IRON CAPITAL

2026 ECONOMIC OUTLOOK

Capital In Transition:
Allocating Through Nigeria's Stabilisation Cycle

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FOREWORD CEO/MD NOTE

Nigeria enters 2026 in a different position from the past two years. The period of acute macroeconomic stress has moderated. Inflation is easing from prior highs. The exchange rate has stabilized within a narrower band. External reserves have improved. Oil production has recovered from earlier disruptions.

However, stabilization does not equal resolution. The Nigerian economy remains in transition. Growth is firming but remains below its structural potential. Inflation has moderated but the cost of living remains elevated. Fiscal space is constrained by debt service. Liquidity conditions remain sensitive to oil prices and capital flows.

For investors, this shift is important. The operating environment is no longer defined by accelerating instability. It is now defined by repricing. Higher interest rates have reset return expectations. Asset valuations are adjusting to a regime where liquidity is more disciplined, and capital is more selective. FX volatility has reduced, but investor confidence remains conditional on policy consistency and external buffers.

This report reflects Iron Capital's investment lens in this environment. We approach 2026 as a year of capital allocation discipline rather than broad expansion. Returns will depend on sector positioning, duration management and balance sheet strength.

Our analysis draws on macroeconomic data, sector performance trends and credible institutional forecasts, including recent outlook assessments from domestic research institutions and global multilateral agencies. We have prioritized clarity over commentary. The objective is to define the macro framework, identify where risk is rising or receding, and position capital accordingly.

2026 is not simply a continuation of reform. It is a transition phase in which prior shocks are absorbed and assets are repriced under more stable but still fragile conditions.

For Iron Capital, this environment demands three things:

- Discipline in fixed income positioning
- Selectivity in equity exposure
- Structure in private and infrastructure capital

Nigeria's economy is large, diversified and undergoing structural adjustments. However, capital must be allocated with realism, not optimism. This outlook sets out the macro context, scenario framework and capital allocation implications that will guide our positioning through 2026.

EXECUTIVE NOTE

Nigeria enters 2026 in a more stable position than it did over the past two years. Inflation has moderated from its 2024 peak. The exchange rate has stabilized within a narrower band. External reserves have improved. Oil production has recovered from earlier disruptions. Policy direction is clearer and coordination between fiscal and monetary authorities has strengthened.

However, the economy remains in transition. Growth has improved but remains below the level required to materially shift employment outcomes. Inflation has eased, but the cost of living remains elevated. Fiscal space is constrained by debt service obligations. Liquidity conditions remain sensitive to oil prices and capital flows.

Our base case for 2026 assumes policy continuity, moderate oil prices and monetary conditions remaining disciplined. We expect GDP growth to trend around the 4% range, supported primarily by services, financial intermediation, ICT and stabilizing oil output. Manufacturing and agriculture should recover gradually, but productivity constraints and credit conditions will limit acceleration.

Inflation is expected to trend higher in the early part of 2026, reflecting the new CPI methodology, shifting base effects and liquidity conditions within the system. However, moderation is expected in H2 as the impact of monetary policy tightening continues to transmit through the economy, exchange rate stability is sustained, and supply conditions improve. On average, inflation is likely to remain elevated for the year, with the direction of travel more important than short term headline volatility.

The exchange rate is expected to remain within a $1,450 to $1,600 per USD stability band, anchored by improved external reserves, steady oil receipts and continued FX market transparency. That stability remains conditional on fiscal discipline, sustained oil production and credible liquidity management.

Monetary policy is expected to remain restrictive in 2026. The Committee has signaled a clear commitment to sustaining the current tight stance to consolidate disinflation gains and anchor expectations, particularly in light of pre-election liquidity risks. External reserves are expected to remain broadly stable, supported by oil receipts and measured portfolio inflows.

For capital markets, our base case is not a broad-based expansion. It is a repricing environment shaped by restrictive monetary policy, managed liquidity and confidence sensitive flows. In fixed income, elevated yields create scope for selective duration positioning, but curve direction will remain highly sensitive to fiscal liquidity cycles and net supply. In equities, earnings should become less driven by exchange rate translation and more determined by volume growth, cost control and balance sheet strength, which implies wider dispersion across sectors and names.

Credit conditions are likely to remain tight while policy stays restrictive. Refinancing risk therefore remains a key watch point, and credit differentiation should widen between stronger issuers and weaker balance sheets. Foreign participation should remain opportunistic rather than anchored. Stronger external buffers support engagement, but sentiment can reverse quickly if reserves weaken, oil receipts disappoint, or liquidity conditions deteriorate.

Our highest conviction themes remain duration selectivity rather than yield chasing, banking sector recalibration through recapitalization, gas and domestic energy monetization, structured infrastructure capital, and export oriented agro-processing where improved FX stability supports planning and margin resilience.

2026 demands discipline. Capital must be allocated selectively, with constant attention to liquidity cycles and policy credibility.

Chinwe Egwim
Independent Executive Advisor

The Global Backdrop:
Fragile Stability, Selective Opportunities

The global environment entering 2026 is more stable than the immediate post tightening phase, but it remains fragile. Global growth is moderating rather than accelerating. Advanced economies are expanding at subdued levels, while emerging markets continue to outperform on a relative basis. Disinflation has progressed across most major jurisdictions, but inflation remains above pre pandemic norms and central banks are cautious about declaring victory too early.

The United States remains central to global liquidity conditions. While policy rates in advanced economies have begun to adjust from peak tightening levels, the shift has been measured. Real rates remain positive. Financial conditions have eased modestly, but not to the extent that would support a broad global liquidity surge. For frontier and emerging markets, this means capital flows are improving at the margin, but remain highly sensitive to yield differentials and policy credibility.

China's demand profile remains a key variable for commodity exporters. Industrial momentum has been uneven, and property sector adjustments continue to weigh on domestic demand. For oil markets, this translates into moderate demand growth rather than a structural surge.

Oil markets themselves are entering 2026 in balance rather than shortage. Supply discipline among major producers continues to support price stability, but non-OPEC supply and geopolitical developments remain swing factors. Price volatility cannot be ruled out, particularly if geopolitical risks re escalate or global growth underperforms expectations. For frontier markets such as Nigeria, the implication is clear. External conditions are not hostile, but neither are they expansionary. Capital allocation decisions will continue to differentiate between jurisdictions based on reserve adequacy, policy transparency and macro credibility.

Global inflation is expected to trend lower into 2026, but the process is uneven. Protectionist trade measures, fiscal vulnerabilities in some advanced economies and geopolitical risks remain potential upside pressures. This reinforces a cautious stance among central banks globally.

For Nigeria, the external backdrop is not sufficient to offset domestic imbalances. Oil receipts, portfolio flows and remittances will continue to play a stabilizing role. However, capital flows are likely to remain tactical rather than structural. In a nutshell, 2026 opens with a global environment that is less disruptive than prior years but still defined by selective opportunity.

For capital allocators, the lesson is discipline. Global liquidity is improving incrementally, not decisively. Jurisdictions that maintain policy credibility and reserve strength will benefit. Those that allow fiscal or liquidity slippage will be repriced quickly.

Nigeria 2025:
From Shock Absorption to Stabilization

2025 was the first clear year of macro stabilization after the reform shocks that peaked in 2024. What improved was not just sentiment. Some hard indicators moved in the right direction. Inflation trended down sharply after the CPI revision and rebasing. External buffers rebuilt. The exchange rate stabilized and the gap between official and parallel markets narrowed, supported by better FX liquidity and stronger inflows.

At the same time, stabilization did not translate into relief for households. The disinflation headline masked elevated cost of living conditions, especially around food. Purchasing power remained under pressure even as the measured inflation rate improved. This is the right way to frame 2025. The economy absorbed the shock. The data improved. The lived experience lagged.

Inflation: Disinflation Without Relief

Inflation dynamics in 2025 need to be read with the new CPI methodology in view. The revision improved the weighting and measurement approach, and it coincided with the fading of reform driven shocks from late 2023 and 2024. The result was a sharp downward reset in the measured inflation path, alongside a genuine easing in some drivers, particularly food as harvest effects improved supply conditions.

On the official print, headline inflation eased to 16.05% in October 2025, the lowest in five years and the seventh consecutive monthly slowdown, with the deceleration supported by softer food inflation and continued moderation in core inflation. Food inflation fell to 13.12% in October from 16.87% in September, while core inflation moderated to 18.69% from 19.53% over the same period, with the MPC attributing part of the improvement to better food supply conditions and a more stable exchange rate. However, this disinflation did not resolve the cost of living problem. NESG captures this gap clearly. Headline inflation fell materially through 2025, but household welfare remained under strain and food prices remained a central pressure point.

Two additional points matter for how we interpret inflation going into 2026. First, the inflation profile became more sensitive to base effects and measurement distortions after CPI rebasing. MPC members explicitly flagged that base effect distortions from CPI rebasing can mechanically lift the measured year on year inflation rate, even if underlying trend inflation is not accelerating at the same pace. Second, month on month inflation behaviour is still telling us that underlying price pressures have not disappeared. In October 2025, month on month headline inflation rose to 0.93% from 0.72% in September, and core inflation inched up to 1.33% from 1.32%, pointing to persistent pressures beneath the headline decline.

This is why the right framing for 2025 is disinflation without relief. The measured trend improved materially, but cost pressures remained elevated and the inflation outlook remained sensitive to liquidity conditions, base effects and FX stability.

FX Market: Liquidity Improving, Confidence Still Conditional

The foreign exchange market in 2025 marked a decisive shift from disorder to relative stability. Liquidity conditions improved across segments, price discovery strengthened and the gap between official and parallel market rates narrowed materially. The environment moved away from stress driven volatility toward a more orderly and transparent framework. External buffers strengthened meaningfully through the year and into early 2026. Gross external reserves climbed to approximately US$46bn, supported by stronger oil receipts, improved foreign portfolio participation and reforms aimed at enhancing transparency and efficiency in the FX market.

At current import levels, this reserve position provides an estimated 12 months of merchandise import cover, or approximately 9 to 10 months when services are included. This level of buffer materially improves external shock absorption capacity relative to the preceding two years.

The naira firmed to the N1,419 to N1,422 range in late January 2026, reflecting improved FX liquidity and reserve accumulation. Convergence between official and parallel market segments reinforced confidence in price discovery and reduced speculative distortions that had characterized earlier periods. The narrowing spread signaled a more credible and better functioning market structure.

Policy measures were central to this improvement. Verified FX backlogs were cleared. Electronic matching systems were integrated into the official market to enhance transaction transparency. A formal FX code was introduced to strengthen governance and conduct standards among market participants. These reforms improved execution certainty and reduced opacity in allocation and pricing.

However, confidence remained conditional through 2025, and the composition of inflows reinforces that point. Foreign portfolio inflows increased materially during the year, supported by positive real returns and improved confidence in reform continuity. A successful Eurobond issuance also contributed to reserve accumulation and reinforced external buffers. At the same time, foreign direct investment remained subdued, underscoring the structural work still required to crowd in permanent capital.

This mix is important. It means the FX market can look stable, and reserves can build, yet that stability remains sensitive to shifts in global risk appetite, oil price dynamics and domestic policy credibility. Portfolio flows can support liquidity in stable conditions, but they can also reverse quickly if confidence weakens.

Growth: Services Led, Productivity Lagged

Economic growth in 2025 reflected stabilization rather than acceleration. Output improved relative to the contractionary pressures that followed reform implementation in 2023 and 2024, but the expansion remained uneven across sectors. Growth was led primarily by services. Financial intermediation, telecommunications, trade and certain segments of transportation benefitted from improved liquidity conditions, relative exchange rate stability and stronger transaction volumes. Banking sector balance sheet expansion and digital financial services continued to support activity within the services economy.

Oil output recovery also contributed positively after prior disruptions. Improved production levels and fewer pipeline interruptions supported overall GDP numbers and strengthened fiscal receipts. However, production remained below long-term potential and was still sensitive to infrastructure constraints and security risks. Non-oil industrial sectors remained more constrained. Manufacturing activity continued to face elevated input costs, high borrowing rates and weak consumer purchasing power. While exchange rate stability reduced pricing uncertainty, the lagged effects of earlier currency depreciation and elevated financing costs continued to weigh on margins and expansion plans.

Agriculture showed partial recovery, particularly in crop output where improved harvest conditions helped ease food supply pressures. However, structural constraints in logistics, storage, power supply and rural security limited productivity gains. The sector remains central to inflation dynamics and employment, but its growth trajectory remains below potential.

Credit transmission into the real economy remained uneven. While system liquidity improved and reserves strengthened, the high interest rate environment constrained private sector borrowing appetite, particularly among small and medium enterprises. Lending activity was more concentrated in top tier corporates and sectors with stronger cash flow visibility. The broader conclusion is clear. Nigeria moved from shock absorption toward macro stabilization in 2025, but productivity expansion did not meaningfully accelerate. Growth was supported by services and oil recovery rather than by broad based industrial or agricultural transformation.

Fiscal: Revenue Gains, Spending Compression

Fiscal developments in 2025 reflected measurable improvement in revenue mobilization, but limited flexibility on the expenditure side. Revenue performance strengthened during the year, supported by subsidy removal, improved tax administration and higher non-oil collections. VAT receipts expanded materially, and monthly Federation Account inflows improved relative to prior years. Oil related revenue also benefitted from better production levels and improved FX transparency.However, stronger revenue did not translate into proportionate fiscal expansion capacity. A significant share of federally retained revenue continued to be absorbed by debt service obligations. Rising interest costs and refinancing requirements limited the fiscal space available for discretionary capital spending. Even as public debt remained within statutory thresholds as a share of GDP, the absolute debt stock and associated servicing costs constrained flexibility.

Recurrent expenditure remained structurally rigid. Wages, statutory transfers and overhead commitments are not easily compressible in the short term. As a result, capital expenditure became the primary adjustment variable within the fiscal framework. This limited the scale and speed at which infrastructure and productivity enhancing projects could be executed. Execution dynamics added further pressure. Delays in budget presentation and extensions of prior capital implementation cycles created overlapping fiscal windows. These timing distortions affected liquidity flows into the system and introduced uncertainty for private sector planning and contractor mobilization.

The fiscal environment also became increasingly sensitive to the political cycle. As the 2027 election period approaches, risks of front-loaded spending, supplementary appropriations or liquidity injections cannot be ignored. In a context where monetary policy remains restrictive, fiscal expansion without revenue backing would directly complicate liquidity management and inflation control.

The appropriate characterization of 2025 is therefore balanced. Revenue improved and reform gains were visible. However, expenditure flexibility remained constrained by debt service, structural rigidities and political economy considerations. For 2026, fiscal credibility will be central to macro normalisation. Revenue mobilization must be sustained. Expenditure prioritization must improve. Transparency in budget execution and subnational reporting will be critical in anchoring investor confidence. In a stabilization environment, the fiscal anchor matters as much as the monetary one.

2026 MacroFramework:
Scenarios That Matter

2026 is a transition year. Macro conditions have improved, but risks have not disappeared. The outlook must therefore be scenario based rather than point estimate driven.

Base Case: Primary View

This scenario assumes policy continuity, sustained FX transparency, moderate oil prices and no major external shock.

Variable	2026 Base Case Assumption
GDP Growth	3.8% – 4.3%
Inflation	Elevated, trending higher in H1, moderating in H2
Exchange Rate	N1,450 – N1,600 per US$
Oil Price (avg)	US$58 – US$63per barrel
Oil Production	1.7 – 1.85mbpd
Gross External Reserves	US$45bn – US$52bn
Monetary Policy Rate	Maintained at restrictive level, marginal adjustment possible but no aggressive easing

Growth in 2026 is expected to remain services led, with oil output recovery contributing positively. Manufacturing and agriculture should improve gradually but are unlikely to drive acceleration.

Inflation dynamics will reflect the new CPI methodology and evolving base effects. We expect inflation to firm in H1 before moderating in H2 as the lagged impact of monetary policy tightening continues to transmit and exchange rate stability is sustained. The annual average is likely to remain elevated.

The exchange rate is expected to remain within a N1,450 – N1,600 band, supported by reserve adequacy and steady oil receipts. However, this stability remains conditional on fiscal discipline and continued portfolio inflows. Monetary policy is expected to remain restrictive. The Committee's recent communication suggests a clear preference for maintaining a tight stance to anchor expectations and prevent liquidity driven inflation pressures.

Upside Case

This scenario assumes stronger oil production recovery, firmer oil prices and improved investor confidence.

Variable	Upside Assumption
GDP Growth	4.5% – 5%
Inflation	Moderates faster in H2
Exchange Rate	N1,380 – N1,500
Oil Price (avg)	US$68 – US$75per barrel
Oil Production	1.9 – 2.0mbpd
Gross External Reserves	Above US$52bn

Drivers:

- Stronger portfolio and remittance inflows
- Faster transmission of reform credibility
- No fiscal slippage

Downside Case

This scenario assumes oil price weakness, fiscal expansion pressures and portfolio flow reversals.

Variable	Upside Assumption
GDP Growth	3.0% – 3.4%
Inflation	Reaccelerates materially
Exchange Rate	Breaks above 1,650
Oil Price (avg)	US$42 – US$52 per barrel
Oil Production	1.55 – 1.65mbpd
Gross External Reserves	Falls below US$44bn

Drivers:

- Oil supply shock or price decline
- Pre election fiscal liquidity expansion
- Portfolio outflows
- Security disruptions in oil producing regions

CAPITAL ALLOCATION IMPLICATIONS

2026 is not a liquidity surge environment. It is a disciplined allocation environment. The macro environment has improved, but the margin for error remains narrow. Capital must therefore be positioned around resilience, pricing power and policy transmission dynamics.

Fixed Income

The fixed income environment in 2026 will be shaped primarily by three forces: a restrictive monetary stance, evolving inflation dynamics under the new CPI methodology and fiscal liquidity cycles tied to the political calendar. With the policy rate remaining elevated and real yields positive under the base case, nominal yields remain attractive relative to inflation expectations. Duration exposure, however, must be selective rather than aggressive. If inflation firms in H1 and moderates in H2 as expected, the most compelling duration positioning may emerge during periods of temporary yield spikes rather than at the start of the year. Curve movements will remain sensitive to primary issuance volumes and FAAC related liquidity injections.

The yield curve is likely to remain structurally steep in early 2026, reflecting elevated short end policy anchoring and a persistent long end fiscal risk premium. A gradual flattening bias may emerge if inflation moderation becomes credible in H2 and liquidity conditions remain contained. Treasury bills remain relevant for liquidity management. Longer dated bonds become more attractive once disinflation confirmation strengthens confidence in the inflation trajectory.

Equities

The equity market enters 2026 after a period in which exchange rate adjustments boosted nominal earnings in several sectors. That dynamic is fading. As FX volatility moderates, earnings performance will increasingly depend on operational efficiency, cost discipline and volume recovery. Margin compression risk remains for sectors exposed to imported inputs and high financing costs.

Banking sector recalibration is central. Recapitalization strengthens buffers and improves balance sheet resilience. Earnings will shift from opportunistic trading gains toward core intermediation, asset quality management and disciplined loan growth. Consumer and industrial names remain sensitive to purchasing power recovery. Reduced volatility improves planning visibility, yet demand elasticity continues to constrain rapid expansion.

Sector dispersion is likely to widen. Companies with strong cash flow generation, manageable leverage and pricing power should outperform weaker balance sheets. Broad based market expansion is unlikely. Selective positioning will be critical.

Private Capital and Structured Finance

Public balance sheet constraints create structural opportunity for private capital. Infrastructure financing gaps remain significant in power, transport and logistics. Fiscal compression increases the relevance of structured capital, blended finance vehicles and long-term project financing models.

Oil receipts support fiscal balance. Long term value, however, lies increasingly in gas commercialization, domestic processing capacity and distributed energy solutions. These areas present scalable opportunities where disciplined capital can capture risk adjusted returns. Agro-processing and export value chains offer medium term potential as exchange rate predictability improves input planning and margin predictability. Execution risk remains elevated without improvements in logistics, storage and power reliability.

Credit gaps persist for mid-sized corporates and SMEs. High bank lending rates constrain access to affordable financing. Structured private credit, mezzanine instruments and risk sharing frameworks will remain important tools in bridging that gap. The opportunity set in 2026 is not defined by broad macro acceleration. It is defined by structural inefficiencies and financing gaps where disciplined capital can earn durable returns.

SECTOR STRATEGY LENS

BANKING AND FINANCIAL SERVICES

The banking sector remains the primary transmission channel of Nigeria's macro cycle. Monetary tightening, liquidity management and FX reform all pass through bank balance sheets. In a stabilization regime, the sector does not simply reflect macro conditions. It shapes them. Recapitalization strengthened capital buffers and reinforced system resilience. Tier one institutions are structurally better positioned to absorb volatility, fund larger transactions and participate in structured opportunities. Smaller institutions face higher funding cost sensitivity and greater competitive pressure.

The sector therefore enters 2026 with stronger capital foundations. However, the earnings environment is evolving.

2025: Earnings Expansion Under Tight Policy

Elevated interest rates in 2025 supported net interest margins, particularly for banks with strong low-cost deposit franchises. Treasury positioning and exposure to high yielding instruments contributed meaningfully to profitability.

Exchange rate stabilization reduced currency mismatch risk and improved visibility on foreign currency exposures. That stabilization also limited the volatility that previously distorted earnings comparisons. At the same time, high borrowing costs constrained credit appetite across parts of the real economy. Loan growth remained selective. Risk underwriting tightened. Management focus shifted from aggressive balance sheet expansion toward capital preservation and asset quality management, particularly in light of recapitalization thresholds.

The result was strong headline profitability, but with increasing emphasis on resilience rather than expansion.

Three factors will shape 2026 include:

- Policy rates are expected to remain restrictive. Margin support therefore continues, but credit expansion will remain measured. Loan growth is likely to favour high quality corporates and structured exposures over broad retail expansion.

- Liquidity cycles tied to fiscal flows will influence short term yield dynamics. Periodic liquidity injections may compress front end yields temporarily. Liquidity withdrawal will reinforce steepness. Balance sheet agility will be critical.

- Earnings composition will gradually normalize. FX driven windfalls and opportunistic trading gains will fade as volatility compresses. Core earnings will increasingly depend on intermediation quality, fee income expansion, digital transaction growth and disciplined cost management.

Capital Allocation Implications

Exposure to the sector should be selective rather than index driven.

Capital should favour institutions with:

- Strong post recapitalization capital buffers
- Diversified and stable deposit franchises
- Conservative provisioning discipline
- Scalable digital infrastructure
- Controlled exposure to rate sensitive or FX mismatched borrowers

Earnings durability will matter more than temporary margin expansion. In a repricing year, balance sheet strength and disciplined loan book expansion create long term advantage.

ENERGY AND GAS MONETIZATION

Nigeria holds one of the largest proven natural gas reserves globally, estimated at over 200 trillion cubic feet. Despite this scale, commercialization has historically lagged. The NNPC Limited Gas Master Plan 2026 positions gas as central to Nigeria's energy transition, domestic Industrialisation and export strategy. The plan outlines a structured approach anchored on market driven gas development, infrastructure expansion, supply demand balancing and commercial optimization. It explicitly aligns with the presidential mandate to achieve 10 bcf per day of gas supply by 2027 and 12 bcf per day by 2030.

The strategic shift is clear. Crude export revenue remains important, but long-term value creation increasingly resides in domestic gas utilization, midstream infrastructure and gas based industrial expansion.

2025: Production Recovery and Domestic Rebalancing

Commercialized gas production reached approximately 4.7 bcf per day as of 2025, with domestic utilization increasing relative to export share Domestic Gas Delivery has expanded materially over recent years, driven by power generation, gas-based industries and commercial demand. The plan identifies integrated gas supply opportunity forecasts extending through 2041, supported by a hub-based architecture across key producing regions. Existing gas pipelines exceed 2,500 km, with additional expansions and compression facilities required to close delivery gaps.

Infrastructure remains the binding constraint. Production potential exists. Transmission and distribution bottlenecks limit full monetization. Gas flaring reduction targets and ESG considerations also shape sector positioning. Eliminating routine flaring by 2027 is embedded in national objectives. This increases the relevance of capture, processing and reinjection infrastructure.

2026: Transmission, Infrastructure and Commercialization

First, infrastructure acceleration. The Gas Master Plan emphasizes hub-based development, integrated upstream and midstream supply expansion, and targeted pipeline additions. Infrastructure execution becomes the primary determinant of volume growth rather than reserve discovery

Second, domestic demand expansion. Gas demand is projected to exceed supply in certain priority years, particularly from power generation and gas based industrial clusters. Demand growth therefore appears structurally embedded.

Third, commercial reform. The Petroleum Industry Act, new upstream investment decisions and reforms in domestic gas pricing and offtake structures aim to improve bankability. Commercial viability remains essential to unlocking deeper capital. The execution question in 2026 is not resource adequacy. It is infrastructure delivery, financing mobilization and regulatory continuity.

Capital Allocation Implications

Capital should prioritize::

- Midstream processing facilities linked to firm offtake agreements
- Pipeline and compression infrastructure aligned with identified hub expansions
- Gas to power projects with credible tariff and payment structures
- LPG and domestic distribution networks where demand is demonstrably expanding
- Industrial gas supply to GBIs with anchored contracts

Projects that reduce flaring and increase monetization ratios benefit from policy alignment and ESG relevance. Pure exposure to crude oil price upside offers cyclical returns. Integrated gas infrastructure offers structural returns.

INFRASTRUCTURE AND CONSTRUCTION

Nigeria's infrastructure deficit remains material across transport, logistics, urban development and industrial corridors. The constraint is not project identification. It is funding capacity and execution discipline. Revenue improved in 2025, but debt service continues to absorb a large share of federally retained revenue. This limits the scale at which capital expenditure can expand without increasing borrowing. In a pre-election year, this creates tension. There is political incentive to demonstrate visible project activity. There is fiscal constraint limiting sustainable expansion.

The likely outcome is selective acceleration rather than broad based infrastructure expansion. Projects that are already advanced in execution or politically visible may receive prioritized funding. New large-scale commitments without secured financing structures are less likely to reach financial close quickly. Payment cycles may become more uneven as liquidity management tightens to contain inflation risk. Cost stability has improved relative to the prior two years. Exchange rate transparency and moderating inflation reduce input volatility for construction firms and improve pricing accuracy. Financing costs remain elevated, increasing the cost of leverage for contractors and project sponsors.

This environment creates differentiation. Firms heavily dependent on direct sovereign disbursement face higher working capital strain if payments are delayed. Contractors with diversified revenue exposure, access to structured financing and stronger balance sheets are better positioned to absorb timing distortions.

The opportunity in 2026 lies less in chasing headline announcements and more in identifying bankable structures. Priority segments are likely to include transport corridors tied to trade routes, logistics infrastructure supporting agro and industrial clusters, and urban infrastructure with identifiable revenue models. Private capital participation will continue to gain relevance. Public private partnerships, concession models and blended finance instruments are becoming necessary execution mechanisms under fiscal constraint.

Pre-election dynamics introduce two risks that must be monitored closely. Liquidity injections tied to accelerated capital spending could complicate monetary management and reignite inflation pressures. Contract awards without secured funding pathways increase completion risk and payment uncertainty. Capital deployment in 2026 should prioritize projects with clearly identified and ring-fenced funding sources, contractually defined revenue generation mechanisms and transparent counter party exposure. Execution time lines must be realistic and grounded in secured financing rather than political ambition. Visibility alone is not a substitute for financial viability. In a repricing year, disciplined participation in well-structured infrastructure assets can generate stable long-term returns, whereas exposure to politically accelerated projects without secured funding pathways introduces elevated liquidity, completion and payment risk.

Infrastructure in 2026 is therefore not a volume story. It is a structure story. Risk assessment must focus on infrastructure execution time lines, payment discipline in power off take arrangements, regulatory continuity and asset security. These variables determine bankability more than reserve size alone. The sector's long-term opportunity remains significant. Nigeria ranks among the largest holders of global gas reserves yet remains materially underdeveloped in commercial output. The gap between resource endowment and monetized production represents the central investment delta. In 2026, capital deployment should therefore favour scalable midstream infrastructure and structured financing vehicles with defined commercial pathways rather than speculative upstream exposure.

CONSUMER AND INDUSTRIAL RECOVERY

Consumer and industrial recovery in 2026 will be uneven, selective and balance sheet dependent. Measured inflation moderated in 2025 following CPI rebasing and exchange rate stabilization. However, real income recovery remains fragile. The moderation in headline inflation has not fully translated into purchasing power restoration. Food costs remain structurally elevated relative to pre-reform levels, and wage growth has lagged cumulative price adjustments. This means consumption expansion will be incremental rather than broad based.

The structure of demand is shifting. Essential goods, low ticket items and value segments will outperform discretionary and premium categories. Households continue to prioritize affordability over brand loyalty. Volume growth may return in certain staples, but margin recovery will remain constrained in highly competitive segments.

Exchange rate transparency improves planning visibility for manufacturers. Input sourcing is easier to price and hedge relative to the volatility seen in prior years. Inventory management becomes more predictable. This reduces the need for defensive price over-adjustments that previously distorted demand. However, high domestic interest rates continue to pressure working capital financing, especially for mid-sized industrial firms without deep banking relationships. Industrial operators remain exposed to structural cost drivers. Energy reliability is inconsistent. Logistics inefficiencies add to distribution cost. Imported machinery and intermediate inputs remain sensitive to currency levels even if volatility is lower. Productivity growth therefore remains limited by infrastructure constraints rather than demand alone.

Pre-election dynamics introduce an additional layer of complexity. Fiscal liquidity injections, if accelerated, may temporarily boost consumption in certain urban clusters. Such stimulus, however, tends to be front-loaded and uneven. If liquidity expansion outpaces revenue strength, it risks reigniting inflationary pressures and tightening financial conditions later in the cycle. Sustainable recovery depends on income growth and credit stability, not episodic spending.

Credit transmission into the consumer and industrial space will remain selective. Banks operating under restrictive monetary policy will prioritize asset quality over rapid balance sheet expansion. Lending to strong corporates and structured exposures will remain more accessible than broad SME credit expansion. This reinforces competitive advantage for well capitalized firms.

The result is widening dispersion. Companies with strong local sourcing, efficient supply chains, pricing discipline and conservative leverage will consolidate market share. Firms dependent on heavy FX inputs, short term borrowing or speculative expansion will face margin compression risk. Export oriented manufacturers benefit from improved FX transparency and reserve stability, particularly where revenue diversification reduces domestic demand dependence. Import substitution opportunities also remain relevant where cost competitiveness can be sustained.

The opportunity in 2026 is not a consumption boom. It is competitive reordering. Improved operating conditions allow stronger firms to extend advantage. Structural weaknesses remain exposed in a high rate environment. Capital should therefore prioritize resilience, cost structure strength and cash flow durability over optimistic demand narratives.

POWER AND DISTRIBUTED ENERGY

Nigeria's power sector enters 2026 at a structural inflection point. For years, the sector has contended with chronic liquidity constraints driven by tariff shortfalls, legacy debt accumulation and weak settlement discipline across the value chain. These distortions impaired the bankability of power assets, constrained generation expansion and dampened investor confidence. The liquidity shortfall was not simply operational. It was systemic, affecting generation companies, distribution companies and upstream gas suppliers.

The establishment of the Presidential Power Sector Financial Reforms Programme represents a significant intervention aimed at restoring financial stability. The programme combines three components: resolution of accumulated legacy debt, settlement frameworks with GenCos and structural reforms designed to prevent re-accumulation of arrears. Central to this effort is the 4 trillion multi-instrument issuance programme structured through NBET Finance Company Plc as the dedicated issuing vehicle. The successful close of the 501.02 billion Series 1 bond issuance in January 2026, with a seven-year tenor and 17.50% fixed coupon, marks a material step toward restoring liquidity across the value chain. The mobilization of a diversified domestic investor base signals improving confidence in structured sector solutions.

This development changes the sector's risk profile. The core constraint in power has not been demand. Nigeria's electricity demand remains structurally undersupplied. The binding constraint has been financial viability and payment discipline. Liquidity restoration mechanisms, if implemented consistently, improve settlement predictability and enhance project bankability.

However, execution risk remains central. Debt issuance alone does not eliminate structural inefficiencies. Tariff adequacy, loss reduction in distribution networks, governance reforms and enforcement of market discipline remain critical to long-term sustainability. Distributed and embedded generation models continue to gain relevance in this environment. Industrial clusters, commercial estates and high-consumption users are increasingly prioritizing reliability over grid dependency. Gas-fired embedded generation and hybrid systems become economically rational where grid supply remains inconsistent.

Exchange rate transparency improves pricing visibility for imported equipment and reduces project cost uncertainty. Elevated domestic interest rates, however, increase financing costs and require stronger project cash flow structuring. For capital allocators, the opportunity lies in structured participation rather than speculative expansion.

Priority exposures include:

- Debt instruments tied to structured liquidity restoration programmes
- Gas to power assets with enforceable offtake arrangements
- Embedded and distributed generation projects serving industrial clusters
- Transmission and distribution upgrades with identifiable revenue recovery mechanisms

Risk assessment must focus on settlement discipline, tariff sustainability, regulatory continuity and enforcement of reform commitments. Political economy dynamics in a pre-election year can introduce pressure to suppress tariff adjustments, which may reintroduce liquidity imbalances if not managed carefully. The long-term demand story for power remains intact. Nigeria's per capita electricity consumption remains materially below peer economies. The gap between demand and reliable supply represents structural expansion potential. The immediate investable opportunity in 2026, however, lies in liquidity restoration, disciplined structuring and targeted distributed solutions rather than grid-scale transformation.

AGRICULTURE AND EXPORT VALUE CHAINS

Agriculture sits at the center of Nigeria's inflation dynamics, employment base and external balance, yet its commercial potential remains underdeveloped relative to scale. Food inflation eased in 2025 as harvest conditions improved and exchange rate stability reduced imported input volatility. The moderation in measured food inflation, however, should not be mistaken for structural productivity gains. Output remains fragmented, logistics costs remain elevated and post-harvest losses continue to erode margins.

The structural constraint in agriculture is not demand. Nigeria's population growth ensures sustained food consumption expansion. The constraint is coordination and capital efficiency. Exchange rate transparency changes the investment equation. For agro processors and export linked operators, the reduction in FX volatility improves cost modelling, contract pricing and inventory planning. Revenue diversification through export channels provides a natural currency hedge and enhances cash flow predictability. This is particularly relevant for commodities such as cocoa, cashew, sesame and ginger where global demand remains firm. In a pre-election year, agricultural intervention programmes may increase and rural liquidity injections may temporarily support input purchases. These measures can boost seasonal output but rarely resolve structural inefficiencies. Durable gains depend on storage infrastructure, transport corridors and aggregation systems that reduce fragmentation and improve scale.

The more compelling opportunity in 2026 lies in value chain consolidation rather than farm level expansion. Processing capacity, aggregation platforms, warehousing, cold chain systems and export logistics infrastructure create margin capture opportunities across multiple nodes of the chain. Vertical integration reduces volatility exposure and improves financing access. Structured offtake agreements tied to processors and exporters enhance bankability relative to standalone production. High domestic interest rates remain a constraint for smaller producers. Larger, integrated operators with access to structured finance or supply chain anchored lending frameworks are positioned to extend competitive advantage. The environment therefore favours scale, integration and export orientation. Security conditions in producing regions, logistics reliability and port efficiency will continue to influence realised returns. However, macro stabilization and FX transparency materially improve planning conditions relative to prior years.

Agriculture in 2026 is not a policy narrative. It is a consolidation narrative. Improved macro predictability allows integrated operators to formalise and scale. Capital deployed into processing, aggregation and export infrastructure captures more durable value than exposure limited to raw output cycles.

POLITICAL ECONOMY AND REFORM CREDIBILITY

Nigeria enters 2026 at a delicate but constructive stage in its reform trajectory. The most difficult adjustments have already been undertaken. Fuel subsidy removal and exchange rate unification imposed real economic cost but re-established macro price signals. The initial volatility phase has moderated. Reserve buffers have strengthened. Exchange rate transparency has improved. Measured inflation has begun to ease under the revised CPI framework.

The question now is not whether reform has begun. It is how reform consolidates under political transition dynamics. Pre-election periods do not automatically imply policy disruption. They do, however, introduce competing priorities. Growth support, social sensitivity and fiscal responsiveness often rise in prominence. At the same time, macro discipline requires continued liquidity discipline, coordinated fiscal execution and sustained reform sequencing.

Fiscal operations must remain consistent with monetary policy objectives. Liquidity injections, if deployed, must be revenue anchored and transparently communicated. Tariff and sector reform adjustments must follow structured frameworks to prevent re-emergence of quasi-fiscal imbalances. Reform credibility is cumulative. It is reinforced through predictable policy behaviour, transparent budget implementation and sustained coordination between fiscal and monetary authorities. It is weakened not by policy evolution, but by inconsistency.

Nigeria's macro framework today is confidence sensitive. Portfolio participation remains significant in the capital flow mix. Exchange rate transparency and reserve accumulation support external balance. These gains are sustained when policy communication is clear, and execution remains disciplined. The political calendar introduces natural areas of sensitivity, particularly in energy pricing, fiscal expansion and public spending priorities. Effective calibration will therefore be essential. Balancing growth support with inflation control, and reform continuity with social cohesion, will define policy success in 2026.

There is also opportunity embedded in continuity. Demonstrated reform consistency through a political cycle can materially deepen investor confidence and reduce sovereign risk premia. Institutional coherence during transition periods often strengthens long-term credibility rather than weakens it. For capital allocators, the variable to monitor is not rhetoric. It is liquidity behaviour, budget execution quality, settlement discipline in structured reform programmes and adherence to market-based frameworks.

In 2026, reform credibility becomes less about initiation and more about execution. Policy traction will depend on steady alignment rather than dramatic intervention.

RISKS TO MONITOR

The 2026 base case is stabilization with conditional consolidation. The risks that matter are those capable of shifting that trajectory meaningfully rather than introducing routine volatility.

The first is oil price and production performance relative to fiscal breakeven levels. Under the base case, average oil prices and output levels support reserve stability and exchange rate containment. A sustained decline in oil price toward the low 50s per barrel, combined with production under performance below projected levels, would materially weaken external buffers and increase currency sensitivity. Conversely, upside surprises would strengthen reserves and ease liquidity pressure.

The second is reserve trajectory and import cover dynamics. Current reserve levels provide meaningful shock absorption. A persistent drawdown driven by capital outflows, weaker oil receipts or elevated external obligations would quickly alter investor sentiment.

The third is fiscal execution quality. Revenue gains must translate into disciplined expenditure management. Material deviations in deficit financing, unplanned supplementary budgets or accelerated liquidity injections without revenue backing would complicate monetary management and place upward pressure on inflation expectations. The interaction between fiscal expansion and restrictive monetary policy remains a central macro sensitivity.

The fourth is banking system transmission risk. High policy rates support margins but increase refinancing strain for weaker borrowers. A deterioration in asset quality beyond expected levels would tighten credit conditions further and slow growth transmission. Recapitalization has strengthened buffers, yet credit dispersion will widen if refinancing pressures intensify.

The fifth is power sector reform execution. Liquidity restoration initiatives have improved settlement expectations across the value chain. Failure to maintain tariff alignment, enforce settlement discipline or sustain reform momentum could reintroduce sector liquidity stress and weaken structured financing confidence.

The sixth is external liquidity conditions. Nigeria remains partially dependent on portfolio flows. A sharp tightening in global financial conditions, geopolitical escalation or abrupt reversal in risk appetite would affect inflow stability and reserve accumulation.

The final risk is policy coordination drift. Macro stability in 2025 and early 2026 has been supported by improved fiscal and monetary alignment. Any breakdown in coordination would amplify volatility across rates, currency and capital markets.

Risk Variable	Base Case Anchor	Risk Trigger Threshold	Likely Market Impact
Oil Price (avg)	US$58 – US$63	Sustained move below US$52	Reserve pressure FX volatility, widening spreads
Oil Production	1.72 – 1.85mbpd	Sustained production below 1.60mbpd	Lower fiscal receipts, higher borrowing requirement
Gross External Reserves	US$46bn – US$52bn	Persistent decline below US$44bn	Currency repricing, tighter system liquidity
Fiscal Execution	Deficit within planned range	Supplementary spending without revenue backing	Inflation expectation drift, yield curve steepening
Banking Asset Quality	Stable NPL Trajectory	Rapid NPL expansion or refinancing stress	Credit tightening, equity dispersion
Global Liquidity Conditions	Gradual easing bias	Sharp US rate repricing or global risk-off shock	Portfolio outflows, FX pressure
Policy Coordination	Fiscal-monetary alignment	Visible policy divergence	Volatility across rates, FX and capital markets

CLOSING PERSPECTIVE

Nigeria enters 2026 in a position that would have appeared unlikely two years ago. Exchange rate transparency has improved. External reserves have strengthened. Measured inflation has moderated under the revised CPI framework. Policy coordination has been more aligned. The economy has moved from shock absorption toward stabilization. That progress should be recognised.

At the same time, stabilization is not synonymous with acceleration. Growth remains moderate rather than transformative. Inflation, though easing, remains elevated in level terms. Monetary policy remains restrictive. Fiscal flexibility remains constrained by debt service realities. Portfolio flows continue to anchor external stability, making confidence behaviour central to market pricing.

The defining feature of 2026 is recalibration. Risk premia are adjusting. Yield curves are normalising. Earnings composition is shifting. Sector dispersion is widening. Capital is becoming more selective. The environment no longer rewards broad exposure. It rewards structure, balance sheet strength and disciplined underwriting.

Pre-election dynamics add sensitivity but not inevitability. Institutional coordination and policy continuity will determine whether stabilization deepens, or volatility re-emerges. The macro framework is more stable, but that stability depends on sustained policy consistency.

The implication for 2026 is clear. It does not signal broad acceleration. Returns will accrue to capital that is structured, patient and aligned with credible policy transmission. Nigeria is not in a boom phase. It is in a repricing phase. In such an environment, disciplined capital outperforms.

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