

CENTRE FOR THE PROMOTION OF PRIVATE ENTERPRISE (CPPE)
POLICY BRIEF

Q1 2026 ECONOMIC REVIEW AND Q2 OUTLOOK:

MACRO STABILITY GAINS AMID PERSISTENT COST PRESSURES AND RISING GEOPOLITICAL RISKS

Introduction

The Nigerian economy in the first quarter of 2026 reflected a blend of improving macroeconomic stability and persistent structural constraints. Evidence of a more stable macroeconomic environment is increasingly evident, underpinned by the cumulative gains from foreign exchange reforms, a sustained period of monetary tightening, and the gradual normalization of key economic indicators.

However, these improvements continue to coexist with significant headwinds. The cost-of-living crisis remains pronounced, energy costs are still elevated, concerns around insecurity persist, and deep-seated structural rigidities continue to constrain productivity and investment.

As the economy transitions into the second quarter of 2026, the outlook is cautiously optimistic but not without considerable risks. The trajectory of macroeconomic stability is vulnerable to external shocks—particularly evolving geopolitical tensions—while the intensifying political cycle ahead of the 2027 elections could pose risks to policy focus and reform momentum. Additionally, fiscal execution constraints remain a critical concern, with implications for budget implementation, infrastructure delivery, and overall economic performance.

Macroeconomic Stability Gains in Q1 2026

The most notable development in Q1 2026 was the consolidation of macroeconomic stability.

Inflation continued on a downward trajectory. Headline inflation, which exceeded 24% in early 2025, moderated to 15.15% in December 2025 and further eased to approximately 15.06% by February 2026. This reflects the combined effects of tighter monetary conditions, improved exchange rate stability, and some easing in supply-side pressures.

Exchange rate conditions also improved significantly. The naira, which experienced substantial volatility during the reform transition period, stabilised within a relatively narrow band of about ~~₦1,340~~–~~₦1,430~~ per dollar in the official market during Q1 2026. This stability has helped to moderate imported inflation and restore a measure of business confidence.

External reserves strengthened considerably, rising above \$50 billion in early 2026. This improvement reflects stronger oil earnings, enhanced foreign exchange liquidity, and improved market confidence, thereby strengthening the capacity of monetary authorities to manage exchange rate volatility.

Growth momentum remained positive. Real GDP growth stood at 4.07% year-on-year in Q4 2025, with full-year growth at 3.87%, supported by recovery in the oil sector and sustained expansion in the non-oil economy. Business activity indicators also remained positive, with Purchasing Managers' Index (PMI) readings consistently above the 50-point expansion threshold.

Monetary policy has begun to reflect these improvements. In February 2026, the Monetary Policy Committee reduced the policy rate by 50 basis points to 26.5%, signaling the start of a cautious easing cycle.

Overall, these developments point to a transition towards relative macroeconomic stability—an essential foundation for restoring investor confidence and improving economic growth outlook.

Persistent Cost Pressures and Structural Constraints

Despite the improvement in macroeconomic indicators, the real economy continues to face significant headwinds.

The most pressing challenge remains the high-cost environment. Although food prices have shown some moderation, transportation and energy costs remain elevated, significantly eroding household purchasing power. The welfare impact of earlier reforms—particularly fuel subsidy removal and exchange rate liberalisation—continues to weigh on citizens.

Energy costs remain a major burden for businesses. Owing to unreliable grid electricity, firms remain heavily dependent on gas, diesel or petrol generators. With fuel prices still elevated—and further pressured by ongoing Middle East tensions—energy has become one of the largest components of production and logistics costs across sectors.

Insecurity continues to pose serious economic risks. Disruptions in key agricultural zones are constraining food supply, sustaining inflationary pressures, and weakening rural economic activity. Insecurity also undermines logistics efficiency, investment flows, and overall economic confidence.

The cost of capital remains high. Despite recent policy rate moderation, lending rates to the real sector remain elevated, constraining access to credit—particularly for SMEs.

Weak consumer demand is another binding constraint. The erosion of real incomes continues to dampen demand across several sectors, especially those reliant on discretionary spending.

These realities underscore a critical disconnect: while macroeconomic indicators are improving, microeconomic conditions remain fragile.

Outlook for Q2 2026: Emerging Risks to Stability

The outlook for Q2 2026 reflects a combination of sustained macroeconomic momentum and rising downside risks.

Fragile Disinflation Amid Energy Price Pressures

The current disinflation trajectory remains fragile and susceptible to reversal. The ongoing Middle East conflict has precipitated a sharp escalation in global crude oil prices, with benchmarks crossing the \$100 per barrel threshold in recent weeks—developments with significant inflationary implications.

For Nigeria, the situation presents a classic dual-edged dynamic. On the upside, elevated crude oil prices are expected to bolster export earnings, strengthen foreign exchange inflows, and improve government revenue. However, the downside risks are immediate and far-reaching. Higher crude prices transmit quickly into domestic fuel costs, with consequential increases in logistics, production, and operating expenses across the economy.

This cost pass-through effect poses a significant threat to the fragile disinflation process, potentially reversing recent gains in price stability, weakening real incomes, and further exacerbating the cost-of-living pressures facing households and businesses.

Exchange Rate Outlook: Stability with Volatility Risks

The exchange rate is expected to remain relatively stable in Q2, supported by improved reserves and FX liquidity. However, risks of volatility persist, particularly in the event of prolonged geopolitical tensions or shifts in investor sentiment.

Growth Outlook Characterised by Moderation Risks

Economic growth is expected to remain positive in the near term, but the momentum is likely to moderate amid a confluence of downside risks. Elevated energy costs continue to exert significant

pressure on production and operating expenses, while weak consumer demand—driven by eroded purchasing power—remains a binding constraint on output expansion.

Additionally, the risk of a stagflationary environment is becoming more pronounced, as cost pressures persist alongside fragile growth dynamics. Compounding these challenges are potential policy distractions associated with intensifying pre-election political activities ahead of the 2027 general elections, which could dampen reform momentum and weaken macroeconomic management.

Monetary Policy: Cautious and Data-Driven

The scope for further monetary easing in the near term appears constrained by renewed inflationary pressures, particularly those linked to rising global energy prices. In this context, monetary policy is expected to remain cautious and strongly data-driven, with limited headroom for aggressive rate cuts.

There is, however, a risk that the Central Bank of Nigeria (CBN) may be inclined toward further tightening in response to prevailing geopolitical and inflationary pressures. Such a stance would be counterproductive, given the fragility of current growth dynamics.

Notably, the present inflationary episode is largely cost-push in nature—driven by energy prices, exchange rate pass-through, and structural inefficiencies—rather than excess aggregate demand. Consequently, additional monetary tightening would have limited effectiveness in addressing the underlying drivers of inflation, while potentially exacerbating constraints on investment, credit expansion, and overall economic growth.

Political Economy Risks: Rising Pre-Election Pressures

A key emerging risk is the increasing tempo of political activities ahead of the 2027 general elections. Political realignments, defections, and early campaign positioning are already intensifying. This raises concerns about policy distraction, as economic management may increasingly compete with electoral considerations.

There is also a growing risk of deceleration in reform momentum, as politically sensitive but necessary reforms become more difficult to sustain in a pre-election environment.

Fiscal Risks and Budget Implementation Challenges

The 2026 budget, estimated at about ₦68 trillion, presents both opportunities and risks.

While the scale of the budget has the potential to stimulate economic activity, its effectiveness will depend largely on implementation quality.

Key concerns include:

- Weak revenue performance
- Delays in capital releases
- Limited project execution capacity
- Increasing political influence on expenditure priorities

As political pressures intensify, there is a risk of weakening fiscal discipline, with greater emphasis on recurrent and politically expedient spending.

Implications for Businesses and Investors

For businesses and investors, the current environment calls for a strategic shift from expansion-driven models to resilience, efficiency, and risk management.

Cost containment should be a top priority, particularly through energy efficiency and logistics optimisation. There is also a compelling case for investment in alternative energy solutions, including solar and gas-powered systems, to reduce dependence on costly diesel and petrol.

Foreign exchange risk management is critical. Firms should deepen local sourcing strategies, promote backward integration, and carefully manage currency exposure.

Liquidity management remains essential. Businesses should maintain strong cash buffers and avoid excessive leverage in a still high-interest-rate environment.

Investors should adopt a selective approach, focusing on sectors with:

- Strong and inelastic demand
- Pricing power
- Export potential or FX earnings capacity
- Policy support and structural growth prospects

Close monitoring of the political environment is also imperative, given the likelihood of policy shifts as the election cycle intensifies.

Conclusion

The first quarter of 2026 represents a significant inflection point for the Nigerian economy, marked by notable gains in macroeconomic stability.

However, these gains are tempered by persistent structural challenges and mounting welfare pressures. The outlook for Q2 2026 remains cautiously positive but increasingly uncertain, shaped by geopolitical developments, political cycle dynamics, and fiscal execution risks.

The ongoing Middle East conflict presents a credible risk of stagflation, particularly if the crisis is prolonged or intensifies. Rising global energy prices are likely to amplify inflationary pressures while simultaneously constraining output growth through higher production and logistics costs. This dual impact—elevated inflation alongside weakened growth—poses a significant macroeconomic risk, with adverse implications for business profitability, investment decisions, and overall economic stability.

Policy priorities should therefore focus on consolidating macroeconomic stability, addressing structural bottlenecks, and implementing targeted measures to protect vulnerable populations.

For businesses and investors, success in this environment will depend on resilience, operational efficiency, and strategic positioning.

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5th April 2026