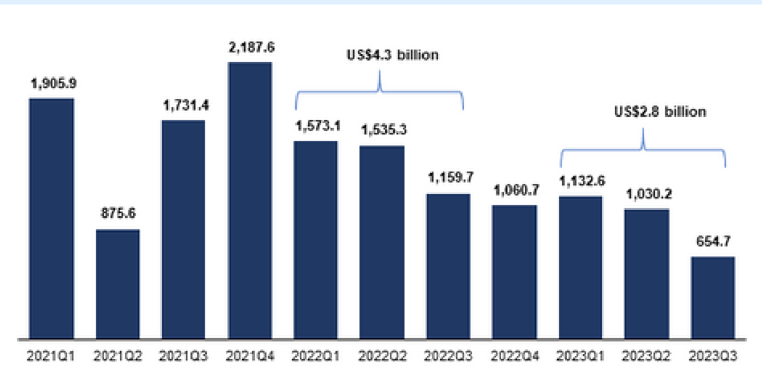
NESG 2023Q3 CAPITAL IMPORTATION ALERT

January 2024

Overall investment inflows into Nigeria fell below US$1 billion in 2023Q3

According to the National Bureau of Statistics (NBS), foreign investment inflows fell by 43.6 percent (year-on-year) to US$654.7 million in 2023Q3 from US$1.2 billion in the corresponding period of 2022 (see **Figure 1**). Similarly, on a quarterly basis, the overall investment inflows dropped by 36.5 percent compared with its level in 2023Q2 (US$1.0 billion). Cumulatively, foreign investment inflows totalled US$2.8 billion in the first three quarters of 2023. This represents a 34.0 percent decline relative to the level in the same period in 2022 (US$4.3 billion), reflecting the unfavourable investment climate which has doused investors' confidence in the Nigerian economy.

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



Data: NBS; Chart: NESG Research

Overall investment inflows decline was driven by a drop in all components in 2023Q3. Meanwhile, in terms of contribution, Nigeria’s capital importation profile exhibited mixed performance across the three (3) categories of foreign investments: Foreign Portfolio Investment (FPI), Foreign Direct Investment (FDI), and Other investment. The shares of FDI and Other Investment rose to 9.1 percent and 77.6 percent in 2023Q3, respectively compared with their performances in 2022Q3.

However, the contribution of FPI to the total investment inflows fell to 13.3 percent in 2023Q3 relative to its share in 2022Q3 (see **Figures 2a and 2b**).

Figure 2a: Composition of Investment inflows in 2023Q3 (percent)

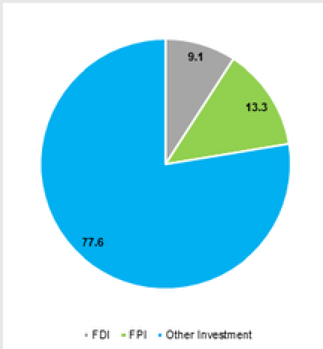
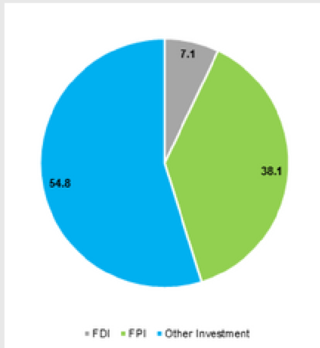


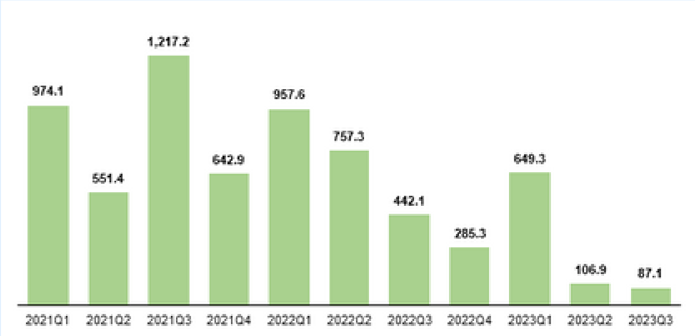
Figure 2b: Composition of Investment inflows in 2022Q3 (percent)



Data: NBS; Chart: NESG Research

FPI inflows nosedived to US$87 million in 2023Q3. Total FPI inflows fell sharply to US$87.1 million in 2023Q3 from US$442.1 million in 2022Q3. Similarly, FPI declined by 18.5 percent (quarter-on-quarter) relative to its level in 2023Q2 (US$106.9 million) (see **Figure 3**). Cumulatively, FPI stood at US$843.2 million in the first three quarters of 2023, which is 60.9 percent lower than its level in the corresponding period of 2022 (US$2.2 billion). A further breakdown of the FPI indicates the weak holding of Nigerian financial instruments (equities, bonds, and money market instruments) due to persistent foreign exchange (FX) shortages, negative real returns on investment, and challenges in repatriating funds abroad.

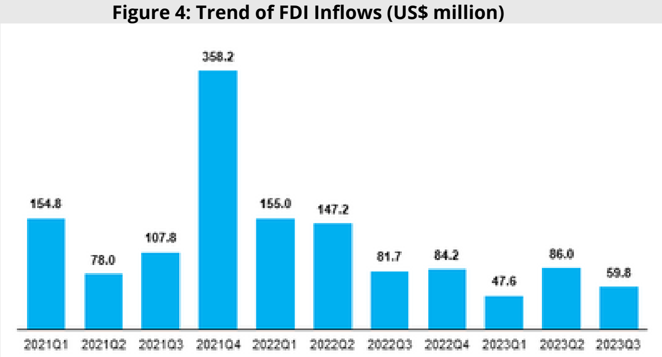
Figure 3: Trend of FPI Inflows (US$ million)



Data: NBS; Chart: NESG Research

FDI inflows fell by 59 percent (year-on-year) in 2023Q3. Foreign Direct Investment (FDI) – a relatively stable source of investment flows – declined to US$59.8 million in 2023Q3 from US$147.2 million in 2022Q3 (see **Figure 4**). Similarly, on a quarterly basis, FDI dropped by 30.5 percent in 2023Q3 relative to its level in 2023Q2 (US$86.0 million). Cumulatively, FDI stood at US$193.4 million in the first three quarters of 2023, representing a 49.6 percent decline relative to its level in the same period in 2022 (US$383.9 million). The country's failure to attract a significant portion of the global FDI is attributable to FX scarcity, difficulty in profit repatriation, insecurity, infrastructure deficit, and regulatory bottlenecks, among others.

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

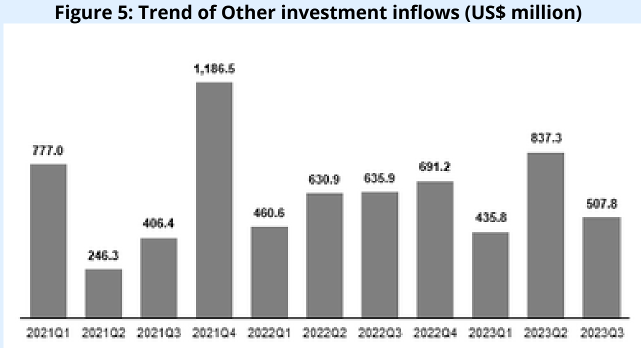


Data: NBS; Chart: NESG Research

"Other" Foreign Investment Inflows fell to slightly above half a billion US dollars in 2023Q3. Similar to FDI and FPI, the value of Other categories of foreign investments - covering foreign loans, trade credits, currency deposits, and other claims – dropped by 20.2 percent to US$507.8 million in 2023Q3 from US$635.9 million in 2022Q3 (see **Figure 5**). Similarly, Other Investment declined by 39.4 percent (quarter-on-quarter) relative to its level in 2023Q2 (US$837.3 million). In terms of composition, foreign loans accounted for almost 100 percent of Nigeria's other categories of foreign investment in 2023Q3.

However, Other Investment rose to US$1.8 billion in the first three quarters of 2023 from US$1.7 billion in the corresponding period of 2022.

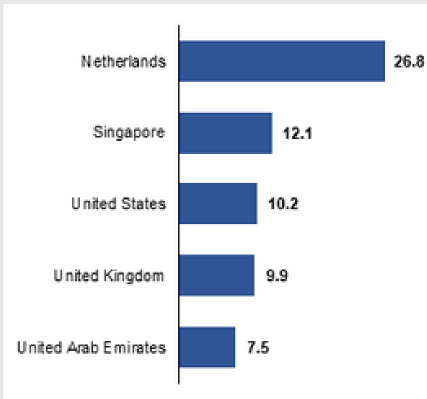
Figure 5: Trend of Other investment inflows (US$ million)



Data: NBS; Chart: NESG Research

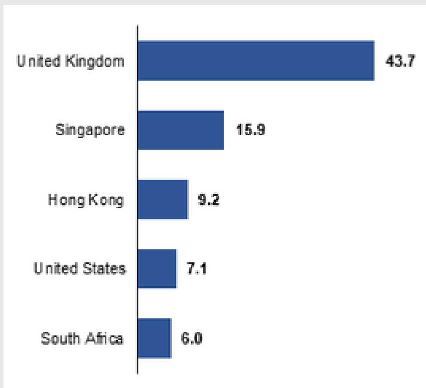
Netherlands leapfrogged United Kingdom as Nigeria's largest source of foreign investments. The Netherlands emerged as the largest source of investment inflows into Nigeria, accounting for 26.8 percent of the total inflows (US$175.63 million) in 2023Q3, thereby surpassing the United Kingdom, which accounted for 9.9 percent of the total inflows (US$64.9 million) in the quarter. Other countries ranking among the top five (5) investment sources in 2023Q3 were Singapore, the United States, and the United Arab Emirates (see **Figures 6a and 6b**).

Figure 6a: Capital Importation by Origin (Percent share of Total) – Top 5 in 2023Q3



Data: NBS; Chart: NESG Research

Figure 6b: Capital Importation by Origin (Percent share of Total) – Top 5 in 2022Q3



Data: NBS; Chart: NESG Research

Lagos, Abuja, and Abia emerged as the major investment hotspots. Remarkably, only six (6) states received foreign investments in 2023Q3. Accounting for 47 percent of the overall investment inflows in 2023Q3 (US$308.8 million), Nigeria's commercial epicentre – Lagos - remained the most attractive investment destination. Similarly, FCT-Abuja and Abia emerged as the second and third most prominent investment destinations at 29 percent (US$194.7 million) and 22 percent (US$150.1 million) of the total investment inflows, respectively, in the quarter. Moreover, three (3) states - Akwa Ibom, Ogun, and Ekiti - accounted for the remaining 2 percent share (US$1.1 million, out of which Ogun State received US$1.0 million) in 2023Q3.

Foreign-affiliated banks largely facilitated foreign investment inflows in 2023Q3. In 2023Q3, twenty (20) banks facilitated the inflow of foreign investments into Nigeria. About 68 percent of the total inflows (US$445.7 million) were facilitated by four (4) foreign subsidiary banks, while the sixteen (16) indigenous banks facilitated only 32 percent of the total investment inflows (US$209.0 million) in the quarter.

CONCLUDING REMARKS

* **The decline in FDI amidst FX reforms raises some concern, considering its impact on economic growth.** The unification of exchange rates is taking a toll on many foreign-owned businesses in Nigeria. This is especially the case with foreign-owned subsidiaries, including Nestle, Guinness, Airtel Africa, and MTN Nigeria, among others, which have lost over N900 billion to currency devaluation[1]. Consequently, activity sectors, including Food & Beverages and Telecoms, recorded a slowdown in 2023Q3. To attract a substantial amount of global FDI, efforts should be geared towards providing hedging instruments to adequately protect foreign-owned businesses from FX risks.

* **Foreign Portfolio Investment will not likely improve in the near term unless dollar liquidity improves.** The Nigerian Stock Exchange (NGX) Limited attained unprecedented heights in 2023. Meanwhile, the bullish performance was primarily driven by domestic investors. According to the NGX Portfolio Investment Report, domestic participation on the stock exchange averaged 90 percent as of September 2023[2]. To rekindle foreign investors' confidence in Nigeria's financial instruments, particularly shares and money market instruments, measures should be deployed to improve dollar liquidity in the country.

* **The decline in Other Investment, particularly the foreign loan component, signals the current administration's low external borrowing drive.** To further support this claim, the external debt stock fell to US$41.6 billion as of 2023Q3 from US$43.2 billion as of 2023Q2, according to the Debt Management Office[3]. The decline in the country's external debt exposure would help conserve the FX earnings that would have otherwise been expended on servicing foreign debts.

[1] see, https://blueprint.ng/airtel-mtn-others-accumulate-over-n900bn-forex-loses-to-naira-devaluation/
[2] see, https://ngxgroup.com/exchange/data/foreign-portfolio-investment-report/
[3] see, https://www.dmo.gov.ng/debt-profile/total-public-debt

About the NESG

The NESG is an independent, non-partisan, non-sectarian organisation, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought to explore, discover and support initiatives to improve Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high-level interactive public-private sessions and special presentations to the executive and legislative arms of government.

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