

CENTRE FOR THE PROMOTION OF PRIVATE ENTERPRISE (CPPE)

POLICY BRIEF ON FEBRUARY INFLATION

FRAGILE DISINFLATION AMID ESCALATING ENERGY SHOCKS: URGENT ACTION NEEDED TO PROTECT CITIZENS AND BUSINESSES

Introduction

The February 2026 CPI report presents a cautiously optimistic picture, with headline inflation easing marginally to **15.06% year-on-year**, down from 15.10% in January and significantly lower than 26.27% a year earlier.

This reflects a continuing disinflation trend supported by base effects, monetary tightening and stabilization in macroeconomic conditions. However, this improvement is fragile and does not yet signal a decisive turnaround in price dynamics.

The underlying inflation reality remains concerning. On a month-on-month basis, inflation accelerated to **2.01%**, while **food inflation surged to 4.69%**, reversing the moderation recorded previously.

Persistent Cost-of-Living and Business Pressures

Meanwhile, Food, transport and energy costs continue to rise at a pace that erodes purchasing power. Real incomes remain under severe strain, particularly for vulnerable and urban households. Disinflation, in this context, simply means a slower increase in prices—not a reduction in the cost of living.

For businesses, especially SMEs, the operating environment remains extremely challenging. Energy, logistics and raw material costs are elevated, while weak consumer demand limits pricing flexibility. The result is a tightening squeeze on margins, declining profitability and rising business vulnerability, particularly in consumer-facing sectors.

Geopolitical Energy Shock: A Clear Inflation Risk

The most immediate threat to the inflation outlook is the escalation of geopolitical tensions in the Middle East, involving Iran, Israel and the United States. The conflict has already triggered a surge in crude oil prices above \$100 per barrel, amid disruptions to energy infrastructure and heightened risks to global supply routes, including the Strait of Hormuz.

For Nigeria, the transmission channels are direct and profound. Rising global oil prices are already feeding into:

- Higher petrol and diesel prices
- Increased transportation and logistics costs
- Rising production costs across sectors
- Renewed exchange rate pressures
- Escalating food prices driven by input and distribution costs

There is therefore a high likelihood that the current disinflation trend could be reversed if these external pressures persist.

Structural Vulnerabilities Amplify the Impact

Nigeria's exposure to energy-driven inflation is intensified by structural weaknesses in the domestic economy. The heavy reliance on petrol and diesel for power generation, due to unreliable electricity supply, creates a strong and immediate pass-through from global oil prices to domestic inflation.

Estimates indicate that unreliable electricity imposes annual economic losses of between **₦7 trillion and ₦10 trillion**, while spending on generators exceeds **₦3.7 trillion annually**.

This structural dependence means that energy price shocks quickly translate into higher production costs, transport costs and general price levels across the economy.

Policy Imperatives: Protecting Households and Businesses

In the current context, urgent and coordinated policy measures are required to cushion the impact of rising energy prices and sustain the fragile disinflation gains.

Priority should be accorded to strengthening domestic refining capacity through the provision of stable and reliable crude oil supply to local refineries, including the Dangote refinery, under supportive, predictable and, where feasible, concessionary terms. This is crucial for moderating domestic fuel prices, easing pressure on foreign exchange demand and enhancing the country's energy security.

Governments at all levels should also scale up investment in efficient and affordable public transportation systems as a key social protection measure. Transport costs have become a

major channel of inflation transmission, and easing this burden would provide immediate relief to households.

In addition, fiscal barriers to renewable energy adoption should be removed. Waivers on import duties and taxes on solar equipment, inverters and batteries would accelerate the transition to alternative energy sources and reduce dependence on expensive fossil-fuel-based self-generation. Additionally, all maritime charges should be suspended to ease the escalating shipping cost amidst the sharp increase in marine insurance globally.

More fundamentally, there is an urgent need to improve electricity supply. Reliable power remains the most effective long-term solution to Nigeria's energy cost crisis. Strengthening generation, transmission and distribution infrastructure, alongside support for decentralized energy solutions, would significantly reduce production costs and inflationary pressures.

In the short term, flexible and remote work arrangements should also be encouraged where feasible, as a means of reducing commuting costs and mitigating the welfare impact of rising fuel prices.

Monetary and fiscal authorities must remain cautious and disciplined. The resurgence in monthly inflation and the emergence of external shocks suggest that premature policy easing would be risky. Oil revenue windfalls should be managed prudently, with emphasis on strengthening foreign exchange reserves and supporting productive sectors of the economy.

Conclusion

The February CPI report signals some progress in the fight against inflation. While headline inflation is moderating, underlying price pressures remain strong, and the external environment is becoming increasingly adverse.

The current geopolitical energy shock poses a significant risk to Nigeria's inflation outlook, with the potential to reverse recent gains and deepen pressures on households and businesses.

A proactive, coordinated and forward-looking policy response is therefore imperative to safeguard macroeconomic stability, protect citizens and support enterprise sustainability in an increasingly volatile global environment.

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