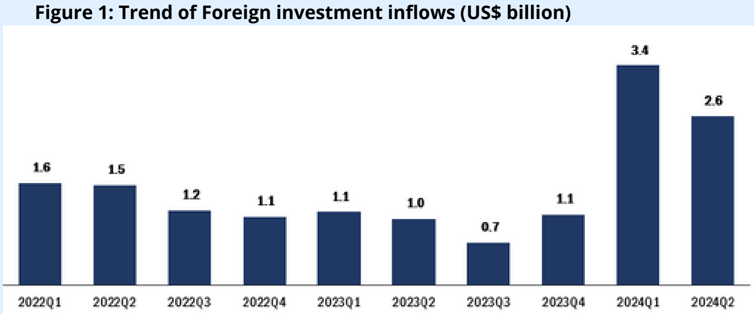
NESG 2024Q2 CAPITAL IMPORTATION ALERT

October 2024

Foreign investment inflows fell quarter-on-quarter in 2024Q2

According to the National Bureau of Statistics (NBS), foreign investment inflows rose sharply to US$2.6 billion in the second quarter of 2024 from US$1.0 billion in the corresponding period of 2023, but down from US$3.4 billion posted in 2024Q1 (see **Figure 1**). This reverses the upward trend of the overall investment inflows since 2023Q4. However, in the first half of 2024, foreign investment inflows stood at US$6.0 billion, significantly above their level in H1'2023 (US$2.1 billion), reflecting the impact of the CBN's intensification on monetary tightening since February 2024.

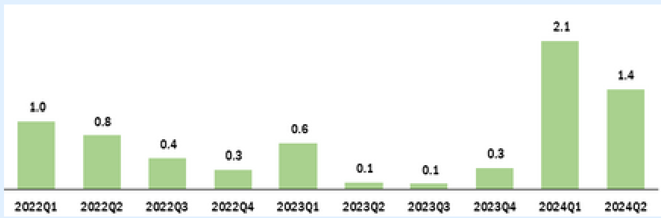
Figure 1: Trend of Foreign investment inflows (US$ billion)



Data: NBS; Chart: NESG Research

FPI inflows dropped to US$1.4 billion in 2024Q2 (quarter-on-quarter). However, Total Foreign Portfolio Investment (FPI) inflows in 2024Q2 represent a sharp increase from US$106.8 million in 2023Q2 (see **Figure 2**). A further breakdown of the FPI indicates the improved demand for Nigerian money market instruments, which accounted for 41 percent of the overall investment inflows and 77 percent of total FPI inflows. In H1'2024, FPI inflows stood at US$3.5 billion, significantly higher than US$756.1 million recorded in H1'2023.

Figure 2: Trend of FPI Inflows (US$ billion)



Data: NBS; Chart: NESG Research

Mixed performance for the contribution of investment components. The capital importation profile was skewed mainly towards Foreign Portfolio Investment in the quarter. While the share of FPI rose sharply to 53.9 percent, the contributions of Foreign Direct Investment (FDI) and Other Investment dropped to 1.1 percent and 44.9 percent, respectively, compared with their performances in 2023Q2 (see **Figures 3a and 3b**). This suggests a higher investor appetite towards short-term investments.

Figure 3a: Composition of Investment inflows in 2024Q2 (percent)

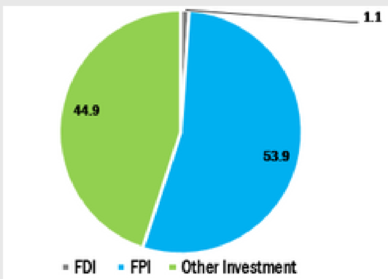
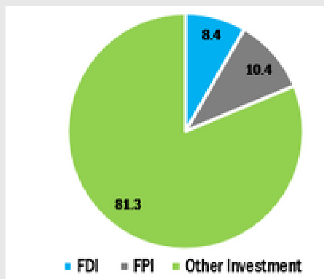


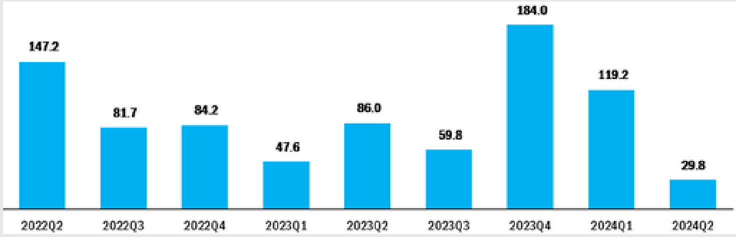
Figure 3b: Composition of Investment inflows in 2023Q2 (percent)



Data: NBS; Chart: NESG Research

Foreign Direct Investment inflows plunged in 2024Q2. Foreign Direct Investment (FDI)—a relatively stable source of investment flows—fell sharply to US$29.8 million in 2024Q2 from US$86.0 million in 2023Q2 and US$119.2 million in 2024Q1 (see **Figure 4**). This is not unconnected to the impact of divestments in the oil and gas and manufacturing sectors, investors' apprehension over foreign exchange (FX) market illiquidity, insecurity, infrastructure deficit, and regulatory bottlenecks.

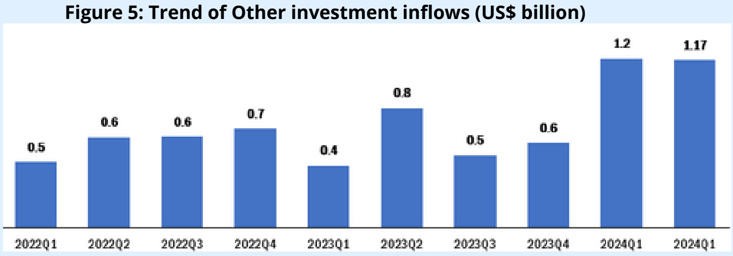
Figure 4: Trend of FDI Inflows (US$ million)



Data: NBS; Chart: NESG Research

"Other" Foreign Investment Inflows were relatively flat in 2024Q2. Other categories of foreign investments - covering foreign loans, trade credits, currency deposits, and other claims – stood at US$1.17 billion in 2024Q2, which is higher than US$837.3 million in 2023Q2 but not significantly different from US$1.2 billion in 2024Q1 (see **Figure 5**). In terms of composition, foreign loans accounted for 98.6 percent of Nigeria's other categories of foreign investment in 2024Q2. Cumulatively, Other Investment inflows rose to US$2.37 billion in H1'2024 from US$1.27 million in H1'2023.

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



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 2024Q2. This suggests the need for sub-nationals to address structural barriers to foreign capital inflows and create an enabling environment for businesses to thrive. Accounting for 52.5 percent of the overall investment inflows in 2024Q2 (US$1.4 billion), Nigeria's commercial epicentre – Lagos - remained the most attractive investment destination. FCT-Abuja was another prominent investment destination, which accounted for 47.5 percent (US$1.2 billion) of the total inflows in the quarter.

Foreign-affiliated banks largely facilitated foreign investment inflows in 2024Q2. In 2024Q2, nineteen (19) banks facilitated the inflow of foreign investments into Nigeria. About 92 percent of the total inflows (US$2.4 billion) were facilitated by four (4) foreign subsidiary banks. In comparison, the fifteen (15) indigenous banks facilitated only 8 percent of the total investment inflows (US$232.7 million) in the quarter. This suggests the limited exposure of the indigenous banks to foreign investments.

United Kingdom was the largest source of foreign investments. The United Kingdom emerged as Nigeria's largest source of investment inflows, accounting for 43.0 percent of the total inflows (US$1.1 billion) in 2024Q2. Other countries ranking among the top five (5) investment sources in the quarter were the Netherlands, South Africa, Mauritius, and the United Arab Emirates (see **Figure 6a**).

Figure 6a: Capital Importation by Origin (Percent share of Total) – Top 5 in 2024Q2

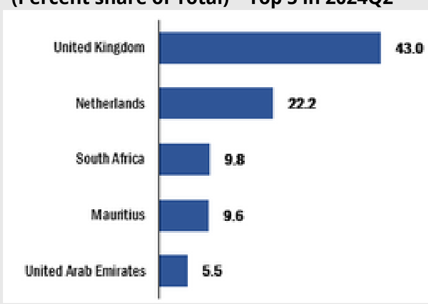
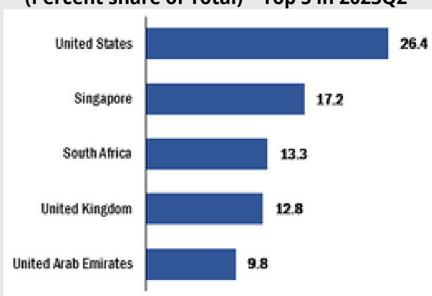


Figure 6b: Capital Importation by Origin (Percent share of Total) – Top 5 in 2023Q2



Data: NBS; Chart: NESG Research

CONCLUDING REMARKS

* **The oil and gas sector attracting limited foreign investments suggests Nigeria's upstream assets are becoming less competitive globally.** Hence, there is a need to create an enabling policy and investment environment to reduce operating inefficiencies emanating from regulatory bottlenecks, high production costs, pipeline vandalism, oil theft, and obsolete oil and gas infrastructure. A favourable operating environment would ensure that the government secures a final investment decision to develop the US$25 billion Nigeria-Morocco Gas Pipeline Project, which, when completed, is expected to supply natural gas to Spain and the rest of Europe.

* **The recent increase in external reserves, at over US$38 billion, would instill investors' confidence and is likely to motivate inflows of foreign portfolio investments.** This would assuredly translate to higher FX liquidity, giving the CBN more room to intervene in the FX market. Meanwhile, the fact that investors still face negative returns on investment implies that more focus would be on money market instruments with short-term payback periods.

* **Accumulation of foreign loans could thwart efforts to ensure public debt sustainability.** The Nigerian government recently secured a US$6.5 billion loan from the World Bank. While the loan proceeds could boost external reserves, they would also elevate the debt service burden. This could reverse the country's positive credit rating attributed to the various government reforms.

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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