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Topic:

The Impact of Recent CBN Policy Shifts on Business Access to Credit in Nigeria

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Overview

The Central Bank of Nigeria (CBN) has, in recent years, embarked on far-reaching policy shifts aimed at stabilising the economy, strengthening the banking sector, and gradually stimulating credit flows to the private sector. While these policy adjustments reflect a broader vision of financial sector reform and macroeconomic resilience, their practical impact on business access to credit has remained complex and, in many respects, uneven.

One of the most consequential of these changes has been the adjustment of the Monetary Policy Rate (MPR) to around 27 percent, reflecting the CBN's evolving stance on inflation control and economic growth. In addition, the CBN has brought an end to regulatory forbearance measures introduced during the COVID-19 period, thereby tightening prudential requirements that had previously been relaxed.

Banks are now required to comply fully with capital adequacy thresholds, loan-loss provisioning standards, and exposure limits. Further reinforcing this approach, the CBN in 2024 introduced a comprehensive bank recapitalisation programme, raising minimum capital requirements across different banking categories. The objective of this policy is to build a more resilient and well-capitalised banking system capable of absorbing risk, extending credit to productive sectors of the economy, deepening credit markets, and supporting long-term financing. Alongside these measures, the CBN has adjusted the monetary policy corridor and liquidity management tools in an effort to improve system liquidity following recent policy rate adjustments.

Beyond conventional monetary policy instruments, the CBN has also deployed targeted intervention programmes designed to enhance access to credit, particularly for small and medium-sized enterprises (SMEs) and other underserved segments of the economy, often through partnerships with development finance institutions. Taken together, these policy shifts have produced mixed outcomes for businesses, reshaping the Nigerian credit landscape in ways that present both opportunities and constraints.

Against this background, a closer examination of how these recent CBN policy shifts have affected business access to credit is essential to understanding their broader implications for enterprise growth, financial inclusion, and economic development in Nigeria.

2.0 Cost of Borrowing and Interest Rate Movements

The cost of borrowing remains one of the most critical channels through which monetary policy affects business access to credit in Nigeria. Interest rate movements, driven largely by the Central Bank of Nigeria's (CBN) monetary policy decisions, directly influence the affordability of loans and the willingness of businesses to seek external financing.

In recent years, the CBN's adoption of a tight monetary stance, reflected in sustained increases in the Monetary Policy Rate (MPR), has significantly raised borrowing costs across the economy. Commercial banks, faced with higher funding costs and inflationary pressures, have responded by pricing loans at elevated interest rates. As a result, many businesses, particularly small and medium-sized enterprises (SMEs), have found bank credit increasingly expensive and, in some cases, economically unviable.

Although recent policy adjustments signal a gradual easing stance, the transmission of lower policy rates to actual lending rates has been slow and uneven. In practice, lending rates remain high due to several intervening factors, including persistent inflation, elevated credit risk, exchange rate volatility, and banks' preference for low-risk investments such as government securities. Consequently, even when headline interest rates moderate, the effective cost of borrowing for businesses often remains prohibitive.

The impact of these interest rate movements has been twofold. On one hand, higher borrowing costs have constrained business expansion, discouraged capital investment, and limited working capital financing. On the other hand, they have reinforced risk aversion within the banking sector, further tightening credit conditions for enterprises without strong collateral or established credit histories.

Overall, while interest rate policy remains a powerful tool for macroeconomic stabilization, its current configuration has imposed significant cost pressures on businesses.

Without complementary measures to improve credit risk management, strengthen credit infrastructure, and incentivise productive lending, reductions in policy rates alone may be insufficient to deliver meaningful relief in borrowing costs or substantially improve access to credit for Nigerian businesses.

3.0 CBN Intervention Funds and Targeted Credit Schemes in Nigeria

Development finance has become an important policy tool for stimulating economic growth in emerging economies. In Nigeria, the Central Bank of Nigeria (CBN) has introduced several intervention funds and targeted credit schemes aimed at supporting critical sectors of the economy, such as agriculture, manufacturing, and micro, small, and medium enterprises (MSMEs) to improve access to finance, reduce borrowing costs, and promote economic diversification, particularly in sectors that are traditionally underserved by commercial banks. due to high interest rates and stringent collateral requirements. However, despite these intentions, many MSMEs continue to face considerable difficulties in accessing the funds.

Over the past decade, the CBN has implemented numerous intervention programmes to address structural financing gaps within the Nigerian economy and has disbursed trillions of naira stimated to be more than ₦10 trillion to various intervention schemes within a relatively short period. These schemes are generally characterized by subsidized interest rates, relatively longer repayment periods, and sector-specific support designed to stimulate productivity and employment.

Among the most prominent initiatives are the Anchor Borrowers' Programme (ABP), which focuses on agricultural production by linking smallholder farmers with anchor processors; the Real Sector Support Facility (RSSF), designed to support manufacturing and industrial growth; the Targeted Credit Facility (TCF), which provides credit support to households and small businesses affected by economic shocks; the Creative Industry Financing Initiative (CIFI), aimed at supporting businesses in the creative and technology sectors; and the Micro, Small and Medium Enterprises Development Fund (MSMEDF), which focuses on improving financing opportunities for small and medium-scale enterprises.

Evidence suggests that small and medium-scale enterprises have received only a small fraction of the total intervention funds disbursed over the years, indicating that a significant portion of the financing has not reached the businesses for which the schemes were originally designed. This raises concerns about the inclusiveness of the programmes and whether they effectively address the financing gap within the MSME sector.

A major barrier to accessibility lies in the complexity of the application process. Businesses are often required to provide extensive documentation such as tax clearance certificates, certificates of incorporation, detailed business plans, bank statements, and guarantor or collateral documentation. While such requirements may be necessary for financial accountability, they can create substantial obstacles for many small businesses, particularly those operating within Nigeria's large informal sector. As a result, some entrepreneurs either fail to meet the eligibility criteria or abandon their applications due to the administrative burden involved.

Another important challenge is the limited awareness of these programmes among business owners. Many entrepreneurs are either unaware of the existence of these intervention schemes or lack the financial literacy required to navigate the application procedures successfully. This gap in information and capacity further restricts access to the funds.

With respect to effectiveness, CBN intervention funds have recorded certain measurable achievements. Some programmes have contributed to increased agricultural output and have supported the expansion of particular sectors of the economy. For example, the Anchor Borrowers' Programme has reportedly facilitated financing for millions of farmers and contributed to increased production of staple crops such as rice and maize. Likewise, financing initiatives targeting the creative and youth-driven sectors have helped support emerging enterprises and generate employment opportunities.

However, despite these successes, the broader structural impact of the intervention schemes remains a matter of debate. Key economic indicators suggest that the programmes have not significantly transformed Nigeria's productive sectors. The manufacturing sector, for example, continues to contribute only a modest share to the country's gross domestic product, while many MSMEs still face persistent difficulties in accessing affordable credit. This suggests that although intervention financing may provide temporary financial relief, it has not sufficiently addressed the deeper structural challenges affecting the Nigerian economy.

Loan repayment has also emerged as a major concern. Several intervention programmes have experienced weak repayment performance, particularly in the agricultural sector. Large volumes of outstanding loans remain unpaid, raising concerns about the sustainability of these schemes. Poor repayment rates can reduce the availability of funds for future beneficiaries and undermine the long-term viability of the intervention programmes.

Beyond accessibility and repayment issues, businesses that obtain intervention funds often encounter a range of practical challenges that limit the effectiveness of the financing. One of the most common complaints relates to bureaucratic delays in the approval and disbursement process.

In many instances, businesses wait several months before receiving funds, which diminishes the usefulness of the financing in addressing urgent operational needs.

The role of commercial banks in administering some of these programmes also presents certain difficulties. Since many intervention funds are disbursed through financial institutions, these banks often apply their own risk management standards, including strict collateral requirements and credit assessments. Consequently, some businesses that qualify under the intervention schemes may still struggle to obtain the loans from participating banks.

Concerns have also been raised regarding transparency and fairness in the allocation of intervention funds. Allegations occasionally surface that politically connected individuals or companies are able to access the funds more easily than genuine small businesses. Whether substantiated or not, such perceptions can undermine confidence in the programmes and discourage legitimate entrepreneurs from applying.

Even when businesses successfully obtain the loans, broader economic challenges often limit the benefits of the financing. Persistent structural problems such as unreliable electricity supply, high production costs, exchange-rate volatility, and rising inflation significantly affect the operating environment for Nigerian businesses. These factors can erode the advantages offered by subsidized credit and reduce the overall effectiveness of the intervention programmes.

In addition to these operational challenges, several institutional issues affect the performance of the schemes. Some programmes suffer from weak monitoring and evaluation mechanisms, making it difficult to track the utilization of funds or accurately assess their economic impact. Institutional capacity constraints within agencies responsible for administering the programmes can also lead to inefficiencies and delays. Furthermore, frequent changes in economic policies and regulatory frameworks create uncertainty for businesses and investors, which may reduce the long-term impact of intervention financing.

4.0 Business Adaptation, Risks, and Outlook

In response to tightening credit conditions and the growing difficulty of accessing conventional bank financing, many Nigerian businesses have been compelled to adapt their financing strategies in order to sustain operations and maintain growth. While traditional bank loans remain an important source of capital, rising interest rates, stricter lending requirements, and economic uncertainty have pushed businesses to explore alternative sources of financing. These adaptations reflect both the resilience of Nigerian enterprises and the broader structural challenges within the country's financial system.

One of the most noticeable developments in recent years is the growing reliance on alternative financing options outside the conventional banking sector. Many businesses are increasingly turning to private investors, venture capital firms, and angel investors for funding. This is particularly evident among startups and technology-driven enterprises, which often find it difficult to secure traditional bank loans due to the absence of tangible collateral or long credit histories. By attracting private equity investment, these businesses are able to obtain funding in exchange for equity participation rather than relying solely on debt financing.

Another alternative financing method gaining prominence is cooperative and community-based funding. In Nigeria, cooperative societies and informal financial associations continue to play a significant role in providing credit to small businesses. These arrangements often operate on the basis of trust and mutual support among members, allowing entrepreneurs to access funds with fewer formal requirements than those imposed by commercial banks. Although the amounts available through such arrangements may be limited, they remain a crucial source of working capital for many small enterprises.

Businesses are also increasingly making use of financial technology platforms that provide digital lending services. Fintech lenders have introduced quicker and more flexible credit solutions, often using alternative data and automated credit assessments to evaluate loan applications. This has made it possible for some businesses to obtain short-term financing more quickly than through traditional financial institutions. However, these loans often come with relatively higher interest rates and shorter repayment periods, which can create additional financial pressure if not properly managed.

Trade credit is another mechanism that many businesses have adopted as a means of financing operations. Under this arrangement, suppliers allow businesses to obtain goods or raw materials with deferred payment terms. This effectively allows businesses to maintain production and sales activities without immediate cash outflows. While trade credit can be beneficial in improving liquidity, excessive reliance on it may expose businesses to supply disruptions or strained commercial relationships if payment obligations are not met promptly.
Crowdfunding and digital fundraising platforms are also gradually emerging as alternative financing channels, particularly among creative and technology-focused enterprises. Though still relatively underdeveloped in Nigeria compared to more advanced economies, crowdfunding provides entrepreneurs with the opportunity to raise small contributions from a large number of supporters, often through online platforms.

Despite these adaptive strategies, businesses continue to face considerable risks in the current financial environment. One of the most pressing challenges is the high cost of borrowing. With commercial lending rates often exceeding levels that many small and medium enterprises can comfortably sustain, businesses must carefully balance their financing needs against the risk of accumulating unsustainable debt burdens.

Currency volatility and inflation further complicate financial planning, as rising costs of imported inputs and operational expenses can erode profitability.
Another risk arises from the relatively short-term nature of many alternative financing options. Fintech loans and trade credit arrangements often require quick repayment cycles, which may not align with the longer production or revenue cycles of certain industries. This mismatch can expose businesses to liquidity pressures and increase the likelihood of financial distress.

Looking ahead, the short-term outlook for credit access in Nigeria remains somewhat constrained. Commercial banks are likely to maintain cautious lending practices due to macroeconomic uncertainties and concerns about loan defaults. As a result, businesses may continue to experience limited access to affordable long-term credit in the immediate future. Intervention programmes and targeted credit schemes introduced by the Central Bank of Nigeria may provide some relief, but their reach and effectiveness remain uneven.

In the medium term, however, there are cautious grounds for optimism. The continued expansion of Nigeria's financial technology sector, combined with increasing investor interest in African startups, could gradually improve access to financing for certain categories of businesses. Policy reforms aimed at strengthening credit infrastructure, improving collateral registries, and enhancing financial transparency may also contribute to a more inclusive credit environment over time.

Ultimately, the ability of Nigerian businesses to navigate these financial constraints will depend largely on their capacity to diversify funding sources, manage financial risks effectively, and adapt to evolving economic conditions. While the challenges remain substantial, the growing range of financing alternatives suggests that businesses are increasingly developing innovative ways to sustain operations and pursue growth despite the limitations of traditional credit systems.

5.0 Private Sector Credit Trends

Data from Nairametrics, citing CBN statistics, indicates that private sector credit has been volatile and has generally either stagnated or contracted slightly. In 2025, total credit to the private sector reached a peak of approximately ₦78.1 trillion in April but declined steadily for most of the year, falling to around ₦72.5 trillion by September before experiencing a modest recovery to ₦74.63 trillion later in the year.

This pattern demonstrates how stifling monetary conditions and elevated borrowing costs have dampened overall credit demand. Despite slight policy rate reductions, many businesses postponed new borrowing, leading to reduced credit facilities even as the CBN sought to encourage it.

Segmentation by Business Type & Size

Analysis of recent credit allocation patterns shows a noticeable imbalance in how credit flows across different categories of businesses:

1.Large Corporates and Financial Institutions:

While large companies continue to access some level of credit, they have also recorded increased default rates on major loan exposures, signalling heightened credit stress among major borrowers.

2.Small and MediumSized Enterprises (SMEs):

Although SMEs have historically struggled with access to finance in Nigeria, available data suggests that their loan performance improved in certain periods of early 2025. Nonetheless, elevated borrowing costs and persistent lender risk aversion have limited broader credit expansion to this segment.

3. Sectoral Credit Allocation:

By mid2025, the services sector, particularly finance and insurance, received the largest share of total credit. In contrast, manufacturing, commerce, and agriculture continued to attract comparatively smaller allocations, reflecting a sustained preference for sectors viewed as lower risk or more liquid.

6.0 Differential Access Across Business Segments

1. Manufacturing and Real Economy Sectors:
These sectors continue to face restricted access to formal credit, largely due to high interest rates and macroeconomic uncertainties that discourage longterm investment.
2. SMEs:
SMEs remain constrained by limited collateral options and heightened risk assessments from banks, resulting in tighter lending conditions and more restrictive credit terms.
3. Large Firms:
Although larger companies often benefit from stronger banking relationships and better collateral positions, they are increasingly subject to stricter risk pricing and closer default scrutiny as macroeconomic risks intensify.

7.0 Bank Lending Behaviour and Risk Appetite

Lending Behaviour in Response to CBN Policy Shifts

Reports from Independent Newspaper Nigeria indicate that the CBN's sustained tight monetary stance and elevated policy rates have significantly reshaped bank lending behaviour in recent years. The high interest-rate raised banks' cost of funds and, consequently, the pricing of loans, making credit more expensive for businesses.
Even after modest policy rate reductions toward the end of 2025, banks maintained a cautious posture, partly due to lingering concerns over credit risk and broader macroeconomic instability. This conservative approach has been reflected in several trends such as:

1. Private sector lending contracted over several months in 2025, signals a reduced willingness by banks to issue new credit in the face of economic pressures and heightened risk aversion.

2. The Preference for Government securities by banks have favoured government treasury instruments and other securities viewed as lowrisk and providing stable returns. This has diverted funds away from private sector lending.

3. Accumulation of Excess Liquidity with the CBN rose sharply as banks opted to place surplus funds with the CBN through the Standing Deposit Facility (SDF), rather than extend new credit to businesses, reflecting heightened caution amid uncertain loan repayment.

Risk Appetite and Credit Risk Management

Nigerian banks' risk appetite has become more conservative, which has been shaped by several reinforcing factors such as Rising Default Risks driven by higher default rates, Capital Adequacy Pressures and Macroeconomic and Exchange Rate Volatility.

Legal and Policy Considerations in Lending Behaviour

Analysing from a legal regulatory standpoint, these trends highlight important policy and legal implications:

1. Whilst it is evident that the CBN's statutory mandate prioritises financial system stability, policy critiques argue that excessively tight monetary conditions can suppress credit expansion particularly for SMEs, thereby making lending more restrictive.
2. The Additional regulatory instruments put in place by the CBN, such as cash reserve ratios, standing facilities, and capital adequacy floors play a significant role in shaping banks' risk assessments and determining their overall lending capacity.
3. While the CBN's focus on financial stability is legally mandated, there is also an argument which has been reflected in policy critiques that overly restrictive monetary conditions can stymie credit flows, particularly to SMEs.

8.0 Conclusion

The effects of recent CBN policy adjustments on business credit in Nigeria are layered and complex. Credit distribution remains uneven across different segments, influenced by tight monetary conditions, cautious lending behaviour among banks, and broader structural challenges within the economy. Although policy measures such as gradual rate reductions signal an intention to stimulate credit growth, these shifts have yet to translate into substantial increases in actual business lending. Amid elevated risk levels and subdued borrowing demand, banks continue to adopt conservative lending strategies, favouring lowrisk assets and upholding stringent standards. For legal and policy stakeholders, these dynamics highlight the necessity of a balanced approach which should be adopted to safeguard financial stability while also promoting improved access to credit for the productive sectors that drive economic growth in Nigeria.

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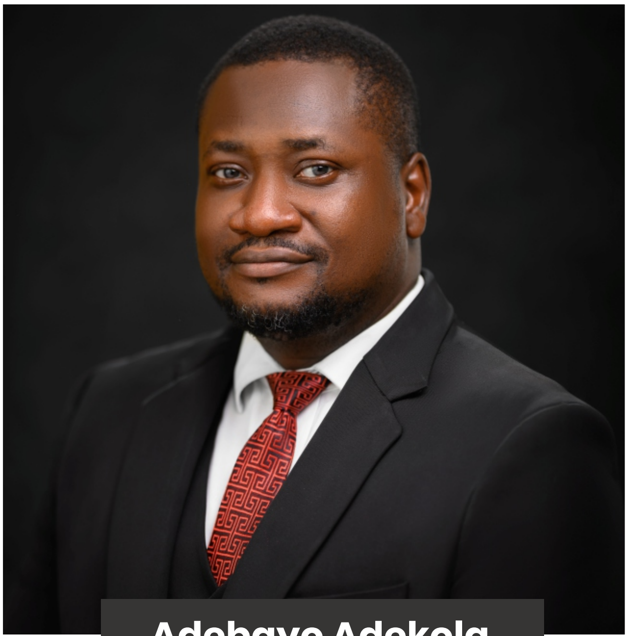

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