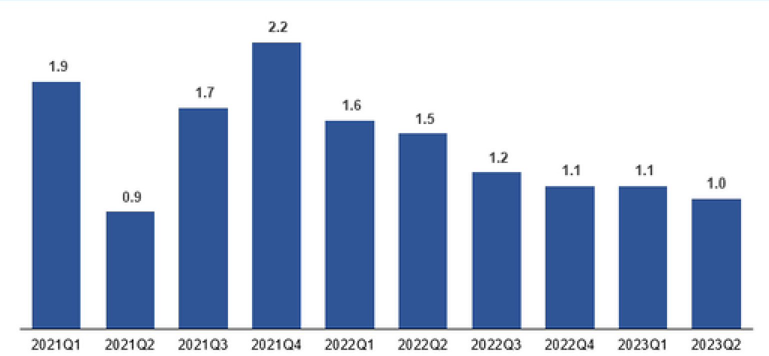
NESG 2023Q2 CAPITAL IMPORTATION ALERT

October 2023

Overall investment inflows into Nigeria slid to US$1 billion in 2023Q2

According to the National Bureau of Statistics (NBS), foreign investment inflows fell by 33.3 percent (year-on-year) to US$1 billion in 2023Q2 from US$1.5 billion in the corresponding period of 2022 (see **Figure 1**). Similarly, on a quarterly basis, the overall investment inflows dropped by 9.1 percent compared with the level in 2023Q1 (US$1.1 billion). Cumulatively, foreign investment inflows totalled US$2.1 billion in the first half of 2023. This represents a 32.3 percent decline relative to the level in the first half of 2022 (US$3.1 billion). The persistent decline in the overall investment inflows reflected deteriorating investors' confidence in the Nigerian economy.

Figure 1: Trend of Foreign investment inflows (US$ billion)



Data: NBS; Chart: NESG Research

All components of the overall investment inflows fell except "Other" investment in 2023Q2. Nigeria's capital importation profile exhibited mixed performance across the three (3) components: **Foreign Portfolio Investment** (FPI), **Foreign Direct Investment** (FDI), and **Other investment**. The shares of FDI and FPI shrank to 8.4 percent and 10.4 percent in 2023Q2, respectively compared with their performances in 2022Q2. However, the contribution of Other investment to the total investment inflows almost doubled to 81.3 percent in the quarter relative to the same period in 2022 (see **Figures 2a and 2b**).

Historically, while there is an alternation in the predominance of the country's capital importation between FPI and Other investment across quarters, FDI has remained the least contributor to the total inflows both on a quarterly and annual basis.

Figure 2a: Composition of Investment inflows in 2023Q2 (percent)

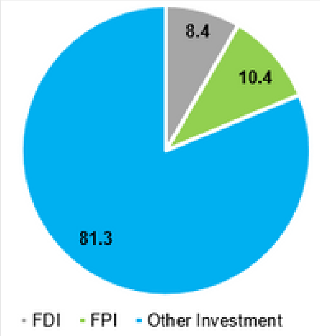
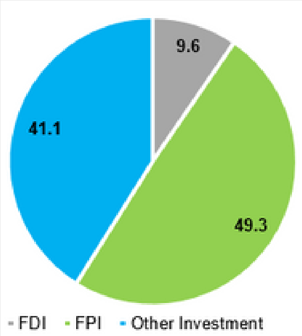


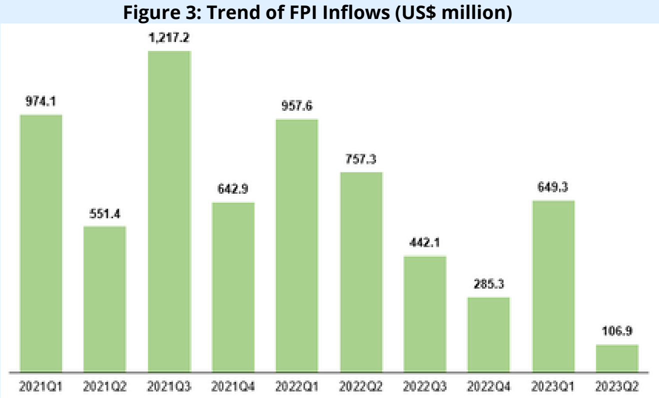
Figure 2b: Composition of Investment inflows in 2022Q2 (percent)



Data: NBS; Chart: NESG Research

FPI inflows plunged in 2023Q2 on a year-on-year and quarter-on-quarter basis. Total FPI inflows fell sharply to US$106.9 million in 2023Q2 from US$757.3 million in 2022Q2. Similarly, FPI declined by 83.5 percent (quarter-on-quarter) relative to its level in 2023Q1 (US$649.3 million) (see **Figure 3**). Cumulatively, FPI stood at US$756.2 million in H1'2023, which is 55.5 percent lower than its level in H1'2022 (US$1.7 billion). A further breakdown of the FPI shows a subdued uptake of Nigerian financial instruments (equities, bonds, and money market instruments), reflecting low investors' risk appetite for the financial assets due to persistent foreign exchange (FX) shortages, negative real returns on investment, and challenges in repatriating funds abroad.

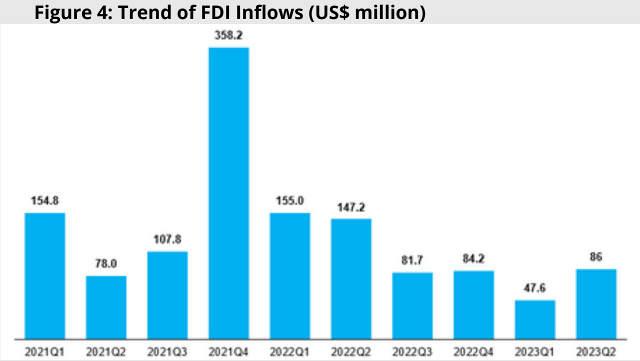
Figure 3: Trend of FPI Inflows (US$ million)



Data: NBS; Chart: NESG Research

FDI inflows fell by 41.6 percent (year-on-year) in 2023Q2. Foreign Direct Investment (FDI) – a relatively stable source of investment flows – declined to US$86 million in 2023Q2 from US$147.2 million in 2022Q2 (see **Figure 4**). However, on a quarterly basis, FDI grew by 80.7 percent in 2023Q2 relative to its level in 2023Q1 (US$47.6 million). On a cumulative basis, FDI stood at US$133.6 million, which is 55.8 percent below its level in the corresponding period of 2022 (US$302.2 million). Nigeria's inability to substantially attract FDI is attributable to structural challenges, including FX scarcity, difficulty in profit repatriation, insecurity, infrastructure deficit, and regulatory bottlenecks, among others.

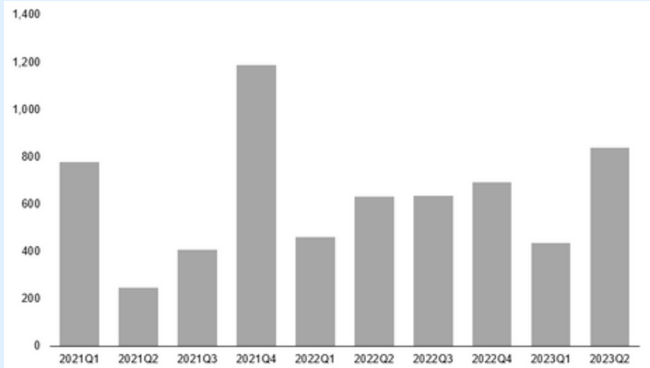
Figure 4: Trend of FDI Inflows (US$ million)



Data: NBS; Chart: NESG Research

"Other" Foreign Investment Inflows rose sharply in 2023Q2. Unlike FDI and FPI, the value of Other categories of foreign investments - covering foreign loans, trade credits, currency deposits, and other claims – spiked by 32.7 percent to US$837.3 million in 2023Q2 from US$630.9 million in 2022Q2 (see **Figure 5**). Similarly, Other investment rose sharply by 92.1 percent (quarter-on-quarter) relative to its level in 2023Q1 (US$435.8 million). In terms of composition, foreign loans accounted for 92.1 percent of Nigeria's Other categories of foreign investment in 2023Q2. Cumulatively, Other investment stood at US$1.3 billion in H1'2023, which is 18.2 percent above its level in H1'2022 (US$1.1 billion).

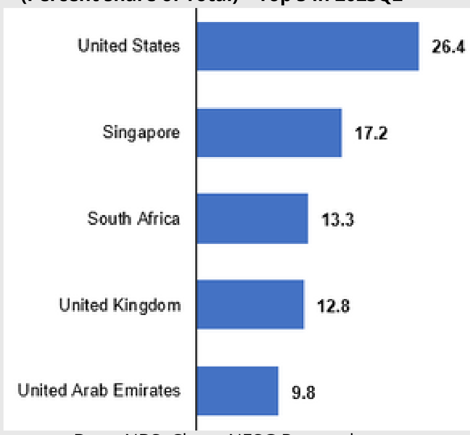
Figure 5: Trend of Other investment inflows (US$ million)



Data: NBS; Chart: NESG Research

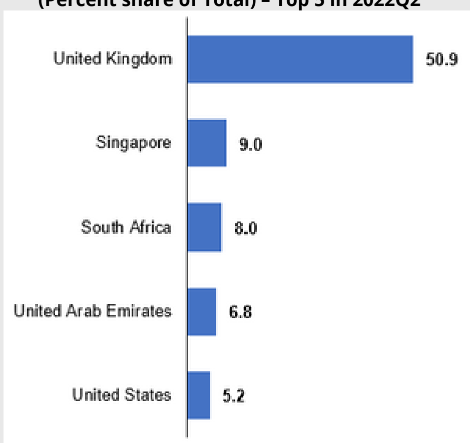
United States leapfrogged United Kingdom as Nigeria's largest source of foreign investments. The United States emerged as the largest source of investment inflows into Nigeria, accounting for 26.4 percent of the total inflows (US$271.9 million) in 2023Q2, thereby surpassing the United Kingdom which accounted for 12.8 percent with a total inflows of US$131.5 million in the quarter. Other countries ranking among the top five (5) investment sources in 2023Q2 were Singapore, South Africa, and the United Arab Emirates (see **Figures 6a and 6b**).

Figure 6a: Capital Importation by Origin (Percent share of Total) – Top 5 in 2023Q2



Data: NBS; Chart: NESG Research

Figure 6b: Capital Importation by Origin (Percent share of Total) – Top 5 in 2022Q2



Data: NBS; Chart: NESG Research

Lagos and Abuja remain the major investment hotspots in Nigeria. Accounting for 76 percent of the overall investment inflows in 2023Q2 (US$778.1 million), Nigeria's commercial epicentre – Lagos - maintained its position as the most attractive investment destination. Similarly, FCT-Abuja remained the second largest investment destination accounting for 19 percent with a total investment inflows of US$194.3 million in the quarter. Moreover, three (3) states - Akwa Ibom, Ogun, and Ekiti - accounted for the remaining 5 percent share in 2023Q2.

Indigenous banks largely facilitated foreign investment inflows in 2023Q2. In 2023Q2, eighteen (18) banks facilitated the inflow of foreign investments into Nigeria. About 65 percent of the total inflows (US$669.9 million) were facilitated by fourteen (14) Nigerian-owned banks, while four (4) foreign-affiliated banks facilitated only 35 percent of the total investment inflows in the quarter.

CONCLUDING REMARKS

* **The impressive quarter-on-quarter growth in FDI suggests that the pro-market reforms introduced recently are yielding fruits, but more work needs to be done to improve the unfavourable business environment to sustain the gains.** Since FDI constitutes a relatively long-term investment and a strong driver economic growth and job creation, the Nigerian government should remove all impediments that constitute a disincentive to prospective investors. The country's infrastructural decay and regulatory bottlenecks impose additional costs on foreign investors thereby eroding profitability. Similarly, elevated and persistent insecurity has further exacerbated the apprehension of long-term investors in the economy. To this end, the government needs to be deliberate in urgently addressing these challenges.

* **Foreign portfolio investment is not likely to improve in the near term if measures are not set aside to improve the dollar liquidity.** While foreign portfolio investors continue to grapple with negative real return on investments, they are more concerned about the ease of profit repatriation amidst persistent FX scarcity. Considering that global oil prices remain high, there is an urgent need to ramp up domestic crude oil production which is significantly below the OPEC output quota of 1.7 million barrels per day by ensuring that crude oil theft is drastically and tactically reduced. Unless foreign investors are assured of improved dollar liquidity, foreign portfolio investment is bound to face further downside risks in the coming quarters.

* **The growing momentum of foreign loans is likely to taper in the coming quarters. The current administration is signaling measures to reduce Nigeria's exposure to external borrowing.** An instance is the recent crude oil loan repayment agreement reached between the Nigerian National Petroleum Corporation (NNPC) Limited and the African Export-Import Bank to the tune of US$3 billion to ameliorate the FX crisis in the country. While this step is a debt-reducing strategy, it comes at a cost to the economy in terms of lost oil revenues. Improved commitment towards raising the bar for FDI inflows could also reduce the leverage on external borrowings such as high interest-bearing Eurobonds and commercial debts.

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