MPR RETAINED AT 26.50%

... Rates Retained Amid Inflation Concerns and Global Uncertainty

May 21, 2026. *Economic Report*

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN), at its 305th meeting, retained the Monetary Policy Rate (MPR) and other key policy parameters, maintaining a cautious stance as it continues to balance inflation concerns with the need to preserve price stability.

The Committee acknowledged the recent uptick in inflation. The Increase in inflation was driven by the effects of increases in energy prices, which had a significant impact on energy inflation (4.56% increase YoY as of April 2026). The cause for the increase in energy prices is the ongoing 3-month US-Iran conflict that impacts the Strait of Hormuz and the transition of energy across the globe (the Strait of Hormuz transports 20%-25% of our global energy usage). The MPC also expressed confidence that ongoing reforms and improved macroeconomic conditions would support a return to disinflation in the near term.

Summary:

- Monetary Policy Rate: 26.50%.
- Asymmetric Corridor: +50/-450 basis points around the MPR.
- CRR of Deposit Money Banks: 45.00%.
- CRR of Merchant Banks: 16.00%.
- Liquidity Ratio: 30.00%.
- CRR of non-TSA public sector deposits: 75.00%

Committee Considerations

In arriving at its decision, the Committee acknowledged the impact of current geopolitical tensions, particularly the Middle East crisis, which has contributed to rising global energy prices and increased transportation and logistics costs. For reference, the average monthly price of Brent crude oil per barrel was $64.38 in January, $69.24 in February, $98.16 in March, and $102.20 in April.

Despite these external pressures, the MPC noted that the Nigerian economy has remained relatively resilient due to the impact of prior policy reforms. According to the Committee, improvements in exchange rate stability, stronger external reserve, improved monetary policy transmission, fiscal consolidation efforts, and a well-capitalised banking system have strengthened the economy's ability to weather the effects of the global energy crisis.

The Committee further stated that these reforms have helped moderate the pass-through effect of global commodity and energy price increases on domestic inflation, adding that inflationary pressures could have been worse in the absence of these measures.

The MPC also welcomed the recent sovereign rating upgrade, with Nigeria currently rated at B (stable outlook) by S&P, B- (stable outlook) by Fitch, and Caa1 by Moody's, noting that it reinforces investor confidence in Nigeria's reform trajectory and macroeconomic fundamentals. Consequently, members maintained that a cautious and vigilant policy stance remains necessary to properly anchor inflation expectations and sustain macroeconomic stability.

Another major highlight from the meeting was the successful completion of the banking recapitalisation exercise, which resulted in the emergence of 33 banks with stronger capital positions and improved financial soundness indicators. The Committee, however, urged the Bank to remain proactive in managing potential post-recapitalisation risks to preserve financial system stability.

Outlook

Despite recent improvements in macroeconomic conditions, including the sovereign rating upgrade and relatively stronger external reserves, we expect the MPC to maintain a cautious stance in the near term. These gains have improved investors' confidence in Nigeria's macroeconomic environment, though inflation remains above the CBN medium-term target, i.e. single-digit inflation.

Food inflation is still the key driver of price increases, and this is more linked to structural supply constraints, transport costs (through energy prices), and security challenges. At this stage of the year, Nigeria is largely in the planting season(April–July). This means A decline in food prices may begin to occur at the beginning of harvest season, beginning of Q4. The impact on headline inflation would be dependent on the effect of energy prices at the time on other arms of the supply chain for foodstuffs to the market

Overall, the MPC is expected to stay watchful of key macroeconomic indicators, as these will continue to influence its decision.

Market Implications

Fixed Income

Investors are likely to continue positioning in high-yield government securities, particularly treasury bills and OMO instruments, as elevated interest rates continue to support real returns. This also means the cost of borrowing for businesses will remain high, particularly for commercial papers.

However, yield direction would still depend on system liquidity conditions, inflation expectations, and the government's borrowing pattern in subsequent auctions.

Equities Market

The equities market has gained 60.05% YTD despite the tight monetary policy, while the highest yield for the fixed-income instrument is 22.65% (364-day treasury bill). However, past performances do not guarantee future performances.

Going forward, we still expect the equities market to continue its positive momentum on a broader landscape on the back of the stable macro conditions and as investors expect the Dangote refinery's initial public offer (IPO) this year.

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WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng
Website: www.wstc.com.ng