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H2 2026 Nigeria Economic Outlook

Unlocking Nigeria's reform dividend

From macroeconomic stabilisation to inclusive growth

August 2026

What's inside

Dashboard of key economic indicators

		Period	Y-o-Y%	Previous
GDP Growth Rate	3.89%	Q1 2026	▲	3.13%
Inflation Rate	15.91%	June 2026	▼	22.22%
Official Exchange Rate	₦1,379.68/$	June 2026	▲ 10.9%	₦1,529.7/$
Exchange Rate - Parallel	₦1,385/$	June 2026	▲ 13%	₦1,565/$
FX Reserves	$51.46bn	June 2026	▲ 38.3%	$37.2bn
Monetary Policy Rate	26.50%	May 2026	▼	27.5%
Market Capitalisation	₦147.2tn	June 2026	▲ 93.8%	₦75.95tn
Crude Oil Production	1.56 mbpd	June 2026	▲ 3.31%	1.51 mbpd

Sources: NBS, NUPRC, OPEC, CBN, FMDQ, NGX, Strategy& Analysis

Note:
- Indicator periods reflect the latest official data available as of 30 June 2026, which serves as the report cut-off date. Unless otherwise stated, all data, analysis and commentary contained in this report are based on information available as of that date.
- The positive change in the exchange rate indicates an appreciation of the naira.

Mid-year reflection on H1 2026

1

In January 2026, we presented our outlook for the year, identifying seven key trends. In this section, we revisit that outlook considering actual economic outcomes.

Nigeria's macroeconomic conditions have stabilised, although household, fiscal and external pressures will shape its H2 2026 performance (1/3)

2026 economic outcomes relative to outlook expectations

Key issues	Our outlook	2026 Outcome assessment
Broader fiscal policy focus: Going beyond revenue generation	• **Revenue mobilisation may strengthen in 2026**, supported by tax reforms, improved VAT and CIT compliance, digital tax administration and tighter remittance discipline. • **Fiscal pressures may persist** due to the wide budget deficit, elevated borrowing requirements and debt-service obligations that could constrain capital and social spending. • Fiscal outcomes will depend significantly on reform implementation, expenditure prioritisation and improved execution of capital projects.	• **Gross tax and related revenue rose by 23.2% y/y** to ₦7.44 trillion but missed target by ₦2.24 trillion in Q1 2026 . Value Added Tax (VAT) increased by 17.1% to ₦2.42 trillion, achieving 97.0% of target, while Companies Income Tax (CIT), Capital Gains Tax (CGT), and stamp duties missed the ₦5.05 trillion target by ₦1.3 trillion. Petroleum profits and hydrocarbon taxes rose by 43.4% to ₦1.62 trillion in Q1 2026, from ₦1.13 trillion in Q1 2025. Petroleum royalties reached only 55.1% of target at ₦1.12 trillion. • **This uneven performance kept overall revenue collections at 76.9% of target**, resulting in a ₦2.24 trillion shortfall. If sustained, the revenue gap could increase the government's financing needs, leading to higher borrowing requirements and continued debt service pressures. • Transition guidelines for Nigeria's new tax laws were issued on 18 June 2026, marking an important step towards implementation. • **Budget execution, however, remained under pressure**. The ₦68.32 trillion 2026 appropriation bill was assented to on 17 April 2026, while the implementation deadline for the 2025 capital budget was extended to 30 September 2026. The overlap in budget cycles increased the risk of delayed funding releases and slower capital-project execution.
Disciplined monetary policy: Sustaining the momentum	• **Headline inflation may moderate further in 2026,** supported by improved FX stability, easing inflation expectations and improvements in domestic food supply. • **The CBN may cautiously ease its monetary policy stance as inflation moderates**, while seeking to preserve price stability and support credit growth. • Food insecurity, energy-price volatility, fiscal expansion, capital-flow reversals and geopolitical shocks may disrupt disinflation and exchange-rate trend.	• **Headline inflation eased marginally to 15.91% y/y in June from 15.93% in May**, as slower price growth in transport, restaurants and accommodation, clothing and footwear, and core items offset stronger food and housing pressures. Core inflation declined to 15.92% from 16.82%, while transport inflation eased to 15.62% from 17.09%. • However, **food inflation increased to 17.52% y/y from 16.96%,** with month-on-month food inflation accelerating to **3.75% from 2.98%.** The increase was driven by higher prices of tomatoes, fresh pepper, crayfish, garri, yam, cassava flour, cowpea, beef and other staples. • **The CBN retained the MPR at 26.5%, following the 50-basis points rate cut in February**, citing persistent food inflation and elevated external risks. • **The naira remained broadly stable at ₦1,379.7/US$ in June,** supported by stronger FX liquidity and improved external reserves. • **The June 2026 US-Iran ceasefire process temporarily eased concerns around energy and shipping flows through the Strait of Hormuz, although subsequent violations and renewed hostilities kept oil-price, freight and imported-inflation risks elevated.**

Sources: NBS, NRS, CBN, PVSH, US CRS, Strategy& Analysis

Nigeria's macroeconomic conditions have stabilised, although household, fiscal and external pressures will shape its H2 2026 performance (2/3)

2026 economic outcomes relative to outlook expectations

Key issues	Our outlook	2026 Outcome assessment
Consumers' uncertain pathway to spending recovery, pressured by economic shocks	• **Cost pressures may remain elevated in 2026,** with rising poverty levels, high food dependency among vulnerable households, and structurally high prices limiting meaningful improvements in affordability.	• Household affordability remained under pressure, with the **cost of a healthy diet increasing by 4.68% y/y to ₦1,589 per adult per day in April 2026**. The increase reflected higher prices across most food groups, particularly nutrient-dense foods such as animal-source foods, fruits, and vegetables, which account for a disproportionate share of healthy diet costs. • **By June 2026, buying condition indices remained weak** at **24.1 points for consumer durables**, **18.9 for motor vehicles** and **18.8 for property**, indicating that elevated essential costs continued to constrain households' capacity for major discretionary purchases despite a modest improvement in overall consumer sentiment.
Stimulating productivity to drive real-sector growth	• **GDP is projected to grow by 4.2% in 2026**, driven by continued services-sector expansion and improving macroeconomic stability, although growth concentration across a narrow set of sectors remains a downside risk.	• **Real GDP grew by 3.89% y/y in Q1 2026**, driven by ICT, Finance & Insurance, Construction and Agriculture. Growth was supported respectively by rising mobile data usage and broadband adoption, stronger banking intermediation and digital transactions, increased infrastructure and building activity, and higher crop production. • The Composite PMI rose from 55.7 in January to 56.4 in February, then fell to 49.4 in April and 49.6 in May before recovering marginally to 50.1 in June. • The rebound was narrow, driven by agriculture at 52.1, while the industry and services PMIs, as well as the new-orders index, remained below the 50-point threshold. • **17 of 36 subsectors contracted,** with the weakest PMI readings recorded in primary metals and transportation and warehousing at 35.4 and 37.9, respectively. The broader PMI weakness was largely driven by lower new orders and raw-material constraints.
Security and social stability	• **Domestic insecurity and fatalities may remain elevated**, reinforcing Nigeria's fragile security outlook. • Pre-election political activity is expected to compound existing insurgency, banditry, and communal violence risks.	• Nigeria's security environment remains fragile, with **kidnapping, banditry, terrorism and communal violence continuing to pose risks to households, businesses and investment**. Security incidents remain concentrated across parts of the North-West, North-Central and North-East, highlighting the persistent economic and social costs of insecurity. • Heightened political competition may intensify local grievances, rivalries, and tensions in vulnerable states.

Sources: NBS, NRS, CBN, PVSH, US CRS, Strategy& Analysis

Nigeria’s macroeconomic conditions have stabilised, although household, fiscal and external pressures will shape its H2 2026 performance (3/3)

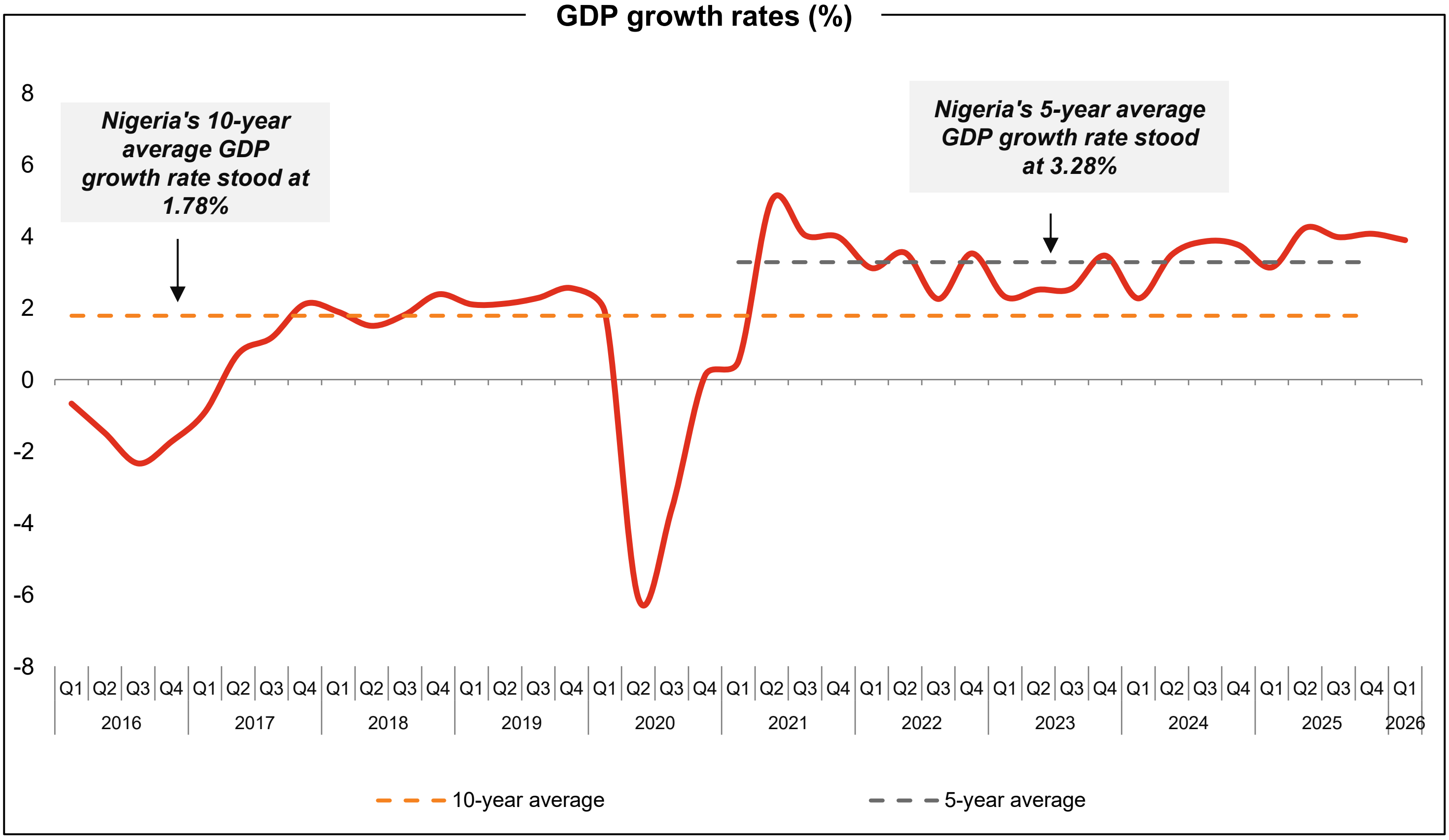
2026 economic outcomes relative to outlook expectations

Key issues	Our outlook	2026 Outcome assessment
Global political economy and megatrends in transition	• **Global GDP growth is projected to moderate to 3.1% in 2026**, while merchandise trade growth slows to 0.5%, reflecting weaker global demand. • **Oil prices are projected to soften towards the US$55/bbl range in 2026**, weakening Nigeria’s fiscal revenues and FX inflows.	• **Global GDP growth is now projected at 2.5% in 2026, a decline from 2.9% in 2025.** The projected slowdown reflects **Middle East energy disruptions, weaker trade conditions and elevated policy uncertainty.** • **Brent crude oil price averaged US$85/bbl in June, above our US$55/bbl outlook.** Shipping flows improved following the 18 June US-Iran agreement, but renewed hostilities in July again disrupted traffic through the Strait of Hormuz. **Continued uncertainty around the Strait creates upward pressure on oil prices.** • **Higher crude prices could support Nigeria’s oil revenues and FX inflows,** provided production gains are sustained and fiscal leakages are contained. However, higher refined-fuel, freight, fertiliser and transport costs may increase imported inflation and weaken household purchasing power, partly offsetting the fiscal benefits of higher oil prices.
Emergence of digital economy and AI	• **Broadband, fintech and AI adoption will deepen,** conditional on infrastructure rollout, affordability and regulatory implementation. • **Digital policy progress** will support the wider use of digital services and responsible AI.	• **Broadband penetration increased to 56.11% in May 2026,** from 55.67% in April, with broadband subscriptions reaching 121.64 million. This expands the addressable market for digital financial, e-commerce and other online services. • **Digital infrastructure investment progressed significantly.** Project BRIDGE secured an US$800 million sovereign financing package, alongside additional EU and project-preparation support, toward the planned 90,000 km national fibre backbone. This will expand backbone capacity and support wider, more reliable digital connectivity. • **Development in data centres and digital policy also advanced.** Airtel’s 38MW hyperscale data centre is under construction in Lagos for cloud and AI workloads, while CBN introduced Payments System Vision 2028 and local payment-data storage requirements from January 2027. These developments will support domestic cloud and AI capacity, payments innovation, and demand for local data hosting.

Sources: World Bank, NBS, NCC, EIA, NRS, CBN, Airtel Africa, FMCIDE, PVSH, US CRS, Strategy& Analysis

Nigeria's GDP growth remains resilient, but growth is concentrated in a few sectors

GDP growth trend



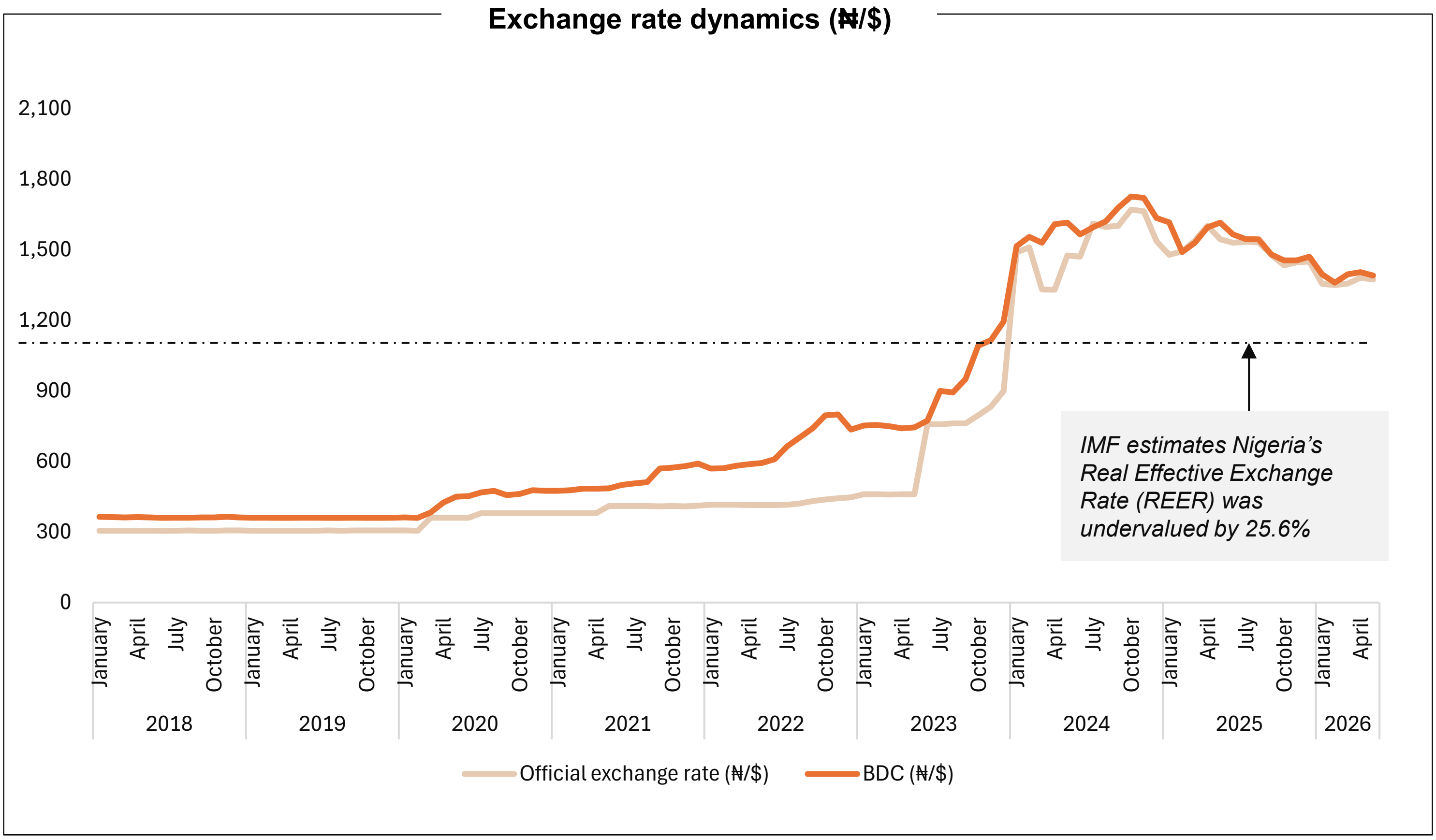
Key insights

- **Real GDP grew by 3.89% y/y in Q1 2026**, up from 3.13% in Q1 2025, supported by ICT (10.98%), Finance & Insurance (8.54%), Construction (6.38%) and Agriculture (3.15%).
- ICT benefited from rising data usage, Finance & Insurance from stronger financial intermediation and transaction activity, Construction from increased infrastructure activity, and Agriculture from higher crop production.
- **Performance was weaker across some sectors.** Electricity (-15.30%) contracted amid lower generation availability, while Oil & Gas (2.57%) was constrained by lower crude production. Trade (2.08%) and Real Estate (2.29%) also lagged, reflecting high operating, logistics, financing and building costs.

Sources: NBS, Strategy& Analysis

Higher FX turnover and stronger reserves have supported naira stability

Exchange rate dynamics and FX market stability



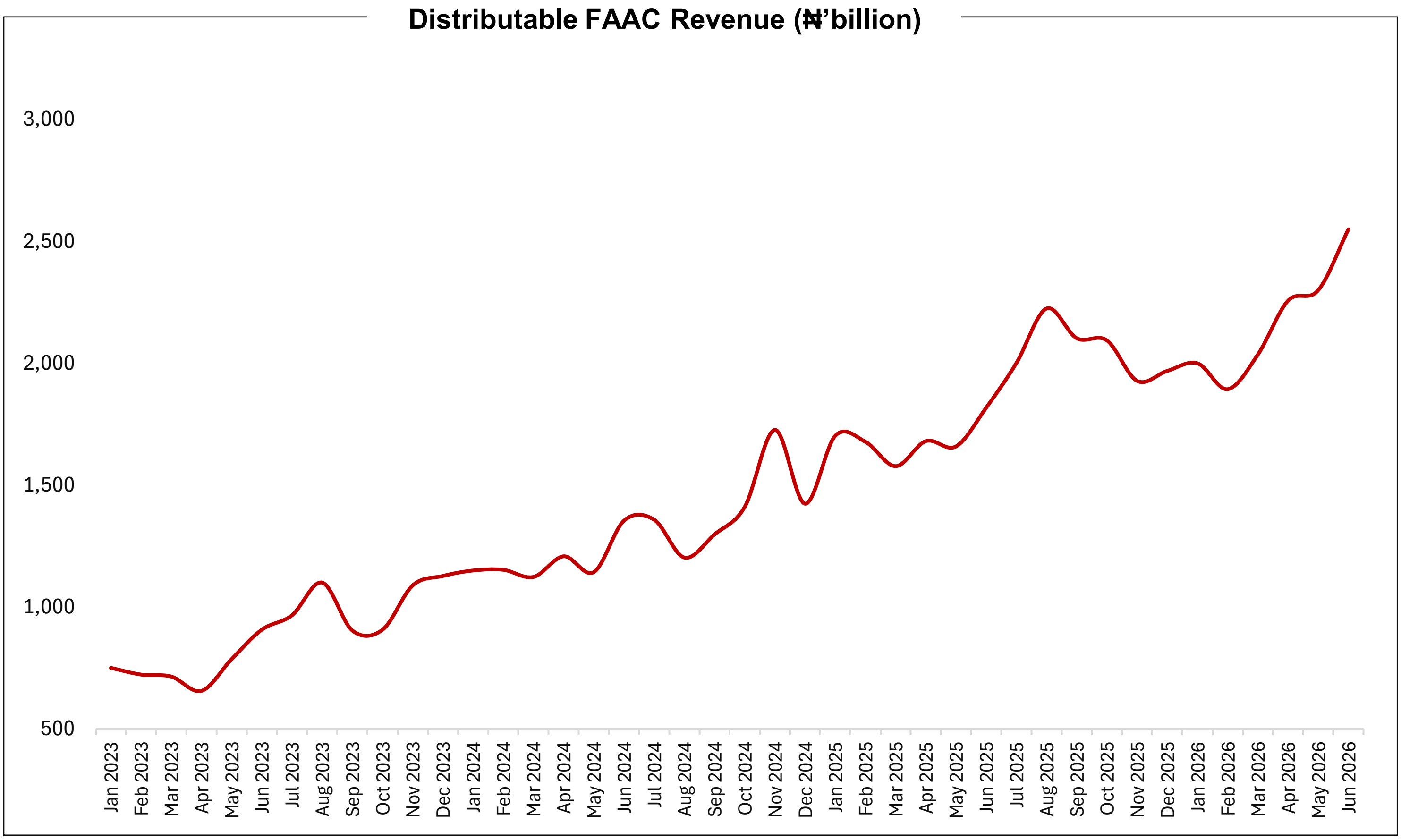
Key insights

- **The naira remained broadly stable in June 2026,** with the official NFEM rate closing at ₦1,379.68/$ in June, while the parallel-market rate stood at ₦1,385/$. This kept the official-parallel market gap narrow and signalled improved FX-market stability.
- **FX stability was driven by stronger official-market liquidity, improved external buffers and continued FX-market reforms**, with NFEM turnover rising by 43.6% m/m to US$12.92 billion in June 2026, from US$8.99 billion in May, while reserves rose by 38.3% y/y to US$51.46 billion, from US$37.21 billion in June 2025.
- **However, stability remains vulnerable to portfolio-flow reversals, oil-price volatility and intervention pressures**, given Nigeria's continued reliance on short-term capital inflows and the need to sustain dollar supply.

Sources: CBN, Strategy& Analysis

FAAC revenue momentum strengthened further in June 2026, supported by stronger statutory revenue and VAT collections

Monthly distributable FAAC revenue trend



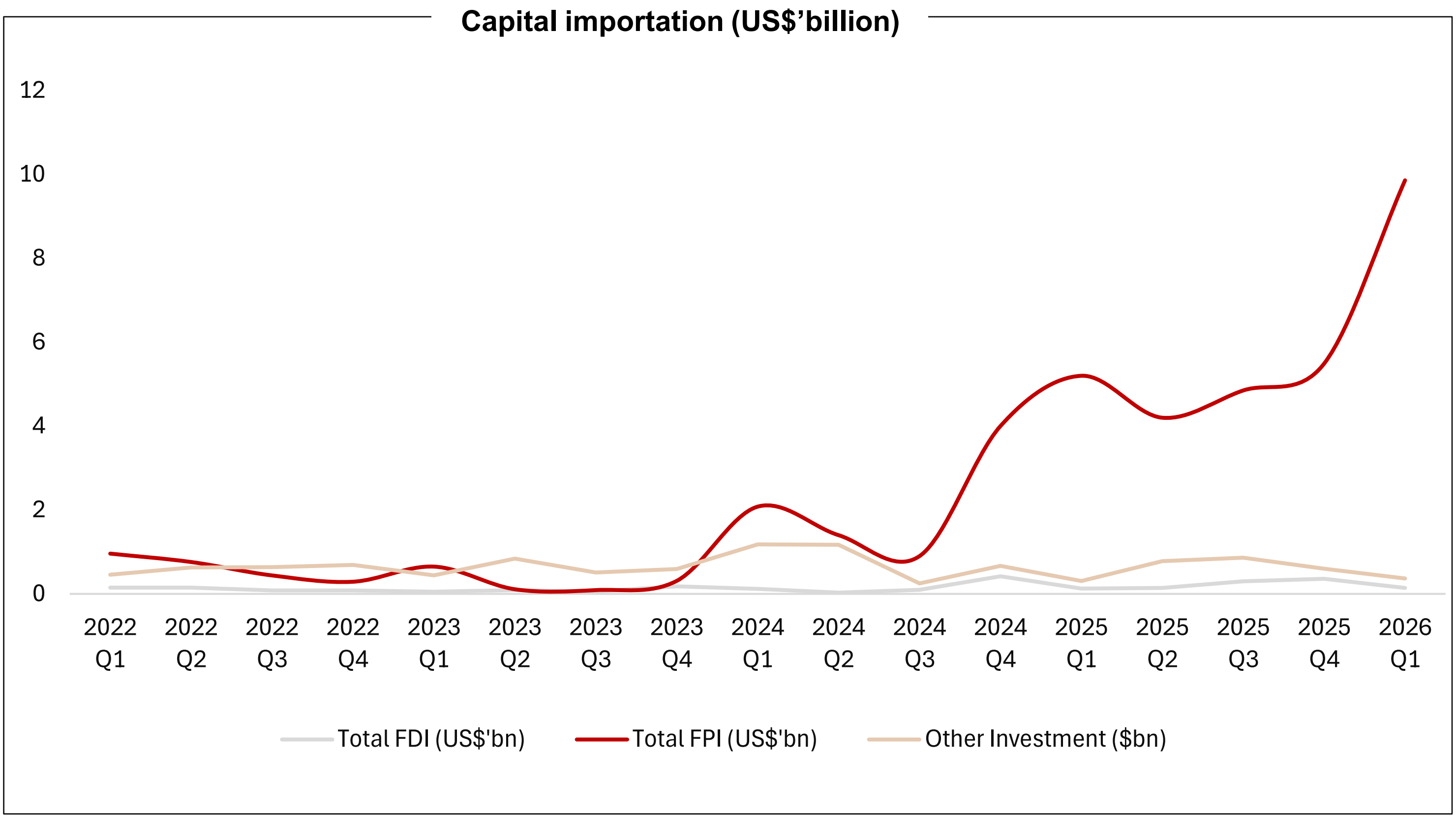
Key insights

- **Total distributable FAAC revenue increased to ₦2.55 trillion in June 2026,** a growth of 10.9% m/m and 40.1% y/y. The increase was driven by higher statutory revenue and VAT collections, which accounted for 71.0% and 29.0% of total allocations, respectively.
- S**tatutory revenue increased to ₦1.81 trillion, a growth of 12.4% m/m and 77.8% y/y**. The increase was driven primarily by higher Companies Income Tax (CIT), import duty, Common External Tariff (CET) levies, petroleum royalties, gas-flaring penalties and other oil-related receipts.
- **Distributable VAT revenue increased to ₦740.72 billion**, a growth of 7.5% m/m and 17.3% y/y, reflecting improved consumer spending and broader taxable economic activity.
- **Government revenue is expected to increase further in H2 2026** driven by improved oil receipts, stronger crude oil production, sustained growth in non-oil tax collections, and the implementation of new fiscal measures, including customs and tariff reforms.

Sources: NBS, OAGF, Strategy& Analysis

Despite 83.8% growth in capital importation, FDI remained low, accounting for just 1.3% of total inflows

Capital importation by investment type



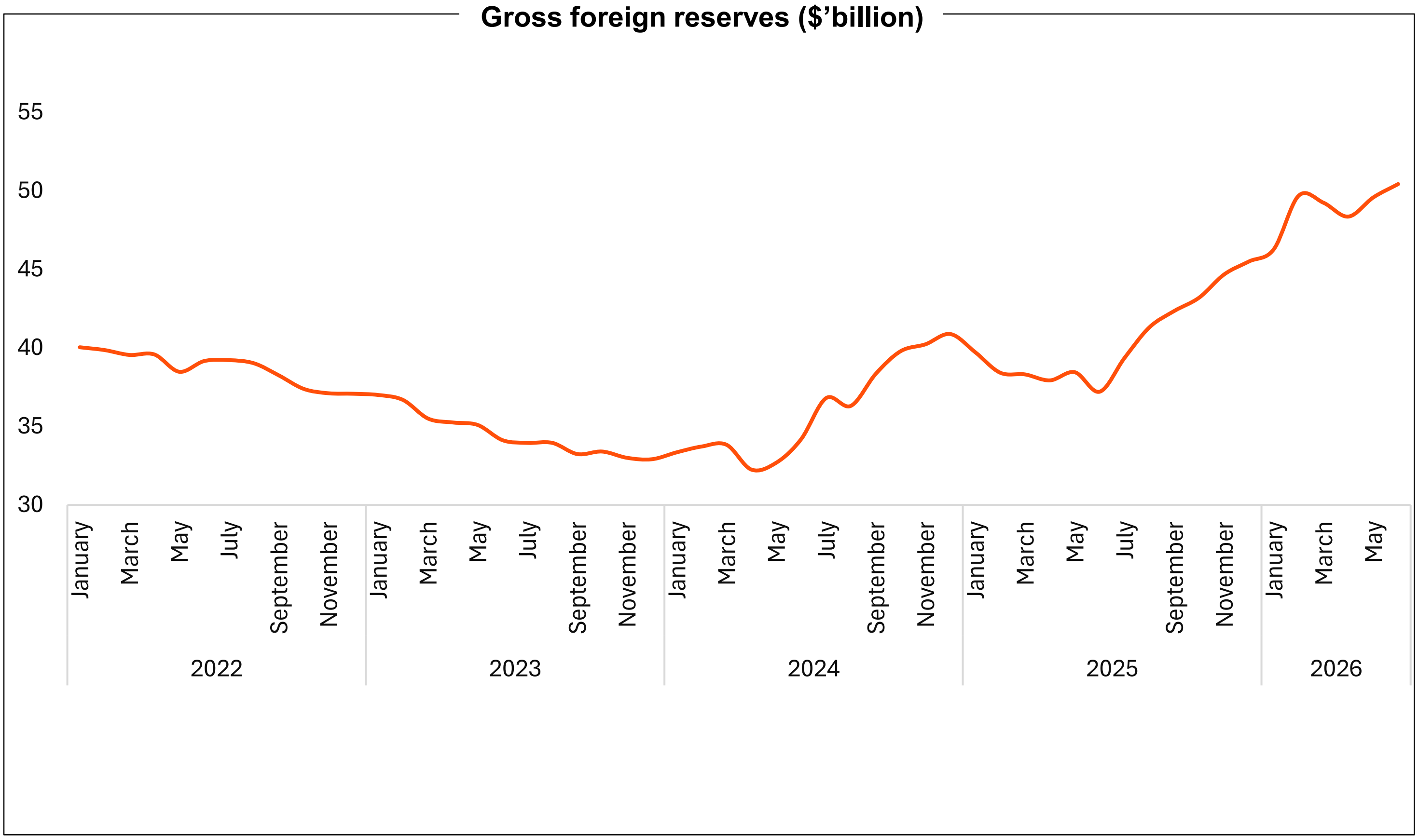
Key insights

- **Capital inflows rose 83.8% y/y to US$10.37 billion in Q1 2026.** FPI contributed US$9.86 billion, or 95.1% of total inflows, while FDI increased 7.0% y/y to US$135.1 million but accounted for only 1.3% of the total.
- **FDI remains low, but major investment commitments and industrial expansion plans point to growing investment activity.** Shell and Sunlink reached Final Investment Decision (FID) on the US$2 billion HI gas project, while Dangote plans to expand refinery capacity from 650,000 bpd to 1.4 million bpd and is targeting US$5 billion through an IPO expected to conclude in October 2026.
- **Capital importation could strengthen further in H2 2026**, supported by improved sovereign ratings, potential FTSE Frontier reclassification. S&P upgraded Nigeria to B from B- in May 2026 on an improving macroeconomic profile, while a favourable outcome from FTSE's ongoing review could further support foreign portfolio participation.

Sources: NBS, SEC, Strategy& Analysis

Foreign reserves strengthened in H1 2026, rising 38.3% y/y to US$51.46 billion by June 2026

Gross reserves trend



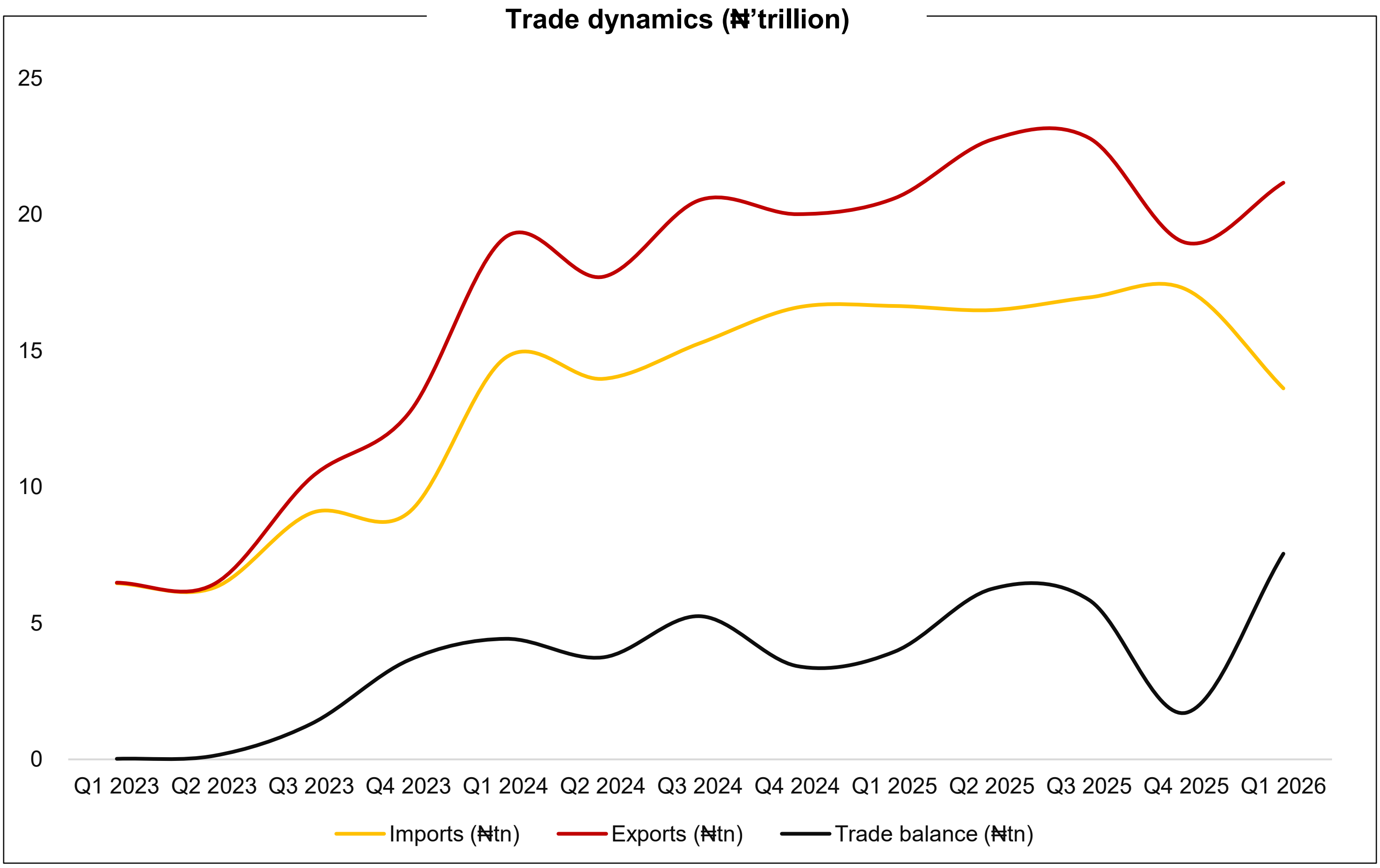
Key insights

- **Gross reserves rose 38.3% y/y and 13.1% YTD to US$51.46 billion in June 2026**, from US$37.21 billion in June 2025 and US$45.50 billion at end-2025, extending the stronger accumulation that began in H2 2025.
- Reserve accumulation was supported by stronger external sector conditions and FX inflows. **Capital importation reached US$10.37 billion in Q1 2026**, alongside stronger export earnings and portfolio inflows, while CBN reforms continue to support remittance flows and FX-market liquidity.
- **The stronger reserve position provides a larger external buffer and supports FX-market stability**, although sustaining the gains will depend on continued external surpluses and more durable foreign-exchange inflows.

Sources: CBN, Strategy& Analysis

Nigeria’s trade surplus increased by 90.9% y/y to ₦7.55 trillion in Q1 2026, driven by lower imports

Trade balance trend



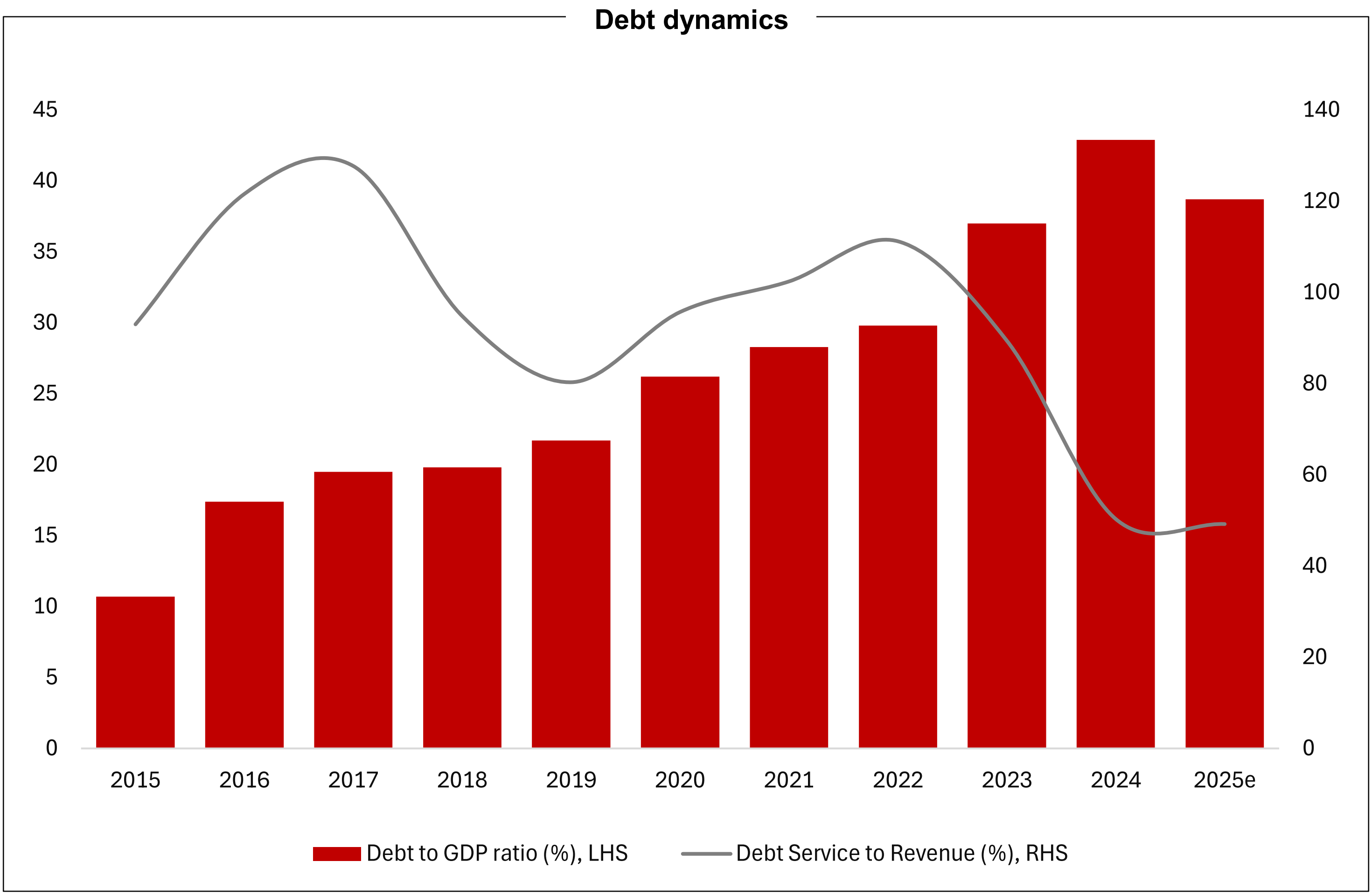
Key insights

- **Nigeria recorded a ₦7.55 trillion trade surplus in Q1 2026, an increase from ₦3.95 trillion in Q1 2025**, as exports reached ₦21.17 trillion while imports declined to ₦13.62 trillion. Total trade stood at ₦34.79 trillion, with exports accounting for 60.9% of total trade.
- **The surplus was driven more by lower imports than broad-based export growth.** Imports fell by 18.2% y/y, while exports rose by only 2.8% y/y, indicating that import compression played a major role in the improvement in the trade balance.
- **Exports remained highly concentrated in mineral products and crude-related earnings.** Crude oil exports stood at ₦11.20 trillion, accounting for 52.9% of total exports, while mineral products accounted for 85.8% of exports; non-oil exports contributed only 15.1% of total exports.

Sources: NBS, Strategy& Analysis

Debt ratios have eased, but debt service remains the main fiscal vulnerability

Debt-to-GDP and debt-service trends



Key insights

- **Debt-to-GDP declined by 4.2 percentage points y/y to 38.7% in 2025, from 42.9% in 2024**, mainly driven by a larger nominal GDP base and stronger economic output relative to the debt stock.
- **Debt service-to-revenue eased slightly to 49.2% in 2025, from 50.3% in 2024**, reflecting stronger revenue mobilisation from tax administration reforms, customs collections and naira-denominated oil receipts.
- **Despite the improvement, debt service pressure remains the key fiscal vulnerability,** as nearly half of government revenue is still absorbed by debt payments, limiting fiscal space for capital spending and growth-enhancing investment.

Sources: World Bank, Strategy& Analysis

Imperatives for transforming reforms to inclusive growth

2

This section examines how Nigeria can turn recent macroeconomic reforms into inclusive growth by implementing policies that improve household welfare, productivity, and sustained economic growth.

Macroeconomic stabilisation has improved, but structural constraints and reform-transition pressures have moderated the pace of inclusive growth

1. Reform gains

- **FX-market stability**
- **Moderating inflation**
- **Stronger external reserves**
- **Higher revenue mobilisation**
- **Increased capital inflows and resilient growth**

2. Why translation remains weak

Monetary-policy channel

Tight monetary policy supports inflation and FX stability but raises borrowing costs and restricts credit

- Higher interest rates
- Expensive consumer credit
- Costly business working capital
- Weaker household and business spending

Fiscal-policy channel

High public borrowing and reform-related price adjustments influence income and liquidity allocation

- More funds absorbed by government securities
- Less credit to households and firms
- Higher essential costs: energy, transport and food
- Lower discretionary demand

These channels are necessary for stability but create temporary adjustment pressures for households and firms.

Weak household purchasing power

- Limited income and employment gains
- High essential costs and weak consumer credit
- Inadequate social protection

Productivity bottlenecks

- Power and logistics gaps
- Digital infrastructure gaps
- Insecurity
- Skills and firm capability gaps

Slow investment conversion

- Investment implementation delays
- Approval, land, financing and FX delays

Conversion constraints

- **High essential costs, limited credit and insufficient support delay household spending**
- **Infrastructure, security and capability gaps raise costs and reduce output per unit of labour and capital**
- **Delays in approvals, financing and delivery slow conversion of investment into output and jobs**

3. Delayed inclusive-growth outcomes

- **Stronger real household incomes**
- **Improved affordability and welfare**
- **Higher domestic consumption**
- **More competitive domestic production**
- **More jobs and broader-based growth**

Transforming reforms into inclusive growth will require targeted action to protect households, sustain MSMEs, unlock productivity, and attract productive investment

Scale up support to consumers

- **Scale up targeted household support** to protect purchasing power, with poverty projected at 63% in 2026 and undernourishment at 19.9%.
- **Reduce food costs** through higher farm productivity, better storage and logistics, as food inflation rose to 17.52% in June 2026 and a healthy diet costs ₦1,589 per adult per day.
- **Expand domestic energy supply and improve distribution** to ease household and transport costs, with diesel, PMS, kerosene and LPG prices all recording significant y/y increases.

Intervene to sustain MSMEs

- **Close the MSME financing gap** through targeted credit windows, guarantees and blended finance, particularly across the ₦500,000 – ₦30 million missing middle.
- **Expand affordable, longer-tenor private-sector credit**, which stands at only 21.3% of GDP, below the 33.0% Sub-Saharan African average.
- **Reduce key operating constraints**, particularly insecurity, multiple taxes, high interest rates and bank charges, to support business expansion and job creation.

Unlock productivity gains

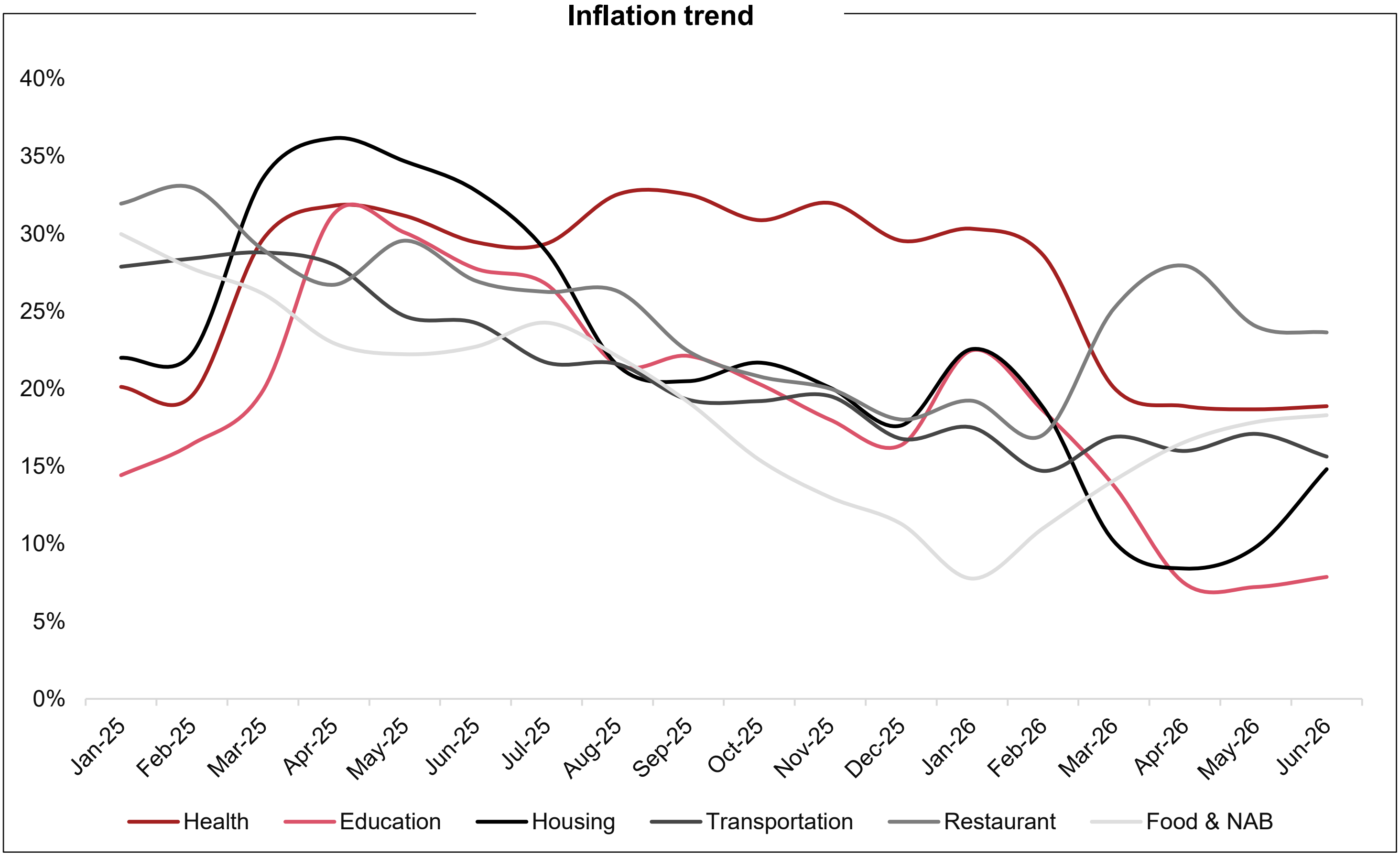
- **Prioritise power, transport, broadband and security interventions,** as Nigeria ranked 70th on the IMD infrastructure pillar in 2026.
- **Capture near-term electricity gains** through faster metering, stronger collections and lower losses, with a 5.06 million metering gap and 37.44% ATC&C losses.
- **Build longer-term workforce productivity through education**, foundational learning and school-to-work pathways. This will help lower out-of-school rates and strengthen foundational learning outcomes.

Convert investor interest into productive investment

- **Build a stronger pipeline of bankable projects to attract more long-term productive capital**.
- Accelerate project execution by **addressing approval, land, financing and FX bottlenecks** that delay investment from becoming operating capacity and jobs.
- **Improve FDI conversion by reducing approval delays, strengthening regulatory predictability and protecting investors from abrupt policy changes,** so that foreign interest moves beyond portfolio flows into operating assets, infrastructure and jobs.

Sustaining disinflation and easing essential household costs will strengthen household purchasing power

Inflation across key household expenditure categories



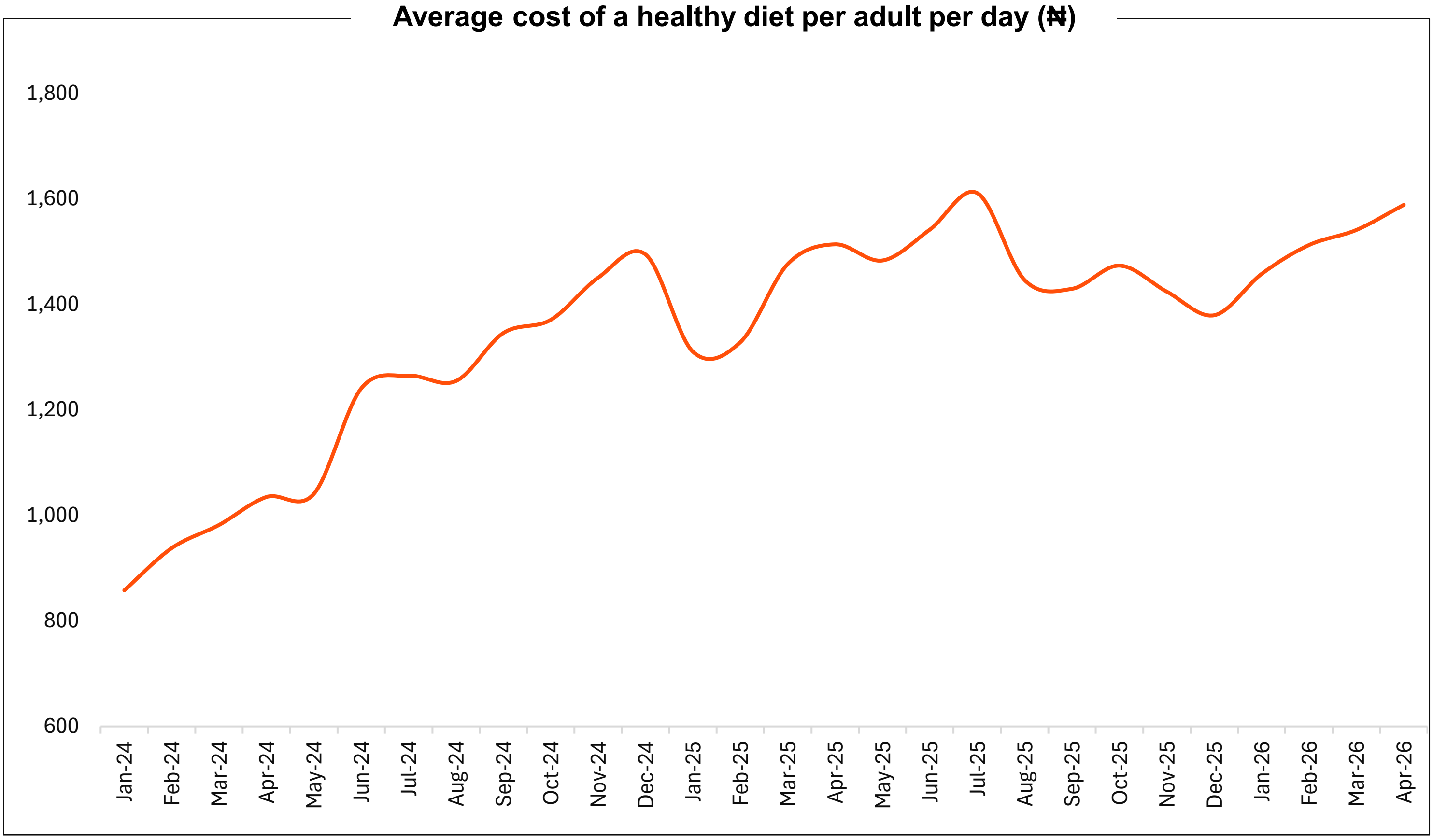
Key insights

- **Headline inflation eased to 15.91% in June 2026 from 15.93% in May, while food inflation rose to 17.52% from 16.96% and housing inflation to 14.81% from 12.12%.** The mixed trend shows that pressures remain concentrated in key household expenditure categories.
- **Sustaining disinflation and easing food and other household essential costs will provide greater relief to household budgets.** This will strengthen purchasing power, support consumer spending and contribute to broader economic growth.
- Government should strengthen food supply through support for higher farm productivity, better storage and logistics, and selective temporary imports to ease shortages.

Sources: NBS, Strategy& Analysis

Lowering the cost of a healthy diet will directly support household welfare and nutrition outcomes

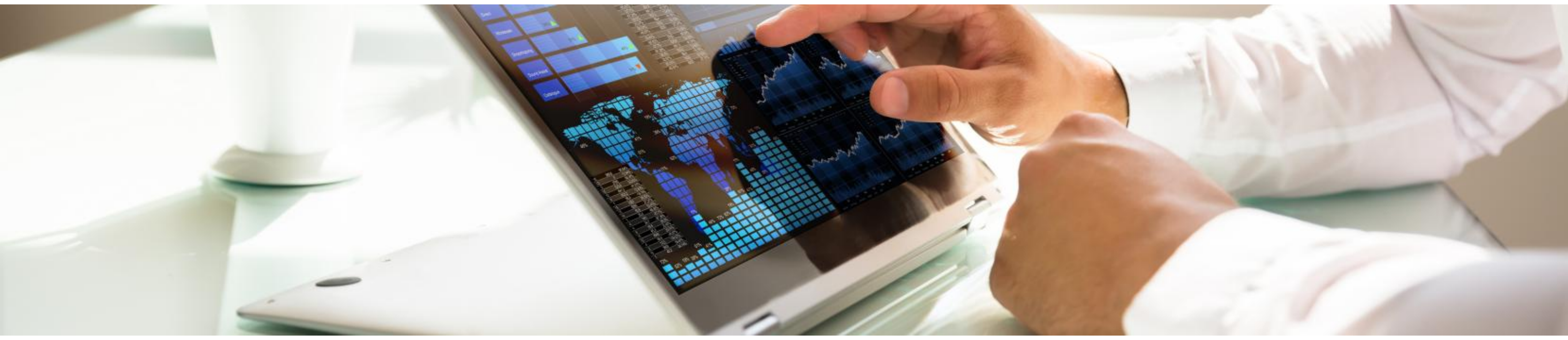
Cost of healthy diet trend



Key insights

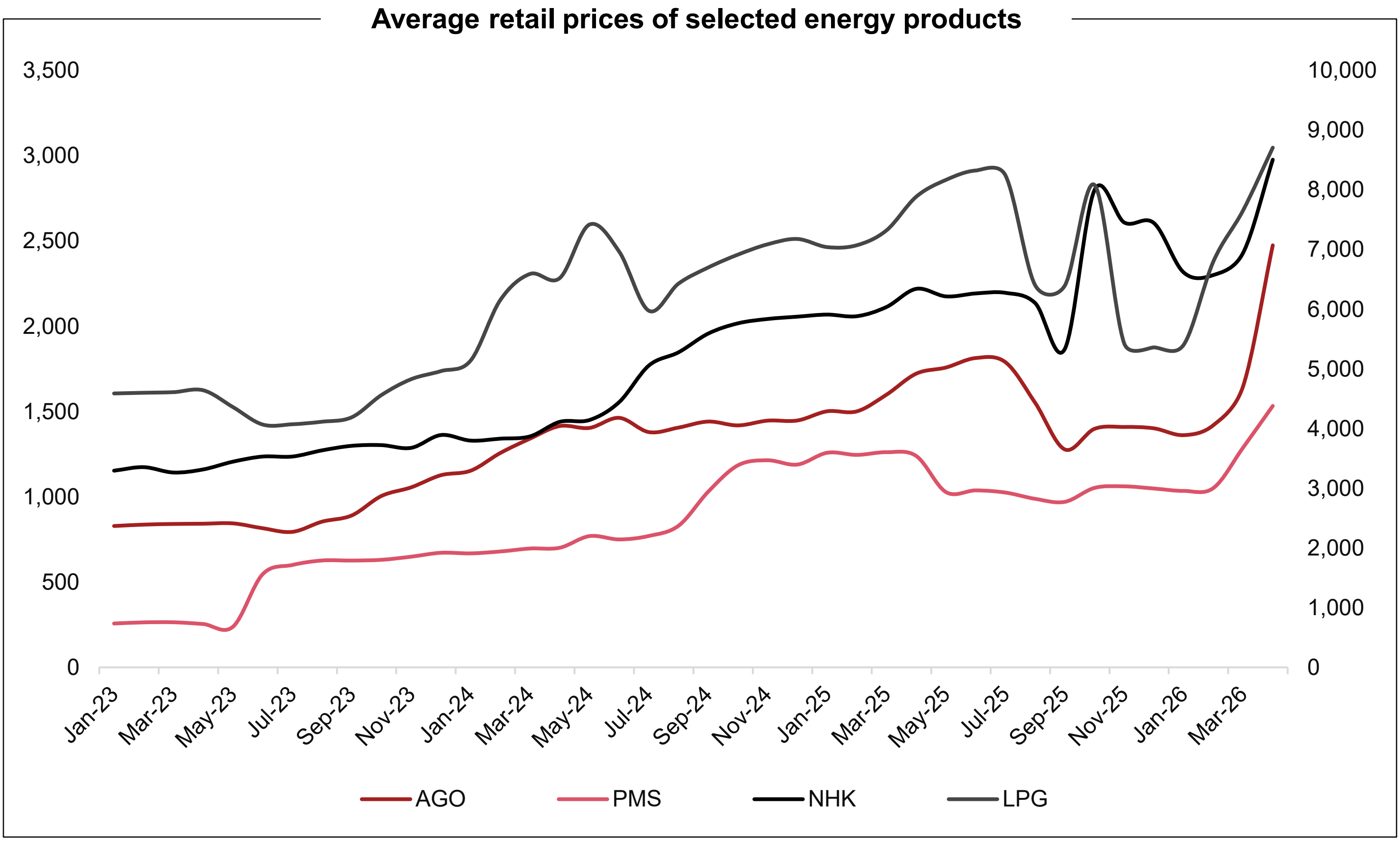
- Lowering the cost of a healthy diet will directly support household welfare and nutrition outcomes, particularly as the cost reached ₦1,589 per adult per day in April 2026, up 4.68% y/y from ₦1,518.
- **The composition of healthy diet costs points to nutrient dense foods as a key area for affordability measures.** Animal source foods account for 40% of total cost, while fruits and vegetables account for 16% and 14%, respectively.
- **Expanding supply and reducing storage and distribution costs for animal source foods, fruits and vegetables** can help moderate the cost of the most expensive components of a healthy diet**.** This would make nutritious food more affordable and support stronger household nutrition outcomes.

Sources: NBS, Strategy& Analysis



Improving domestic energy supply and distribution will help ease cost pressures on households and businesses

Price trends across key energy products



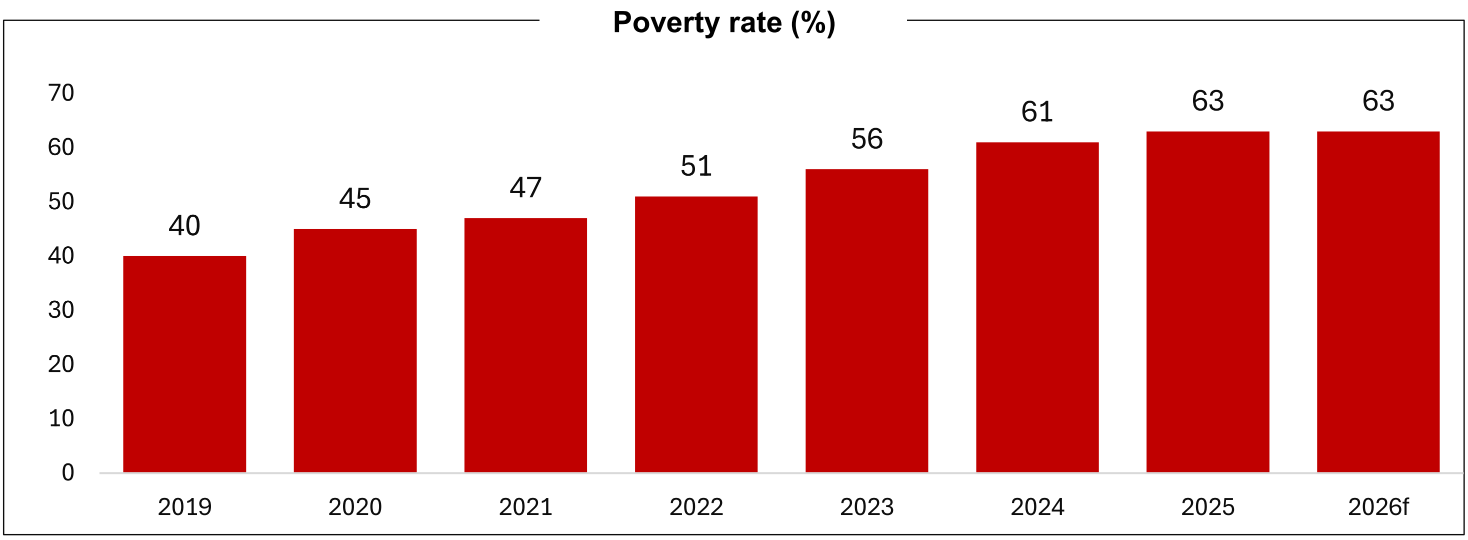
Key insights

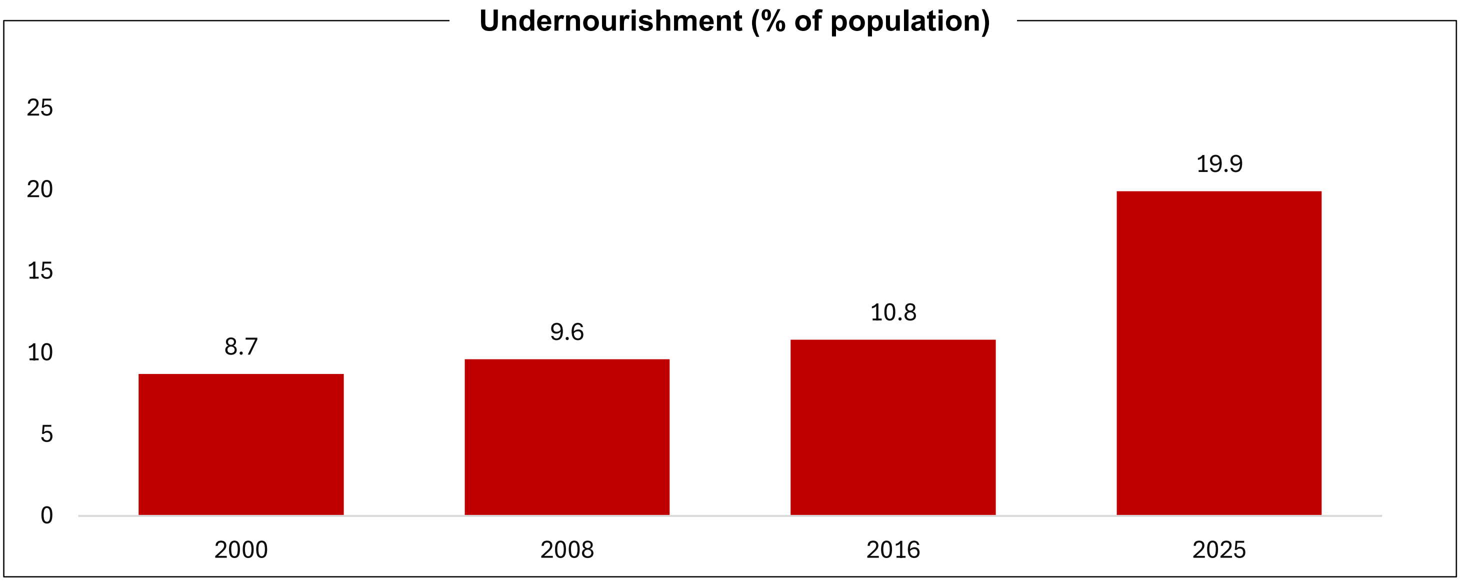
- **In April 2026**, **energy prices rose significantly y/y**, led by diesel (+43.67%) and kerosene (+34.12%), followed by PMS (+23.69%) and LPG (+10.43%).
- **Higher diesel and PMS prices raise transport, logistics and business operating costs,** while increases in kerosene and LPG place more direct pressure on household energy spending.
- **Expanding domestic refined-product supply and reducing distribution bottlenecks** will help moderate energy costs, while sustained FX stability will limit imported cost pressures**.**

Sources: NBS, Strategy& Analysis

Scaling targeted household support will broaden the welfare gains from macroeconomic stabilisation

Poverty and undernourishment trends





Key insights

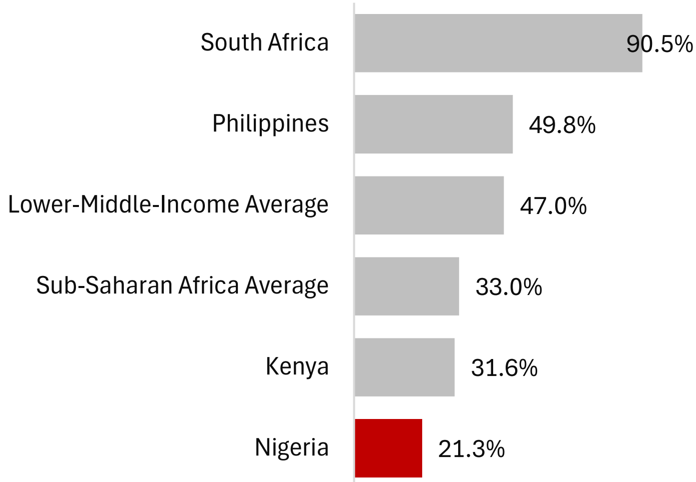
- **Poverty rates remain elevated and are projected to remain broadly unchanged in 2026**, indicating limited gains from the recent macroeconomic stabilisation.
- **Undernourishment increased from 10.8% in 2015–2017 to 19.9% in 2022–2024**, reflecting continued pressure on household food affordability and access.
- **Scaling targeted household support, reducing food supply and distribution costs, and supporting private-sector job creation** will help raise household purchasing power and broaden welfare gains.

Sources: World Bank Nigeria Development Update April 2026, Global Hunger Index 2025 (FAO), Strategy& analysis.
Note: Undernourishment figures reported for 2000, 2008, 2016 and 2025 represent the 2000–2002, 2007–2009, 2015–2017 and 2022–2024 reference periods, respectively.

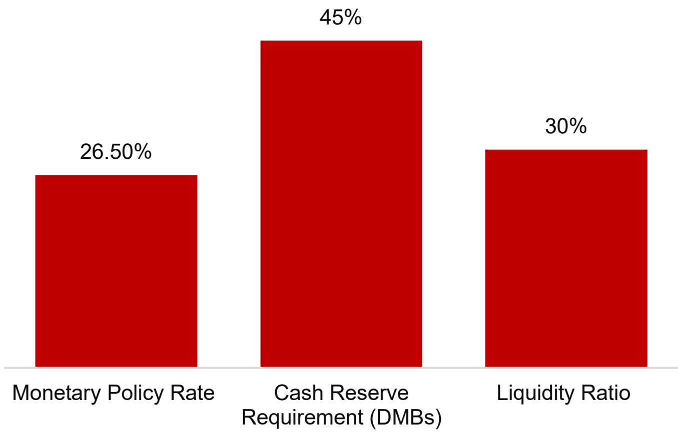
Easing access to affordable private sector credit is critical to translating reforms into MSME led growth (1/2)

Private-sector credit depth and MSME financing conditions

Domestic credit to private sector (%)



Monetary Policy Conditions (%)



***Note**: Cross-country benchmark based on World Bank World Development Indicators data for Domestic Credit to Private Sector (% of GDP). Latest available observations as of June 2026 were used.*

The missing middle financing gap

- Most MSMEs seek loans below ₦2.5m
- Commercial banks tend to focus on loans of ₦30m and above
- Microfinance loan definition: up to ₦500,000
- Standard tenor: up to 6 months; up to 12 months for longer-gestation crops
- Missing: Middle financing gap of ₦0.5m - ₦30m

Key insights

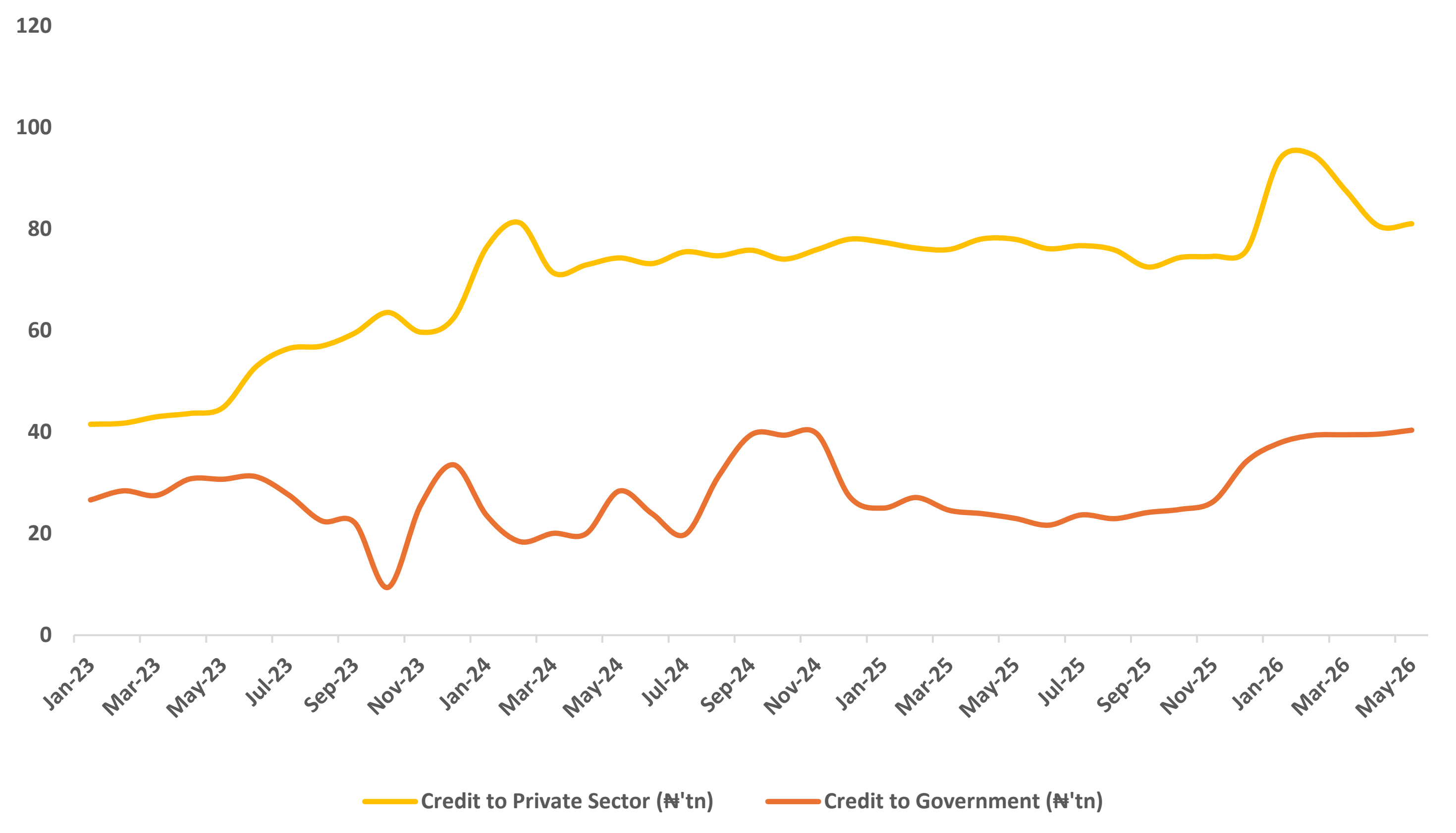
- **Private sector credit stands at 21.3% of GDP,** below the Sub-Saharan African average of 33.0% and the lower middle-income average of 47.0%**.** This indicates significant headroom to deepen financing available to businesses and support private sector activity.
- **Financing conditions remain tight, with the MPR at 26.5%, CRR at 45% and liquidity ratio at 30%.** These conditions support macroeconomic stability but also contribute to elevated borrowing costs for MSMEs seeking working capital and funds for expansion.
- **A significant financing gap persists for MSMEs seeking facilities of ₦500,000 to ₦30 million, leaving many businesses underserved.** Closing this missing middle would support working capital, business expansion and investment. Government should therefore create credit windows, partial credit guarantees and blended finance to expand access to affordable, longer-tenor credit.

Sources: World Bank, CBN, Strategy& Analysis

Easing access to affordable private sector credit is critical to translating reforms into MSME led growth (2/2)

Domestic credit allocation between government and the private sector

Credit to Government and Private Sector (₦'trillion)



Key insights

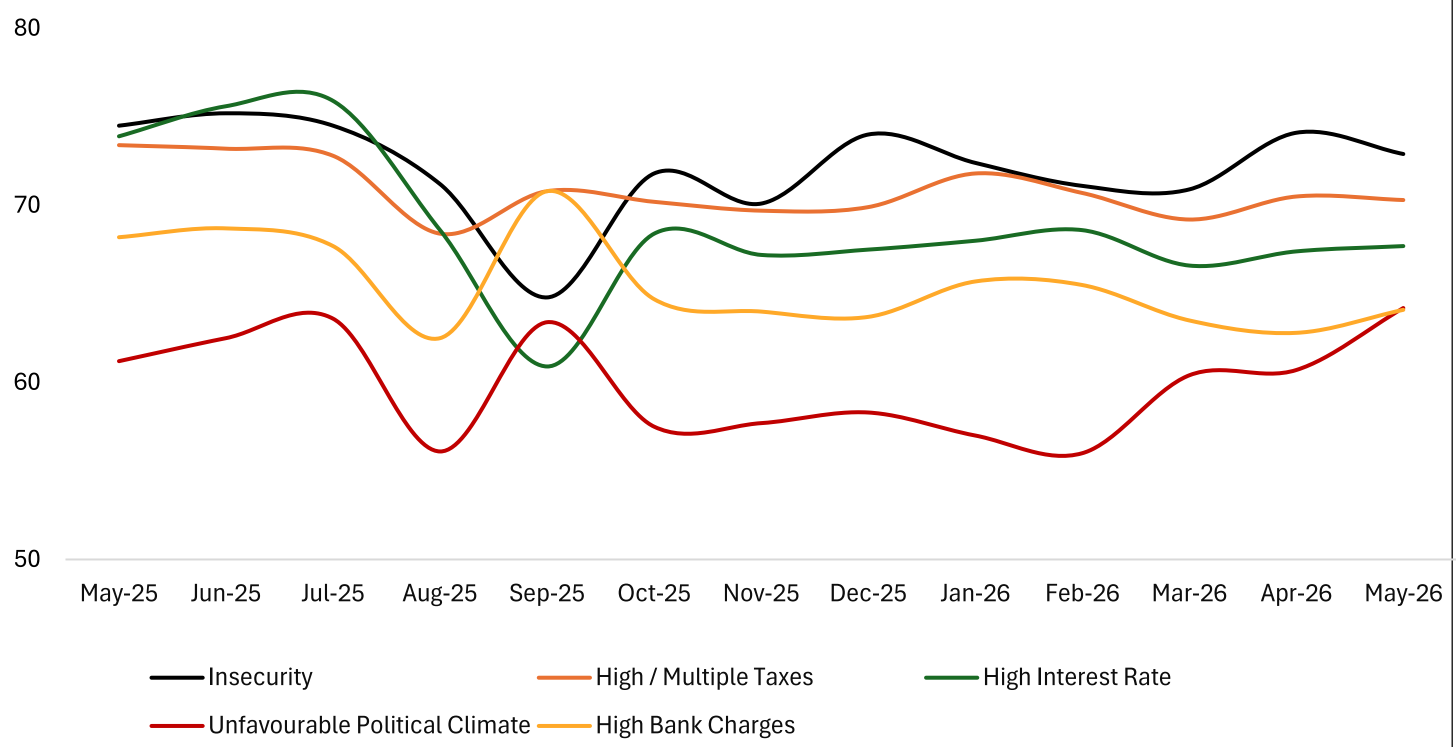
- **Credit to government increased by 18.0% between December 2025 and May 2026,** compared with 6.9% growth in private-sector credit, showing that public-sector credit expanded at a faster pace than private-sector credit over the period.
- **Private-sector credit declined by 14.3% between February and May 2026, while credit to government increased by 2.6%**, highlighting the need to strengthen credit to productive private-sector activity.
- **The MPR remains at 26.5%, CRR at 45%, prime lending rate at 19.10% and maximum lending rate at 34.78%**. Tight monetary conditions support price and FX stability, but high borrowing costs continue to constrain private-sector credit. Government should strengthen macroeconomic stability to reduce interest rates and improve the availability of private-sector credit.

Sources: CBN, Strategy& Analysis

Reducing business costs and improving the operating environment will support stronger MSME growth and job creation

Business operating and financing constraints

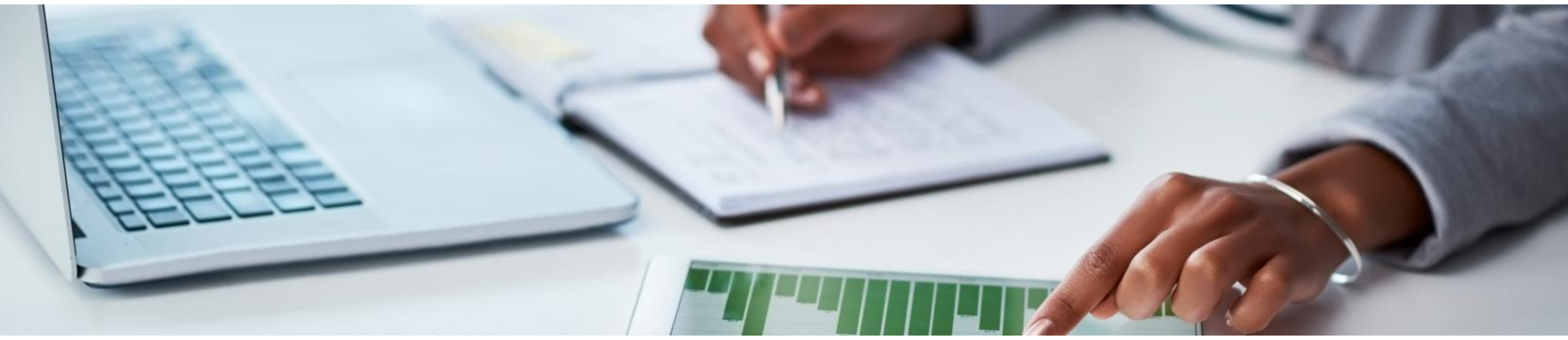
Top business constraints in Nigeria based on business survey responses



Key insights

- **Improving security is central to supporting business expansion and operating continuity,** particularly given its impact on logistics and market access. Insecurity remained the highest-ranked business constraint at 72.9 in May 2026.
- **Reducing tax and financing costs can strengthen business competitiveness**, particularly for firms managing already elevated operating costs. High or multiple taxes recorded 70.3, while high interest rates and bank charges stood at 67.7 and 64.1, respectively, in May 2026.
- **Targeted improvements in security, tax administration and access to finance can create better conditions for MSME expansion,** particularly given their smaller operating buffers. This can support greater investment, formalisation and job creation.

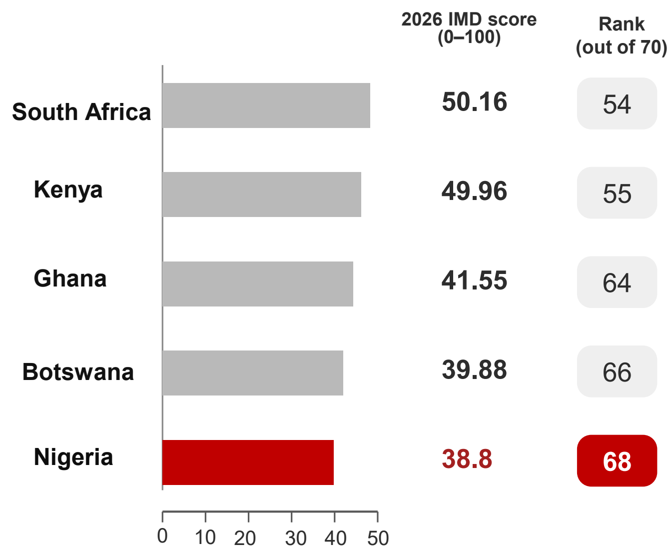
Sources: CBN, Strategy& Analysis



Closing Nigeria's infrastructure gap will raise productivity and strengthen competitiveness

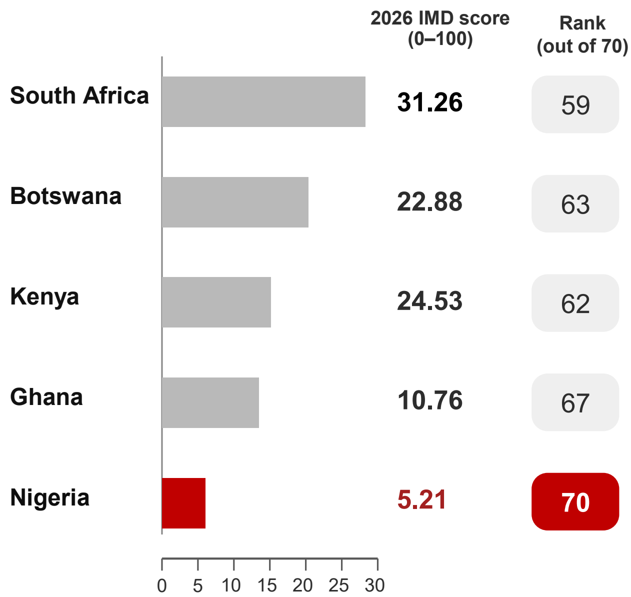
Nigeria's competitiveness and infrastructure performance versus selected African peers

2026 overall competitiveness



Higher score indicates stronger performance

2026 infrastructure pillar



Higher score indicates stronger performance

Key insights

- **Nigeria's overall competitiveness score of 38.8 in 2026 highlights significant headroom for stronger performance.** Its 68th position out of 70 economies points to the opportunity for faster progress on the structural factors that support competitiveness.
- **Infrastructure presents one of the clearest opportunities to strengthen Nigeria's competitiveness,** with a score of 5.21 and a rank of 70th**.** The gap reflects constraints across power, transport, technology adoption, manufacturing capacity, security and governance.
- Government should **prioritise power reforms, transport upgrades, broadband expansion, and stronger security coordination** to lower business costs and raise productivity.

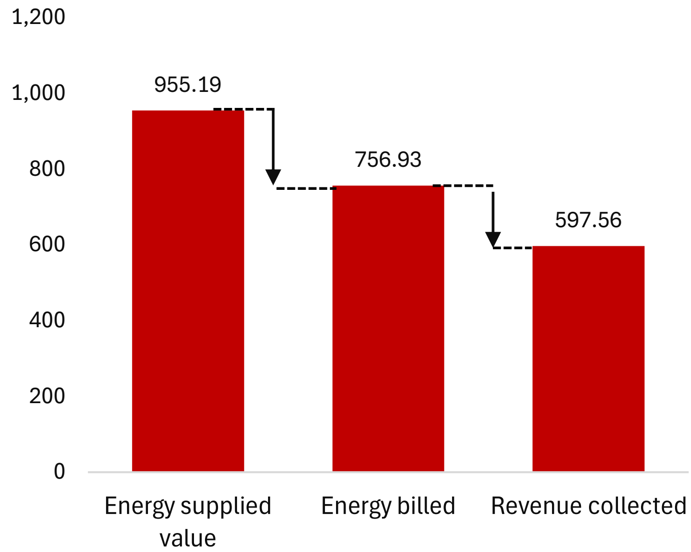
Sources: IMD World Competitiveness Rankings 2026, Strategy& Analysis

Capturing more value across electricity distribution will deepen sector liquidity and support more reliable supply

Distribution efficiency, metering coverage and sector liquidity

A

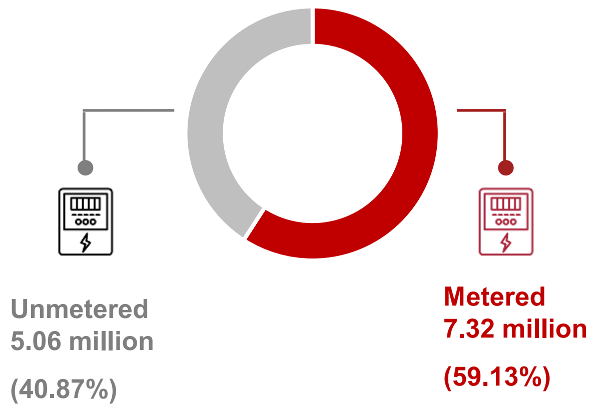
Value chain leakage in Q1 2026 (₦'bn)



Billing efficiency: 79.24%	**Collection efficiency**: 78.95%

B

Metering gap as of March 2026



Total active customers: 12.39 million

C

Commercial losses remain elevated

ATC&C loss	2026 MYTO ATC&C target	Revenue loss
37.44%	16.92%	₦140.64 billion

ATC&C loss is 20.52 percentage points above the efficient-loss target

D

Sector liquidity still depends on subsidies

Total GenCo invoice
₦689.72 billion

FGN subsidy	Final DisCos NBET obligation
₦358.32 billion (51.95%)	₦331.40 billion (48.05%)

Key insights

- Metering covers **7.32 million of 12.38 million active customers**, leaving a **5.06 million customer gap**. Accelerating meter deployment, particularly in high-loss areas, will reduce estimated billing and commercial losses.
- **Only ₦597.56 billion of ₦955.19 billion in energy supplied was collected in Q1 2026**. NERC should tighten enforcement of DisCo billing and collection targets, particularly across high-loss networks, to improve revenue conversion.
- **FGN absorbed 51.95% of the ₦689.72 billion GenCo invoice through subsidies in Q1 2026.** Reducing ATC&C losses and ensuring timely settlement of subsidy obligations will improve sector liquidity and reduce pressure on public finances.

Sources: NERC, Strategy& Analysis

Investing in education and youth employment will build a stronger workforce and support inclusive growth

Education access, foundational skills, early life development and youth transition outcomes

Out-of-school children

10.2m

Foundational learning gap

73% reading | **75%** numeracy

Children aged 7–14 lacking foundational skills

Youth NEET rate

12.5%

Youth aged 15–24 not in employment, education or training (Q2 2024)

Female: 14.3% | **Male: 10.9%**

Under-five malnutrition

40% stunted

8% wasted

Children under five

About +20% potential long-term labour earnings if effective years of schooling increase to 12 years

Key insights

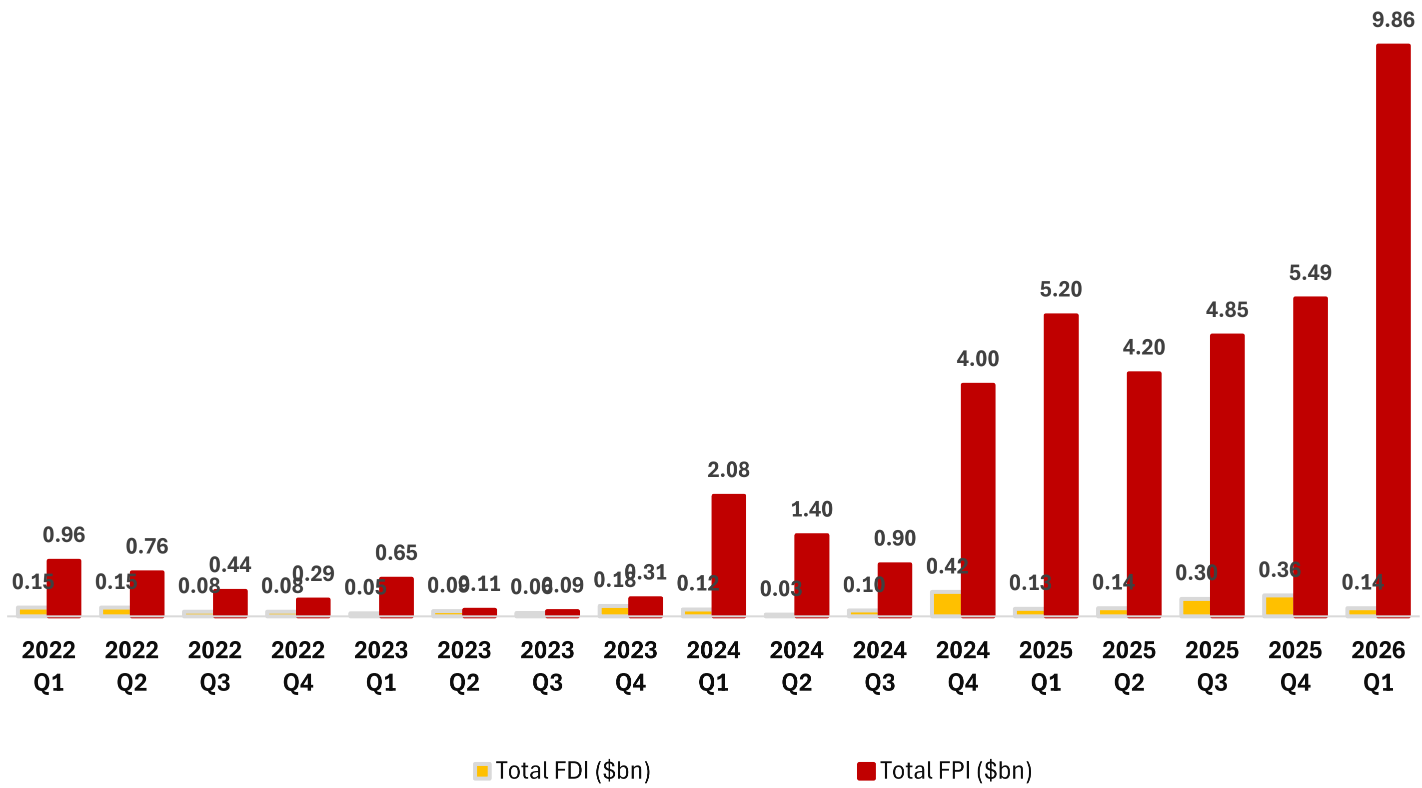
- **Expanding access to education and strengthening foundational learning can build Nigeria's future workforce,** particularly as 12.9 million children of primary and junior secondary school age are out of school. Among children aged 7 to 14, 73% lack foundational reading skills and 75% lack foundational numeracy skills.
- **Better early life nutrition can support learning and future productivity, as 40% of children under five are stunted and 8% are wasted.** Targeted nutrition interventions can support healthier development and better human capital outcomes.
- **More effective school to work pathways can broaden economic participation, with the youth NEET rate at 12.5% in Q2 2024.** Increasing effective years of schooling to 12 years could raise potential long term labour earnings by **20%**.

Sources: UNICEF, The Nigerian Child 2025; NBS, NLFS Q2 2024; Nigeria DHS 2023–24; World Bank HCI+ 2026; Strategy& Analysis

Building a stronger pipeline of bankable projects and providing greater policy certainty will attract more FDI

Foreign capital composition

Capital importation ($'billion)



Key insights

- **Foreign investor interest increased significantly in Q1 2026, with FPI rising by 89.5% y/y and 79.77% q/q to US$9.86 billion.** Portfolio investment accounted for 95.1% of total capital inflows, supported by attractive yields and greater participation in Nigerian financial assets.
- The opportunity is to translate this investor interest into more long-term capital, as **FDI reached only US$135.08 million in Q1 2026.** FDI represented 1.3% of total inflows, despite increasing by 6.96% y/y.
- **Portfolio investment was concentrated in money market instruments and bonds, which attracted US$6.50 billion and US$3.23 billion respectively.** This shows significant foreign participation, but with capital still weighted towards financial assets.
- **Greater policy certainty, a stronger pipeline of bankable projects and a competitive operating environment can attract more FDI into businesses and infrastructure.** This would support expanded capacity, deeper supply chains, employment and broader economic growth.

Sources: NBS, Strategy& Analysis

H2 2026 Economic Outlook

3

This section outlines our macroeconomic outlook for H2 2026, covering growth, fiscal conditions, inflation, exchange rate stability and interest rate direction.

Economic outlook for H2 2026

	Outlook
Broad economic growth outlook	• Nigeria's GDP is projected to grow by 4.2% in H2 2026 supported by higher crude oil production and stronger performance in dominant sectors.
Fiscal outlook	• Fiscal pressures may persist in H2 2026, driven by continued spending needs, a persistent budget deficit and elevated government financing requirements.
Inflation outlook	• Inflation is expected to moderate in H2 2026, although supply-side shocks and pre-election spending could create upside pressures.
Exchange rate outlook	• The naira is expected to remain broadly stable but susceptible to volatility from global oil prices, capital flows and domestic foreign exchange demand conditions.
Interest rate outlook	• The CBN is expected to maintain a tight monetary policy stance, with scope for gradual rate cuts if the decline in inflation is sustained.

Sources: PwC Global, Strategy& Analysis

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