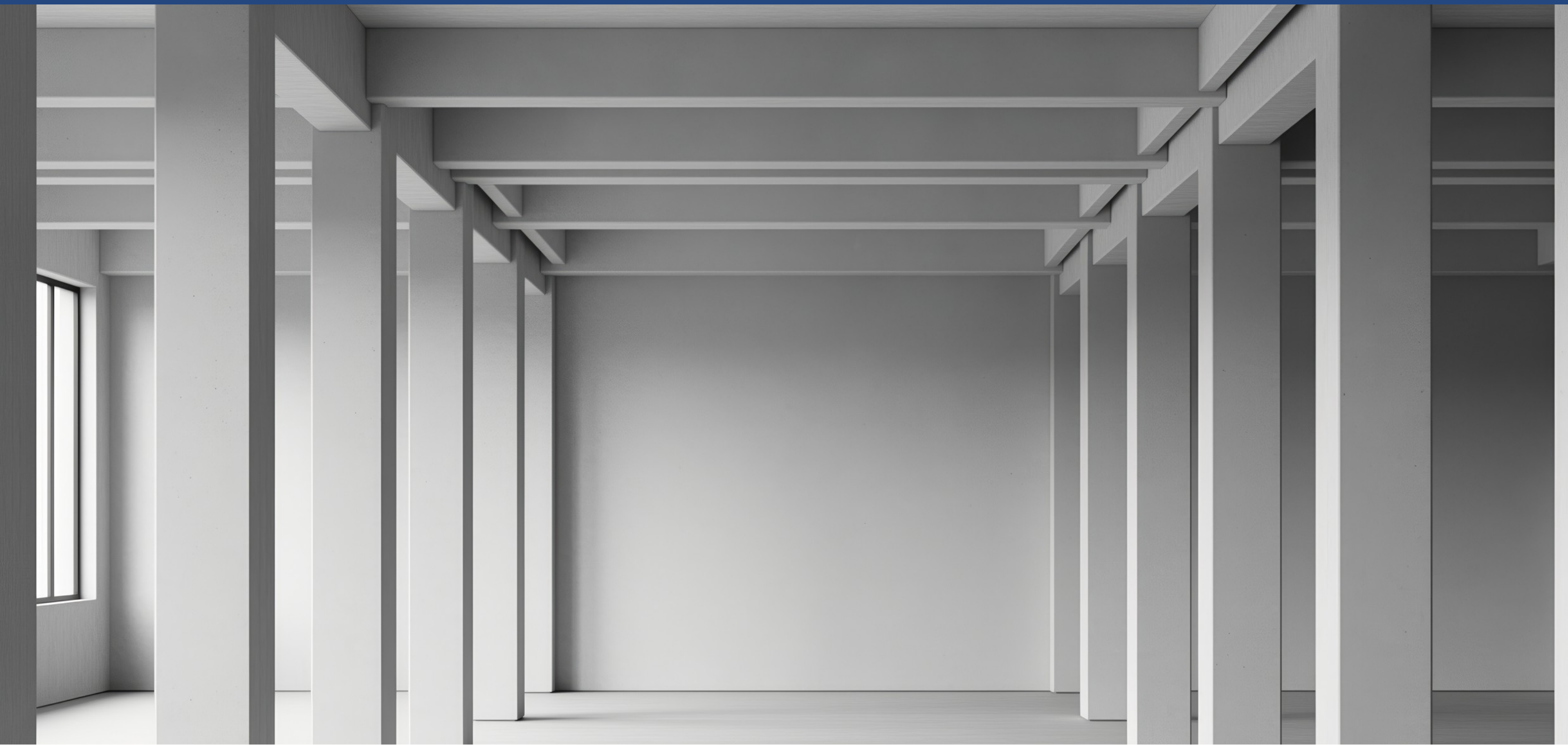
Sector edition 01

Banking, Nigeria

A banking system funded by private savings, in which the state has first call on each deposit before any of it is lent to firms and households.

September 2026



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Scope

This edition covers banking in Nigeria: the deposit money banks licensed by the Central Bank of Nigeria, commercial and merchant, together with non-interest banks. It describes how the banks are funded, who takes their money, where that money stops and what limits it first. It is dated 22 September 2026. BTI Reports publishes one edition per sector and market each year. The analysis is the work of BTI Reports. It was not commissioned by any party appearing in it.

The situation

Nigeria's banks look like lenders to the private economy, and they are funded like lenders: by the deposits of households and firms. But before those deposits can become loans, the state has first call on them. A fixed share of every naira deposit must be placed with the central bank, and for public deposits held outside the government's own account that share is three quarters. The federal government then borrows from the banks by selling them treasury bills and bonds, sold at auctions held every two weeks for bills and every month for bonds. Firms and households borrow from what is left.

The consequence is that the size of a Nigerian bank's deposit base does not by itself decide how much it lends to the private economy. The rule and the government's borrowing decide how much of each deposit is left to lend. The banks now hold about a fifth of their assets in government securities. The International Monetary Fund (IMF) recorded the same arrangement in two reviews: in 2025, when the reserve requirement stood at 50 per cent and policy was tightening, and in 2026, when it stood at 45 per cent, policy had begun to ease and the banks had raised new capital. In the second it found that government securities and the reserve requirement together crowd out private credit. The conditions changed and the order in which the claims are met did not.

Where the banks' money comes from

Nigeria's deposit money banks are funded by two kinds of money. The first is the deposits of their customers. The second is the capital of their shareholders. Deposits pay for the assets a bank holds. Capital sets how much a bank may hold, because the central bank requires a bank to hold capital against its assets, with each asset weighted by its risk. The minimum is 15 per cent for a bank licensed to operate internationally and 10 per cent for a bank licensed nationally or regionally.

Most deposits come from households and firms. They take two forms. Demand deposits are current accounts that can be withdrawn at any time. Time and savings deposits are held for a period. About one third of all deposits are held in foreign currency rather than in naira.

Public bodies also hold deposits with the banks. The federal government holds its own deposits at the central bank, through a consolidated arrangement known as the Treasury Single Account. Public money held outside that account can sit in commercial banks, and the central bank treats it as a separate category of deposit. It is the route by which public money reaches the banks directly.

Capital is set by licence. In March 2024 the central bank raised the minimum capital for every category of bank licence and gave banks two years to comply. The requirement for a commercial bank with international authorisation became N500 billion, for national authorisation N200 billion and for regional authorisation N50 billion. Merchant banks and non-interest banks received their own thresholds. The programme closed on 31 March 2026. About 72.5 per cent of the new capital was raised from investors in Nigeria and about 27.5 per cent from investors abroad.

A deposit does not reach the bank's lending in full. The first step is the cash reserve requirement: a fixed share of every naira deposit must be placed with the central bank. The share is 45 per cent for commercial banks and 16 per cent for merchant banks. For public deposits held outside the Treasury Single Account it is 75 per cent. These ratios were set in September 2025 and held at every meeting of the Monetary Policy Committee since. What remains after the reserve is placed is what the bank can use.

So a deposit that looks like lendable money is only partly lendable. Of a naira deposit placed with a commercial bank, 55 per cent remains for the bank to use. Of a public deposit held outside the Treasury Single Account, 25 per cent remains. A foreign currency deposit is outside the requirement altogether, because the rule covers naira deposits only.

Exhibit 1

A deposit reaches the bank's own use only after the central bank's share is placed

Deposit placed	Reserve share placed with the central bank	Remainder available to the bank
Naira deposit, commercial bank	Fixed share set by the Monetary Policy Committee	Balance the bank can place
Public deposit outside the Treasury Single Account	Higher fixed share, same rule	Smaller balance the bank can place
Foreign currency deposit	Outside the rule	Whole deposit

Note: each row reads left to right as the path one deposit takes before the bank can use it; the middle stage is where the three routes part.

Source: Central Bank of Nigeria, Monetary Policy Decisions, 302nd to 307th meetings; IMF Country Report No. 26/125.

Each route responds to a change at the source at its own speed. The usable share of naira deposits and of public deposits changes only when the Monetary Policy Committee changes the ratio, and the Committee meets about every two months. The foreign currency route does not move with those decisions, because the ratio does not reach it. Capital moves on a different clock again: the last programme ran for twenty-four months, and the thresholds it set remain until the central bank sets new ones.

The money that builds the sector is therefore private savings, held as deposits, with capital from domestic and foreign shareholders sitting beneath it. Public money enters through one route, and that route carries the highest reserve ratio in the system.

Who takes the banks' money

Four kinds of counterparty take the money that Nigeria's banks place. The Federal Government of Nigeria borrows from the banks by selling them treasury bills and bonds. The Central Bank of Nigeria takes the required reserve and also takes further placements, through its standing deposit facility and its open market operations. Firms borrow from the banks as loans. Households borrow from the banks as loans.

Each of the four depends on something different, and so each responds to something different.

The federal government's revenue depends on oil and gas. Higher crude oil and gas prices raise the government's revenue, and oil and gas revenue is a distinct line in its accounts. What the government borrows from the banks depends on the gap between what it spends and what it collects. The 2026 budget doubled the government's nominal borrowing limits, and the banks indicated to the IMF that they had space to take more government securities than before. The government's motive as a borrower is the financing of its budget. Its demand for bank money follows the fiscal position, not the price of credit.

The central bank's motive is the control of money in the banking system. It takes placements to absorb money it judges to be surplus, and it introduced a seven-day open market instrument to manage short-term rates. Its demand for bank money follows its monetary policy stance.

Firms borrow to finance their own business, and what they can carry depends on what they earn and in which currency. Bank lending to firms is concentrated in a few sectors: services, oil and gas, manufacturing and industry. An oil and gas firm's revenue follows crude prices and output. A firm that earns in naira but borrows in foreign currency depends on the exchange rate, and currency depreciation has reduced the capacity of such borrowers to carry debt. Manufacturers have stated that the banks' preference for lower-risk financial assets limits their access to credit. Demand from firms follows the cost of credit and the revenue that services it.

Households and small firms are largely absent from the banks' lending. The IMF found virtually no new bank lending to small and medium enterprises and households in its 2025 review.

Demand for bank money therefore has two different sources. Lending to the government and placements with the central bank are directed by policy, and they respond to the fiscal position and to the monetary stance. Lending to firms and households happens where the arithmetic works, and it responds to the cost of credit and to the borrower's revenue. The two respond to different things and move for different reasons.

Exhibit 2

Each counterparty for bank money responds to something different

Counterparty	Instrument	Responds to
Federal government	Treasury bills and bonds	The fiscal position
Central bank	Reserve, deposit facility, open market operations	The monetary policy stance
Firms earning in naira	Loans	The cost of credit and naira revenue
Firms borrowing in foreign currency	Loans	The exchange rate
Oil and gas firms	Loans	Crude prices and output

Note: read each row across, from who takes the money to what moves its demand; the first two rows are directed by policy and the last three by cost.
Source: IMF Country Reports No. 25/157 and 26/125; Central Bank of Nigeria, Monetary Policy Decisions.

The category funding the newest contracts has changed within the year. Over the year to August 2026, credit to government grew about four times as fast as credit to the private sector. In the three months from May to August, the direction reversed: credit to government fell and credit to the private sector rose each month. The government figure is net, and it covers the central bank as well as the commercial banks, so it moves with government deposits as well as with government borrowing. In 2026 the banks have told the IMF they can take more government securities, under a budget that doubles the government's borrowing limits.

Where the money stops

A naira deposited with a Nigerian bank passes through four layers before it reaches its final user. Each layer does one thing, and each is held by a different kind of entity for a different reason.

The first layer gathers deposits. It is held by banks, and a bank is placed there by its licence. The central bank issues commercial banking licences in three categories. International authorisation permits a bank to operate outside Nigeria and requires N500 billion in capital. National authorisation permits operation anywhere in Nigeria but not abroad and requires N200 billion. Regional authorisation limits a bank to a group of states and requires N50 billion. Merchant banks and non-interest banks hold separate licences with their own thresholds. The banks holding international authorisation are Nigerian banking groups.

The Nigerian subsidiaries of foreign banking groups hold national authorisation, alongside Nigerian banks. In this edition a bank is counted as foreign where its controlling parent is domiciled outside Nigeria.

The second layer is the required reserve. Before a bank can use a deposit, a fixed share of it is placed under the cash reserve requirement: 45 per cent of a commercial bank's naira deposits, 16 per cent for a merchant bank, and 75 per cent of public deposits held outside the Treasury Single Account. This layer has a single holder and is described by its rule. The share placed here is not a choice the bank makes.

The third layer is where the bank decides. What remains after the reserve can go to three places. It can be lent to the federal government by buying treasury bills and bonds. It can be placed with the central bank through the standing deposit facility or open market operations. It can be lent to firms and households. The same balance sheet serves all three, and each naira placed in one is not available to the others.

Each of the three places is reached in its own way. Treasury bills and bonds are sold at primary auctions, and bids are submitted by licensed money market dealers through the central bank's auction system. Banks are not the only buyers. Pension funds and asset managers also buy government securities, as the IMF recorded in its 2025 review. The second place is the central bank's own facilities. The third place is open to any licensed bank within the scope of its licence.

The fourth layer is the final user. For government securities it is the federal government, which uses the money to finance its budget. For central bank placements it is the central bank, which holds the money back from the banking system to manage liquidity. For loans it is the firm or household that borrows.

Margin accumulates at the third layer, where the bank chooses. At five listed banking groups in 2025, interest from loans was about half of interest income and interest from treasury bills, bonds and other securities was about two fifths. The two sources were close to equal, and at two of the five groups securities earned more than loans. It accumulates here because this is where the yield on what the bank holds meets the cost of the deposits that fund it. In 2025 the banks repriced loans and securities faster than their cost of funds, and the gap between the two widened.

Exhibit 3

The bank's own choice sits at one layer, between the reserve and the final user

Gathering deposits	Required reserve	Placement by the bank	Final user
Banks, by licence category	Fixed share, set by rule	Government securities, central bank placements, or loans	Federal government, central bank, firms and households
Placed by licence and minimum capital	Placed by the cash reserve requirement	Placed by the bank's own decision, within its licence	Placed by the instrument the bank chose

Note: read left to right as the path of one naira deposit; the third stage is the only one at which the bank decides where the money goes.
Source: Central Bank of Nigeria, circular FPR/DIR/PUB/CIR/002/009 and Monetary Policy Decisions; IMF Country Reports No. 25/157 and 26/125.

Every layer the bank works in is open to domestic companies, and entry to each is set by licence and capital. International authorisation, which reaches outside Nigeria, is held by Nigerian groups and carries the highest capital requirement. Foreign banking groups take part through Nigerian subsidiaries licensed nationally. The reserve layer is open to no bank: it is a rule, not a market. The primary market in government securities is reached through the money market dealer arrangement. Foreign currency deposits pass through the first layer and go straight to the third, because the reserve rule does not cover them.

What runs out first

Before a Nigerian bank lends to a firm or a household, two other claims on its balance sheet have already been met. The first is the cash reserve requirement, which places a fixed share of each naira deposit with the central bank by rule. The second is the federal government's borrowing, which the banks meet by buying treasury bills and bonds at auctions held every two weeks for bills and every month for bonds. Private lending receives what remains after both.

The IMF states the effect directly. In its 2026 review it found that the banks' holdings of government securities, about 22 per cent of their total assets, combined with the high reserve requirement and other structural limits, crowd out private credit. Crowding out here means that money which could be lent to firms and households is held against the state instead. The same review records that the 2026 budget doubled the government's nominal borrowing limits and that the banks indicated space to take more government securities than before.

The binding is not a shortage of money. The banks hold money above what the reserve rule requires and place it with the central bank through the standing deposit facility. The limit is where the balance sheet goes first, not how large it is.

The arrangement is not tied to one set of conditions. The IMF's 2025 review, written when the reserve requirement stood at 50 per cent and monetary policy was tightening, recorded that the banks were buying government securities while private credit remained limited. Its 2026 review, written after the requirement was lowered to 45 per cent, after policy began to ease and after the banks had raised new capital, recorded the same arrangement. The conditions changed and the order of the claims did not.

This limit binds inside banking before it binds anywhere else. The reserve requirement is levied on bank deposits and on nothing else in the economy. Government securities are held by pension funds and asset managers as well, but the reserve rule falls only on the banks, and it falls on them before any of their money reaches a borrower. A firm meets this limit only through its bank. A change elsewhere in public finance left it in place: from February 2026 the government routed oil and gas revenue directly to the Federation Account, and the reserve ratios were held unchanged at every Monetary Policy Committee meeting after that date.

Second in the queue is capital. Every loan requires capital held against its risk, and the banks' capital was reduced when regulatory forbearance ended in June 2025. Under forbearance, banks had carried certain loans under relaxed rules. When it ended, provisions against those loans were raised, and the IMF recorded that capital adequacy fell to 11.7 per cent in the third quarter of 2025 and that non-performing loans rose to 8 per cent, above the prudential ceiling. The recapitalisation completed in March 2026 raised new equity. What capital a bank holds sets how much risk it may carry, whatever its deposits allow.

Third is concentration. The banks' lending is concentrated in a few sectors, among them oil and gas, services, manufacturing and industry, and the IMF recorded virtually no new lending to small and medium enterprises and households in 2025. A bank whose loans sit in a few sectors carries the revenue of those sectors. Borrowers who earn in naira and owe in foreign currency also carry the exchange rate, and the IMF recorded that currency depreciation reduced their capacity to carry debt. Each further loan to the same sectors ties the bank more closely to the same revenue.

Exhibit 4

The state's claims are met before the bank's own capital and exposures come into play

First	Second	Third
Reserve requirement and government securities take their share of each deposit before private lending	Capital held against risk sets how much the bank may lend	Lending concentrated in few sectors ties the bank to their revenue

Note: read left to right as the order in which each limit is met by a naira that is to be lent to a firm.
Source: IMF Country Reports No. 25/157 and 26/125; Central Bank of Nigeria, Monetary Policy Decisions.

This model works until what the state takes first from each deposit leaves private lending without room on the balance sheet.

Where the structure is recorded

Four public records show the structure described in this edition as it stands at any time. Each is published by the Central Bank of Nigeria.

What funds the banks. The deposits of deposit money banks by type: demand, time and savings, and foreign currency. This records whether the banks remain funded by private deposits, and how much of that funding sits in foreign currency, outside the reserve rule. Published in the central bank's Money and Credit Statistics, monthly.

Who takes the banks' money. Bank credit by sector of the economy, including credit to government. This records which categories of borrower the banks are lending to. Published in the central bank's Quarterly Statistical Bulletin, quarterly.

Where the money stops. Net credit to government set against credit to the private sector, in the monetary survey. This records how the banking system's lending divides between the state and private borrowers. Published in the central bank's Money and Credit Statistics, monthly.

What runs out first. The cash reserve requirement for each category of deposit, and the monetary policy rate. This records the rule that takes the first share of every naira deposit. Published in the decisions of the Monetary Policy Committee, at each meeting, about every two months.

Close

Nigeria’s banks are funded by the savings of households and firms, and the state has first call on those savings. A fixed share of each deposit is placed with the central bank by rule, and government securities take a further share at every auction, before any of the remainder is lent to a firm or a household. That order held when policy was tight and when it eased, and before and after the banks raised new capital. The banks’ own limits, the capital they hold and the few sectors they lend to, come into play only on what the state’s claims leave behind.

Read the system. Not the headlines.

About the research

The framework

This edition applies the BTI Reports framework to one sector in one market. The framework reads a structure in four stages, always in the same order: anchor, demand, circulation and constraints. The anchor is what gives the structure its financial stability. Demand is the spending that turns money into activity. Circulation is how capital moves through the structure and where it pools. The constraint is the structural limit on how far the structure can extend.

Participation

This edition carries no participants.

Sources

Every specific claim in this edition traces to a logged retrieval recording the query, the source, the date and the supporting text, and a claim that cannot be traced is not published. Sources are listed at the end of the edition by the section they support, and the structural reading that connects them is the work of BTI Reports.

Cover imagery is generated and depicts no real building or place.

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