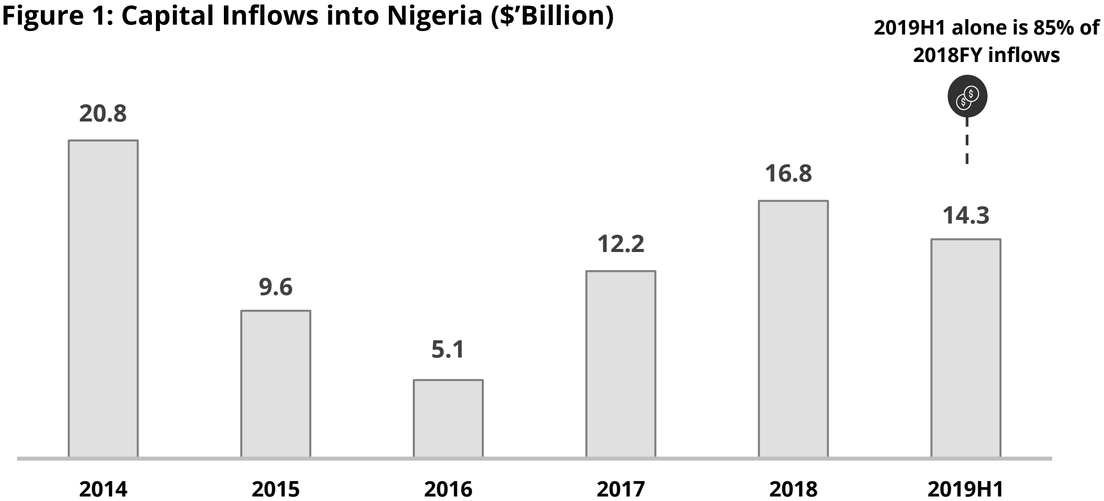
NESG Capital Importation Alert

September 2019

Capital Importation hits US$5.8 billion in the second quarter of 2019

According to the National Bureau of Statistics (NBS), capital importation in second quarter of 2019 (2019Q2) rose by 5.6% to $5.8 billion, from $5.5 billion in 2018Q2. However, this is 31.4% below the $8.5 billion reported in 2019Q1. The Nigerian economy continued to attract foreign capital, although a large chunk of this inflow was hot money, which could be withdrawn at any point in time. As a result of the surge in 2019Q1, capital inflows in the first half of 2019 reached $14.3 billion, which was 21.1% higher than $11.8 billion in 2018H1. Consequently, 2019FY capital inflow is expected to largely surpass 2018FY levels.

Figure 1: Capital Inflows into Nigeria ($'Billion)

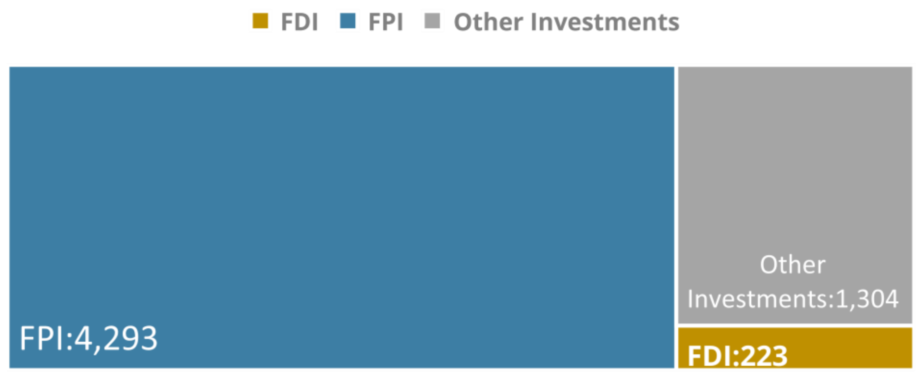


Source: National Bureau of Statistics and NESG Research

Foreign Portfolio Investment (FPI) accounted for 73.8% of capital inflows in 2019Q2

Capital importation by type of investment maintained the same pattern as the previous quarter (Q1'19), as Foreign Direct Investment (FDI) took the back burner and hot money sustained its dominance. Of the $5.8 billion capital inflow in Q2'19, FPI accounted for $4.3 billion (73.8%); FDI was $222.9 million with a share of 3.8% while Other Investments totalled $1.3 billion (22.4%).

Figure 2: Breakdown of Capital Inflows by Investment Type – 2019Q2 ($ 'Million)



Source: National Bureau of Statistics and NESG Research

FPI inflows in 2019Q2 increased by 4.2% to $4.3 billion relative to 2018Q2 ($4.1 billion), but declined by 39.9% when compared to 2019Q1 ($7.1 billion). Growth in FPI is largely as a result of exchange rate stability, improved or positive real interest rates compared to other developing and emerging markets, and attractiveness of Nigeria's debt instruments, amidst gradual recovery of the economy. Looking at a further breakdown of FPI, the NBS data showed that investments in money market instruments such as Treasury Bills and other short-term assets accounted for the largest share. For instance, in 2019Q2, money market accounted for 81% of total FPI inflows. Bonds and Equities had a share of 7.4% and 11.6% respectively. Quantitative easing in key global economies such as the United States and the United Kingdom has increased the risk threshold of investors in emerging economies – hence the improved interest in Nigerian short-term debt securities.

Figure 3: FPI Inflows ($' Billion)

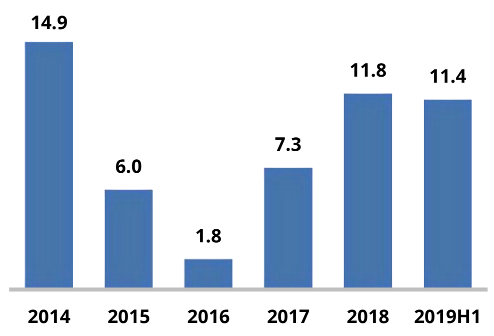
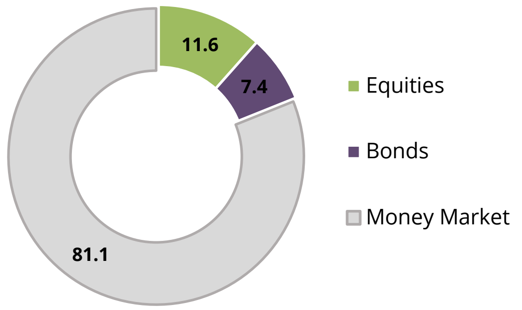


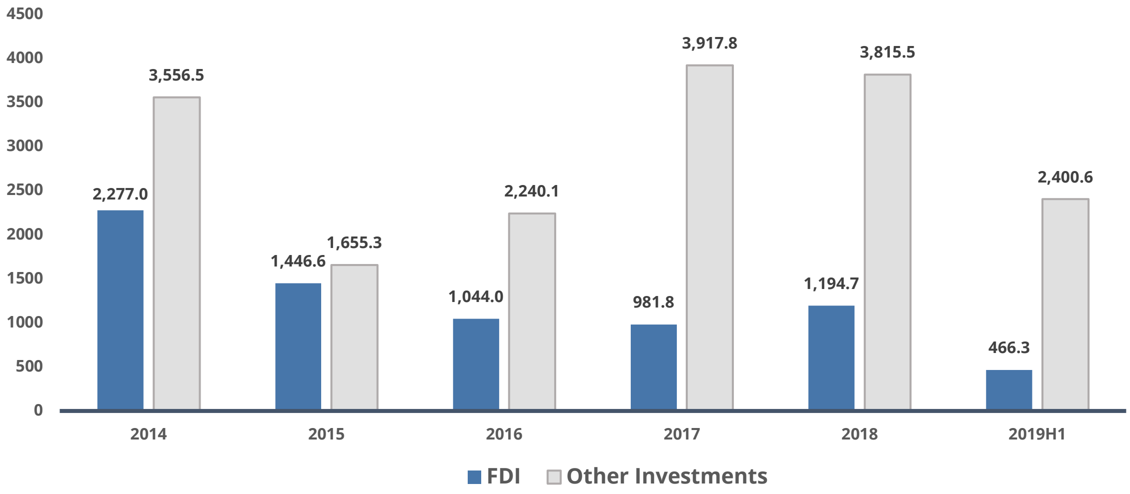
Figure 4: Breakdown of FPI in 2019Q2 (%)



Source: National Bureau of Statistics and NESG Research

In 2019Q2, Foreign Direct Investment inflow slowed to $222.9 million, an 8.2% decline relative to 2019Q1 ($243.4 million) and 12.8% below 2018Q2 ($261.3 million). Interestingly, other investments, which include trade credits, loans, deposits and other claims, was $1.3 billion in 2019Q2, higher than 2019Q1 ($1.1 billion), but lower than 2018Q2 ($1.5 billion).

Figure 5: FDI & Other Investment Flows ($' Million)

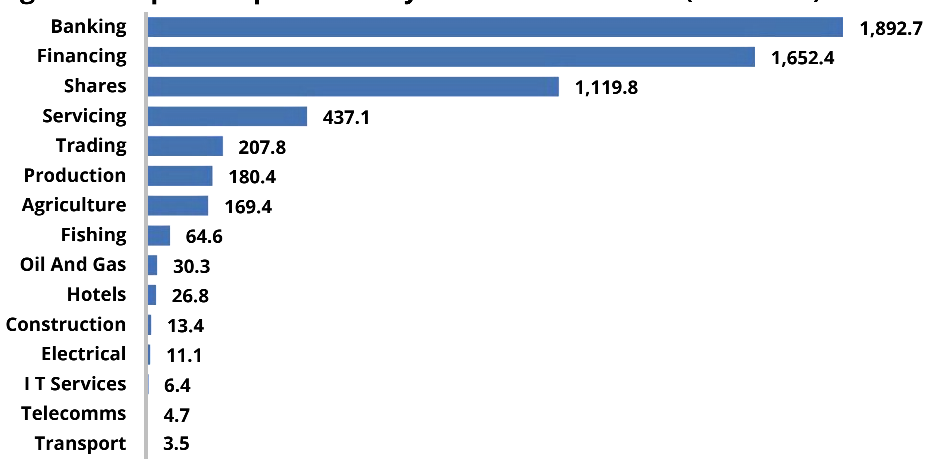


Source: National Bureau of Statistics and NESG Research

Three sectors attracted 80.1% of capital inflows in Q2

Although 15 sectors benefited from capital importation in 2019Q2, banking (32.5%), financing (28.4%) and shares (19.2%) accounted for 80.1% of these inflows. This suggest that foreign interest in the Nigerian economy is skewed towards a few sectors and concentrates less on the real sector.

Figure 6: Capital Importation by Nature of Business ($' Million)



Source: National Bureau of Statistics and NESG Research

U.S. and U.K. remain top sources of capital imports

NBS data showed that Nigeria's foreign investment sources remain undiversified, as 10 countries accounted for 96.9% of capital inflows in the second quarter of 2019. Of these, two countries, United Kingdom (53.9%) and United States (19.8%) controlled 73.6% of total foreign investment inflows. Notwithstanding, only one Sub-Saharan African country featured in the top 10 – South Africa (5.4%).

Lagos and Abuja monopolise inflows

Lagos (71.1%) and Abuja (28.7%) attracted 99.8% of the total value of foreign investments. The commercial and political capitals of Nigeria attracted $4.1 billion and $1.7 billion respectively. Ogun ($4.8 million), Kaduna ($2 million) and Oyo ($1.8 million) also featured in the top five, albeit less significant compared to the top two.

Foreign Banks facilitated 72.3% of Foreign Capital flows

Banks originating capital importation into the country were mainly banks with international authorisation. A total of 17 commercial banks and 3 merchant banks facilitated the $5.8 billion capital investment into Nigeria with Stanbic IBTC Bank accounting for 30.3% of total transaction. Of these originating banks, foreign affiliated banks facilitated 72.3% of foreign inflows valued at $4.2 billion.

Conclusion

- **Nigeria's investment inflows are approaching pre-recession level**. The steady build-up in foreign investment inflow since Nigeria's exit from recession alludes to renewed investors' interests in the country. Exchange rate stability, improvement in real interest rate as well as overall recovery of economic output are some major factors that have stirred capital inflows in the last few years. Despite the increase in overall inflows, we, however, point to the fact that a large share of these inflows are FPIs (hot money), which make the economy vulnerable to exogenous factors; unlike FDIs that require a strong physical presence and actively engage some of the labour force.

- **Declining trend in FDI flows**. The decline in direct investment into the economy speaks to the need to revisit Nigeria's investment policy framework and the business environment. Despite the strides in the ease of doing business, foreign investor's confidence and optimism on the real economy is still relatively low, evident from the ratio of FDI to FPI at 5:95 in 2019Q2. Businesses thrive in a friendly, safe and secure business environment and the government must intensify its efforts towards creating such environment, as this is essential in attracting FDI.

- **State governments across Nigeria need to prioritize the creation of a stable and thriving business environment.** State governments need to look inwards to identify key opportunities and provide stable investment climates that is conducive for both local and foreign investments. State governments, therefore, need to have more comprehensive policy framework for investments, implement ease of doing business reforms as well as provide incentives and support structures for private investors. These will provide clarity to both foreign and domestic investors, boost their confidence and aid effective long-term planning.

About NESG

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

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