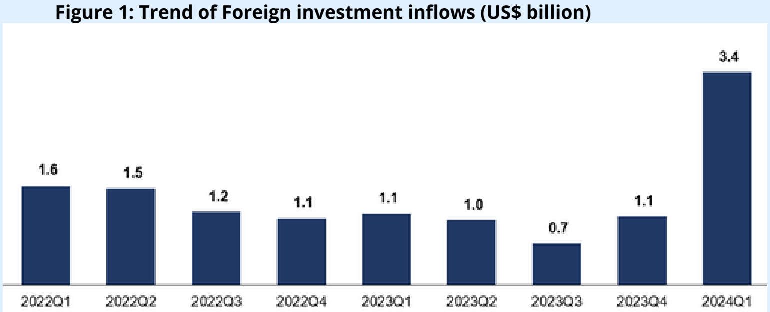
NESG 2024Q1 CAPITAL IMPORTATION ALERT

July 2024

Foreign investment inflows surged in 2024Q1

According to the National Bureau of Statistics (NBS), foreign investment inflows rose sharply to US$3.4 billion in 2024Q1 from US$1.1 billion in 2023Q1 and 2023Q4 (see **Figure 1**). This represents the highest quarterly increase since the first quarter of 2020. The overall jump reflects improved foreign investor confidence driven by the government's recent fiscal and monetary reforms.

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



Data: NBS; Chart: NESG Research

Higher overall investment inflows were largely driven by Foreign Portfolio Investment. Meanwhile, Nigeria's capital importation profile was skewed mainly towards Foreign Portfolio Investment (FPI). While the share of FPI rose to 61.5 percent, the contributions of Foreign Direct Investment (FDI) and Other Investment fell to 3.5 percent and 35.0 percent, respectively, compared with their performances in 2023Q1 (see **Figures 2a and 2b**). This suggests that the investment climate favoured short-term rather than long-term investors.

Figure 2a: Composition of Investment inflows in 2024Q1 (percent)

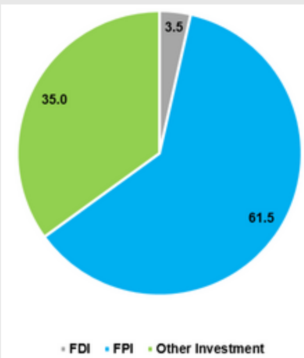
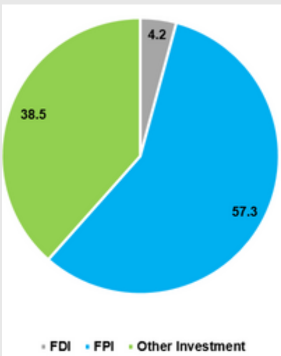


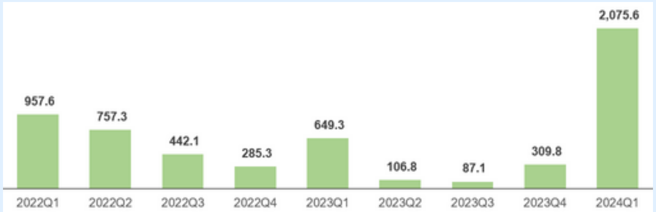
Figure 2b: Composition of Investment inflows in 2023Q1 (percent)



Data: NBS; Chart: NESG Research

FPI inflows jumped to US$2.1 billion in 2024Q1. Total FPI inflows rose sharply to US$2.1 billion in 2024Q1 from US$649.3 million and US$309.8 million in 2023Q1 and 2023Q4, respectively (see **Figure 3**). A further breakdown of the FPI indicates the improved holding of Nigerian money market instruments (Treasury bills, OMO bills, etc) as investors are assured of foreign exchange (FX) liquidity. The Central Bank of Nigeria (CBN) resumed the sale of FX to Bureau de Change (BDC) operators on February 27, 2024. Other regulatory guidelines that kept investor confidence afloat include the recapitalisation of BDCs and the revocation of 4,173 BDCs' licenses.

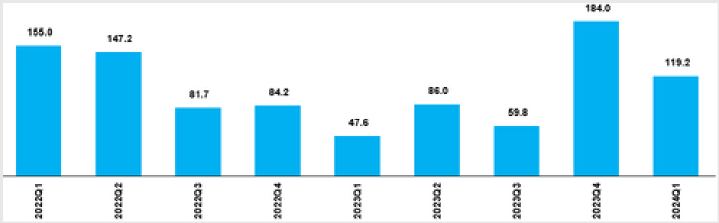
Figure 3: Trend of FPI Inflows (US$ million)



Data: NBS; Chart: NESG Research

Foreign Direct Investment inflows rose by over 100 percent (year-on-year) in 2024Q1. Foreign Direct Investment (FDI)—a relatively stable source of investment flows—increased to US$119.2 million in 2024Q1 from US$47.6 million in 2023Q1 (see **Figure 4**). However, on a quarterly basis, FDI fell by 35.2 percent in 2024Q1 relative to its level in 2023Q4. This could be attributed to the residue impact of divestments in the Oil and gas and Manufacturing sectors. Other contributory factors include investors' apprehension over the sustainability of FX liquidity, insecurity, infrastructure deficit, and regulatory bottlenecks.

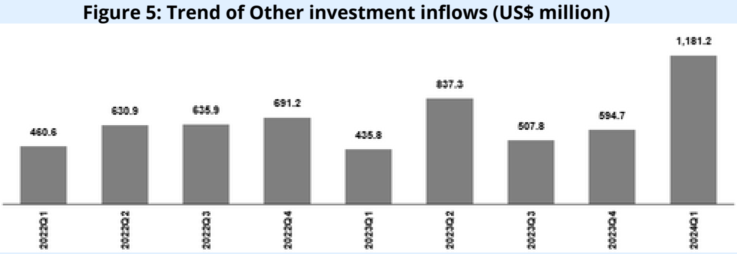
Figure 4: Trend of FDI Inflows (US$ million)



Data: NBS; Chart: NESG Research

"Other" Foreign Investment Inflows surged by 74 percent in 2024Q1. Other categories of foreign investments - covering foreign loans, trade credits, currency deposits, and other claims – jumped to US$1.2 billion in 2024Q1 from US$691.2 million in 2023Q1 (see **Figure 5**). Similarly, Other Investment rose sharply by 98.6 percent (quarter-on-quarter) relative to its level in 2023Q4 (US$594.8 million). In terms of composition, foreign loans accounted for 97.5 percent of Nigeria's other categories of foreign investment in 2024Q1.

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



Data: NBS; Chart: NESG Research

United Kingdom was the largest source of foreign investments. The United Kingdom emerged as Nigeria's largest source of investment inflows, accounting for 53.5 percent of the total inflows (US$673.6 million) in 2024Q1. Other countries ranking among the top five (5) investment sources in 2024Q1 were South Africa, the Cayman Islands, Mauritius, and the United Arab Emirates (see **Figure 6a**).

Figure 6a: Capital Importation by Origin (Percent share of Total) – Top 5 in 2024Q1

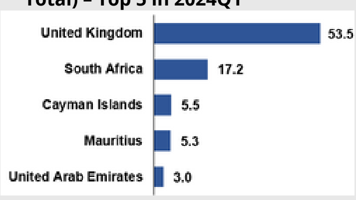
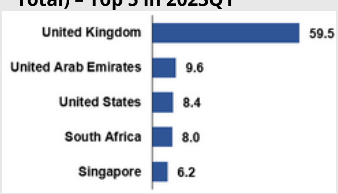


Figure 6b: Capital Importation by Origin (Percent share of Total) – Top 5 in 2023Q1



Data: NBS; Chart: NESG Research

Dominated by Lagos and Abuja, only three (3) states emerged as investment destinations. Lagos, Abuja and Ekiti (albeit infinitesimal) were the only states that attracted foreign capital inflows in 2024Q1. This suggests the need for sub-national to address structural barriers to foreign capital inflows and engage in investment promotion programmes. Accounting for 82.4 percent of the overall investment inflows in 2024Q1 (US$2.8 billion), Nigeria's commercial epicentre – Lagos - remained the most attractive investment destination. FCT-Abuja was another prominent investment destination, which accounted for 17.6 percent (US$593.6 million) of the total inflows in the quarter.

Foreign-affiliated banks largely facilitated foreign investment inflows. In 2024Q1, twenty (20) banks facilitated the inflow of foreign investments into Nigeria. About 81 percent of the total inflows (US$2.7 billion) were facilitated by four (4) foreign subsidiary banks. Meanwhile, the sixteen (16) indigenous banks facilitated only 19 percent of the total investment inflows (US$642.8 million) in the quarter. The skewed distribution could be attributed to the CBN's recent guideline aimed at reducing the foreign currency exposure of Nigerian banks. In a circular titled "Harmonisation of Reporting Requirements on Foreign Currency Exposures of Banks," the CBN stated that banks' Net Open Position (NOP) must not exceed 20 percent short (owning more than owed) or 0 percent long (owning no more than the bank's shareholder funds not reduced by losses) of the bank's shareholders' funds.

CONCLUDING REMARKS

* **The quarter-on-quarter decline in FDI is concerning at a time when the country needs FDI to catalyse economic growth and job creation.** In 2024Q1, the Production/Manufacturing sector attracted 5.7 percent of the total investment inflows (US$191.92 million), whereas the Banking sector attracted 61.2 percent (US$2.1 billion) of the total foreign inflows. This showed that sectors with significant potential to contribute to economic growth and job creation struggle to attract foreign capital (particularly FDI). Hence, there is an arduous task before the government to make the business environment conducive to long-term investments such as FDI. Doing this would also end the exodus of multinational firms from the country.

* **The surge in Foreign Portfolio Investment is likely to be a short-term event.** Portfolio investors are only reacting to the CBN's move to boost liquidity in the FX market. This, however, comes at the expense of the depletion of external reserves. Unless there is sustained improvement in oil export earnings, there are limited chances that the short-term investors would reinvest their funds at a time when there are negative returns on investment. Efforts should, therefore, be geared to improve FX liquidity from oil and non-oil sales.

* **The significant portion of foreign loans in Other Investments signals the country's inclination to external borrowing.** While the country is currently seeking an extension to repay the World Bank's US$800 million palliative loan, the government has also gotten approval for another US$2.25 billion loan from the multilateral lender to support its reforms. The government needs to reverse this trend to sustain the country's sovereign credit rating. In May 2024, Fitch revised Nigeria's credit rating from stable to a positive outlook due to the government's recent reforms.

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