



CARDINALSTONE

2026 Macroeconomic Outlook

Indicators Align for Sustained Macro Gains



January 2026

Table Of Contents

01

INTRODUCTION

- ❖ Executive summary

02

DOMESTIC ECONOMY

- ❖ Pathway to sustainable growth
- ❖ Any debt sustainability concerns?
- ❖ Moderating inflation eases the path to more rate cuts
- ❖ Can Naira defy pre-election jitters?
- ❖ Economic table

03

DISCLOSURES

EXECUTIVE SUMMARY

Happy New Year, Investors,

We have reorganised our bi-annual outlook into two separate publications: the Macroeconomic Outlook and the Strategic Asset Allocation report. This change is designed to make the structure clearer, referencing easier, and the strategic asset allocation broad enough to accommodate more alternative assets. Both reports provide in-depth insights and remain complementary. We trust this new format will make it easier for you to use and refer to our insights over time.

Today, we publish our Macroeconomic Outlook with a central theme that Nigeria enters 2026 from a position of relative strength, corroborated by notable credit rating upgrades. While we note the usual concerns around pre-election years and uncertainties over the implementation of the tax reforms, we hold the view that 2026 will be characterised by strong growth, low inflation, and a positive currency outlook. Already, corporates, including those who had initially contemplated exiting Nigeria, are now

articulating renewed and ambitious strategies to leverage the reform-driven growth momentum in the domestic market. We also expect these corporates to deliver better profits in 2026, supported by a favourable macro backdrop that should catalyse materially lower FX-related losses and a more predictable business environment.

At the household level, pressure should continue to ease on consumer wallets, as inflation is estimated to fall below the long-run average and dip below the Central Bank of Nigeria's inflation target. We expect this dynamic to drive a 300-400bps shave off in policy rate, which should have more impact on short-term yields, with those on medium to long-term fixed-income instruments likely to be influenced by a notably higher budget deficit. Downside risks exist. A weaker oil outlook is likely to weigh on fiscal revenues and could increase borrowing needs, potentially resulting in more debt accretion in 2026. On balance, we think the risk-reward skew still leans positive.

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CardinalStone Securities has been named Africa's Best Broker at the
2025 Euromoney Capital Markets Awards.



For three consecutive years, we have led the Nigerian Exchange in brokerage rankings, and now, we are proud to see that excellence recognised across the continent.

This milestone is a win for the Nigerian capital market, a proof of the strength, resilience, and growing influence of our ecosystem.

**Thank you to our clients, partners, regulators, and our people
for making this possible.**



Domestic Economy

Pathway to sustainable growth

Government's efforts to stabilise the Nigerian economy are beginning to yield results, with macro fundamentals strengthening and country risk declining. Notably, we have seen improvement in the external sector, which has led to significant FX reserves accretion (now at a seven-year high) and supported an appreciation of the currency. As such, corporate profitability has scaled, especially for those businesses wherein FX losses had previously eroded earnings and pushed shareholders' equity into negative territory. Encouragingly, some companies that had contemplated exiting Nigeria, like PZ, have reversed those decisions and are now articulating renewed and ambitious growth strategies.

We are also beginning to see an improvement in capital expenditure for businesses across most sectors, particularly in construction and mining & quarrying, where capacity expansion was most pronounced. These have contributed to

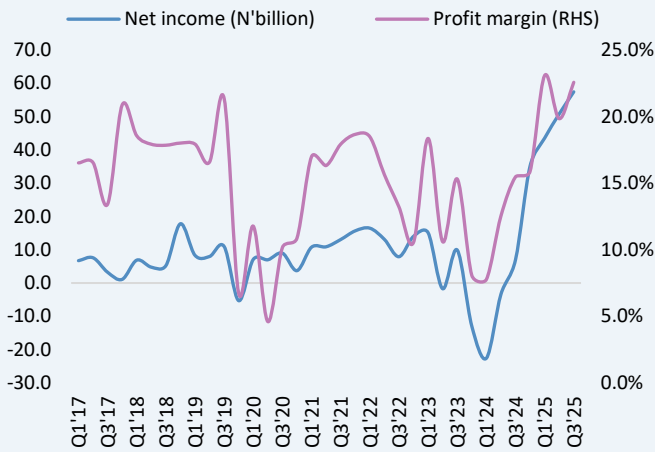
higher employment levels as per the CBN business confidence survey.

Against this backdrop, credit rating agencies have become more constructive on Nigeria, issuing positive outlook revisions and upgrades. In a similar fashion, index providers, like FTSE Russell, have placed the country on its watchlist for a likely upgrade back to Frontier Market Status. A formal review is expected in March 2026, with possible re-inclusion in September 2026. Likewise, there is growing expectation that Nigeria will soon be considered for a re-inclusion in the JP Morgan bond index, given improved liquidity and transparency in its foreign exchange market.

Additionally, inflation has begun easing, and it is estimated to fall below the country's long-run average of 14.0%, providing relief for consumers' wallets and, by extension, domestic GDP.

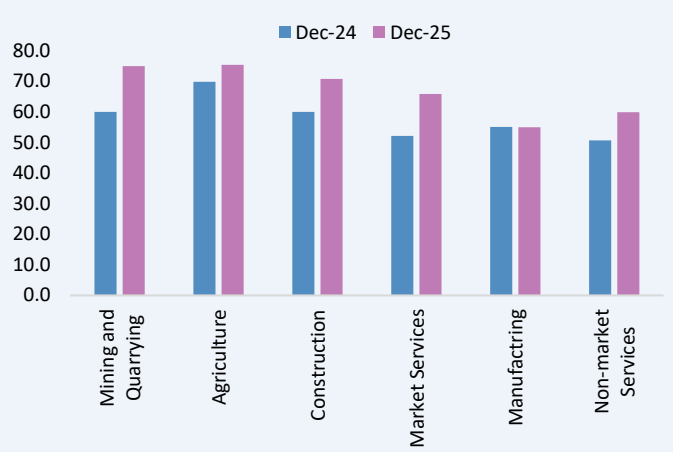


Figure 1: Average actual profits and margins for NGX 30 companies (excluding banks)



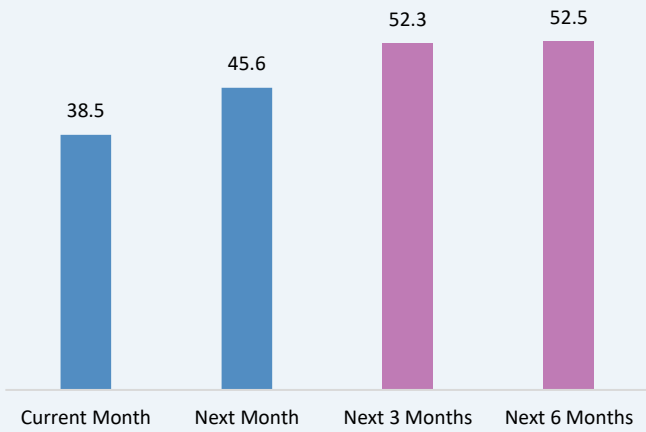
Source: NBS, CardinalStone Research

Figure 4: CBN's business survey showed that corporates expanded capacity in 2025



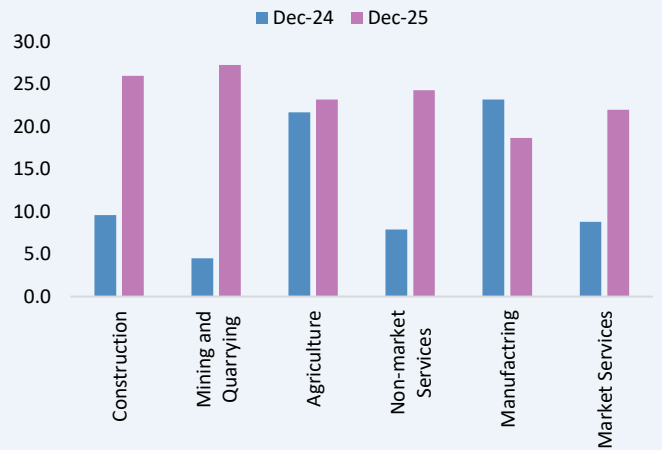
Source: CBN, CardinalStone Research

Figure 2: CBN's business confidence survey index suggests that corporates are optimistic about the future



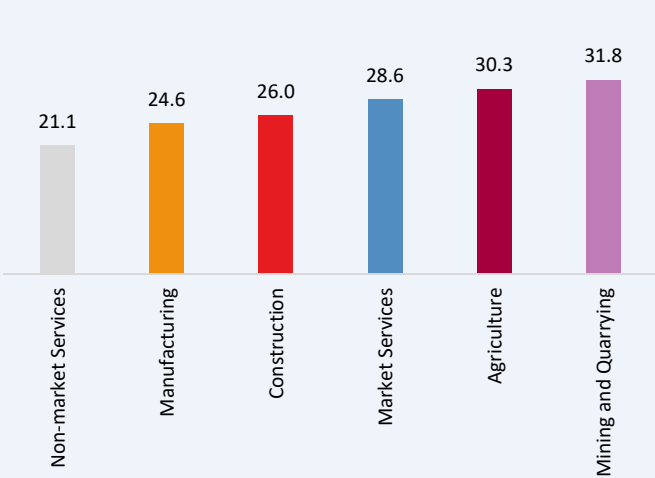
Source: CBN, CardinalStone Research

Figure 5: Employment activities also improved across most sectors



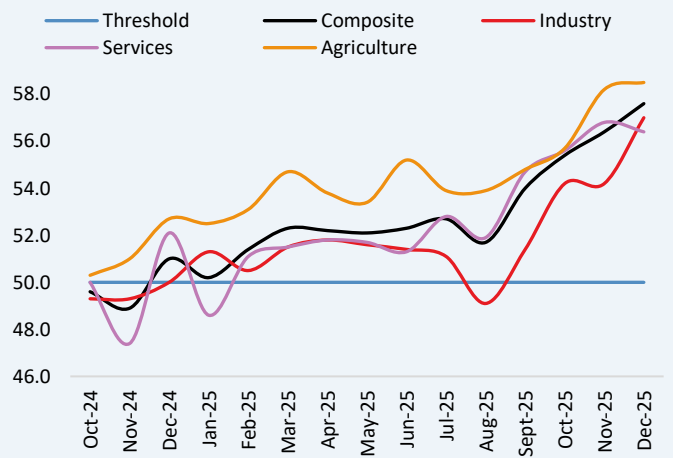
Source: CBN, CardinalStone Research

Figure 3: Business confidence survey distribution per sector



Source: CBN, CardinalStone Research

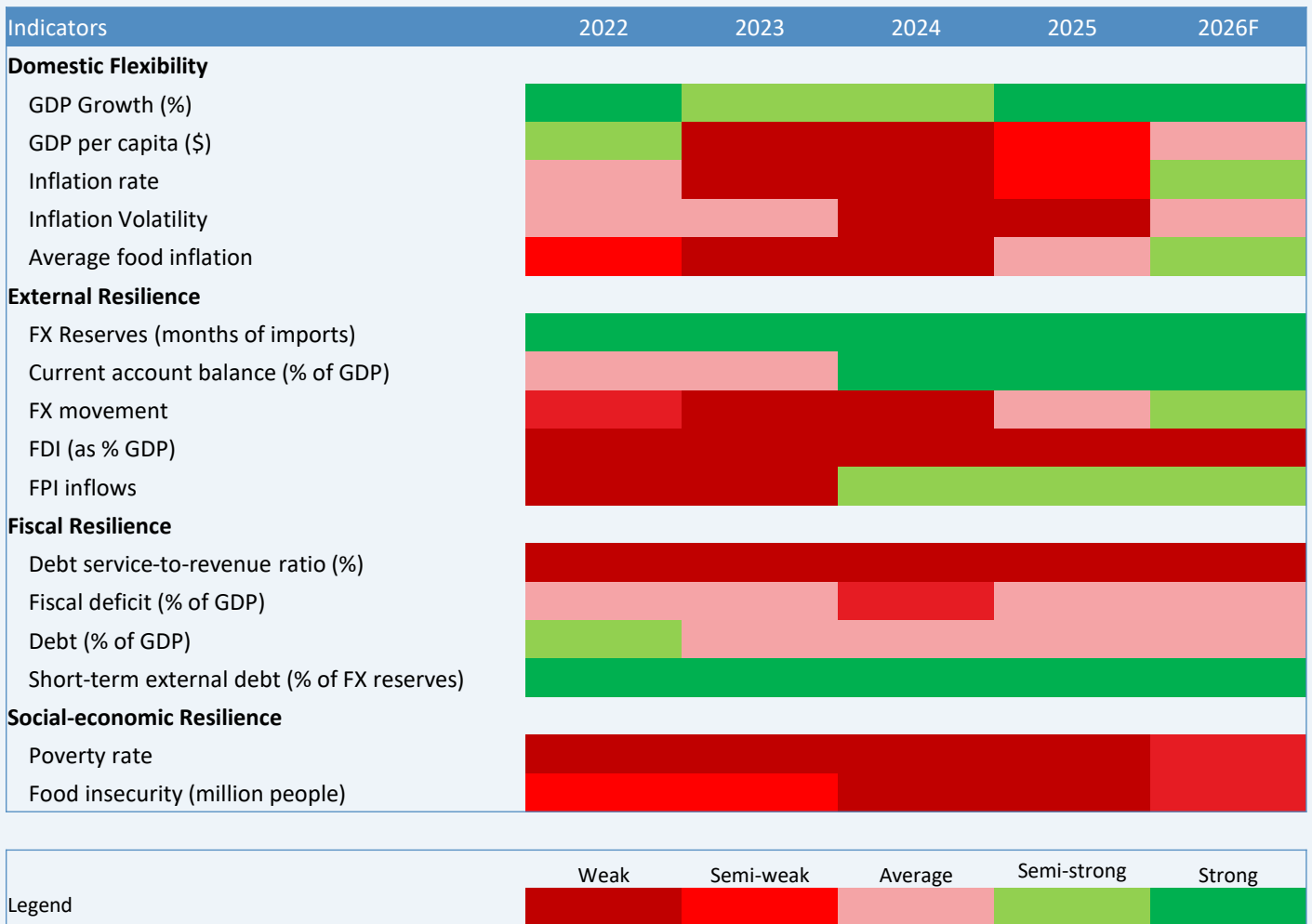
Figure 6: PMI improved markedly in the period, reinforcing optimism in the economy



Source: CBN, CardinalStone Research



Figure 7: Nigeria’s economic heatmap



Source: CardinalStone Research

Notable insecurity, threats to the educational system, and food availability

Insecurity challenges became more pressing in Q4'25, with the rising number of incidents drawing the attention of the USA and the international community. The escalation endangers lives, increases the risk of poverty, and could raise the number of out-of-school children, given that schools have become easy targets. The latter raises serious concerns over an already challenged education sector, given documented data. Precisely, according to the United Nations, "even though primary education is officially free and compulsory, about 10.5 million of the country's children aged 5-14 years are not in school. Only about 61.0% of children aged 6–11 regularly attend primary school, and just 35.6% of those aged 36–59 months have access to early childhood education".

Elsewhere, Nigeria continues to grapple with severe food insecurity. The latest Cadre Harmonisé assessment conducted by the Food and Agriculture Organisation (FAO) projects that about 30.6 million people across 26 states and the FCT were likely to have faced acute food and nutrition insecurity in **2025**. Ongoing crises in key food-producing states, combined with long-standing structural challenges within the agricultural sector, have further exacerbated shortages and constrained food availability.

That said, the ongoing partnership with the USA to address insecurity, which has already resulted in major strikes against terrorists' strongholds, and planned restructuring of security architecture, slightly brightens the security outlook.

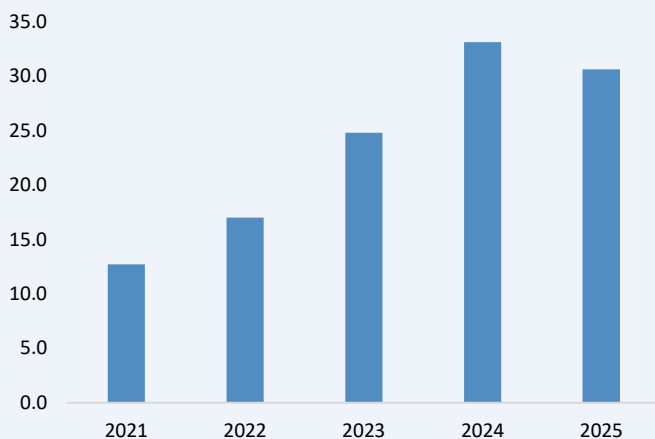


Figure 8: Out-of-School children in Nigeria (vs select countries)

Countries	Out-of-school children	Children out of school (% of primary school population)
Mauritius	1,399.00	1.74%
Namibia	3,787.75	0.80%
Japan	3,971.00	0.07%
UK	4,370.00	0.09%
Spain	35,806.00	1.29%
Algeria	45,583.91	0.93%
Canada	129,221.00	5.05%
Cameroon	167,116.16	3.71%
Congo, Rep.	171,125.00	17.08%
Kenya	468,923.00	5.73%
Cote d'Ivoire	664,020.00	13.16%
Angola	2,281,912.00	36.76%
Nigeria	10,500,000.00	24.32%

Source: World Bank, UN, CardinalStone Research

Figure 9: About 30.6 million Nigerians face food insecurity



Source: Cadre Harmonisé Fiche, UN, CardinalStone Research

Is state policing the answer to Nigeria's insecurity?

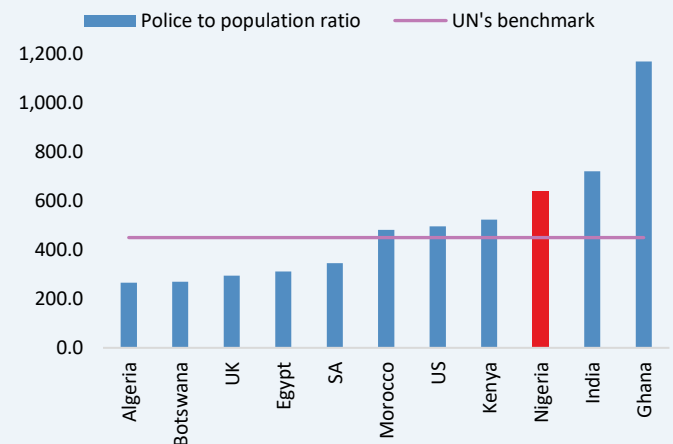
The growing demand for decentralised policing has become a central topic of debate across various media platforms, driven by the urgency to address Nigeria's worsening security challenges. We believe that state policing could offer a more community-rooted security model – one that is responsive, culturally attuned, and accountable to the local population.

Another argument in favour of state policing is the fact that it could boost the overall police population, with states likely to leverage their allocations and internally generated revenues to support the initiative. Notably, Nigeria's current police-to-citizen ratio of 1:638 is materially below the UN requirement of 1:450 – a reality that underscores one of the reasons the fight against insecurity has been difficult.

This size setback significantly limits the ability of the national police to provide timely and effective responses, especially in remote areas.

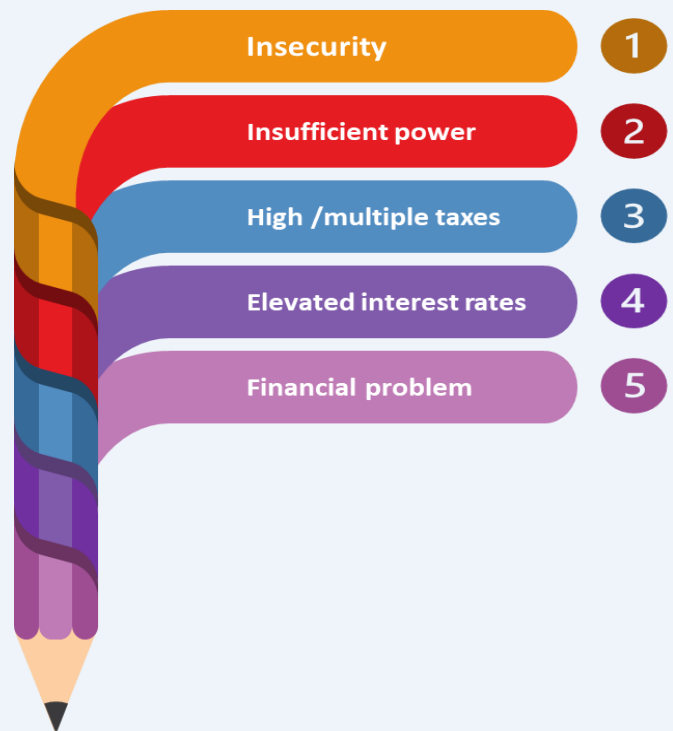
While we note the risks of possible abuses, we are of the view that decentralised policing can be significantly net positive, especially given evidence from other multi-cultural countries. Nigeria can also learn from the US model, where state policing agencies like the Highway Patrol, State Troopers, and State Police work closely with local police departments to carry out a variety of tasks, inclusive of traffic enforcement and criminal investigations.

Figure 10: Nigeria's police to population ratio is too low given global standards and the scale of the security challenge



Source: CardinalStone Research

Figure 11: Insecurity tops the worry list for Nigerian businesses



Source: CBN, CardinalStone Research



Growth to catalyse to new levels in 2026

After nearly a decade of real GDP growth averaging about 2.0%, growth is likely to find a new level of 4.4% in 2026 and over 4.5% - 5.0% in the medium term.

Oil and Gas GDP – Oil production and gas output are gaining prominence

We expect the oil sector growth to settle at 6.6% in 2026, slightly lower than the 2025 expected growth of 7.1%, as the supportive base effect fades off. Nevertheless, we expect average oil production to improve to 1.75mb/d (vs 1.67mb/d in 2025), supported by a sustained decline in daily crude losses, now at their lowest level since 2009. Also, we expect annual licensing rounds to provide medium-term support for oil output, as they are focused on underdeveloped fields, shallow & deepwater terrains, and natural gas development.

The investment case for the oil and gas sector is improving, with notable support from the four executive orders in 2024 and 2025 that culminated in c.\$16.0 billion in new investment commitments over the last two years. Listed players like SEPLAT and ARADEL have also shown commitment to drive CAPEX growth aggressively, with the complete acquisitions of MPNU and some Shell assets (via Renaissance Consortium) likely to provide some support to the nation’s oil output.

Additionally, the major theme among key industry players is the ramp-up of gas production. Evidence points to the prioritisation of the development of natural gas production, reduction of gas flaring, and increased gas commercialisation. For example, SEPLAT has communicated its plan to diversify and monetise its gas portfolio. For its onshore production, it is expanding into liquefied petroleum gas (LPG) production through the ANOH, Sapele, and BRT gas plants, while also developing compressed natural gas (CNG) solutions to serve industrial and domestic consumers who are not connected to its pipeline network.

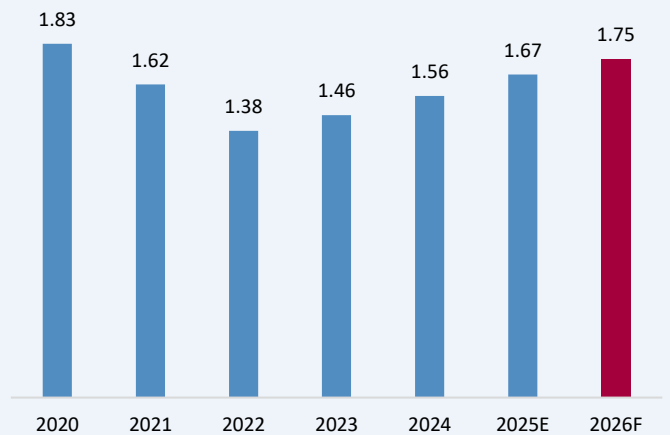
We expect the improved oil and gas output to support growth in 2026 and in the medium term.

Figure 12: Gas production

	2021	2022	2023	2024	2025
Average gas production (MMSCF)	228,692.8	210,103.5	207,623.5	209,023.0	228,092.7
Average gas utilised (MMSCF)	206,585.1	193,614.3	191,806.3	192,743.8	210,615.4

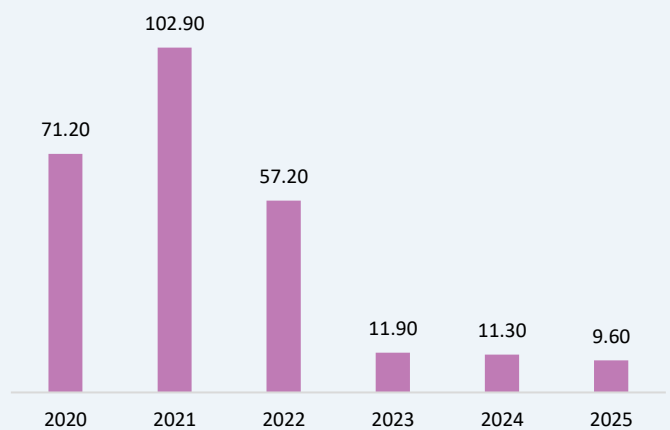
Source: NUPRC, CardinalStone Research

Figure 13: Average oil production including condensate (mb/d)



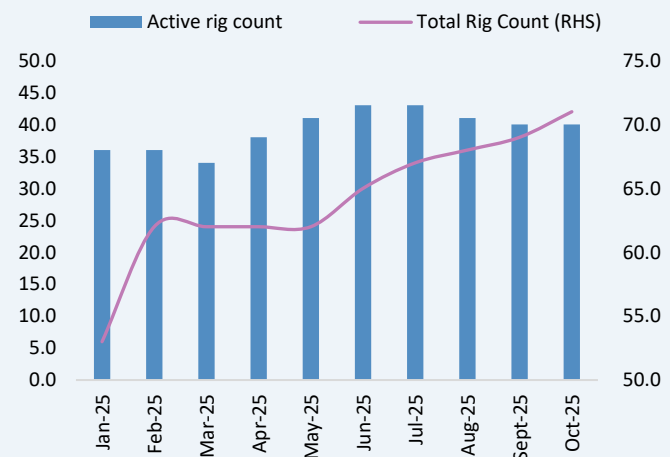
Source: NUPRC, CardinalStone Research

Figure 14: Oil theft has significantly declined following government interventions (bopd)



Source: NUPRC, CardinalStone Research

Figure 15: Total vs active rig count



Source: NUPRC, CardinalStone Research

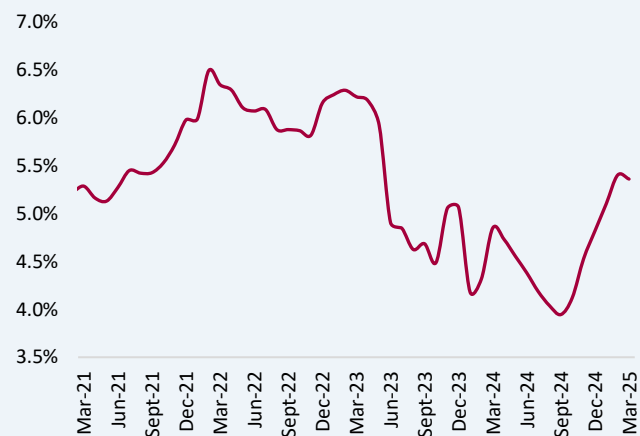


Agricultural sector – Return to development finance?

The CBN recently inaugurated a new Board for the Agricultural Credit Guarantee Scheme Fund (ACGSF), reaffirming its commitment to strengthening Nigeria’s agricultural sector. While it remains unclear whether this is a resumption of CBN’s discontinued development finances, the scheme is explicitly designed to de-risk agricultural lending and should help unlock incremental credit to the sector, supporting higher output over time.

Agriculture has accounted for only about 5.0% of total banking system credit over the past five years, a clear indication of more credit needed to drive productivity and improve output. While pre-existing structural issues remain prevalent, we expect growth to be slightly higher than in 2025, reflecting improved energy availability and FX stability. Accordingly, we forecast agricultural growth of 3.0% in 2026 vs 2.8% in 2025.

Figure 16: The agriculture sector needs more credit to drive value and improve outlook



Source: CBN, CardinalStone Research

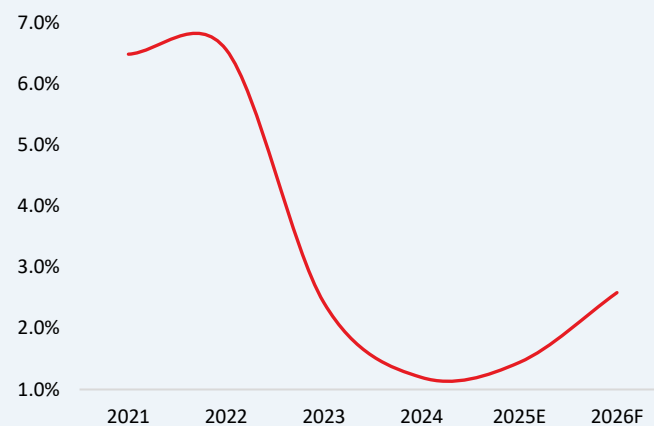
Manufacturing sector – In race to a 4-year high

Despite moderating inflation and appreciating FX, the manufacturing sector has had the slowest response, possibly linked to the lagged impact of the government’s policies and elevated interest rates. The latter, which is one of the biggest business constraints in 2025, has led to corporates borrowing at close to or even more than 30.0%, depending on the credit quality of the borrower.

We expect sustained macro stability and a projected 300-400bps monetary policy rate cut to improve credit conditions and support manufacturing output in 2026. Sector support is also likely to stem from improved refining capacity in 2026.

Currently, Nigeria’s installed refining capacity stands at c.1.13 Mb/d, but average utilisation is only 61.6% due to technical issues and crude supply constraints. In the coming year, Dangote Refinery has announced plans to scale up capacity from 650 kb/d currently to 700 kb/d, with a longer-term expansion target of 1.4 Mb/d by 2028. This proposed change in capacity bodes well for manufacturing GDP, which we forecast to grow by 2.6% in 2026 (vs 1.4% expected for 2025).

Figure 17: Pressure to ease off in the manufacturing sector due to improving macroeconomic conditions



Source: NBC, CardinalStone Research

Service sector – the pack leader for 2026

The Nigerian economy remains predominantly service-driven. For one, domestic trade, which is the biggest contributor to services, is likely to deliver growth of 2.4%, the highest level since the pre-COVID era. Trade margins are likely to be firmer, as recovering local consumption, normalisation of energy and logistics costs are positive for trade volumes and inventory cycles.

Real estate, which accounts for one-fourth of the services sector, is likely to report stronger growth in 2026, as urbanisation and increasing industrialisation continue to influence output. For example, the Renewed Hope Project is heavily skewed towards infrastructure projects. Also, several state governments are increasingly focused on scaling infrastructures such as roads and airports. These infrastructure drives are expected to result in real estate growth of 4.7% in 2026 (vs 3.9% in 2025).

In the ICT sector, we expect growth to be 6.5%, as MNOs are likely to increase CAPEX intensity in 2026, supported by the recent tariff increase. We also expect support from a broader network coverage and advancement in technologies, especially in relation to essential digital ecosystem components like data centres.



We also expect MNOs to scale 4G/5G investment and sites across the country. However, the NIN-SIM link remains a major downside to our outlook.

Finally, we expect financial services to report higher growth of 20.3% in 2026 (17.6% in 2025) on higher banking fees. Credit-related fee, which is the largest component of banking fees, is expected to increase, as the reduction in

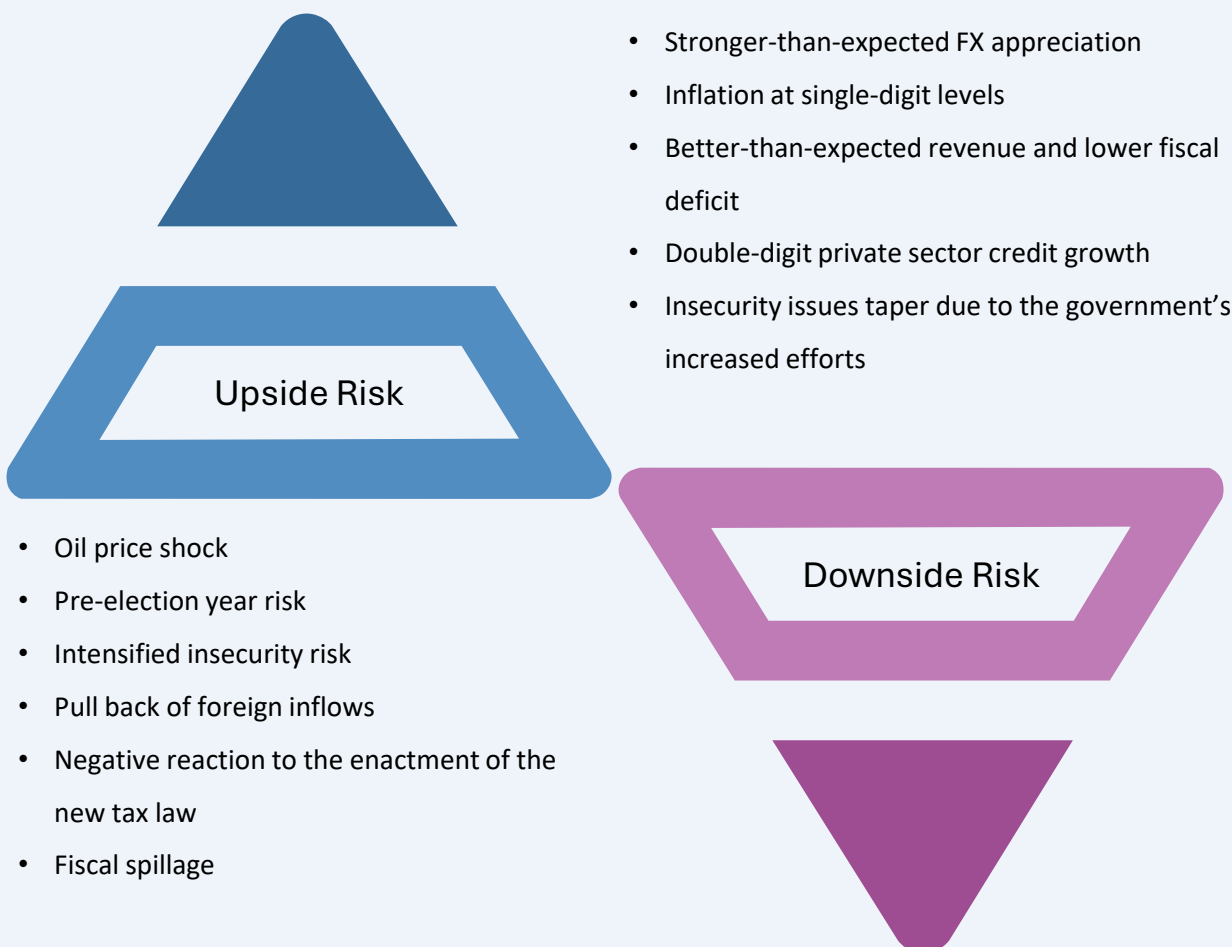
MPR lowers borrowing cost and supports higher credit creation. The outlook for credit growth is also supported by improving macroeconomic conditions and contained industry NPLs (within the regulatory limit). In addition to expected momentum from credit, electronic banking fees are also likely to be an important driver in 2026, reflecting banks' aggressive investment in digital transformation.

Figure 18: The services sector outlook is biased to the upside

	2020	2021	2022	2023	2024	2025E	2026F
Services	-5.4%	2.8%	3.6%	3.7%	4.4%	4.3%	5.2%
Trade	-1.3%	1.1%	2.3%	2.2%	2.0%	1.9%	2.4%
Transportation and Storage	-52.9%	-12.2%	5.1%	-12.9%	7.9%	13.5%	7.1%
Information and Communication	4.8%	1.3%	3.9%	2.8%	5.6%	6.5%	6.6%
Financial and Insurance	0.5%	3.9%	3.3%	2.3%	2.9%	17.6%	20.3%
Real Estate	-3.5%	14.3%	4.3%	7.2%	6.6%	3.9%	4.7%

Source: NBS, CardinalStone Research

Figure 19: Risk to our outlook



Source: CardinalStone Research



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Why Choose CardinalStone Pensions?

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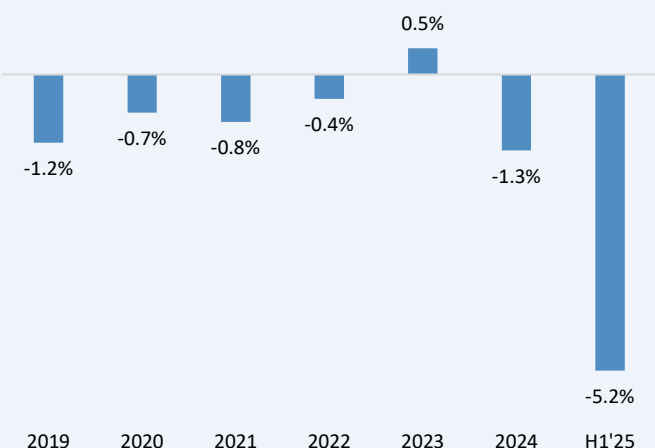


Fiscal Accounts

Any debt sustainability concerns?

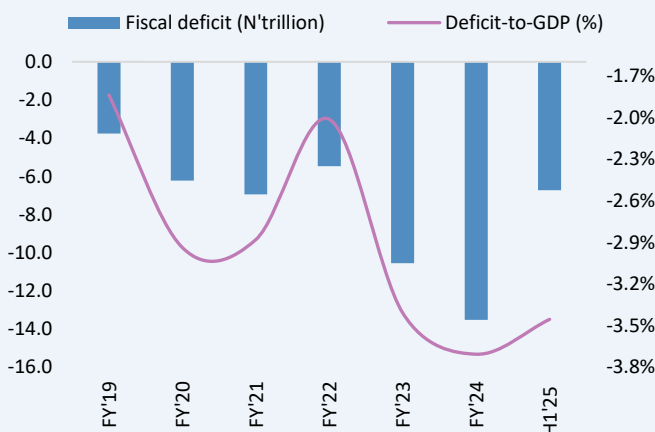
Nigeria’s weak revenue mobilisation and consistently optimistic fiscal assumptions continue to result in high forecast errors or large deviations from the target. For context, in the last decade, Nigeria’s forecast errors averaged 1.2% of the GDP or 25.5% shortfall, and these

Figure 20: Historical revenue deviation (% of GDP)



Source: Budget office, CardinalStone Research

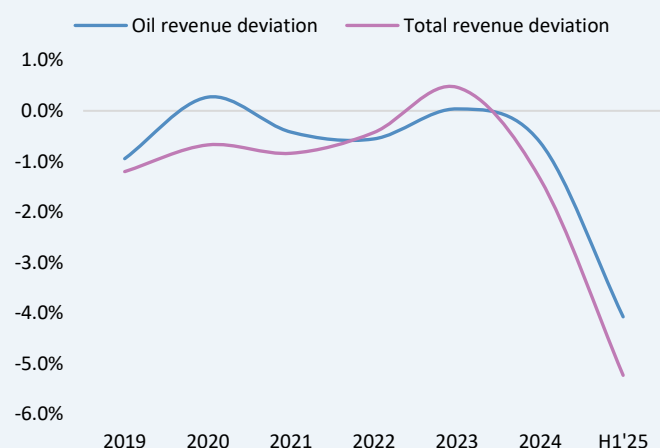
Figure 21: Fiscal deficit at 3.5% of GDP as of H1'25



Source: Budget office, NBS, CardinalStone Research

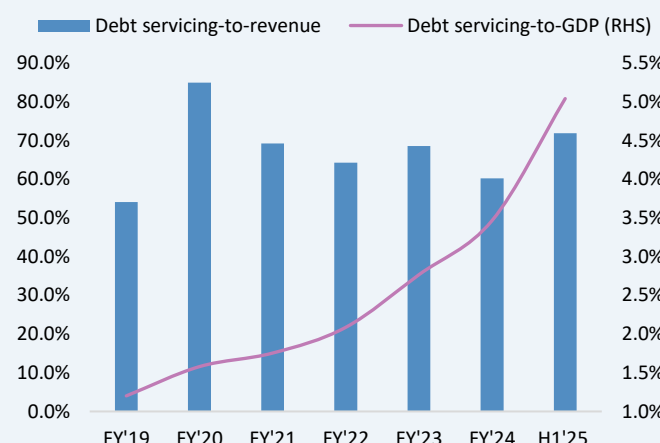
deviations have shown materially high historical correlation with oil performance. In H1'25, the shortfall reached a record level of 5.2% of GDP, reflecting over 62.5% deviation from the oil revenue target, a consequence of weaker oil prices and lower-than-budgeted oil production.

Figure 22: Revenue deviation (% of GDP) is highly correlated with oil performance



Source: Budget office, CardinalStone Research

Figure 23: Debt servicing on the rise



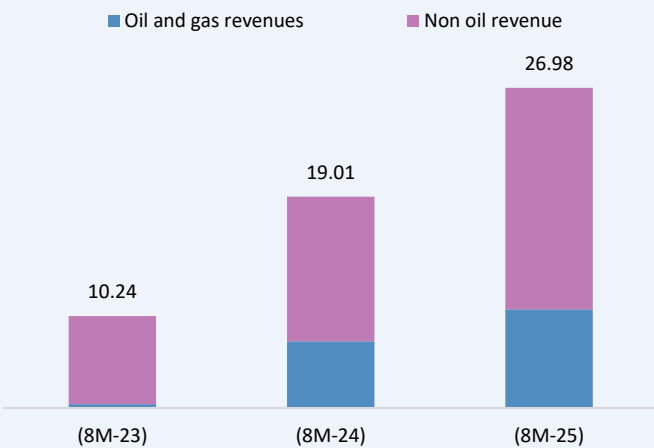
Source: Budget office, NBS, CardinalStone Research



State governments are profiting from higher FAAC and are scaling down on debt

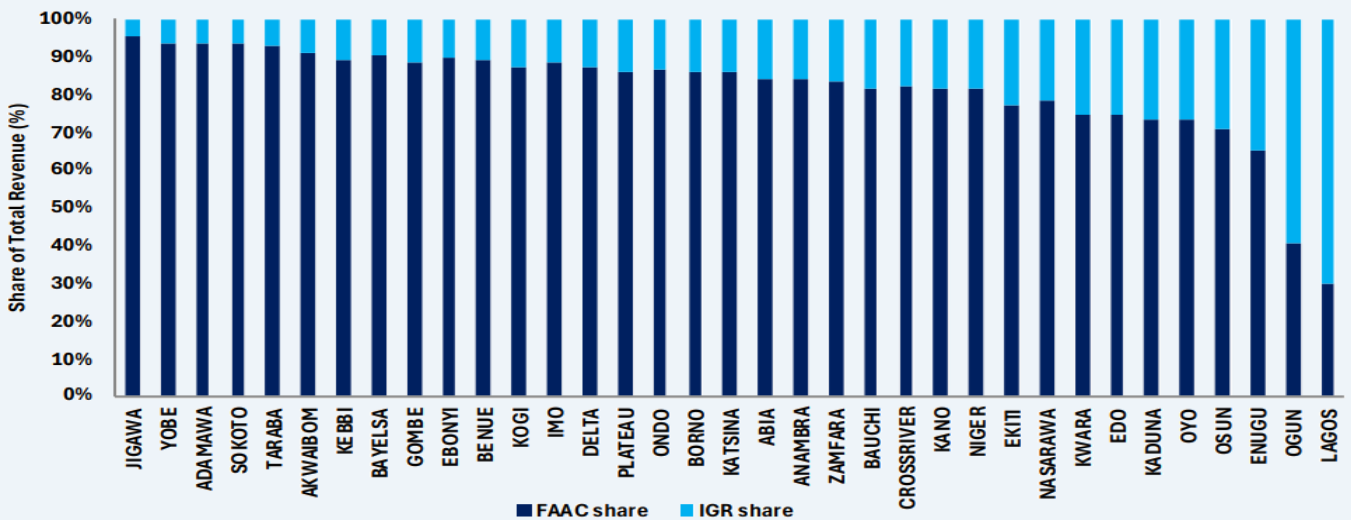
Distributable FAAC to the three tiers of government rose sharply in the last 2 years, supported largely by the removal of fuel subsidy and stronger non-oil revenue. Hence, state governments' revenue has grown considerably, reaching N7.6 trillion (3.9% of GDP) in H1'25, which is materially higher than N5.6 trillion (3.0% of GDP) reported in H1'24. The higher revenue has enabled the state governments to cut down debt levels from 2.0% of GDP in 2019 to 0.9% as of H1'25. Additionally, rising revenue has also provided the leeway for the state governments to increase capital expenditure, which currently accounts for 58.0% of cumulative state budgets. This perhaps explains why a few states have embarked upon airport-related projects.

Figure 24: FAAC disbursement on the increase (N' trillion)



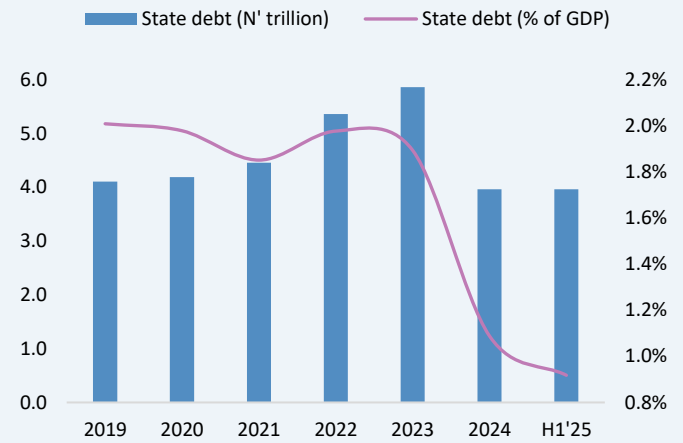
Source: FAAC, World Bank, CardinalStone Research

Figure 27: Most states are still mainly dependent on FAAC



Source: World Bank, CardinalStone Research

Figure 25: States' debt are moderating, likely linked to higher FAAC



Source: DMO, CardinalStone Research

Figure 26: State fiscal metrics



Source: FAAC, World Bank, CardinalStone Research



We forecast a N15.7 trillion deficit for 2026

Figure 28: Nigeria's 2026 budget

N'billion	2026 Budget	2026 Forecast	Comments
Total revenue	34,334.86	28,119.09	• Revenue mobilisation needs to improve to ease the elevated deficit. Volatile oil price, which is estimated to average \$55.0/bbl in 2026, and an oil production below the target may keep oil inflows lower than expected.
Oil	12,338.08	9,008.19	
Tax revenue	8,875.74	9,298.98	• Tax revenues have improved and we see room for outperformance, especially because of the new tax bill.
CIT	5,089.63	5,344.11	
VAT	1,291.55	1,356.13	
Customs	2,083.75	2,187.94	
Other tax revenue	410.81	410.81	
Other Sources of financing	13,121.04	9,811.91	• On other sources of financing, we expect 75.0% of the target to be achieved, in line with the historical trend
Total Expenditure	58,180.00	43,836.00	• We expect the government to spend less than budgeted, especially on CAPEX. Nigeria will have 2 budgets running concurrently in 2026, as FGN has directed Ministries, Departments, and Agencies (MDAs) to roll over 70.0% of the 2025 CAPEX in 2026. We expect CAPEX to decline as the government may be looking to ease deficit pressures.
Recurrent non-debt	15,205.00	15,205.00	
Debt service	15,520.00	15,520.00	
Capital Expenditure	26,080.00	11,736.00	
Statutory transfers	1,375.00	1,375.00	
Fiscal deficit	(23,845.14)	(15,716.91)	• We see a deficit of N15.7 trillion (3.1% of GDP) in 2026, with 72.0% financing expected from the local market and the balance from external sources.
Fiscal deficit (% of GDP)	-4.3%	-3.1%	

Source: Budget office, CardinalStone Research

Rising debt but strong GDP keeps Debt-to-GDP in check

We expect debt levels to reach N175.5 trillion in 2026 (vs expected N159.1 trillion in 2025), translating into a debt-to-GDP ratio of 34.5%. The increase in debt level reflects an organic increase, as the FX outlook remains largely positive (See FX section of the report).

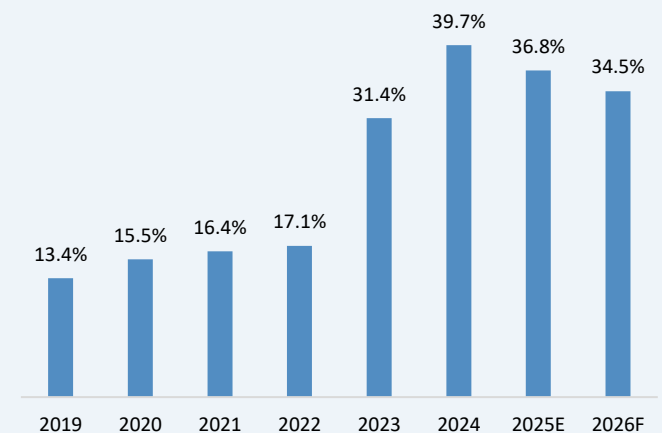
According to the IMF, Nigeria's risk of sovereign stress is moderate, supported by the long maturity structure of Nigeria's debt stock and improvements in macroeconomic conditions. However, there are concerns that a material oil price weakness, coupled with the weak domestic revenue mobilisation and potential expenditure slippages in the run-up to elections, could worsen debt positions.

Figure 30: Nigeria's debt sustainability metrics

Debt sustainability metrics	Debt-to-GDP	External Debt to GDP	Debt servicing to revenue	Debt service-to-exports ratio	External debt Service (% of exports)	External Debt to Exports
IMF Threshold	55.0%	40.0%	25.0%	12.0%	15.0%	180.0%
Nigeria	34.5%	15.7%	56.5%	17.6%	12.18	90.2%

Source: IMF, CardinalStone Research

Figure 29: Debt to GDP remains modest



Source: Budget office, CardinalStone Research



Monetary Policy

Moderating inflation eases the path to more rate cuts

Since the start of 2025, the headline inflation has decelerated rapidly, supported by better macro fundamentals. However, due to the CPI rebasing, some market watchers have questioned whether the disinflation reflects genuine price moderation or not.

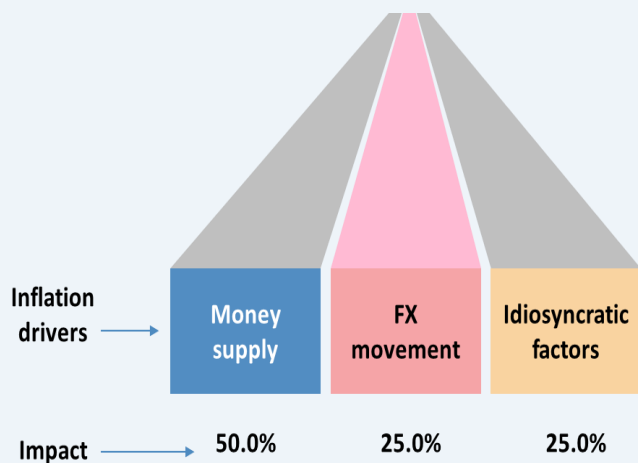
While we acknowledge the impact of the statistical adjustment, the disinflation recorded so far in 2025 is more fundamentally driven. This view is easily supported by notable moderations in the prices of key inflation trigger items such as PMS (-12.6% YoY) and diesel (-2.6% YoY), as well as the notable appreciation in the Naira (+7.5% YoY). More broadly, an IMF study of Nigeria’s inflation trajectory over 50 years (1970–2020) groups primary drivers of price movements: money supply growth (50.0%), exchange rate movements (25.0%), and idiosyncratic factors (25.0%).

Evaluating the first 2 major drivers from the IMF analysis, we understand that broad money (M3) growth is currently at

10.2% YoY, with YtD average growth at 15.5% – the lowest level in 4 years and well below the 10-year average of 19.9%. This position is a testament to CBN’s tightening cycle and signals improved monetary policy transmission. Concerning FX, we have seen the Naira appreciate for the first time in 13 years in 2025, further reinforcing the case for sustained inflation moderation.

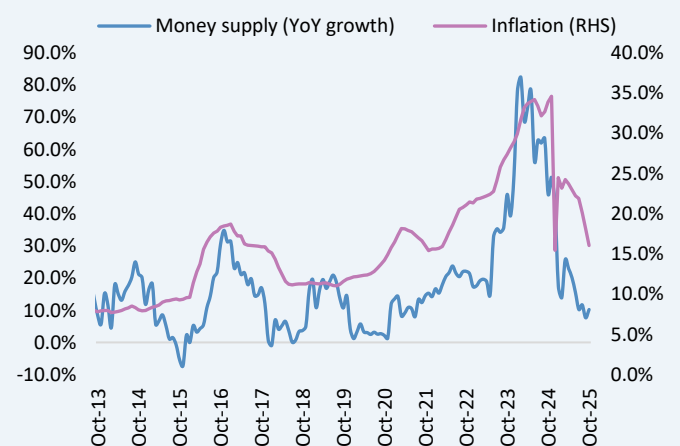
The moderating inflation was also evident in both the input price and the output price (a proxy for the producer price index) based on the PMI surveys conducted by the CBN. The idiosyncratic factors are largely structural issues like poor storage facilities for agro products, insecurity, port congestion, bad roads, etc. These issues cannot be tackled by monetary actions and will likely require the intervention of the fiscal authority.

Figure 31: Inflation drivers in Nigeria and their impact



Source: IMF, CardinalStone Research

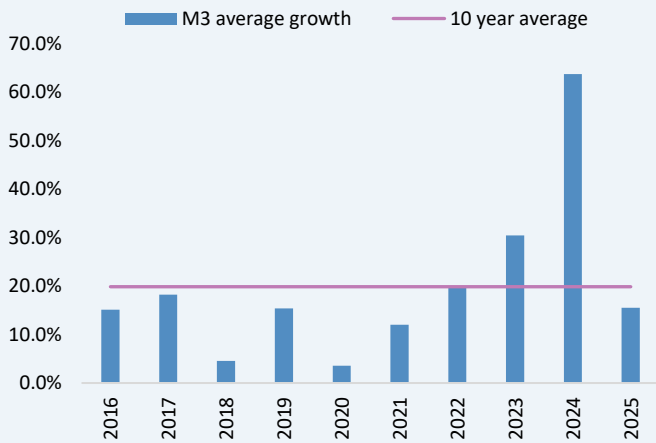
Figure 32: Nigeria’s headline inflation (YoY) is on a downward trend supported by moderating money supply growth



Source: CBN, CardinalStone Research

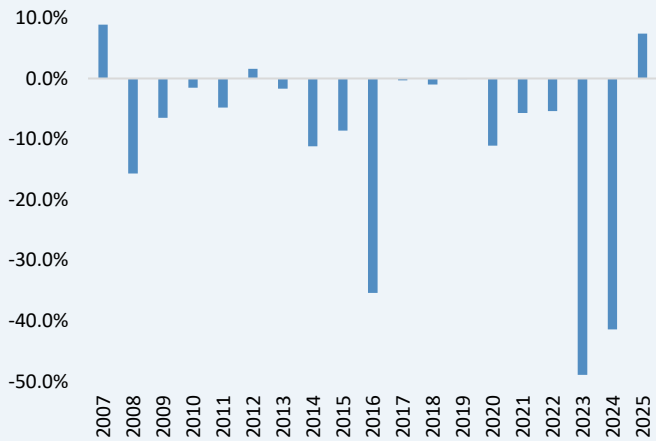


Figure 33: Average money supply growth is at the lowest level in 4 years



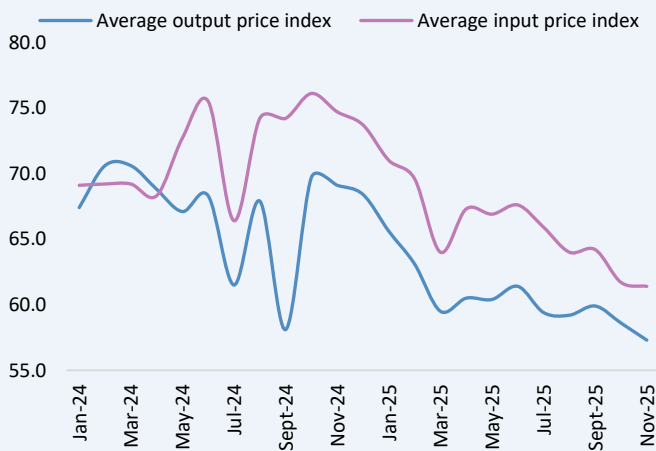
Source: CBN, CardinalStone Research

Figure 34: Naira on course for its first annual gain in 13 years



Source: CBN, CardinalStone Research

Figure 35: Based on the CBN’s PMI survey, input and output prices are on a downward trend



Source: CBN, CardinalStone Research

Moderating food prices to ease pressure on households

As we had noted previously, one of the most effective ways for government reforms to impact citizens meaningfully is through lower food prices. Between 2023 and 2024, household wallets were pressured by steep increases in food prices. The period was also marked by heightened volatility in food inflation, which rose to its highest level in over a decade. The impact was particularly severe given that food expenditure accounted for an estimated 60.0%–70.0% of household income in Nigeria.

Encouragingly, food prices are beginning to ease. This moderation is notably obvious in grains and tubers, which constitute the bulk of consumption for most Nigerian households. This trend offers some relief to consumer wallets and suggests early gains from recent interventions.

Nevertheless, the structural constraints that have previously dragged agro output and propped up food prices remain prevalent, requiring urgent attention. For example, post-harvest loss in the country is over 50.0%, reflecting the inadequate storage infrastructure. Over the years, the Federal Government has built about 33 silos nationwide with an estimated total capacity of 1.3 million metric tonnes. However, many remain underutilised due to weak management and poor integration with local farming systems.

In addition, cold-chain infrastructure remains severely inadequate. It is estimated that only about 35.0% of the required cold storage facilities are currently operational, limiting the output of perishable goods. These bottlenecks need to be fixed to support agro efficiency, reduce waste, and support lower food prices.

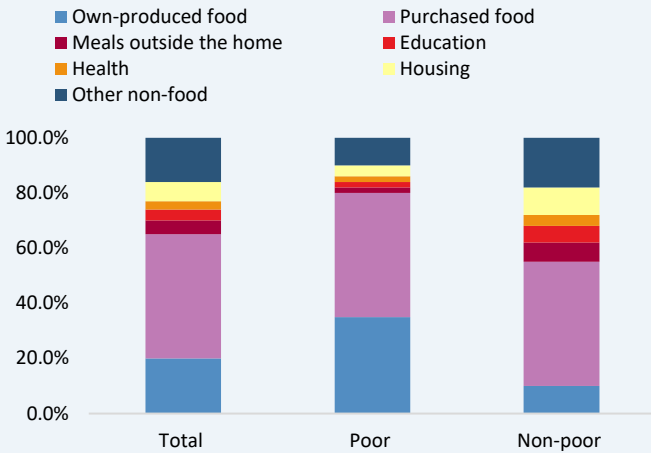
Figure 36: YoY price movements in food prices predominately consumed by Nigerian households

Local rice	Imported rice	Brown beans	Garri	White beans	Maize white	Maize yellow	Yam
0.2%	-2.5%	-4.6%	-4.0%	-6.1%	-7.3%	-8.1%	-16.2%

Source: NFPT, CardinalStone Research

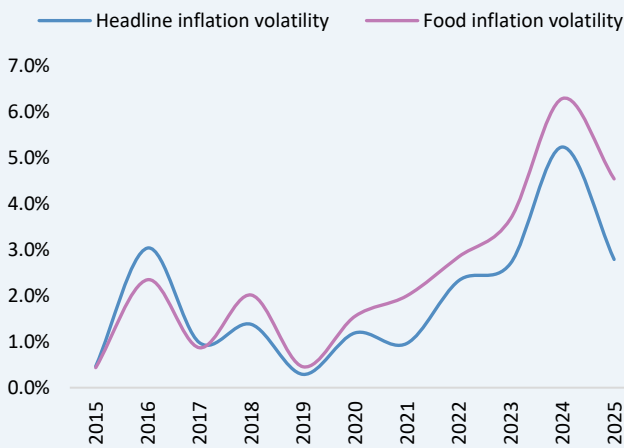


Figure 37: Household consumption pattern in Nigeria



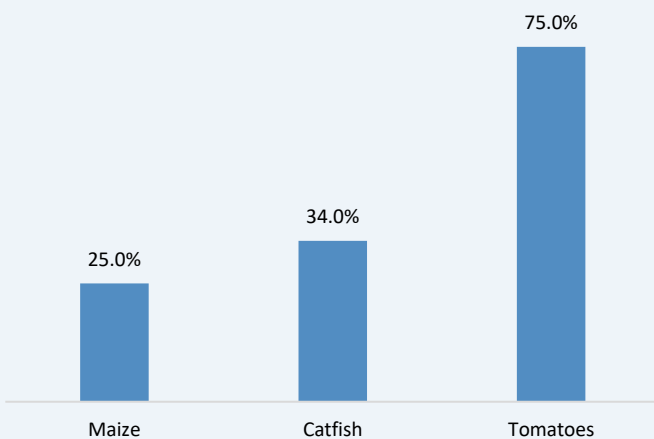
Source: World Bank, CardinalStone Research

Figure 38: Inflation volatility has begun moderating, improving predictability



Source: NBS, CardinalStone Research

Figure 39: Post-harvest loss of selected food products



Source: World Bank, CardinalStone Research

Inflation to spike in December 2025, but no cause for alarm

In the final month of 2025, we expect inflation to gather pace, as the period is associated with festive-induced demand. In the same vein, the period is also associated with the term “Detty December” or “Oblee”, indicating relaxation, partying, and winding down for the year. These activities have created a new wave of demand surge for short-let apartments and logistics businesses, especially from non-residents. Additionally, it appears that we are going back to a trend popularly observed in pre-2018, wherein remittance inflows into the country are higher in December than in other months. These flows typically drive some demand-pull inflation in the period.

Beyond the demand-stoked pressures, the statistical rebasing that was done in December 2024 has created a very low base, which would temporarily translate to a marked increase in headline print to 32.1% in December 2025 (assuming no other adjustment by NBS), before normalising from January 2026. Overall, inflation in 2025 is likely to average 22.0% vs 31.6% in 2024.

No halt in sight to disinflation path into 2026

We are constructive on Nigeria’s inflation outlook, as we believe that the pace of inflation will continue to moderate, aided by easing pressure points.

We expect Naira to appreciate to a range of N1,350.00/\$ - N1,450.00/\$ in 2026, supported by improving fundamentals (see the FX section of the report).

Elsewhere, due to oversupply and weaker demand, crude oil prices are likely to be lower. The weak oil price, coupled with an improving FX outlook, should further drive down the domestic prices of AGO and PMS. More so, competition in the domestic market between local refineries and importers bodes well for the local energy price outlook.

Nonetheless, we note the increased traction of insecurity as a risk factor, especially in food-producing regions, which could limit food supply.

Accounting for all the above-mentioned factors, coupled with pre-election year spending, we expect inflation to moderate to an average of 15.5% and close the year at 13.9%. The latter is modestly lower than the long-run average of 14.0%.

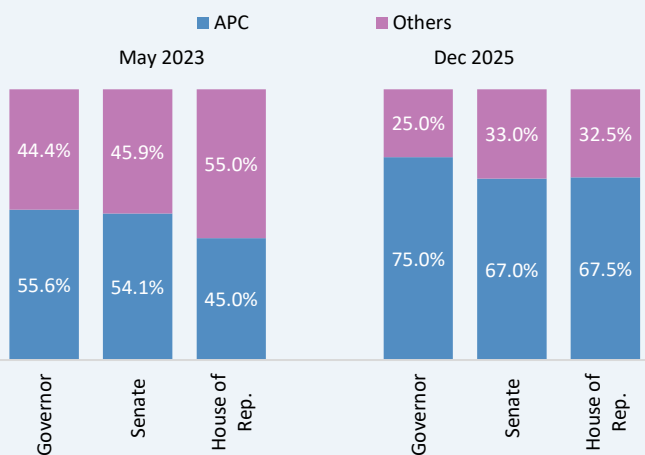


Election-related spending unlikely to stoke inflationary pressure

Historically, there has been little or no correlation between election-related spending and broad-based inflation in Nigeria. While election cycles may result in local price increases, particularly for media, advertising, and logistics, their direct or indirect contribution to headline inflation has been negligible because of their weights in the CPI basket.

Elsewhere, we expect policy continuity beyond 2027, given the growing influence of the current administration. To this point, we have utilised changes in APC footprints across states, the Senate, and the House of Representatives as an important barometer. This view acknowledges the growing risk from the ADC coalition, which currently houses two prominent Presidential Candidates from previous general elections.

Figure 40: Changes in APC’s political footprint



Source: Media Outlets, CardinalStone Research

CBN to calibrate the policy rate in line with evolving macro data

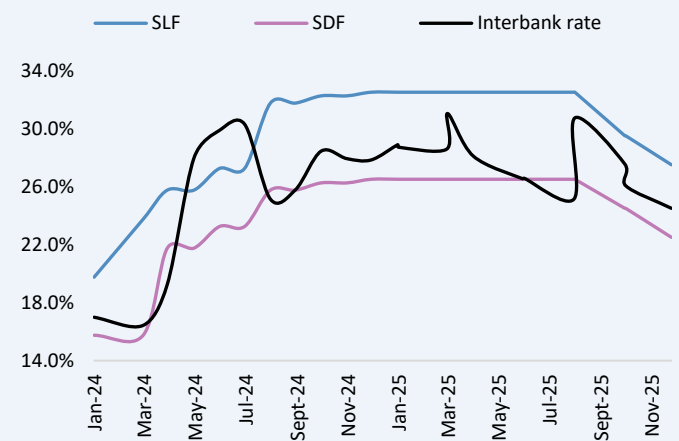
The CBN stated in recent communiqués that Nigeria’s inflation at a double-digit level is unacceptable and that lowering inflation remains a core policy objective.

Despite this position, the prevailing supply-side bottlenecks make the argument for a return to single-digit inflation unlikely in 2026. Inflation is likely to stabilise within the low double-digit range until fiscal authorities make meaningful progress in addressing these underlying challenges. Hence, inflation running below its long-run average and staying below the 2026 CBN inflation target of 16.0% should provide sufficient comfort for the apex bank to expedite policy rate cuts.

Most of the rate cuts will likely come in the second half of 2026, as the sharp inflation jump in December 2025 will cause the H1’26 inflation rate to be higher than normal.

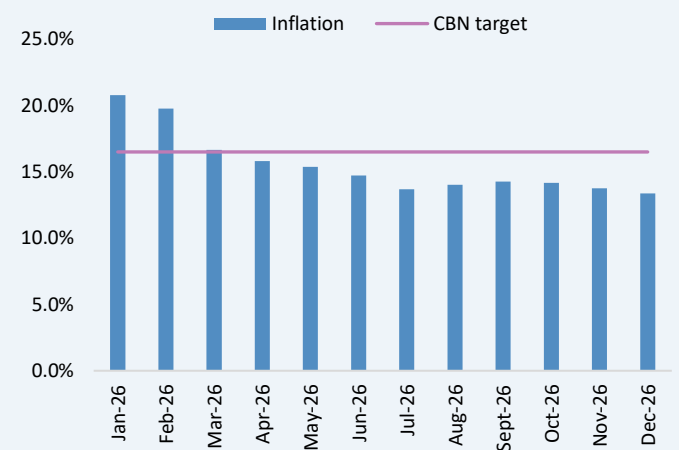
Beyond adjustments to the MPR, we also expect the CBN to gradually ease other tightening levers from H2’26, particularly the CRR, which remains elevated and continues to exert upward pressure on banks’ lending costs. This view is further supported by the ongoing slowdown in credit growth to the private sector, signalling tightening financial conditions that may have slowed growth in the real sector.

Figure 41: Short-term rates have oscillated between the bounds of the MPR corridor



Source: CBN, CardinalStone Research

Figure 42: Inflation expectation for 2026



Source: CBN, CardinalStone Research



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Foreign Exchange

Can Naira defy pre-election jitters?

In 2025, the Nigerian FX market proved that with reforms, the market can be stable and more predictable. The year was characterised by improved market transparency and fair dealing among authorised dealers, leading to the Naira trading within a narrow and stable range. Naira appreciated by 7.5% in 2025 - the first gain in 13 years.

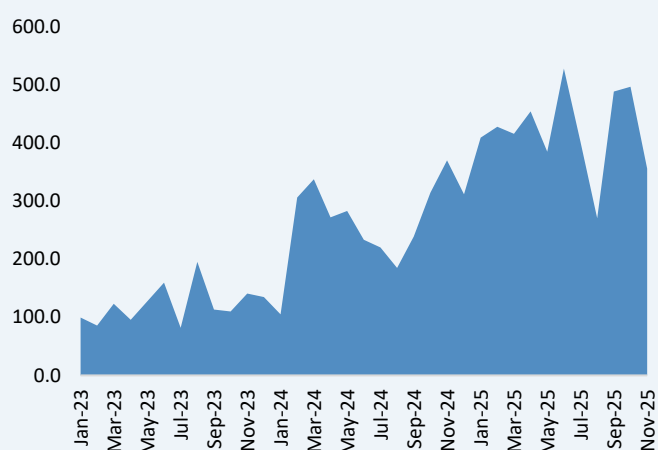
Liquidity conditions have also improved in the market, with daily average FX turnover across both the forward and spot markets settling at \$421.4 billion, over 59.0% higher than last year’s value. As such, Banks resumed the use of Naira debit cards for international transactions.

Figure 43: Historic yearly FX movement

2007	8.9%
2008	-15.7%
2009	-6.5%
2010	-1.5%
2011	-4.8%
2012	1.6%
2013	-1.7%
2014	-11.2%
2015	-8.6%
2016	-35.4%
2017	-0.3%
2018	-1.0%
2019	-0.1%
2020	-11.1%
2021	-5.7%
2022	-5.4%
2023	-48.9%
2024	-41.4%
2025	7.5%

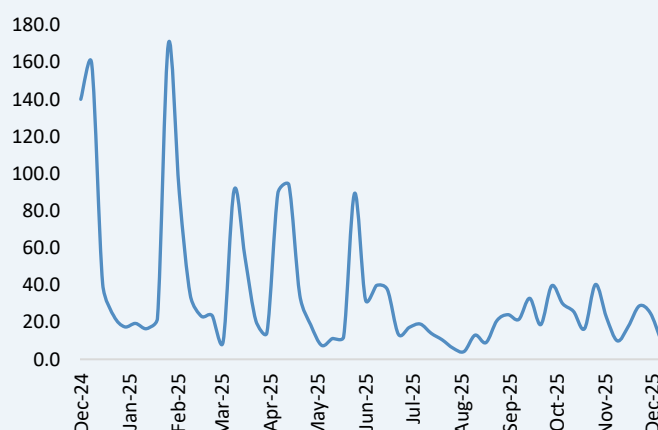
Source: CBN, CardinalStone Research

Figure 44: FX turnover (\$' million) in 2025 was 59.0% higher than in 2024



Source: CBN, CardinalStone Research

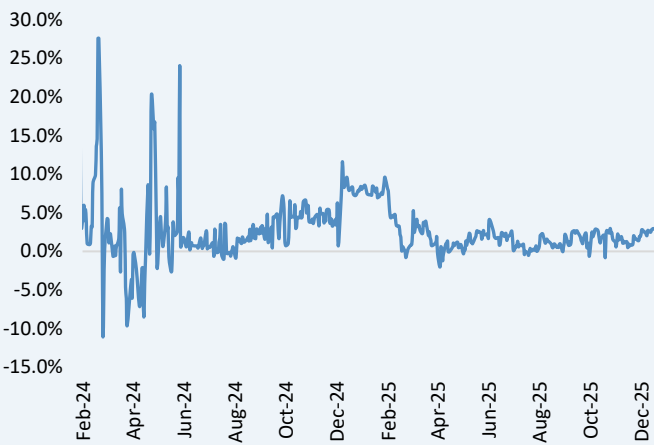
Figure 45: The spread between the highest and the lowest traded FX rates has been moderate recently



Source: CBN, CardinalStone Research



Figure 46: The parallel market premium is at its lowest level in recent years



Source: CBN, CardinalStone Research

Pull and push factors to sustain foreign interest in Nigeria

Due to persistent FX transparency and a favourable carry trade, foreign inflows into Nigeria reached their greatest level ever in 2025. The latter profited from both the increased OMO rate and the appreciation of the Naira. OMO yield averaged 28.0% in the first 9 months of the year, before moderating to an average of 22.0% in the latter part of the year.

In 2026, despite pre-election year uncertainties and expectations of lower carry trade attractiveness relative to 2025, we expect foreign inflows to remain robust. Historically, investors’ sentiment typically weakens when elections are likely to result in a change in government, which stems from policy uncertainty. For instance, Nigeria recorded foreign inflows of \$17.2 billion in the 2014 pre-election year; however, uncertainty surrounding policy continuity following the incumbent president’s inability to secure a second term, alongside Nigeria’s removal from the JPMorgan bond index, contributed to a more than 2.3x decline in inflows in 2015.

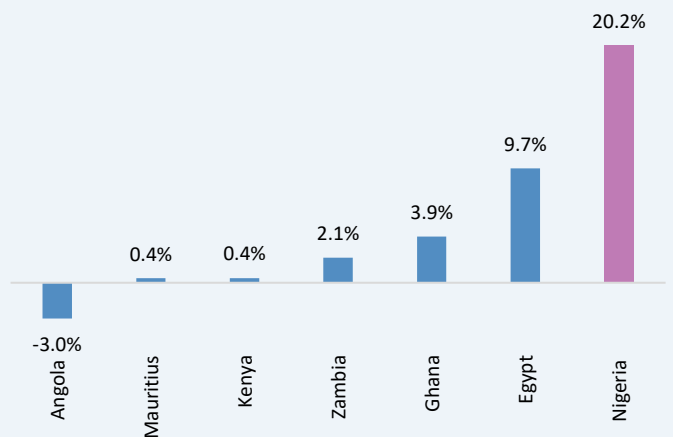
By contrast, the 2018/2019 election cycle was characterised by sustained foreign investor participation, as confidence driven by the introduction of the market-based Investors’ and Exporters’ (I&E) FX window outweighed election-related concerns. Consequently, foreign inflows remained strong at \$13.8 billion in 2018 and \$17.8 billion in 2019.

We are of the view that 2026 will mirror the 2018/2019 election season, as we believe that the incumbent may be retaining power in 2027, and the current policies, especially those of the CBN, are likely to remain market-friendly.

Elsewhere, the sustained moderation in headline inflation is likely to prompt a cumulative CBN policy rate cut of 300–400bps. A lower policy rate should feed through to softer OMO yields, potentially affecting foreign investor positioning. However, if the current convergence between NTB and OMO persists, FPIs may become indifferent between the two instruments. We estimate that the short-term yield may coast around 18.0% - 20.0% in 2026. At mid-point yield, we see the interest rate differential at 15.5% and the carry trade at 20.2%. At that level, Nigeria’s carry will still be one of the highest in Africa, making it a compelling case for foreign inflows.

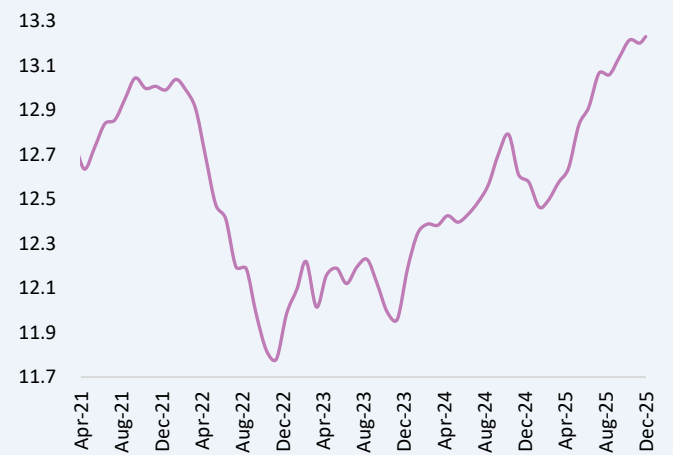
While further aggressive rate cuts are unlikely (particularly in Europe), policy signalling remains broadly dovish domestically, suggesting a supportive environment for foreign flows. In addition, global liquidity, which is measured as World Reserves Assets (excl. gold) + Fed Monetary Base, is at a record high of \$13.2 trillion, and some of this liquidity will likely find its way to Nigeria.

Figure 47: Nigeria's carry trade and those of select African countries



Source: Bloomberg, CBN, CardinalStone Research

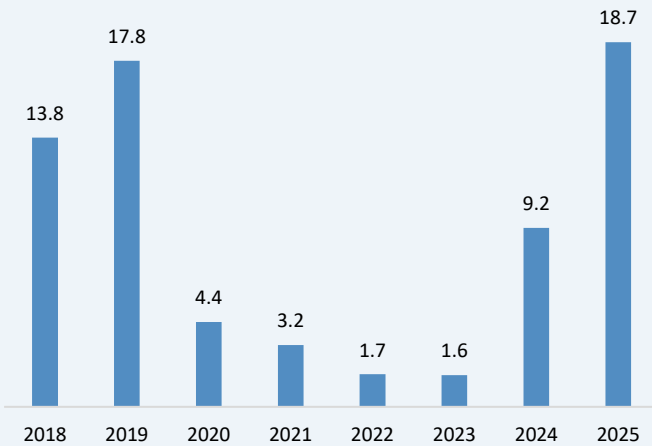
Figure 48: Global liquidity (\$' trillion) is on the rise



Source: Bloomberg, CardinalStone Research

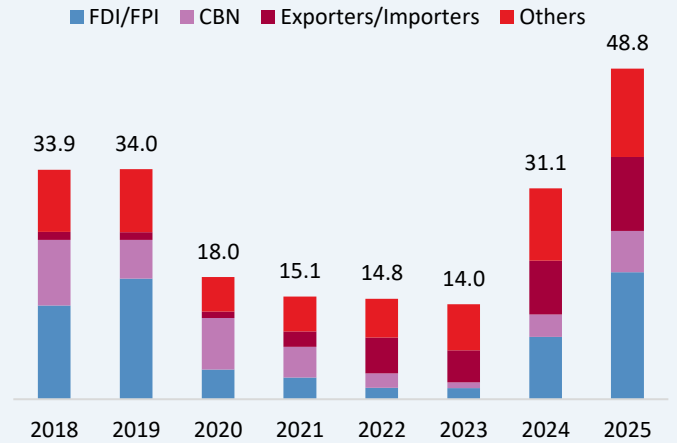


Figure 49: FDI & FPI inflows into Nigeria at a record high (\$' billion)



Source: FMDQ, CardinalStone Research

Figure 50: Foreign inflows (N' billion) into the country by sources



Source: FMDQ, CardinalStone Research

External account to touch new levels in 2026

We expect Nigeria's external account to have a surplus of \$17.7 billion in 2026 (4.9% of the GDP) on the back of the following.

The emergence of a new export line

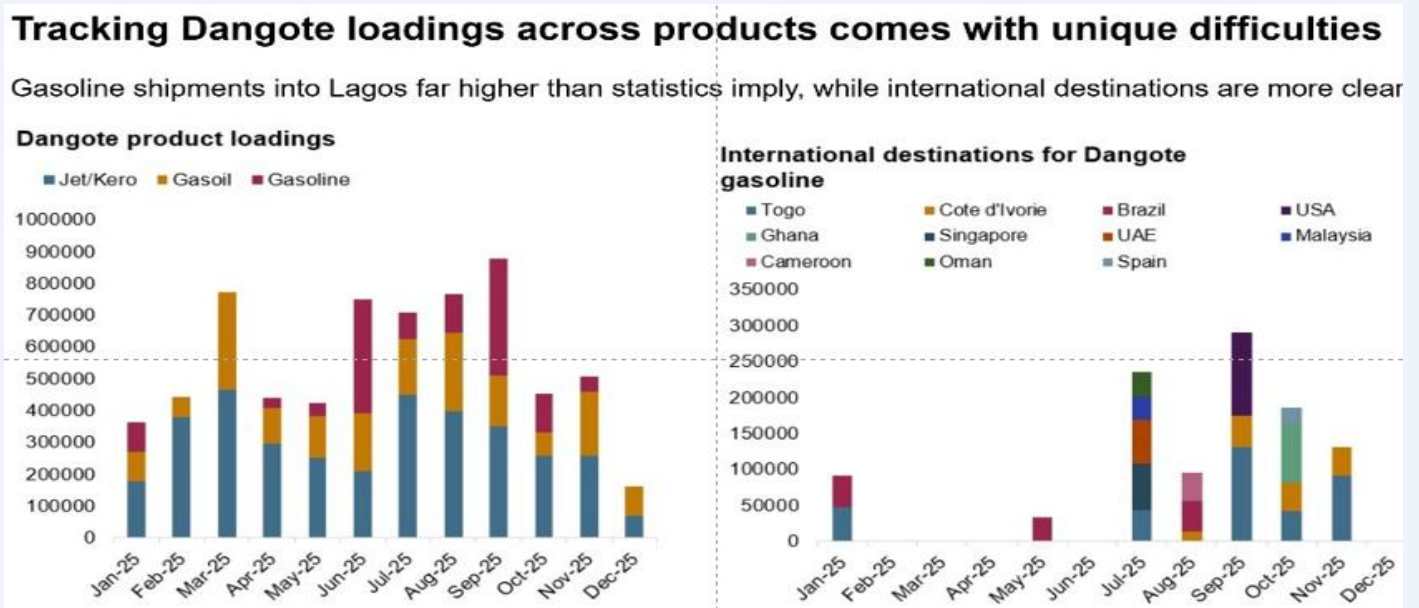
Nigeria has begun benefiting from improved oil refining activities, which have birthed a new export line called petroleum products exports. As of 9M'25, this new line now accounts for 11.2% of the oil-related export, contributing \$4.2 billion in the period. At the current run rate, we expect an inflow of \$6.5 billion in 2025 before reaching \$10.2 billion in 2026. Our optimism is majorly reflected in the export of refined products by Dangote Refinery. For context,

according to S&P Global, the Dangote Refinery currently exports PMS to different countries in Africa, the Middle East, Europe, and America.

Additionally, the refinery plans to begin expansion from 2026 to 2028. The expansion will more than double the plant's capacity to 1.4 Mb/d, providing legroom for more growth in the export of petroleum products in the medium term.

In parallel, other planned refineries or those under construction, like the BUA Refinery, signal long-term exporting opportunities for the country, which are good for the external account.

Figure 51: Dangote product loading and export



Source: S&P Global, CardinalStone Research

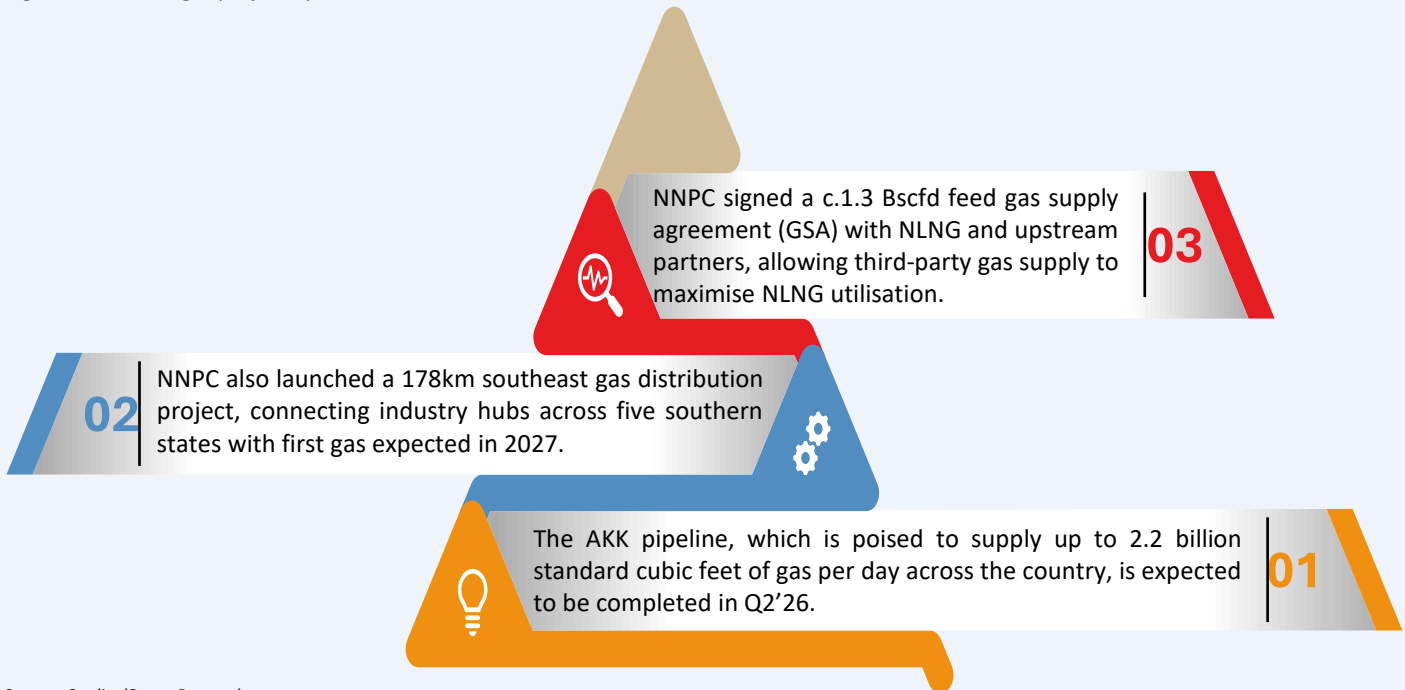


Gas export on the rise

As of 9M'25, gas export settled at \$8.3 billion and accounted for 22.3% of oil-related export. Gas export is likely to close 2025 at \$10.6 billion before reaching \$11.3 billion in 2026. This growth is likely to be supported by geopolitical shifts, particularly Europe's diversification efforts to reduce reliance on Russian gas, which have opened new markets for Nigerian liquefied natural gas (LNG).

The country is strategically positioned to utilise its vast gas reserves through strategic projects and partnerships to attract more gas investments and expand LNG capacity to meet rising international demand.

Figure 52: Recent gas project updates



Source: CardinalStone Research

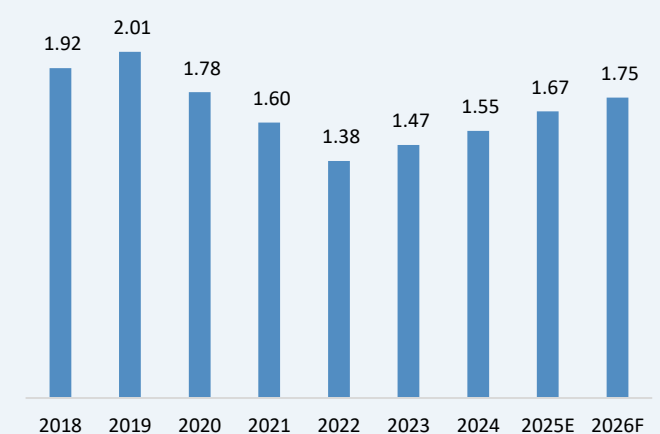
Crude oil earnings to be lower on weaker oil prices

Despite our expectation for a modest increase in oil production, we expect weaker oil prices to be a major drag, reflecting the expected increase in supply from oil producers and lower demand.

Global oil prices are projected to reach multi-year lows in 2026. Recall that the last time oil prices averaged \$60.00/bbl was in 2020, after recovering from similar levels in 2017. Our conservative in-house forecast is an average of \$55.08 over 2026, driven by an expected supply glut and weaker demand from slow global growth alongside green energy transmission.

On the local oil production front, we expect an average of 1.75mb/d (vs 1.67mb/d in 2025). Overall, we project crude oil export to print at \$27.0 billion in 2026, slightly lower than \$31.7 billion expected for 2025.

Figure 53: Oil production (mb/d) to improve in 2026



Source: NBS, CardinalStone Research



Figure 54: Crude oil tanker exports on the increase

Country	Crude oil tanker export (mb/d)*	Change (kbpd)**
Mexico	0.6	-136
US	3.8	-115
Qatar	0.8	-54
Oman	1.0	-36
Angola	1.0	6
Libya	1.2	7
Iran	1.6	13
Nigeria	1.4	28
Kuwait	1.6	38
Norway	1.8	79
Iraq	3.4	92
Canada	0.8	107
Guyana	0.7	114
Kazakhstan	1.7	141
UAE	3.1	262
Unknown origin	1.1	277
Brazil	2.1	296
Russia	3.6	308
Saudi Arabia	6.5	519

Source: Bloomberg, CardinalStone Research

*June 2025 - Nov 2025 average in million barrels per day

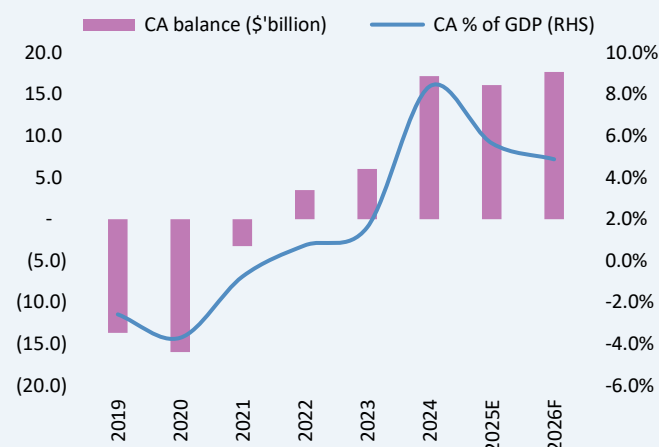
** Change from the previous six-month average

Non-oil imports to rise on improving macro fundamentals, but oil imports to dip on higher local refining activities

On the non-oil import front, we expect the improving FX situation and lower domestic inflation to support consumer wallets and drive higher imports from individuals. On the corporate front, the improving FX liquidity should also boost dollar-linked CAPEX and essential raw material imports. Sectoral FX utilisation has already risen to an average of \$3.6 billion per quarter in H1'25—the highest on record, and we link the surge to corporate-related FX/import transactions. This higher allocation should catalyse non-oil imports to \$31.1 billion in 2026 (+12.2 YoY).

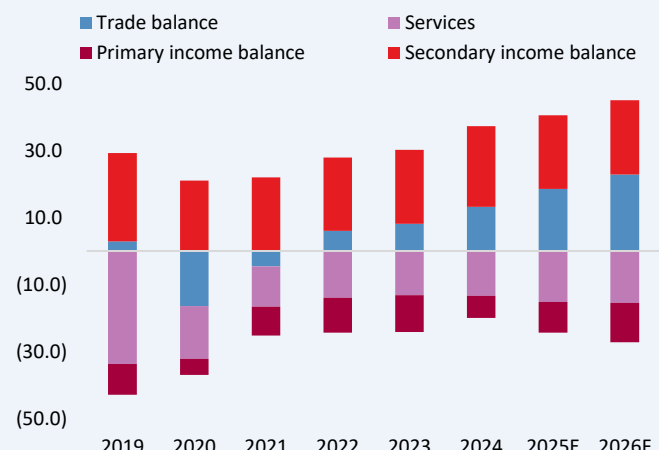
On the oil import front, Nigeria, which used to spend about \$4.4 billion per quarter to import oil-related products between 2021 and 2024, now spends \$956.8 million. We expect oil imports to moderate gradually as local refining activities improve. Accordingly, we forecast an average quarterly oil import cost of \$918.5 million in 2026.

Figure 55: Current account to remain in surplus territory



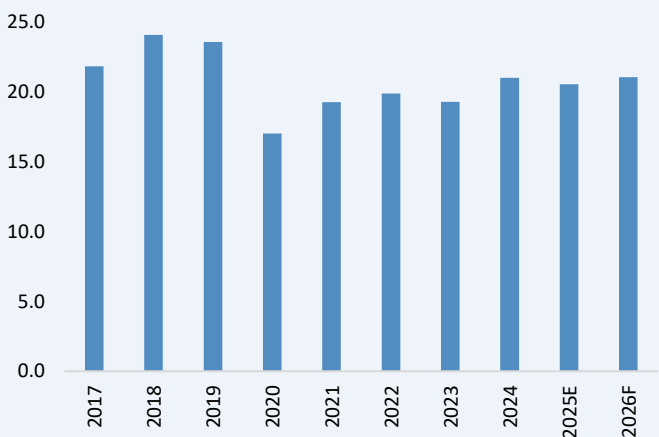
Source: CBN, CardinalStone Research

Figure 56: Remittances and trade balance (N'billion) to drive CA surplus in 2026



Source: CBN, CardinalStone Research

Figure 57: Remittance inflows (\$'billion) to support CA



Source: CBN, CardinalStone Research



FX reserves remain adequate, and there is room for more accretion in 2026

The Nigerian external reserves have gathered pace in 2025, currently sitting at over \$45.0 billion, which is at the highest level in seven years, reflecting higher remittance inflows, dollar debt issuances, and increased FPI inflows.

To assess the adequacy of the Nigerian FX reserves and the ability to withstand shocks, we adopted four approaches - M2 coverage, months of import cover, short-term external debt cover, and net FX reserves position.

To start with, the M2 coverage, which measures the ratio of gross FX reserves to money supply, revealed a robust print of over 50.0% since 2025, higher than the global threshold of 20.0%. To our minds, the M2 coverage, which assesses a country's vulnerability to capital flight risk, is particularly important as we approach 2026, a pre-election year, as well as the uncertainties surrounding the implementation of Capital Gain Tax (CGT).

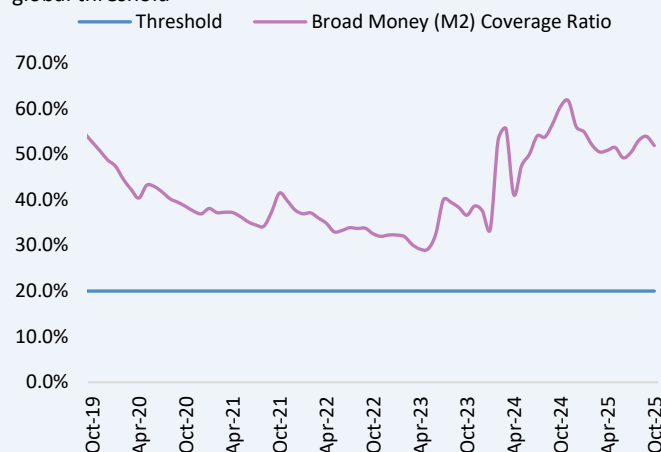
Elsewhere, on the short-term external debt coverage, it evaluates whether a country's FX reserves are adequate to withstand a sudden stop in capital inflows and meet near-term external obligations. While the DMO does not publish the maturity profile of outstanding external debt, we used the Eurobond maturities of less than 5 years as a proxy. From our estimate, Nigeria's dollar reserves can cater for short-term external debt 7.5 times, well above the 1.0 times threshold.

In the same vein, import cover continues to scale above the IMF benchmark of 3.0 times, aided by the prior easing of import pressures and rising FX reserves. We project import cover to reach 15 times for 2026, relatively higher than most African peers.

Finally, on the net FX reserves position, while there is no globally acceptable benchmark, we note that the net position has improved materially, reaching \$23.1 billion in 2024, the highest level in 3 years. The CBN subsequently made progress in unwinding FX swaps with local banks, which is positive for its balance. This unwinding and overall positive macros also suggest that net FX reserves remained strong in 2025.

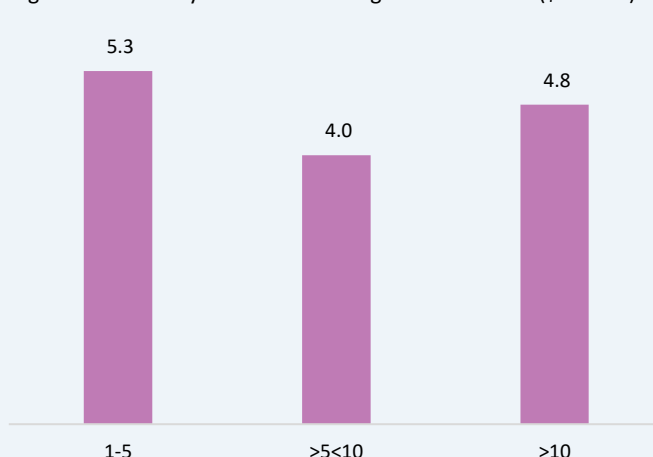
In 2026, we see room for more accretion to the external reserves on the back of the sustained current account surplus (\$17.7 billion estimate for 2026), sustained remittance inflows, resilient inflows from foreign investors, and external debt inflows.

Figure 58: M2 coverage ratio for Nigeria remains well above the global threshold



Source: CBN, CardinalStone Research

Figure 59: Maturity distribution of Nigerian Eurobond (\$' billion)



Source: FMDQ, CardinalStone Research

FX reserves are less susceptible to oil price volatility

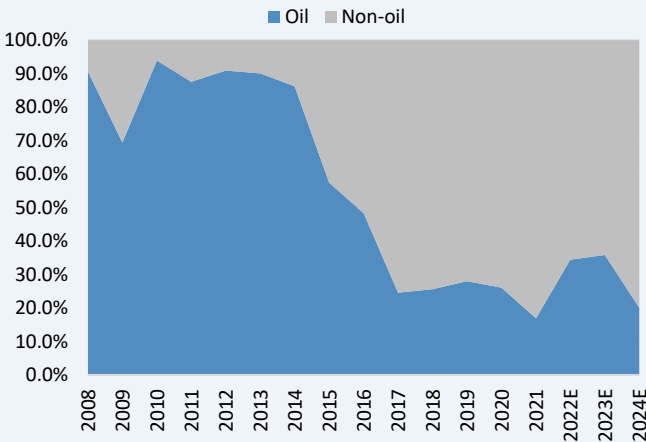
Oil prices are expected to trend lower in 2026 on weaker global demand and higher supply additions. While softer oil prices would typically pose risks to the FX outlook, oil's contribution to external reserves has declined materially since 2017. For context, oil contribution to reserves averaged 73.9% between 2008 to 2017. However, it currently averages 26.7%, a consequence of weaker crude production and the drag from fuel subsidies, which constrained NNPC remittances.

We expect a recovery in oil-related inflows in 2026 as NNPC resumes remittances to the Federation Account, with about N10.0 trillion (\$6.8 billion) already paid in 2025. The growth and size of non-oil inflows are also expected to drive reserve resilience in 2026.



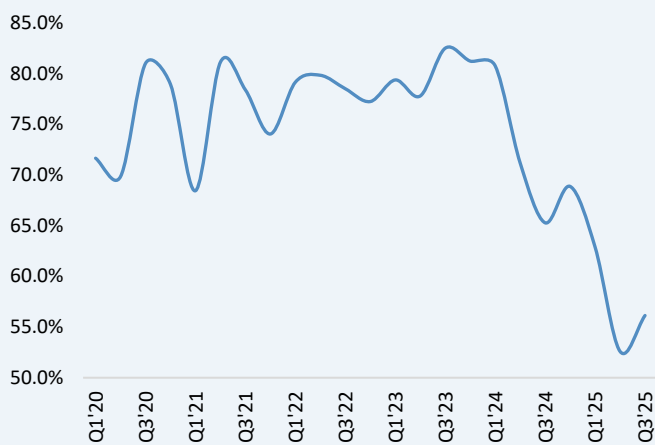
In particular, we are of the view that the recent introduction of the Non-Resident Bank Verification Number (NRBVN) would support remittance inflows, especially as foreign inflows through autonomous sources (inflows that do not hit foreign reserves) still account for over 60.0% inflows into the economy.

Figure 60: Oil contribution to the FX reserves is on the decline



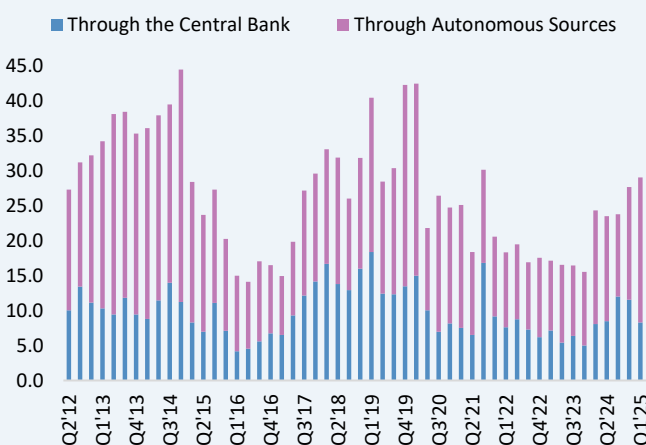
Source: CBN, CardinalStone Research

Figure 61: Oil export (as a % of total export) has been declining



Source: CBN, CardinalStone Research

Figure 62: FX inflows (\$'billions) through autonomous sources still account for over 60.0% of total inflows



Source: CBN, CardinalStone Research

Improving fundamentals warrant a re-rating of the Naira in 2026

We are of the view that Naira could trade within the band of N1,350.00/\$ – N1,4500.00/\$, supported by the following.

- The FX market remains liquid, backed by adequate dollar inflows.
- FX reserves remain adequate and can cater to 6.2 months of current external debt payment, significantly higher than that of African peers.
- The CBN has made progress in unwinding FX swaps with local banks, which is positive for the apex bank’s balance sheet and net FX reserve position.
- Moderating inflation remains a positive for currency outlook and valuation.
- Current account surplus could reach an all-time high.
- Sustained FX transparency.
- Sustained inflows of foreign providers of capital.
- Overall, our real effective exchange rate and nominal effective exchange rate models suggest that the Naira is poised for more appreciation in 2026.

Risks to our outlook

- Pre-election worries.
- Unanticipated slump in exports, especially non-oil.
- The ongoing global trend of tightening border controls may reduce Nigerian exports.
- Weaker-than-expected oil prices.
- Faster-than-expected surge in debt levels, especially external debt, may weaken credit ratings and dampen foreign inflows.



Economic indicators	2021	2022	2023	2024	2025E	2026F
REAL ECONOMY	Percent change, unless stated otherwise					
Nominal GDP (N'billion)	240,754.81	271,204.73	309,510.61	364,619.40	431,835.24	507,618.47
Nominal GDP (N'billion)	426.77	472.31	375.94	205.40	285.10	362.58
GDP per capita (\$)	2,742.40	2,900.60	2,160.10	1,086.60	1,160.00	1,197.00
Real GDP Growth	0.9%	4.3%	3.0%	3.4%	3.9%	4.4%
PRICES	Percent change					
GDP deflator	12.6%	7.9%	10.6%	14.1%	14.0%	12.9%
Inflation (average)	17.0%	18.8%	24.5%	31.6%	22.0%	15.5%
Inflation (year-end)	15.6%	21.3%	28.9%	15.4%	32.0%	13.5%
FISCAL ACCOUNTS	Percent of GDP, unless stated otherwise					
Revenues	2.5%	3.2%	4.0%	5.8%	6.3%	5.5%
Expenditures	5.4%	5.3%	7.4%	9.5%	9.4%	8.6%
Fiscal deficit	-2.9%	-2.0%	-3.4%	-3.7%	-3.1%	-3.1%
Public debt	16.4%	17.1%	31.4%	39.7%	36.8%	34.5%
Debt servicing to revenue	69.2%	64.2%	68.5%	60.2%	69.0%	55.2%
BALANCE OF PAYMENTS	Percent of GDP, unless stated otherwise					
Current account balance	-0.8%	0.7%	1.6%	8.4%	5.7%	4.9%
Trade balance	-1.1%	1.3%	2.1%	6.4%	6.5%	6.3%
Services	-2.8%	-3.0%	-3.5%	-6.5%	-5.3%	-4.3%
Primary income balance	-2.0%	-2.2%	-2.9%	-3.2%	-3.2%	-3.3%
Secondary income balance	5.1%	4.6%	5.9%	11.7%	7.7%	6.1%
Net Foreign Direct Investment	0.9%	-0.1%	0.5%	0.6%	0.7%	0.6%
Net Foreign Portfolio Investment	0.9%	0.7%	1.4%	5.5%	5.5%	4.2%
Gross Reserves (\$'billion)	40.2	36.6	33.2	40.2	45.0	50.0
Gross Reserves (months of imports)	9.2	8.5	6.9	10.1	13.6	15.0
FOREIGN EXCHANGE						
FX rate	435.00	460.00	899.89	1,535.82	1,429.00	1,400.00



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