Pre-MPC Analysis

July 2026

Global Developments

FMDA

- The global economic outlook has weakened further since the May MPC meeting as geopolitical tensions continue to weigh on growth prospects. In its July 2026 World Economic Outlook (WEO) Update, the IMF revised global growth downward to 3.0% in 2026 from 3.1% projected in April, while maintaining its 2027 forecast at 3.4%. The Fund attributed the softer outlook primarily to the economic effects of the Middle East conflict, although stronger technology-driven investment, particularly in artificial intelligence, continues to provide some support to global activity.

- The IMF also expects global headline inflation to increase from 4.1% in 2025 to 4.7% in 2026 before moderating to 3.9% in 2027, suggesting that the global disinflation process has stalled. While the direct transmission of the conflict through commodity prices and financial conditions has so far been more limited than initially feared, the Fund warned that renewed escalation could trigger higher energy prices, disrupt supply chains and tighten global financial conditions.

- Monetary policy across major economies remained largely cautious. Since the May MPC meeting, 137 central banks have held monetary policy meetings globally. Of these, 110 (80.3%) maintained policy rates, 16 (11.7%) increased rates, while 11 (8.0%) lowered rates, underscoring the prevailing wait-and-see approach among policymakers. Among major central banks, the U.S. Federal Reserve, Bank of England, and South African Reserve Bank kept policy rates unchanged, while the European Central Bank and the Bank of Japan raised their policy rates in response to persistent domestic inflationary pressures.

- Overall, global monetary conditions remain relatively tight as central banks continue to balance slowing growth against lingering inflation risks and heightened geopolitical uncertainty. This environment is expected to keep financing conditions restrictive and sustain investors' preference for safe-haven assets.

Key takeaway

- The IMF further downgraded global growth to 3.0% for 2026 while raising its inflation forecast, reflecting the impact of the Middle East conflict.

- About 80% of central banks kept policy rates unchanged after the May MPC meeting, highlighting a continued preference for policy caution amid persistent uncertainty.

- Although the global economy has remained resilient, geopolitical risks, higher energy prices and tighter financial conditions continue to pose downside risks to growth and inflation...

Nigeria Developments

General economy and the private sector

- Domestic economic activity showed tentative signs of improvement following the May MPC meeting. The IMF maintained Nigeria's 2026 growth forecast at 4.1%, unchanged from its April projection, while the economy expanded by 3.89% year-on-year in Q1 2026, compared to Q4 2025 which stood at 4.07%.

- Business activity also recovered, with the CBN Composite Purchasing Managers' Index (PMI) rising to 50.1 points in June, signalling a return to expansion after contracting in May.

- However, inflationary pressures remain elevated. Headline inflation increased to 15.91% in June from 15.69% (April inflation considered at the May MPC).

External front

- Nigeria's external sector continued to strengthen over the review period. Total foreign exchange inflows reached US$21.80 billion in the first half of 2026 according to FMDQ, while external reserves increased from approximately $49.0 billion at the time of the May MPC meeting to US$51.89 billion, providing additional support for exchange rate stability. The naira appreciated marginally from an average of N1,370.00/$ in May to N1,366.99/$ in June before experiencing mild pressure in July, averaging N1,376.69/$ month-to-date. Investor confidence in Nigeria's external position also improved, with the average sovereign Eurobond yield declining from 7.01% at the previous MPC meeting to 6.90%. In contrast, domestic financial conditions remained tight, as the average FGN bond yield increased from 16.38% at the beginning of June to 17.43% by mid-July. Also, the stop rate on the 364-day Nigerian Treasury Bill rose sharply from 16.15% at the May auction preceding the last MPC meeting to 17.66% at the July 15 auction, reflecting sustained demand for higher yields in the domestic fixed-income market.

Key takeaway

- Economic activity regained momentum, with Q1 GDP growth of 3.89% and the PMI returning to expansion, although inflation edged higher to 15.91%.

- The external sector strengthened further, supported by higher FX inflows, rising external reserves and improved sovereign market sentiment.

- Despite improved external conditions, yields in the domestic fixed income market continued to rise, indicating that monetary and liquidity conditions remain restrictive.

Concerns and Considerations

- Despite improving macroeconomic fundamentals, the Monetary Policy Committee (MPC) is expected to remain cautious as upside risks to inflation persist. The increase in headline inflation to 15.91% in June, though modest, interrupted the recent disinflation trend, raising concerns over whether the uptick reflects temporary external shocks or the emergence of broader inflationary pressures. With geopolitical tensions in the Middle East continuing to pose risks to global energy prices, the Committee is likely to focus on preventing second-round effects from becoming entrenched in inflation expectations.

- Domestic liquidity conditions also warrant close attention. The approaching election cycle raises the risk of increased fiscal spending and liquidity injections, which could weaken monetary policy transmission and place renewed pressure on prices and the exchange rate. This concern was echoed by several MPC members during the May meeting, with some advocating stronger liquidity management through Open Market Operations, while others warned that banks' growing preference for government securities continues to crowd out private sector credit.

- Although stronger foreign exchange inflows, higher external reserves and exchange rate stability have improved Nigeria's external position, rising Treasury bill and bond yields indicate tighter domestic financial conditions. Consequently, the Committee is likely to maintain a cautious stance while closely monitoring inflation expectations, liquidity conditions and evolving external risks.

Key takeaway

- Inflation risks remain tilted to the upside despite improving macroeconomic fundamentals.

- Election-related fiscal spending and excess liquidity remain key domestic policy concerns.

- The MPC is likely to rely on liquidity management alongside the current policy rate while monitoring geopolitical developments and inflation expectations.


Our Position

- We expect the Monetary Policy Committee (MPC) to retain the Monetary Policy Rate (MPR) at 26.50%, while maintaining all other policy parameters. Although headline inflation edged up to 15.91% in June, the increase appears to be largely driven by temporary supply-side factors, particularly higher global energy prices arising from geopolitical tensions. Tightening monetary policy further is therefore unlikely to address the underlying drivers of the recent inflation uptick.

- At the same time, the Committee is unlikely to consider easing given persistent upside risks from pre-election fiscal spending, elevated system liquidity and uncertainties in the global environment. Encouragingly, macroeconomic fundamentals have continued to improve since the last MPC meeting, supported by stronger foreign exchange inflows, rising external reserves, a relatively stable exchange rate and resilient economic growth. These developments suggest that the current policy stance remains sufficiently restrictive to preserve macroeconomic stability.

- Going forward, the CBN should complement its policy stance with active liquidity management, particularly through Open Market Operations and other sterilisation measures, to contain excess liquidity and strengthen monetary policy transmission. This approach would allow the Bank to anchor inflation expectations, safeguard exchange rate stability and preserve policy credibility while assessing whether the recent increase in inflation proves temporary or more persistent..

Policy Call: HOLD (90% probability)

We assign a probability of roughly 90 percent to a hold decision, with the MPC likely to retain the MPR at its current level while continuing to monitor inflation dynamics, global developments, and liquidity conditions closely.

THANK YOU

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