

A Turning Point That Business Leaders Cannot Afford to Ignore

HEADLINE INFLATION

15.10%*Jan 2026 | 10th consecutive decline*

MONETARY POLICY RATE

26.5%*Feb 2026 | 2nd cut in 5 months*

IMPORT COVER

9.68 mo*\$50.45bn reserves | 13-yr high*

I. THE 304TH MPC MEETING: WHAT HAPPENED AND WHY IT MATTERS

In view of prevailing macroeconomic conditions, attracting and sustaining needed direct investments, and ensuring that local businesses reach their greatest potential in a friendly and supportive business environment remain crucial for economic growth and development. On February 23–24, 2026, the Monetary Policy Committee of the Central Bank of Nigeria convened for its 304th statutory meeting in Abuja. The outcome, announced by Governor Olayemi Cardoso, was a 50 basis point reduction in the Monetary Policy Rate from 27.00% to 26.5%, the second rate cut in five months and the first cut of 2026. The decision was unanimous among all eleven attending members, a signal of shared conviction rather than fractured compromise.

To understand the significance of this decision, it must be placed in context. Between 2022 and mid-2024, the CBN pursued one of the most aggressive monetary tightening cycles in its recent history, raising the MPR six times, lifting the benchmark rate from 11.5% to a peak of 27.5% by late 2024. That tightening was a response to a convergence of shocks: the removal of the fuel subsidy, the unification of the exchange rate, food supply disruptions, and a depreciating naira. The strategy was painful, but it worked. Inflation peaked at 34.19% in June 2024 under the old NBS methodology and has been declining ever since.

At the 304th meeting, the MPC held all other parameters unchanged: the Cash Reserve Ratio remains at 45% for commercial banks and 16% for merchant banks, the Liquidity Ratio stays at 30%, and the non-TSA public sector CRR is retained at 75%. The asymmetric standing facility corridor was maintained at +50/-450 basis points around the MPR and a configuration designed to penalize banks that park idle funds with the CBN rather than lending into the real economy.

MPC Rate Decisions: The Recent Cycle (2024–2026)

Meeting	Date	Decision	Resultant MPR
296th	Jul 22–23, 2024	Rate raised +50bps	26.75%
297th	Sep 23–24, 2024	Rate raised +50bps	27.25%
298th	Nov 2024	Rate raised +25bps (peak)	27.50%
299th	Feb 19–20, 2025	Rate held	27.50%
300th	May 19–20, 2025	Rate held	27.50%
301st	Jul 21–22, 2025	Rate held	27.50%
302nd	Sep 22–23, 2025	Rate CUT – 50bps (1st cut since 2020)	27.00%
303rd	Nov 24–25, 2025	Rate held	27.00%
304th	Feb 23–24, 2026	Rate CUT – 50bps	26.50%

How the MPC Decision Transmits to the Economy

A rate cut by the MPC does not immediately lower the borrowing costs faced by a manufacturing firm in Kano or a retail business in Lagos. Monetary policy transmission in Nigeria has historically been slow and imperfect, and the current environment is no exception. However, the channels through which the February 2026 decision will eventually reach the real economy are identifiable, even if the timelines remain uncertain.

Credit Cost and Lending Rate Trajectory

Effective lending rates in Nigeria have routinely exceeded 30–35%, even when the MPR was lower, because banks price in risk premiums, CRR costs, and liquidity charges. The asymmetric corridor adjustment which widens the penalty for keeping funds at the CBN from –250 to –450 basis points below the MPR is specifically designed to push commercial banks toward lending rather than warehousing liquidity. Over time, sustained rate reductions combined with corridor incentives should narrow the spread between the MPR and effective commercial lending rates, making credit marginally more accessible.

Exchange Rate Stability and Import Inflation

One of the most direct channels through which monetary policy affected Nigerian households and businesses in 2023–2024 was through exchange rate pass-through. Naira depreciation drove up the cost of imported inputs, raw materials, fuel, and consumer goods, compounding the inflationary impact of the subsidy removal. The CBN's tightening cycle with high rates attracting foreign portfolio investment helped stabilize the naira, which has appreciated from above N1,600/\$ at its weakest point to approximately N1,359/\$ by early 2026. The February rate cut is calibrated to preserve this stability while cautiously easing financial conditions.

Capital Market and Investment Sentiment

Lower rates, in theory, reduce the attractiveness of fixed-income securities relative to equities and real investment. With Nigerian treasury bill yields hovering above 20%, the market has adjusted to a higher-rate environment. A gradual, data-driven easing cycle signals to investors that the macro environment is stabilizing, reducing the uncertainty premium that investors embed in business plans and capital allocation decisions. For foreign direct investors in particular, policy predictability matters as much as the rate level itself.

II. INFLATION ANALYSIS

Nigeria's inflation story from 2023 to early 2026 is a story of a deliberately induced shock. A painful but arguably necessary path which will be followed by an extended but fragile recovery. Understanding the anatomy of this cycle is essential for any business making pricing decisions, investment plans, or working capital projections.

The Inflation Arc: 2023 to January 2026

Period	Headline %	Food %	Core %
Jan 2023	21.82%	24.32%	~19.0%
Jun 2023	22.79%	25.25%	~20.3%
Dec 2023	28.92%	33.93%	~23.1%
Jun 2024	34.19% (peak)	~40.9%	~27.4%
Nov 2024	34.60% (rebased peak)	~39.9%	~28.8%
Mar 2025	~24.2%	~21.8%	~26.4%
Sep 2025	~18.0%	~14.5%	~21.2%
Oct 2025	16.05%	13.12%	~18.7%
Nov 2025	14.45%*	11.08%	18.0%
Dec 2025	15.15%*	10.84%	18.63%
Jan 2026	15.10%	8.89%	17.72%

* Reflects NBS methodological rebase — base year updated from 2009 to 2024, with 2023 as weight reference period. Old-methodology equivalents would have been materially higher.

Three Phases of the Inflation Cycle

Phase 1: Structural Shock (2023 — Mid-2024)

Inflation accelerated sharply from 21.82% in January 2023, driven by three compounding forces. The removal of the fuel subsidy in May 2023 triggered an immediate surge in energy and transport costs, which cascaded through the food supply chain and into the price of virtually every traded good. Simultaneously, the unification of the exchange rate exposed the true market rate for the naira, causing a sharp currency depreciation that passed through

to the cost of imported inputs, raw materials, and finished goods. Insecurity in key agricultural belts particularly in the Middle Belt and North-West disrupted food supply chains and pushed food inflation above 40% by mid-2024 under old methodology.

Phase 2: Monetary Brake (Mid-2024 — Mid-2025)

The CBN's aggressive tightening cycle began to bite. High interest rates reduced money supply growth, curbed speculative demand for foreign currency, and helped anchor the exchange rate. However, the transmission was slow. Because much of Nigeria's inflation was driven by supply-side shocks rather than excess demand, interest rate increases could only do so much to restrain price growth. The NBS's methodological rebase in early 2025, which updated the base year and revised the CPI basket to better reflect current consumption patterns, resulted in sharp downward revisions to reported inflation. Under the new methodology, December 2025 inflation was reported at 15.15% compared with a projected 31.2% under the old methodology.

Phase 3: Disinflation (H2 2025 — Present)

From mid-2025, a genuine disinflationary trend emerged, supported by a combination of lagged monetary tightening effects, improved food supply from the 2024 harvest season, a more stable exchange rate reducing import cost pressures, and lower global commodity prices. Headline inflation has now declined for eleven consecutive months, reaching 15.10% in January 2026, the lowest reading since before the structural shock of 2023. Food inflation has fallen most dramatically, to 8.89%, reflecting improved domestic supply and a stronger naira.

The Unfinished Work: What the Data Still Signals

Despite the encouraging headline trajectory, several inflation sub-components continue to signal underlying cost pressures that businesses cannot afford to ignore.

CPI Component	Jan 2026 Rate	Signal
Food & Non-Alcoholic Beverages	8.89%	↓ Positive
Core Inflation (excl. food & energy)	17.72%	~ Elevated; watch
Education	22.48%	↑ Wage pressure risk
Housing & Utilities	~17.5%	~ Overhead cost pressure
Clothing & Footwear	10.91%	↓ Moderating

The persistence of core inflation at 17.72% is the most important cautionary signal in the current data. Core inflation reflects services prices, manufactured goods, and other non-food, non-energy components that are structurally stickier. Its elevation suggests that while supply-side shocks are fading, there remain embedded cost pressures in the economy from energy costs, logistics, imported industrial inputs, and labour which will require more time and sustained monetary restraint to resolve. Education inflation at 22.48% is a specific watch item for corporate planners: higher education costs translate, with a lag, into upward pressure on skilled labour wage expectations.

III. IMPORT COVER ANALYSIS

Import cover is the number of months a country's foreign exchange reserves can finance its current level of imports. This is one of the most direct measures of external economic resilience. For a trade-dependent economy like Nigeria, where over 80% of foreign exchange earnings derive from crude oil exports and where a wide range of manufactured goods, food, machinery, and raw materials are imported, the import cover metric tells the story of how exposed the economy is to external shocks.

The IMF and World Bank conventionally recommend a minimum import cover of three months as a threshold for external liquidity adequacy. Sub-Saharan African development practitioners often use a more conservative five-month threshold for oil-dependent economies. Against either benchmark, Nigeria's trajectory from 2023 to early 2026 represents a substantial improvement in the country's external risk profile.

Import Cover Trajectory: 2023 to February 2026

Period	Gross Reserves (USD)	Import Cover (months)	Signal
End-2022	~\$36.7bn	~5.5 months	Adequate
Mid-2023	~\$33.0bn	~4.5–5 months	Constrained
End-2023	\$32.91bn	~3.5–4 months	Under pressure
Mid-2024	~\$34.0bn	~4.2 months	Stabilising
End-2024	\$40.19bn	~6.5 months	Recovery
Mid-2025	~\$42.0bn	~8 months	Improving
Sep 2025	\$42.8bn	14.0 months*	Strong
Nov 2025	\$46.7bn	10.3 months	Strong
End-2025	\$45.50bn	~9+ months	Strong
Jan 2026	\$46.28bn	~9.5 months	Resilient
Feb 16, 2026	\$50.45bn	9.68 months	13-yr high. Robust

* The September 2025 CEIC estimate of 14 months uses goods-only import volumes, which are lower than goods-and-services figures; the 9.68-month official CBN figure for February 2026 uses the broader goods-and-services denominator.

The 2023 Inflection Point: Why It Happened

The period from mid-2022 through end-2023 represents the low point of Nigeria's recent import cover trajectory. Reserves declined from above \$36 billion in late 2022 to approximately \$32.91 billion by end-2023. The drivers were multi-directional: oil production underperformance relative to OPEC quota entitlements (averaging 1.3–1.5 million barrels per day against a quota of 1.8 million bpd), the legacy of FX forward obligations built up under the previous CBN administration, and a structural FX demand-supply mismatch that saw the CBN defend an artificial

exchange rate through reserve drawdowns. The result was an import cover that fell uncomfortably close to the minimum adequate threshold.

The structural turn came with the exchange rate liberalisation of mid-2023 and the subsequent shift to a more orthodox monetary policy framework. By removing the implicit subsidy on FX demand that the artificial rate created, the CBN allowed the market to clear at the cost of immediate inflationary pain but over time reduced the chronic drain on reserves from FX defence. Foreign portfolio investors, attracted by high naira yields and a more transparent market, returned in volume. Capital importation rose to approximately \$12.32 billion in 2024 from \$3.91 billion in 2023, with portfolio flows accounting for roughly 68% of total inflows.

Drivers of the 2024–2026 Reserve Build-Up

The reserve accumulation that has lifted Nigeria's import cover to a thirteen-year high rests on several converging drivers, each with different durability characteristics:

- **Foreign Portfolio Investment:** High naira yields (T-bill rates above 20%) and a stabilizing exchange rate attracted significant portfolio inflows, which accounted for the largest share of reserve accretion in 2024–2025. This source is inherently more volatile than FDI but has been sustained by a sustained interest rate premium.
- **Diaspora Remittances:** Records were broken in 2025, with diaspora flows exceeding \$25 billion for the year, supported by the unified exchange rate making official remittance channels more attractive than parallel routes.
- **Multilateral Inflows:** Eurobond issuances totalling \$3.3 billion in January 2026, alongside IMF and World Bank disbursements, provided a meaningful injection into the reserve position.
- **Fuel Subsidy Removal/FX Demand Reduction:** The elimination of the fuel subsidy removed one of the largest single drains on the CBN's FX liquidity. With domestic refining capacity improving (particularly via the Dangote refinery partial operational ramp-up), petrol import volumes and associated FX demand have declined.
- **Oil Revenue Improvements:** While production challenges persist, with output reportedly at approximately 1.3 million barrels per day in early 2026, improved receipts from crude sales and reduced IOC repatriation of earnings have contributed.

IV. IMPLICATIONS AND RECOMMENDATIONS FOR THE NIGERIA BUSINESS ENVIRONMENT

The convergence of a sustained disinflation trend, two consecutive MPC rate cuts, and a thirteen-year reserve high creates a materially different risk landscape than the one that existed in 2023. The direction of travel is constructive. But businesses that read the headline numbers without engaging the granularity risk being caught off-guard by persistent structural risks that the aggregate data does not immediately reveal. The following recommendations are structured for corporate leaders, SME operators, and investors making decisions in this environment.

01

Treat This as an Easing Cycle But Don't Refinance Prematurely

With the MPR now at 26.5% and headline inflation at 15.10%, the real interest rate environment is beginning to normalise. Two rate cuts in five months signal the beginning of a cautious easing cycle. Businesses with high-cost short-term debt should begin conversations with lenders about refinancing timelines, but should not rush into fixed-rate long-term instruments immediately. The CBN has been explicit that future cuts will be data-driven. If inflation re-accelerates from seasonal food price increases, a naira shock, or a global commodity spike, the easing could pause. A phased refinancing strategy, rather than a wholesale restructuring, is the prudent approach for Q2 2026.

02

Price Planning Must Account for Sticky Core Inflation

Food inflation at 8.89% is genuinely encouraging for household purchasing power. But core inflation at 17.72% which captures the costs businesses pay for services, utilities, logistics, rent, and manufactured inputs and this remains significantly elevated. Businesses that update their annual price lists based on the headline number rather than the core measure risk underestimating their actual cost environment. Budget models for 2026–2027 should use core inflation as the baseline for cost escalation, while incorporating a downside scenario in which core inflation remains above 15% through end-2026.

03

Import Cover Strength Creates a Window for Capital Equipment and Input Procurement

Nigeria's \$50.45 billion in gross reserves and 9.68 months of import cover provides a more stable FX environment than the country has enjoyed in over a decade. Businesses that are import-dependent particularly those sourcing capital equipment, industrial inputs, or finished goods from international suppliers have a relatively favourable window to secure FX for procurement without the extreme rate volatility that characterized 2023–2024. This does not mean the naira is risk-free; oil production underperformance remains the single largest structural vulnerability. But the current reserve buffer provides approximately 3–4 months of additional cushion above the minimum adequate threshold, which meaningfully reduces short-term FX shock risk.

04

Reserve Durability Is the Key Risk — Monitor Oil Production Monthly

The current reserve position is strong, but its durability rests significantly on portfolio capital inflows that are inherently sensitive to global risk appetite and interest rate differentials. A reversal of the US Federal Reserve rate path, a deterioration in Nigeria's credit rating outlook, or a significant drop in oil prices toward \$55 per barrel (as some analysts have projected for 2026) could reduce inflows and put pressure on the reserve buffer. Oil production theft, which has constrained output to approximately 1.3 million barrels per

day, remains an unresolved structural drag. Businesses with medium-term foreign currency obligations should not assume current reserve strength will persist unchanged; hedging strategies and FX contingency planning remain prudent.

05

The MPR-to-Lending Rate Gap Remains the Transmission Bottleneck

Effective commercial lending rates in Nigeria remain well above the MPR, typically ranging from 28% to 35%, because banks price in CRR costs, risk premiums, and liquidity charges. The asymmetric corridor adjustment to -450bps is designed to penalise idle bank liquidity and encourage lending, but the structural gap between the policy rate and real economy borrowing costs will not close overnight. SMEs and mid-sized corporates should actively engage their primary banking relationships to understand how rate cut savings are being priced, and should advocate through industry associations for greater pass-through transparency from the banking sector.

CLOSING NOTE

Nigeria's monetary policy posture has turned a meaningful corner. The 304th MPC meeting's 50 basis point reduction was not a pivot it was a measured step in a data-driven easing cycle that has been carefully managed to preserve the credibility of the CBN's disinflation commitment. The eleven consecutive months of falling headline inflation, the \$50.45 billion reserve position, and the 9.68 months of import cover collectively represent the most favourable external and monetary backdrop for Nigerian business planning in over a decade.

Yet these gains remain fragile. Core inflation at 17.72% signals that embedded cost pressures have not fully dissipated. Portfolio-dependent reserves are structurally more vulnerable than FDI-backed ones. And the transmission mechanism between the MPR and effective lending rates remains the central bottleneck preventing the macroeconomic improvement from reaching the majority of businesses operating in the formal economy.

The businesses that will benefit most from the current environment are those that read the data carefully, plan for the persistence of structural constraints alongside the improvement in monetary conditions, and actively engage with financial institutions and policy processes rather than waiting passively for conditions to improve. The direction of movement is the right one. The pace and durability of that movement will depend on decisions made in the months ahead by the CBN, by commercial banks, and by Nigerian businesses themselves.