COWRY RESEARCH ANALYSTS' FLASHNOTE: FEBRUARY 2026 MONETARY POLICY COMMITEE MEETING

Cowry Research

Dovish Policy Pivot: CBN Softens Stance with 50bps Rate Cut to 26.50%, Repricing the Outlook….

The Central Bank of Nigeria's Monetary Policy Committee reduced the Monetary Policy Rate (MPR) by 50 basis points to 26.5%. This is the first rate cut after a long period of tightening in a bid to stifle rising inflation and control prices. Also, at the meeting, the Cash Reserve Ratio (CRR) was left unchanged at 45% for commercial banks and 16% for merchant banks, while the Liquidity Ratio stayed at 30% as the CBN stays cautious with its rate loosening, but still keeping strong control over system liquidity.

With all other policy parameters retained just like at the September and November 2025 meetings, the MPC weighed whether to maintain its cautious posture or initiate policy easing amid an improving macroeconomic environment. Ultimately, the collective progress in headline inflation, sustained exchange rate stability, and strong external reserves provided sufficient justification for a modest rate adjustment of 50bps, signalling the potential beginning of an easing cycle, supported by a softer inflation outlook.

Inflation has been easing with the latest reading at 15.10% in January 2026, and the pressure on prices is no longer as intense as before. This slowdown in inflation has provided the CBN room to slightly relax monetary conditions without risking price instability.

January's headline outcome was softer than expected. This deviation was driven by the unusually sharp 2.88% m/m deflation—the first m/m decline in over twelve months—which offset the impact of the lower base index and resulted in only a modest increase in the headline figure.

Although consumer prices continue to ease, the scale of the negative m/m inflation reading is unexpected, particularly when viewed against the backdrop of Nigeria's structurally driven inflation dynamics.

Food prices, the dominant component in the CPI basket, recorded a pronounced slowdown, easing to 8.89% y/y down from 10.84% y/y previously. The moderation in food prices was supported by stable FX conditions, softer energy prices, lower input costs, and relatively strong supply conditions. Turning to the core index, core inflation continued its downward trajectory, decelerating to 17.72% y/y from 18.63% y/y previously.

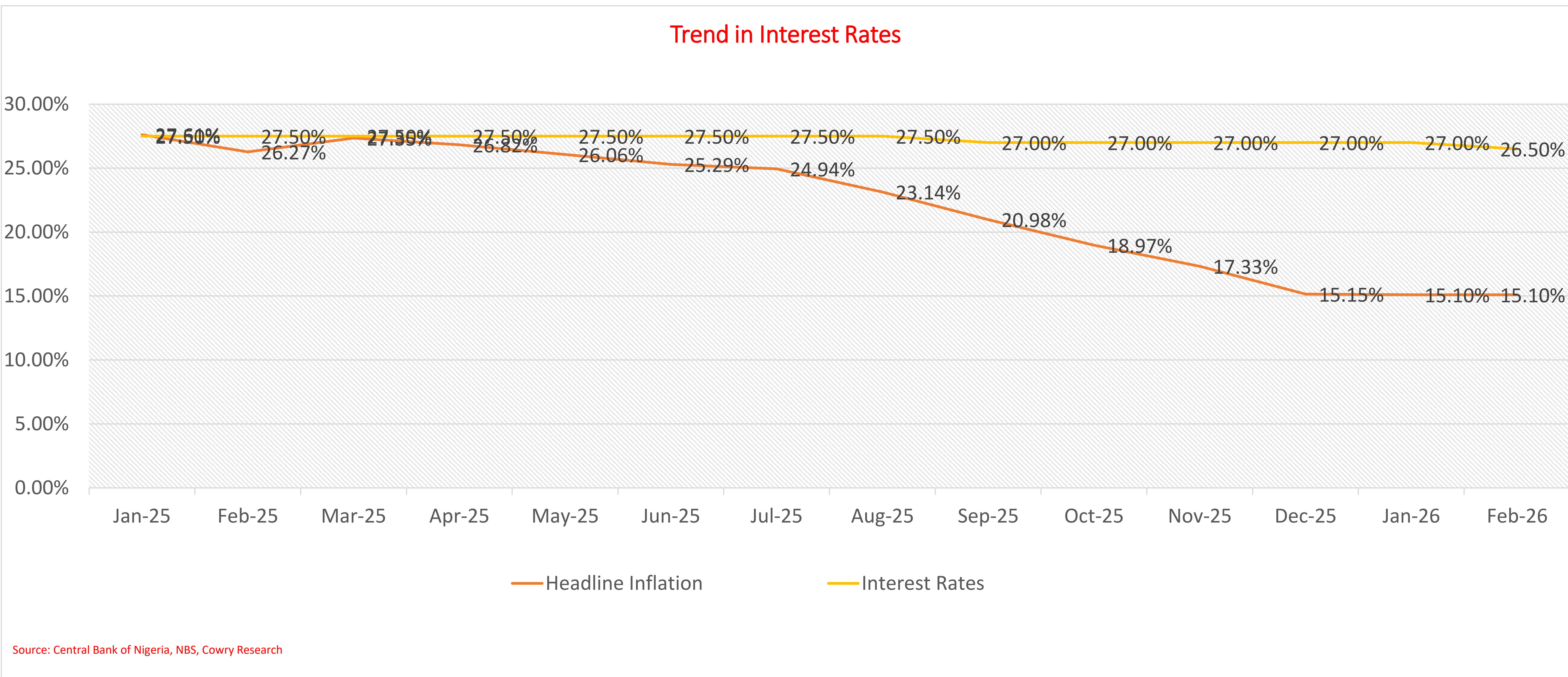
On the external side, the MPC acknowledged a cautiously improving global backdrop for 2026, with stronger growth prospects tied to progress in trade negotiations, AI-driven investment, and gradual policy easing across major economies. Nonetheless, risks remain elevated, including protectionist trends and geopolitical fragmentation. Against this mixed global environment, the CBN's measured adjustment suggests the possible start of an easing cycle, though not an aggressive one.

Global disinflation is anticipated to continue in 2026, driven by the lagged impact of previous monetary policy tightening, further resolution of supply chain disruptions, and improved stability in commodity markets. Near-term inflation is, however, likely to remain above historical averages, constrained by structural rigidities and divergent pace of disinflation across several economies.

Upshot from this February 2026 MPC meeting is that a lower policy rate can gradually reduce borrowing costs for the real sector of the economy. While lending rates may not fall immediately, the direction is now more supportive for businesses and economic activity.

With interest rates beginning to come down, fixed-income returns may become less attractive over time. This supports continued interest in equities and other risk assets, especially for investors seeking better long-term returns.

Cowry Research thinks that the decision signals a careful shift from fighting inflation aggressively to supporting growth, while still keeping financial stability in focus. It's a measured step and not a full easing cycle yet, but a clear change in tone. We also recognise the Committee's caution is notable, particularly given elevated liquidity conditions and the risk of demand-side pressures in a pre-election environment. It is not yet a full easing cycle, but it clearly marks a change in tone in Nigeria's monetary policy trajectory.



Source: Central Bank of Nigeria, National Bureau of Statistics, Cowry Research

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