Quest MB

2026 Outlook

30 Jan. 26

Anchoring momentum, sustaining stability

Politics and elections: near-term stability, rising election-cycle pressures

Political conditions in 2026 remain tilted in favour of the incumbent administration, supported by effective power consolidation, weak opposition, and widespread gubernatorial defections into the ruling APC. This backdrop underpins near-term policy continuity and limits immediate reform risk. That said, political intensity is expected to rise as the 2027 elections approach. The ADC presents a potential opposition platform; however, its effectiveness will depend on whether its leading contenders can unite behind a single presidential candidate. Absent such coordination, fragmentation within the opposition is likely to persist, even as uncertainty increases.

Growth outlook: recovery gains traction

We expect real GDP growth to accelerate to 4.3% in 2026 (from c.4.0% in 2025), driven by a broadening recovery across services and a gradual rebound in domestic demand. ICT, trade, and financial services remain key growth drivers, while improving FX stability and easing inflation will support household purchasing power. As macroeconomic conditions normalise, private sector confidence and investment activity are expected to improve, lifting growth modestly above trend.

Fiscal stance: widening deficits remain a key risk

Fiscal risks remain elevated. The 2026 budget projects total expenditure of NGN58.5trn against revenues of NGN33.2trn, implying a deficit of NGN25.3trn. While the assumptions underpinning revenues are more conservative than in prior years, execution risks persist, particularly around the oil production target of 1.84mb/d. Ongoing challenges around pipeline security continue to pose downside risks. Elevated debt-service obligations further constrain fiscal space and reinforce reliance on domestic borrowing.

Monetary policy: calibrated easing cycle

We expect a cautious pivot toward monetary easing in 2026. Policy rates are likely to remain broadly stable in H1’26, followed by a measured easing cycle in H2’26 as inflationary pressures moderate. We estimate cumulative cuts of 300–350bps in H2 ‘26. From a fixed-income perspective, we recommend maintaining short-duration exposure in H1’26 to capture elevated yields, before extending duration in H2’26 to position for yield compression and capital appreciation as policy and funding pressures ease.

Central economic indicators (NGN 'm) — **Year-end December**

	2023	2024	2025	2026f
Real growth (%)	2.7	3.3	4.0	4.3
CPI (%, y/y)	28.9	34.8	15.5	13.8
MPR (%)	18.8	27.5	27.0	24.0
Current account/GDP (%)	0.2	7.4	6.0	5.3
Bonny light (end-period spot, USD'bn)	79	75	63.4	60.2
Bonny light (average spot, USD'bn)	73	68	70.9	57.5
0Official FX reserves (USD'bn)	33	41	45.5	48
NGN/USD (NAFEX, end-period)	907	1,536	1,429	1,410
NGN/USD (NAFEX, average)	659	1,485	1,520	1,390

Source: CBN, Bloomberg, Quest MB Research

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Executive summary

Macroeconomic conditions in 2026 are expected to reflect a gradual transition from stabilisation to adjustment, as Nigeria continues to operate under the constraints and opportunities created by the macroeconomic reforms that the administration began in 2023. While broad-based reforms, including reforms across the FX market, subsidy removal and fiscal restructuring remain in place, their transmission into broad-based welfare gains is likely to remain uneven. The operating environment is expected to improve modestly, supported by easing external financial conditions and improving FX liquidity, although structural constraints will continue to cap upside growth. Overall, we expect economic activity to remain stable, with growth supported by services and gradual adjustment by consumers and businesses to the evolving policy environment.

Foreign exchange conditions are expected to remain broadly stable in 2026, following the sharp adjustment experienced in prior years. Continued policy credibility, sustained FX liquidity from foreign portfolio investors (FPIs) attracted by positive real yields, and resilient diaspora remittances should help anchor the market. While oil remains the dominant source of merchandise FX earnings, our expectation of only a moderate recovery in crude oil production as well as a relatively soft oil price environment, limits the scope for material appreciation. As such, we expect the naira to trade within a relatively narrow range of around NGN1,380/USD to NGN1,465/USD, notwithstanding intermittent pressures from seasonal demand and shifts in global risk sentiment.

On the fiscal front, pressures are expected to persist. The proposed 2026 budget implies a large fiscal deficit of NGN25.3trn, with around NGN23.0trn (90%) expected to be financed domestically. While the ongoing tax reforms will be supportive of non-oil revenue mobilisation going forward, weak oil price dynamics and the gradual improvements in crude oil output will constrain overall revenue performance. Elevated debt servicing costs and continued spending pressures will likely sustain a heavy domestic borrowing requirement, with implications for liquidity conditions and yield dynamics in the local market.

Nigeria's oil sector outlook remains mixed. Global oil prices are expected to soften further in 2026 amid persistent oversupply and modest demand growth. We forecast Brent crude to average around USD57/b and end the year near USD60/b, reflecting rising OPEC+ output, strong non-OPEC supply growth and subdued global consumption. Domestically, while policy reforms under the Petroleum Industry Act and increased domestic refining capacity, particularly from the Dangote Refinery, provide medium-term support, structural challenges related to security, pipeline integrity, and infrastructure continue to constrain a rapid recovery in crude oil production. Consequently, we forecast only a modest increase in production to an average of 1.78 million barrels per day (mb/d) in 2026, including condensates, slightly up from 1.6 million barrels per day.

Monetary policy conditions are expected to ease gradually in 2026. Externally, a more accommodative stance by major central banks, led by the US Federal Reserve, should improve global liquidity conditions and support capital flows into higher-yielding emerging and frontier markets. Domestically, we expect the CBN to adopt a cautious easing cycle, with cumulative rate cuts of around 300 to 350bps, largely concentrated in the second half of the year. However, policy normalisation is likely to remain measured, as the monetary authorities seek to preserve interest rate differentials and limit the risk of destabilising capital outflows.

On the fixed income front, yields are expected to remain elevated in the early part of 2026, driven by front-loaded government borrowing and still-restrictive monetary conditions. As the year progresses, a combination of policy rate cuts and reduced borrowing intensity could support a moderation in yields. Against this backdrop, we maintain a barbell strategy, favouring short-dated instruments in H1 to capture elevated yields, while gradually extending duration in H2 ahead of potential yield compression.

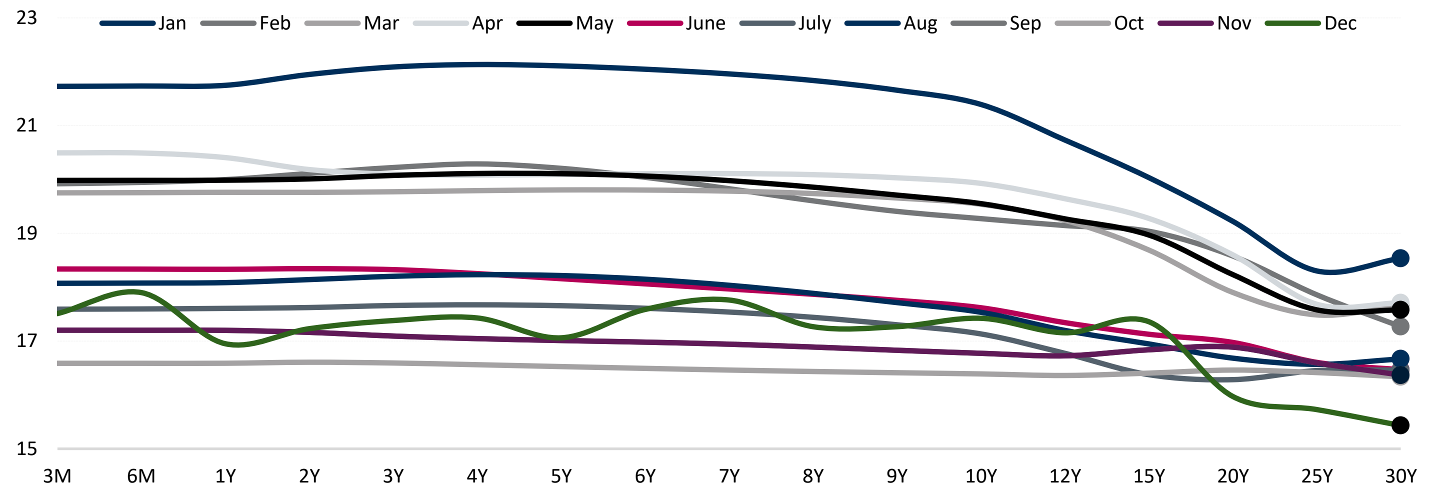
Politically, the environment remains relatively stable in the near term, supported by increasing elite alignment around the ruling party. However, as the reform cycle intersects with electoral considerations ahead of the 2027 presidential elections, medium-term uncertainty is expected to rise. For markets, the key risk remains whether ongoing reforms can translate into tangible improvements in living standards, which will ultimately shape public sentiment, policy continuity and investor confidence.

Fixed income

The movement of yields in the fixed-income market in 2025 was two-phased, influenced largely by the policy stance of the Monetary Policy Committee (MPC) and the inflation trajectory. Yields remained elevated at the start of the year, consistent with the MPC's earlier hawkish approach aimed at curbing persistent inflationary pressures. Although the monetary authorities paused rate hikes in 2025 in response to easing price pressures, the Committee maintained a restrictive policy environment by holding rates steady through the first half of the year to anchor inflation expectations. The steep yield trajectory was further supported by the Federal Government's front-loaded borrowing strategy during the first quarter. This pattern kept average bond yields around the 18%–19% range throughout the first half of 2025.

In Q3 2025, yields in the Nigerian bond market moderated noticeably as strong investor demand drove a significant rally across the curve, particularly across the mid and long end, leading to a mild inversion of the yield curve. With inflation easing for consecutive months, there was a shift in policy expectations towards a more accommodative monetary stance from the MPC. This tilt towards a dovish policy stance contributed to bullish investor sentiment, as investors positioned ahead of expected rate normalisation. This downward shift was consistent with a less aggressive borrowing requirement from the Debt Management Office (DMO).

FGN bond yield curve across maturities (%)



Source: Bloomberg; Quest MB Research

Against the backdrop of softening inflationary pressures, the MPC adopted a more dovish posture in September, delivering a 50bps rate cut. This shift towards less aggressive tightening helped sustain bullish momentum in the fixed-income market, as investors continued to lock in still-attractive yields. The supportive policy environment encouraged broad-based buying interest across the curve, as market participants positioned ahead of further potential yield compression as inflation continued to ease. Consequently, the average FGN bond yield declined to around c.15.6%.

However, this trend reversed towards year-end, as yields recorded a modest rebound. The upward repricing was driven by the Federal Government's increased debt issuance to meet expanding fiscal obligations, which placed upward pressure on yields. Monetary conditions also supported this trend, as the MPC opted to maintain its policy stance in November rather than continue easing, despite the earlier September rate cut and continued moderation in inflation. This hold decision signalled that short-term policy rates and funding costs would remain elevated, reducing the likelihood of near-term yield compression. Consequently, bond yields closed the year at c.16.5%.

Across primary market auctions, investor appetite for government securities remained consistently strong, driven largely by attractive yield levels and shifting expectations around monetary policy. However, a key feature of 2025's auction activity was the consistent investor tilt towards longer-tenor instruments, underscoring investors' preference for locking in higher real returns amid softening inflation pressures and shifting policy expectations. For context, the NTB auction in December 2025 attracted total subscriptions of roughly NGN4.0trn, even though only NGN2.2trn was allotted, demonstrating that demand significantly outweighed supply. Investors overwhelmingly favoured the 364-day (one-year) paper, which attracted over NGN1.9trn, or c.86% of total bids.

The DMO maintained a strong supply of FGN bonds in 2025, although the scale of total issuances was moderately lower than in the prior year. The Office raised an estimated NGN5.0trn throughout the year, compared with NGN5.4trn in 2024. Within the NTB segment, total allotments amounted to NGN15.3trn, while maturities totalled NGN14trn, resulting in net issuance of approximately NGN1.3trn. This contrasts with 2024 net borrowing of NGN5.7trn, derived from NGN13.3trn in total allotments against NGN7.6trn in maturities.

To tighten liquidity and support the FX market, the CBN significantly increased its open market operations (OMO) activity in 2025. The Bank sold a total of NGN35.6trn in OMO bills during the year, a substantial expansion from NGN13.6trn in 2024. This notable increase reflects the rise in OMO maturities, which climbed to NGN17.7trn in 2025 relative to NGN930.4bn in the previous year.

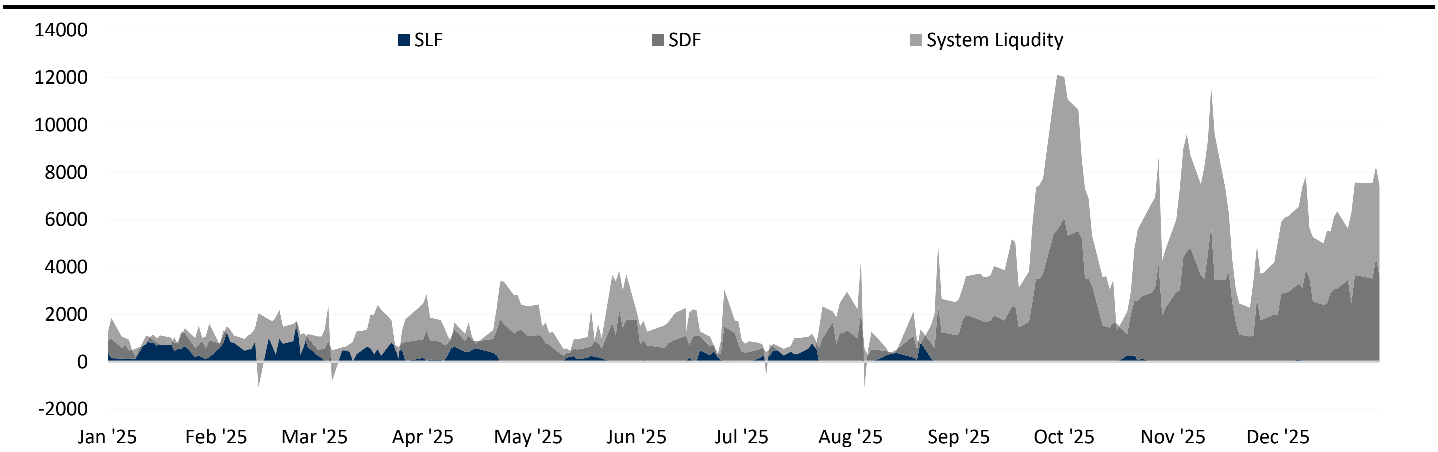
A significant factor behind the substantial rise in OMO issuances in 2025 was the CBN's deliberate strategy to attract foreign portfolio investment (FPI) as part of a broader effort to strengthen FX liquidity and stabilise the exchange rate environment. With constrained crude oil production and softer global oil prices, OMO bills became particularly attractive to FPIs because they offered favourable interest rate differentials relative to peers in other emerging and frontier markets. By keeping yields elevated, the CBN created a highly compelling environment for FPIs seeking to exploit carry trade opportunities.

In 2025, the average OMO auction yield of around 20.98% played a pivotal role in anchoring this strategy. These yields significantly outperformed returns available across comparable African and frontier fixed income markets. OMO issuances in 2025 served as a targeted capital attraction instrument, enabling the CBN to leverage elevated interest rates to improve FX liquidity, enhance investor confidence, and ultimately support short term stability in the FX market.

The financial system experienced elevated liquidity levels throughout 2025, supported primarily by banks' sizeable placement of excess funds in the Standing Deposit Facility (SDF) window, complemented by steady coupon inflows, OMO maturities, and FAAC disbursements. These factors boosted overall liquidity conditions and supported the robust investor participation observed in NTB and OMO auctions during the year. In September, the MPC adopted a more accommodative monetary stance, cutting the MPR by 50bps to 27%.

Simultaneously, the Committee adjusted the monetary policy corridor, widening the Standing Facilities Corridor to +250bps/–250bps around the MPR from +500 bps/-100bps. This recalibration aimed to enhance interbank market efficiency and improve the circulation of liquidity across the financial system. With the SLF rate at 29.5% and the SDF rate at 24.5%, the policy shift was intended to incentivise greater credit transmission to the real sector and reduce banks' tendency to warehouse liquidity with the CBN.

Liquidity movements (NGN 'm)



Source: CBN, Quest MB Research

However, the SDF rate at 24.5% remained attractive to banks, particularly against the backdrop of moderating yields on 364-day NTBs, which fell to the 15%–16% range as market expectations adjusted to the more dovish policy posture. This favourable risk-free return profile triggered substantial inflows into the SDF window, with placements reaching record highs in the NGN5–6trn range. Given the persistence of excess liquidity parked at the CBN, the MPC further adjusted the asymmetric corridor around the MPR to +50bps/–450bps from the previous +250bps/–250bps.

Despite the resulting reduction in the SDF rate to c.22.5%, banks continued to channel excess liquidity to the CBN, as the risk-free yield remained superior to alternative lending opportunities in the private sector and stop rates in PMAs. Consequently, bank deposits with the CBN continued to outperform activity in the SLF window. According to CBN data, total inflows into the SDF window amounted to NGN336.2bn in 2025, compared with NGN69.7bn in the SLF window, resulting in a net surplus position of NGN266.5bn, reflecting banks' stronger preference for liquidity sterilisation rather than short term borrowing, especially given the risks associated with borrowing activity.

On the external front, Nigeria re-entered the Eurobond market in November 2025, following its successful issuance in December 2024. The renewed activity was primarily motivated by the need to meet rising fiscal obligations, particularly the USD1.12bn Eurobond maturity due in November 2025. The timing of the issuance was also supported by favourable global financial conditions, as the US Federal Reserve adopted a more accommodative monetary stance, which boosted investor appetite for high yielding emerging market assets.

Domestically, improved macroeconomic conditions further supported Nigeria's market re-entry. These included greater FX stability, a supportive policy environment, and easing inflationary pressures. Additionally, Nigeria's removal from the Financial Action Task Force (FATF) grey list and credit rating improvements boosted investor confidence in Nigeria's macroeconomic reforms and policies. Against this positive backdrop, Nigeria successfully completed a USD2.35bn dual tranche Eurobond issuance, with total subscriptions of over USD13bn. The offer comprised USD1.25bn (10-year tenor), priced at 8.63%, and USD1.10bn (20-year tenor), priced at 9.13%.

In 2026, we expect the yield environment to be influenced by a mix of market conditions. First is the interest rate direction, which we expect to be shaped by both domestic and external conditions. On the external front, we expect the US Federal Reserve to adopt a dovish stance in 2026 due to subdued price pressures and cooling labour market conditions. The Fed has ruled out further rate hikes, setting the stage for a more accommodative environment in 2026. While the Fed has projected only one rate cut in 2026, we expect at least two rate cuts of around 50bps to 100bps in response to a deeper softening of the labour market due to President Trump's strict immigration policy.

However, the timing and scale of rate cuts will depend on the progress made in curtailing inflationary pressures and the dynamics of labour market conditions. Additionally, we anticipate looser monetary conditions for policy banks in advanced economies, including the European Central Bank (ECB) and the Bank of England (BoE) due to weaker growth outlook and slowdown in job growth. However, President Trump's ongoing stricter trade policies could result in more restrictive global trade measures and potentially drive a resurgence in inflationary pressures. Consequently, a reversal of inflation progress could delay the loosening of monetary conditions.

On the domestic front, we anticipate that the CBN will adopt a less restrictive monetary policy approach especially in response to more dovish developments in the external sector. However, we expect the CBN to cautiously ease policy conditions to sustain the interest rate differential required to attract offshore inflows. Consequently, we anticipate cumulative rate cuts of 300 to 350bps for the year, with most of the reductions implemented in the second half of the year.

We also expect strong liquidity conditions supported by banks' continued activity in the Standing Deposit Facility (SDF) window due to attractive rates alongside significant inflows NTB, OMO and bond coupons. However, the MPC will likely adjust its policy tools to bring the SDF rate in tandem with prevailing T-Bill rates. An additional determinant of yields movement is the FGN's borrowing appetite resulting in higher issuance of paper in the domestic market due to rising fiscal deficits. The proposed 2026 fiscal budget implies a fiscal deficit of NGN25.3trn, of which a significant chunk will be sourced from the domestic market.

Given expected market conditions, we maintain our recommendation for a barbell market strategy. Our expectation is premised on the frontloading of government borrowings, which typically occurs in the first quarter of the year. This could potentially lead to upward repricing of yields. Consequently, we advise investors to position themselves in the short end of the curve to take advantage of elevated yields. In H2 ’26, we expect the MPC to gradually ease the policy rate in the second half of the year, coupled with a less aggressive borrowing requirement. We see a potential moderation in yields trajectory due to these factors. Consequently, we recommend repositioning to long-duration maturities ahead of potential yield compression to avoid reinvestment risks and preserve capital appreciation.

The policy and political backdrop

Power consolidation, pre-election uncertainty builds

Recent political developments point to a growing consolidation of power around President Bola Tinubu and the ruling All Progressives Congress (APC). This has been most visible in the wave of defections by sitting governors from opposition parties into the APC, reinforcing the ruling party’s control at the sub-national level and strengthening its legislative and institutional reach ahead of the 2027 election cycle. The defection of the Rivers State governor, arguably one of the most politically significant states in the federation, underscores the momentum currently favouring the ruling party and highlights the continued erosion of opposition structures at the state level.

That said, gubernatorial defections may not necessarily translate into a decisive advantage at the presidential level. Governors’ ability to deliver electoral outcomes remains uneven, particularly in states where incumbents face weak public approval or internal party resistance. As such, while the APC’s sub national footprint has expanded, it appears that the presidential race has become slightly more competitive, and political alignment at the elite level does not automatically guarantee mass electoral support.

The traditional opposition, the People’s Democratic Party (PDP), remains significantly weakened. Internal divisions, split along the lines of key political actors, including the current Minister of Works on one side and loyalists aligned with the Oyo State governor on the other, have left the party in a state of prolonged paralysis. The PDP’s organisational capacity has deteriorated to the point where it is widely viewed as operating on “life support,” with limited ability to mount a cohesive national challenge or articulate a coherent alternative policy agenda. In this vacuum, the African Democratic Congress (ADC) has emerged as a potential rallying point for opposition forces. The interest of three high profile political figures, notably Atiku Abubakar, Peter Obi, and Rotimi Amaechi, has elevated the party’s visibility and positioned it as a possible alternative platform.

However, the ADC’s viability hinges on the outcome of its presidential primaries. A critical determinant of its competitiveness will be whether the two unsuccessful aspirants ultimately rally behind the winner. If all three insist on securing the ticket, the party risks fragmentation before it even enters the national arena. Conversely, a unified post primary front could reshape the opposition landscape and introduce a more competitive dynamic into the presidential race.

Rivers State continues to illustrate the intricate interplay between sub national politics and national power dynamics. The recent defection of the state governor to the APC has strengthened the ruling party’s presence in the South, but it has also triggered significant internal tensions. The governor’s relationship with his long-standing political benefactor has deteriorated sharply, culminating in a political standoff that has spilled into the state’s legislative arena. The Rivers State House of Assembly, aligned with the governor’s political godfather, has initiated impeachment proceedings against the governor, signalling a deepening rift within the state’s political establishment. This confrontation underscores the fragility of political alliances in Nigeria, where personal networks often supersede party structures.

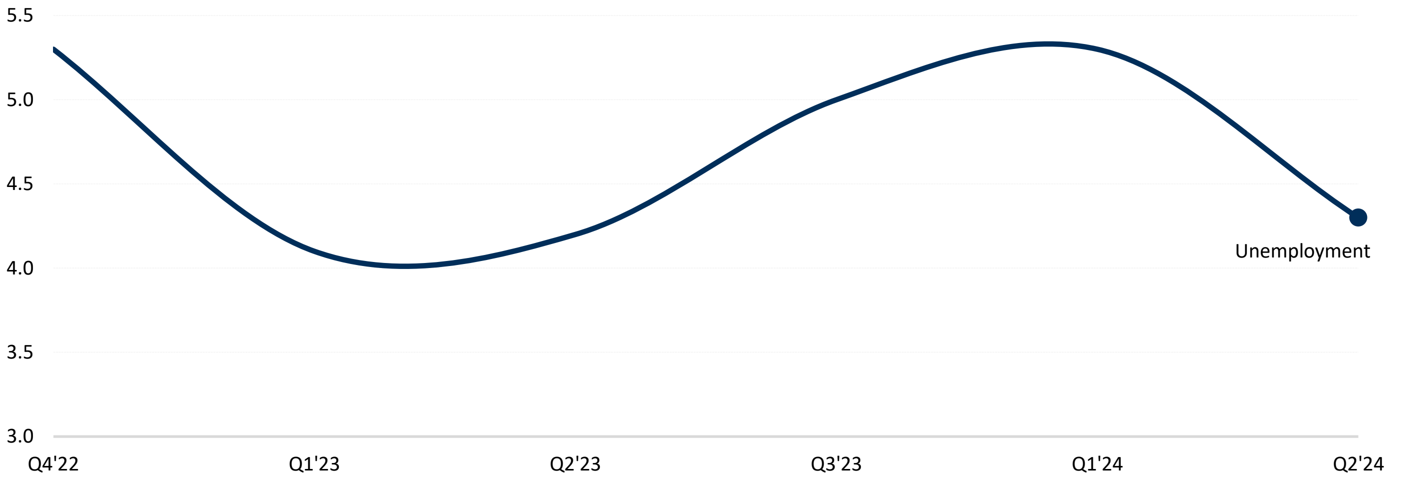
Despite the political manoeuvring, the central question for Nigeria’s macroeconomic trajectory remains whether ongoing reforms can translate into tangible improvements in living standards. The administration’s reform agenda, spanning subsidy rationalisation, exchange rate adjustments, and fiscal restructuring, has generated both support and resistance. Political consolidation may provide the federal government with greater room to implement difficult reforms, but public sentiment will ultimately hinge on the speed at which these measures yield visible economic gains.

Overall, the political landscape still favours the ruling party in terms of elite alignment and institutional control. However, the electoral outlook continues to evolve. For markets, the near-term implication is one of relative political stability, but with rising medium-term uncertainty as the reform cycle intersects with electoral incentives ahead of 2027.

A softer unemployment reading

The Nigeria Labour Force Survey (NLS) report published by the National Bureau of Statistics (NBS) shows that the national unemployment rate decreased to 4.3% in Q2 '24 from 5.3% in Q1 '23. When we add underemployment, this figure sums up to 13%, implying a decrease from 15.3% registered in Q1 ’24.

Unemployment rate (%)



Source: NBS; Quest MB Research

Labour force participation among the working-age population increased to 79.5% from 77.3% over the same period, reflecting improved workforce engagement. A further breakdown shows an even distribution of participation rates by sex between males and females, at 79.5% and 79.1%, respectively, suggesting that gender differences are not a major barrier in the labour market. In addition, the employment-to-population ratio also grew to 76.1% in Q2 2024, from 73.2% in Q3 2023, highlighting a possible increase in job availability.

The proportion of wage-employed workers declined to 14.4% in Q2 2024, a decrease from 16.0% in Q1 2024, suggesting a constraining of job employment opportunities in the formal sector, reflecting the tough business operating environment. Also, the unemployment rate among individuals with post-secondary education was 9.0%. This may suggest challenges in job placement for educated youth. The youth unemployment rate stood at 6.5% during the quarter, as against the 8.4% recorded in Q1 ’24. Notably, the youth NEET (Not in Education, Employment, or Training) rate for youth, an indicator of youth disengagement from the labour market and educational systems due to economic and social challenges, decreased to 12.5%, an improvement from the rate of 14.4% registered in the previous quarter. A further breakdown of NEET by sex showed that a larger proportion was skewed to the female gender (14.3%), while the male gender represents 10.9%.

Nigeria's low unemployment rate is due to the adoption of a new labour survey methodology by the NBS, which aligns with the International Labour Organisation's (ILO's) guidelines. As such, labour force data does not reflect current economic realities, as businesses continue to contend with challenging business operating activities resulting from the central bank's contractionary monetary policy and heightened inflationary and exchange rate pressures. As a result, we urge the federal government to implement policies and deliver strategies aimed at boosting domestic productivity and promoting job creation.

Drivers of the economy

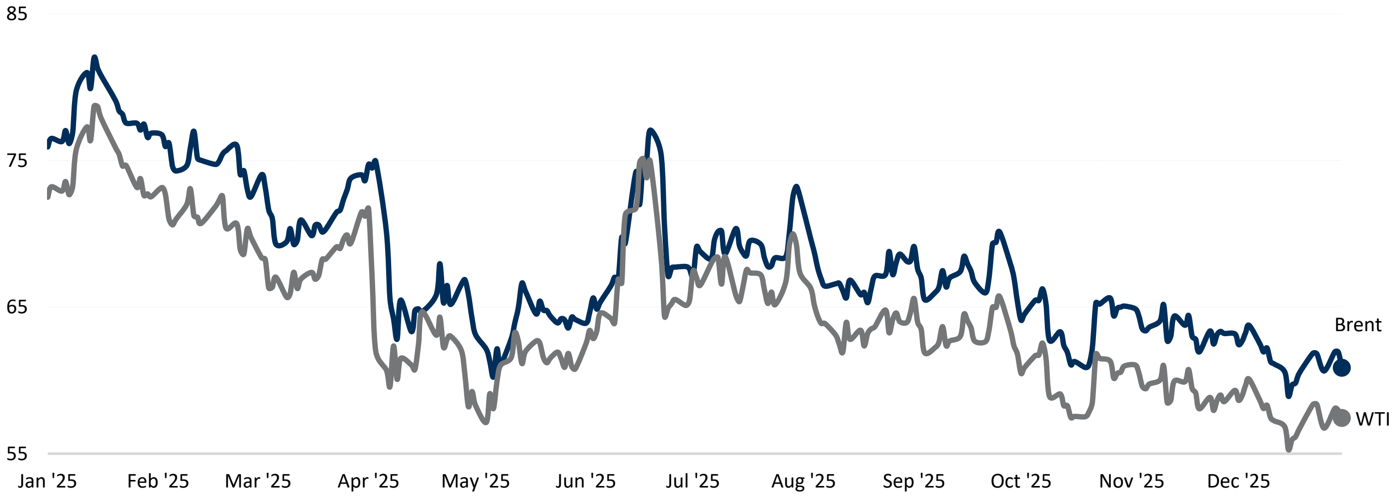
A glut in global oil supply drove oil prices lower

Oil prices faced significant volatility throughout the year, driven by a range of global events and market dynamics. Benchmark crude prices, Brent and WTI opened the year on a bullish trajectory, as prices rallied in mid-January to five-month highs of USD82/b. The upswing was fuelled by US sanctions on Russia and Iran, which raised concerns about potential supply disruptions. However, the bullish sentiment quickly faded in February as fears of weak global oil demand resurfaced, driven by renewed worries over the global economy amid escalating trade tensions between the US and China.

Macro risks across the global economy intensified with the emergence of trade tensions between the US and several key trading partners. In response to US tariffs, many countries implemented retaliatory measures, reigniting concerns about weakening demand. Oil demand growth in Asia and Europe slowed, further weighing on the global economic outlook. Consequently, prices slipped to USD69/b. Oil prices experienced a brief upward movement in late March, as the Organisation of the Petroleum Exporting Countries and its allies (OPEC+) announced an extension of their 2.2 million barrels per day production cut through April, easing oversupply concerns amid persistent demand concerns and rising oil output in the US.

Global oil market sentiment turned bearish through much of Q2 ‘25, as concerns over softening demand and mounting oversupply weighed on prices. Signs of an economic slowdown emerged, with weaker-than-expected crude deliveries to China and India, reflecting the impact of trade uncertainty on global growth and oil demand. Adding to these pressures, OPEC+ began unwinding its production cuts in April, intensifying oversupply fears. In early May, the group surprised markets by announcing a second consecutive monthly increase of 411 kb/d for June, effectively accelerating production levels originally planned for October 2025. This move contributed to a growing supply glut, as output significantly outpaced demand. There were, however, occasional brief gains for oil prices during the quarter, helped by easing trade tensions after the US reached a deal with the UK and agreed to a 90-day trade framework with China, while geopolitical risks in the Middle East also provided moderate support.

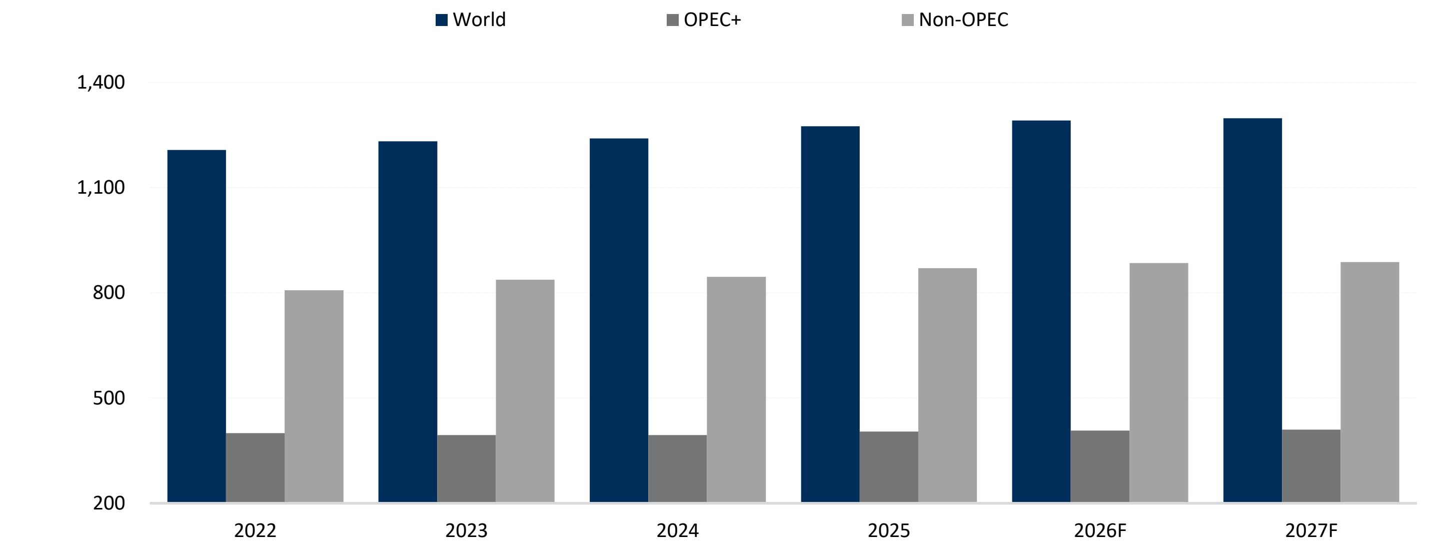
Crude oil prices (USD/b)



Source: Bloomberg, Quest MB Research

Volatility in the global oil market rose to a new high in Q3 ‘25 as persistent oversupply and weak demand continued to weigh on prices. OPEC+ members accelerated the unwinding of supply cuts faster than anticipated, while rising inventories from non-OPEC producers further fuelled oversupply concerns. Reflecting these developments, the International Energy Agency (IEA) revised its global supply growth outlook, signalling an increasingly saturated market. On the demand side, projections have been repeatedly downgraded since the start of the year, with growth now expected at around 700 kb/d. Recent data show subdued demand across major economies, and with consumer confidence still subdued, a strong rebound appears unlikely. Consumption in emerging and developing markets—including China, Brazil, Egypt, and India—has also fallen short of expectations. This slowdown is attributed to factors such as high interest rates, economic uncertainty, and structural shifts in energy consumption patterns. While a modest rebound in global oil demand is projected for this year and next, growth remains contingent on variables including energy policy decisions and potential changes in global trade dynamics.

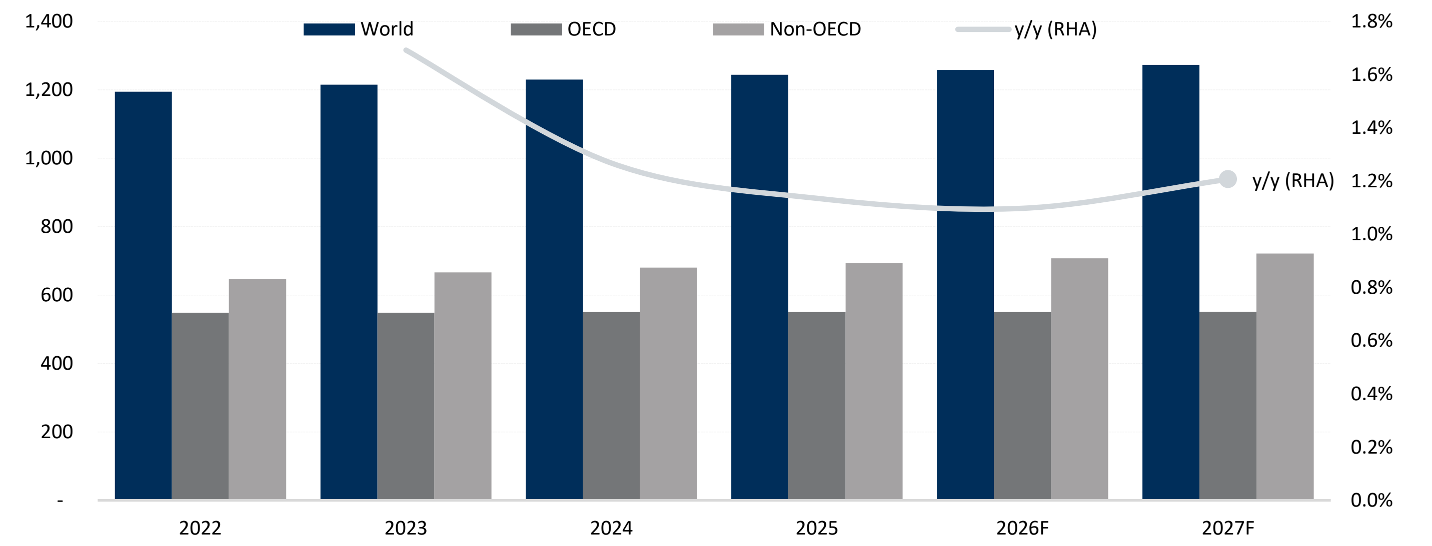
World production (mbpd)



Source: OPEC, EIA, Quest MB Research

Oil prices drifted lower through Q4 ‘25, with Brent closing the year near USD 61/b. The quarter capped a year marked by heightened volatility, as global supply consistently outpaced consumption. Although geopolitical tensions and sanctions involving Russia and Venezuela triggered occasional price spikes during the quarter, these were outweighed by strong non-OPEC+ supply growth and softening global demand. OPEC+ maintained output levels in Q4 and its decision to pause voluntary cuts until Q1 2026 could only provide temporary stabilisation. Overall, 2025 reflects a market defined by persistent oversupply, driven by elevated production from both OPEC+ and non-OPEC producers, while demand growth remained modest amid deteriorating macroeconomic conditions.

Petroleum and other liquid fuels consumption



Source: EIA, Quest MB Research

Global oil surplus to pressure prices in 2026

We expect crude prices to decline further in 2026, with Brent crude expected to average around USD57/b and end the year around USD60/b. This softer price outlook is driven by global oversupply conditions and a slowdown in consumption growth. Global oil supply is projected to rise significantly in 2026, expanding by roughly 3.0 mbpd to reach 106.1 mbpd. According to estimates from the International Energy Agency (IEA), almost half of the increase expected in 2026 stems from higher OPEC+ production targets, and although the cartel paused additional production increases in Q1 '26, we expect further output increments as the group aims to restore market share in the global oil market.

Furthermore, oversupply risks are being exacerbated by increasing production from non-OPEC+ producers. Recent developments in Venezuela could exert additional downward pressure on prices. The US has signalled its intention to support the rehabilitation of Venezuela's oil infrastructure through partnerships with major American energy companies. Such cooperation could restore significant production capacity, and a material recovery in Venezuelan refining or upstream operations would further contribute to the growing global supply glut.

On the demand side, global consumption is projected to grow only moderately in 2026. The IEA forecasts an annual increase of about 0.7 mbpd, while the US Energy Information Administration (EIA) expects a higher gain of 1.1 mbpd in 2026. A large share of this incremental demand is concentrated in China and India, which together are expected to account for two-fifths in 2026. However, China's oil demand is increasingly constrained by the rapid adoption of electric and hybrid vehicles, while demand in advanced economies is expected to remain broadly flat. Against the backdrop of sluggish demand growth and strong supply conditions, the global oil market is likely to remain in surplus. The IEA estimates an annual surplus of 2.3 mbpd in 2025, widening to 4.0 mbpd in 2026

Upside risks to prices remain broadly balanced. While markets generally anticipate supply gluts in 2026, US production has shown signs of strain, as output has declined from its December 2024 peak due to fewer operating rigs and delays in investment. Should US producers prioritise profitability over volume, supply growth could slow further, lending support to higher prices. Additionally, geopolitical risks remain a major wildcard. An escalation in the Middle East or between Russia and Ukraine could disrupt global supply through attacks on energy infrastructure or interruptions in crude exports, potentially triggering sustained upward pressure on prices.

Lastly, the effect of new sanctions, such as the recently introduced US sanctions on Russian oil companies will depend on how rigorously they are enforced and the ability of sanctioned entities to find alternative buyers. As OPEC+ increases production and spare capacity is reduced, the oil market becomes more vulnerable to these geopolitical shocks, amplifying the potential impact on prices in the near term.

Downside risks to market sentiment in 2026 are expected to revolve around OPEC+ production dynamics and supply conditions. A rise in output relative to baseline assumptions could occur if member countries overcome the technical constraints that have limited their ability to meet previous production targets. Additionally, heightened trade tensions or more restrictive global trade policies could suppress economic activity, weaken oil demand and push Brent prices below forecasts if global growth remains subdued.

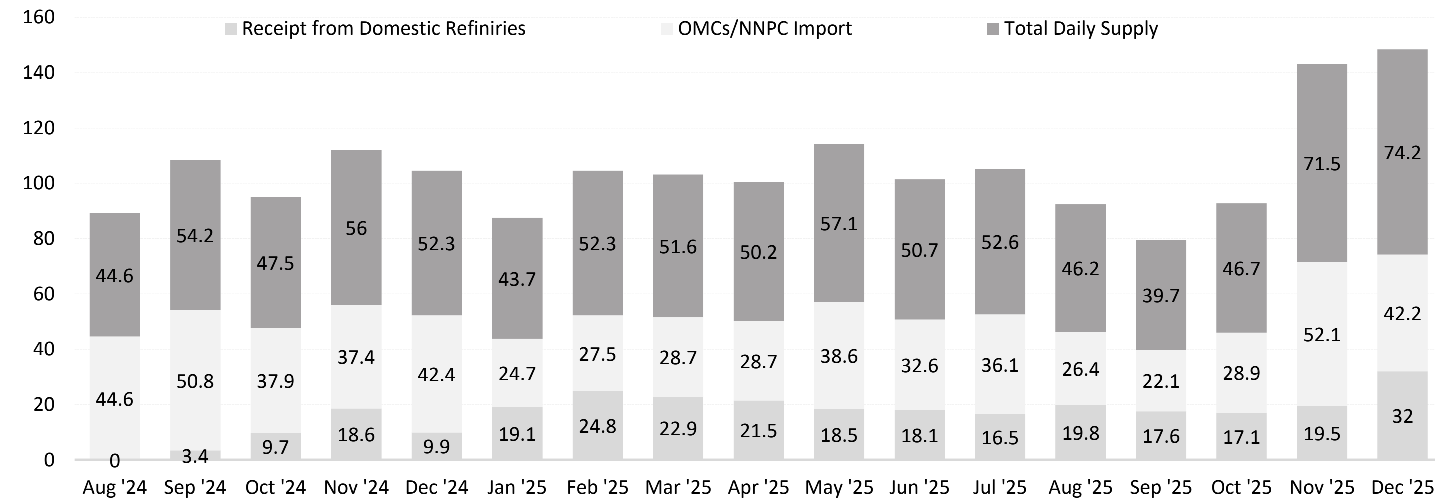
2025 – The oil sector maintains momentum, but output still below potential

In 2025, the wave of International Oil Company (IOC) divestments persisted, further accelerating domestic ownership and control of formerly IOC-operated assets. This trend was supported by the redefined legal and regulatory framework introduced under the Petroleum Industry Act (PIA). In addition, the growing impact of the Dangote Refinery on the downstream landscape generated heightened optimism for the oil industry in 2025. The expiration of the initial six-month naira-for-crude sales agreement between the Dangote Refinery and the Nigerian National Petroleum Company (NNPC) Limited in March 2025 sparked concerns about potential price hikes and renewed pressure on the naira. These fears were eased by continued crude allocations to the refinery, which helped stabilise supply.

In September 2025, NNPCL and Dangote signed a new two-year crude supply agreement, effective from October 2025 to 2027, allocating about 82 million barrels, of which 60% will be transacted in naira. Despite this, the refinery faced challenges in meeting its feedstock needs under the Domestic Crude Supply Obligation (DCSO), forcing it to rely on imported crude, particularly from the US, to sustain production. To strengthen domestic distribution, Dangote agreed on a pilot supply agreement with 20 major petroleum marketers, targeting 600 million litres per month at fixed gantry prices (NGN806 coastal, NGN828 gantry) with monthly price reviews. Additional measures included reducing minimum purchase volumes from two million litres to 250,000 litres and offering a 10-day credit facility backed by bank guarantees to improve liquidity and support smaller marketers.

However, concerns persisted about the refinery's ability to ensure consistent and steady supply to meet domestic demand. These worries prompted the suspension of the 15% import duty on petrol and diesel previously announced by President Tinubu. While the levy was intended to support local refiners such as the Dangote Petroleum Refinery and modular plants, fears over energy security, especially given the non-operational status of state-owned refineries led to its reversal. This decision was further reinforced by a surge in fuel imports in November 2025, which climbed to about 52.1 million litres in November 2025, as authorities shored up domestic supply amid limited output from local refiners.

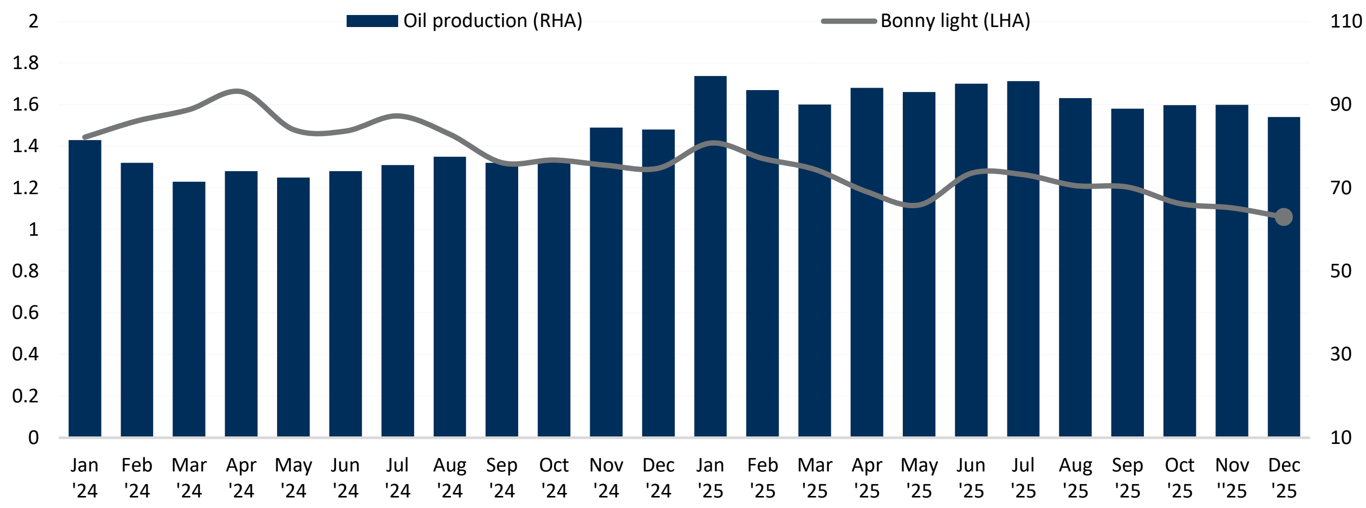
Monthly import vs domestic PMS receipts (million litres/day)



Source: NMDPRA; CBN; Quest MB Research

On the production front, the federal government set an aggressive production crude oil target of 2.06 million barrels per day (mbpd) in the 2025 budget. While this figure was widely considered ambitious given persistent structural bottlenecks, the target signalled policy intent and optimism and raised expectations in 2025, reflecting government confidence in reforms under the Petroleum Industry Act (PIA), renewed upstream investments and increased domestic refining capacity. There were further suggestions that if Nigeria's domestic output could demonstrate a sustained improvement through increased security measures, it might lobby OPEC+ for a higher quota, as the cartel periodically adjusts quotas to balance supply dynamics and could see Nigeria negotiate for incremental increases. Although it hinges on Nigeria's ability to deliver sustained production growth and prove operational reliability.

Oil production (mbpd) and bonny light (USD/b)



Source: NUPRC; CBN; Quest MB Research

However, Nigeria's crude oil performance was largely disappointing in 2025, as it closed the year on a weaker footing, reflecting deeper structural challenges in the sector. Despite signs of improvement earlier in the year, with a strong production level of around 1.54 mbpd (excluding condensates) in Jan '25, output struggled to maintain momentum due to a mix of operational, security, and institutional challenges but production had weakened significantly in Q4 '25.

A combination of disruptions contributed to the subdued performance. Pipeline vandalism and crude oil theft, though reduced from previous years, remained persistent throughout the year to constrain production from key producing terminals. Additionally, temporary shutdowns across major export terminals caused by scheduled maintenance and unexpected technical faults further constrained output. The situation was compounded by industrial action, including a three-day strike by the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN), which affected supply and delayed loadings across critical export routes.

Moreover, Nigeria's inability to meet the 2025 production target of 2.06 mbpd or achieve consistent adherence to its OPEC+ quota of 1.5 mbpd added to the disappointing conclusion of the year. The inability to reverse production declines sustainably serves as a reminder that structural challenges in Nigeria's upstream oil industry remain unresolved, requiring deeper interventions in security coordination, asset integrity, and investment mobilisation to achieve lasting progress.

Beyond structural challenges, Nigeria's underwhelming oil sector performance in 2025 was compounded by the continued non-operational status of its state-owned refineries—Port Harcourt, Warri, and Kaduna. These refineries, with a combined nameplate capacity of 445,000 barrels per day, were expected to play a critical role in reducing reliance on imported refined products and stabilising domestic supply. However, they remained largely idle throughout the year due to technical setbacks, prolonged downtime, and ongoing rehabilitation challenges. The inability of state-owned refineries to deliver value despite heavy rehabilitation spending continues to spark debate over whether privatisation or outright sale should be explored.

As a final point, 2025 marked a continuation of the structural shift in Nigeria's oil and gas sector, driven by the continuation of aggressive divestments, indigenous acquisitions, upstream investment momentum, and downstream restructuring. Below, we highlight some of the key industry events in 2025:

1. The Ajaokuta-Kaduna-Kano (AKK) Gas Pipeline project valued at about USD2.8bn project reached 86.1% completion, having successfully tackled major hurdles like the River Niger crossing, with targets set for mechanical completion by early 2026. The project spans 614 kilometres and features a 40-inch diameter pipeline, with potential supply up to 2.2billion standard cubic feet of gas per day, fuelling power plants in Abuja, Kaduna, Kano, and others.

2. ExxonMobil confirmed plans to invest USD1.5bn in Nigeria's deepwater exploration and development for the next two years. The planned investment, which will be executed between Q2 '25 and 2027, will focus primarily on revitalising production at the Usan deepwater oil field.

3. The Minister of State for Petroleum (Gas) announced that the USD 70 million Obiafu/Obrikom/Oben (OB3) pipeline is 93% complete, with the River Niger crossing now in its final stages.

4. TotalEnergies announced that its subsidiary TotalEnergies EP Nigeria (TEPNG) has completed the divestment of its 12.5% non-operated interest in the OML118 Production Sharing Contract (PSC) to Shell Nigeria Exploration and Production Company Ltd (10%) and Nigerian Agip Exploration (2.5%) for an aggregated amount of USD510m.

5. Renaissance assumed control of Shell's 30% participating interest in the SPDC Joint Venture (SPDC JV), an unincorporated JV alongside NNPCL (55%), Total Exploration and Production Nigeria Ltd (10%), and Agip Energy and Natural Resources Nigeria Ltd (5%).

6. The Nigerian Content Development and Monitoring Board sealed a deal to acquire 20% equity in the new 100,000 bpd refinery project being established by the African Refinery Group Limited in Port Harcourt, Rivers State.

7. The Federal Government, through the Nigerian Midstream and Downstream Petroleum Regulatory Authority, approved licences for three new modular refineries: a 100,000-bpd refinery for Eghudu Refinery Ltd in Edo State; a 30,000-bpd refinery for MB Refinery and Petrochemicals Company Ltd in Delta State; and a 10,000-barrels-per-stream-day refinery for MRO Energy Limited at Imode in Ughelli, Delta State.

8. Nigeria successfully concluded the first crude oil export from the newly commissioned Otakikpo Terminal in Rivers State on 8 June 2025. The Otakikpo Terminal is the first privately constructed and operated onshore crude oil export facility in Nigeria in over fifty years. The terminal has an initial storage capacity of 750,000 barrels, with scalability provisions to expand up to 3 million barrels. It is equipped with a pumping capacity of 360,000 barrels per day for export tanker loading and is engineered to handle crude injection volumes of up to 250,000 barrels per day. Current production from the Otakikpo Field stands at approximately 10,000 bpd.

9. NNPCL formally announced the shutdown of the Port Harcourt Refinery to undertake maintenance activities. This development comes less than seven months after the refinery was recommissioned in November 2024 following an extensive USD1.5bn rehabilitation programme, financed through a loan facility from international financial institutions.

10. The Warri Refining and Petrochemicals Company Limited (WRPC), operated by NNPCL, resumed operations in December 2024 with an installed capacity of 125,000 bpd and an expected processing target of 75,000 bpd for the first half of 2025. However, operations came to an abrupt halt on 25 January 2025 following critical mechanical failures in the Crude Distillation Unit's main heater, which raised major safety concerns and necessitated an immediate shutdown.

11. The formal unveiling of the Nigeria Upstream Petroleum Operations (Cost Efficiency Incentives) Executive Order, 2025 (the "Order"). The Order introduces performance-based tax incentives for upstream petroleum operators who demonstrate verifiable cost efficiencies against

defined industry benchmarks. It is intended to reduce project execution costs, stimulate increased investment, and enhance revenue generation across the sector.

12. The Nigerian National Petroleum Corporation (NNPC), the state oil company signed a new crude deal with the Dangote Petroleum Refinery that will extend supplies for two years. This brings the supply of crude to the 650,000-bpd refinery to 82 million barrels since October 2024, with 60% being naira-denominated loads.

13. Nigeria LNG Limited announced that its USD10bn Train-7 gas project, located on Bonny Island in Rivers State, had reached 80% completion — an improvement from 67% in 2024.

14. Nigeria's upstream regulator announced the start of its 2025 oil-licensing round, offering 50 blocks for bidding as Africa's biggest crude producer seeks to boost output and attract new investment. The round includes 15 onshore blocks, 19 shallow-water blocks, 15 frontier assets, and one deep-water block.

2026 – Anchoring renewed momentum in Nigeria's oil sector

Going into 2026, we anticipate a sustained trend in transformative activity within Nigeria's oil industry. We expect the long-standing operational challenges faced by International Oil Companies (IOCs) to result in an acceleration of indigenous ownership of onshore assets. The trend of asset divestments, especially in the onshore and shallow-water segments, is expected to persist and even accelerate, as revealed by multiple industry analyses and regulatory publications. These challenges are structural and continue to create a hostile business environment for major IOCs. As a result, the downstream landscape is undergoing significant change, as foreign owners continue to exit high-risk onshore and shallow-water assets due to persistent structural challenges.

However, as foreign owners continue to retreat, we expect this vacuum to be increasingly filled by local owners, who are structurally better positioned for onshore operations. This will result in indigenous operators becoming the dominant onshore producers. While we expect the divestment trend to continue in 2026, the process itself is entering a more stringent era, driven by Nigeria's regulator — the Nigerian Upstream Petroleum Regulatory Commission (NUPRC).

Consequently, we expect regulators to maintain and tighten screening of acquirers to prevent stranded liabilities and ensure community-aligned operations. The combination of stricter screening, upfront liabilities, and enhanced host-community requirements will create a healthier, more accountable divestment process — even if transactions take longer to close. We expect this to slow down but strengthen divestment approvals in 2026. Despite the tightened environment, the underlying pressures forcing IOCs to exit remain too strong to reverse the trend.

With respect to crude-oil production, the federal government has outlined its ambition to achieve a 2.06 mb/d output target as set in the 2026 budget, even though the revenue framework is benchmarked on a more conservative 1.84 mb/d production level. Our outlook for 2026 remains cautiously optimistic, reflecting the persistence of structural challenges, most notably crude-oil theft and pipeline vandalism that have constrained output in recent years. Although ongoing interventions have helped curtail these disruptions, we expect these issues to continue weighing on production volumes.

On the upside, the most significant potential driver of higher output is the restart of the long-dormant Ogoni fields. Successful completion of key preparatory actions, including community equity arrangements, remediation funding, operator appointment, and early site works, could materially lift production. Additionally, enhanced security efforts, particularly through the deployment of advanced surveillance technologies to combat theft and pipeline sabotage, have the potential to generate measurable gains. We further anticipate incremental contributions from existing onshore assets, driven by increased infrastructure investment and more aggressive exploration and development activities by indigenous operators who have acquired divested assets.

Additionally, the regulator's "drill-or-drop" provision under the Petroleum Industry Act (PIA), which compels **licence** holders to develop assigned acreage within specified timelines or risk forfeiture, may incentivise greater field-development activity, delivering further production uplift. Despite the absence of firm timelines for the rehabilitation of state-owned refineries, the commissioning of any functional unit in 2026 could indirectly support upstream performance by improving overall sector efficiency.

However, downside risks remain. Persistent security challenges, ageing infrastructure, and renewed community tensions — factors driving ongoing IOC divestments — pose threats to sustained output growth. Taking these dynamics into account, we project that Nigeria's crude-oil production will average around 1.78 mb/d in 2026, reflecting moderate improvements tempered by enduring operational constraints.

2025: A turning point for Nigeria's economy

For much of the past decade, Nigeria's GDP growth has consistently lagged population growth, which is estimated at around c.3% annually. Over this period, the economy averaged about 1.8% growth, hovering below the population growth rate of c.2–3%, which resulted in stagnant or declining GDP per capita. This imbalance has led to economic growth that was insufficient to improve household welfare and standards of living. The disappointing growth trend can be traced to several structural and policy-related factors.

First, persistent fiscal misalignments, characterised by expansionary spending without corresponding revenue mobilisation, have driven widening budget deficits and heightened inflationary pressures.

Second, monetary distortions, including inconsistent policy signals and foreign-exchange restrictions, have created uncertainty and discouraged foreign direct investment. Additionally, external shocks such as declining global oil prices, compounded by underperforming oil-production levels, eroded fiscal revenues. Finally, lingering security challenges disrupted agricultural output and supply chains, further constraining economic activity.

These challenges were further compounded by the reforms introduced by the current administration in June 2023, notably exchange-rate unification and fuel-subsidy removal. While these measures were aimed at correcting long-standing structural distortions, they triggered short-term economic shocks, including double-digit inflation, sharp currency depreciation, and an aggressive monetary-tightening cycle. These policy actions significantly eroded household purchasing power, worsened poverty levels, and exacerbated the cost-of-living crisis for both households and businesses.

Moving into 2025, Nigeria's economy showed encouraging signs of recovery, with real output growth (based on rebased GDP) consistently outpacing population growth of c.3%. Between Q1 '24 and Q3 '25, growth averaged 3.53%, while in 2025 (Q1–Q3) alone, the economy expanded by an average of 3.78%, marking a significant improvement compared to previous years when growth lagged population growth.

This gain reflects the tangible benefits of recent structural reforms, including exchange-rate unification and fuel-subsidy removal, which, despite initial shocks, have begun to restore macroeconomic stability and investor confidence. The combination of easing inflationary pressures, FX-market reforms, and improved oil output has created a more supportive environment for businesses and households, signalling a potential turning point toward sustained and inclusive growth.

Nigeria's fight against double-digit inflation turned a corner in 2025, as headline inflation moderated from its elevated levels. This downward trend was supported by base effects following the CPI rebasing. Headline inflation also benefited from improved food-supply chains, stable FX-market conditions, and softer energy prices. The easing in price pressures brought much-needed relief to household purchasing power and reduced business cost structures.

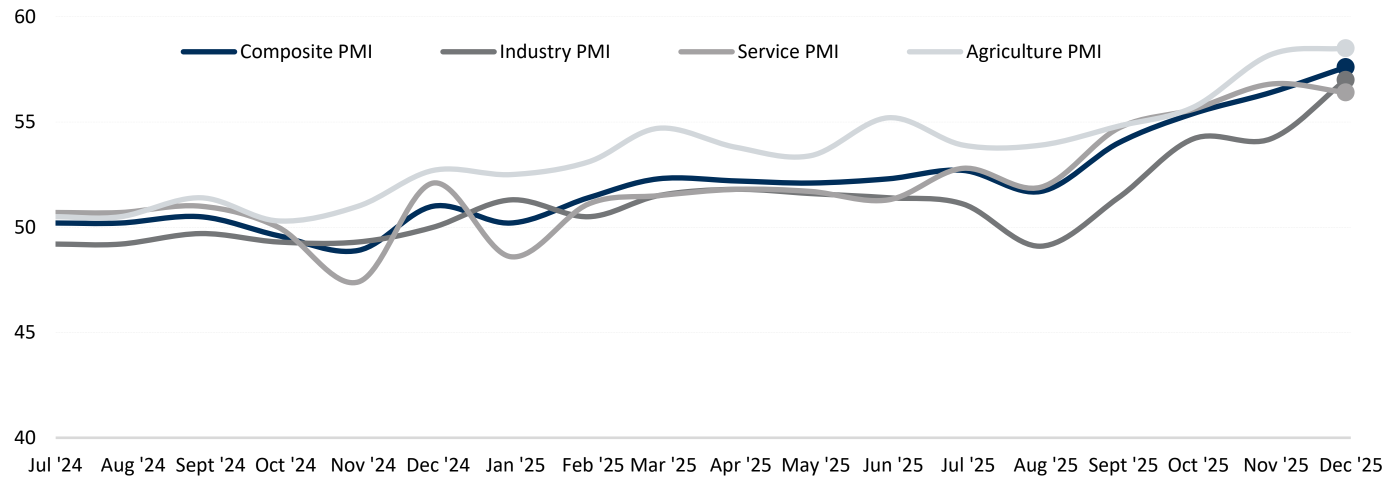
In response to this disinflationary trend, the MPC paused its aggressive tightening cycle, signalling confidence in the progress toward price stability. This shift followed a period of sustained rate hikes in 2024, which were implemented to tackle elevated inflation and stabilise the naira exchange rate. Although the committee remained cautious about cutting policy rates aggressively, the shift toward a more accommodative monetary stance provided relief for businesses and households. Domestic consumption gradually recovered, while borrowing costs stabilised, supporting improved credit conditions in the credit market.

Stable exchange-rate conditions also played a significant role in strengthening Nigeria's macroeconomic environment. The FX market benefited from several key factors, including CBN policy reforms, improved liquidity, and sustained foreign-capital inflows. The elevated interest-rate environment and the CBN's reforms, particularly the introduction of the Electronic Foreign Exchange Matching System (EFEM), boosted foreign-investor confidence, resulting in sustained foreign-portfolio inflows.

Additionally, Nigeria's oil output improved despite fluctuations in global crude-oil prices. This boosted external-reserves accumulation and enhanced market stability. Reduced naira volatility helped ease cost pressures, especially for import-dependent sectors, and contributed to a return to profitability for companies that top-line growth had been weighed down by currency depreciation in 2024.

Furthermore, the improved economic conditions were reflected in the CBN's Composite Purchasing Managers' Index (PMI), which recorded an expansion in December, rising to 57.6% from 56.4% in November 2025. The PMI index has stayed above the 50-mark for thirteen consecutive months, underscoring broad-based gains across the industry, services, and agriculture sectors.

CBN's PMI index trend

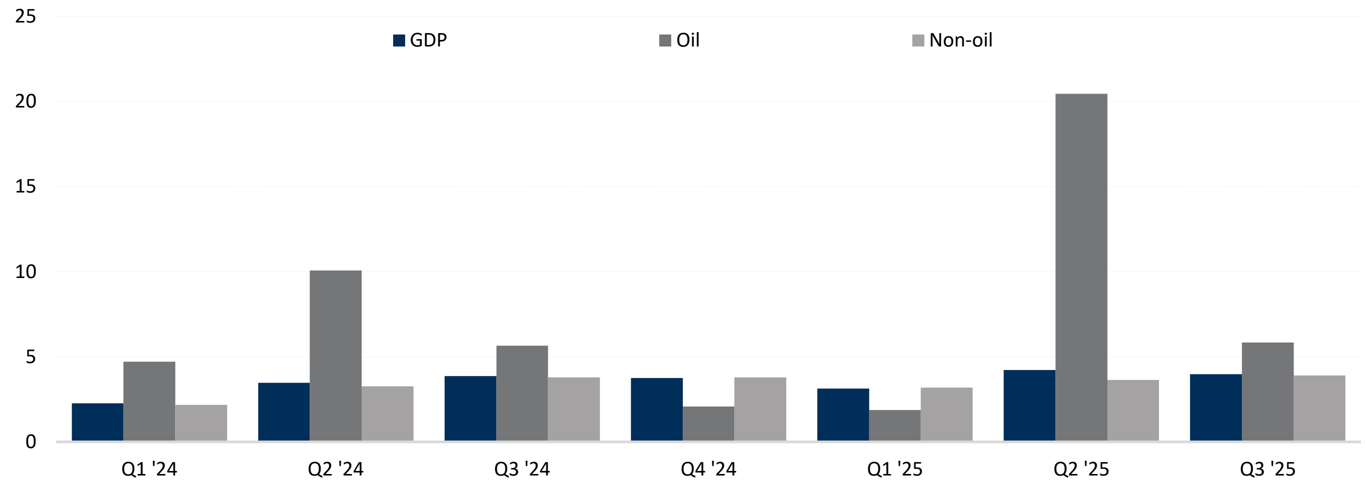


Source: CBN, Quest MB Research

Nigeria's GDP methodology was rebased in 2025, introducing a new base year of 2019 to replace the previous base year of 2010. This rebasing exercise ensured that GDP measurement reflects the current structure and dynamics of the economy, following the last update conducted in 2014. The rebasing incorporated new and emerging sectors such as fintech, digital services, and creative industries, which have become significant contributors to economic activity in recent years. Additionally, the revised methodology provided greater inclusion of informal-sector activities, which account for a significant share of Nigeria's economic output but were previously under-represented. Furthermore, the rebasing adjusted sectoral weightings to better capture shifts in economic composition—such as the growing dominance of services and ICT relative to traditional sectors like agriculture and oil.

Based on the recently released GDP figures, Nigeria's real GDP maintained its steady growth trajectory in Q3, expanding by 3.98% y/y in Q3 '25. This compares with growth rates of 3.86% y/y in Q3 '24 and 4.23% y/y in Q2 '25. The growth outturn in Q3 was primarily driven by the non-oil sector, which accounted for about c.97% of Nigeria's real GDP. The sector's GDP grew by 3.91%, up from 3.64% y/y in Q2 '25 and 3.79% y/y in Q3 '24

GDP, oil and non-oil growth (% change y/y)



Source: NBS; Quest MB Research

The tertiary (services) sector, which accounts for c.53% of total real GDP, continues to be the primary growth driver within the non-oil sector. Its real GDP grew by 4.15% y/y, compared with 3.94% y/y in Q2 ’25 and 4.97% y/y in Q3 ’24. The sector’s impressive performance was supported by solid expansions in agriculture, trade, information and communications, financial and insurance services, and construction.

With respect to sectoral performance and considering only sectors contributing at least 1% to GDP at constant prices, financial and insurance services retained its position as the leading sector. The sector delivered a solid GDP growth of 19.63% y/y, higher than the growth rates of 16.13% y/y and 4.33% y/y recorded in Q2 '25 and Q3 '24, respectively. Banks, which account for a significant share of the sector, continue to benefit from the elevated interest rate environment, driving higher asset yields and enhanced net interest margins.

Mining and quarrying was the second-fastest growing sector in Q3, delivering a y/y growth of 7.02%, although this represents a sharp slowdown from the 20.87% y/y recorded in the previous quarter. After several quarters of underperformance due to pipeline vandalism, theft, and operational disruptions, oil output improved following enhanced security measures in the Niger Delta and renewed investment in upstream activities.

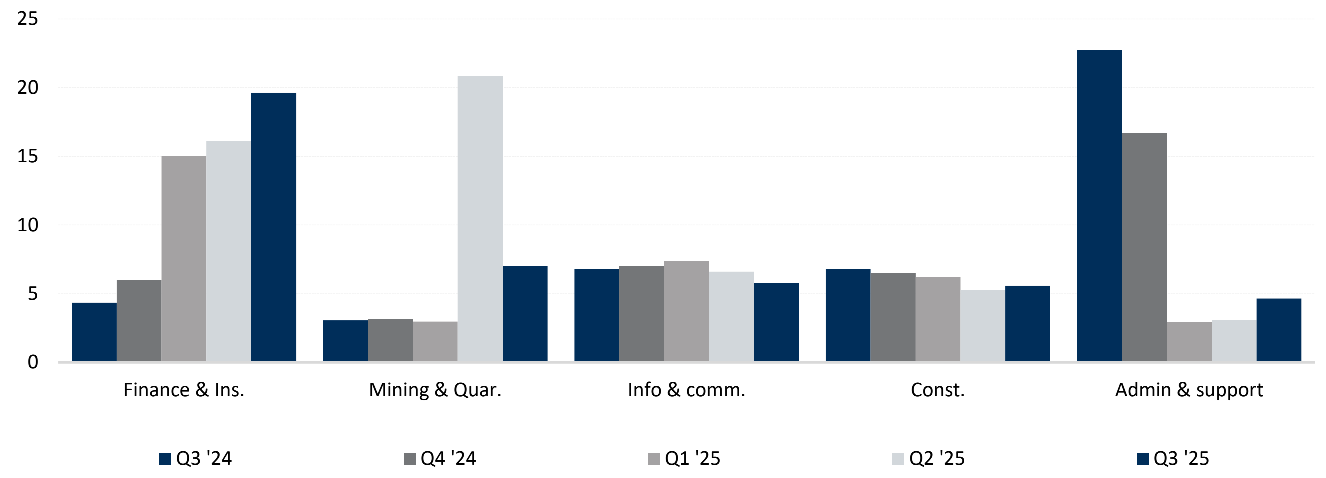
The information and communication sector, the most resilient of the activity sectors, posted an impressive growth of 5.78% y/y, down from 6.61% in Q2 ‘25. The sector benefited from subscriber growth - average subscriptions rose 7% y/y in Q3 - and the upward revision of voice and data tariffs implemented earlier in the year.

The construction sector’s output grew by 5.57% y/y, up from 5.27% in Q2. This expansion was driven by increased public investment in infrastructure projects and a surge in private sector-led development initiatives. Additionally, administration and support services recorded an output growth of 4.6% y/y, up from 3.08% the previous quarter. Real estate’s GDP grew by 3.50%, slightly down from 3.79% in the previous quarter.

Shifting focus to the lagging sectors, the manufacturing sector posted a subdued performance in Q3, recording output growth of 1.25% y/y, down from 1.60% y/y in the previous quarter. The sector remains under pressure from elevated borrowing costs driven by the CBN’s monetary tightening stance, alongside high foreign exchange rates, which have dampened import activity.

While the trade sector grew by 1.98% y/y in Q3, up from 1.29% in Q2, its performance remains range-bound and constrained by persistent structural challenges. These include weak consumer purchasing power, elevated FX pricing that has increased the cost of imported goods, and lingering supply chain disruptions. Additionally, tight monetary conditions have limited credit availability for traders, further dampening sectoral momentum despite the modest improvement in growth.

Top performing sectors (% change; y/y)



Source: NBS; Quest MB Research

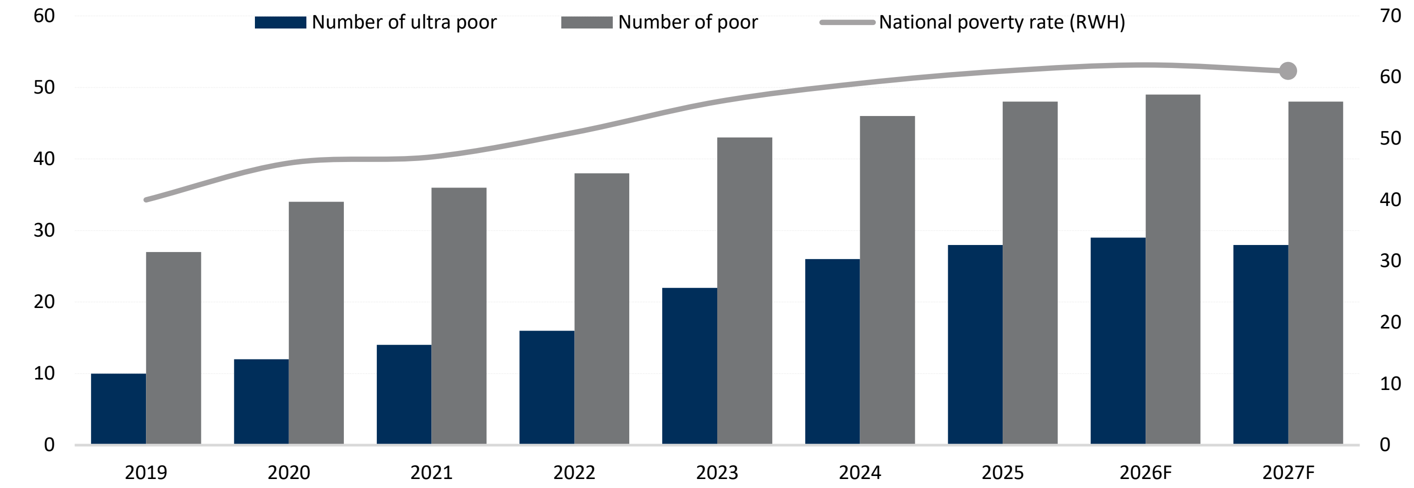
Turning to the oil economy, oil's GDP delivered a solid growth of 5.84% y/y in Q3, up from 5.66% y/y growth reported in the year-earlier period. However, this growth was significantly weaker than 20.46% y/y recorded in the previous quarter. The weaker performance compared to the previous quarter was driven by a decline in crude oil production and softer oil prices. Data from the NBS shows that Nigeria's average crude oil output in Q3 stood at 1.64 million barrels per day (mbpd), slightly down from 1.68 mbpd in Q2 '25, though higher than 1.47 mbpd recorded in Q3 '24. In addition, the average price of Bonny Light—Nigeria's benchmark crude blend—fell to USD71.3 per barrel, compared to USD82.2 per barrel in Q3 '24, further weighing on the sector's performances.

Growth picking pace but non-inclusive

Nigeria's economy made notable strides toward stabilisation in 2025, with growth accelerating in recent quarters, and reflecting the tangible impact of macroeconomic reforms implemented by the current administration. However, inclusive growth remains elusive, as reform gains have yet to translate into substantial improvements in livelihoods. While reforms are delivering tangible macro-economic results, growth is not broad-based, and welfare conditions for most Nigerians have not improved. Although the government launched several social assistance programs to cushion the impact of policy shifts, implementation has been slow and largely ineffective in improving living conditions. Data from the Nigeria Living Standards Survey conducted by the World Bank indicates that about 61% of the population, approximately 139 million people are living in poverty in 2025. The poverty rate is projected to rise to 62% in 2026 (around 141 million people) before stabilizing and slightly declining to 61% in 2027.

According to United Nation's Conference on Trade and Development (UNCTAD), a sustained annual growth rate of at least 7% is required to eradicate poverty in less developed countries and place their economies on a path toward accelerated growth and sustainable development. Although the current administration has set an ambitious target of achieving a USD1trn economy and consistent 7% GDP growth by 2030, prevailing economic realities cast doubt on the feasibility of meeting this target.

Share of population in poverty (%) vs number of poor (millions)



Source: World Bank; Quest MB Research

Nevertheless, we believe the pace of growth must accelerate to achieve sustainable inclusiveness and reduce poverty levels. To move toward this goal, the composition of growth needs to shift toward sectors that are highly productive, generate positive spillovers, and create jobs and opportunities at scale, particularly for the poor and economically vulnerable. While the financial services, insurance, and ICT sectors have recorded impressive growth and remain key drivers of economic performance, their contribution to mass employment and rural livelihoods is minimal.

Consequently, the government needs to channel idle funds and incentivise both public and private sector participation in strategic sectors such as agriculture, manufacturing, and trade, whose value chains are critical to employment generation and livelihood opportunities. Delivering strong growth in these sectors is essential for achieving inclusive and broad-based development. In addition, closing Nigeria's significant infrastructure gaps is vital to support economic diversification and improve living standards. Finally, the government must strengthen and expand social safety nets, ensuring effective monitoring and sustained implementation of cash transfer programs to provide relief for vulnerable households.

Moving into 2026

Looking ahead, we forecast GDP growth of 4.0% in 2026, up from the 3.4% expansion recorded in 2024. This stronger growth outlook is underpinned by sustained momentum in the tertiary (services) sector, with notable contributions from financial and insurance services, as well as information and communications. These sectors continue to benefit from the elevated interest rate environment and recent tariff adjustments. The ongoing recovery in the oil economy is also expected to support overall growth, driven by a gradual rebound in crude oil production and enhanced security surveillance in the Niger Delta region.

However, there are still downside risks to Nigeria's economic outlook in the near to medium term. These include potentially softer global energy prices, stemming from oversupply concerns following increased OPEC production. These risks could be further amplified by escalating trade tensions and a potential slowdown in global economic activity, following President Trump's continued implementation of stricter tariff measures.

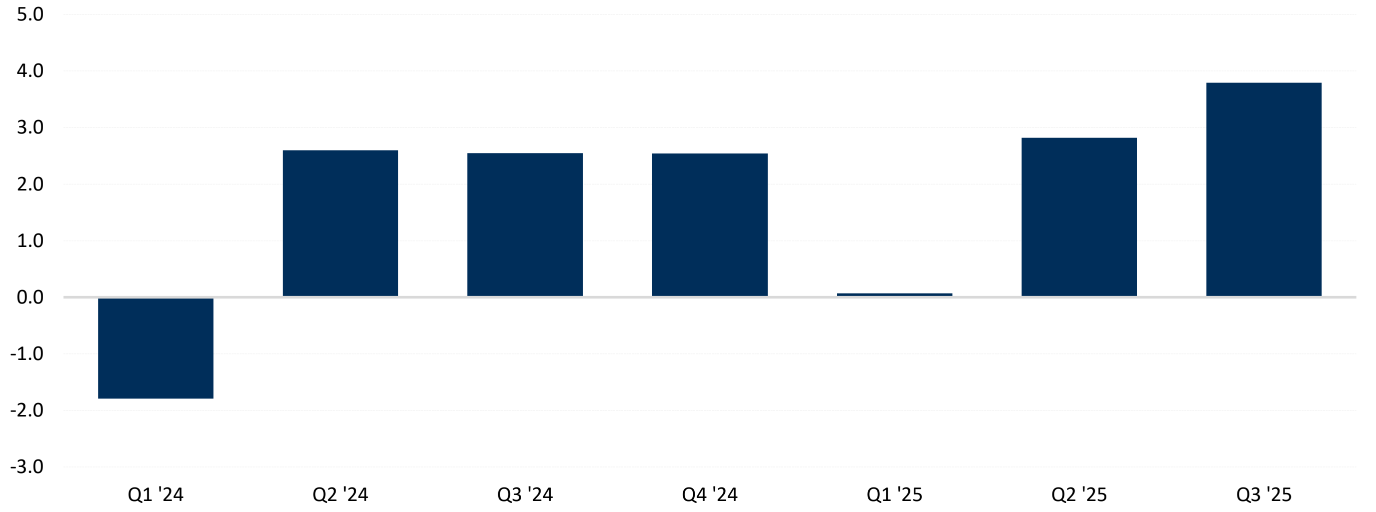
Agriculture: Stirrings of a recovery

Agriculture remains a critical driver of inclusive growth, supporting rural livelihoods and ensuring food security. Beyond primary production, the sector also plays an essential role in fostering value-chain development and agro-processing activities, which are vital for industrialization and export diversification. In Q3, the agriculture sector sustained its solid growth, delivering an impressive 3.79% y/y, up from 2.82% y/y growth recorded in the previous quarter. This performance reflects the sector's resilience despite persistent structural challenges such as high input costs, limited mechanisation, and climate-related disruptions.

However, despite the recent progress over the last two quarters, productivity gains - particularly in the dominant crop-production segment - remain constrained by multiple concerns. These challenges include persistent conflict and insecurity in key producing regions, limited access to quality seeds and fertilisers, high costs of imported inputs, and inadequate transport infrastructure. Farmers also face restricted access to financing, poor storage and post-harvest facilities, and vulnerability to extreme climatic conditions such as flooding and crop diseases, all of which continue to weigh on output and limit overall sector performance. These challenges have significantly constrained domestic food production, contributing to sustained upward pressure on food prices.

The sector's strategic role in the recovery of the economy highlights the need for sustained investment in infrastructure, mechanisation, and climate resilience to unlock productivity gains. Policymakers must therefore prioritise interventions that enhance efficiency and competitiveness, ensuring the sector can drive inclusive growth and support diversification away from oil dependence. As a result, addressing these bottlenecks through targeted investments in irrigation, storage facilities, and value-chain development will be essential for unlocking the sector's full potential and strengthening its role in poverty reduction and economic diversification.

Agricultural GDP growth (% change y/y)



Source: NBS, Quest MB Research

Monetary policy

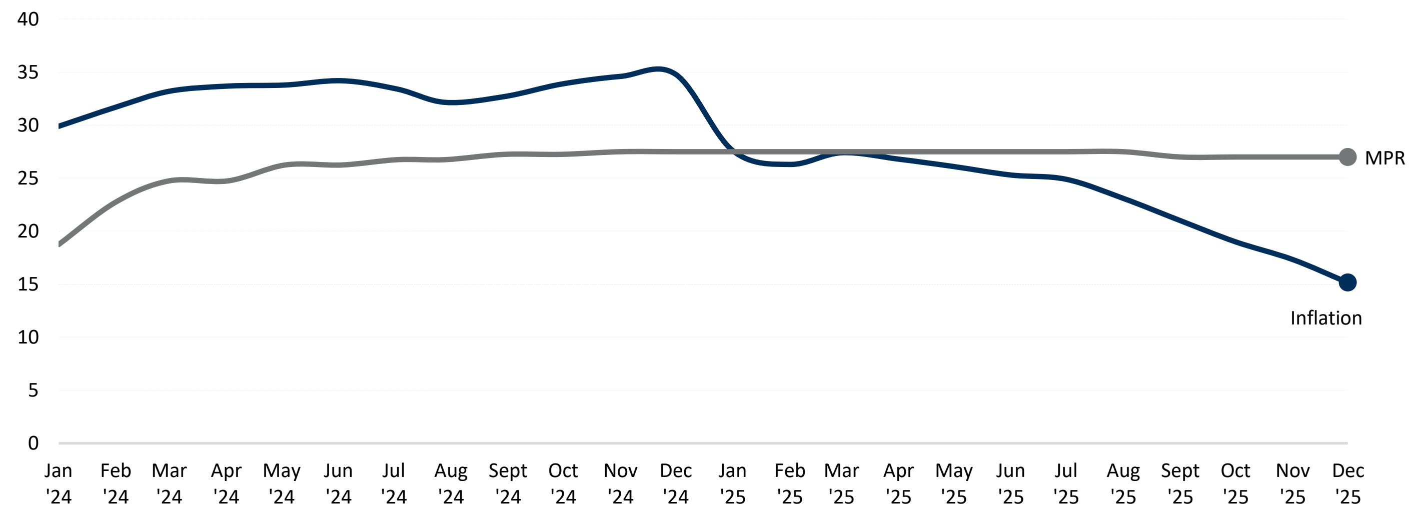
The Monetary Policy Committee (MPC) of the Central Bank of Nigeria adopted a cautious approach toward monetary policy easing in 2025, following an aggressive tightening cycle in 2024. During 2024, the MPC raised the Monetary Policy Rate (MPC) by a total 875bps to c.27.50%, aimed at curbing rising inflationary pressures and stabilising the foreign exchange (FX) market, as headline inflation reached a double-digit growth of 34.80% y/y in Dec '24. This aggressive stance underscored the CBN's renewed commitment to an inflation-targeting framework, aimed at restoring price stability and anchoring inflation expectations amid heightened macroeconomic pressures.

In 2025, the rebasing of the Consumer Price Index (CPI) in January, which involved the reweighting of the inflation basket and the adoption of 2023 as the base year, supported a downward trend in the headline inflation. In addition to the statistical adjustment, a stable exchange-rate conditions, softer energy prices, and improved food supply conditions, contributed significantly to easing price pressures.

Against this backdrop, the MPC began to signal a cautious shift in tone, although in a prudent manner. Consequently, the Committee maintained elevated policy rates from January through August, underscoring its commitment to its inflation-targeting framework and the mandate of price stability. A secondary factor for sustaining the tight monetary stance was to preserve foreign capital inflows, thanks to attractive carry trade opportunities amid a soft global interest rate environment.

In September, the MPC pivoted toward policy easing after holding rates steady for three consecutive meetings. The Committee implemented its first rate cut in five years, reducing the Monetary Policy Rate (MPR) by 50bps c.27%. This shift to a more accommodative stance was underpinned by favourable macroeconomic developments, including a sustained disinflationary trend, improved exchange rate stability, and a robust external gross reserves position. The policy move was further supported by a softer global interest rate environment, as the US Federal Reserve adopted a dovish policy stance amid concerns over employment risks, evidenced by weakening labour market conditions. The Committee also justified its policy decision on the need to support economic activity, which was reflected in adjustments to other policy parameters.

Headline inflation and MPR (%)



Source: CBN, NBS; Quest MB Research

Specifically, the MPC lowered the Cash Reserve Ratio (CRR) for deposit money banks by 500 bps to 45% and adjusted the asymmetric corridor to +250/-250 bps around the MPR (from +500/-250 previously). However, the CRR for merchant banks and the liquidity ratio were retained at 16% and 30%, respectively, while a 75% CRR was introduced on non-TSA deposits to mop up liquidity from higher public sector deposits.

The adjustment of the MPR corridor aimed to encourage lending to the real sector while discouraging idle fund placements with the CBN. Despite this revision, banks continued to channel significant liquidity to the Standing Deposit Facility (SDF) window, attracted by the SDF rate of 24.5%, which was substantially higher than the 364-day Treasury bill yield, which moderated to around 15–16% amid a softer inflation outlook and declining yield environment. The recent removal of the NGN3bn placement limit further enhanced the appeal of this risk-free option, contributing to surplus liquidity in the financial market.

Despite pivoting to a more accommodative stance in September and headline inflation easing further in October, the MPC reverted to a prudential posture at its November meeting, maintaining the MPR at c.27%. This hold decision was anchored on the need to strengthen the CBN's inflation-targeting framework and consolidate previous efforts to curb inflation expectations, particularly amid heightened consumer spending associated with the festive season.

The Committee also sought to sustain recent gains in the FX market by keeping domestic assets attractive to offshore investors. In addition to retaining policy rates, the MPC adjusted the asymmetric corridor around the MPR to +50/-450 bps (from +250/-250 previously). By further reducing the SDF rate to 22.5% from 24.5%, the Committee aimed to discourage banks from placing excess liquidity with the CBN and instead stimulate lending to the real sector. Similarly, lowering the SLF rate from 29.5% to 27.5% was intended to incentivise borrowing by commercial banks, thereby supporting credit creation and economic activity.

These adjustments complement the MPC's anti-inflation stance by encouraging productive investment without signalling aggressive monetary easing. However, given that the SDF rate of 22.5% remains significantly above market yields—which continue to moderate amid easing price pressures, banks are still likely to favour this risk-free option. This dynamic continues to shape liquidity conditions in the financial market. Overall, the MPC consolidated its previous monetary policy efforts, prioritising inflation control and foreign exchange stability over stimulating economic activity through credit expansion.

Looking ahead, we expect the Monetary Policy Committee (MPC) to adopt a dovish stance in 2026, supported by sustained disinflation and exchange rate stability. While the macroeconomic backdrop favours further policy easing, we anticipate a cautious approach to rate cuts as the MPC seeks to consolidate previous tightening measures and maintain carry trade opportunities to sustain offshore inflows. In addition, the Committee will balance inflation control with its economic growth mandate, ensuring flexibility in rate adjustments to stimulate credit expansion to the real sector.

Beyond domestic factors, expectations of improved external conditions strengthen the case for further easing. A softer global environment, particularly a more accommodative US Federal Reserve provides additional headroom for more significant rate cuts. Consequently, we anticipate 300–350 bps of rate cuts in 2026. However, risks remain on the downside, as a resurgence in inflation expectations driven by structural bottlenecks could prompt a reversal toward monetary tightening. Regardless, we see the policy rate ending the year at around 23.5% to 24%.

Headline inflation on a disinflation phase

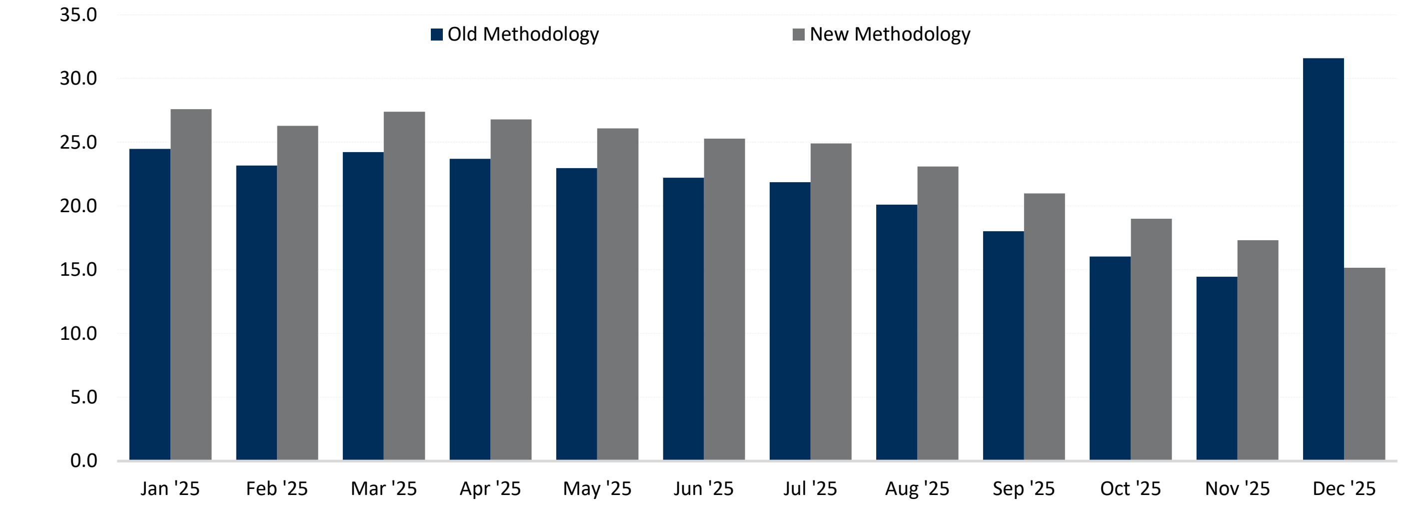
After peaking at 34.80% y/y in December 2024, headline inflation entered a disinflationary phase in 2025, largely driven by the Consumer Price Index (CPI) rebasing implemented in January 2025. As part of the rebasing exercise, the NBS adopted 2025 as the new base year and reweighted the CPI basket, which reduced some previously pronounced weights. However, the rebasing framework initially set the December 2024 index to 100, which would have mechanically resulted in a sharp increase in headline inflation to around c.31% - 32% y/y in December 2025—a rise driven not by actual price growth but by a distorted base effect created by the rebasing process.

Recognising this issue, the NBS announced plans to revise the CPI framework to avoid misleading interpretations of December inflation. To address the distortion, the NBS shifted the reference period from a single-month base (December 2024) to a 12-month average for 2024, aligning the revised CPI methodology with IMF CPI and ECOWAS Harmonised CPI guidelines. The updated CPI data introduced a notable adjustment across the entire 2024 monthly CPI series, leading to a revised 2025 y/y headline inflation series. However, the m/m 2025 figures remained unchanged.

Beyond these statistical adjustments, underlying inflationary pressures have also eased this year. Exchange rate volatility, the largest source of pass-through to consumer prices has moderated as a result of improved FX liquidity. Additionally, energy prices have softened on the back of lower global oil prices and increased refining capacity, while stronger domestic food supply has helped reduce food inflation. Furthermore, the Monetary Policy Committee's tightening measures have begun to filter through the economy, curbing excess liquidity and tempering demand-side pressures. Overall, these factors have supported the disinflationary trend.

In December 2025, headline inflation eased to 15.15% y/y, down from the revised 17.33% y/y recorded in the previous month. The softer inflation reading reflects significant declines both food and core inflation, which moderated to 10.84% y/y and 18.63% y/y, respectively, from 14.21% y/y and 20.59% y/y recorded in September. Additionally, the m/m headline inflation rate unexpectedly decelerated to 0.54% m/m from 1.22% m/m recorded in November, despite the typical price increases associated with festive season demand. Overall, despite the NBS' methodology inconsistencies, inflationary pressures have eased this year, reinforcing the CBN's inflation-targeting framework aimed at achieving price stability and anchoring inflation expectations.

Consumer price inflation (y/y change, %)

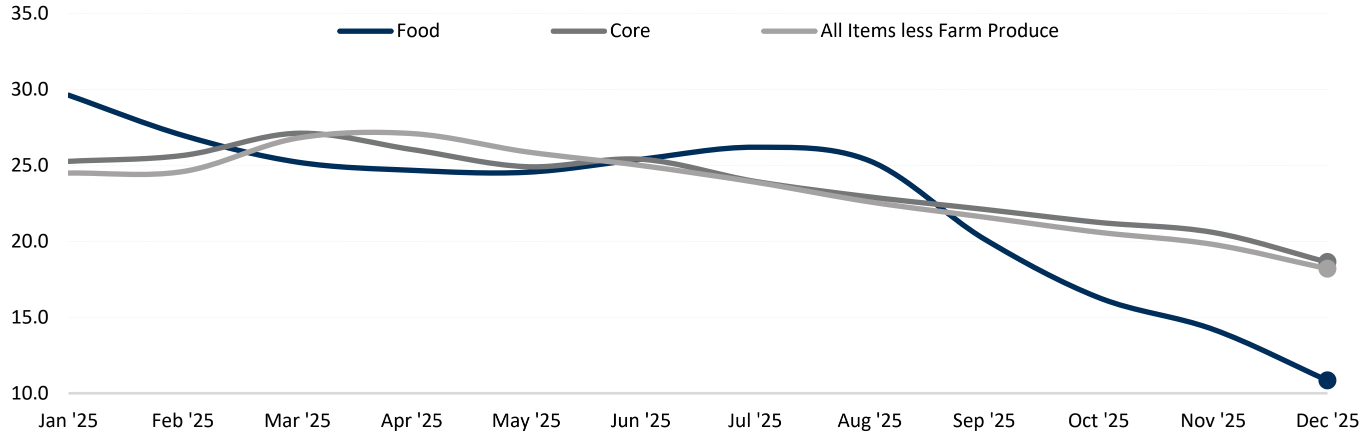


Source: NBS; Quest MB Research

Turning to key drivers, food prices, despite their reduced weighting in the CPI basket under the new methodology have remained the dominant driver behind the softening inflation trend. This reflects the impact of high base effect, softer energy prices and seasonal harvest season. Improved domestic agricultural output, supported by enhanced logistics and targeted government interventions, has contributed significantly to the stability of food prices. Food inflation moderated to 10.84% y/y from 14.21% y/y in November. On a m/m basis, food inflation declined by -0.36% m/m, contrasting with the previous month's increase of 1.13% m/m.

Beyond domestic factors, the typically volatile impact of imported food inflation on domestic food has remained contained this year, driven by sustained exchange rate stability. Additionally, global commodity prices have eased, providing further relief to domestic food costs. According to the Food and Agriculture Organization (FAO), the global food price index has softened this year, recording consistent monthly declines, with notable reductions in cereals, sugar, and vegetable oils. This moderation reflects favourable production conditions and abundant inventories, globally.

Major components of CPI basket (y/y change, %)



Source: NBS; Quest MB Research

Core inflation, which excludes food and energy costs, has maintained a steady downward trajectory this year, supported by stable FX market conditions and the high base effect. Exchange rate stability has significantly reduced imported inflation, particularly for non-food consumer items. Given the sensitivity of non-food categories such as housing, healthcare, clothing, and footwear to currency movements, the reduced naira volatility has helped ease price pressures within the core basket. In addition to these underlying factors, the sustained moderation in core inflation was supported by statistical adjustments, which created a favourable base effect and contributed to disinflation across core components. In December, the core basket softened to 18.63% y/y from 20.59% y/y in November. On a m/m basis, core inflation slowed to 0.58% m/m from 1.28% m/m in the prior month.

Inflation outlook

Looking ahead into 2026, we anticipate a softer inflation outlook driven by stable underlying drivers**.** We expect the FX market to remain stable, supported by stronger external reserves and continued foreign capital inflows. This stability is expected to limit volatility in imported inflation and lead to a positive pass-through effect across the CPI basket. Additionally, the energy market is projected to stabilise on the back of increased domestic refining capacity, reducing reliance on imported petroleum products. A potential reduction in energy costs would ease transportation costs, further supporting a disinflationary trend. In addition, we anticipate a cautious monetary policy pivot, which should contribute to a more stable and less volatile price environment in 2026.

Downside risks to the current disinflationary trend stem from fiscal and structural factors that could fuel resurgence of inflationary pressures. The federal government’s proposed 2026 budget deficit of NGN25.3trn, up from an estimated NGN13.5trn in 2025, raises concerns about increased government borrowing. Higher borrowings could inject additional liquidity into the financial system, driving demand-side inflation. Additionally, the implementation of the new Tax Act from January poses a potential risk of cost-push inflation, as higher taxes on goods and services may translate into price increases for consumers. Pre-election spending aimed at gaining political advantage also poses a significant risk to inflationary stability. Such spending injects substantial liquidity into the economy, fuelling inflationary pressures.

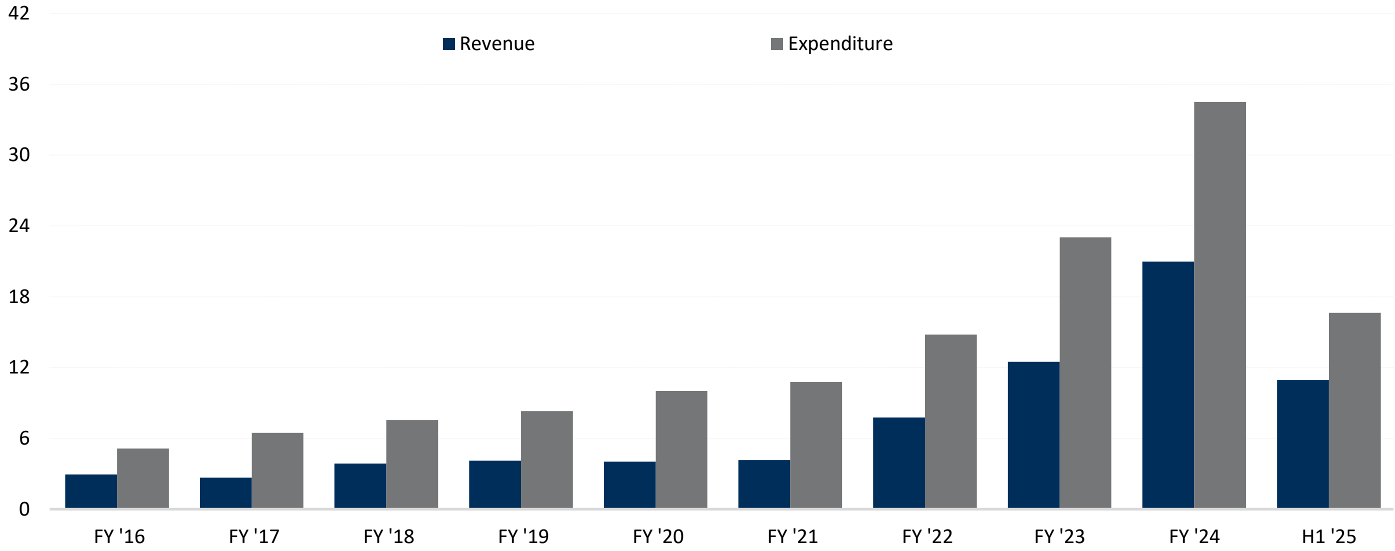
On the structural front, persistent security challenges and recurrent flooding in key food-producing regions remain a major concern in the nation’s food sector. If these issues escalate, they could disrupt agricultural productivity, constrain food supply chains, and reverse recent gains in food price stability. Such developments would exert significant pressure on the headline reading. Overall, structural bottlenecks and aggressive fiscal spending could undermine disinflationary gains, if not properly managed. Consequently, the MPC will need to maintain monetary discipline to anchor inflationary pressures and consolidate past progress in containing price pressures.

Fiscal pressures and the challenge of consolidation

Historically, fiscal policy has remained the weaker link of macroeconomic policy due to persistent fiscal looseness which has often constrained the fiscal space. We highlight several central historical issues, one of which is gradually being resolved by the current administration. The first issue is the inadequacy of government revenues, reflected in Nigeria's historically low revenue to GDP ratio relative to peers on the continent. Nigeria's federally collected revenues amount to 7.7% of GDP, compared with 30.3% in South Africa (2022), 18.6% in Kenya (2022), and 15.6% in Ghana (2023), according to World Bank data. Although this is gradually improving, on account of gains in non-oil revenue collection through the strenuous efforts of the Federal Inland Revenue Service (FIRS), there remains considerable ground to cover.

Additionally, the current administration's fiscal reforms have led to a rise in gross revenue receipts. The removal of fuel subsidies has increased the (naira) revenues available for distribution across the three tiers of government, with state governments benefiting strongly. More importantly, the anticipated implementation of the Tax Reform Act (2025) in 2026 is expected to be a real game changer by expanding the tax base and eliminating unnecessary waivers and loopholes for firms and individuals, with the government's stated goal of raising the tax to GDP ratio to around 18% over the next three years.

FGN revenue vs FGN expenditure (NGN 'trn)



Source: Budget Office of the Federation; Quest MB Research

A second and related area of concern is the FGN's persistent deficit spending, stemming from the paucity of government revenues. Consequently, the FGN's fiscal operations have often exceeded the 3% ceiling on deficits set by the Fiscal Responsibility Act. To cover these deficits, the government has relied heavily on borrowing, which in turn have contributed to Nigeria's rising public debt levels. Another significant issue is the high proportion of revenues consumed by debt service obligations, which has led to historically elevated debt service to revenue ratios. Up until 2023, the unfunded portion of the deficit was largely financed through Ways and Means advances from the CBN, a practice that carried serious consequences for inflation and exchange rate stability. Although the debt service to revenue ratio decreased to 60.2% in 2024 from 68.5% in the 2023, its still elevated level has continued to limit the fiscal headroom, with capital spending on infrastructure and social programs being the major casualties.

FGN debt services to revenue ratio

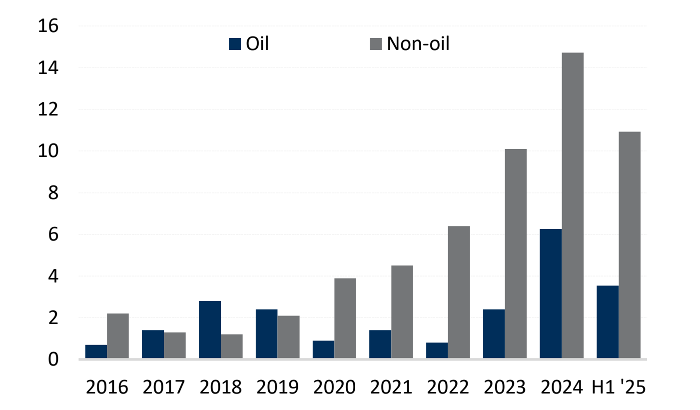
A final fiscal challenge is the inadequate transparency of government spending, particularly reflected in the delayed and inconsistent delivery of fiscal reports. Notably, Nigeria's H1 '25 fiscal data was only released in late December, well beyond internationally accepted timelines for mid-year budget reporting, which typically require publication within one to three months. Even more concerning, the report for Q4 '24 was released only in October 2025. Although significant progress has been made with the adoption of technology for tax collection, improvements in the transparency of government finances and spending have been slow. Consequently, weak governance and structural shortcomings in public financial management have compounded fiscal pressures, undermined accountability, and exacerbated sustainability risks.

Available data for H1 '25 shows that the FGN's fiscal operations resulted in a fiscal deficit of NGN2.7trn in Q2 '25. Cumulatively, this translates to a fiscal deficit of NGN5.7trn for H1 '25, equivalent to a deficit-to-GDP ratio of 2.9%. These figures exclude the budgets of government-owned enterprises (GOEs) as well as multilateral and bilateral project-tied loans. Underpinning the H1 '25 deficit was retained revenue of NGN10.9trn, which, although 29% higher y/y, fell significantly short of the pro rata budget benchmark of NGN20.4trn. Consistent with historical trends, the primary driver of the revenue shortfall was oil revenue, which came in at NGN3.4trn versus a budget target of NGN10.5trn for the review period. This shortfall was largely due to an aggressive oil production benchmark of 2.12 million barrels per day (mb/d) versus a realised output of roughly 1.6mb/d. Non-oil revenue also underperformed, with the FGN's share amounting to NGN3.4trn, or around 24% below the budget target of NGN4.4trn.

Beyond revenue performance, the macroeconomic environment also shaped fiscal outcomes in H1 '25. The 2025 budget was anchored on an oil price benchmark of USD75/b, broadly aligned with the actual average of USD70.8/b over the period. However, the exchange rate assumption of NGN1,400/USD proved optimistic relative to the weaker weighted-average official rate of NGN1,518.1 that prevailed, with implications for both oil and non-oil revenue flows. These deviations from underlying macro assumptions contributed to the revenue shortfall and reinforced existing fiscal pressures.

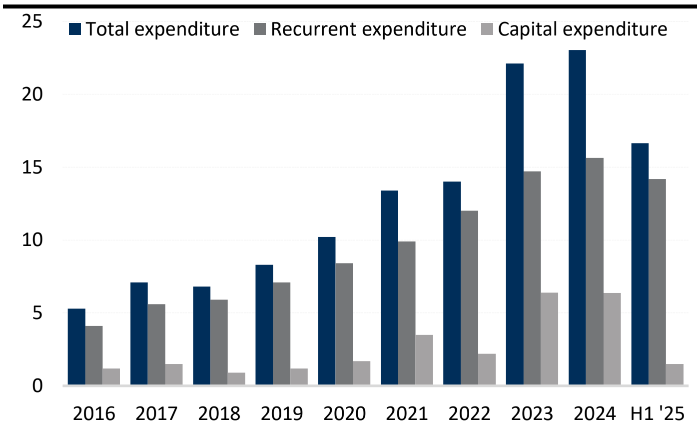
On the expenditure side, total spending reached NGN16.6trn, around 40% below the NGN27.5trn projected in the budget. The major casualty was capital expenditure, which amounted to a paltry NGN1.5trn in H1 '25, falling far short of the NGN11.7trn earmarked in the budget. Conversely, recurrent expenditure accounted for about 85% of total spending at nearly NGN14.2trn, broadly in line with the budgeted sum of NGN14.0trn.

FGN revenue (NGN 'trn)



Source: Budget Office of the Federation, Quest MB Research

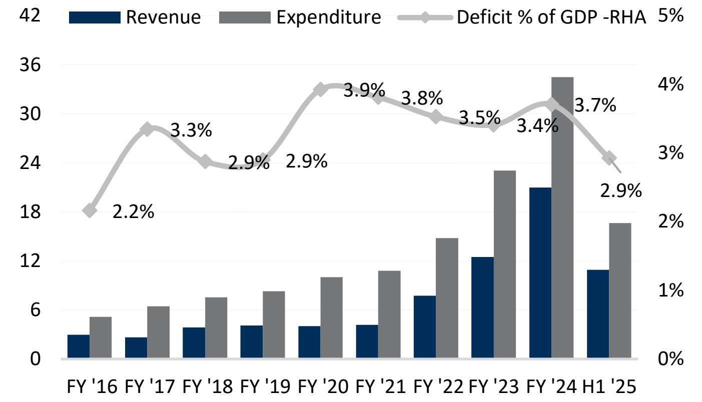
FGN expenditure (NGN 'trn)



Source: Budget Office of the Federation, Quest MB Research

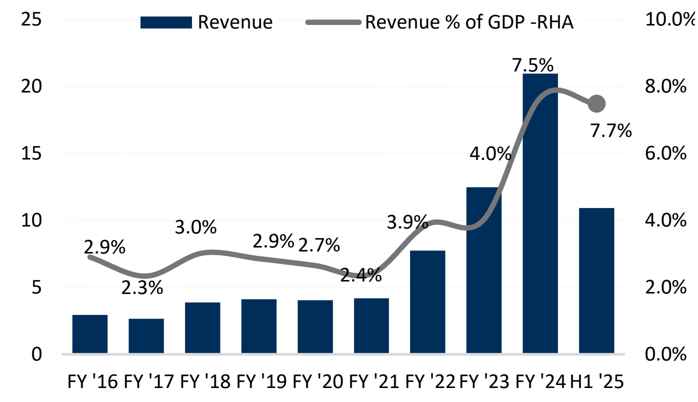
Of key concern is the heavy debt service burden, which accounted for 55% of total expenditure at NGN9.2trn and implies a debt service to revenue ratio of 84%. The heavy debt service burden continues to raise fiscal sustainability concerns, underscoring the need for reforms that not only boost revenue but also strengthen transparency and governance in fiscal operations. In recognition of the persistent fiscal shortfalls and the need to address the imbalances, the Tinubu administration introduced a series of fiscal reforms aimed at optimising revenue generation and reducing wasteful expenditure. The first of these reforms was the removal of fuel subsidies which was announced by President during his inauguration speech in May 2023. Although these subsidies persisted unofficially through most of 2024 despite their formal removal in 2023, the commencement of domestic petrol refining in Sep ’24, as well as limited output from NNPCL’s old Port-Harcourt and Warri refineries, which started from Nov ’24 has ensured their full elimination.

FGN Revenue, expenditure (NGN 'trn) vs deficit-to-GDP (%)



Source: Budget Office of the Federation, Quest MB Research

FGN revenue (NGN 'trn) vs revenue-to-GDP (%)



Source: Budget Office of the Federation, Quest MB Research

In terms of financing, the FGN relied heavily on domestic sources to fund its fiscal operations, with domestic borrowing amounting to NGN6.1trn and remaining the dominant channel. Complementing this were multilateral and project tied loans of NGN1.7trn, which provided relatively cheaper, concessional financing, as well as a modest NGN65bn in privatisation proceeds. Combined, these financing items exceeded the headline fiscal deficit of NGN5.7trn for the period, resulting in a net financing surplus of NGN2.1trn and underscoring the FGN’s continued dependence on domestic borrowing amid persistent revenue underperformances.

While structural reforms are now underway with the Tax Reform Acts of 2025—signed into law in June 2025 and scheduled for implementation from January 2026, with the aim of broadening the revenue base, strengthening fiscal discipline, and reducing reliance on debt financing—there remains a pressing need for complementary measures to enhance transparency, improve public disclosure, and strengthen overall governance of the FGN’s finances. Greater clarity around fiscal operations, more timely reporting, and stronger oversight of extra budgetary activities will be essential to address persistent structural weaknesses and ensure that the ongoing consolidation effort is both credible and sustainable.

The 2026 Budget

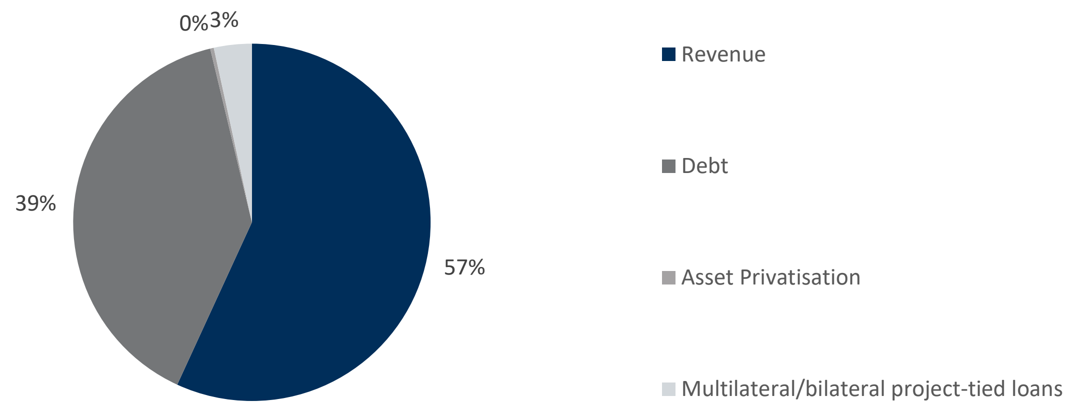
Looking ahead, the FGN’s 2026 budget proposal sets total expenditure at NGN58.5trn, comprising capital spending of NGN23.2trn (39.7%), recurrent expenditure of NGN15.3trn, and statutory transfers of NGN4.1trn. More concerning, however, is the sizeable allocation to debt service, estimated at NGN15.9trn—equivalent to 27.2% of total spending and representing the second largest claim on projected expenditures.

On the revenue side, the budget projects collections of NGN33.2trn, implying a fiscal deficit of NGN25.3trn. The key macro fiscal assumptions underpinning the revenue framework include.

- Oil price benchmark of USD64.85/b
- Oil production of 1.84mbpd,
- Exchange rate of NGN1,400/USD
- Inflation rate of 16.5%, and GDP growth of 4.68%.

While these assumptions are more conservative than in prior years, they nonetheless highlight the continued sensitivity of the fiscal framework to oil production outcomes and exchange rate dynamics. To bridge the financing gap, the FGN plans to raise NGN23.0trn in new borrowing, up sharply from NGN11.0trn in 2025. Domestic borrowing accounts for NGN18.4trn (vs. NGN9.2trn in 2025), while external borrowing is projected at NGN4.61trn (vs. NGN2.4trn). Additional financing is expected from asset sales amounting to NGN189.2bn and multilateral/bilateral project tied loans of NGN2.0trn.

FGN's 2026 budget financing mix



Source: Budget Office of the Federation; Quest MB Research

Despite expectations of modest monetary policy easing in 2026, the marked increase in new borrowings—driven primarily by the expansion in domestic issuance—suggests that the larger supply of FGN securities is likely to provide some support for market yields as the government ramps up issuance to meet its funding needs. The 2026 budget faces several downside risks, particularly around the oil market. With the benchmark set at USD64.85/b, any softness in global crude prices will weigh on oil revenue, while the projected 1.84mbpd production target remains optimistic relative to the roughly 1.6mbpd realised in 2025.

Exchange rate dynamics add further uncertainty: although expectations lean toward modest appreciation or relative stability, a weaker than assumed rate would lift naira denominated revenues through FX conversion but raise the domestic cost of external debt service and intensify inflationary pressures. Inflation itself remains a key variable, as outcomes above the budgeted 16.5% could elevate recurrent spending and influence domestic borrowing costs amid a sizeable increase in planned domestic issuance.

Rising obligations and narrowing space

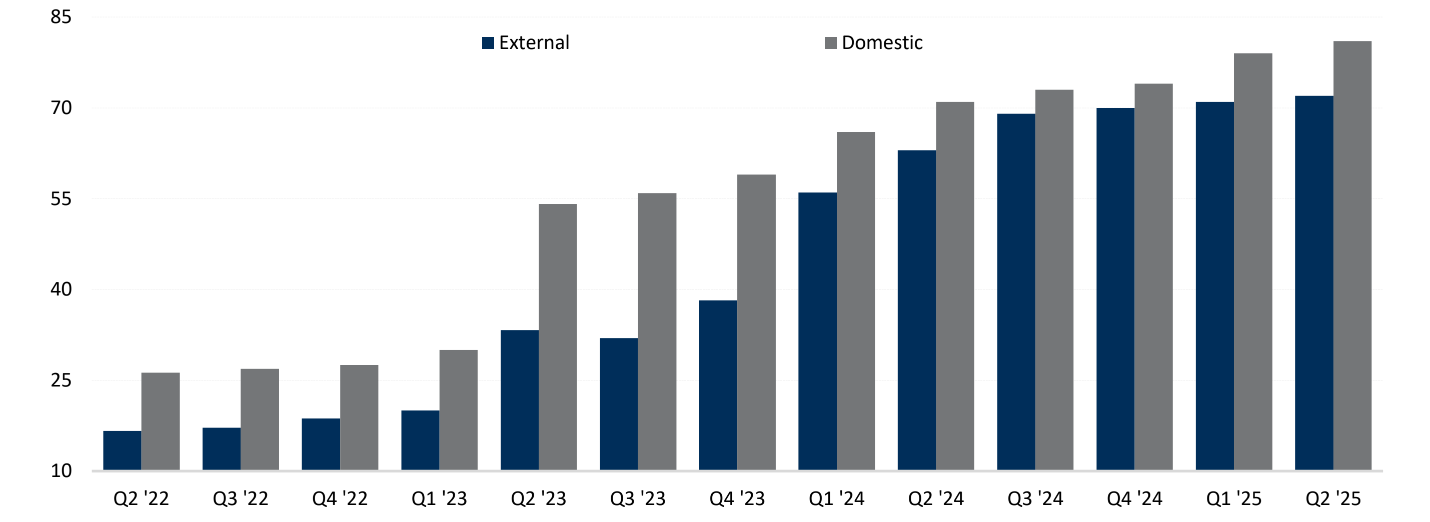
Nigeria's public debt stock continued to rise in 2025, with total public debt reaching NGN152.4trn in Q2 '25, representing a 13% y/y increase from NGN134.3trn in Q2 '24. The expansion reflects broad based growth across both external and domestic components, underscoring the persistent reliance on debt to finance widening fiscal deficits. External debt increased to NGN71.8trn in Q2 '25 from NGN63.1trn a year earlier, marking a 14% y/y increase. Although new external borrowings contributed to the rise, the naira's modest appreciation helped moderate the naira equivalent valuation of USD denominated obligations.

Domestic debt also increased materially, increasing by 13% y/y to NGN80.6trn in Q2 '25 from NGN71.2trn in Q2 '24. In terms of split, the domestic component now accounts for 53% of total public debt, compared with 47% for external debt—in line with the Federal Government's preferred 55:45 domestic to external mix outlined in the 2024–2027 Medium Term Debt Management Strategy. The steady rise in domestic debt reflects the government's continued dependence on the domestic market to fund large fiscal gaps, particularly as domestic issuance remains the primary tool for deficit financing.

The Federal Government's domestic debt stock increased by 14% y/y to NGN76.6trn in Q2 '25, up from NGN67.0trn in Q2 '24. FGN bonds remain the dominant instrument, rising to NGN60.7trn from NGN52.3trn a year earlier, while Nigerian Treasury Bills increased marginally over the same period. In relative terms, the FGN's domestic debt is equivalent to roughly 17.7% of projected 2025F GDP, while total public domestic debt (including states and the FCT) stands at around 18.6% of output. Although these ratios remain below the implied 33% domestic debt to GDP ceiling in the MTDS, the elevated debt service burden continues to constrain fiscal flexibility.

External debt also expanded on a y/y basis, rising by USD4.1bn (+10% y/y) to USD47.0bn in Q2 '25 from USD42.9bn in Q2 '24. The increase was driven partly by Nigeria's return to the international capital markets in December '24 through a USD2.2bn Eurobond issuance—its first since March '22. Multilateral debt also grew by USD1.6bn y/y to USD23.2bn, reflecting increased disbursements from development partners, particularly the World Bank. In standardised terms, the total external debt is equivalent to roughly 16.6% of 202F GDP, highlighting the growing role of external financing in Nigeria's debt profile.

Public debt stock (NGN trn)



Source: DMO, Quest MB Research

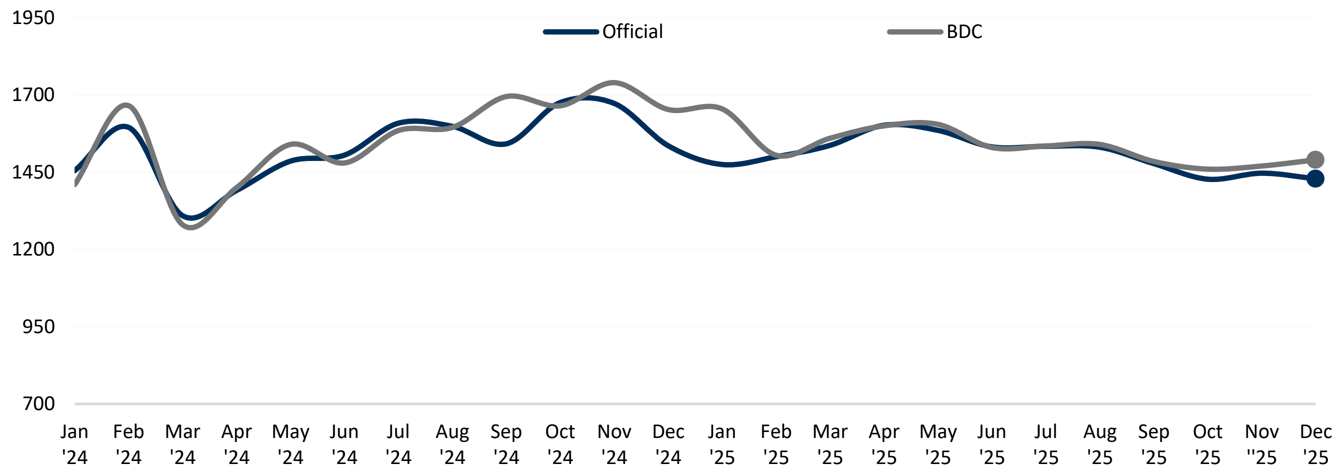
Looking ahead, Nigeria's prospects for further external borrowing appear favourable, supported by easing global financial conditions and expectations of continued monetary policy easing by major central banks. While the Federal Government has not formally confirmed a Eurobond or sovereign Sukuk issuance for 2026, the external financing requirement of NGN4.61trn in the budget suggests that a mix of multilateral, bilateral, and potential commercial market issuances will be explored to meet funding needs. However, the combination of rising borrowing requirements, elevated debt service to revenue ratios, and persistent revenue underperformance continues to raise concerns about long term debt sustainability.

Exchange rate and official reserves

Nigeria's foreign exchange market transitioned into a more stable regime in 2025, reflecting the cumulative effects of structural FX reforms, improved market transparency, and a sustained tightening of domestic financial conditions. Following the sharp dislocations observed in 2024, the Naira's performance improved materially, supported by stronger FX liquidity, enhanced price discovery at the Nigerian Autonomous Foreign Exchange Market (NAFEM), and a gradual restoration of offshore investor confidence.

At the core of this stabilisation was the CBN's FX reform agenda. The settlement of legacy FX obligations, together with the introduction of the Electronic Foreign Exchange Matching System (EFEMS), marked a decisive shift toward a more transparent and rules-based FX market. These reforms reduced informational frictions, improved market depth, and narrowed the arbitrage gap between the official and parallel markets, which had widened sharply following the FX liberalisation in mid-2023. By 2025, price convergence across market segments had largely been restored, significantly dampening speculative pressures on the currency.

Official and parallel market rates (NGN/USD)

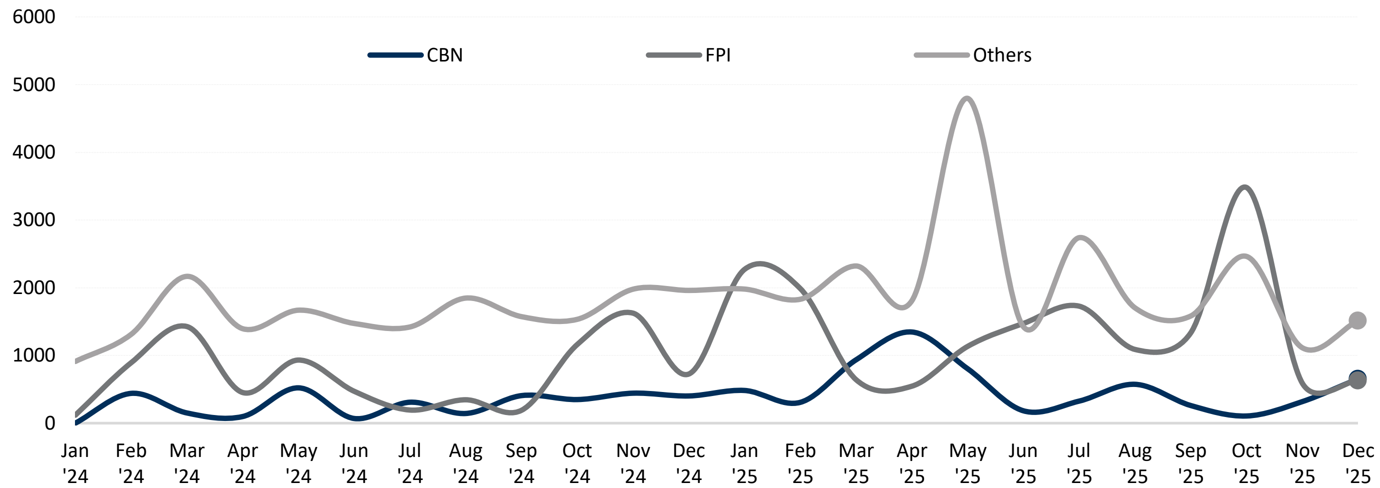


Source: CBN, Quest MB Research

Improved confidence translated into a meaningful recovery in FX inflows. Based on FMDQ data, average monthly FX inflows increased to USD3.9bn in 2025, up from USD2.6bn in 2024, driven largely by FPI inflows seeking to exploit elevated domestic market yields. The CBN's restrictive monetary policy stance, primarily aimed at curbing inflationary pressure, and delivering compelling positive real returns, proved instrumental in anchoring these inflows and positioning offshore investors as a key marginal supplier of FX to the market. FX supply was further supported by strong oil-related inflows, and resilient diaspora remittances, which continued to average around USD5bn per quarter, providing a stable and non-cyclical source of FX liquidity.

These developments helped moderate exchange rate volatility over the year. After opening 2025 at around NGN1,475/USD, the Naira traded within a relatively narrow range for most of the year and closed at approximately NGN1,429/USD at the official window. Importantly, the compression of the spread between the official and parallel market rates underscored the effectiveness of the ongoing FX reforms and the improved functioning of the market's price discovery mechanism.

FX flows by source (USD 'm)



Source: FMDQ, Quest MB Research

External monetary conditions also proved supportive. In 2025, the US Federal Reserve implemented three policy rate cuts amid easing inflationary pressures and signs of cooling labour market conditions, signalling the onset of a broader easing cycle across advanced economies. This shift improved global risk appetite and catalysed capital flows into higher-yielding emerging and frontier markets, including Nigeria. These inflows played a critical buffering role during periods of softer FX receipts from traditional sources, particularly oil exports, which were weighed down by lower global crude prices despite incremental gains in domestic production.

Moving to 2026, we expect exchange rate dynamics to remain broadly stable, though subject to intermittent pressures. Oil will continue to dominate Nigeria’s external accounts, accounting for nearly 88% of merchandise FX earnings. While we anticipate a modest improvement in crude oil production, the oil price outlook remains tilted to the downside, reflecting expectations of increased supply from non-OPEC producers and a potentially softer global demand environment. As such, oil-derived FX inflows are likely to remain volatile and sensitive to external shocks.

That said, we expect FX liquidity conditions to remain supported by a combination of sustained portfolio inflows, steady diaspora remittances, and continued policy discipline. On the domestic policy front, we anticipate that the CBN will maintain a cautious and data-dependent approach to monetary easing in 2026. Any adjustments to the policy rate are expected to be modest and carefully calibrated to preserve attractive real yields, thereby sustaining offshore investor participation and mitigating the risk of renewed currency volatility. Overall, while downside risks persist - particularly from oil price volatility, shifts in global risk sentiment, and seasonal FX demand - the structural improvements in Nigeria’s FX market, combined with a supportive external monetary backdrop and prudent domestic policy management, should help anchor the Naira and limit excessive volatility over the medium term.

Looking ahead, we expect the Naira to trade within a NGN1,380–NGN1,465/USD range by end-2026, implying a broadly stable exchange rate environment. The upside remains constrained by a relatively soft oil price outlook despite modest production improvements, while downside risks are mitigated by structurally stronger FX liquidity conditions. Against this backdrop, the exchange rate is likely to remain largely anchored through 2026, with volatility limited to episodic pressures from seasonal demand and shifts in global risk sentiment.

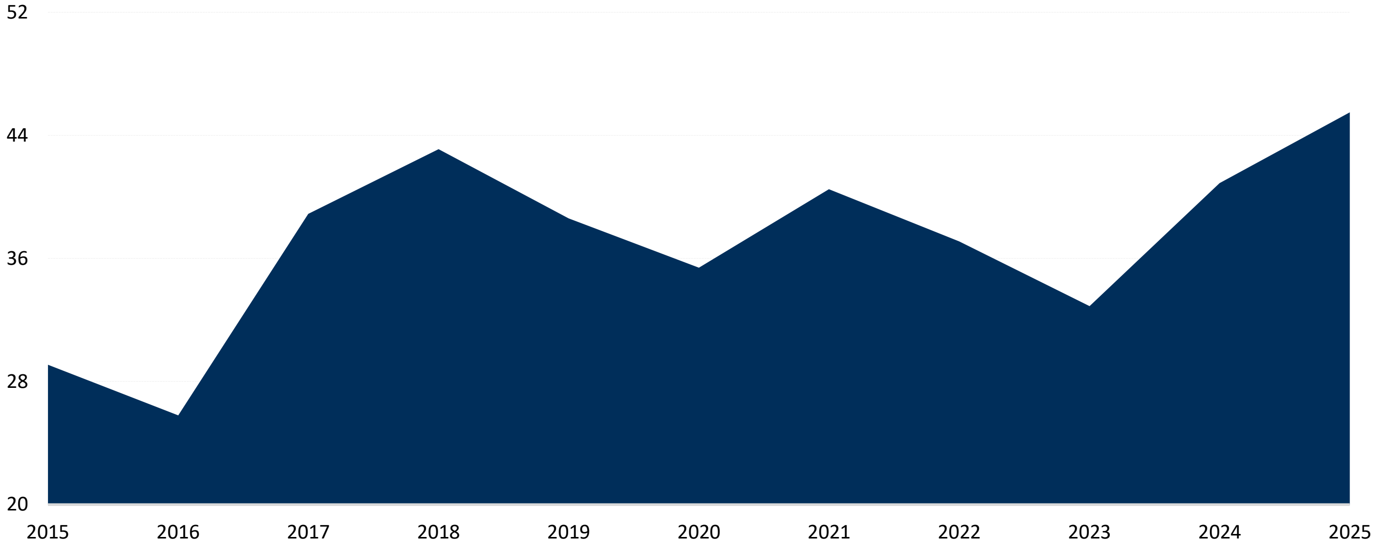
Strengthening buffers amid improved FX inflows

Nigeria’s external reserves strengthened meaningfully in 2025, reflecting a sharp turnaround from the pressures experienced in the first half of the year. According to CBN data, gross official reserves closed the year at USD45.5bn, up USD4.6bn y/y. The performance was characterised by a clear two-phase pattern: a sizeable drawdown in H1 ’25 due to heavy external debt service obligations, followed by a strong rebound in H2 ’25 as FX inflows improved. By end June, reserves had fallen to USD37.2bn, but sustained accretion in the second half—supported by portfolio inflows, remittances, and proceeds from external debt issuances—restored the reserve position to its highest level since 2021.

The recovery in H2 ’25 was driven primarily by robust foreign portfolio investment inflows, which nearly doubled to USD16.9bn for the full year, compared with USD8.6bn in 2024. Offshore investors responded positively to elevated domestic yields, improved FX liquidity conditions, and a more predictable policy environment. Diaspora remittances also remained resilient, with IMTO channelled inflows of USD2.1bn as of June ’25, only slightly below the previous year’s level. Additional support came from external borrowings amounting to USD2.4bn, including the late 2025 Eurobond issuance of USD2.2bn, part of which was used to refinance the USD1.2bn Eurobond maturity in November ’25.

Oil related FX inflows provided modest support to the reserves, although the impact was tempered by softer global oil prices. Average crude production improved to 1.45mbpd (ex-condensates) and 1.64mbpd (incl. condensates) in 2025, up from 1.35mbpd and 1.56mbpd in 2024. However, oversupply conditions and weakening global demand limited the upside for oil receipts. Despite this, the combination of stronger non-oil FX inflows and improved investor sentiment helped maintain a stable FX environment throughout the year, with reserves covering 14.1 months of merchandise imports and 9.5 months when services are included.

Gross official reserves (USD 'bn)



Sources: CBN; Quest MB Research

Nigeria's external reserves have entered 2026 on a positive trajectory, extending the momentum from late 2025. As of mid-January, gross reserves had risen further to USD45.9bn, supported by continued inflows from offshore investors and steady remittance receipts. The favourable carry environment, combined with improved FX liquidity and a more transparent policy framework, has helped sustain foreign investor participation at the start of the year.

Looking ahead, we expect continued reserve accumulation in 2026, although at a more moderate pace. While softer global oil prices may constrain oil related FX inflows, resilient remittances, sustained offshore investor participation, and steady export receipts should continue to support the reserve position. The government's external financing plans for 2026—including a mix of multilateral, bilateral, and potential commercial market issuances—could also provide additional buffers. However, downside risks remain, particularly if global financial conditions tighten or if domestic macroeconomic pressures weaken investor confidence, which could slow the pace of reserve accretion.

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