5%-3.0% compared with an estimated 3.0%-3.5% in 2024.
- The elevated credit losses reflect the currency depreciation, as foreign currency loans account for 50% of banks' loan books on average. The banking system's dollarization has increased following the depreciation of the naira in 2023 and 2024.
- In addition, high interest rates and inflation have exerted pressure on borrowers' creditworthiness, particularly for corporates in non-essential consumer goods sectors and import-dependent corporates that cannot fully pass through the high cost of inflation to consumers.
- We anticipate nominal nonperforming loan (NPL) stock to increase by 14%, while the NPL ratio will likely decrease slightly to about 3.8% in 2025 from an estimated 4.3% in 2024 because of the increase in gross loans.

Credit losses will remain elevated in 2025

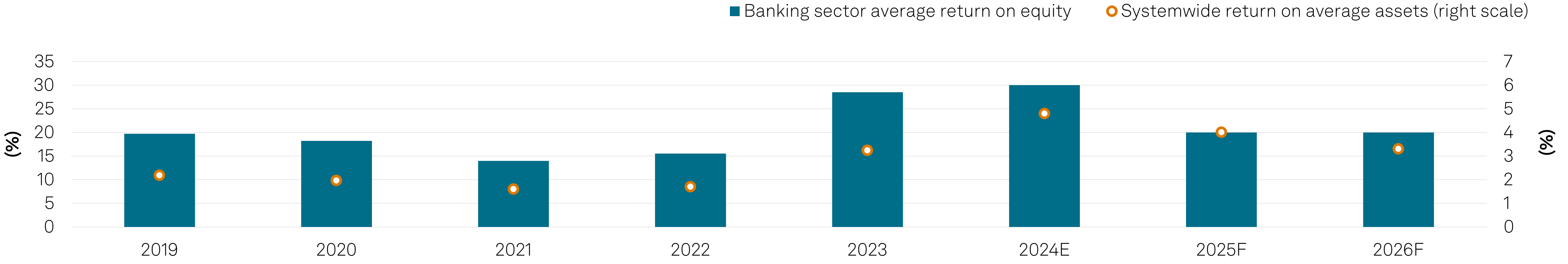


e--Estimate. f--Forecast. NPA--Nonperforming assets. Source: S&P Global Ratings.

High Interest Rates Will Support Profitability

- We expect banks to maintain adequate ROE of 20%-25% in 2025 following exceptional ROE of 30% in 2023 and 2024, supported by unrealized gains stemming from banks' positive net open positions.
- We do not expect banks to earn significant unrealized gains in 2025, as the regulator introduced stringent limits on net long positions.
- Nigerian banks tend to benefit in a high interest rate environment, as their assets dynamically reprice while they are largely funded by low-cost customer deposits.
- Banks' business models are technology-led, with digital channels built to deepen their reach and financial inclusion. The adoption of digital channels has helped grow banks' non-interest revenues, which accounted for 41% of operating revenues in 2024.

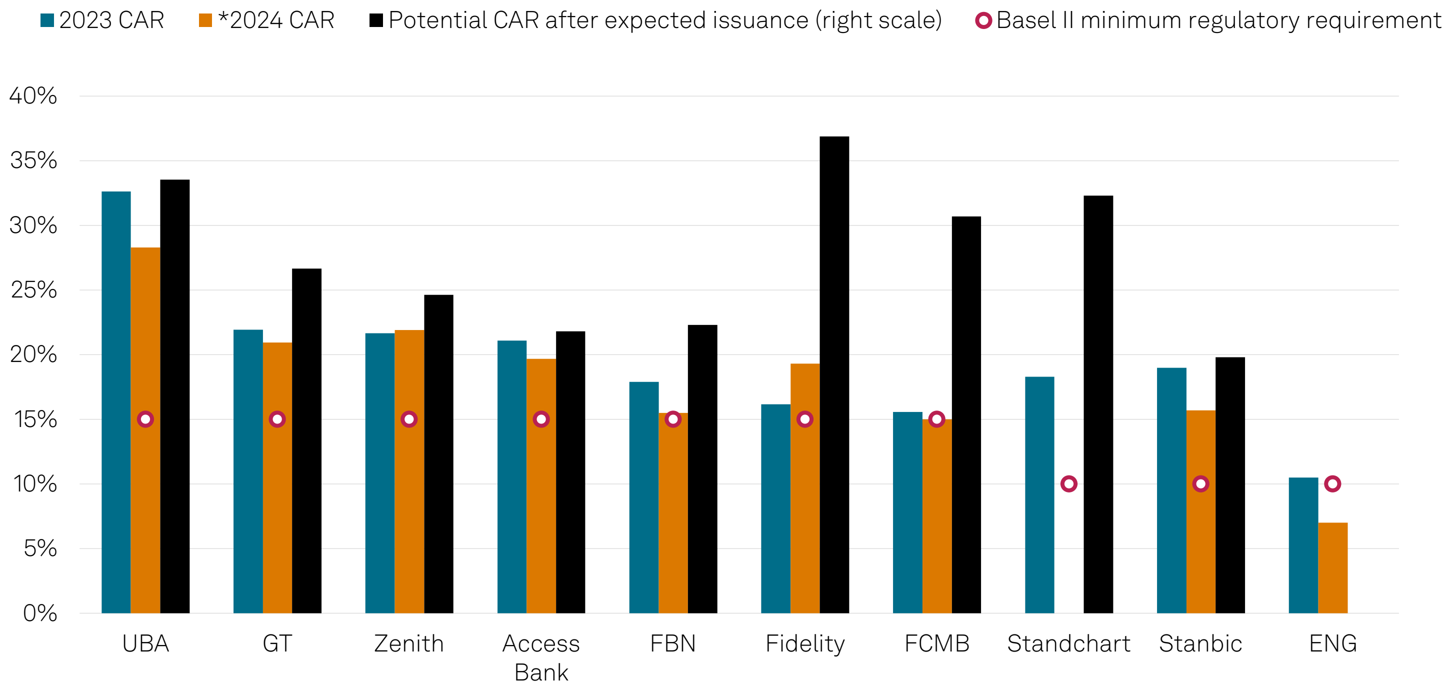
Strong profitability through the economic cycle



e--Estimate. f--Forecast. Source: S&P Global Ratings.

Recapitalization Will Strengthen Banks' Loss Absorption Capacity

We expect regulatory capital buffers to increase in 2025



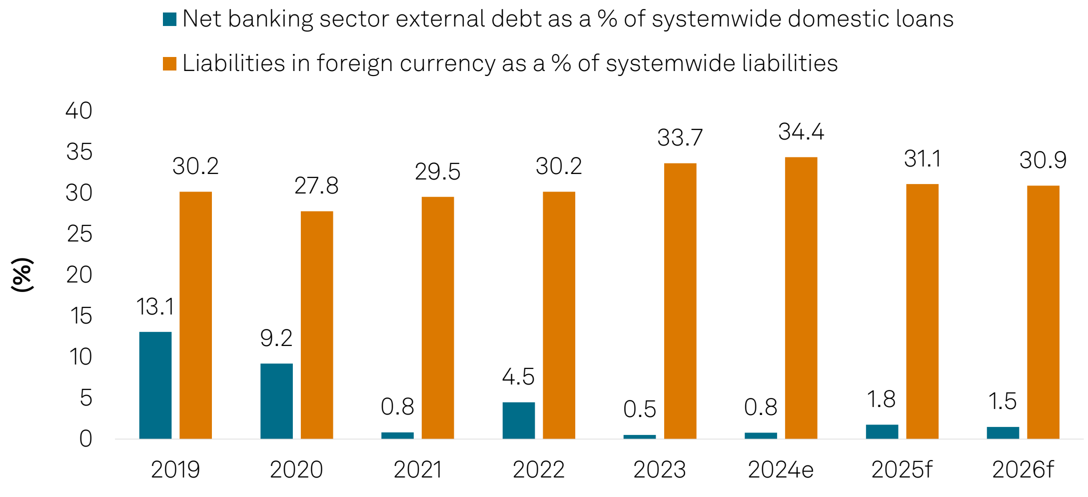
*Data as of June 30, 2024, except for Ecobank Nigeria, Fidelity Bank, Zenith Bank, FCMB and Stanbic which are as of Sept. 30 2024 and First Bank of Nigeria, which is as of March 31, 2024. CAR--Capital adequacy ratio. Potential CAR after issuance is estimated based on the required issuance by banks to meet the new capital requirements. We assume constant risk-weighted assets as of June 30, 2024, except for Ecobank Nigeria, Standard Charted Bank, FCMB, and FBN, which are as of Dec. 31, 2023. Source: Banks' financial statement reports, Requirements are national minimum.

- In March 2024, the CBN increased the minimum paid-up capital requirements for banks. Banks have until March 2026 to comply.
- We believe that most rated banks will be able to reach their respective capital issuance requirements by year-end 2025.
- We therefore expect to see an increase in regulatory capital adequacy ratios for most rated banks in 2025.
- The overall capital exercise will be positive, as it will support banks' loss absorption capacity.
- Although we expect the number of banks will decline as some smaller banks merge, this will not affect the stability of the sector, which is concentrated with the top-tier banks accounting for 70% of system assets.

External Refinancing Risks Are Manageable

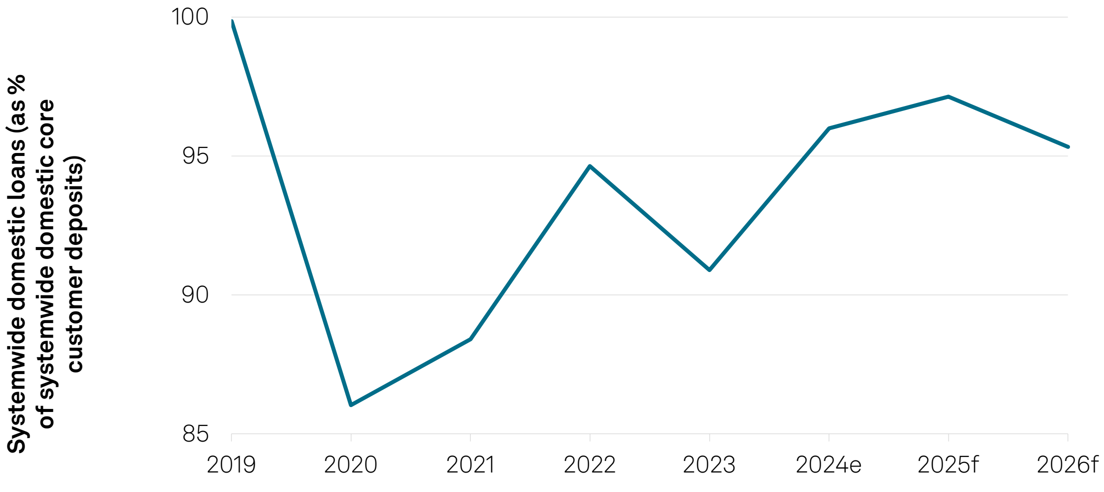
- We expect the sector to remain in a net external debt position well below 10% of systemwide loans through 2026. The sector has low reliance on external debt, while banks continue to grow their foreign assets through subsidiaries in the U.K., U.S and France.
- The financial sector is, however, vulnerable to investor sentiment, as U.S. dollar scarcity persists and the country remains on the FATF's gray list.
- Nigerian banks' funding largely comprises customer deposits, which account for more than 80% of their funding base. Our loan-to-deposit ratio assumes that only half of corporate deposits are core deposits. We expect the loan-to-deposit ratio to remain stable, ranging between 95% and 100%.

Limited external refinancing risks



e--Estimate. f--Forecast. Source: S&P Global Ratings.

Loan-to-deposit ratio will remain fairly stable



e--Estimate. 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	CCC/Negative/C	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-/Negative/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 Ltd	b	B-/Stable/B	ngBBB/--/ngA-2
Standard Chartered Bank Nigeria Ltd.	b-	B-/Stable/B	NR
United Bank for Africa PLC	b+	B-/StableB	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, 2025.
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 most rated banks in Nigeria. 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, Dec. 13, 2024
- Global Banks Country-By-Country Outlook 2025: Cautiously Confident, Nov. 14, 2024
- Nigeria, Aug. 5, 2024

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