United Capital

MONETARY POLICY WATCH

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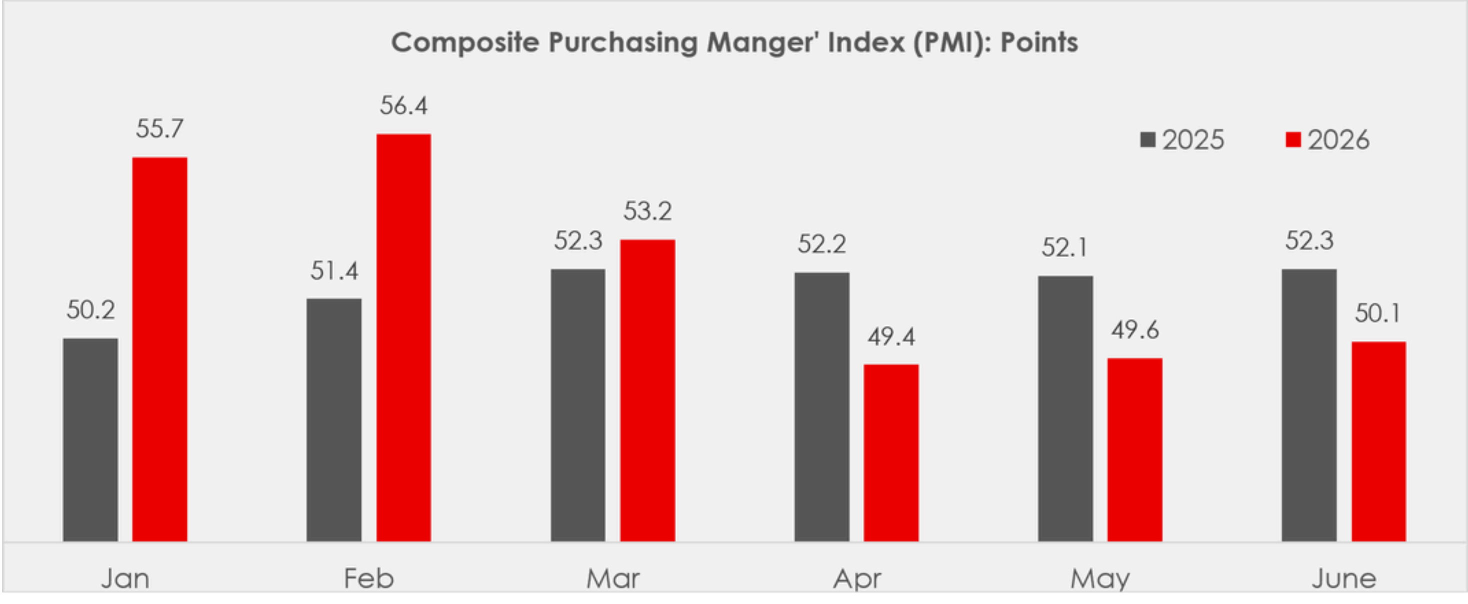
Despite Recent Improvements, a Hold Decision Remains Advisable

TThe Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) will meet on July 20–21, 2026. While external reserves have strengthened since the last meeting, inflation remains elevated despite easing marginally to 15.91% in June 2026. Our short-term outlook suggests inflation would remain around 15%. Empirical evidence indicates that inflation above 12.88%–13.0% is detrimental to growth in Nigeria. At the same time, the Naira has depreciated modestly against the US Dollar since the last MPC meeting, underscoring the need to safeguard exchange-rate stability. These factors support a hold decision. Although rising reserves have improved Nigeria's external buffers, inflation remains above the growth-friendly threshold and currency pressures persist. Moreover, the global environment remains uncertain. The US–Iran peace agreement is still fragile, while the Russia–Ukraine conflict continues to pose risks to global energy and commodity markets.

PMI Remains Weak Despite Modest Improvement

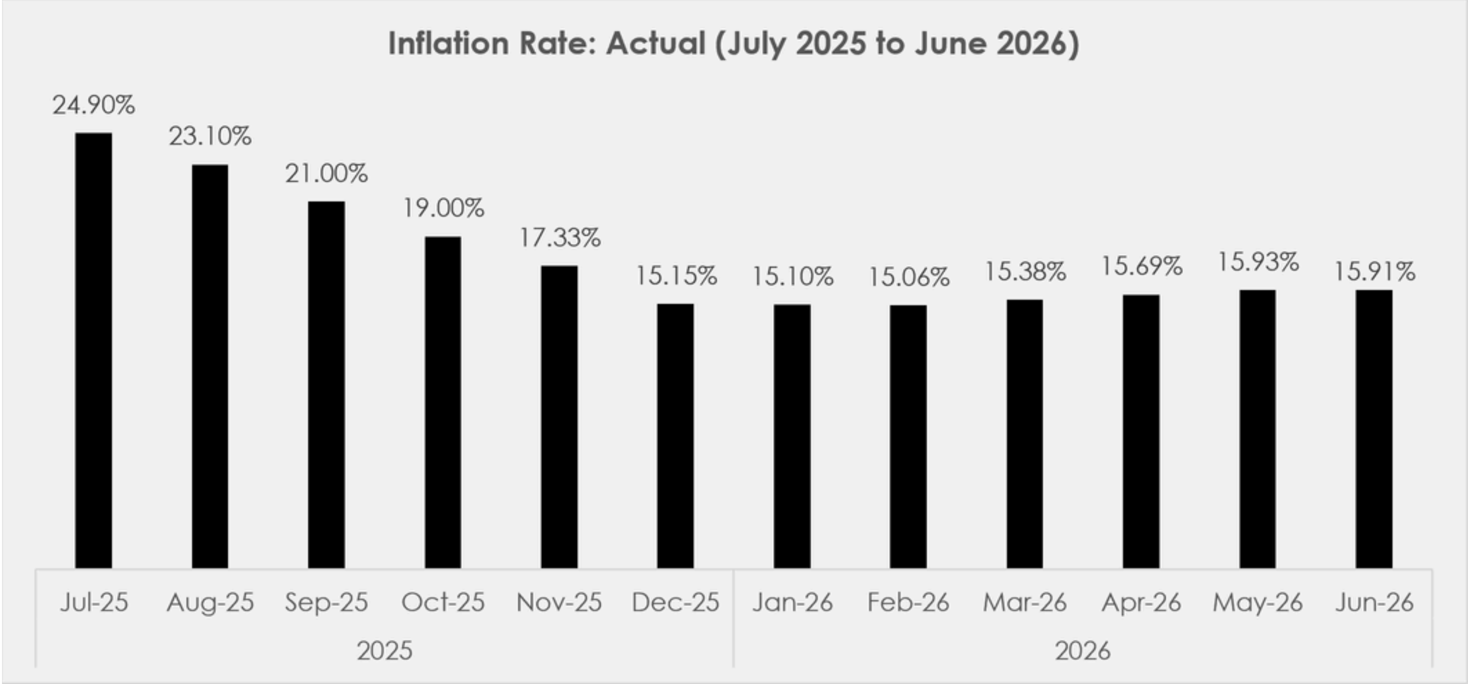
Nigeria's Composite Purchasing Managers' Index (PMI) edged up to 50.1 points in June 2026, recovering from contractionary readings in April and May. While accommodative monetary policy could help sustain the PMI in expansion territory, policy decisions should also reflect broader macroeconomic conditions. Economic activity remains resilient, with real Gross Domestic Product (GDP) growing by 3.89% year-on-year in Q1 2026, up from 3.13% in Q1 2025. This was driven largely by the non-oil sector, which accounted for 96.08% of total output. Furthermore, the International Monetary Fund (IMF) projects 4.1% GDP growth in 2026, compared with 4.0% in 2025, points to continued economic momentum. Given the improving growth outlook and the need to balance inflation and exchange-rate concerns, maintaining the current monetary policy stance remains appropriate.



Sources: Central Bank of Nigeria, United Capital Research

Inflation Rate Remains Elevated Despite Marginal Easing

Inflation eased slightly to 15.91% in June from 15.93% in May and remains elevated – well above the 12.88%–13.0% threshold that empirical studies identify as growth-retarding for Nigeria. This underscores the need to maintain a monetary policy stance that continues to support disinflation. United Capital Research projects inflation to remain around 15% throughout H2 2026, suggesting that underlying price pressures remain persistent. In addition, the fragile US–Iran ceasefire and the ongoing Russia–Ukraine conflict pose risks of renewed energy and food price shocks. Domestically, election-related spending could further heighten inflationary pressures. Given these risks, a hold decision at the upcoming MPC meeting appears appropriate. This will allow policymakers to assess inflation and exchange-rate developments over the next few months before considering any policy easing.



Source: National Bureau of Statistics,United Capital Research

Strong External Buffers Should Support Exchange Rate Stability

External reserves have remained robust, providing support for exchange rate stability. The 30-day average external reserves, which stood at US$48.89bn at the time of the last MPC meeting on May 21, 2026, increased to US$51.92bn as of July 16, 2026. This represents a growth of about 6% and is sufficient to cover more than 9 months of imports. The CBN Governor recently indicated that gross external reserves have exceeded US$52 bn, providing up to 10 months of import cover. The improvement in reserves has been driven by stronger diaspora remittances, a favourable external trade position, and sustained capital inflows. These developments have strengthened Nigeria's external buffers. However, an early monetary policy easing—particularly ahead of the upcoming elections and amid a highly uncertain global environment—may not be optimal at this time. Maintaining the current monetary policy stance would help preserve investor confidence, safeguard exchange rate stability, and consolidate recent gains in the external sector.

The exchange rate depreciated marginally by 0.5%, moving from US$/₦1,373.34 at the time of the last MPC meeting to US$/₦1,380.18 on July 17, 2026. Since the final week of June 2026, the Naira has traded within a range of US$/₦1,370–US$/₦1,383, suggesting persistent demand pressures in the foreign exchange market. This development comes at a time when crude oil prices are trending lower and are expected to remain around US$70 per barrel if the US–Iran peace agreement holds. Nigeria's crude oil production improved from an average of 1.38 million barrels per day (mbd) in Q1 2026 to 1.53 mbd in Q2 2026. However, the increase in output is unlikely to fully offset the impact of weaker oil prices on foreign exchange earnings. Consequently, exchange rate pressures may persist, reinforcing the case for maintaining the current monetary policy stance.

Money Supply Growth Yet to Fully Boost the Economy

Broad money supply (M3) grew by 8.4%, rising from ₦119.20trn in May 2025 to ₦129.21trn in May 2026. M3 comprises currency in circulation, demand deposits, savings deposits, time deposits, foreign currency deposits, institutional money market instruments, and other transferable deposits. Despite this expansion in liquidity, economic growth has remained relatively modest, with the highest GDP growth rate during the period standing at 4.23% in Q2 2025. The GDP growth has been significantly lower than the growth in money supply. This suggest that a substantial portion of the liquidity increase may have translated into inflationary pressures rather than real economic expansion. This underscores the need for monetary policy to remain focused on price stability. Under these circumstances, it would be difficult to justify a further easing of monetary policy at this time.

Policy Call: Hold Until Disinflation Strengthens

The need to further reduce inflation, moderate foreign exchange demand pressures, safeguard the economy against external shocks, and contain growth in M3 supports a hold decision. While Nigeria has made significant progress in lowering inflation and maintaining exchange rate stability, emerging pressures in the foreign exchange market and lingering global uncertainties warrant caution. Accordingly, United Capital Research believes that maintaining the current policy stance is the most appropriate course of action. We expect the MPC to adopt a cautious approach by keeping policy rates unchanged. The CBN should continue to manage liquidity through the issuance of Open Market Operations (OMO) and other market-based instruments.

We Expect the MPC to:

- Maintain the Monetary Policy Rate (MPR) at 26.5%.
- Retain the Standing Facilities Corridor around the MPR at +50/-450 basis points.
- Maintain the Cash Reserve Requirement (CRR) for Deposit Money Banks at 45.0%.
- Retain the CRR for Merchant Banks at 16.0%.
- Maintain the Liquidity Ratio at 30.0%.
- Retain the CRR on Non-Treasury Single Account (TSA)public sector deposits at 75%.

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