

Policy Rate Decision | MPC stays cautious amid persistent inflation pressures

May 20, 2026

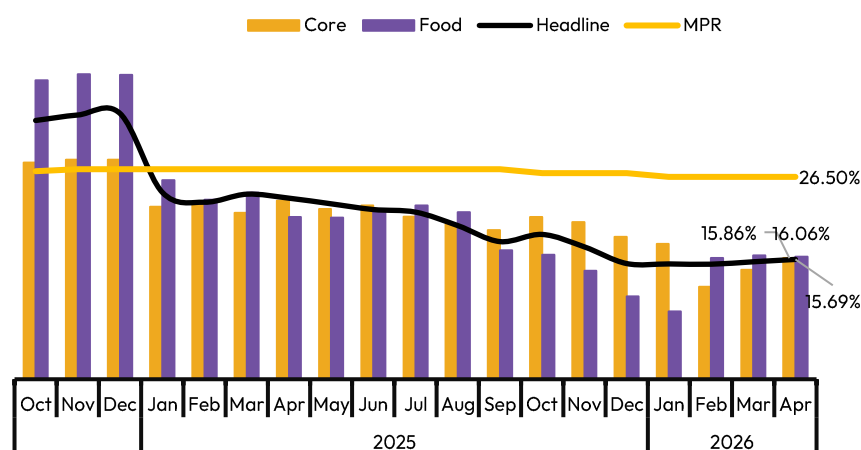
The Monetary Policy Committee (MPC) of the Central Bank of Nigeria concluded its two-day meeting with the following decisions:

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- Retained the Monetary Policy Rate at 26.5%
- Adjusted the asymmetric corridor around the MPR to +50bps/-450bps
- Retained the CRR for Deposit Money Banks at 45.00% and maintained Merchant Banks' and Non-TSA public sector deposits at 16.0% and 75.0% respectively.

At its 305th meeting, the Monetary Policy Committee (MPC) reviewed recent global and domestic macroeconomic developments, including heightened geopolitical tensions and persistent inflationary pressures. While markets largely expected the Committee to either maintain its current stance or deliver a further rate hike to reinforce inflation anchoring, the MPC ultimately retained all policy parameters, reflecting its cautious and data-dependent approach. The Committee noted that current inflationary pressures are largely transitory and expressed confidence that ongoing reforms have significantly strengthened the economy's resilience through improved external buffers, exchange rate stability, and a better-capitalized banking system. Consequently, members maintained a hawkish stance aimed at firmly anchoring inflation expectations and safeguarding macroeconomic stability.



Source: CBN, NBS, Zedcrest Research

Market Implications

- **Fixed income market:** With inflationary pressures remaining elevated and FX conditions relatively stable, we expect the DMO to largely maintain current yield levels at primary market auctions, subject to investor bid levels and government financing requirements. In the secondary market, yields are likely to remain supported by tight liquidity conditions driven by high CRR and the prevailing hawkish monetary policy stance. Although higher oil prices are expected to strengthen FX inflows and fiscal buffers, thereby easing pressure on government borrowing requirements and with tight system liquidity likely to keep yields around current levels. On the Eurobond market, yields are expected to remain relatively high but range-bound, driven largely by credit spreads in US Treasury yields and global risk sentiment rather than domestic monetary policy. Nigeria's sovereign spreads may tighten modestly amid resilient external buffers, although volatility is likely to persist due to global risk-off cycles and geopolitical developments.

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- **Foreign Exchange market:** We expect the naira to remain relatively stable in the near term, underpinned by resilient external reserves despite heightened Middle East tensions, improved oil receipts, and ongoing structural reforms which have continued to support investor confidence, evidenced by recent sovereign rating upgrades such as S&P Global Ratings raising Nigeria's rating to B from B- which are expected to support FX liquidity and foreign portfolio participation. Nonetheless, downside risks remain, particularly from potential foreign portfolio outflows amid still-attractive U.S. Treasury yields, persistent global risk-off sentiment, and geopolitical shocks that could pressure capital flows and exchange rate stability.
- **Equity market:** Elevated interest rates are expected to continue exerting pressure on borrowing costs across real economy, while inflationary pressures are likely to remain elevated in the near to medium term despite the CBN's expectation of a return to a disinflationary trend, investors are likely to rotate into fundamentally resilient names with strong pricing power, the ability to pass higher costs to consumers without materially eroding margins, and sectors that benefit from asset repricing and higher yields particularly the banking sector. Nonetheless, we expect the equities market to maintain its positive momentum, albeit at a more moderate pace supported by catalysts such as the listing of the Dangote Refinery, FTSE Russell reclassification, sustained FX stability, and further improvements in investor confidence.

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