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CRISIS OF LEGITIMACY IN AFRICA & NIGERIA'S FAST RACE TO SUDAN

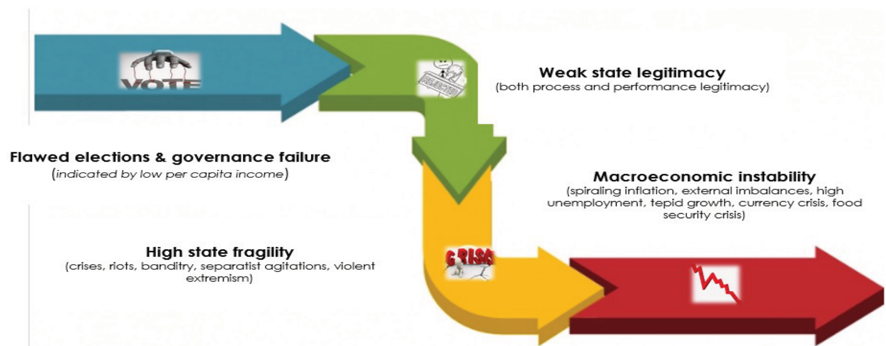
"Legitimacy is the elixir of political power" ......

-Fareed Zakaria

When Will McIntosh authored "Soft Apocalypse"[1] in 2011, he never contemplated that fiction would soon become the true story of human existence. But instead of the world ending with a "whimper"[2] as he contemplated, it appears to be ending with a "bang"[3] especially in Sudan and several other countries in Africa and the Middle East. So far in Sudan, about 420[4] people have been reported dead as the vicious power struggle rages.

Many African countries have moved from stable to highly fragile in the past two decades. For example, in less than one year, five elected governments collapsed in Africa: Burkina Faso, Mali, The Gambia, Sao Tome and Principe, and Guinea. The interesting part of the chaos is that citizens in some of the countries celebrated the military intervention on the grounds that elected governments were either illegitimate or failed to meet the aspirations of the people.

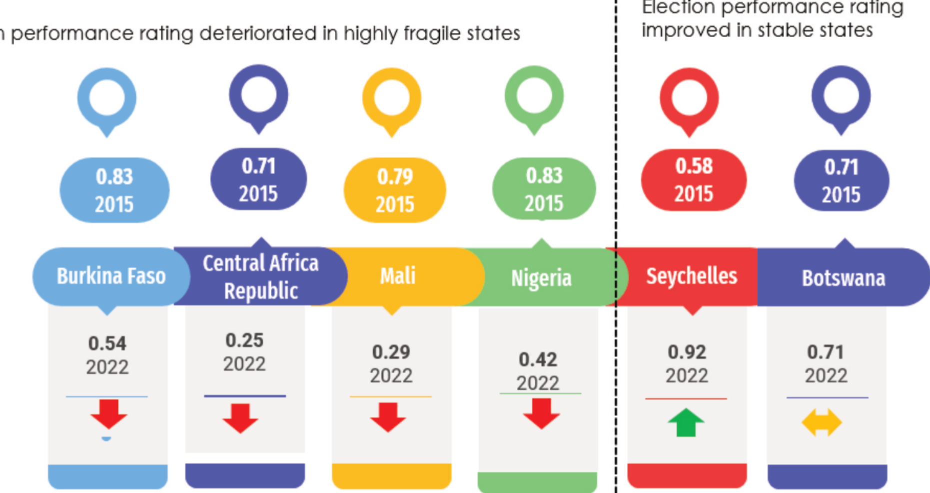
FIGURE A.1: FLAWED ELECTIONS AND STATE FAILURE CAN LEAD TO MACROECONOMIC INSTABILITY



Source:FDC

1 McIntosh, W. (2011). Soft Apocalypse. https://www.amazon.com/Soft-Apocalypse-Will-McIntosh/dp/159780276X
2 ibid
3 ibid
4 The Guardian (April 24, 2023). Sudan: thousands flee Khartoum as civilian casualties escalate. https://www.theguardian.com/world/2023/apr/24/sudan-thousands-flee-khartoum-as-civilian-casualties-escalate

FIGURE A.2: ELECTION PERFORMANCE RATING IN SELECTED AFRICAN COUNTRIES



Source:FDC

Unfortunately, most of the countries that are currently engulfed in crisis (including Mali, Chad, Equatorial Guinea, Burkina Faso, Uganda, etc.) are characterized by flawed elections and weak state legitimacy. Our study has shown that state fragility and violent extremism are highly correlated with weak state legitimacy, bookended by flawed elections and governance failure.

Nigeria is the 11th most fragile state in Africa. The nation's election performance index plunged to 42% in 2019 from 88% in 2015, and it is estimated to slide further to 34% in 2023.[5] On economic performance, per capita income declined by 30% in the past decade (currently estimated at $2,184). Unfortunately, Nigeria is on the brink of chaos as the crisis of weak state legitimacy heightens, escalating elite fractionalization, ethnic fragmentation, and the collapse of social cohesion. If this is not quickly addressed, Nigeria may slide into the abyss of state fragility, which will have severe consequences for the macro economy. Based on our forecasts, it could plunge about 7 million people into poverty by 2024.

Credible election, an elixir of state legitimacy

In a representative democracy, elections are the legitimate means of choosing leaders at different tiers of government. This is so because the underlying principle of democracy is that the representatives of the people must be chosen by the people themselves. If the electoral process is flawed such that the people feel that those who emerge from the elections are not their choice, then state legitimacy will be threatened.

A free, fair, and credible election is a signal that citizens have given their consent to the emergence of elected leaders. It also makes the people feel that the government will be accountable to them; if this supposition is not realized, they will be comforted by the assurance that they will remove such leaders in the next electoral cycle. The legitimacy a government derives from elections is a source of process legitimacy. Process legitimacy is one of the most important forms of political capital required by leaders to undertake certain critical reforms.

5 The actual indexes are 0.42 and 0.88 respectively. We expressed it in percentage for ease of understanding.

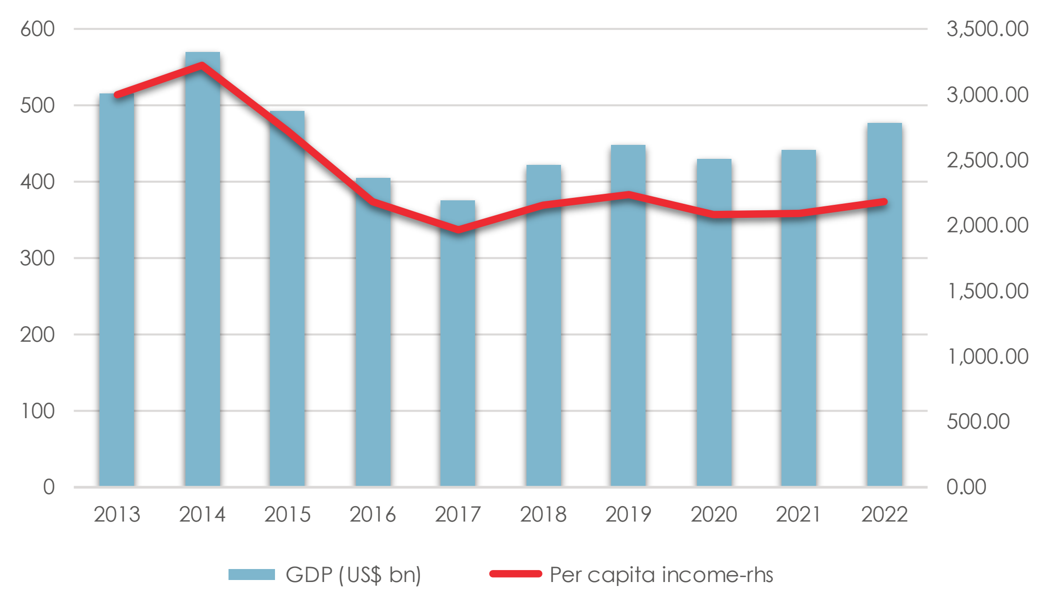
Another type of legitimacy that is lacking in Africa is performance legitimacy. Performance legitimacy involves building state legitimacy through the accomplishment of "concrete goals such as economic growth, social stability, strengthening national power, and good governance.[6] This is China's model of state legitimacy. It relies on performance legitimacy to achieve what it lacks in terms of process legitimacy—China's electoral process is highly flawed.

Governance failure, flawed elections, and state legitimacy

Nigeria and most African countries lack the requisite state legitimacy to guarantee political stability and national peace. Our study shows that governance and electoral performance are the most critical determinants of state legitimacy. When a government or institution is able to deliver on its promises, meet the needs of its citizens, and maintain the stability and security of the country, it gains performance legitimacy. Citizens are more likely to trust and support a government that is able to provide a better standard of living, facilitate economic growth, reduce crime rates, ensure social welfare, and promote democratic values. Governance failure or poor government performance can have a significant impact on state legitimacy.

One of the economic consequences of government failure is poor economic performance. The size of Nigeria's economy shrank to $477 billion in 2022 from $568 billion in 2014. In the same vein, per capita income declined to a low of $1968 in 2017 before rising to $2184 in 2022, which is 30% lower than its level a decade ago. It is therefore not accidental that these years of poor election performance ratings and low per capita income are also characterized by low levels of state legitimacy.

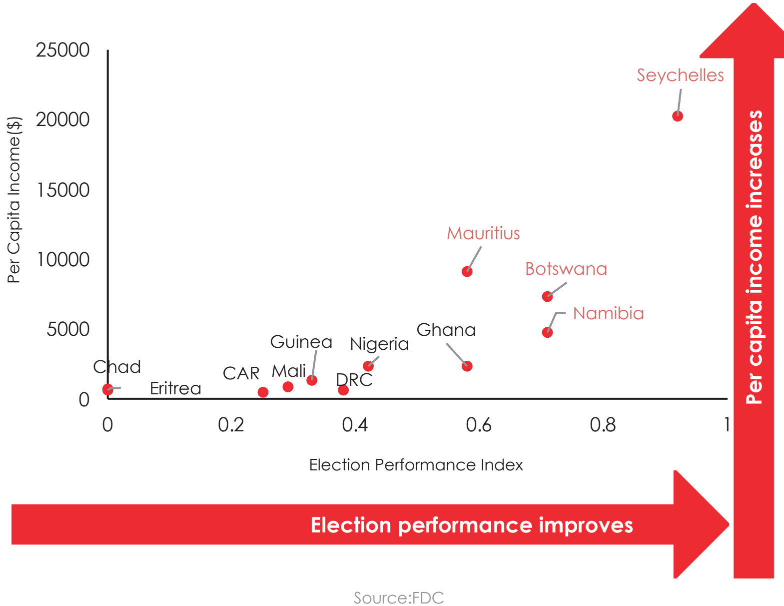
FIGURE A.3: NIGERIA'S GDP AND PER CAPITA INCOME (2013-2022)



Source: World Bank, IMF, FDC

6 Zhu, Y. "Performance Legitimacy" and China's Political Adaptation Strategy. J OF CHIN POLIT SCI 16, 123–140 (2011). https://doi.org/10.1007/s11366-011-9140-8

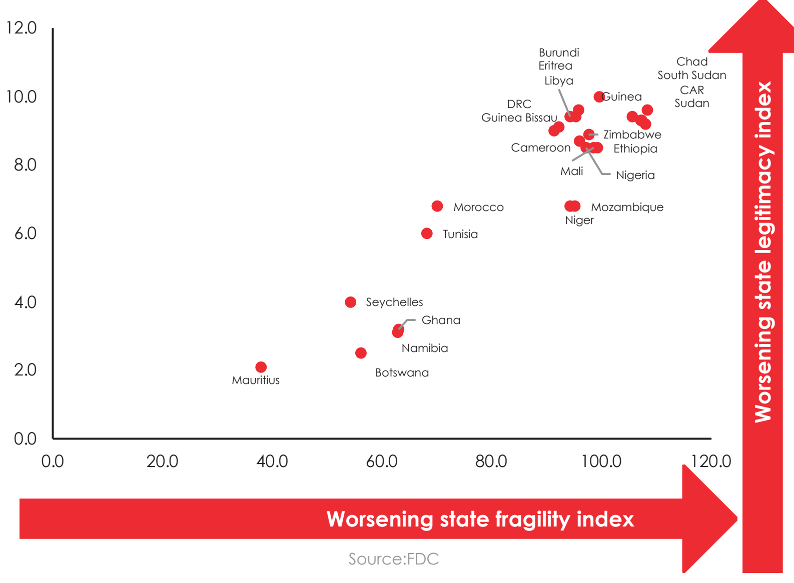
FIGURE A.4 STABLE COUNTRIES (SEYCHELLES, MAURITIUS, BOTSWANA, NAMIBIA) VERSUS FRAGILE COUNTRIES (CHAD, ERITREA, CAR, MALI, GUINEA, DRC, NIGERIA)



Source:FDC

Note: The graph shows that countries that have higher election performance index and higher per capita income (i.e the blue countries) are characterized by higher level of state legitimacy (eg Seychelles, Mauritius, Botswana, Namibia). Countries that have lower election performance index and lower per capita income are most likely to have lower rating on state legitimacy.

FIGURE A.5: COUNTRIES WITH POOR LEGITIMACY RATINGS HAVE HIGH STATE FRAGILITY RATING



Source:FDC

Note: Countries with low legitimacy ratings have high fragility index

Our study shows that countries that are characterized by poor electoral performance and low per capita income are rated low on state legitimacy. This suggests that elections and per capita income are good proxies for measuring process and performance legitimacy. Based on our study, most countries in Africa (including Chad, Eritrea, Mali, the Central African Republic, Guinea, the DRC, and Nigeria) with poor scores in election ranking and low per capita income have very low legitimacy. Conversely, countries that conduct credible elections and also have high per capita income (including Seychelles, Mauritius, Botswana, Namibia, etc.) have a higher legitimacy ranking.

State legitimacy is built on the idea that the government is a legitimate representative of its citizens and that it is capable of governing effectively and justly. The crises in Mali, Burkina Faso, Chad, and the Central African Republic, among others, are clearly linked to the inability to conduct elections that are seen as credible by the citizens as well as heightened economic hardship due to poor management of the economy. When the government or its institutions are perceived to be unjust or fail to follow the rule of law, the citizens will pass a vote of no confidence in the governance, and the government will lose its legitimacy. In most cases, the people will resort to the "rule of violence" in response to the state's abandonment of the rule of law.

State fragility and state legitimacy

When elections are held fairly and good governance is practiced, the state gains the trust and confidence of its citizens, thereby promoting social stability and sustainable development. Based on rigorous impact analysis, our estimate shows that if state legitimacy worsens by 10%, state fragility will escalate by 3.5%.

A government that is widely perceived as legitimate is more likely to be stable and less vulnerable to collapse, while a government that lacks legitimacy is more likely to be fragile and prone to collapse. As shown in Figure A.5, countries with low state legitimacy are ranked high on state fragility. Countries like Mauritius, Seychelles, and Botswana that have high state legitimacy rankings seem to be associated with low evidence of state fragility. The root cause of crises in Ethiopia, Chad, Sudan, Congo, etc. is state failure—the failure of the state to meet the expectations of its citizens, abandonment of the rule of law, and failure to uphold justice.

Macroeconomic consequences of state fragility

One of the greatest consequences of state fragility is macroeconomic instability. Most fragile states are characterized by spiraling inflation, persistent currency crises, rising poverty, worsening fiscal imbalances, an escalating debt crisis, and a worrisome food security crisis. Conflicts and violent extremism associated with state fragility are a kiss of death for the macro economy. It frustrates international trade, quickens investors' flight-to-safety syndrome, and heightens external imbalances. As investors run to safe havens, and export earnings dwarf, foreign exchange inflows dry up. This triggers waves of currency crises.

Worsening state fragility is a recipe for fiscal crisis. As the government prioritizes military spending, little or no funds will be available for investment in sustainable development projects such as infrastructure and industrial development. Such countries accumulate massive debts that are wasted and not spent on revenue-

generating projects. Tax revenues plummet as corporates struggle to break even due to an unfriendly operating environment.

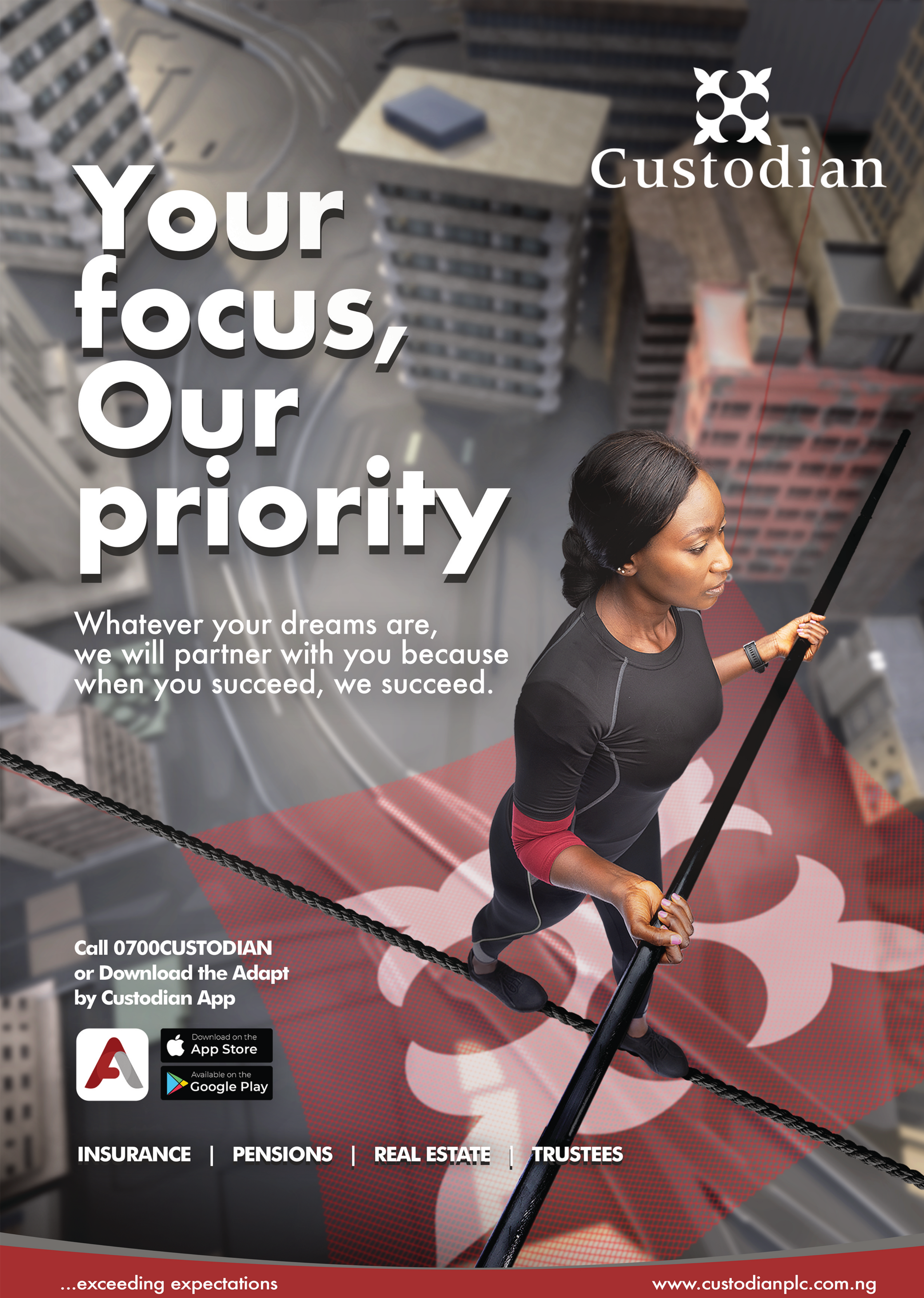
Overall, long-term output growth remains low while poverty and hunger become dominant.

Imperatives for the Next Administration

Although Nigeria has borrowed massively in an attempt to foster infrastructural development, there is no denying that its "superstructure" is fast collapsing. The worsening ratings on state legitimacy and fragility have been estimated to dip further by the end of 2023. The allegedly "flawed"[7] 2023 general election has exacerbated estrangement and disaffection in the country. Protests are brewing in different parts of the country; elites are fractionalized; policymakers are conflicted; and investors are bewildered. Indeed, Nigeria is in the doldrums – inflation at a record high, unemployment rated highest in Africa, a debt crisis looming, and poverty taking the grip of many households as a deluge. The basket is full for the next administration, but the options are few while the choices are hard.

The next administration must prioritize rebuilding confidence in the Nigerian people. Although it may have low process legitimacy at the start, the Yar'Adua model is still potent. The late President came to power through an election that was adjudged to have been botched. He never played the saint. He confessed so and focused on redeeming what he lost in process legitimacy through performance legitimacy. Shortly, he became one of the most loved and trusted Nigerian presidents. The next administration that will emerge on May 29 must focus on averting the dangers of plunging the nation into the abyss of the community of failed states.

7 Financial Times (March 1, 2023). Nigeria's badly flawed election. https://www.ft.com/content/ad9bbed0-a2c4-4e20-96ae-c23cd42296fe



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IS THE MONETARY POLICY RATE AN ANCHORLESS ANCHOR IN NIGERIA?

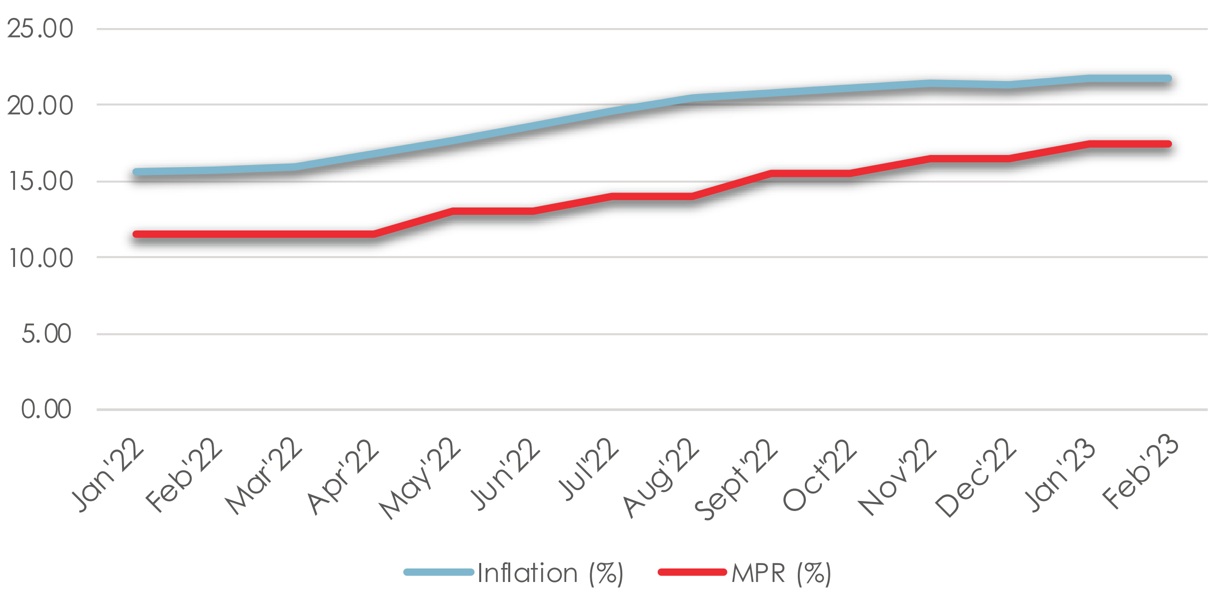
In March 2023, the CBN's Monetary Policy Committee raised the monetary policy rate by 50 basis points (bps) to 18% per annum (pa). This represents the sixth consecutive rate hike with a cumulative increase of 650bps. The major considerations underlying the decision of the MPC include: the global financial tremor, a rise in inflation, unintended consequences of the cash crunch, currency pressures, depleting external reserves, and sustained positive GDP growth.

However, despite the recent monetary tightening actions of the CBN, inflation remains elevated in Nigeria, currently at 22.04%. This raises the question of how responsive Nigerian inflation is to monetary tightening. Is there any relationship between monetary policy rates, short-term interest rates and inflation in Nigeria? Is Monetary policy an effective tool for curbing inflation in Nigeria?

Typically, monetary policy is the primary tool for curbing inflation. It is used by central banks to regulate specific macroeconomic variables and manage economic fluctuations with the ultimate aim of achieving price stability, exchange rate stability, full employment and sustainable economic growth. Other tools include wage and price control, supply-side policies, and exchange rate policies.

In response to the COVID-19 pandemic in 2020, central banks around the world adopted quantitative easing and reduced interest rates to record low to maintain the flow of credit and limit the negative economic impact of the pandemic. The unintended consequence of this was a spike in inflation, which was compounded by the Russia-Ukraine war-induced supply–chain disruptions.

FIGURE B.1: TREND OF INFLATION AND MONETARY POLICY RATES IN NIGERIA, Q1:2022-Q1:2023



Source: NBS, CBN, FDC

In response to rapidly growing inflation, central banks have tightened monetary policy by increasing interest rates.[8] However, inflation remains far above most central bank targets. For Nigeria in particular, the CBN's inflation target is 6-9% while inflation is currently at a 17-year high of 22.04%. Nigeria's monetary policy framework is explicit inflation targeting.

Does Nigeria's inflation respond to monetary tightening?

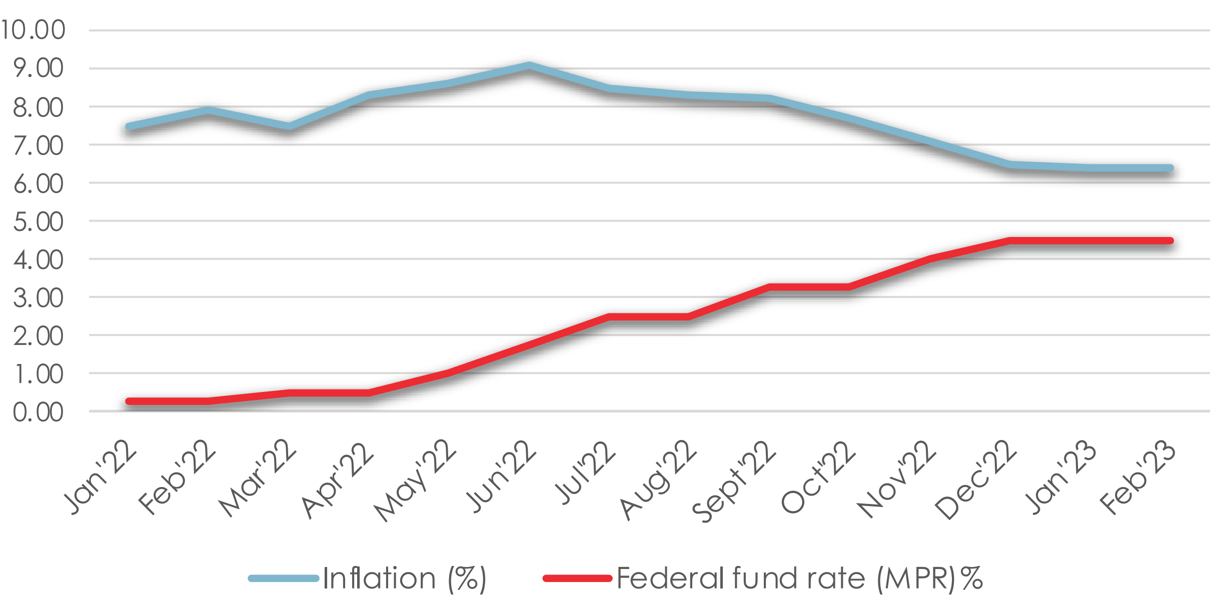
There has been a disconnect between the policy and effective rates in the market in Nigeria thus leading to distortions in the market and outcomes. Traditionally, monetary tightening or hikes in MPR increases borrowing costs, reduce lending, raise the interest income of banks, and increase non-performing loans as firms struggle with high borrowing costs.

It also encourages savings as savings rates increase. An uptick in savings leads to a reduction in consumption in the short run because of the marginal propensity to save, thereby stifling consumption patterns. However, in the long run, the increase in savings will lead to accelerated investments and eventually spur output growth.

Ideally, raising the MPR should also decrease inflation, but this is not the case as seen in Figure B.1. Figure B.1 reveals a positive relationship between the inflation rate and the MPR in Nigeria. Between January 2022 and February 2023, inflation maintained an upward trend despite interest rate hikes. This implies that Nigeria's inflation remains irresponsive to monetary tightening. On the other hand, the US economy shows the effectiveness of monetary policy on inflation. Figure B.2 reveals a negative correlation between the inflation rate and the federal fund rate. As the fund rate increases, inflation decelerates.

8 International Monetary Fund (IMF) (2023). Monetary Policy and Central Banking. https://www.imf.org/en/About/Factsheets/Sheets/2023/monetary-policy-and-central-banking

FIGURE B.2: TREND OF INFLATION RATE AND FEDERAL FUND RATE IN USA, Q1:2022-Q1:2023

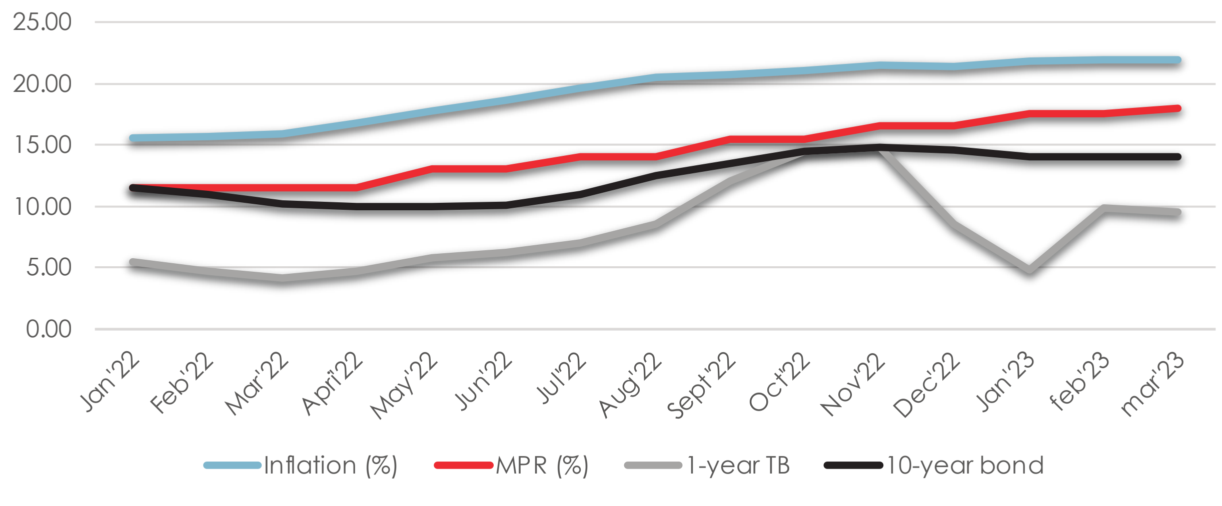


Source: FRED, FDC

Is there any relationship between monetary policy rate, short-term interest rates and inflation in Nigeria?

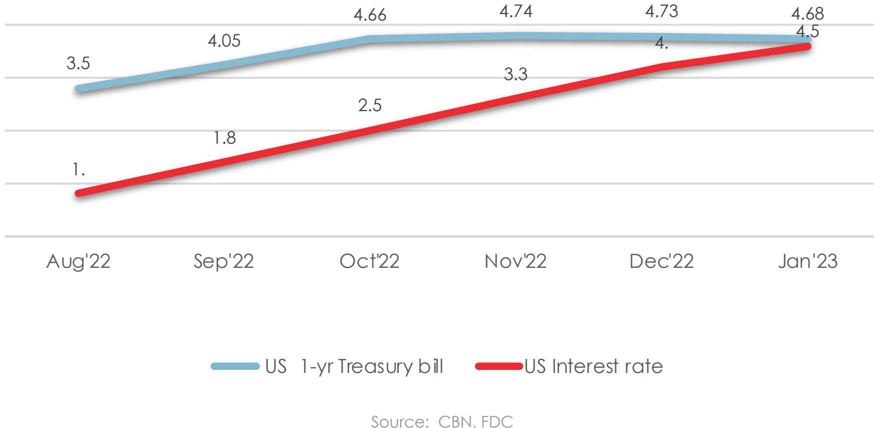
The effectiveness of monetary policy tools is largely dependent on the connectivity between the anchor rate and other nominal rates. The anchor rate in Nigeria is disconnected from the short-term interest rates and t-bill rates thus making monetary policy ineffective. Despite the monetary tightening measures of the CBN through six consecutive hikes in the MPR, money supply rose to 18.3% year-over-year in February 2023 from 17.2% in January 2023. Credit to businesses and consumers also increased to 16% year-over-year. Inflation increased to 21.91% year-over-year in February 2023 from 21.82% in January 2023.

FIGURE B.3: TREND OF INFLATION, MONETARY POLICY AND 1-YEAR TREASURY BILLS RATES IN NIGERIA, Q1:2022-Q1:2023



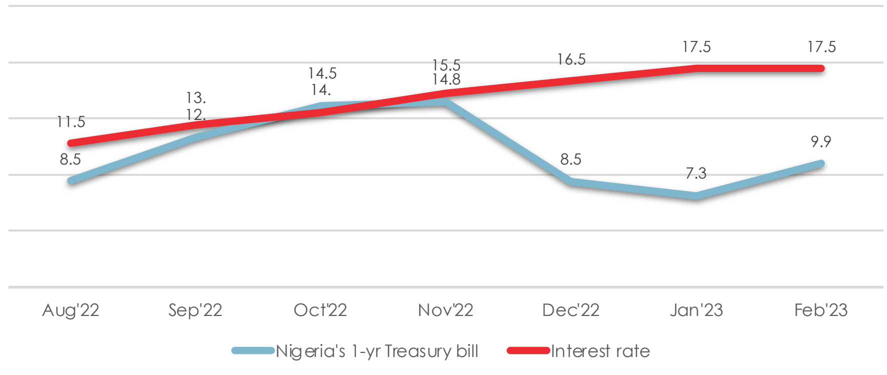
Source: CBN, NBS, FDC

FIGURE B.4: TREND OF US ANCHOR RATE AND SHORT-TERM INTEREST RATE



Source: CBN, FDC

FIGURE B.5: TREND OF NIGERIA'S ANCHOR RATE (MPR) AND SHORT-TERM INTEREST RATE



Source: CBN, FDC

Figure B.3 reveals that as the MPR increases, inflation also increases, while the one-year treasury bills rate declines over a range. Comparatively, Figure B.4 shows the responsiveness of short-term interest rates to the anchor rate in the U.S. There is an apparent disconnect between the anchor rate and the other rates in Nigeria. In Figure B.5, the Anchor rate in Nigeria is disconnected from the short-term interest rates and t-bill rates.

Intervention loans amongst other factors are undermining the effectiveness of the tightening cycle, reducing the impact of monetary policy.

Why is monetary policy ineffective in curbing inflation in Nigeria?

The lack of independence and full autonomy of the Central Bank undermines the effectiveness of monetary policy in Nigeria. In addition, CBN's periodic multi-sector intervention money buoys liquidity. It is also pertinent to note that monetary policy is delinked from its core fundamentals as there is an apparent disconnect between the anchor rate and other nominal rates in Nigeria. Indeed, the MPR is now an anchorless anchor; short-term interest rates are not anchored to the MPR.

Specifically, market imperfections and excessive monetary growth continue to impede monetary policy effectiveness. Money supply growth and excess liquidity persist because of growth in the monetary base as a result of rising Ways and Means advances (N23trillion) by the CBN to the Federal Government. CBN's direct money multi-sector interventions and intervention loans by other institutions (including the Bank of Industry and the Bank of Agriculture) are undermining the effectiveness of the tightening cycle.

Furthermore, there's an absence of effective coordination between monetary and fiscal authorities. These and more have rendered monetary policy measures deployed by the CBN ineffective. Besides, Inflation stoking factors in Nigeria are mostly supply-side issues: energy crises leading to high energy costs; foreign exchange scarcity; and supply shocks. Therefore, fiscal measures must complement monetary measures for the latter's effectiveness in curbing inflationary pressures.

Conclusion

The apparent disconnect between the Anchor rate and other nominal rates in Nigeria brings to the fore the urgent need for interest rate restructuring. Nominal interest rates must move in tandem with the monetary policy rate in order to improve monetary policy effectiveness. The CBN must continue to intervene in the market to mop up excess liquidity by intentionally raising effective interest rates and issuing OMO bills. Further increases in the MPR can send the appropriate tightening signal. An increase in effective interest rates will also raise the marginal propensity to save and reduce consumption in the short run while increasing investments and engendering output growth in the long run.

Going forward, there is a need to intentionally prioritize the independence and autonomy of the CBN; this is the key to effective monetary policy. An institution responsible for the nation's monetary policy should be effectively empowered and enabled to withstand political pressures and undue interferences from the executive, industry and opposition groups. Significantly reducing the impact of the CBN's financing of fiscal deficit on money supply and gradually phasing out CBN credit intervention programs are equally key measures for effective monetary policy. Furthermore, there is a dire need to decouple and limit the responsibilities of the CBN to monetary policy formulation and implementation while entrusting another body with the responsibilities of bank supervision and currency matters as in other climes. Most importantly, refocusing on price stability as the primary and core mandate of the CBN remains imperative.

LIFE IS GETTING TOUGH FOR BORROWERS. WHERE WILL THE PAIN BE FELT?

-Culled from The Economist

Ramifications from the fall of Silicon Valley Bank

After American regulators seized control of a collapsing Silicon Valley Bank (SVB), the fallout felt unpleasantly familiar. The biggest bank failure since 2008 was swiftly followed by others. Signature Bank fell two days later. Another week and fleeing investors had forced Credit Suisse, a 167-year-old Swiss bank, into a hasty tie-up with its rival UBS. Fifteen years ago a cascade of such failures prompted a global credit crunch, as financial institutions drastically tightened lending standards in an attempt to protect themselves, which was followed by the worst downturn in generations. Was a repeat under way?

A month on, the answer appears to be a merciful "no"—or, at least, a "not yet". Investors are shunning bank shares. Those of some regional American lenders have been brutalized: one, First Republic, has seen its stock price plunge by more than 90% since February. For six days after SVB's collapse the bond market was in effect closed, with no new bonds issued by American firms.

Then, in the second half of March, the shutters reopened and both borrowers and lenders rushed back in. All told, investment-grade issuers sold $103bn of debt in March—around last year's monthly average, despite the week-long hiatus. For such issuers, yields have fallen, and "the market's wide open", says Lotfi Karoui of Goldman Sachs, a bank. "The market really hasn't embraced the idea that [the events of March] will morph into a financial crisis." By the end of the month, even the riskiest issuers were again able to raise debt.

The Economist

Yet even if the risk of a crisis seems to have passed, borrowers still face a squeeze. The most obvious source of pressure is the Federal Reserve, which since March last year has raised its interest rate from close to zero to between 4.75% and 5%. For the firms that have borrowed $1.5trn in loans, which tend to have floating interest rates, the increase has quickly translated to higher debt-servicing costs. For issuers of high-yield bonds, who have borrowed a similar amount and tend to pay fixed interest coupons that only rise when the bond is refinanced, the full effect is yet to be felt. Although the market expects interest rates to be cut by a percentage point this year, the median Fed governor projects an end-of-year rate of above 5%. The more the threat of a financial crisis fades, the more likely the Fed's forecast is to prove correct.

Banks were reluctant to lend even before SVB fell. Mike Scott of Man Group, an asset manager, notes that by the end of 2022 surveys already showed lending standards had tightened to levels that, in previous business cycles, preceded recessions. Last month's ructions, which in America focused on small and midsized banks, are likely to have turned the screws further.

Analysts at Goldman Sachs estimate that banks with less than $250bn in assets account for 50% of commercial and industrial lending, and 45% for consumers. For small firms employing 100 people or fewer, the figure rises to 70%. It is these businesses—which employ more than a third of America's private-sector staff and produce a quarter of its gross output—that will be most sensitive to the forthcoming credit squeeze. Peter Harvey of Schroders, another asset manager, predicts that the outcome will be "stronger covenants, higher [interest] spreads, lower issuance volumes, smaller borrowing sizes and tighter controls on lenders' sectoral exposure".

The final source of stress will be firm's own liquidity, which has deteriorated markedly over the past 12 months. After covid-19 struck, corporate borrowers accumulated huge cash buffers, aided by rock-bottom interest rates and floods of newly created money from central banks. In 2020 the median American investment-grade firm held cash worth 6.5% of its assets, more than at any time in the past 30 years.

This figure has since been eroded to 4.5%, or around the same level as in 2010, after the global financial crisis. As a result, firms now have less scope to run down their existing cash reserves if interest rates stay high, and are more likely to need to borrow in response to future shocks. The banking industry's March madness might not have triggered a repeat of 2008. Life for borrowers is nevertheless becoming increasingly difficult.

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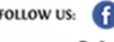


IS THE WORST NOW OVER FOR AMERICA'S BANKS?

-Culled from The Economist

In order to assess the damage, we look at three financial institutions

After a hurricane has passed there is a period of calm that can feel euphoric. Survival is no longer at stake. Then, once the relief begins to fade, it is time to assess the damage. What destruction has been wrought? How difficult will it be to recover? This sequence will be familiar to anyone who has been paying attention to American banks this year. In the days that followed the sudden failure of Silicon Valley Bank, once the country's 16th-largest lender, as well as two other banks, panic and fear ripped through the financial system. Now, though, the storm seems to have passed. Certainly, no lender has been imperilled since. Cue the relief.

What of the wreckage? The extent can be hard to discern in the immediate aftermath. But America's listed banks must, once a quarter, disclose their balance-sheets and earnings, offering a 30,000-foot view of the mess. Results season, which began on April 14th, when Citigroup, JPMorgan Chase, pnc Bank and Wells Fargo reported their first-quarter results, will continue to be closely watched through to April 24th. That is when First Republic, a bank in San Francisco which narrowly avoided failure in March, will belatedly disclose its results, having postponed its normal schedule in light of events.

The Economist

The panorama so far visible indicates that damage has not struck each part of the banking industry evenly. The simplest way to see this is to examine three measures—deposit bases, interest income and profits—at three differently sized banks. The biggest, with $3.7trn in assets, is JPMorgan Chase; one of the largest regional banks, pnc, with $560bn in assets, is up next; Western Alliance Bancorp, an Arizona-based lender with a mere $70bn in assets, completes the trio.

On each measure, JPMorgan is doing well. Flight from other parts of the industry, as institutions and individuals moved to bigger and safer-seeming banks, resulted in deposit "flock". Thus the bank's deposit base grew by 2% from the end of 2022. Although Jeremy Barnum, JPMorgan's chief financial officer, cautioned that he would not assume these deposits would stick because, "by definition, [they] are somewhat flighty", the bank nonetheless expects to earn a lot more interest income now (that is the difference between what a bank collects on its loans and what it pays for its funding). At the end of last year, JPMorgan thought it would make $74bn in interest income in 2023. The bank now thinks it will make some $81bn, since it will have to pay less to retain deposits across the board. All this has helped increase profits at the firm to $12.6bn, up by 15% on the previous quarter and 50% on the previous year. JPMorgan looks just as structurally sound—perhaps even more so—than it did before the storm arrived.

Things are not quite so comfortable at pnc, our midsized bank. The good news is that the firm's deposit base has held up—it was $435bn on average in the final quarter of 2022 and ended the first quarter of 2023 at $437bn. The bad news is that the firm is paying considerably more for these deposits.

At the end of last year, pnc customers held around 31% of their deposits in non-interest-bearing accounts, and pnc paid around 1.07% on the deposits that did earn interest. Now customers hold just 28% of deposits in non-interest-bearing accounts and pnc paid an average of 1.66% on the rest during the quarter. Although increases in the interest pnc is paid on its loans has numbed the pain, the bank's net-interest income still dropped from $3.7bn to $3.6bn. The institution is clearly being cautious—it grew its loan book by just 1% in the first quarter—and this caution means it also set aside less for loan losses than it did in the final quarter of last year. The overall result is that profits ticked up just a little in the first quarter.

Next, consider Western Alliance, the puniest of the three banks. Here the damage is most evident. Western Alliance lost some 11% of its deposits in the first quarter of the year, although the bank's management pointed out that deposits bottomed out on March 20th and have since climbed. As deposits are a low-cost source of funding, this pushed up the bank's interest expense by almost 50%, from $250m in the fourth quarter of 2022 to $360m in the first quarter of 2023. Again the impact was dampened by rising interest on loans, which climbed by 10% on the quarter. Thus the institution's net interest income only dipped 5% compared with the previous quarter. The clearest evidence of damage is in its profit figures, however. As Western Alliance shrank, it sold off parts of its balance-sheet, including loans and securities. This resulted in $110m of losses in the first quarter. Profits fell to $142m, down by half compared with the previous quarter. The firm is now planning to build up capital.

These metrics do not paint a picture of an institution near collapse. The clearest proof of impending peril for a bank would be evidence that it has lost so much of its funding—its deposits—that it needs to fire-sell vast quantities of assets even at the cost of enormous outright losses. An alternative harbinger of doom would be if a bank's funding costs have climbed by so much that its net interest income is wiped out, indicating that it will struggle to make profits in future and maintain its capital levels. None of this is yet evident at the Arizona-based lender.

Sweat the small stuff

For the moment, investors seemed to be soothed by the facts laid out by Western Alliance. The financial institution's shares rallied by 24% on April 19th (although they are still down by a third in the year to date). Its net interest income fell in the first quarter, but is still well above where it was when interest rates were at zero in 2021. Now that the bank has pruned its balance-sheet and is starting to build capital, it could even end up in better shape than it was during the era of low rates.

It is nonetheless likely that other banks yet to report, including First Republic, have been more grievously wounded. It is also possible that the full extent of the damage might not have been revealed. Most banks report a quarterly average for their net interest margins, not an end of quarter figure, which will mask recent events. Funding costs may have spiralled more than is apparent. Living through a storm can be a scary experience; making it through one intact is a relief. Not all banks have made it through just yet.

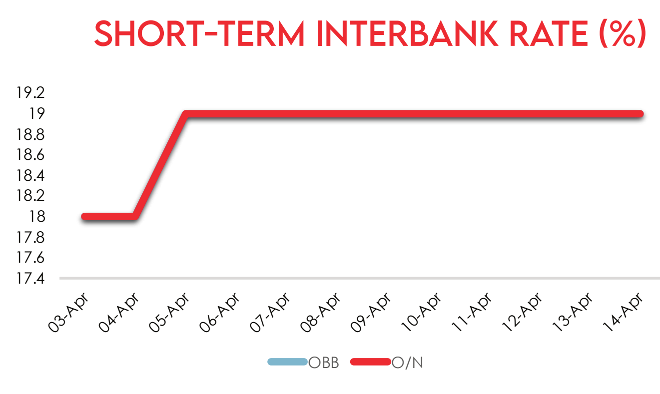
MACRO ECONOMIC INDICATORS

APRIL 3RD TO 14TH

MONEY MARKET

Banks' average opening position was N120.6bn short in the first half of April, 123% lower than the average of N506.7bn in the first half of March. During the review period, there were seven days with negative balances and only one day of positive balance. This was due to the bond auction settlement of N563bn at the end of March. No OMO sales or repayment were made during the review period. The sharp drop in bank liquidity led to a spike in short-term interest rates. Average NIBOR rates (OPR, O/N) increased sharply by 787bps to 18.66%p.a. in the first half of April from 10.79% p.a. in the corresponding period in March.

Only one primary market t/bill auction was conducted in the first half of April compared to two in the corresponding period in March. A total of N149.63bn was allotted, which is 69.25% lower than the sum of N486.61bn allotted in the first half of March. Primary market t/bill rates remained unchanged at 6.00%pa and 8.00%p.a. for the 91-day and 181-day tenors respectively while the 364-day tenor declined by 4bps. Meanwhile, at the secondary market, the 91-day t/bill yield increased while 181-day and 364-day yields were flat at 8.25%pa and 10.43%pa respectively.



Source: FDC Think Tank

Tenor	Primary market (March 29th 2023) (%)	Primary market (April 13th 2023) (%)	Secondary market (April 3rd 2023) (%)	Secondary market (April 14th 2023) (%)
91-day	6.00	6.00 ↔	4.57	5.5 ▲
182-day	8.00	8.00 ↔	8.25	8.25 ↔
364-day	14.74	14.70 ▲	10.43	10.43 ↔

Source: FMDQ, FDC Think Tank

▼ 123.00%

N120.6BN

BANK OPENING POSITION

OUTLOOK AND IMPLICATION

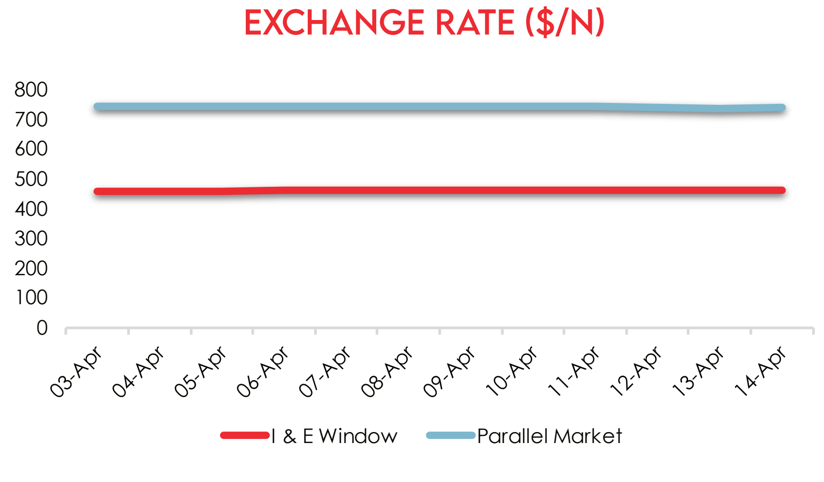
Short-term interbank rates are expected to remain elevated in the short term due to the CBN's tight monetary policy. This will keep borrowing costs high for both corporates and individuals. Higher interest rates increase the probability of loan default, which will push up banks' impairment charges. Meanwhile, net interest income is likely to increase due to higher interest rates.

FOREX MARKET

The Nigerian forex market is segmented with multiple exchange rates. The most important rate is the Investors and Exporters window (IEFX). Currently, the volume of forex transaction traded on this window is estimated to be less than 45%. The CBN, and exporters and investors use this window. It serves not only as a source of price discovery but also a barometer for measuring potential and actual CBN intervention in the market.

EXCHANGE RATE

At the Investors and Exporters Foreign Exchange window, the naira depreciated by 0.37% against the dollar to close at N463.70/$ on April 14 from N462/$ on March 31. Whereas, at the parallel market, demand pressure reduced amidst a boost in forex supply. This led to a 0.67% appreciation in the value of the currency to N740/$ on April 14th from N745/$ at the beginning of the month.



Source: FDC Think Tank

▲ 0.67%

N740/$

PARALLEL MARKET RATE

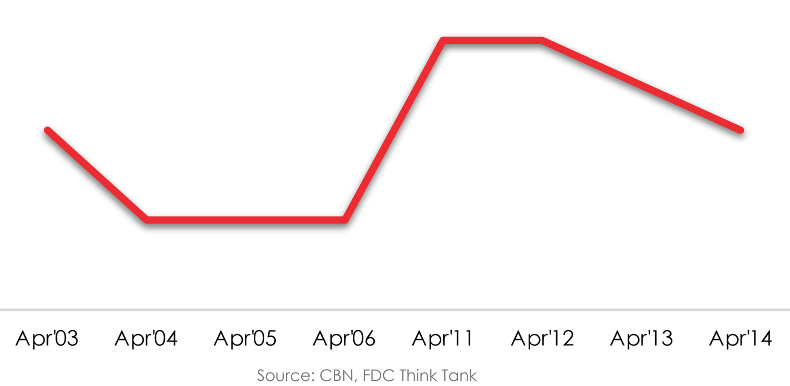
OUTLOOK

The external reserve is expected to continue its downward trend in the coming weeks as major sources of forex inflows deteriorate. This would be compounded by an adverse ruling in the ongoing P & ID trial. The $11bn arbitral award accounts for about 30% of gross external reserves.

EXTERNAL RESERVES

In the first half of April, Nigeria's gross external reserves recorded a choppy movement. It inched up by 0.05% to $35.43bn on Apr'12 mainly due to the slight increase in oil prices before declining to close the period at $35.41bn. Meanwhile, the import and payments cover remained flat at 8.04 months during the period of review.

FOREIGN EXCHANGE RESERVES



Source: CBN, FDC Think Tank

▲ 0%

$35.41BN

NIGERIA'S EXTERNAL RESERVES

IMPLICATION

This is likely to worsen the country's external imbalance and limit the CBN's supply of foreign exchange to support the naira at the forex market. Thus, leading to a depreciation of the naira.

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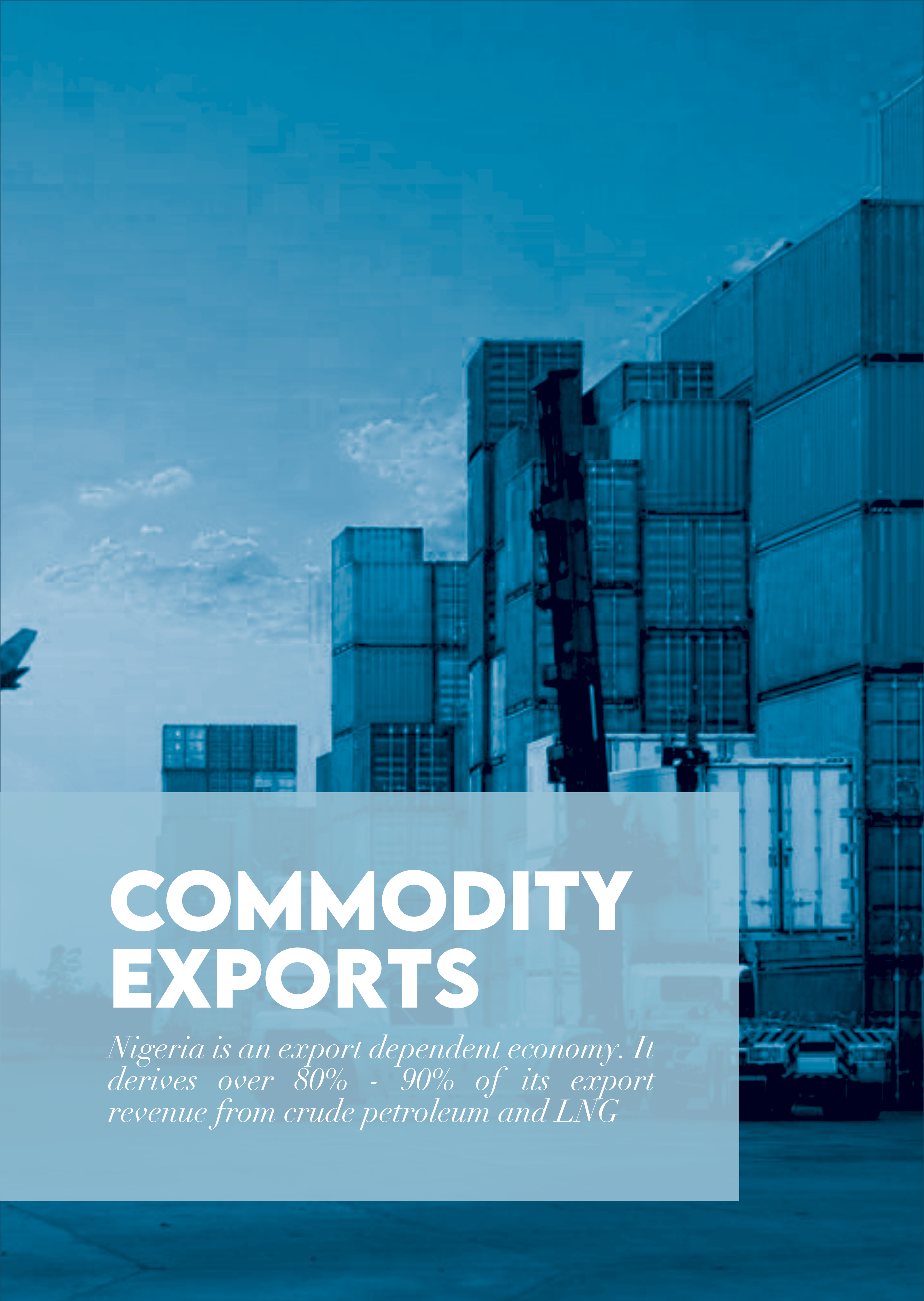


COMMODITY EXPORTS

Nigeria is an export dependent economy. It derives over 80% - 90% of its export revenue from crude petroleum and LNG

OIL PRICES

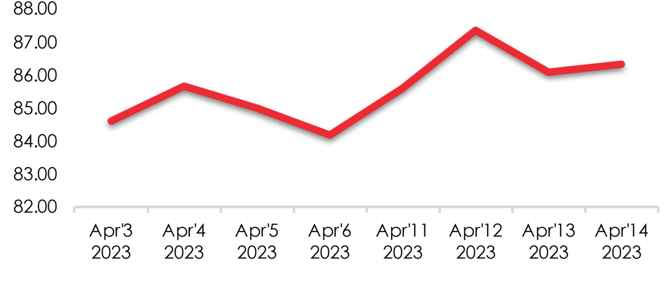
The price of Brent crude traded higher in the first half of April compared to the same period in March. It traded within the range of $84.18/pb - $87.33/pb. On average, oil prices increased by 4.59% to $85.67/bp from $81.91/bp in the first half of March. The bullish market sentiment was mainly as a result of expectations of a decline in US crude stockpiles coupled with the OPEC+ decision to reduce oil output by an additional 1.66 million barrels per day.

OIL PRODUCTION

After increasing for four consecutive months, domestic oil production fell slightly by 1.45% to 1.35 million barrels per day in March from a revised figure of 1.37 million barrels per day in February. This is despite the increase in the country's oil rig count, to 15 points from 13 points in February.

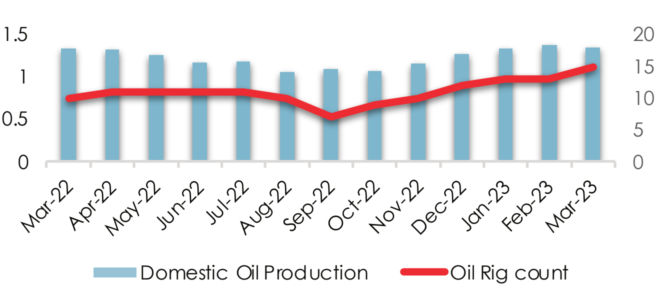
OPEC's crude oil production fell by 86,000 barrels per day in March, to an average of 28.80mb/d compared to 28.92mb/d in the preceding month. Oil production declined in Nigeria, Iraq and Angola while it increased mainly in Saudi Arabia.

BRENT CRUDE OIL ($/PB)



Source: Bloomberg, FDC Think Tank

DOMESTIC OIL PRODUCTION



Source: OPEC, FDC Think Tank

▼ 1.45%

1.35mbpd

DOMESTIC OIL PRODUCTION

OUTLOOK

Oil prices are to remain elevated in the near term due to a number of factors including OPEC+ production cut, the EU ban on Russian imports, China's economic recovery and eased fears of further rate hikes by the Fed Reserve following the drop in US inflation. Domestic oil production is to be supported by improved efforts to curb oil theft and vandalism.

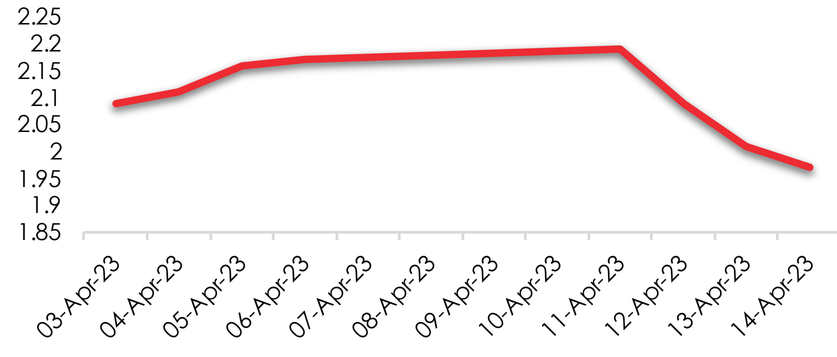
IMPACT

Higher oil prices and the possible increase in oil production will increase government revenue and foreign exchange earnings. If this happens, FAAC disbursements in the coming month would increase and the gross external reserves will sustain its recent accretion. Higher forex earnings will increase the ability of the CBN to defend the Naira.

NATURAL GAS

The price of gas touched a high of $2.19/MMBtu on April 11th amidst forecast of cooler temperatures, before settling to close the period at $1.97/MMBtu. On average, gas prices fell by 20.22% to $2.09/MMBtu from $2.62/MMBtu in the first half of March. This was fueled by milder weather and reduced demand in Europe as well as expectations of increased supply from Qatar.

NATURAL GAS ($/MMBTU)



Source: Bloomberg, FDC Think Tank

▼20.22%

$2.09/MMBtu

AVG NATURAL GAS PRICE

OUTLOOK

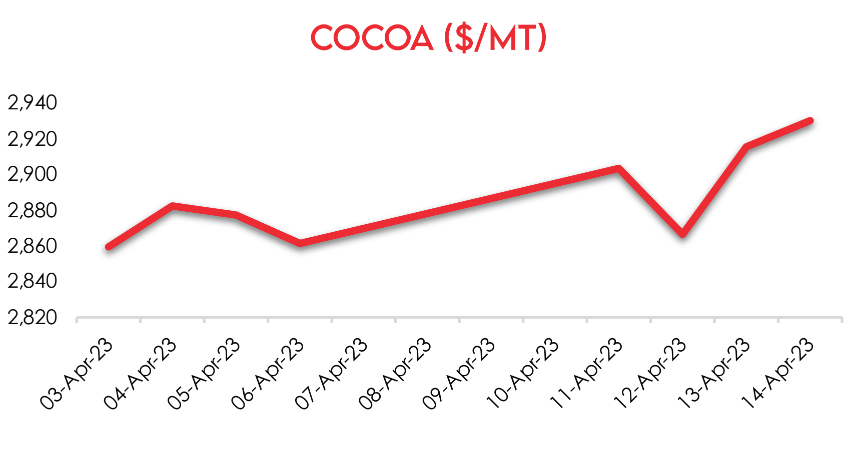
The price of gas is expected to remain low due to milder weather forecasts and high gas inventories in Europe. However, expectations of increased Chinese demand are likely to push up prices.

IMPLICATION

Gas accounts for 11.08% of total exports. Hence, lower gas prices will reduce the country's external and fiscal revenues.

COCOA

Cocoa prices fluctuated during the review period. It touched a low of $2,861/mt on April 6th before gaining momentum to close at $2,302/mt on April 14th. The price of cocoa averaged $2,887/mt in the first half of April, up 5.36% from the average of $2,740/mt in the preceding month. This increase was buoyed by tight supply due to unfavourable weather conditions in Ivory Coast, a top producer.



▲ 5.36%

$2887/mt

AVG COCOA PRICE

OUTLOOK

Cocoa price is likely to remain elevated in the near term owing to lower production in top producing countries such as Ivory Coast.

IMPLICATION

Cocoa is a major non-oil export commodity in Nigeria. A rise in cocoa prices will bolster the country's foreign exchange earnings. It could also be an incentive for local farmers as their income increases.

COMMODITY IMPORTS

WHEAT

The price of wheat fell significantly in the first half of April largely due to projections of higher crop yield from the US, amid forecast of improved weather conditions. It declined by 2.48%, to close the period at $673.75/bushel from $693.50/bushel on April 3rd. On average, wheat prices fell to $682.03/bushel within the review period from the average of $693.77/bushel in the first half of March.

WHEAT ($/BUSHEL)

695.00
690.00
685.00
680.00
675.00
670.00
665.00
660.00

03-Apr-23 04-Apr-23 05-Apr-23 06-Apr-23 07-Apr-23 08-Apr-23 09-Apr-23 10-Apr-23 11-Apr-23 12-Apr-23 13-Apr-23 14-Apr-23

Source: Bloomberg, FDC Think Tank

▼ 2.48%

$682.03/b

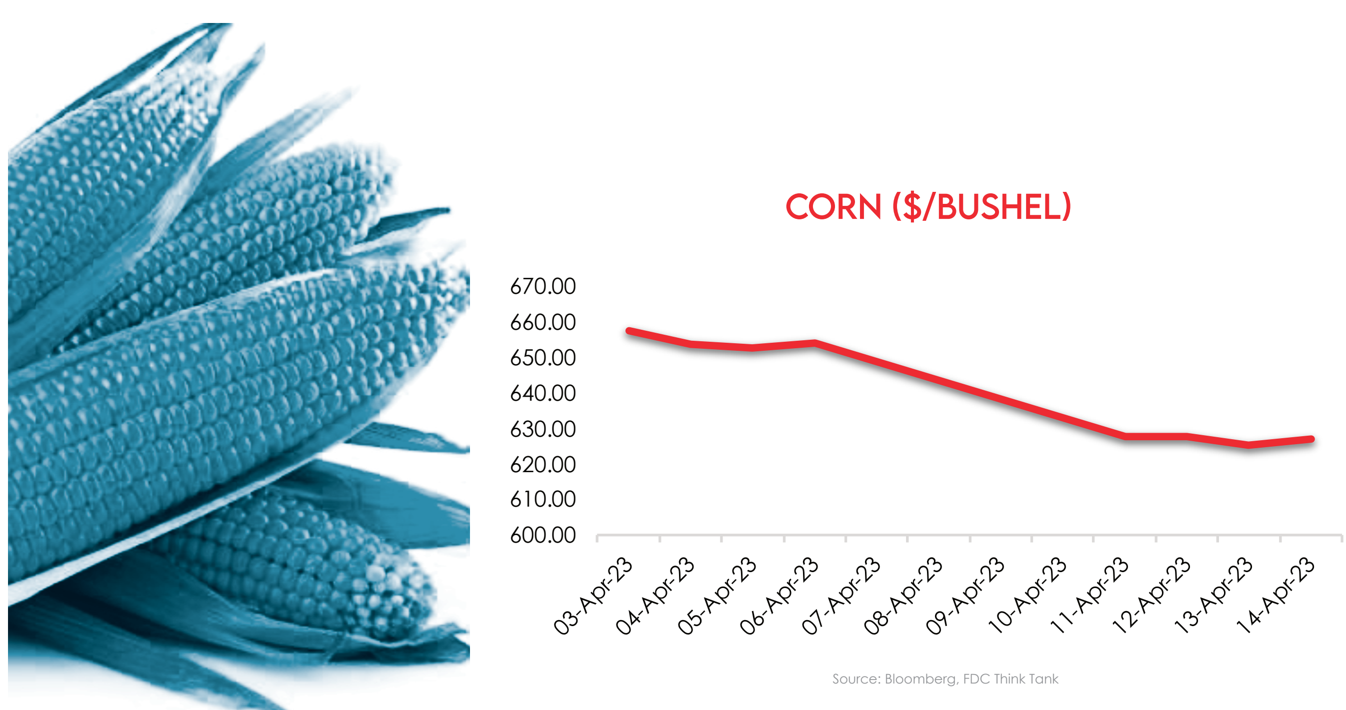
AVG WHEAT PRICE

OUTLOOK- GRAINS

The price of wheat is expected to fall owing to growing optimism about the extension of a Black Sea deal by Russia. Similarly, corn prices are likely to remain low in the near term amid higher production from the US, a major exporter.

CORN

The price of corn declined steadily in the first half of April as Brazil raised its projection for corn exports to 50 million tons for the 2022-23 marketing year. It lost 4.63% from $657.75 on April 3rd to close the period at $627.25/bushel on April 14th. On average, the price of corn increased by 2.09% to $640.80/bushel in the first half of April from $627.68/bushel in the same period in March owing to a decline in production in Argentina.



▲ 2.09%

$640.80/b

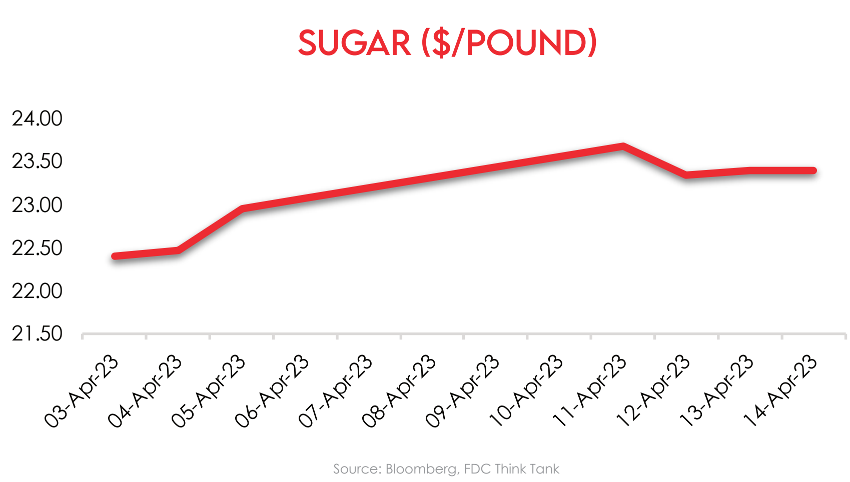
AVG CORN PRICE

IMPLICATION - GRAINS

Lower grain prices are expected to reduce the country's import bill as well as the cost of production for food processing industries. This will lower inflation risk as retail prices taper, leading to an increase in consumers' real income.

SUGAR

The price of sugar maintained its upward trend until the 11th of April after which it eased slightly to close the review period at $23.39/pound. Sugar prices averaged $23.09/pound in the first half of April, 11.49% higher than the average of $20.71/pound in the same period in March. This decline was driven by global supply concerns amid lower output in top-producing countries, India, Thailand and China.



▲ 11.49%

$23.09/lb

AVG SUGAR PRICE

Outlook

The price of sugar is expected to remain elevated due to lower than expected 2022-23 crop harvest in India, China and Thailand.

Implication

High price of sugar will put pressure on the foreign exchange reserves as the country's import bill rises. It will also increase the cost of production for confectioners.

Terms of Trade

The country's terms of trade is expected to be negative as the price of its exports reduces in contrast to that of its imports. This would result in an unfavourable balance of trade.

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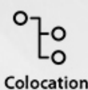

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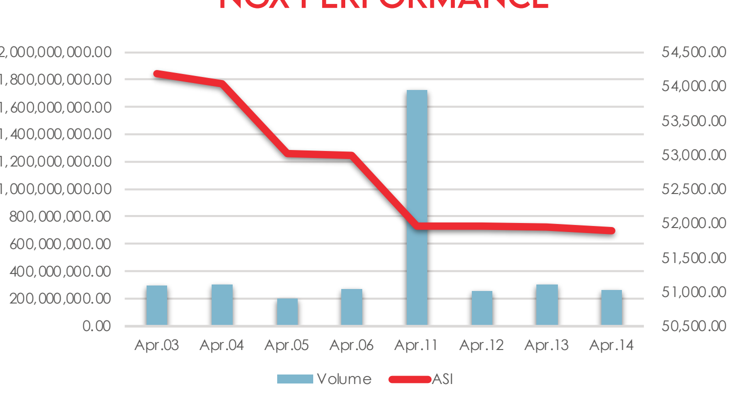
STOCK
MARKET
REVIEW
APR 3RD - 14TH

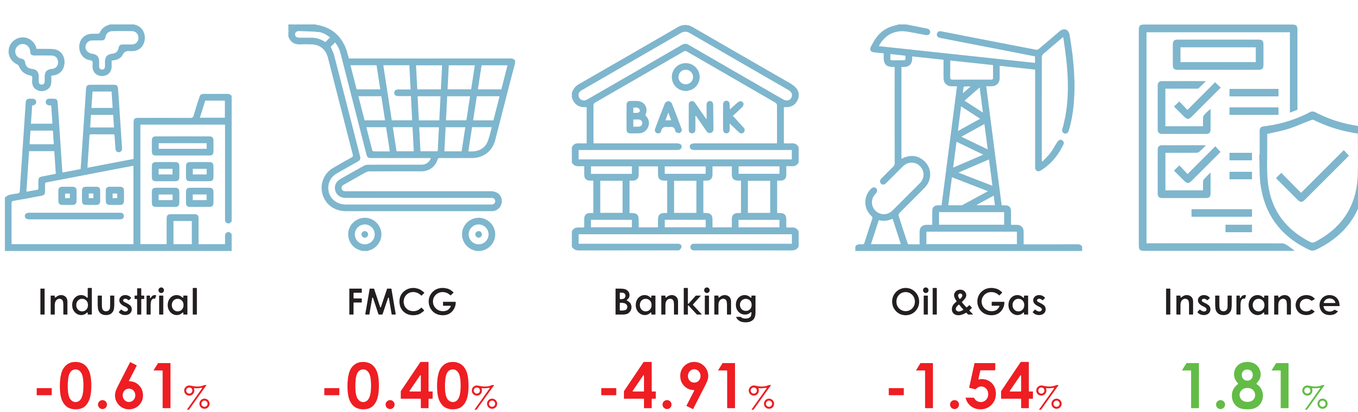
Nigerian Exchange Limited closed on a negative note between April 3-14. It lost 4.31% to close at 51,893.94 basis points on April 14 from 54,232.34 basis points on March 31. Also, market capitalization decreased by 4.30% to N28.27trn relative to its close of N29.54trn on March 15. The market YTD return was 1.25% in the review period. The market breadth was negative at 0.52x as 24 stocks gained, 87 stocks remained unchanged while 46 lost. The negative performance of the stock market in the review period can be partly attributed to investors' tentativeness and cautious trading ahead of the release of March inflation numbers.



Market activity level was mixed in the review period. The average volume traded increased by 19.04% to 449.08mn units from 336.07mn units. Meanwhile, the average value of trades fell by 0.38% to N2.63bn from N2.64bn in the review period.

The performance of the sectors was negative in the review period, as one sector gained while four lost. The insurance sector recorded a gain of 1.81%. Meanwhile, the banking sector recorded the highest loss (4.91%), followed by the oil and gas sector (1.54%), the industrial sector (0.61%) and the consumer goods sector (0.40%).

SECTOR PERFORMANCE



Industrial	FMCG	Banking	Oil &Gas	Insurance
-0.61%	-0.40%	-4.91%	-1.54%	1.81%

TOP 5 GAINERS

Nigerian Aviation Handling Company Plc topped the gainers' list with a 30.86% increase in its share price. This was followed by Transnational Corporation of Nigeria Plc (21.58%), AXA Mansard Insurance Plc (15.79%), Linkage Assurance Plc (11.63%) and Skyway Aviation Handling Company Plc (10.00%).

Company	Mar-31 (N)	Apr- 14 (N)	Absolute Change	Change (%)
NAHCO	8.10	10.60	2.50	30.86
TRANSCORP	1.39	1.69	0.30	21.58
MANSARD	1.90	2.20	0.30	15.79
LINKASSURE	0.43	0.48	0.05	11.63
SKYAVN	5.00	5.50	0.50	10.00

TOP 5 LOSERS

The laggards were led by Royal Exchange Plc (-21.79%), Multiverse Mining and Exploration Plc (-21.60%), Eterna Plc (-19.12%), Airtel Africa Plc (-19.00%) and UAC of Nigeria Plc (-16.23%).

Company	Mar-31 (N)	Apr- 14 (N)	Absolute Change	Change (%)
ROYALEX	0.78	0.61	-0.17	-21.79
MULTIVERSE	3.24	2.54	-0.70	-21.60
ETERNA	6.80	5.50	-1.30	-19.12
AIRTELAFRI	1479.00	1198.00	-281.00	-19.00
UACN	9.55	8.00	-1.55	-16.23

OUTLOOK

Concerns over an impending interest rate hike following the rise in Nigeria's headline inflation to 22.04% in March 2023 would continue to dampen investor sentiment and weigh on market performance in the near term.

FDC

OUTLOOK FOR NEXT MONTH

Headline inflation is expected to continue its upward trajectory in April due to a boost in aggregate demand (Easter and Ramadan celebrations) amid supply shortfalls (commencement of the planting season). This could prompt the CBN to continue with its tight monetary policy with the possibility of a 25bps hike in the benchmark interest rate in May.

Oil price movement would be determined by a number of factors in the near term. While OPEC+ production cut, the EU ban on Russian imports and China's economic recovery are expected to boost oil prices, growing concerns of an economic slowdown as the Central banks maintain hawkish monetary policy stance remains a major downside risk.

External reserve is likely to decline steadily as the major sources of forex inflows deteriorate. This would be compounded by an adverse ruling in the ongoing P&ID trial. The $11bn arbitral award accounts for about 30% of gross external reserves. A sharp drop in gross external reserves will worsen the country's external imbalances and reduce the ability of the CBN to defend the Naira.

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