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2024 Recapitalization Directives and the Nigerian Banking Industry: A Policy Imperative

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ABSTRACT
This study examined the imperatives of the 2024 bank recapitalization directives on the Nigerian banking industry. The study adopts a qualitative, historical, and descriptive research design. The research appraised the Nigerian banking sector reforms from the 2005 banking consolidation to the 2024 recapitalization directives of the Central Bank of Nigeria (CBN). The research employed a desk-based documentary review approach, relying on secondary data sources from CBN policy documents on bank reforms, archived reports, reform circulars, and published academic literature. The study evident that the current directives of the CBN in increasing the capital requirements of Nigerian commercial banks is a step in the right direction given the urgent need to strengthen the operational resilience of the Nigerian banking industry. In addition, the upward adjustment will help boost investor confidence in the banking system as investors tend to perceive well-capitalized banking systems as being 'too big to fall'. Evidently, the 2024 banking sector reform introduced by the CBN in 2004 led to a significant 1,150% increase in the minimum capital requirement for banks, from ₦2 billion to ₦25 billion. The study however submitted that the CBN should extend compliance periods beyond 2026 to 2027. These extension periods would provide regionally licensed commercial banks enough time to raise the required capital base without resorting to hasty recapitalization strategies or distressed mergers, thereby ensuring a more orderly transition.
Keywords: Bank Capitalization Strategy, Financial Resilience, Policy Imperative, Capital Requirements

1. INTRODUCTION

As the service delivery infrastructure of financial institutions continues to become more complex due to digitalization and the evolution of ecosystems, it is becoming increasingly challenging for banks to respond to diverse and unpredictable risks while performing their financial intermediation role (Abdul-Maliq, Henry, & Oje, 2024; Isitoah & Onuorah, 2025). Accordingly, there has being a growing need for banks to respond to meet the global banking standards. Consequently, the Central bank of Nigeria has over the years institute various bank reforms. Although, the first notable reforms in Nigeria began in 1986 under the structural adjustment programme (SAP) of 1986 but became effective in February, 1988**,** banking activities in Nigeria fully began in 1952**.** In February, 1988, the CBN increased the minimum capital base of commercial banks and merchant banks from ₦600,000 to ₦5,000,000 and from ₦2,000,000 to ₦3,000,000 respectively. In October 1989, the CBN increased the minimum capital base of commercial banks and merchant banks from ₦5,000,000 to ₦10,000,000 and from ₦3,000,000 to ₦6,000,000 respectively (Mustapha, 2024). To address the 1997 financial crises and ensure that, public confidence is regained, the CBN further recapitalized the banks on March 31st, taking into account their robust asset base. The CBN uses a capital base risk-weighted metric to assess how well capitalized banks

are. In order to preserve stability, the running prudential guidelines of 1990 introduced standards, sanity, and sufficient requirements (Onuorah, Ehiedu, & Egugbo, 2022; Ozili, 2022)

From 1991 to 2003, most Nigerian banks were faced with financial crises which reduced their share prices. Consequently, banks were forced to collect exorbitant fees to raise funds; some others opted for acquisitions while some others closed down due to instances of insolvency and high rate bankruptcy. For example, Savannah Bank, Oceanic Bank and Allstates Trust Banks all failed. To address this drawback, the then CBN governor (Prof. Charles Soludo) introduced the 2005 bank recapitalization exercise against the earlier plan of increasing the minimum capital base of existing banks to ₦2 billion and new banks ₦1billion as stipulated in the 2001 universal banking policy. The new bank reform was expected to take effect from July 2004 to December 31st, 2005 (Dikko, Alifiah, & Abdullahi, 2021)**.** The major contribution of the recapitalization exercise made was the increase in the capital base of Nigerian commercial banks from ₦5 Million to ₦25 billion. Consequently, the numbers of commercial banks in Nigeria decreased from 89 to 24 commercial banks (Akani, 2023).

Another major advantage of the 2005 bank reform is that, the total asset base of all recapitalized and early recapitalized banks increased from ₦6.865 trillion in 2017 to ₦8.224 trillion in 2018. When disaggregated, Zenith bank recorded an asset base of 5.965 trillion in 2018 as against ₦5.595 trillion recorded in 2017; GT Bank recorded ₦3.287 trillion in 2018 as against ₦3.287 trillion recorded in 2017 while Access Bank recorded an asset base of ₦4.954 trillion in 2018 as against ₦4.102trn recorded in 2017 (Mustapha, 2024). As a life support to ailing banks, the CBN aggressively acquire banks that did not meet the ₦25 billion recapitalization thresholds by June 31st, 2005 (Anyanwu, 2010). However, one major challenge which the recapitalization exercise failed to address is that, Soludo did not do much consultation before conducting the recapitalization exercise. Again, commercial banks were only given 18 months' compliance periods. Another shortfall recorded with the recapitalization exercise was that, retained earnings were counted as part of the recapitalized banks' share capital.

Given the prevailing daunting macroeconomic challenges and headwinds coupled with the need to position Nigerian banks to ensure that Nigerian banks are operationally resilient, the financial and regulation department of the CBN headed by Mr. Haruna Mustapha on 28th March, 2024 issued a circular to all existing commercial banks (those with international, regional, and national license), merchant banks (those with national and regional license), non-interest banks (those with national and regional license) and promoters of proposed banks on its plan to recapitalize their capital base. According to Mustapha (2024), Nigerian **b**anks are expected to comply with the directives of the CBN from bank 1st April, 2024 to March 31st, 2026. Accordingly, the CBN expects all the eight (8) commercial banks with international license to increase their minimum share capital to ₦500 billion while the twelve (12) commercial banks with national license and the five (2) commercial banks with regional license are expected increase their minimum share capital to ₦200 billion and ₦50 billion respectively. In like manner, all the six (6) merchant banks with national and regional license are expected to increase their minimum share capital to ₦50 billion while for non-interest banks with national license are expected to increase their minimum share capital to ₦20 billion while non-interest banks with regional presence are expected to increase their minimum share capital to ₦10 billion (Mustapha, 2024). Further, the circular disclosed that, the minimum capital base shall comprise paid up capital and share premium only and shall not be based on shareholders' funds and Additional Tier 1 Capital as against the 2005 recapitalization exercise. Even with the capital increase, banks are still required to closely follow the minimum capital adequacy ratio (CAR) requirements related to their licensing authority (Mustapha, 2024).

The CBN circular states that, the minimum capital needed for prospective banks would be paid-up capital. It further specified that the increased minimum capital requirement would apply to any new applications for banking licenses filed after April 1, 2024. According to the statement, all pending applications for banking licenses that had been granted prior to the period of reporting, an approval-in-principle (AIP) or a capital deposit would In order to accomplish this, banks are expected to use one or a combination of the following three (3) strategies: acquire other banks through mergers and acquisitions (M & A); upgrade or downgrade license of authorization (i.e., downgrade from international bank to national or -

+0][;./…regional bank or reverse); or inject new equity capital via private placement, rights issue, &/or offer for subscription. However, policies will be in place to deal with all banks that make mistakes if any bank chooses not to comply. It is on the basis of this, the paper is framed into various thematic areas to address the issue more critically.

Table 1: Minimum Paid up Capital of Nigerian Banks from 1952 to 28th March, 2024

Years	Nature of Bank	Minimum Paid up Capital
1952	Commercial	£12,500
1969	Commercial	£300,000
1979	Commercial	₦600,000
	Merchant	₦2,000,000
1988 February	Commercial	₦5,000,000
	Merchant	₦3,000,000
1988-October	Commercial	₦10,000,000
	Merchant	₦6,000,000
1989	Commercial	₦20,000,000
	Merchant	₦12,000,000
1991	Commercial	₦50,000,000
	Merchant	₦40,000,000
1997	Commercial	₦500,000,000
	Merchant	₦500,000,000
2000	Commercial	₦1,000,000,000
	Merchant	₦1,000,000,000
2005	Commercial	₦25,000,000,000
2024-28th March	Commercial-International Licences	₦500,000,000,000
	Commercial-National Licences	₦200,000,000,000
	Commercial-Regional Licences	₦50,000,000,000
	Merchant-National Licences	₦50,000,000,000
	Non-interest-National	₦20,000,000,000
	Non-interest-Regional	₦10,000,000,000

Source: Cookey, Nwanyanwu, & Igbara (2023); & Mustapha (2024)

Consequent upon the above, the CBN has triggered a call to action by all banks on which of the models to adopt for them to remain operationally resilient. In an attempt to proffer answers to the yearning of the management of all banks in Nigeria, the 2024 bank recapitalization exercise was developed. In furtherance of the plan of the CBN in ensuring that Nigerian banks operate on a stronger capital base and attract genuine capital, financial analysts supports the decision of the CBN to temporarily suspend banks with forbearance loans from dividend payments and investment in foreign subsidiaries (Punch newspaper, 2025).

In light of the above, this research provides an historical background on bank recapitalization strategy and its implication on the Nigerian banks. Again, the 2024 recapitalization exercise was appraised logically. The remaining section of this research centers on the conceptual clarification on the concept of CBN recapitalization policy, theoretical framework, methodology, analysis and conclusion.

2. LITERATURE REVIEW

2.1.1. Conceptual Clarification

The term "CBN Recapitalization policy" is a multi-facet in nature; this rationalizes why finance and economist scholars are yet to give a universal definition on the construct. As defined by KMPG (2025), CBN recapitalization policy go beyond increasing banks' minimum capital base to include merger and acquisition, revitalization of existing old bank laws, EFCC collaboration, establishment of assets

Management companies and establishment of Financial Intelligent (World Bank Group, 2021; Iwedi, Okey-Nwala, & Wachukwu, 2023; Metwally, Yasser, Ahmed, & Ali, 2025).

Worthy to note is that the hallmark of bank reforms is to deepen the financial sector and reposition the banks for growth to become integrated into the global financial architecture and evolve a banking sector that is consistent with regional integration requirements, savings mobilization, and the requirement of international best practices. Wachukwu, Iwedi, and Barisua (2023) opined that recapitalization policy is deliberate actions by the government to fast-track, jump-start and consolidate specified sectors of the economy to achieve desired objectives. Consequently, bank reforms are highly transformative and policy adjustments and overhaul that are directed at the art, practice and activities of financial institutions and market overtime in response to nominal need for operational improvement and growth of both the institutions and economy as a whole (Cookey, Nwanyanwu, & Igbara, 2023). In Nigeria, for example, the ability of the financial sector to play its role has been periodically punctured by its vulnerability to systematic distress and macro-economic volatility and policy fine tuning inevitability (Adegbaju, & Olokoyo, 2008).

2.1.2. Theoretical Framework

Over time, several theories have been propounded to proffer solutions to financial sector instabilities. Known theories include fractional reserve theory, credit creation theory, financial intermediation theory and the Minisky's Financial Instability Hypothesis (Ihedioha, Okechukwu, Ogwo, Chibuisi, & Osu, 2025). However, this paper anchored on the Minisky's Financial Instability hypothesis (Phan, Beruvides, & Tercero-Gómez, 2024). This theory is an offshoot of the Keynesian theory propounded in 1936. This theory was formalized my Minisky in 1992. Being an extension of the Keynesian theory, the theory stresses that, there are two (2) eras in which every economy in the world faces which are periods of instability (bank crises) and periods of stability. Also, these two (2) eras have their unique characteristics. First, the era marked by instability is associated with bank crises, whereas the period marked by stability is associated with recapitalization, a time when banks have a solid capital and asset base and may take advantage of economies of scale to support growth and investment diversification. This theory further stressed that, bank recapitalization exercise is an efficient tool for achieving a stable and efficient economy. Nevertheless, the theory was unable to account for the external shocks that contributed to the financial crisis, as well as the problems with hedging, speculations, earnings, investments, and other traits that are ultimately affected due to economic instability (Dikko, & Alifiah, 2020)

3. METHODOLOGY

This study adopts a qualitative, historical, and descriptive research design. The research appraised the Nigerian banking sector reforms from the 2005 banking consolidation to the 2024 recapitalization directives of the CBN. The research employed a desk-based documentary review approach, relying on secondary data sources from CBN policy documents on bank reforms, archived reports, reform circulars, and published academic literature. This approach is methodologically sound and apt given the fact that it aligns with the core objective of this research dedicated towards tracing regulatory developments, analyzing reform content, and evaluating long-term trends in capital base adjustments. More so, this approach ensures that credible secondary sources are accessed while allowing for a well-structured, cost-efficient, and analytically and methodologically robust investigation of Nigeria's banking sector reform landscape.

The research detailed capital base requirements of the Nigerian banking industry from 1952 to 2024 with the intention to analyze the evolving role of capital adequacy in ameliorating the financially resilient banking industry. Also, the various banking reforms beginning from 1952 to 2024 were analyzed to provide justification on the current CBN's reform agenda. Previous empirical works of scholars were systematically cited to provide insights and validate trends of the reforms in the Nigerian context. Evidently, the research provided a detailed contextual understanding on how the Nigerian banking industry has transformed in terms of their capital base over the years.

4. ANALYSIS

The study evident that the current directives of the CBN in increasing the capital requirements of Nigerian commercial banks is a step in the right direction given the urgent need to strengthen the operational resilience of the Nigerian banking industry. In addition, the upward adjustment will help boost investor confidence in the banking system as investors tend to perceive well-capitalized banking systems as being 'too big to fall'. Evidently, the 2024 banking sector reform introduced by the CBN in 2004 led to a significant 1,150% increase in the minimum capital requirement for banks, from ₦2 billion to ₦25 billion. The reform was marked by extensive M&As, leading to notable reduction in the number of commercial banks in the country from 89 to 25. Consequently, banks were better positioned for financial intermediation to support economic growth and development. Bank credits to private sector as a ratio of GDP rose to as high as 19.6% in 2009 when banks were allowed to operate as regional, national and international banks while market capitalisation increased to about $85bn in the immediate periods following the last bank recapitalisation in 2004. With the current reform agenda, the stringent definition of minimum capital which has left significant reserves unavailable for capitalization, is driving a widespread impact on the banking industry with changes to the competitive landscape expected as fallout. The capital shortfall for banks ranges from 35% to 90% of the new minimum capital requirement, with an estimated total capital shortfall of about N4.2 trillion across the entire industry. Several options are available to banks in their effort to raise additional capital, a route we anticipate to be the first line of action for most banks in achieving the new capital requirement, and these include public offerings, rights issues, private placements, etc. However, consideration for potentially value accreting mergers and acquisitions as an alternative option may prove invaluable for players who adopt a broad-based approach to the reform.

5. CONCLUDING REMARKS

Based on the various analysis presented, the study conclude that, the 2024 CBN recapitalization exercise is a step in the right direction and that, it is expected to enhance the operational resilience of the Nigerian banking system and support the growth agenda of the economy through greater financial intermediation. Hence, there is need for a proactive monitoring of market dynamics to identify and address any systemic risks or disruptions that may arise during the recapitalization phase to preserve the stability of the financial system. Lastly, the study submitted that the CBN should extend compliance periods beyond 2026 to 2027. These extension periods would provide regionally licensed commercial banks enough time to raise the required capital base without resorting to hasty recapitalization strategies or distressed mergers, thereby ensuring a more orderly transition.

This study contributes to extant bank recapitalization literature by providing a policy-relevant and contextual assessment of the 2024 CBN bank recapitalization directives from the Nigerian banking industry framework. Also, the study offers a historical linkages of the outcomes of past banking sector reforms. Hence, the study was able to offer actionable recommendations for policymakers. Specifically, the study highlights the relevance of regulatory flexibility in managing systemic financial reforms given the urgent need to improve the capital base of the Nigerian banking industry from the emerging country's perspective. However, the study failed to quantitatively conduct a pre and post impact of bank recapitalization directives. Furthermore, the study did not account for variations in operational dynamics and regional bank capacities. Hence, the study suggests that future studies are encouraged to adopt mixed-methods or econometric designs to empirically measure the effects of recapitalization on financial stability, credit expansion, and investor confidence. Lastly, future researchers conduct a comparative analysis on stakeholder analysis on bank recapitalization strategy. This will further enrich the understanding on the policy's long-term implications of banking sector reforms.

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