

MONETARY POLICY WATCH

A Publication of United Capital Research

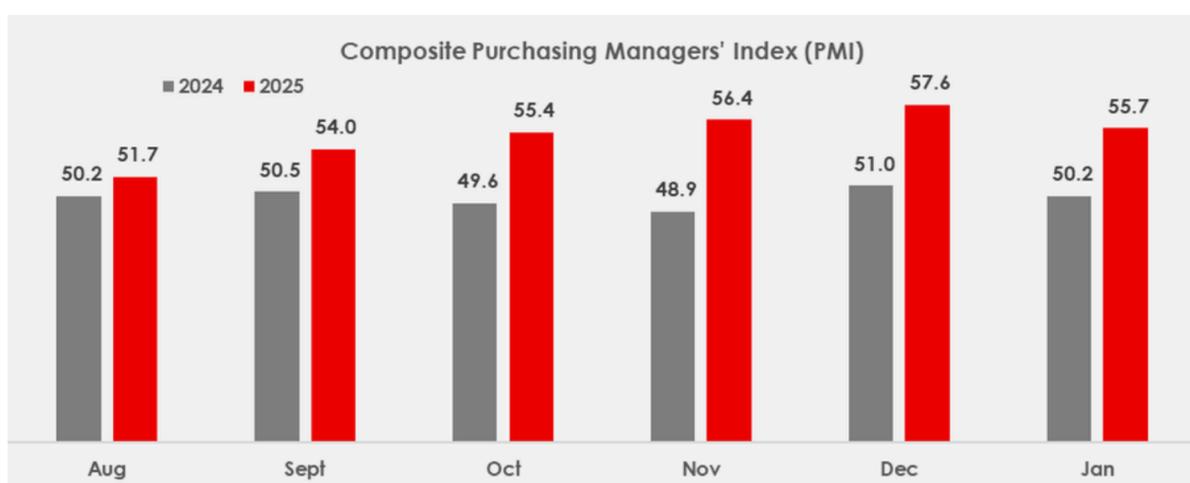
February 20, 2026

Economic Conditions Supports 0.5% Rate Cut

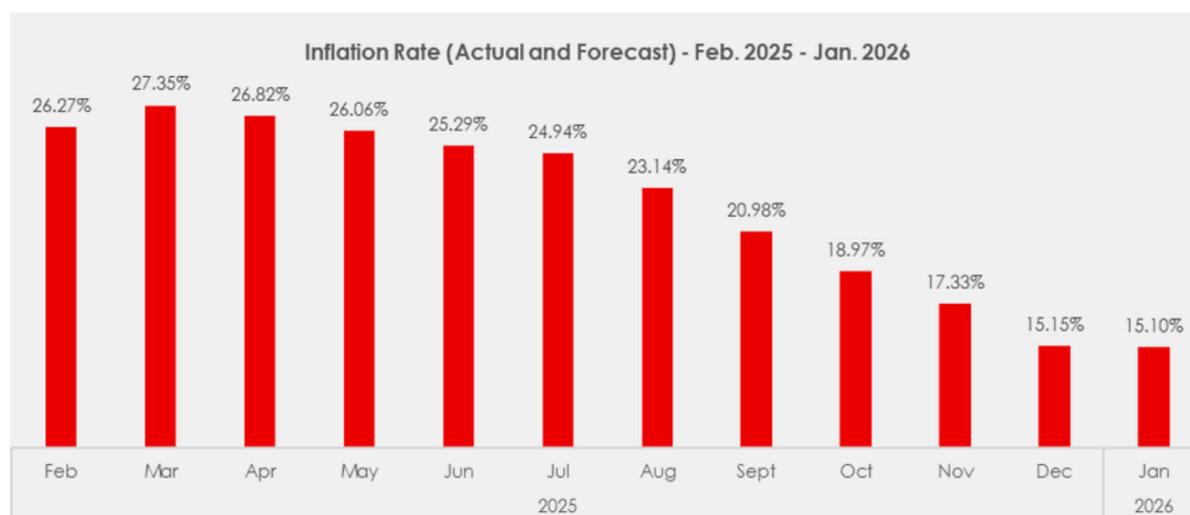
The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) will meet on February 23–24, 2026. Economic conditions have improved since the last meeting, with the Purchasing Managers' Index (PMI), in expansionary territory, a stronger exchange rate supported by better foreign exchange (FX) liquidity, and a continued moderation in inflation, pointing to a more stable macroeconomic environment. However, broad money supply (M3) has continued to rise, which may limit the scope for aggressive monetary easing due to potential inflation risks. Despite this, United Capital Research expects the Committee to implement a modest policy rate adjustment to signal monetary policy easing. This would help support ongoing economic recovery and stimulate demand ahead of the election season, without significantly undermining price stability.

Macroeconomic Update: Growth Signals Emerging

The Nigerian economy exhibited robust growth momentum in the third quarter of 2025, as reflected in the Gross Domestic Product (GDP) data. Real GDP grew by 3.98% year-on-year in Q3 2025, up from 3.86% recorded in Q3 2024. These outcomes are consistent with signals from the Purchasing Managers' Index (PMI), which remained firmly in expansion territory, above 50 points throughout 2025 and surpassed corresponding 2024 levels. The solid PMI performance extended into Q4 2025, closing the quarter at 57.6 points from 51.0 points in 2024. The improving economic activity has now extended to January 2026 with PMI reading still in strong expansionary region of 55.7 points up from 50.2 points in 2025. The drop in the PMI between December 2025 and January 2026 is on account of seasonality effects.



The revised inflation data from the National Bureau of Statistics (NBS) shows a steady decline from 27.35% in March 2025 to 15.10% in January 2026. The moderation was driven by lower food prices and a recent decline in Premium Motor Spirit (PMS) pump prices, partly due to increased competition between Dangote Refinery and independent oil marketers. The appreciation of the Naira against the US Dollar also helped ease the cost of imported consumer goods. However, the recent increase in global crude oil prices—reflecting rising geopolitical tensions between the United States and Iran—poses upside risks to PMS prices and logistics costs. Looking ahead, United Capital Research projects inflation will fall to single digits by May 2026. The short-term inflation outlook therefore supports a policy rate cut at this meeting to stimulate inclusive economic growth.



Robust External Position Supports Currency Strength

The value of Naira strengthened notably in January 2026. The average exchange rate appreciated by 2.37%, moving from US\$/N1,450.97 in December 2025 to US\$/N1,416.52 in January 2026. The currency closed the month of January 2026 at US\$/N1,386.55, compared with US\$/N1,435.76 in December 2025. Improved investors' confidence in the Nigerian economy and financial system, increased foreign exchange inflows and increase in exports are all responsible for the stability and appreciation in the value of the currency. The exchange rate outlook of United Capital Research is that Naira will trade around US\$/N1,321 to end the year.

Crude oil production figures as of January 2026 rose slightly from 1.42 million barrels per day (mbpd) in December 2025 to 1.46 mbpd due to recovery of the Erha Deepwater Field and reduced operational disruptions. Crude oil (Bonny Light) prices averaged US\$69.582/b year-to-date, from US\$68.34/b in January 2026. Meanwhile the average crude oil price (Bonny Light) so far in February 2026 is US\$71.87/b. Sustained higher crude oil production should support foreign exchange inflows. In addition, Nigeria is promoting non-oil exports to enhance exchange rate stability. Capital inflows showed significant improvement as of December 2025, with total cumulative inflows rising 88% year-on-year to US\$23.22 billion, up from US\$12.32 billion in the same period of 2024. External reserves climbed to US\$48.5bn on 17 February 2026, the highest figure since 2018. United Capital Research projects that external reserves will reach \$50.1bn in 2026.

Outlook Suggests Continuation of Monetary Policy Easing

The US Federal Open Market Committee (FOMC) held the Federal Funds Rate (Fund Rate) at 3.5%–3.75% in January 2026. 2 members voted for 0.25% rate cut. While the chance of a rate hike in 2026 is extremely low, we believe the FOMC will not be aggressive with rate cut in the year 2026 as inflation is still above the target set by FOMC. In recent months, major central banks globally maintained a hold stance on policy rates, in line with expectations.

Meanwhile, broad money supply (M3) rose to ₦124.4 trillion in December 2025 from ₦123.0 trillion in November 2025 representing a growth of 1.2% but a year-on-year growth of 10% from ₦113.4 trillion from 2024 level. The year-on-year growth is the lowest growth level since 2020. Although the year-on-year growth rate in money supply of 10% is higher than the average quarterly real GDP growth rate 3.78% in Q1 2025 to Q3 2025, it is lower than the average quarterly nominal GDP growth rate of 18.55% in 2025. Given the potential of the economy, United Capital Research believes a growth rate of 10% in money supply is not inflationary. Credits should be directed into the productive sector that can increase the productive capacity of the economy.

Conclusion: Easing Measures to Sustain Growth Momentum

United Capital Research expects the MPC to lower the MPR by at least 0.5% to 26.5% to stimulate inclusive growth in the economy and adjust the standing facility corridor around the MPR at +0.5%/-5.5%. Retain the Cash Reserve Requirement (CRR) for Deposit Money Banks at 45%, Merchant Banks at 16% and increase the CRR on Non-Treasury Single (TSA) public sector deposit to 85% from 75%, while keeping the liquidity rate constant at 30%. CBN can continue to use the Open Market Operations (OMO) to regulate the money supply in the system in line with targets set. Such measures would reflect confidence in the ongoing stability in the foreign exchange market and expected drop in the inflation rate.

We Expect the MPC to

- Reduce the MPR to 26.5%.
- Adjust the standing facility corridor around the MPR at +0.5%/-5.5%
- Retain the Cash Reserve Requirement (CRR) for Commercial Banks at 45%.
- Retain the CRR for Merchant Banks at 16%
- Keep the Liquidity Ratio at 30%.
- Increase the CRR on Non-Treasury Single Account (TSA) public sector deposits at 85%.

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CONTACT US

- **Research:**
Research@unitedcapitalplcgroup.com
- **Trustees:**
Trustees@unitedcapitalplcgroup.com
- **Securities Trading:**
Securities@unitedcapitalplcgroup.com
- **Investment Banking:**
InvestmentBanking@unitedcapitalplcgroup.com
- **Asset Management:**
Assetmanagement@unitedcapitalplcgroup.com
- **Investors Relations:**
InvestorRelations@unitedcapitalplcgroup.com