



Pre-MPC

ANALYSIS



Global Developments

- Global monetary conditions shifted meaningfully in 2025, with G10 central banks cutting policy rates by a cumulative 850 basis points and emerging market central banks easing by over 3,000 basis points, according to Reuters. However, the pace of easing has moderated in early 2026, as major central banks including the U.S. Federal Reserve, the European Central Bank (ECB), the Bank of England (BoE), and the Reserve Bank of India have opted to hold policy rates following the aggressive dovish cycle last year.
- According to the IMF's January 2026 World Economic Outlook (WEO) update, global growth is projected to remain resilient at 3.3 percent in 2026, broadly in line with the estimated 3.3 percent outturn in 2025. Growth is expected to moderate slightly to 3.2 percent in 2027.
- The IMF attributes this steady global performance to the balancing of divergent forces. Headwinds from shifting trade policies, geopolitical tensions, and tighter fiscal conditions are being offset by strong investment linked to technological advancement, particularly artificial intelligence (AI), as well as supportive financial conditions and continued adaptability of the private sector.
- Global headline inflation is projected to decline further, easing from an estimated 4.1 percent in 2025 to 3.8 percent in 2026 and 3.4 percent in 2027. However, inflation is expected to return to target more gradually in the United States compared to other advanced economies.
- Risks to the global outlook remain tilted to the downside, including renewed trade tensions, geopolitical instability, financial market corrections linked to AI-driven valuations, and rising fiscal deficits that could push long-term yields higher. Nonetheless, stronger productivity gains driven by AI adoption could provide an upside surprise to medium-term global growth.

Key takeaway

- Global central banks have paused rate cuts after aggressive easing in 2025, signalling a shift toward cautious policy normalisation.
- Global growth remains resilient at 3.3% in 2026, supported by strong investment, particularly in AI and technological innovation.
- Continued global disinflation reduces tightening pressure, but geopolitical and fiscal risks remain key policy watchpoints.



Nigeria Developments



General economy and the private sector

- Nigeria's economy is projected to grow by 4.4 percent in 2026, according to the IMF, supported by improving macroeconomic stability and ongoing structural reforms. Inflation has continued its downward trajectory, moderating to 15.10 percent in January 2026, reinforcing the disinflation trend observed since mid-2025.
- However, forward-looking indicators suggest mixed momentum. The composite Purchasing Managers' Index (PMI), a key indicator of private sector activity across manufacturing and services, declined to 55.7 points in January 2026 from 57.6 points in December 2025, indicating continued expansion but at a slower pace. Similarly, credit to the private sector grew at its slowest pace in five years during 2025, averaging just 0.6 percent growth.

External front

- On the external front, macro-financial indicators remain supportive. Nigeria recorded \$6.01 billion in capital importation in Q3 2025, representing a 17.5 percent quarter-on-quarter increase and a significant 380.2 percent year-on-year rise, reflecting renewed investor confidence. The naira strengthened by an average of 2.47 percent in January 2026, trading at an average of N1,416 per US dollar.
- Nigeria's external reserves rose further to \$48.37 billion as of February 16, 2026, the highest level since July 2013, providing a stronger buffer against external shocks and reinforcing exchange rate stability.
- Financial market indicators have also improved significantly. Average Nigeria Eurobond yields declined to 6.98 percent as of February 17, 2026, from 7.03 percent at the start of the year, reflecting strong investor demand and declining sovereign risk premium. The domestic bond market has similarly experienced bullish sentiment, with yields trending downward across maturities.

- Overall, financial market developments and external sector indicators point to improving macroeconomic stability and strengthening investor confidence.

Key takeaway

- Nigeria's macroeconomic outlook is improving, with inflation declining and growth projected at 4.4% in 2026, although private sector momentum remains mixed due to weak credit growth and slowing PMI expansion.
- External sector conditions have strengthened significantly, supported by strong capital inflows, naira appreciation, and external reserves rising to their highest level in over a decade.
- Financial markets remain bullish, with declining Eurobond and domestic bond yields signalling improved investor confidence and easing sovereign risk perception.



Concerns and Considerations

- Despite improving macroeconomic conditions, liquidity dynamics remain a key concern for monetary authorities. During the November 2025 MPC meeting, members expressed strong concerns over excess system liquidity, even though 5 out of 11 members voted for a 50 basis point rate cut. Inflation at the time stood at 16.05 percent, and although it has declined to 15.10 percent, it remains above the Central Bank's medium-term comfort range.
- Fiscal and election-related spending were highlighted as major upside risks to inflation and exchange rate stability. Nearly 8 out of 11 MPC members explicitly warned about the inflationary risks associated with election-cycle fiscal expansion, particularly given Nigeria's proximity to the next election cycle.
- This concern was reinforced by the Central Bank Governor, Olayemi Cardoso, during his presentation at the National Economic Council (NEC) meeting in Abuja. He cautioned that election cycles historically coincide with increased fiscal injections and liquidity expansion, which, if not carefully managed, could destabilise recent gains in macroeconomic stability. He emphasised that election-related spending must be closely monitored to prevent excess liquidity from reversing disinflation progress and triggering renewed exchange rate pressures.
- This underscores the Central Bank's cautious policy stance, suggesting that premature monetary easing could undermine ongoing stabilisation efforts.

Key takeaway

- Excess system liquidity remains a primary concern for the MPC, despite improving inflation dynamics, reinforcing the need for continued monetary caution.
- Election-related fiscal spending poses a significant upside risk to inflation and exchange rate stability, potentially reversing recent macroeconomic gains.
- The CBN is likely to prioritise liquidity control and inflation stability over premature rate cuts, maintaining a cautious policy stance in the near term..





Our Position



- Although global inflation has declined significantly and central banks delivered over 3,850 basis points of cumulative rate cuts in 2025, Nigeria's monetary easing remained limited, with the Central Bank implementing only a 50 basis point cut, leaving the Monetary Policy Rate (MPR) at 27%. In 2026, global central banks have adopted a more cautious approach, with several opting to hold rates while signalling a gradual easing bias.
- Domestically, while inflation has moderated and external sector conditions have improved significantly, election-related fiscal risks and residual liquidity overhang remain key concerns for the Central Bank.
- Given these considerations, we expect the Monetary Policy Committee to hold the MPR at its upcoming meeting on February 23–24, 2026.
- However, the MPC may rely on liquidity management tools rather than headline rate adjustments to support financial conditions. Specifically, the Committee may adjust the asymmetric corridor around the MPR to allow lower interbank rates, improve liquidity transmission, and ease funding conditions for the private sector without compromising its anti-inflation stance.

Policy Call: HOLD (Baseline Scenario)

We expect the MPC to hold the Monetary Policy Rate (MPR) at 27%, maintaining a cautious policy stance that prioritises inflation stability and exchange rate anchoring, particularly in light of excess system liquidity and election-related fiscal risks, while relying on liquidity management tools to support gradual financial easing.



THANK YOU

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