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

Cowry Research

CBN Holds Rates at 26.50% as Inflation Risks, Global Tensions Serve À la Carte….

The outcome of the 305th Monetary Policy Committee (MPC) meeting of the Central Bank of Nigeria reflects a continued cautious and tight monetary stance aimed at curbing persistent inflationary pressures, despite recent moderation to 15.69%, amid improving exchange rate stability and sustained foreign portfolio inflows.

Key policy decisions include:

- Retention of the Monetary Policy Rate (MPR) at 26.50%
- Retention of the Cash Reserve Ratio (CRR) at 45.0% for Deposit Money Banks and 16.0% for Merchant Banks
- Retention of 75% CRR on Non-TSA public sector deposits
- Liquidity Ratio maintained at 30.0%
- Asymmetric corridor retained at +50/-450 basis points around the MPR

The decisions of the MPC were anchored on a comprehensive assessment of risks to the macroeconomic outlook. Although inflation has risen marginally for two consecutive months, largely induced by external shocks, the Committee recognized the transitory nature of the uptick and remained confident that the current macroeconomic environment remains sufficiently resilient to support a gradual return to the disinflationary path.

This decision marks a pause following the 50 basis points easing implemented at the previous meeting in February. In line with broad market expectations, the MPC opted to retain the MPR at 26.50% alongside all other policy parameters. This outcome aligns with our expectations for a hold, premised on renewed inflationary pressures stemming from higher domestic energy costs linked to spillover effects from ongoing geopolitical tensions in the Middle East.

Nigeria's headline inflation sustained its upward reversal for the second consecutive month in April 2026, rising to 15.69% year-on-year from 15.38% recorded in March, representing a 31 basis points increase. This development signals a temporary interruption to the eleven-month disinflation trend previously recorded. The renewed inflationary pressure was primarily driven by cost-push factors. Chief among these was the surge in global crude oil prices following disruptions around the Strait of Hormuz in early March, which affected global supply chains and elevated international energy prices. The resultant increase in domestic fuel prices translated into higher transportation and production costs across major sectors of the economy.

Against this backdrop, the Committee considered emerging upside risks to inflation, alongside heightened global uncertainty, sufficient to justify maintaining a cautious monetary policy stance. In reaching its decision, the MPC reviewed global macroeconomic conditions and noted that global growth is expected to moderate in 2026, reflecting the combined effects of persistent geopolitical tensions and prolonged tight monetary conditions across advanced and emerging economies.

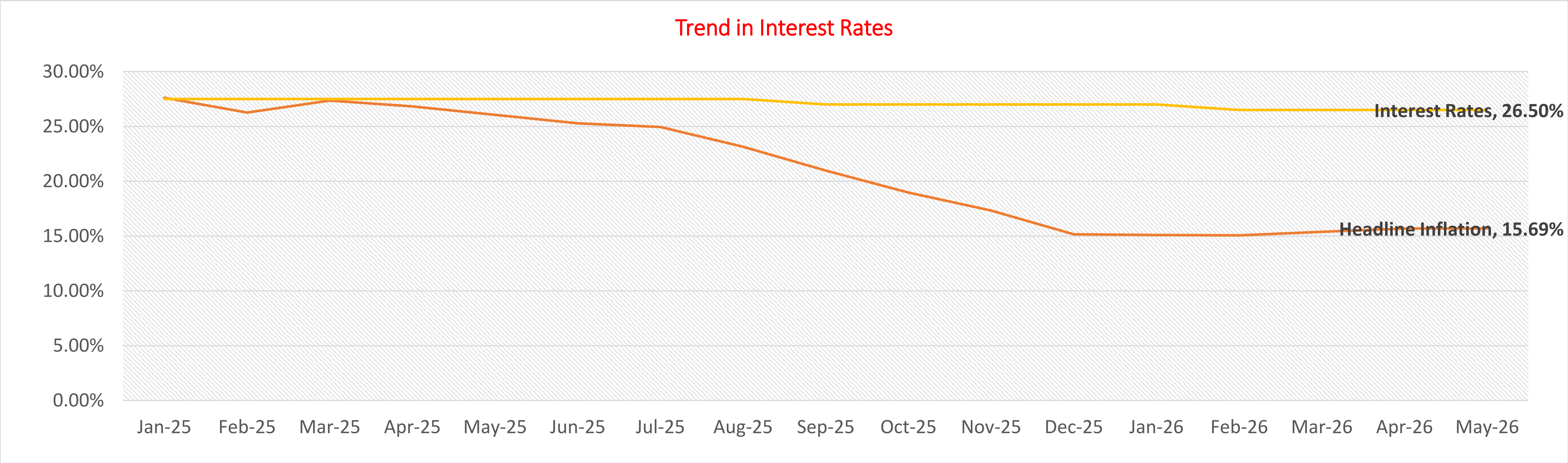
The Committee further observed that prevailing global oil price shocks could sustain upward pressure on global inflation in the near term, likely prompting major central banks to remain cautious in their monetary policy trajectories.

On the domestic front, the MPC acknowledged that Nigeria's growth outlook remains relatively resilient despite external vulnerabilities, supported by improved macroeconomic conditions and the recent sovereign credit rating upgrade from B to B+ by S&P Global Ratings.

Nonetheless, the Committee maintained that the cumulative effects of previous monetary tightening measures, improved foreign exchange market liquidity, and easing food supply constraints are expected to reinforce the medium-term disinflation process.

Overall, the Committee expects economic activity to remain resilient through 2026 despite downside risks associated with the Middle East conflict. We believe financial markets had largely priced in the hold decision, particularly given the continued attractiveness of carry trade opportunities within Nigeria's fixed income market.

For financial markets, the decision is expected to keep fixed income yields elevated in the near term, while equities may continue to witness sectoral rotation as investors reassess earnings resilience under a high-interest rate environment. Broadly, investors are likely to continue favouring short-tenored fixed income instruments over duration-sensitive assets, while equities trading may remain driven by sector-specific opportunities and defensive positioning.



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

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