

H1 Economic Review and Outlook for H2 2026

Global Headwinds... Nigeria's Resilience



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1.0

Executive Summary



Executive Summary

From stabilisation to consolidation. Nigeria's first half of 2026 confirmed that the difficult reforms of 2024–2025, fuel subsidy removal, exchange rate unification, tax reform and monetary tightening, are translating into measurable macroeconomic gains. The economy absorbed a significant global energy shock in H1 without losing its disinflation anchor or exchange rate stability, a marked contrast with earlier episodes of external stress.

Growth is broadening. Real GDP expanded 3.89% year-on-year in Q1 2026 (Q1 2025: 3.13%), with agriculture rebounding to 3.15% growth, industry at 3.50% and services, 57.7% of output, growing 4.31%. The non-oil economy (96.1% of GDP) grew 3.94%, confirming that the recovery is increasingly domestically anchored. Analysts project Q2 growth of 3.7–4.2%.

Disinflation held despite the oil shock. Headline inflation ended H1 at 15.91% (June), down from 25.29% a year earlier, despite a March fuel price shock from the Middle East conflict that briefly pushed the monthly trend higher. Food inflation of 17.52% remains the key pressure point. The CBN began cautious easing, cutting the MPR by 50bps to 26.50% in February, its second cut since September 2025.

External buffers are at multi-year highs. Gross reserves climbed to \$51.5bn by end-June (about nine months of import cover, up 38% year-on-year), while the naira held a narrow ₦1,370–1,385/\$ band at the official window. The official–parallel spread has compressed to roughly 3%, evidence that FX reforms are entrenching price discovery and rebuilding investor confidence.

The global backdrop turned hostile. The Middle East conflict drove crude from \$57 to a \$113 peak in April before settling near \$76, reviving inflation in advanced economies. The European Central Bank (ECB) delivered its first-rate hike since 2023 and the Fed held at 3.50–3.75% with a hawkish stance, tightening global financial conditions just as Nigeria seeks to ease. Higher oil prices cut both ways for Nigeria: stronger fiscal and export receipts, but costlier imported fuel and imported inflation.

What matters for H2. The second half will test whether stabilisation gains can survive the 2027 election build-up. Sustained reform credibility, disciplined budget execution, banking-sector recapitalisation, and the deepening of green and sustainable finance will determine whether Nigeria converts stability into inclusive, job-rich growth. We flag five markers for H2: the July and September MPC decisions; the pace of food disinflation; budget execution and borrowing costs as the 2027 campaign gathers pace; the durability of portfolio inflows through the NFEM; and delivery on green-finance commitments. On balance, we expect Q2 growth of 3.7–4.2% and continued, if slower, disinflation through year-end.



Executive Summary

2026 Projections

H1 2026 Performance (January–June)

Variables	Outlook	
GDP	●	↑
Inflation Rate	●	↓
Exchange Rate	●	↑
Capital Importation	●	↑
Oil Production	●	↓
MPR	●	↓
External Reserves	●	↑
Capital Markets	●	↑

Rating Key	Outlook
Positive	●
Stable	●
Negative	●

1.1. Snapshot of H1 2026 Global and Domestic Performance

Review of H1 2026

From Outlook to Reality: H1 2026 Performance Review

At the beginning of 2026, we published our 2026 Economic Outlook, outlining our expectations for the domestic economy against an evolving global backdrop. As we enter the second half of the year, developments across global and domestic markets provide an opportunity to assess how these themes

unfolded. The table below presents a snapshot of key macroeconomic developments during H1 2026, highlighting the interaction between global events and domestic policy reforms in shaping Nigeria's economic performance.

No.	2026 Outlook	Commentary
1	GDP growth projected at 4.3%	Broadly in line. Real GDP grew 3.89% in Q1 2026, just below our ~4.3% full-year projection but well above Q1 2025 (3.13%), led by an agriculture rebound (+3.15%), industry (+3.50%) and services (+4.31%). Non-oil output grew 3.94%.
2	Exchange rate expected to stabilise around ₦1,500/US\$	Outperformed. The naira held a ₦1,370–₦1,385/\$ band at the official window through H1, with the parallel-market spread compressing to 3%, notable resilience while a stronger dollar pressured other emerging-market currencies.
3	Inflation expected to moderate	Broadly on track. Headline inflation ended June at 15.91%, down from 25.29% a year earlier, even after the March fuel price shock. Food inflation (17.52%) remains the key residual pressure.
4	Increase in external reserves	Achieved. Gross reserves reached \$51.5bn at end-June (9 months of import cover, +38% Year-on-Year), lifted by stronger oil receipts, portfolio inflows and remittances.
5	Gradual monetary easing anticipated	On track, but cautious. The CBN cut the MPR by 50bps to 26.50% in February, its second cut since September 2025, while holding the CRR at 45% to guard against oil-shock pass-through.
6	Oil production recovery towards 2.0mbpd	Underperformed. Output averaged 1.55mbpd in Q1 2026, below both Q1 2025 (1.62mbpd) and Q4 2025 (1.58mbpd), leaving fiscal projections exposed despite higher prices.
7	Sustained capital market momentum	Achieved. Market infrastructure advanced with the transition towards T+1 settlement, while improving sovereign credit sentiment supported equity and fixed-income flows.
8	Global conditions expected to ease gradually	Reversed. The Middle East conflict drove crude from \$57 to a \$113 April peak; the ECB hiked for the first time since 2023 and the Fed turned hawkish, tightening global financial conditions instead.

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Global Macroeconomic Developments and Policy Shifts in H1 2026



Global Macroeconomic Developments and Policy Shifts in H1 2026

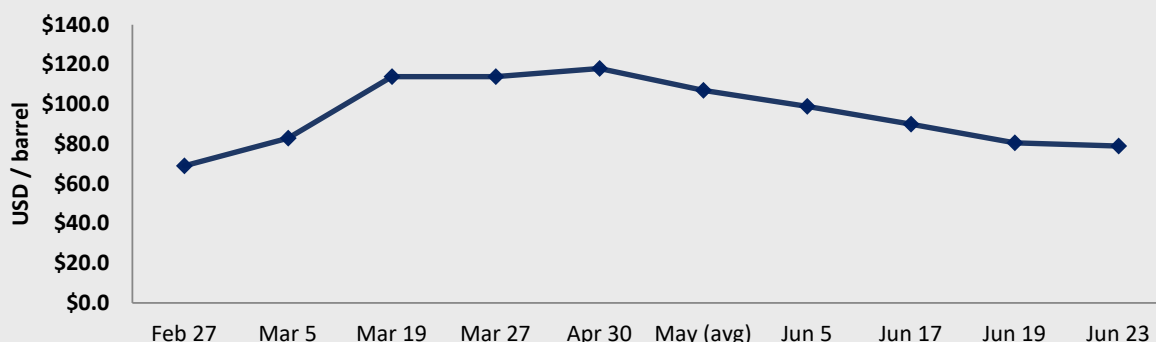
Global Growth picture in H1 2026

Our assessment is that H1 2026 marked a decisive turning point for the global economy, as geopolitical developments abruptly interrupted what had been an increasingly favourable macroeconomic backdrop. Entering the year, easing inflation, moderating interest rates and resilient domestic demand had supported expectations of a gradual acceleration in global growth. However, the escalation of hostilities between the United States, Israel and Iran fundamentally altered this trajectory, introducing renewed uncertainty into global markets.

The conflict, which intensified following military strikes on Iranian strategic assets and the subsequent

disruption of maritime traffic through the Strait of Hormuz, triggered a sharp increase in global energy prices and heightened concerns over the security of critical energy supply routes. As nearly one-fifth of global oil shipments transit the Strait, the deterioration in regional security prompted a broad repricing of geopolitical risk across energy, commodity and financial markets. The resulting increase in oil prices reversed much of the progress made in global disinflation during 2025 and complicated the policy outlook for major central banks.

Brent crude oil price through H1 2026



Source: U.S EIA Short-term energy outlook, Bloomberg and Kreston Pedabo Research

Despite these developments, the global economy demonstrated greater resilience than initially anticipated. Robust household consumption in major advanced economies, sustained investment in artificial intelligence and digital infrastructure, supportive fiscal and industrial policies in China, and resilient labour market conditions collectively mitigated the adverse effects of higher energy prices and tighter financial conditions. Consequently, although the geopolitical shock weakened growth expectations and prompted downward revisions to global GDP forecasts by the

IMF, World Bank and OECD, it did not materially derail the underlying global expansion. We believe the defining macroeconomic lesson from H1 2026 is not the temporary surge in oil prices, but the global economy's ability to absorb a significant geopolitical shock without falling into recession. This resilience provides a constructive backdrop for H2 2026, although elevated geopolitical risks and policy uncertainty continue to warrant a cautious investment approach.

Global Macroeconomic Developments and Policy Shifts in H1 2026

Global Growth Outlook

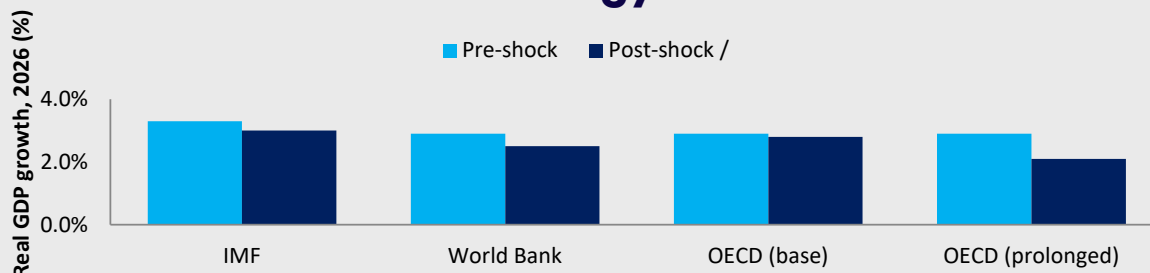
Our review of the latest multilateral forecasts indicates that the geopolitical and energy market disruptions witnessed during H1 2026 materially weakened the global growth outlook. Although the global economy demonstrated notable resilience in the face of elevated uncertainty, higher energy prices, tighter financial conditions and increased policy uncertainty prompted major international institutions to revise their growth expectations downward.

The IMF, World Bank and OECD all lowered or reassessed their outlooks following the escalation of geopolitical tensions in the Middle East. The IMF revised its 2026 global growth forecast from 3.3% in its January outlook to 3.1% in April, before lowering it further to 3.0% in its July update. Similarly, the World Bank reduced its forecast from 2.9% to 2.5%, reflecting

weaker investment momentum, tighter financing conditions and heightened policy uncertainty. While the OECD maintained a relatively resilient central outlook, it highlighted significant downside risks under a prolonged energy disruption scenario, where global growth could slow to approximately 2.1%.

Collectively, these revisions reinforce our view that the principal consequence of the H1 2026 energy shock was not an outright derailment of global economic activity, but a moderation in the pace of expansion accompanied by heightened macroeconomic uncertainty. Importantly, all three institutions continue to project positive global growth, underscoring the resilience of the global economy despite persistent geopolitical headwinds.

Global growth forecast: Before and After the H1 Energy shock



Source: IMF WEO January 2026 (3.3%) and April 2026 (3.1%); World Bank Global Economic Prospects June 2026 (2.5%); OECD Economic Outlook June 2026 Kreston Pedabo Research

Global Macroeconomic Developments and Policy Shifts in H1 2026

Global Inflation

Our assessment is that the disinflationary progress achieved over the past two years was materially disrupted during H1 2026 by the resurgence of geopolitical tensions and the associated energy supply shock. Although global inflation had been steadily moderating entering the year, the sharp increase in oil and commodity prices following the conflict in the Middle East temporarily reversed this trend, prompting major international institutions to revise their inflation expectations upward.

The IMF now projects global headline inflation to average 4.4% in 2026 under its baseline scenario, rising to 5.4% under a more adverse geopolitical scenario. Similarly, the OECD estimates G20 headline inflation at 4.0% in 2026 approximately 1.2 % above its pre-conflict projection before moderating to 2.7% in 2027, assuming energy markets continue to normalise. Collectively, these revisions reinforce the view that the principal macroeconomic consequence of the H1 energy shock has been a temporary interruption of the global disinflation process rather than a return to structurally elevated inflation.

In our view, the inflationary effects of the conflict have been transmitted through three principal channels: (i) direct energy costs, as crude and refined product prices spiked; (ii) elevated shipping, freight-insurance and logistics premia on Gulf and Red Sea routes; and (iii) second-round pass-through into core goods and services prices, the channel central banks are watching most closely into H2.

First, higher energy and commodity prices generated a broad-based cost-push inflation shock, increasing production and transportation costs across multiple sectors. Second, persistently elevated inflation raises

the risk of second-round wage-price effects, particularly in labour markets where inflation expectations remain insufficiently anchored. Finally, disruptions to fertilizer and agricultural input markets pose renewed risks to global food inflation. With the Gulf accounting for more than 30% of global urea fertilizer exports, supply disruptions have the potential to increase agricultural production costs and exacerbate food security challenges, particularly across import-dependent emerging and low-income economies.

Across the United States, Eurozone and United Kingdom, declining goods prices and improved global supply chains have contributed to lower headline inflation; however, core inflation has remained comparatively resilient. Services inflation continues to outpace headline inflation, supported by robust wage growth, tight labour market conditions and elevated housing-related costs, highlighting the growing importance of domestic structural factors relative to external supply constraints.

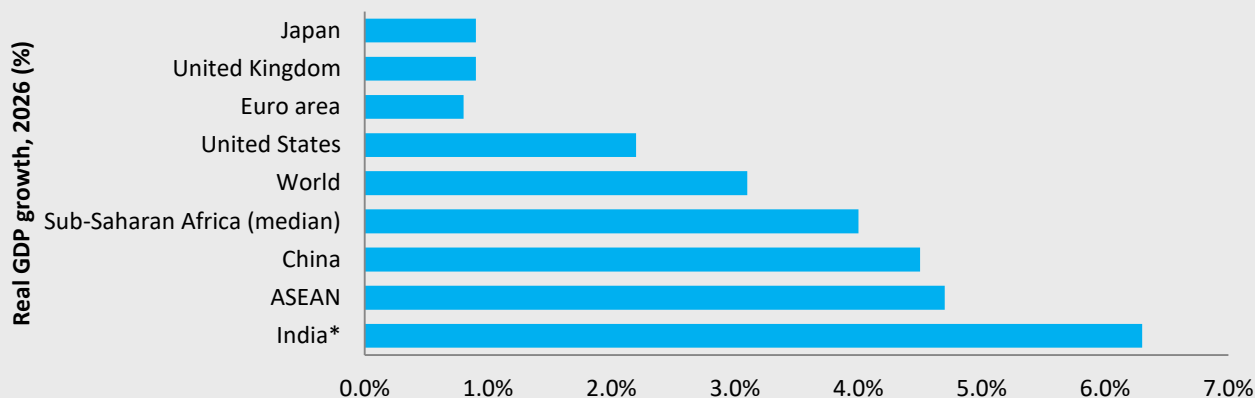
Looking ahead, we expect the pace of global disinflation to resume during H2 2026, albeit more gradually than previously anticipated.

Our assessment is that H1 2026 reinforced the growing divergence in global growth dynamics, with regional economic performance increasingly shaped by differences in energy exposure, policy support and domestic demand resilience. While the geopolitical shock weighed on global activity, its economic impact was uneven, creating a clear distinction between energy importers, energy exporters and economies benefiting from structural growth drivers such as technology investment and favourable demographics.



Global Macroeconomic Developments and Policy Shifts in H1 2026

Real GDP growth by region 2026



Source: IMF WEO April 2026 and Regional Economic Outlooks; OECD Economic Outlook June 2026; Asian Development Bank (ADB) regional update, Kreston Pedabo Research.

Asia is expected to remain the primary engine of global economic growth despite being the region most exposed to disruptions in Gulf energy supplies. With approximately 84% of crude oil transiting the Strait of Hormuz destined for Asian markets, higher energy prices posed a significant downside risk during H1 2026. Nevertheless, robust domestic demand, sustained public investment and continued expansion in the technology and electronics value chain have helped preserve the region's growth momentum.

India is projected to remain the fastest-growing major economy, with real GDP growth of approximately 6.3%, supported by resilient domestic consumption, strong public infrastructure investment and continued private sector expansion. Across Southeast Asia, growth remains comparatively robust, although regional forecasts have moderated as higher import costs and weaker external demand offset gains from resilient domestic activity. China is expected to expand by approximately 4.4%–4.5%, reflecting the combined effects of targeted policy stimulus, continued investment in advanced manufacturing and technology, and resilient exports, partially offset by persistent weakness in the property

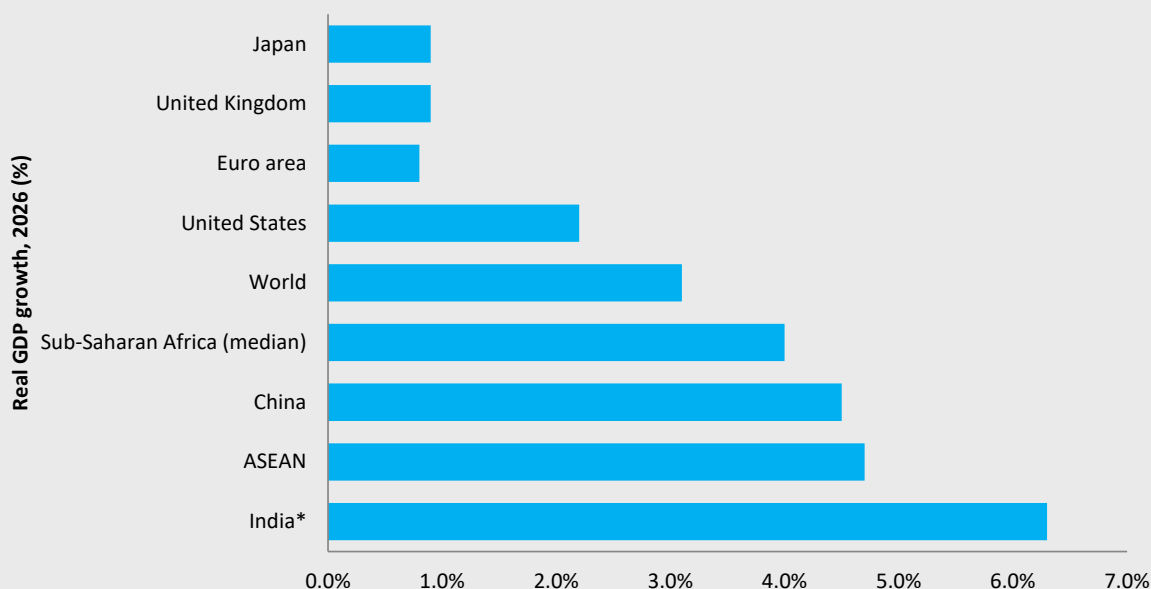
sector and subdued consumer confidence

Among emerging markets, commodity-exporting economies stand to benefit from elevated energy and commodity prices. Several oil- and resource-producing countries across the Gulf, Latin America and Sub-Saharan Africa are expected to experience stronger fiscal revenues and improved external balances, partially offsetting the adverse effects of weaker global trade. However, this benefit is unlikely to be uniform, as higher food and energy import costs continue to pose significant challenges for lower-income and import-dependent economies.

Overall, we believe the defining feature of the 2026 global growth outlook is not synchronised expansion, but increasing regional divergence. Economies with strong domestic demand, policy flexibility and structural growth drivers are expected to outperform, while those more exposed to energy imports, external demand weakness or structural constraints are likely to experience a more prolonged moderation in economic activity.

Global Macroeconomic Developments and Policy Shifts in H1 2026

Regional Growth Outlook Remains Highly Divergent in 2026



Source: IMF WEO April 2026 and Regional Economic Outlooks; OECD Economic Outlook June 2026; Asian Development Bank (ADB) regional update, Kreston Pedabo Research.

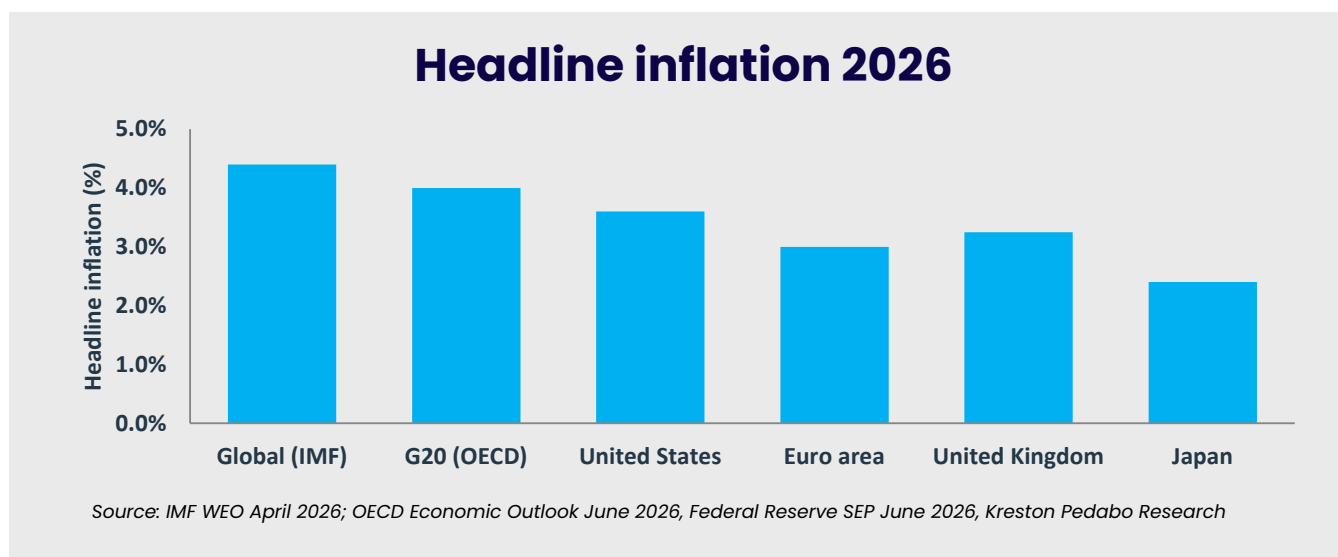
The global monetary policy landscape shifted meaningfully during H1 2026 as the resurgence in energy prices and renewed inflationary pressures interrupted what had been an increasingly convincing disinflation narrative. While financial markets entered the year anticipating a broad-based easing cycle

across major central banks, the geopolitical shock in the Middle East prompted policymakers to adopt a more cautious approach, delaying the pace of policy normalisation and reinforcing expectations of a higher-for-longer interest rate environment.



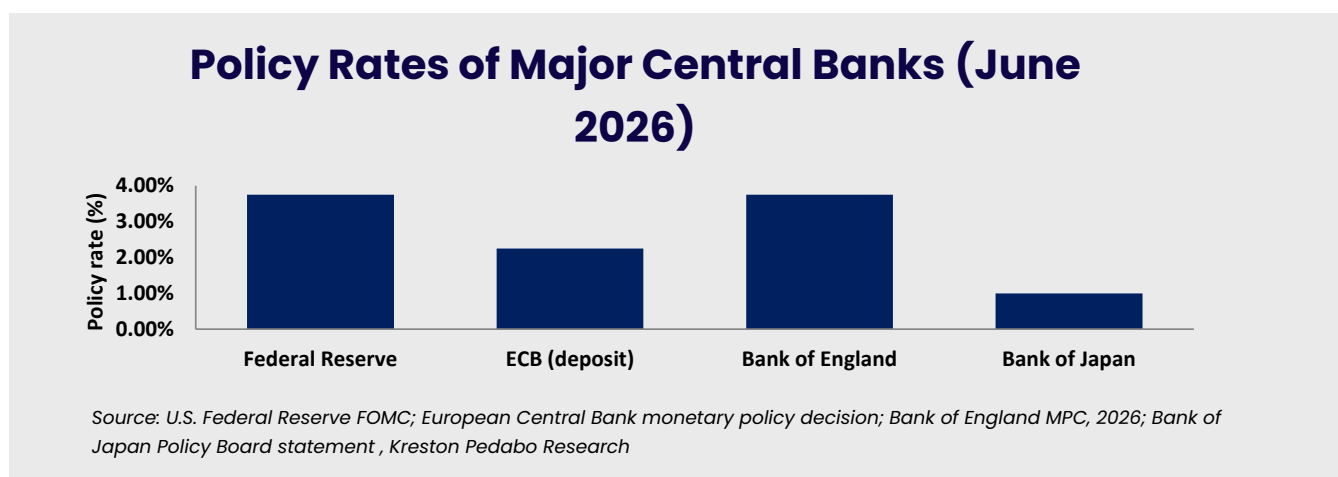
Global Macroeconomic Developments and Policy Shifts in H1 2026

Headline Inflation Across Major Economies (2026)



Although headline inflation has continued to moderate from the multi-decade highs recorded earlier in the decade, underlying price pressures remain uneven across major economies. The IMF projects global headline inflation to average 4.4% in 2026, while the OECD estimates G20 inflation at approximately 4.0%, reflecting the temporary inflationary impact of higher energy and commodity prices. Inflation has remained particularly persistent in economies where services inflation, wage growth and housing costs continue to offset the benefits of easing goods prices and improving global supply chains.

This divergence in inflation dynamics has resulted in increasingly differentiated monetary policy across advanced economies. The European Central Bank, facing the sharpest energy pass-through, raised rates in June for the first time since 2023, and the Bank of Japan also tightened. The Federal Reserve and the Bank of England instead held policy steady, unwilling to validate a supply shock with hikes, yet equally unwilling to ease while services inflation and wage growth remain elevated. For emerging and frontier markets, the net effect is a tighter external financing environment and renewed dollar strength, raising the bar for domestic rate cuts.



Global Macroeconomic Developments and Policy Shifts in H1 2026

If one policy story defines H1 2026, it is this: an inflationary supply shock forced major central banks to abandon a widely expected easing cycle. Entering the year, markets priced cuts from the Fed, ECB and Bank of England; by June, that had flipped to holds and, in Europe and Japan, outright hikes. The prevailing doctrine held that a supply-driven price shock need not trigger tightening provided inflation expectations stay anchored, but by mid-year, patience was visibly wearing thin.

The U.S. Federal Reserve held the federal funds target at 3.50%–3.75% in June, a fourth consecutive hold and the first meeting chaired by Kevin Warsh, who shortened the policy statement and removed the easing-bias guidance. With core PCE inflation rising from 3.0% in December to 3.3% by April on higher energy prices, the June projections implied one to two possible hikes this year, a stark reversal from the one to two cuts markets expected in January.

The European Central Bank raised its three key rates by 25bps in June, its first hike since 2023, lifting the deposit facility rate to 2.25% after euro-area inflation accelerated to 3.2% in May, well above target. Staff

projections now see 2026 inflation at 3.0% and growth at just 0.8%, and markets price a strong chance of a further hike by September. The Bank of Japan also raised rates, while the Bank of England held policy amid a divided committee, with wage growth and services inflation still above target-consistent levels.

Our assessment is that global monetary policy has entered a new phase of divergence: advanced economies are re-tightening or on extended hold, while many emerging- and frontier-market central banks, Nigeria included, are cautiously easing from deeply restrictive levels as domestic disinflation takes hold. The result is tighter global financial conditions, episodic dollar strength and more discriminating capital flows towards frontier markets.

Looking ahead, we expect advanced-economy policy to remain restrictive through H2 2026, with the balance of risks tilted towards further tightening if energy prices re-escalate. Financial markets will stay highly sensitive to inflation prints and geopolitical developments, a backdrop that raises the premium on macroeconomic credibility in emerging markets seeking to attract capital.



Global Macroeconomic Developments and Policy Shifts in H1 2026

Regional Outlook

United States



The U.S. economy continued to demonstrate notable resilience during H1 2026, supported by robust household consumption, sustained business investment and continued expansion in artificial intelligence and digital infrastructure. Although growth is expected to moderate to approximately 2.0–2.2%, labour market conditions remain relatively healthy, with unemployment projected to average around 4.4%. We believe the principal challenge for policymakers is balancing resilient domestic demand against still-elevated services inflation, particularly amid heightened political uncertainty surrounding fiscal and monetary policy.

Europe



Growth across the Euro Area and the United Kingdom remains comparatively subdued, reflecting greater exposure to higher energy prices, weaker industrial activity and tighter financial conditions. The temporary disruption to gas markets following the escalation of geopolitical tensions placed renewed pressure on energy-intensive industries, while manufacturing activity continued to lag historical averages. The June resurgence in energy prices pushed euro-area inflation back above 3%, prompting the ECB's first rate hike since 2023; with staff projections now showing 2026 growth of just 0.8%, the recovery is expected to remain gradual and uneven.

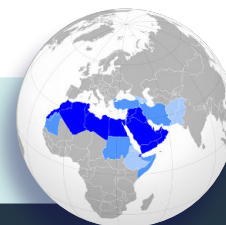
Asia-Pacific



We continue to view Asia-Pacific as the principal driver of global economic expansion despite its significant dependence on Gulf energy supplies. Strong domestic demand, continued investment in technology and electronics manufacturing, and supportive fiscal policies have helped offset the adverse effects of higher energy prices. China's targeted policy support and India's robust domestic growth continue to underpin regional resilience, reinforcing Asia's position as the fastest-growing major economic bloc.

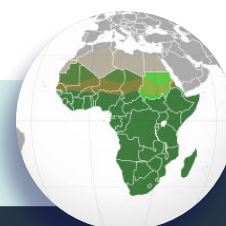
Global Macroeconomic Developments and Policy Shifts in H1 2026

Middle East and North Africa



The geopolitical conflict has had its most direct economic consequences within the Middle East and North Africa, where military disruptions, trade interruptions and increased security risks have materially weakened the regional growth outlook. Nevertheless, elevated oil prices have partially offset these pressures for major hydrocarbon exporters through stronger fiscal revenues and improved external balances, resulting in increasingly divergent economic outcomes across the region.

Sub-Saharan Africa



Sub-Saharan Africa continues to face a mixed macroeconomic environment. While commodity-exporting economies have benefited from firmer energy and commodity prices, net energy-importing countries remain vulnerable to higher import costs, elevated food inflation and tighter global financial conditions. Inflationary pressures are expected to remain above historical averages, reinforcing the need for prudent monetary and fiscal policy across several frontier and emerging economies.

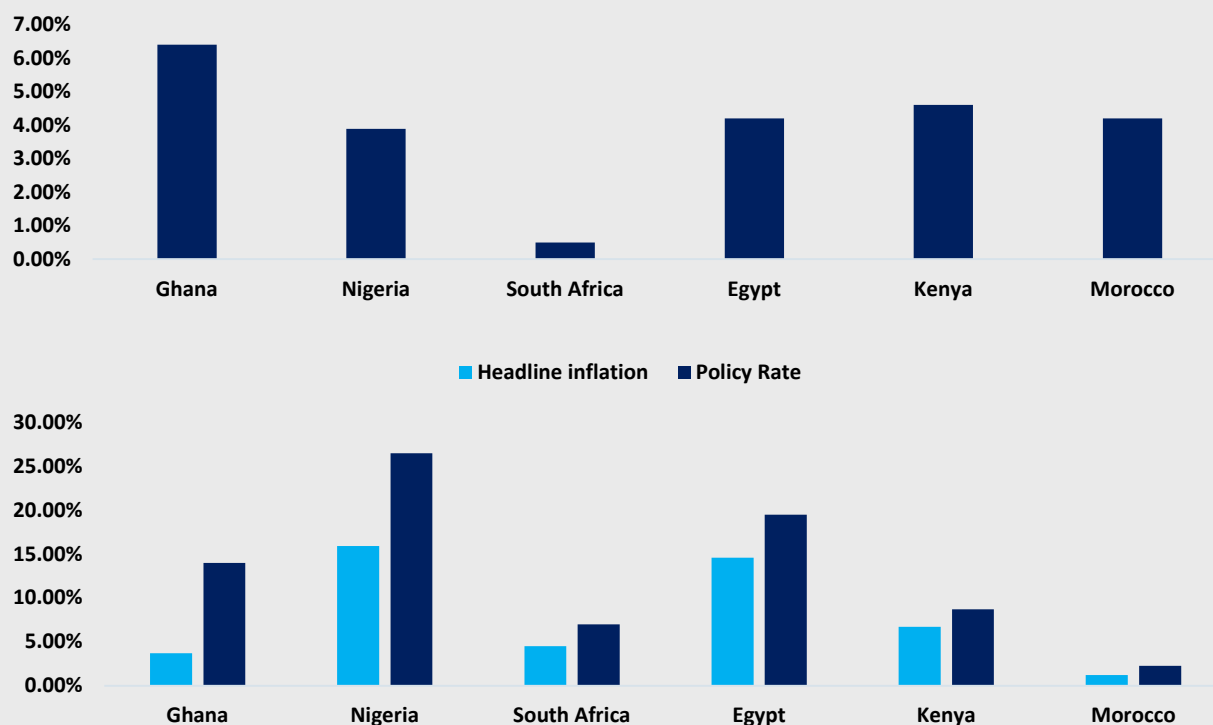
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The African Landscape



The African Landscape

H1 2026 GDP Real Growth Rate



Source: Respective Central banks MPC and press releases, Kreston Pedabo Research

Divergence, not convergence. H1 2026 brought improving macroeconomic stability across much of Africa, but outcomes were increasingly differentiated: performance was shaped by domestic policy choices, reform implementation and country fundamentals rather than by common global shocks. The clearest example was the exchange rate. Nigeria recorded one of the strongest currency performances among the economies reviewed, supported by improving FX liquidity, stronger portfolio inflows, elevated domestic yields and continued reforms; South Africa gained on improved sentiment and commodity earnings, while Ghana, Egypt, Morocco and Kenya depreciated to varying degrees against the US dollar.

Inflation moderated, unevenly. Morocco held one of the continent's lowest inflation rates at about 1.2%, with Ghana (3.7%) and South Africa (4.5%) also contained.

Egypt (14.6%) and Nigeria (15.9%) remained elevated, and Kenya saw renewed pressure at 6.7%. Persistent food inflation, rising transport costs, exchange-rate pass-through and supply-side constraints continued to shape price dynamics.

Monetary policy followed the data. Ghana delivered the boldest adjustment, cutting its policy rate by 400 basis points to 14.0% as disinflation took hold; Egypt eased by 100 basis points to 19.5%; Nigeria and Kenya remained considerably more cautious.

Policy stayed cautious. The Central Bank of Nigeria cut the Monetary Policy Rate by just 50 basis points to 26.5%, prioritising exchange-rate stability and still-elevated food inflation. Kenya eased by only 25 basis points as authorities weighed growth against fresh energy and transport cost pressures. Morocco held its

rate at 2.25%, while South Africa hiked 25 basis points to 7.0%, underscoring the Reserve Bank's focus on anchoring inflation expectations.

The investor lesson from H1. Exchange-rate stability is becoming as important as nominal yields in determining returns. Markets that paired attractive yields with stable currencies delivered stronger risk-adjusted returns than those where depreciation eroded nominal gains, and capital allocation across the continent is increasingly rewarding policy credibility.

H2: country selection over regional beta. Africa enters the second half from a stronger position than a year earlier, but risks tilt external: a renewed oil-price surge could reignite inflation and delay easing, while global capital flows, dollar strength and domestic politics will keep driving markets. Outcomes will be increasingly country-specific, and H2 performance will depend on each country's ability to sustain policy credibility, currency stability and macroeconomic discipline.



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The Domestic Landscape

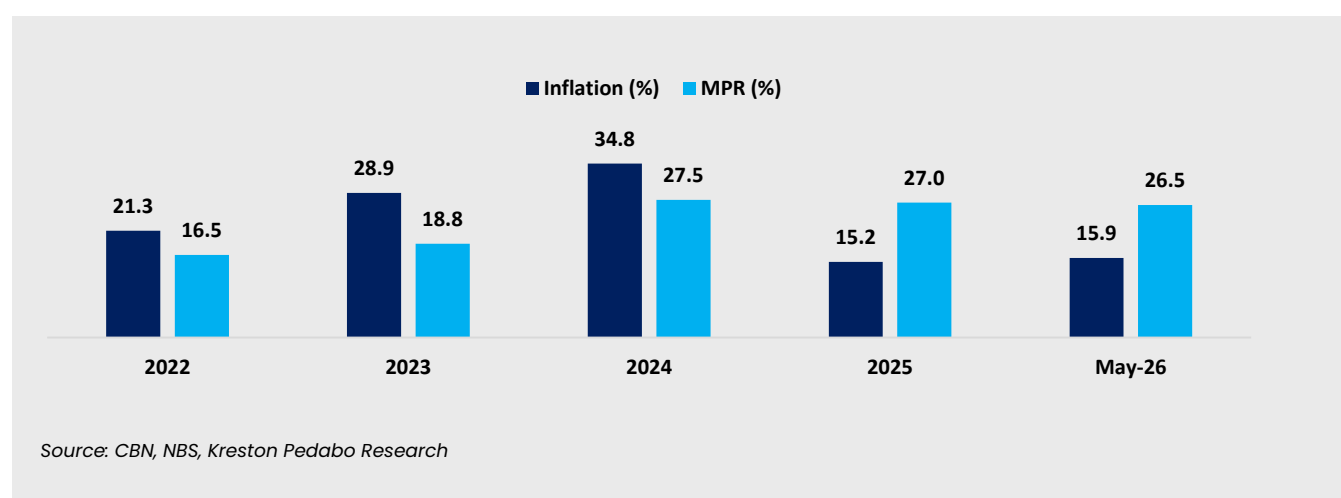


The Domestic Landscape

Inflation Rate

Inflation remained the most important macroeconomic variable shaping monetary policy, consumer spending, and corporate earnings during H1 2026. While Nigeria entered the year benefiting from the sharp disinflation achieved throughout 2025, recent data suggest that the period of rapid inflation moderation has largely ended, with price pressures stabilising at elevated levels rather than continuing on a sustained downward trajectory. Readings also reflect the National Bureau of Statistics (NBS) CPI rebasing implemented in January 2025 (base year updated from 2009 to 2024). Headline inflation opened the year at 15.10% in January and moderated marginally to 15.06% in February before rising steadily to 15.38% in March, 15.69% in April, and 15.93% in May. The three consecutive monthly increases indicate that the powerful disinflation momentum recorded during the second half of 2025 has faded, with inflation entering a phase of relative stabilisation. The most important development during H1 2026 was the sharp reversal in food inflation. After declining to 8.89% in January, food inflation accelerated consistently to 16.96% by May 2026. The speed of this increase highlights the continued vulnerability of Nigeria's food supply chain to structural disruptions, including insecurity across food-

producing regions, elevated transportation costs, weak storage infrastructure, climate-related challenges, and persistent post-harvest losses. By contrast, exchange-rate conditions remained considerably more supportive than during the inflation crisis of 2024. Relative naira stability, improved forex liquidity, and tighter monetary conditions helped reduce imported inflation pressures across industrial inputs, household goods, pharmaceuticals, and other trade-sensitive categories. As a result, imported inflation became a less significant contributor to overall price growth during the review period. The divergence between moderating imported inflation and accelerating food inflation carries an important policy implication. Nigeria's inflation challenge has increasingly shifted from an exchange-rate-driven problem toward a domestically driven supply-side problem. Consequently, while monetary tightening and exchange-rate stability remain important anchors, the next phase of disinflation will be won or lost in the real economy, food logistics, security in producing regions and storage infrastructure. June offered early encouragement: headline inflation eased to 15.91%, the first decline in three months, even as food inflation quickened to 17.52%.



The MPC moved carefully in H1 2026. It cut the MPR by 50 basis points to 26.50% in February, then held that level in May as food prices picked up again. The CRR stayed at 45%.

At first glance, policy looks extremely tight: the MPR sits about 10 percentage points above inflation. But the gap is smaller than it appears. When the NBS rebased the CPI in January 2025, measured inflation dropped

The Domestic Landscape

sharply overnight. Prices did not suddenly start rising more slowly; we simply began measuring them against a more current basket of goods (2024 rather than 2009). The MPR, by contrast, was set when inflation was still reported above 30%.

Interest rates are genuinely high, but not as punishing as the raw numbers suggest. That is why we expect the CBN to cut gradually in H2 2026, not aggressively.

Exchange Rate and Foreign Exchange Reserves



Nigeria's foreign exchange market recorded one of its strongest performances since the commencement of the reform programme in 2023. Following a prolonged period characterised by exchange rate volatility, FX shortages, parallel market distortions, and investor repatriation concerns, H1 2026 was marked by notable improvements in exchange rate stability, reserve accumulation, market liquidity, and investor confidence. More importantly, these gains increasingly reflected strengthening market fundamentals rather than heavy reliance on direct Central Bank intervention. The naira appreciated from NGN1,435.76/US\$ at end December 2025 to NGN1,379.68/US\$ as of 30 June 2026, representing a gain of approximately 4.06% against the US dollar during the period. The strongest appreciation occurred during the first two months of the year, supported by improving market liquidity, elevated domestic yields, and strengthening confidence in the FX framework. Although the currency recorded a modest correction during March, exchange rate conditions became noticeably more stable thereafter. Daily movements narrowed significantly relative to the volatility observed during 2023 and 2024, suggesting improving market liquidity and growing confidence in the market-based exchange rate framework. The parallel

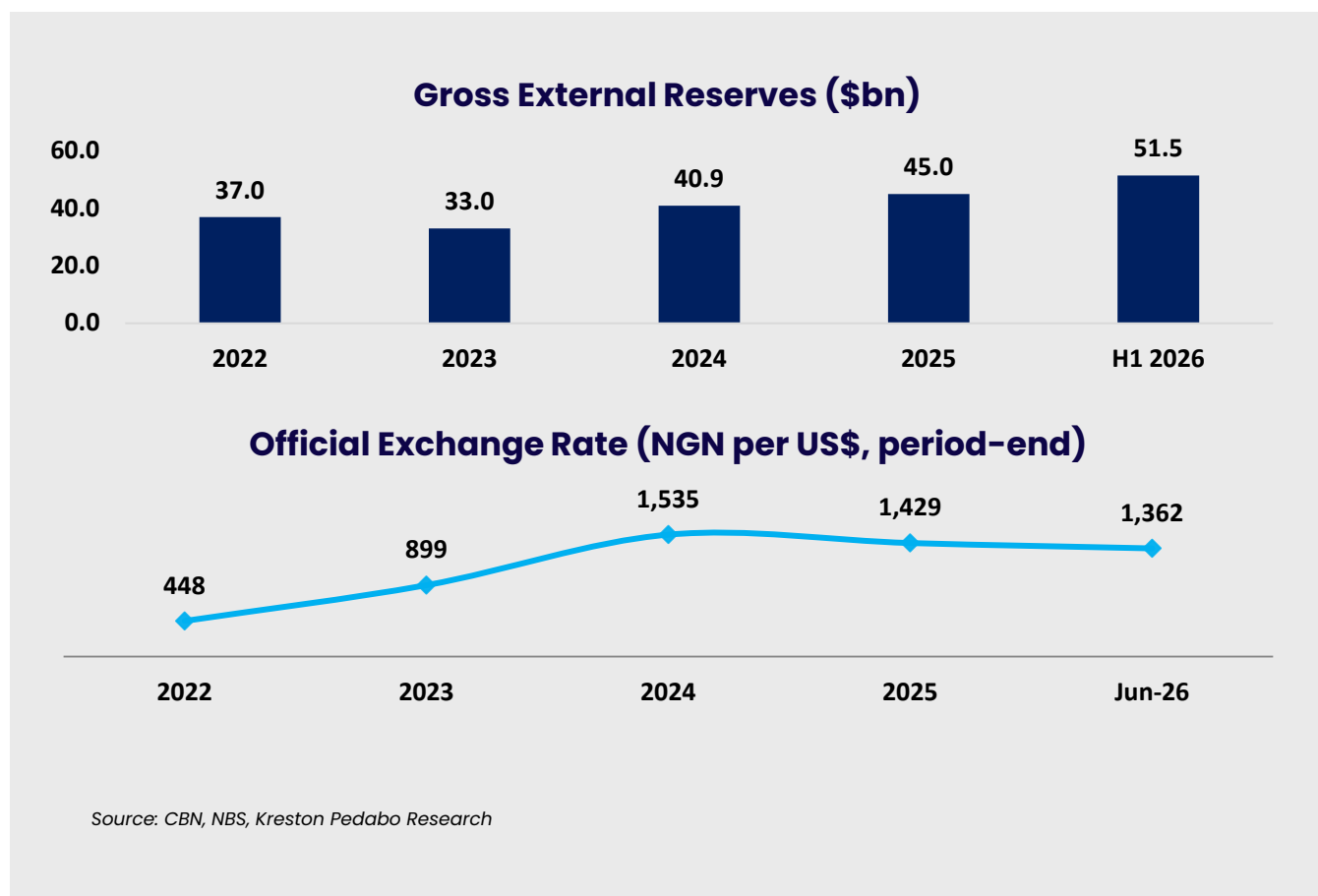
market rate appreciated from approximately NGN1,480/US\$ in December 2025 to around NGN1,385/US\$ as of 30th June 2026, representing a 6.85% appreciation. More importantly, the spread between the official and parallel markets remained relatively narrow throughout most of the review period. The narrowing premium reflects stronger FX liquidity, improved accessibility through formal channels, and growing confidence in the official market. From a policy perspective, the convergence between the two markets is one of the clearest indicators of improving FX market functionality and the gradual maturation of Nigeria's exchange rate reforms.

The improvement in exchange rate conditions was accompanied by a strengthening of Nigeria's external reserve position. Gross external reserves increased from approximately US\$45.50 billion at end-December 2025 to US\$51.45 billion at end-June 2026, representing an increase of US\$5.95 billion. At roughly nine months of import cover, and still rising to US\$51.89 billion by mid-July, reserves now provide a credible buffer against oil-price and portfolio-flow reversals heading into H2 2026.

The Domestic Landscape

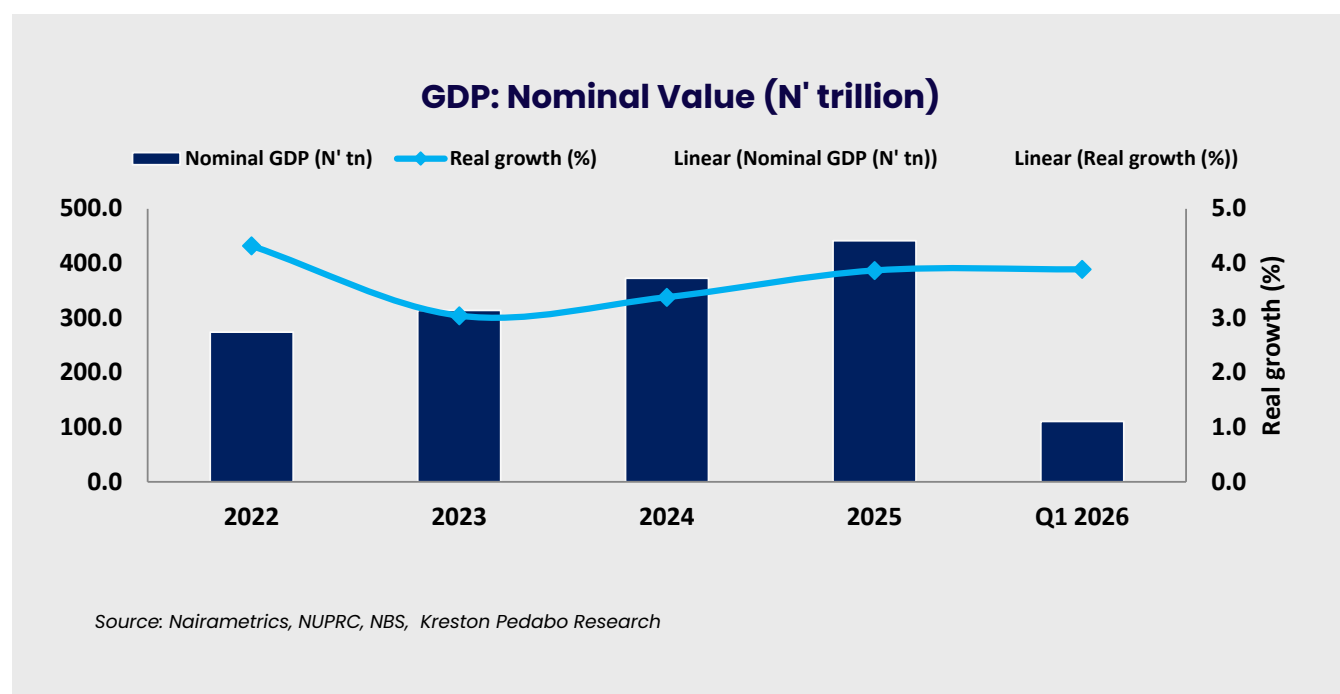
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The Domestic Landscape

GDP Growth Rate



Nigeria's economy continued its gradual recovery trajectory. Real GDP expanded by 3.89% year-on-year in Q1 2026, compared with 3.13% in Q1 2025 and 4.07% in Q4 2025, confirming the continuation of the recovery cycle while also indicating a moderation in growth momentum. Nominal GDP increased to NGN110.79 trillion from NGN94.05 trillion in the corresponding period of 2025, reflecting both real economic expansion and elevated price levels across the economy. However, with population growth estimated at approximately 2.5% annually, gains in real per capita income remained modest. The GDP rebasing exercise, which updated the base year to 2019, further reshaped perceptions of the economy by increasing the contribution of telecommunications, fintech, e-commerce, and creative industries. This reinforced the structural transition toward a more services-dominated economy.

Sectoral Breakdown H1 2026

Agriculture grew by 3.15% in Q1 2026, an improvement from just 0.07% in Q1 2025. The industry sector stood at 3.50% from 3.42% in Q1 2025, while the services sector recorded growth of 4.31%. The services sector contributed 57.73% of total real GDP.

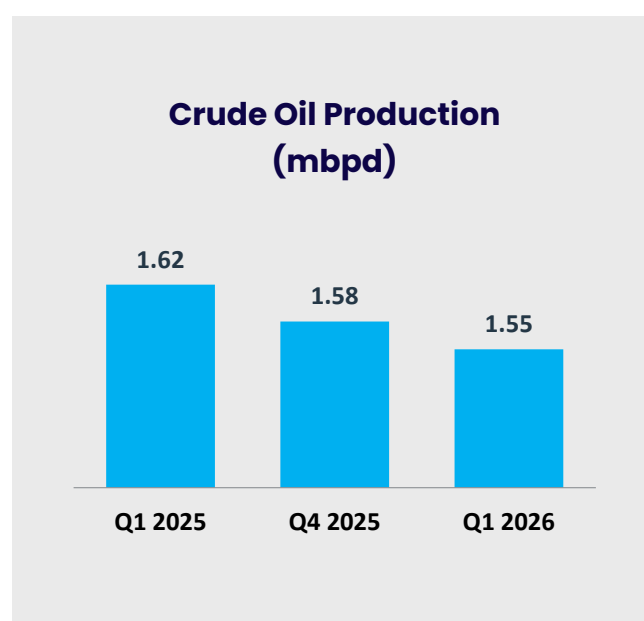
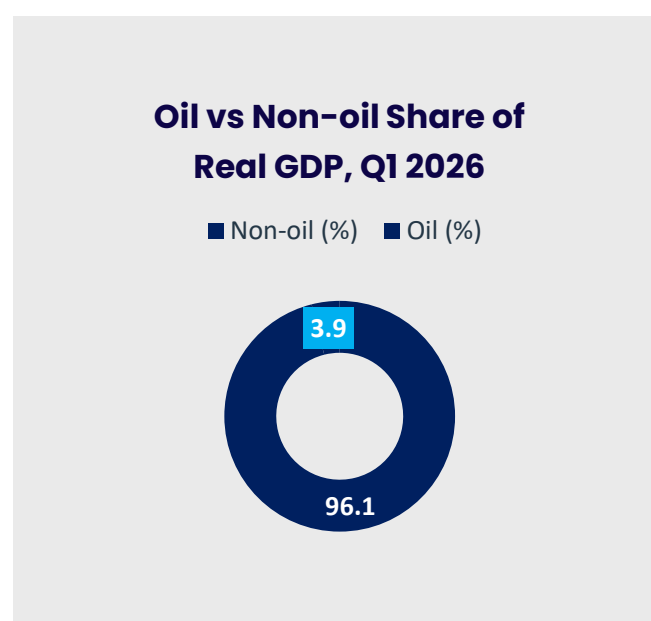
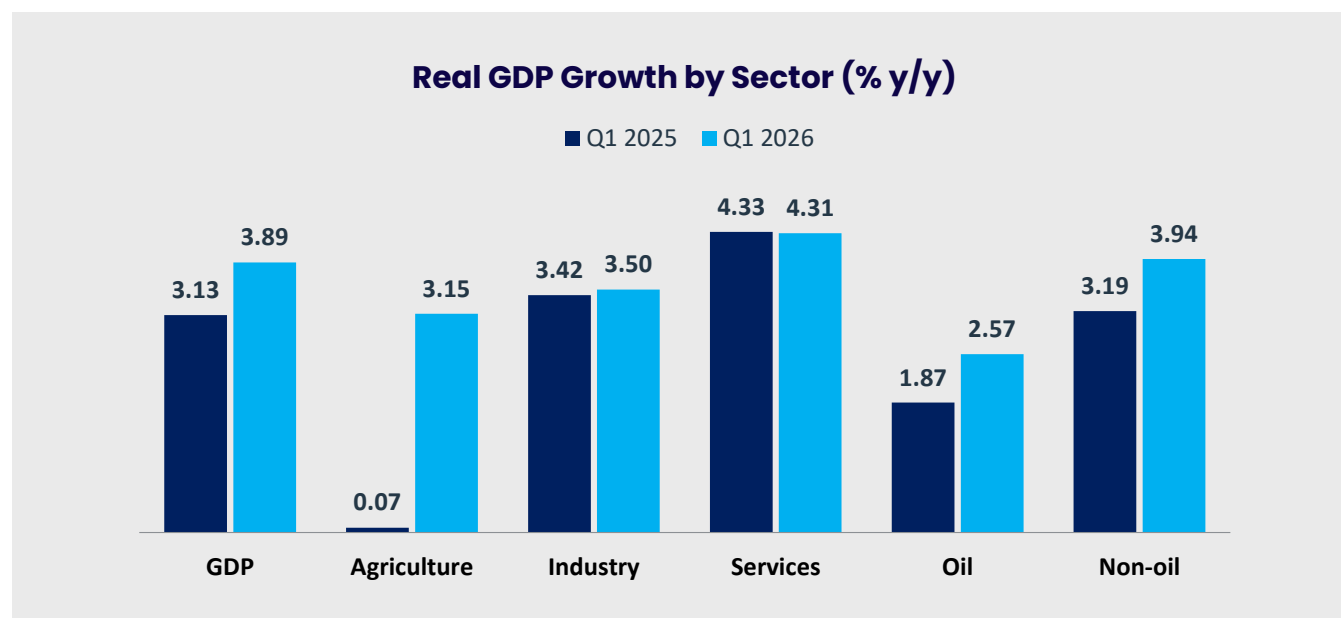
Manufacturing recorded real growth of 3.29% year-on-year in Q1 2026, compared with 1.69% in Q1 2025, indicating gradual recovery. However, the sector remained constrained by elevated FX-related input costs, weak consumer demand, high financing costs, and persistent energy challenges. Continued reliance on diesel-powered self-generation further increased operating costs and weighed on industrial competitiveness.

Within services, the strongest gains were recorded in information and communication (10.98%), financial and insurance (8.54%), transportation and storage (7.41%), real estate (2.29%) and trade (2.08%). Manufacturing also contributed positively, with oil refining surging 37.46% and cement production jumping 11.53%.

The non-oil sector contributed 96.08% to GDP in Q1 2026. Average crude oil production stood at 1.55 million barrels per day in Q1 2026, lower than the 1.62 million bpd recorded in Q1 2025 and the 1.58 million bpd in Q4 2025, attributed to aged facilities and oil theft. Analysts expect growth of 3.7–4.2% in Q2 2026.

The Domestic Landscape

Q1 2026 GDP: The Sectoral Picture



Source: NBS Nigerian Gross Domestic Product Report Q1 2026; Kreston Pedabo Research

Growth is broadening. Agriculture did the heavy lifting in Q1, rebounding from 0.07% to 3.15%; services (57.7% of GDP) remain the engine; and oil returned to firmer growth even as production slipped to 1.55mbpd. With the non-oil economy, 96.1% of output, growing 3.94%, the recovery no longer depends on crude volumes.

5.0

Fiscal and Monetary Policy Reforms H1 2026



Fiscal and Monetary Policy Reforms

Fiscal Developments

Nigeria's fiscal policy trajectory during the first half of 2026 reflected a continued transition from an oil-dependent revenue structure toward a broader domestic revenue framework. Policy priorities remained focused on enhancing revenue mobilisation, improving expenditure efficiency, and managing elevated public debt obligations amid persistent macroeconomic pressures.

The implementation of fiscal reforms, particularly improvements in tax administration, digital revenue collection, and broader compliance initiatives, supported gradual improvement in non-oil revenue performance. However, Nigeria's revenue base remained relatively weak, with the tax-to-GDP ratio below 10%, significantly lower than the African average of approximately 15–17% and emerging market peers averaging above 15%.

The composition of government revenue continued to shift gradually away from crude oil dependence. While oil earnings benefited from relatively favourable international crude oil prices, production constraints, pipeline disruptions, and below-capacity output limited the contribution of the oil sector to public finances. Consequently, non-oil sources, including Company Income Tax (CIT), Value Added Tax (VAT), customs

revenue, and other internally generated revenue streams, became increasingly important in financing government operations.

The removal of fuel subsidies continued to reshape fiscal dynamics. Although the reform reduced a major expenditure burden and improved fiscal space, it contributed to higher transportation and energy costs, reinforcing inflationary pressures during the adjustment period.

Meanwhile, public debt sustainability remained a central concern. Nigeria's total public debt increased significantly from approximately ₦87 trillion in 2023 to over ₦100 trillion in 2024, with further increases pushing debt stock above ₦140 trillion by 2025/2026. The rising debt burden was accompanied by elevated debt servicing obligations, with the debt-service-to-revenue ratio remaining above 50%, limiting government flexibility for infrastructure investment and social expenditure. For H2 2026, the fiscal test shifts from policy design to execution: converting improved oil receipts and reformed tax administration into completed capital projects, while resisting pre-election spending pressures that could unwind hard-won credibility.

Monetary Developments

Nigeria's monetary policy during the first half of 2026 remained firmly anchored on restoring price stability, managing inflation expectations, and improving foreign exchange market efficiency. The Central Bank of Nigeria (CBN) maintained a restrictive monetary stance as inflationary pressures persisted following significant macroeconomic adjustments, including exchange rate liberalisation, fuel subsidy removal, and elevated domestic production costs.

Inflation remained the dominant macroeconomic challenge in H1 2026. Although price pressures showed signs of moderation compared with previous

peaks, inflation remained significantly above the CBN's medium-term target range due to continued pressures from food supply constraints, exchange rate pass-through effects, energy costs, and higher logistics expenses. Food inflation remained a major contributor, reflecting structural supply-side challenges and insecurity affecting agricultural production.

To contain inflation, the CBN sustained an aggressive monetary tightening cycle. The Monetary Policy Rate (MPR) rose from 11.5% in 2022 to 18.75% in 2023 and a peak of 27.50% in 2024, one of the most forceful tightening cycles in Nigeria's monetary history. With

Fiscal and Monetary Policy Reforms

disinflation entrenched, the CBN pivoted to cautious easing, cutting to 27.00% in September 2025 and 26.50% in February 2026, where the rate stood at end-June. The objective was to reduce excess liquidity, strengthen monetary credibility, and moderate inflation expectations.

However, the high-interest-rate environment created a trade-off between inflation control and economic growth. Lending rates remained elevated, increasing borrowing costs for businesses and households. Private sector credit expansion faced pressure as firms delayed investment decisions due to higher financing costs.

The foreign exchange market also experienced significant adjustment during the period. Exchange rate reforms introduced greater market-based pricing mechanisms, reducing previous distortions from multiple exchange rate windows. However, the transition resulted in substantial naira depreciation as

the currency adjusted toward market fundamentals. The exchange rate moved from below ₦500/\$ in 2022 to above ₦700/\$ in 2023, and remained above the ₦1,000/\$ range between 2024 and 2026. By mid-2026, however, the reform dividend was visible: a stable ₦1,370–₦1,385/\$ official band, a parallel-market premium of roughly 3%, and reserves above \$51 billion. With the real policy rate now firmly positive (MPR of 26.50% against June inflation of 15.91%), the CBN enters H2 with genuine room for measured easing, provided food prices and election-cycle liquidity remain contained.



6.0

Capital Markets, Foreign Capital Inflows, Domestic and External Debts



Capital Markets, Foreign Capital Inflows, Domestic and External Debts

Capital Market: A Record First Half

The Nigerian equity market delivered its strongest first-half performance on record, with the NGX All-Share Index advancing 47.43% to 229,419.18 points as of 30 June 2026. Market capitalisation increased by ~~₦47.84~~ trillion to ~~₦147.22~~ trillion, while investor wealth expanded by approximately ~~₦47.8~~ trillion over the period.

The rally was broad-based but largely driven by improved domestic liquidity, stronger-than-expected corporate earnings and sustained institutional participation. The NGX recorded 29 new all-time highs during the half-year, with the benchmark index crossing the 200,000-point mark for the first time before moderating to close H1 at 229,419 points following profit-taking in late June.

Sector performance reflected investors' preference for cyclical and earnings-driven opportunities. Oil & Gas (+90.2%), Industrial Goods (+79.0%) and Lotus Islamic (+71.3%) led market gains, supported by strong earnings momentum and sector-specific catalysts. Banking (+40.5%) delivered positive returns despite intermittent profit-taking, while Insurance (-7.7%) remained the only major laggard as investors rotated towards higher-quality earnings and more liquid names.

H2 2026 Outlook

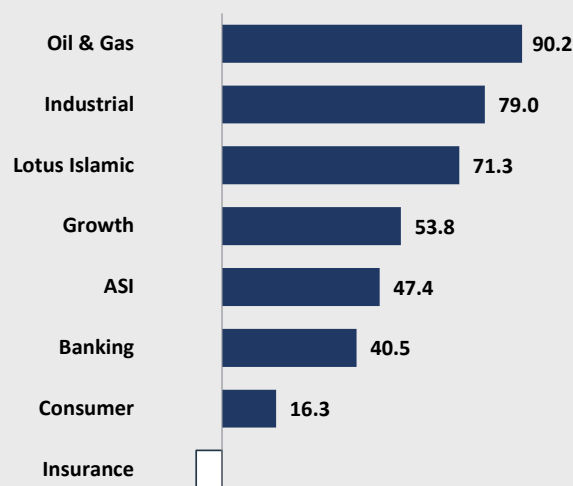
While the pace of gains seen in H1 is unlikely to be sustained, we expect market sentiment to remain constructive through the second half of the year. Near-term performance will likely be driven by a combination of corporate earnings releases, interim dividend announcements and company-specific catalysts rather than broad-based market expansion.

Key events to watch include the anticipated listing of Dangote Refinery, the FTSE Russell review of Nigeria's Frontier Market classification, and continued progress on macroeconomic reforms. A favourable FTSE decision could improve foreign portfolio participation,

although the impact is likely to depend on exchange rate stability and sustained market liquidity. Valuations have become less compelling following the sharp H1 rally, increasing the likelihood of intermittent profit-taking, particularly in stocks that have significantly outperformed fundamentals. Nevertheless, attractive dividend yields, improving earnings expectations and selective valuation opportunities should continue to support institutional demand.

Overall, we expect H2 to be characterised by greater market rotation and stock selection, with investors favouring companies offering resilient earnings growth, strong cash generation, healthy balance sheets and sustainable dividend prospects.

NGX Sector Returns, H1 2026 (%)



Source: NGX, Kreston Pedabo Research

Capital Markets, Foreign Capital Inflows, Domestic and External Debts

Foreign Capital Inflows: Surging, but Still Short-Term

Foreign capital inflows strengthened considerably in the first quarter of 2026, reflecting improved investor confidence following macroeconomic reforms and greater exchange rate stability. Total capital importation rose to US\$10.37 billion, up from US\$5.64 billion in Q1 2025 and US\$3.38 billion in Q1 2024, representing an 84% year-on-year increase and more than a threefold expansion over the past two years.

The improvement was largely driven by renewed foreign portfolio investment (FPI), supported by attractive domestic yields, a more market-reflective exchange rate and improved FX market liquidity. These developments have gradually restored investor confidence after several years of subdued foreign participation.

Despite the recovery, the composition of inflows remains skewed toward short-term capital. Portfolio investment continued to account for the largest share of total inflows, particularly into fixed income securities and money market instruments, while foreign direct investment (FDI) remained relatively modest. Sectoral allocation also remained concentrated in financial services, with Lagos and Abuja accounting for the bulk of investment destinations.

The predominance of portfolio flows has provided important support for external liquidity and exchange rate stability, helping the naira remain broadly stable around the ₦1,370–₦1,385/US\$ range during H1 2026.

However, these flows remain sensitive to global financial conditions and domestic interest rate expectations, making them inherently more volatile than long-term productive investment.

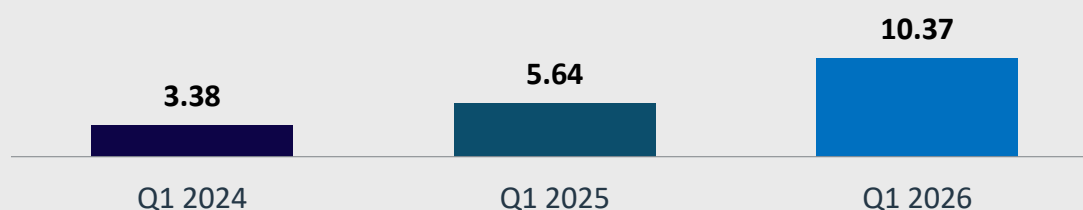
H2 2026 Outlook

We expect foreign investor sentiment to remain broadly constructive in H2, although the pace of inflows will likely moderate as global and domestic monetary conditions evolve. The key determinant will be whether Nigeria can sustain macroeconomic stability while maintaining a credible policy framework.

Several catalysts could shape capital flows over the remainder of the year. These include the CBN's monetary policy stance, the trajectory of inflation and exchange rate stability, progress in attracting higher-quality foreign direct investment, and the outcome of the FTSE Russell Frontier Market classification review. A favourable decision could improve Nigeria's visibility among global frontier market investors and support additional portfolio allocations.

Over the medium term, sustaining foreign capital inflows will require a gradual shift from yield-seeking portfolio investment toward long-term FDI. Continued structural reforms, improved infrastructure, enhanced policy consistency and a more predictable business environment remain essential to achieving a more durable and diversified capital inflow profile.

Capital Importation, First Quarter (US\$ billion)



Source: NGX, Kreston Pedabo Research

Capital Markets, Foreign Capital Inflows, Domestic and External Debts

Public Debt: Stock Rising, Ratios Improving

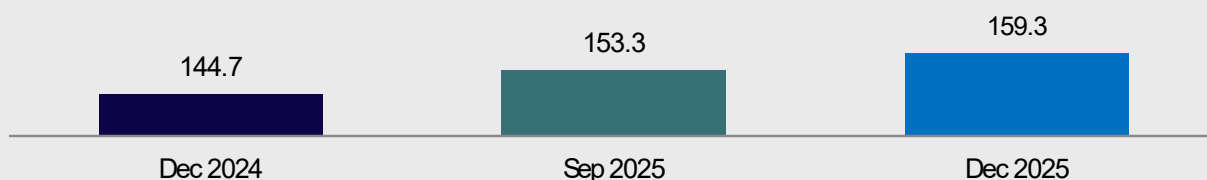
Nigeria's total public debt rose to ₦159.28 trillion (US\$110.97 billion) at end-December 2025, representing a 3.9% increase from ₦153.29 trillion recorded at end-September 2025 and a 10.1% increase from ₦144.67 trillion at end-December 2024. The Federal Government accounted for the largest share of the debt stock at ₦80.49 trillion in domestic obligations and ₦66.27 trillion in external debt, while state governments and the FCT accounted for ₦44.36 trillion and ₦8.16 trillion, respectively. Multilateral lenders remained Nigeria's largest external creditors, holding approximately US\$23.2 billion, equivalent to about 45% of total external debt.

Although the debt stock continued to expand, fiscal sustainability indicators showed further improvement.

Strong nominal GDP growth, driven by high inflation, exchange rate adjustments and the GDP rebasing exercise, has reduced Nigeria's debt burden relative to the size of the economy. The IMF projects the debt-to-GDP ratio to decline to 32.3% in 2026, from 35.5% in 2025, remaining well below the Fund's indicative threshold for emerging economies.

From a market perspective, the key concern is increasingly shifting from the size of public debt to the government's financing capacity and debt servicing costs. Sustained domestic borrowing to finance fiscal deficits continues to place upward pressure on sovereign bond issuance, with implications for market liquidity, funding costs and private sector credit conditions.

Total Public Debt Stock (₦ trillion)



Source: Debt Management Office, Kreston Pedabo Research

H2 2026 Outlook

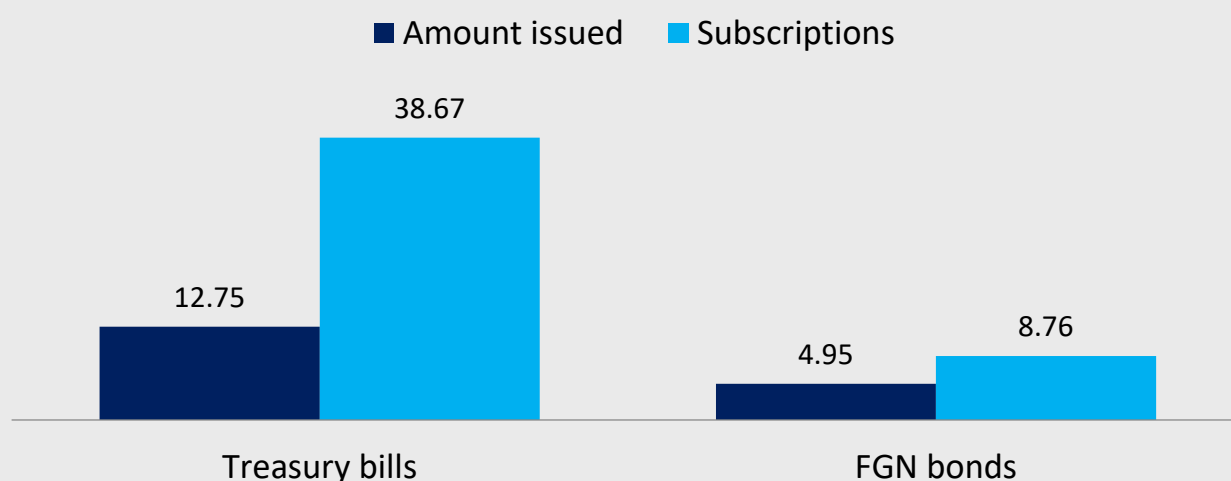
Public borrowing is expected to remain elevated in the second half of the year as the government continues to finance fiscal deficits and implement capital expenditure programmes. Nevertheless, the trajectory of debt sustainability will depend less on the pace of borrowing than on the government's ability to expand revenue mobilisation and maintain fiscal discipline.

The implementation of ongoing tax reforms, stronger non-oil revenue collection and continued improvements in oil production will be critical in strengthening fiscal buffers and reducing reliance on debt financing. At the same time, inflation, interest rates and exchange rate movements will remain important determinants of debt servicing costs and investor sentiment in the domestic fixed-income market.

Capital Markets, Foreign Capital Inflows, Domestic and External Debts

Financing the Deficit: Domestic Borrowing Remains Dominant

H1 2026 Domestic Issuance vs Demand (₦ trillion)



Source: Debt Management Office, Kreston Pedabo Research

The Federal Government continued to rely heavily on the domestic debt market in H1 2026 to finance its fiscal deficit. Total issuance reached ₦17.70 trillion, comprising ₦12.75 trillion in Treasury bills and ₦4.95 trillion in FGN bonds. Investor demand remained strong despite elevated issuance, with subscriptions of ₦38.67 trillion for Treasury bills and ₦8.76 trillion for FGN bonds, reflecting continued liquidity and attractive risk-adjusted returns in the fixed-income market.

Demand dynamics, however, varied across instruments. Treasury bill subscriptions declined by 59.8% year-on-year, although demand remained comfortably above offer volumes. In contrast, FGN bond auctions were more selective, with the bid-to-offer ratio moderating to 1.8x from 2.2x a year earlier as investors demanded higher yields amid increased supply. The government's financing strategy placed upward pressure on sovereign yields during the half-year. Average stop rates on Treasury bills rose to 17.8%, while FGN bond

yields increased across the curve, with the benchmark JAN 2031 bond rising by 123 basis points to an average yield of 17.8%. The repricing reflected the combination of elevated borrowing requirements, tight monetary conditions and investors' preference for higher risk premiums.

Domestic borrowing is expected to remain the government's principal financing source in H2, although the pace of issuance will depend on revenue performance, fiscal execution and the timing of external disbursements. The approved US\$21 billion external borrowing programme could moderate pressure on the domestic market if implemented as planned.

Overall, we expect domestic debt markets to remain well supported by institutional demand, although investors are likely to remain selective, favouring shorter-duration instruments until there is greater clarity on the interest rate outlook and the pace of monetary policy easing.

The Domestic Landscape

Debt Sustainability: Revenue Growth Remains the Key Constraint

Domestic Borrowing Supports Financing but Raises Funding Costs

The government's increased reliance on domestic borrowing has strengthened fiscal financing flexibility but has also resulted in higher funding costs across the economy. Elevated sovereign yields continue to compete with private sector borrowers for available liquidity, increasing financing costs for businesses and potentially slowing private investment. Higher domestic borrowing also increases interest expenditure, reducing fiscal space for capital investment and social spending. As debt servicing absorbs a larger share of government revenue, sustained improvements in revenue mobilisation become increasingly important to preserve fiscal flexibility.

Debt Metrics Continue to Improve

Despite the increase in the nominal debt stock, Nigeria's debt sustainability indicators have strengthened. The IMF projects the debt-to-GDP ratio to decline to 32.3% in 2026, reflecting strong nominal GDP growth following economic rebasing and continued expansion in economic activity. Nigeria's external debt profile also remains relatively favourable. Multilateral institutions account for approximately 45% of external obligations, providing access to longer-tenor and lower-cost financing while limiting refinancing risk. In addition, improved exchange rate stability has moderated valuation pressures on external debt compared with the sharp currency adjustment experienced in 2023–2024.

H2 2026 Outlook

The outlook for debt sustainability will depend primarily on the government's ability to strengthen revenue generation rather than restrain borrowing alone. Implementation of the Nigeria Tax Act and related fiscal reforms will be critical to improving the revenue-to-GDP ratio and reducing dependence on debt-financed expenditure.

Other key variables to monitor include the execution of the approved US\$21 billion external borrowing programme, the trajectory of domestic interest rates, inflation and exchange rate stability, all of which will influence borrowing costs and debt servicing obligations.



7.0

Banking and Insurance Sector Outlook Post- Recapitalisation



Banking and Insurance Sector Outlook Post-Recapitalisation

Banking Sector

Nigeria's banking sector enters the second half of 2026 as one of the most capitalised it has ever been, standing at the far end of a landmark 24-month recapitalisation exercise that has fundamentally reset the industry's competitive landscape. Launched by the Central Bank of Nigeria in March 2024, the Banking Sector Recapitalisation Programme mandated new minimum paid-in capital thresholds across all licence categories, N500 billion for international banks, N200 billion for national banks, and N50 billion for regional and merchant banks, with a hard compliance deadline of 31 March 2026. By 1 April 2026, the CBN confirmed that 33 banks had met the revised requirements, with the sector collectively raising N4.65 trillion in new capital over the period, 72.55% of which was sourced domestically and 27.45% from international markets. Capital Adequacy Ratios across the industry now exceed international Basel benchmarks, with several top-tier institutions reporting CARs above 20%, against regulatory minimums of 10% for national and regional banks and 15% for banks with international operating licences.

The exercise was not merely a regulatory compliance drill,

it has triggered structural transformation at every level of the industry. With trillions of naira injected into the system, Nigerian banks now possess materially larger balance sheets, better underwriting capacity, and a significantly stronger foundation for economic impact. A key feature of the post-recapitalisation supervisory framework is the introduction of risk-based capital requirements, which tie each bank's capital cushion more directly to the specific risks it carries, marking a decisive departure from the era of regulatory forbearance. Compliance routes varied across the sector, from rights issues and private placements to the landmark Unity Bank–Providus Bank merger. On the Nigerian Exchange, banking stocks drove a historic bull run in 2026, the first such rally led predominantly by domestic retail investors, who accounted for approximately 73% of trades through investment platforms linked to the bank public offers.

The cases of Polaris Bank, Keystone Bank, and Union Bank of Nigeria remain unresolved; these institutions continue to operate under heightened CBN supervisory oversight, with the regulator providing assurances that depositors' funds are secure and a formal post-deadline directive anticipated.

For H2 2026, the sector's central challenge is no longer capitalisation, it is deployment. Rating agency Fitch projects nominal loan growth to cross 20% in 2026, supported by enlarged balance sheets and improved liquidity buffers, with infrastructure, manufacturing, agriculture, and SMEs identified as the priority beneficiaries. Recapitalisation has equally strengthened the international ambitions of Nigeria's leading institutions: with CARs above 20% and significantly larger balance sheets, top-tier banks are better positioned than at any prior point to support AfCFTA cross-border trade, deepen correspondent banking relationships across West Africa, and attract foreign institutional investment.

The technology dimension is also gaining momentum, with the CBN's directive mandating fraud response times of under 30 minutes signalling that digital trust is now a regulatory priority, and capital-enabled investment in digital infrastructure set to accelerate competitive differentiation in the retail banking segment. The key risks for H2 centre on reckless lending driven by pressure to generate returns on enlarged capital, concentration of credit toward high-margin sectors at the expense of SMEs and agriculture, persistent macroeconomic headwinds including elevated interest rates and naira volatility, the market implications of the outstanding non-compliant bank resolutions, and the governance discipline required to ensure that balance-sheet expansion does not outpace risk management rigour. On balance, however, the industry enters H2 2026 defined not by questions of survival, but by the scale of its ambition. The critical task ahead is converting capitalisation into capacity, and balance-sheet strength into tangible, broad-based economic impact.

Banking and Insurance Sector Outlook Post-Recapitalisation

Insurance Sector

While Nigeria's banking sector concluded its recapitalisation exercise in March 2026, the insurance industry enters H2 2026 in the thick of its own transformative reform and with a hard deadline that will define the sector's shape for years to come. The Nigeria Insurance Industry Reform Act (NIIRA 2025), signed by President Bola Tinubu on 5 August 2025, mandated significantly elevated minimum capital thresholds for all insurance operators, with a compliance deadline of 31 July 2026: N10 billion for life insurers, N15 billion for general (non-life) insurers, N25 billion for composite operators, and N35 billion for reinsurance companies. The National Insurance Commission has been unequivocal in its messaging: the July 31 date is embedded in primary legislation and cannot be extended without a formal amendment to NIIRA 2025. Non-compliant firms face deregistration by August 2026.

The capital market response from compliant insurers has been active but challenging, having been crowded out by their counterparts in the banking sector which raised N4.65 trillion between 2024 and 2026. Sector Gross Premium Written climbed to N2.3 trillion in FY2025, a 47.3% year-on-year increase, led by oil and gas non-life products and annuity business. Yet investor appetite for insurance equities remains considerably shallower than for banking stocks, constrained by a history of poor profitability, low dividend yields, and inconsistent corporate governance. NIIRA 2025 extends well beyond capital adequacy: it mandates a comprehensive overhaul of the sector's operating architecture, including mandatory coverage expansion across group life, public buildings and Federal Government assets; a full digitisation mandate across the insurance value chain; a zero-tolerance claims regime requiring settlement within 60 days; consumer protection funds; a Risk-Based Capital framework; and a five-year composite insurer separation window running to 2030. Crucially, embedding the new thresholds in primary legislation has permanently closed the legal door that allowed earlier NAICOM recapitalisation attempts to be struck down by the Federal High Court

in 2022. Consolidation will be the defining narrative of H2 2026, with industry projections suggesting the number of active operators could fall from 58 to as few as 25 following the deadline, as weaker firms merge, downgrade their product licences, or exit entirely.

Yet recapitalisation alone cannot resolve the sector's deeper structural challenge: insurance penetration in Nigeria remains below 1% of GDP, among Africa's lowest. Of approximately 20 million insured lives, the vast majority are covered through government-backed schemes and large corporate mandates, while only 6% come from the informal sector, which employs 93% of the Nigerian workforce.

Insurance faces a trust barrier that banking does not: unlike a bank account, which provides immediate transactional utility, an insurance policy delivers contingent protection with no visible daily benefit, requiring a far higher voluntary trust threshold from potential customers. Firms that dominate the sector beyond H2 2026 will therefore be those that invest in service quality, digital distribution, and micro-insurance products designed for informal-sector realities, not merely those that clear the capital threshold. The sector's ultimate verdict will be written not in capital adequacy ratios or firm counts, but in penetration rates, claims settlement records, and the breadth of Nigerians who finally see and experience the value of being insured. Capital creates the opportunity. Capacity, credibility, and execution determine the outcome.



8.0

2027 Elections: Economic Implications and Policy Credibility



2027 Elections: Economic Implications and Policy Credibility

The 2027 Elections Build-Up: Economic Implications and Policy Credibility

In our initial publication for 2026, we briefly referred to the upcoming 2027 general elections as item eight in our Key Risks register. We highlighted that heightened political expenditure, delays in reforms, and popular initiatives present risks to fiscal responsibility and the ongoing reforms. That brief reference has since become one of the year's most critical themes. As we approach the end of the first half of 2026, the dynamics of the elections are now a pressing concern; they are actively influencing fiscal choices, monetary policy indications, and the stability of Nigeria's three-year reform initiative. The lead-up to 2027 is interconnected and does not occur in a vacuum. The situation is compounded by increasing security challenges, a deteriorating welfare environment, ongoing controversies regarding electoral processes, and persistent debates about the security system's framework. This section views the election lead-up as the context in which these interconnected pressures emerge.

As Nigeria moved into 2026, it found itself balancing two influential yet potentially opposing forces: the drive for structural reforms that have reestablished trust in the exchange rate, lowered inflation, and strengthened external reserves, alongside the powerful dynamics of electoral politics, which have traditionally favored expenditure over stabilisation. The interplay between these two elements will define the macroeconomic story for the remainder of the year.



The Fiscal Arithmetic of an Election Year

The 2026 federal budget, set at ₦58.47 trillion, was labeled a 'Budget of Consolidation.' This signaled that the Tinubu administration intended to maintain fiscal discipline even as the political cycle intensified. According to the Budget Office of the Federation, the structural deficit of ₦25.27 trillion and a debt service allocation of ₦15.91 trillion leave little room for discretionary spending without additional borrowing. In theory, this should limit pre-election spending. In practice, Nigeria's history suggests otherwise.

Data on monetary aggregates published by the Central Bank of Nigeria (CBN) highlights this pattern clearly. In 2022, the year before the 2023 general election, the broad money supply (M2) grew from about ₦44.7 trillion to ₦51.76 trillion, a 16% increase over the year, while headline inflation rose from 15.6% to above 21%. Pre-election cycles in Nigeria have historically seen liquidity growth exceed 15-20% due to high fiscal spending, which consistently leads to inflationary impacts over time.

The Independent National Electoral Commission (INEC) reported that it spent ₦313 billion on the 2023 elections alone, a 61% increase from 2019. The 2027 election cycle is expected to cost ₦873 billion due to the expansion of voter registration and increased polling unit coverage, which raises logistics costs.

Beyond direct electoral administration, the broader trend of pre-election fiscal behavior is already visible. Social transfer programs are under pressure to expand. Importantly, states and local governments, which receive allocations from the Federation Account, often boost federal fiscal looseness with their own campaign-related spending. This creates a multiplier effect on aggregate demand that the CBN must then manage.

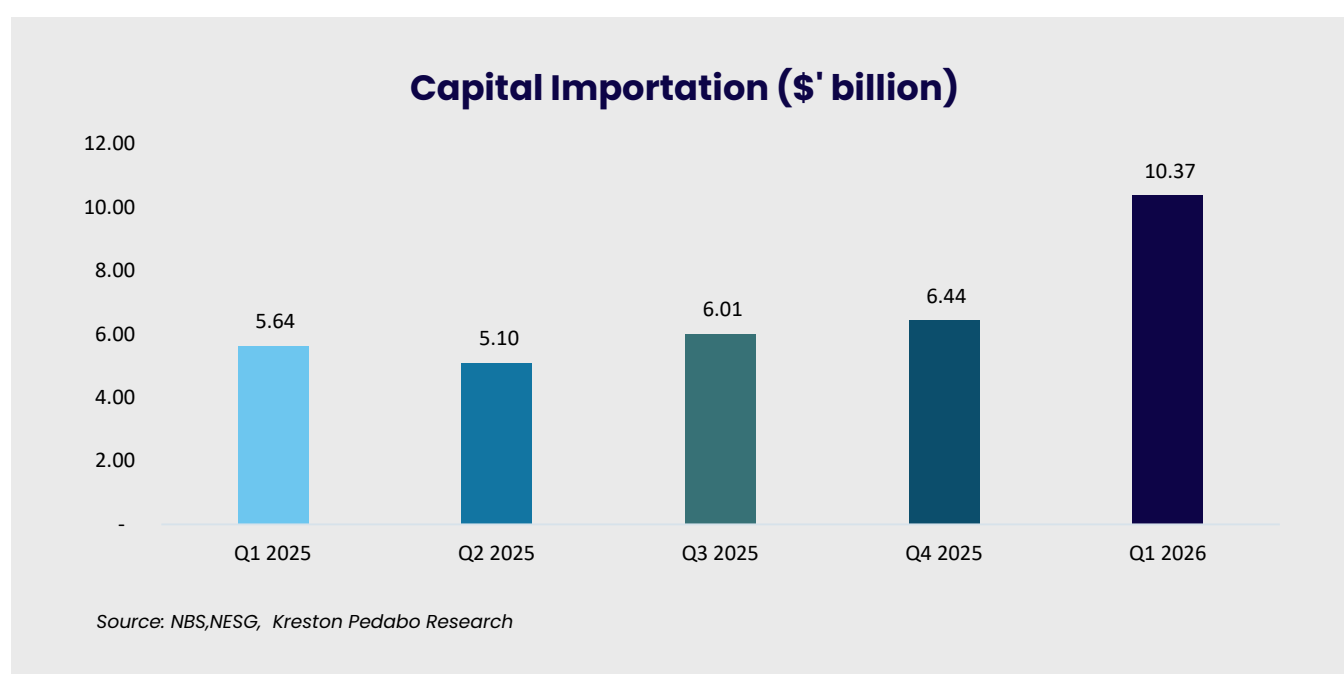
Source: World Trade Organisation (WTO), Policy Uncertainty Index, Kreston Pedabo Research

2027 Elections: Economic Implications and Policy Credibility

Investor Confidence, Country Risk, and Capital Flow Vulnerabilities

The recovery in Nigeria's capital importation is structurally weak in ways that election dynamics intensify. The National Bureau of Statistics (NBS) reported in its Q1 2026 Capital Importation Report that portfolio investments made up 95% of a total capital importation of US\$10.37 billion, primarily propelled by high yields on Treasury Bills and Open Market Operation (OMO) securities. This concentration means that any change in policy credibility or real return

expectations can lead to quick capital outflows. The CBN data showing that by May 2026, gross external reserves had nearly reached US\$49.49 billion, and the naira was trading around ₦1,373/\$, better than the ₦1,400/\$ assumption in the budget. These are real improvements, but currency stability in Nigeria relies on more than just technical market conditions; it depends on credibility.



Independent country-risk assessments reveal this fragility. Fitch upgraded Nigeria to 'B'/Stable in April 2025, while Moody's holds a B3/Stable view, both sub-investment grade, with stable outlooks that remain contingent on sustained reform adherence; policy reversal or election-driven borrowing would directly imperil both ratings.

This fragile baseline is further validated by domestic credit ratings. As Augusto & Co. highlighted in its 2026 Banking Industry Outlook, Nigeria continues to be classified as a high-risk environment. The country's fiscal vulnerability is acutely driven by a severe

revenue-mobilisation challenge, with debt servicing costs continuing to consume up to 50% of total federal revenue.

The International Monetary Fund (IMF) officially revised Nigeria's 2026 GDP growth projection down to 4.1% from 4.4%, explicitly citing economic disruptions linked to the Middle East conflict and its subsequent impact on global energy markets. The Fund cautioned that persistent structural spending pressures will continue to weigh heavily on the nation's already highly elevated public debt-servicing ratios.

2027 Elections: Economic Implications and Policy Credibility

Monetary Policy Independence Under Pressure

The CBN's cycle of rate cuts began with a 50 basis point reduction to 27.00% in September 2025 and extended to 26.5% in early 2026, driven by real disinflation. The NBS recorded that headline inflation dropped from 26.27% in February 2025 to 15.06% in February 2026, marking the longest period of sustained disinflation in over a decade. However, that trend has reversed, with inflation rising each month from March to May 2026, reaching 15.93% in May due to a fuel price

shock caused by the US-Israel-Iran conflict, before easing marginally to 15.91% in June. Consequently, the Monetary Policy Committee enters the second half of 2026 facing a familiar dilemma: the data suggests a pause or slight tightening, while the political cycle adds pressure to ease further. Any perception that monetary policy is being influenced by electoral concerns could undermine the hard-won credibility of Nigeria's inflation-targeting framework.

Policy Continuity Risk, Disruptions, and Abandoned Reforms

The reforms of 2023 and 2024, fuel subsidy removal, FX unification, monetary tightening, and the Nigeria Tax Act 2025, were politically challenging but critical for the economy. The significant question for the rest of 2026 is whether the administration views these gains as a foundation for further reform or as a cushion to draw on leading up to elections. The worry is not that the reforms will be immediately reversed; the structural changes have largely taken root. Instead, the concern is that the reform program will be slowed, weakened, or starved of necessary resources just when it needs to deepen.

Several long-term initiatives already show signs of stalling or quiet abandonment as political priorities shift.

Non-oil tax administration under the Tax Act requires ongoing focus from the Nigeria Revenue Service, which is hard to sustain through an election cycle. Social investments and rural financial inclusion initiatives risk being repurposed as campaign tools instead of structural welfare programs. Major infrastructure projects, like the Lagos-Calabar Coastal Highway, face increased risks of cost overruns and procurement issues when political timelines take precedence over technical considerations. The concern is one of policy continuity by gradual erosion: not dramatic reversals, but a slow loss of implementation discipline that could turn a credible reform program into an unfinished one.



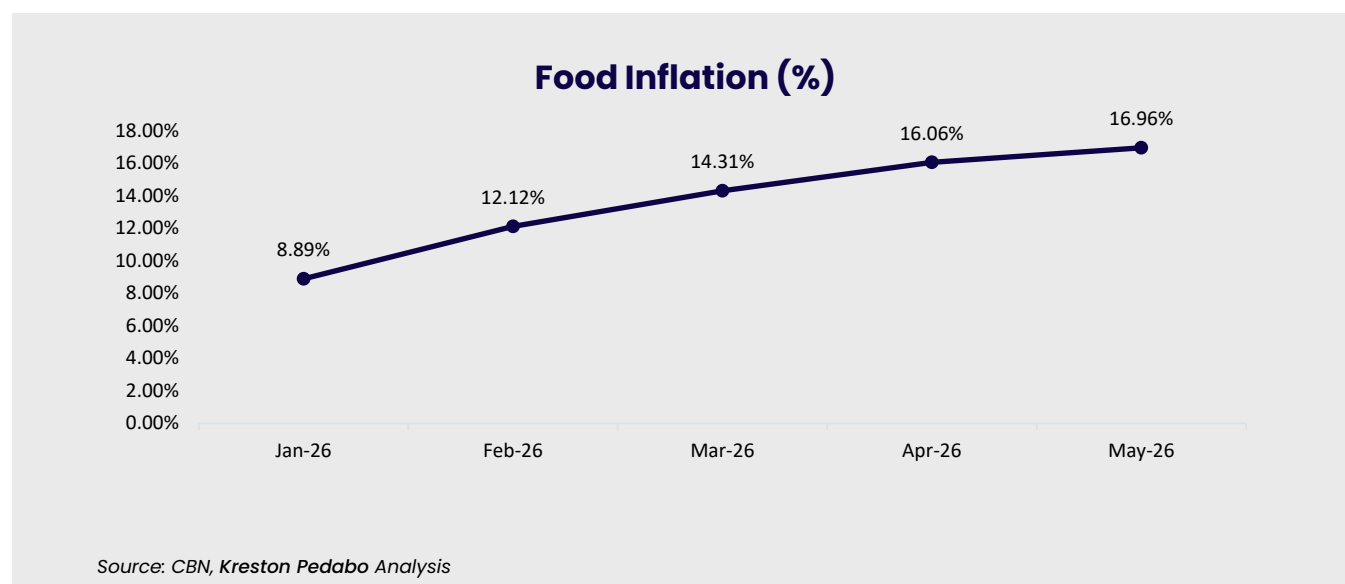
2027 Elections: Economic Implications and Policy Credibility

Insecurity and the Macroeconomy: A Persistent Structural Drag on the Build-Up

If electoral politics defines the cyclical risk leading up to 2027, insecurity is its ongoing structural challenge. Developments in the first half of 2026 push security from a background issue to a central theme. It now functions as a fiscal burden, an inflation driver, a deterrent to investment, and a destroyer of welfare. The four main concerns, Boko Haram and ISWAP insurgency in the North-East, banditry and kidnapping in the North-West, farmer-herder conflict in the Middle Belt, and separatist activities alongside oil-region crime in the South, create a growing tax on growth. An election year generally heightens both the threat and the security spending aimed at addressing it.

the fastest-growing parts of the federal budget, leaving less room for development spending. According to various appropriations from the Budget Office of the Federation, defense and internal security budgets have approached 10% of the federal budget. The ongoing costs of policing a fragmented security environment keep rising. Insecurity also leads to food production disruption in the Middle Belt and North-West, affecting planting and harvest seasons. Many farmers either face displacement or have to pay fees to armed groups for access. As noted by the NBS, food inflation consistently outpaces overall inflation, and a large part of this gap can be attributed to security-related supply issues that monetary policy cannot address.

Security and defense spending have become one of



Insecurity increases the risk premium on every domestic investment choice and discourages agricultural, mining, and infrastructure projects that could create mass employment. The World Bank estimates that insecurity costs Nigeria around 1% of GDP each year through lost productivity, displacement, and missed investments, representing a recurring drag of several billion US dollars annually. Beyond the economic figures lies a human crisis: school closures in the North, widespread internal displacement, and rising poverty in areas least equipped to handle it.



2027 Elections: Economic Implications and Policy Credibility

Average Nigerian Welfare: Poverty, the Underserved, and Inclusive Growth

The main contradiction in Nigeria's macro narrative for 2025–2026, also a key aspect of the political climate leading to 2027, is the gap between overall economic stability and the actual welfare of citizens. Reforms led to reserve growth, exchange-rate stability, and a drop in inflation overall, yet most measures show that the real welfare of the average Nigerian has worsened during this time. The initial costs of reforms, such as subsidy removal, have driven up transport and food prices while the benefits are delayed. For a population already among the poorest globally, this timing has been challenging and has significant political implications.

According to the NBS's Multidimensional Poverty Index, about 133 million Nigerians, around 63% of the population, are impoverished in multiple ways. The World Bank estimates that over 80 million live below the international poverty line. This number has increased as inflation has reduced real incomes. The burden of poverty is regionally uneven, with rates over 65–75% in much of the North-West and North-East, compared to under 25% in parts of the South-West. These populations are not only income-poor but also lack access to formal finance, dependable electricity,

healthcare, clean water, and quality education. The EFINA Access to Financial Services survey shows that a large portion of the adult population still lacks access to the formal financial system, with rural areas lagging significantly behind urban ones. The underserved groups, smallholder farmers, informal traders, rural women, and the large youth demographic entering a competitive labor market, represent Nigeria's biggest development challenge and its largest untapped market.

Deteriorating welfare during an election cycle creates a dangerous situation. The demand for cash transfers, wage increases, and consumer subsidies rises just when the government faces its tightest fiscal constraints due to debt service. Transfer schemes that are only partially implemented or driven by politics may fail to achieve fiscal responsibility or provide real help, leading to disillusionment and fostering anti-reform sentiments. A better approach would be focused, well-managed social investment that protects the most vulnerable during the adjustment period without reigniting the fiscal issues that led to inflation.



2027 Elections: Economic Implications and Policy Credibility

The INEC Question: Electoral Act Reform and Institutional Credibility

The credibility of the 2027 elections, and the legitimacy of the resulting policy mandate, largely depends on the Independent National Electoral Commission (INEC) and the legal framework surrounding it. Since 2023, there has been significant debate over the Electoral Act and the technologies it requires, which has important economic implications: a disputed or low-legitimacy election significantly increases country risk and uncertainty regarding policy continuity.

The Electoral Act 2022 introduced the Bimodal Voter Accreditation System (BVAS) and the INEC Result Viewing Portal (IReV). However, the 2023 experience highlighted confusion about whether the electronic transmission of results is mandatory or optional. The failure to upload presidential results to IReV in real time on election day became a central issue in post-election litigation and damaged trust in the institution. That debate has now been settled in law: President Tinubu signed the amended Electoral Act on 18 February 2026, days after INEC released the 2027 election timetable. Crucially, the final Act keeps electronic transmission

of results optional within a hybrid framework, with the manual Form EC8A prevailing where network coverage fails. Civil society groups warn that this preserves the very ambiguity that fuelled the 2023 disputes, shifting the credibility burden squarely onto INEC's conduct and voluntary transparency in 2027.

Beyond the legal aspects, INEC faces operational and capacity challenges. Concerns persist about logistics, staff training, the reliability of BVAS, cybersecurity for transmission infrastructure, and the expenses related to increasing polling unit coverage. While full electronic transmission can improve transparency, it also significantly raises costs and risks of technical failure. The main risk is uneven: a well-managed, credible election enhances the incoming mandate and reduces policy uncertainty. In contrast, a repeat of contested INEC issues would heighten all associated risks, raising country risk premiums, deterring investment, and pressuring any new government to seek legitimacy through populist fiscal measures.



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Green Finance, ESG and the Climate Economy Transition



Green Finance, ESG, and the Climate Economy Transition

In the first half of 2026, Nigeria marked several milestones that established green finance as a key part of its sovereign debt strategy and long-term growth plan, even though there are still significant gaps in execution and cultural adoption of ESG.

Sovereign Green Bonds and the ESG-Anchored Investor Base

Nigeria plays a key role in African climate finance. In 2017, it became the first African country and the fourth globally to issue a sovereign green bond. According to the Debt Management Office (DMO), the initial ₦10.69 billion issuance was followed by a ₦15 billion bond in 2019, which was 220% oversubscribed. In June 2025, a Series III bond for ₦50 billion attracted ₦91.42 billion in subscriptions, reflecting 183% oversubscription. As reported by Nairametrics, on May 13, 2026, Nigeria listed a ₦47.335 billion sovereign green bond on the Nigerian Exchange and FMDQ, featuring an 18.95% coupon maturing in June 2030. This issuance is part of a goal to raise up to ₦500 billion in green bonds during 2026, in line with Nigeria's Sustainable Bond Framework

and International Capital Markets Association (ICMA) standards.

The continued oversubscription is important. Domestic institutional investors, such as pension fund administrators, insurers, and asset managers, are increasingly focusing on ESG criteria. The National Pension Commission supports this push for green-bond participation. Investments are beginning to be based on ESG rather than treated as an afterthought. However, this remains largely a domestic issue. The involvement of foreign investors and retail investors in ESG is still low, leaving a significant amount of potential green capital untapped.

The Cultural and Institutional Transition That Has Not Yet Moved

The main weakness in Nigeria's ESG and climate-finance agenda is not a lack of policy but the slow cultural and institutional shift that has not kept up. The tools are available, there are oversubscribed issuances, and frameworks are in place. What hasn't changed enough is the culture itself. Genuine ESG practices need to be integrated into corporate decision-making. There should also be independent verification and diligent monitoring and evaluation to distinguish real climate impact from greenwashing. A leading Nigerian newspaper reported that several afforestation projects funded by previous green-bond issuances failed due

to poor execution and monitoring. President Tinubu approved the National Carbon Market Strategy in early 2026, which is expected to generate at least US\$3 billion annually by 2030. The Securities and Exchange Commission has proposed adopting IFRS S1 and S2 sustainability-reporting standards that align with the International Sustainability Standards Board. However, the success of both initiatives relies on a cultural shift towards transparency, verification, and accountability that is still incomplete.

Green Finance, ESG, and the Climate Economy Transition

The Financing Gap and the Oil-Price Paradox

According to Nigeria's Climate Change Act 2021, the country commits to achieving net-zero emissions between 2050 and 2070. Its updated Nationally Determined Contribution submitted to the UNFCCC in September 2025 aims for a 32% emissions reduction by 2035. Meeting these targets is expected to require US\$337 billion by 2060. Additionally, the Energy Transition Plan, created with Sustainable Energy for All, will need another US\$410 billion. In contrast, Nigeria's total sovereign green bonds issued since 2017 amount

to around ₦155 billion, or about US\$115 million, which is a tiny fraction of what is needed. The recent energy shock in the Middle East adds complexity. Brent crude prices surpassed US\$102 per barrel in March 2026, well above the US\$64.85 budget benchmark. This provides some short-term financial flexibility but reduces the urgency for transition. Oil revenues currently support the budget, but delaying the transition will shape the future.

What to Watch in H2 2026

The main weakness in Nigeria's ESG and climate-finance agenda is not a lack of policy but the slow cultural and institutional shift that has not kept up. The tools are available, there are oversubscribed issuances, and frameworks are in place. What hasn't changed enough is the culture itself. Genuine ESG practices need to be integrated into corporate decision-making. There should also be independent verification and diligent monitoring and evaluation to distinguish real climate impact from greenwashing. A leading Nigerian newspaper reported that several afforestation projects funded by previous green-bond issuances failed due

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Bottom Line

Nigeria has first-mover credentials, oversubscribed issuances and an increasingly ESG-aware domestic institutional base, but a financing requirement measured in hundreds of billions of dollars cannot be met by domestic liquidity alone. Crowding in

international climate capital will require credible verification, transparent use-of-proceeds reporting and consistent policy signals that outlast the electoral cycle. The windfall from elevated oil prices is an opportunity to fund the transition, not a reason to defer it.

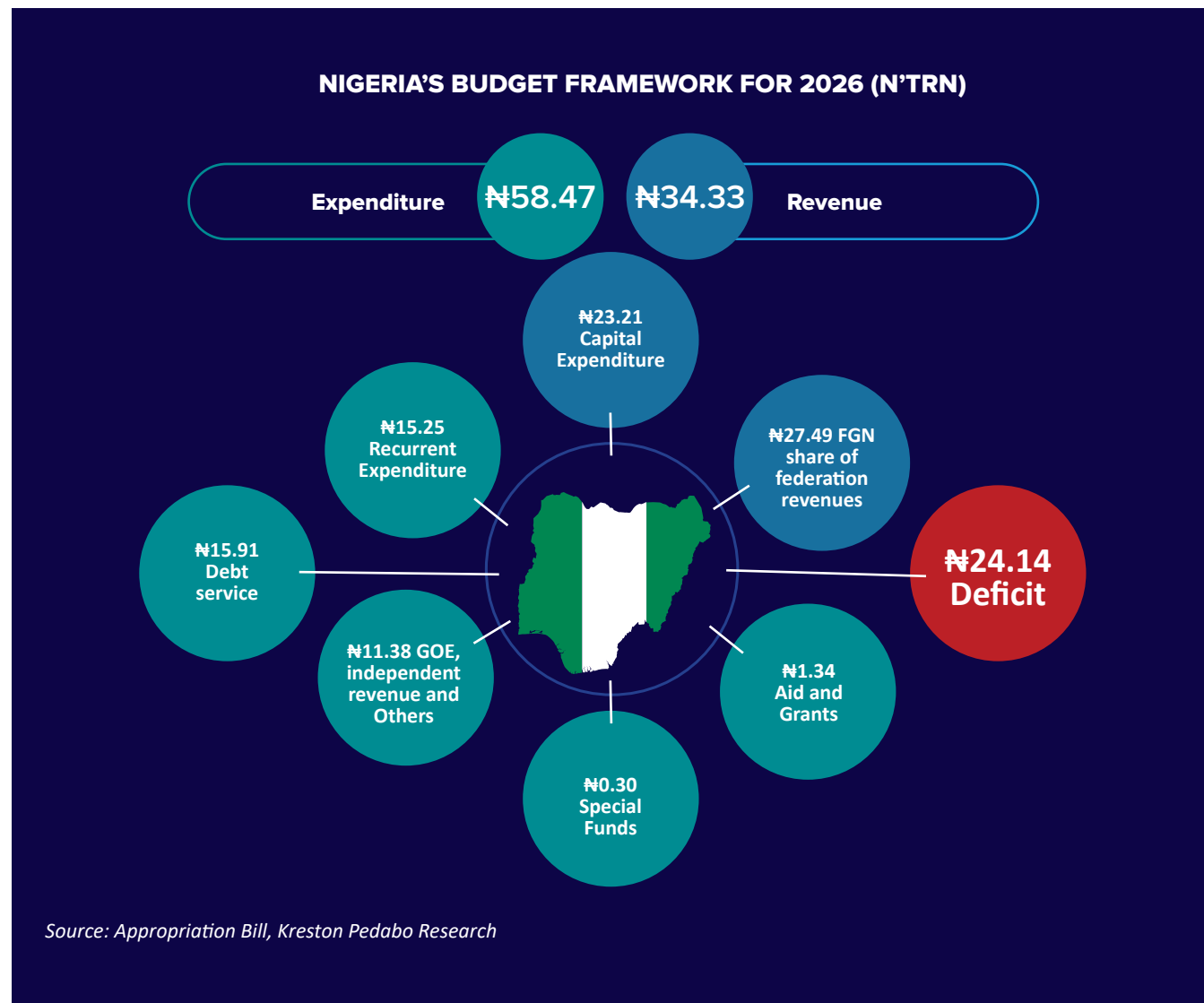
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Key Risks and Opportunities



Key Risks and Opportunities

Proposed 2026 Budget



The Federal Government's **₦58.47** trillion 2026 spending plan allocates 40% to capital expenditure and 26% to recurrent spending, with the balance to debt servicing, anchored on US\$64.85/b crude, production of 1.84 million barrels per day and an exchange rate of ₦1,400/\$.

The FX assumption has proved conservative (the naira traded at ₦1,370–₦1,385/\$) and oil prices ran above benchmark after April's spike, but Q1 production of 1.55mbpd fell well short of the 1.84mbpd assumption, keeping revenue risk alive. With the deficit still exceeding

capital expenditure, analysts at Kreston Pedabo remain cautious on feasibility, citing Nigeria's income-driven budgeting framework and weak implementation record. H2 execution, closing the production gap, faster non-oil collections and disciplined borrowing, will decide whether this budget outperforms its predecessors. The Assembly later passed it at **₦68.32** trillion (31 March 2026), **₦9.85** trillion above the proposal.

More information is available in the Kreston Pedabo 2026 budget analysis

Key Risks and Opportunities

Growth, Inflation and the Naira

GDP: Tracking just Below Projection

We projected growth of approximately 4.4% for 2026. The first half broadly validated that call: real GDP expanded 3.89% Year-on-Year in Q1, well above Q1 2025 (3.13%), on an agriculture rebound (+3.15%), resilient services (+4.31%) and a firmer industry print (+3.50%). With analysts expecting 3.7–4.2% in Q2, the full-year outcome is likely to land near, but slightly below, our projection unless oil output recovers meaningfully. The H2 agenda is unchanged: productivity, policy consistency and disciplined execution of capital spending.

Inflation: Disinflation Intact, but Slower

Headline inflation entered the year at 15.10% (January), climbed to 15.93% by May as the March fuel price shock passed through, and eased to 15.91% in June, the first decline in three months. The CBN's optimistic 12.94% scenario is now out of reach; the Budget's 16.5% average assumption looks realistic (the 12-month average stood at 17.63% in June and is falling). For H2, base effects, the main harvest and naira stability should resume the downtrend towards 14–15% by December, provided food logistics improve and election-cycle liquidity is contained. Food inflation (17.52% in June, still rising month-on-month) is the swing factor.

Exchange Rate: The Reform Dividend Showed up Early

The naira was H1's standout performer: a stable ₦1,370–₦1,385/\$ official band, a parallel-market premium compressed to roughly 3%, and gross reserves of \$51.5bn at end-June (9 months of import cover). Domestic refining is structurally reducing FX demand for fuel imports, while portfolio inflows and remittances support supply. We expect the naira to hold a ₦1,350–

₦1,450/\$ range in H2; the risks are a reversal of foreign portfolio flows as advanced economies re-tighten, and any slippage in oil receipts. Diversifying FX earnings through non-oil exports and FDI remains the durable anchor.

Equities (NGX): Earnings-led Rally meets Valuation Discipline

The NGX extended its rally through H1, driven by strong corporate earnings, recapitalisation-related capital raising and improving sovereign sentiment; the transition towards T+1 settlement is strengthening market infrastructure. Market capitalisation remains on course for the ₦250 trillion mark, with potential listings (NNPC Limited, Dangote Petroleum Refinery) the key H2 catalysts for depth and liquidity. We flag three H2 risks: overbought pockets where prices have outrun earnings, competition from still-high fixed-income yields, and foreign portfolio outflows if global rates stay elevated.

Bottom Line

Nigeria enters H2 2026 with growth running above 2025's pace, inflation at roughly half its year-ago level and the strongest external buffers in more than a decade. The challenge now is conversion: turning stability into investment by sustaining reform credibility through the election season, deepening the domestic capital market, and crowding private capital into infrastructure, manufacturing and the climate transition.



Key Risks and Opportunities

Oil, Non-Oil and Infrastructure

Oil Sector: Prices Rescued what Production could not Deliver

The 2026 budget assumes \$64.85 per barrel and 1.84 million barrels per day. Half-way through the year, the price leg is comfortably ahead, the Middle East conflict drove crude from \$57 in January to a \$113 peak in April before settling near \$76, but the volume leg is behind: output averaged just 1.55mbpd in Q1 2026, below both Q1 2025 (1.62mbpd) and Q4 2025 (1.58mbpd), reflecting aged facilities, theft and vandalism. The oil sector still grew 2.57% Year-on-Year in Q1. For H2, the fiscal arithmetic depends far more on barrels than on price: sustained security operations in the Niger Delta, faster Petroleum Industry Act implementation and new investment commitments are needed to close the 0.3mbpd gap to the budget benchmark.

Non-Oil Sector: the Engine of the Recovery

The non-oil economy (96.08% of Q1 GDP) grew 3.94% Year-on-Year, led by telecommunications, crop production, trade, cement and financial institutions, validating our view that 2026 growth would be domestically anchored. The tax reforms effective 1 January 2026 are beginning to bite in the right direction: restored VAT recoverability is easing manufacturers' cost burdens, and small-business exemptions are supporting SME formalisation. In H2 we expect non-oil growth to hold near 4%, with upside if credit conditions ease as the CBN continues cautious rate cuts, and downside if food-belt insecurity or grid instability disrupt agriculture and industry.

Infrastructure: from Appropriation to Execution

H1 was dominated by carry-over mechanics: capital spending under the 2025 Act was extended to 31 March 2026, with roughly 70% of capital allocations

rolled over, before the ₦58.47 trillion 2026 budget, 40% of it capital expenditure, took full effect. The ₦3.56 trillion works programme, the Renewed Hope ward-level projects and the Lagos–Calabar corridor anchor the pipeline, supplemented by ₦10.7 trillion of planned capital spending across 15 states and PPP financing lines from China and France. The H2 test is disbursement discipline: converting appropriations into completed projects before election-season politics crowds out delivery. We expect infrastructure to be the single largest determinant of whether full-year growth approaches the 4.3% projection.

What to Watch in H2

Four markers will tell the story early: OPEC+ quota compliance and Niger Delta security metrics as a read on production; monthly FAAC distributions as the cleanest proxy for oil revenue; capital-release circulars from the Budget Office as the signal on execution; and financial close on the Lagos–Calabar and priority PPP corridors as the test of private-capital appetite. Progress on these four would put the 4.3% growth projection back within reach; slippage would confirm a full-year outcome nearer 4%.



Key Risks and Opportunities

Financial and Professional Services

Banking: Recapitalisation Reshaped the Industry in H1

The defining event of the half was the banking recapitalisation programme reaching its 31 March 2026 deadline. Most banks completed their capital raises early, through rights issues, public offers and selective business combinations, leaving the industry better capitalised to absorb shocks and fund bigger tickets. The H2 story shifts from raising capital to deploying it: loan-book growth as the MPR eases from 26.50%, integration of merged franchises, and the profitable recycling of recapitalisation proceeds. Asset quality and FX-risk management remain the key watch items while inflation stays near 16%.

Insurance: from Legislation to Implementation

The 2025 Insurance Industry Reform Act moved into its implementation phase in H1, raising capital thresholds and introducing risk-based supervision. We expect consolidation among smaller underwriters through H2, alongside product innovation in retail, takaful and micro-insurance. Deeper insurance penetration, still among the lowest in major emerging markets, is both the sector's challenge and its opportunity, particularly as compulsory lines are enforced more rigorously.

Pensions: Reform Momentum and Real Returns

Building on the Pension Reform Act 2025 and the rebranded Personal Pension Plan, the industry entered 2026 focused on coverage expansion into the informal sector. With inflation now below 16% and nominal yields still elevated, pension funds are earning strongly positive real returns, supportive of long-duration allocations to infrastructure and, increasingly, green instruments. H2

priorities: micro-pension distribution, benefit adequacy and prudent diversification as rates decline.

Professional Services: a Reform-driven Demand Cycle

Advisory, audit, tax and consulting franchises are direct beneficiaries of the reform wave. The Nigeria Tax Act (effective 1 January 2026), including the 4% Consolidated Development Levy and the 15% minimum effective tax rate for large corporates, generated substantial compliance and restructuring mandates in H1. Post-recapitalisation integration, ESG and sustainability reporting, and public-sector reform programmes underpin a strong H2 pipeline. Talent retention and technology adoption (including AI-enabled delivery) remain the sector's binding constraints.



Key Risks and Opportunities

Foreign Capital Inflows

H1 2026: a Strong but Narrow Inflow Story

Foreign capital continued to return in the first half: capital importation reached US\$10.37 billion in Q1 2026 alone, building on the US\$20.98 billion recorded in the first ten months of 2025. The composition, however, remains the central caveat, roughly 95% of Q1 inflows were portfolio investment, drawn by high naira yields, a stable exchange rate and improved FX repatriation confidence, rather than long-horizon foreign direct investment. Banking, financing and trading activities continued to dominate sector destinations, with Lagos and Abuja the principal recipients.

The Significance

Portfolio capital is fast in and fast out: it deepens the NFEM and supports reserves today, but it re-prices quickly when global conditions shift. With the Federal Reserve holding at 3.50–3.75% and signalling possible

hikes, and the ECB tightening again, the yield gap that attracted carry trades can narrow abruptly. A durable external position requires converting this confidence into FDI, plant, infrastructure and equity commitments that do not leave when the carry fades.

H2 outlook and Policy Priorities

We expect inflows to remain healthy but increasingly selective in H2. Sustaining them requires: (i) holding the line on FX transparency and reform credibility through the pre-election period; (ii) accelerating investment-climate wins, power, ports, security and contract enforcement, that unlock FDI in manufacturing, agro-processing and energy; (iii) deepening instruments (green bonds, infrastructure funds, potential diaspora issuance) that term-out foreign participation; and (iv) maintaining positive real yields without choking credit growth. The upside: reserves above \$51 billion give the CBN room to smooth episodes of outflow volatility without destabilising the naira.



Key Risks and Opportunities

Structural Reforms: H1 Evidence, H2 Implications

Nigeria's economic outlook for 2026 reflects the early effects of a broad structural reform agenda launched in 2025, targeting fiscal policy, capital markets, insurance, pensions, and the wider financial sector. These reforms are aimed at strengthening fiscal stability, deepening domestic financial intermediation, and addressing structural inefficiencies. H1 2026 delivered the first hard evidence that the reforms are working: growth of 3.89% in Q1, inflation almost ten percentage points below its June 2025 level, a stable naira and record reserves. Even so, the benefits are materialising gradually and unevenly, adjustment costs, implementation delays and still-tight financial conditions continue to limit immediate gains, and the H2 test is disciplined execution as the political cycle intensifies.

A cornerstone of the reform programme is fiscal restructuring, underpinned by four major tax reform bills signed into law on June 26, 2025, and effective January 1, 2026. The reforms seek to broaden the tax base, enhance compliance, and boost non-oil revenue. This is particularly critical given the 2026 fiscal plan, which projects total revenues of ₦33.20 trillion against expenditures of ₦58.47 trillion, highlighting a substantial fiscal deficit. Initial revenue gains are expected to be modest as administrative systems are established, but successful implementation could reduce borrowing needs, slow debt growth, and lessen dependence on oil revenues over the medium term. The reforms are especially important given potential volatility in global oil markets, where supply may exceed demand, threatening oil prices relative to the government's US\$64.85 per barrel benchmark. Non-oil revenue

mobilisation will therefore be vital for fiscal stability, macroeconomic resilience, and investor confidence.

Reforms in the financial sector and capital markets under the Investments and Securities Act (ISA) 2025 aim to reshape domestic financing over time. By raising minimum capital requirements for brokers, broker-dealers, and issuing houses, enhancing regulatory oversight, broadening the definition of securities, and accelerating settlement to T+2, the reforms will initially drive consolidation and higher compliance costs, with subdued issuance activity among smaller participants. In the medium term, improved market integrity, governance, and investor protection are expected to support deeper, more resilient capital markets, reducing reliance on bank credit and public borrowing.

Parallel reforms in the insurance sector, including higher minimum capital requirements and the introduction of a risk-based capital framework, strengthen solvency and consumer protection. Although short-term pressures may limit uptake, these measures are expected to improve insurance penetration and risk-sharing over the medium term, reducing contingent fiscal liabilities. Finally, pension-sector reforms, including higher capital requirements for administrators and custodians and expanded investment options, continue to enhance macro-financial stability. While allocations remain concentrated in government securities, a stronger capital base and governance framework position pensions as a growing source of long-term savings, infrastructure financing, and private-sector investment as capital markets deepen.



Key Risks and Opportunities

Key Risks to the H2 2026 Outlook

Key Risks and Potential Disruptions to the 2026 Economic Outlook

The H2 2026 outlook is underpinned by cautious optimism, reinforced by H1's better-than-expected growth, resumed disinflation and a resilient naira, but the recovery path remains exposed to multiple downside risks that could disrupt macroeconomic stability and reform momentum in the run-up to the 2027 elections.

- 1 Fragile Disinflation:** Although inflation has moderated, the disinflation trend remains fragile. Climate-related shocks, insecurity in major food-producing regions, and renewed volatility in global energy prices could quickly reverse recent gains. A resurgence in inflation would erode household purchasing power, weaken consumption, and complicate monetary policy management.
- 2 Oil Production Execution Risk:** The 2026 budget is based on an ambitious crude oil production target of 1.84 million barrels per day; a level Nigeria has historically struggled to sustain. Failure to meet this benchmark would create immediate revenue shortfalls. Without clearly articulated contingency buffers, such gaps could necessitate additional borrowing and worsen debt dynamics.
- 3 Oil Sector Vulnerabilities:** Persistent oil theft, pipeline vandalism, and operational disruptions remain structural constraints. Combined with global oil price volatility, these factors continue to undermine fiscal stability and limit foreign exchange inflows.
- 4 Infrastructure Execution Risks:** The success of the 2026 outlook depends on efficient project delivery, procurement transparency, and policy consistency. Bureaucratic delays or reform reversals could weaken investor confidence, while failure to deliver tangible improvements in power, transport, and logistics would erode public support.
- 5 Structural Inefficiencies:** Insecurity, weak infrastructure, and governance challenges remain key impediments to growth. These factors disrupt economic activity, discourage private investment, and slow the pace of reforms.
- 6 Non-Oil Sector Challenges:** Despite easing inflation, high energy costs, elevated interest rates, naira depreciation, and supply-chain disruptions continue to squeeze margins and raise capital costs, limiting the transmission of macroeconomic stabilisation into real economic activity.
- 7 Global Economic Uncertainty:** External shocks, above all an escalation of the Middle East conflict and renewed oil price volatility, alongside shifts in global fossil fuel demand and prolonged high global interest rates, could reduce export earnings, trigger capital outflows, and heighten exchange rate volatility.
- 8 Pre-Election Year Risks:** As 2026 precedes a national election cycle, heightened political spending pressures, reform delays, and policy populism pose risks to fiscal discipline and reform continuity.
- 9 Unemployment Pressures:** Persistently high youth unemployment and weak job creation remain threats to inclusive growth and social stability.
- 10 Debt Sustainability:** Rising public debt and high debt-servicing costs may constrain fiscal space for infrastructure and social investment.

Key Risks and Opportunities

11

Naira Stability: Strong import demand, limited domestic production, and exposure to external shocks continue to exert pressure on the currency.

12

Governance and Accountability: Weak transparency, limited accountability, and uneven policy enforcement risk undermining effective policy implementation and investor confidence.

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Strategic Themes for H2 2026



Strategic Themes and Opportunities for H2 2026

Key Recommendations and Policies

Category	Strategies / Innovations	Expected Impact
Agricultural Development	» Scale Anchor Borrowers' Programme » Invest in irrigation, storage, and logistics » Promote mechanised farming » Expand agro-processing zones	» Increased food production » Lower food inflation » Rural employment growth » Reduced food imports
Infrastructure Development	» Expand Public–Private Partnerships (PPPs) for roads, rail, and power projects » Accelerate completion of key infrastructures, such as the Lagos–Calabar Highway and key transport corridors	» Faster infrastructure delivery » Lower logistics and transport costs » Improved productivity and private sector investment
Export Diversification	» Promote non-oil exports (agriculture, manufacturing, digital services) » Strengthen international trade agreements. » Provide FX incentives for exporters	» Increased foreign exchange earnings » Reduced oil dependency » Improved trade balance » More stable naira
Energy & Oil Sector Reform	» Operationalise idle refineries » Scale up modular refineries » Strengthen pipeline security and reduce oil theft	» Reduced fuel imports and FX pressure » Higher domestic production » Energy security and price stability
Industrialisation Drive	» Support SMEs with tax reliefs and affordable credit » Encourage local manufacturing and import substitution » Expand Special Economic Zones (SEZs)	» Growth in domestic industries » Reduced import dependency » Job creation » Stronger GDP contribution from non-oil sector
Technology & Innovation	» Invest in broadband and digital infrastructure » Support tech startups and innovation hubs » Digitalise government services and tax systems	» Higher productivity » Growth of digital economy » Increased foreign tech investments » Improved service efficiency
Financial Services & Capital Market Development	» Improve FX market transparency and liquidity » Attract foreign portfolio and direct investment	» Stronger financial stability » Increased long-term funding for businesses » Higher market capitalisation » Improved investor confidence

Nigeria H2 2026 Economic Outlook

H2 2026 Projections (July–December)

Variables	Outlook		Rating Key	Outlook
GDP	●	↑	Positive	●
Inflation Rate	●	↓	Stable	●
Exchange Rate	●	↔	Negative	●
Capital Importation	●	↔		
Oil Production	●	↔		
MPR	●	↔		
External Reserves	●	↑		
Capital Markets	●	↑		

We expect growth of 3.7–4.2% to be sustained, disinflation to resume towards 14–15% by December, and the naira to hold a ₦1,350–₦1,450/\$ band behind reserves above \$51 billion.

Inflation and the MPR move to positive as base effects, the harvest and gradual easing come into view; oil production and capital importation shift to stable, reflecting H1 underperformance (1.55mbpd vs the 1.84mbpd budget benchmark) and the risk that advanced-economy tightening slows portfolio inflows.

Election-cycle spending, food-price shocks and Gulf-related oil volatility are the main threats; upside would come from the Dangote Refinery listing, a positive FTSE Russell decision and faster food disinflation.

Economic Outlook – Looking Forward (July–December 2026)

From Stabilisation to Sustainable Growth

Nigeria's economic outlook for the second half of 2026 will largely depend on whether ongoing fiscal and monetary reforms can move the economy from adjustment towards sustainable recovery. While reforms have improved policy credibility, major challenges remain around inflation, exchange rate stability, and fiscal capacity.



Nigeria's economy is expected to maintain moderate growth momentum (around the 3% range) in H2 2026, supported by improved oil production, services sector expansion, infrastructure investment, and improving investor confidence. However, growth remains constrained by high operating costs and weak consumer purchasing power.



Inflation is expected to moderate gradually from elevated levels as exchange rate pressures ease and supply conditions improve. Nevertheless, with inflation still above historical averages, the CBN is likely to maintain a restrictive monetary stance, keeping the Monetary Policy Rate above 20% in the short term.



Fiscal reforms are expected to improve revenue mobilisation, particularly from non-oil sources, but high debt obligations and elevated debt-service costs will continue to limit fiscal flexibility. Exchange rate stability will depend on improved FX liquidity, export earnings, and sustained foreign investment inflows.



Glossary of Terms

CIT – Company Income Tax	is a direct tax levied on the profits made by companies operating in a particular jurisdiction.
GDP – Gross Domestic Product	The total value of goods and services produced within a country in a given period.
Monetary Policy	The actions taken by a central bank to control the money supply and interest rates in the economy.
Debt Burden	The total amount of government debt, including both domestic and foreign debt
Fiscal Reforms	Measures taken by the government to improve its revenue collection and spending efficiency.
Public-Private Partnerships – PPPs	Arrangements between the government and private sector to finance, develop, and operate infrastructure projects.
Foreign Exchange Reserves	The amount of foreign currencies held by a country's central bank.
Purchasing Managers' Index – PMI	A composite index that tracks the perceived change in business conditions for manufacturing and services.
Equities Market	The market where stocks and shares of publicly-traded companies are bought and sold.
OPEC+	A coalition of oil-producing countries, including members of the Organisation of the Petroleum Exporting Countries (OPEC) and other major oil producers.

Glossary of Terms

NFEM – Nigerian Foreign Exchange Market	The unified official window in which the naira trades. The NFEM rate — a volume-weighted average of executed deals — serves as Nigeria's official exchange rate.
Currency Depreciation	Currency depreciation occurs when a currency loses value compared to another currency in the foreign exchange market, primarily driven by the forces of demand and supply.
Purchasing Power	Purchasing power represents the quantity of goods and services that can be acquired with a given unit of currency.
Unemployment Rate	The percentage of the labor force that is unemployed and actively seeking employment.
mbpd – Million Barrels Per Day	A unit of measurement for oil production volume.
MPR – Monetary Policy Rate	The benchmark interest rate set by the CBN's Monetary Policy Committee, anchoring lending and deposit rates economy-wide. It stood at 26.50% at end-June 2026.
Fiscal Consolidation	Government measures aimed at reducing budget deficits and stabilising public finances.
Arbitrage	The simultaneous purchase and sale of an asset to profit from a price difference between two or more markets.
NESG	Nigerian Economic Summit Group
IMF	International Monetary Fund
ECB	European Central Bank
BoE	Bank of England

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Methodology

Scope and cut-off

This half-year review covers developments from 1 January to 30 June 2026, with a data cut-off of mid-July 2026. It updates and tests the projections published in our 2026 Economic Outlook.

Data sources

The report was compiled from a combination of secondary data and expert insights. Key sources include the Central Bank of Nigeria (Statistical Bulletin, NFEM data and Monetary Policy Committee communiqués), the National Bureau of Statistics (GDP, CPI and capital importation releases), the Debt Management Office, the Budget Office of the Federation, Bloomberg, the World Bank, the International Monetary Fund, the African Development Bank, the European Central Bank, the US Federal Reserve, Trading Economics, Proshare and Veriv Africa.

Analytical framework

The report applies an outlook-versus-outcome framework: each projection in our 2026 Economic Outlook is compared against actual H1 2026 data, and material deviations are explained. Quantitative analysis is complemented by qualitative inputs from discussions with industry experts across banking, insurance, capital markets, taxation and public policy.

Units and conventions

Unless otherwise stated, growth and inflation rates are year-on-year; naira values are converted at official NFEM rates; “H1” refers to January–June 2026; and chart sources are stated beneath each exhibit. Peer-country comparisons draw on the respective central banks and national statistics offices as at the cut-off date.

Limitations and forward-looking statements

All figures are the latest available official releases as at the cut-off date and may be revised by the issuing agencies. Forward-looking statements reflect our judgement at the date of publication and are not a guarantee of future outcomes; they should be read alongside the key risks identified in this report.



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