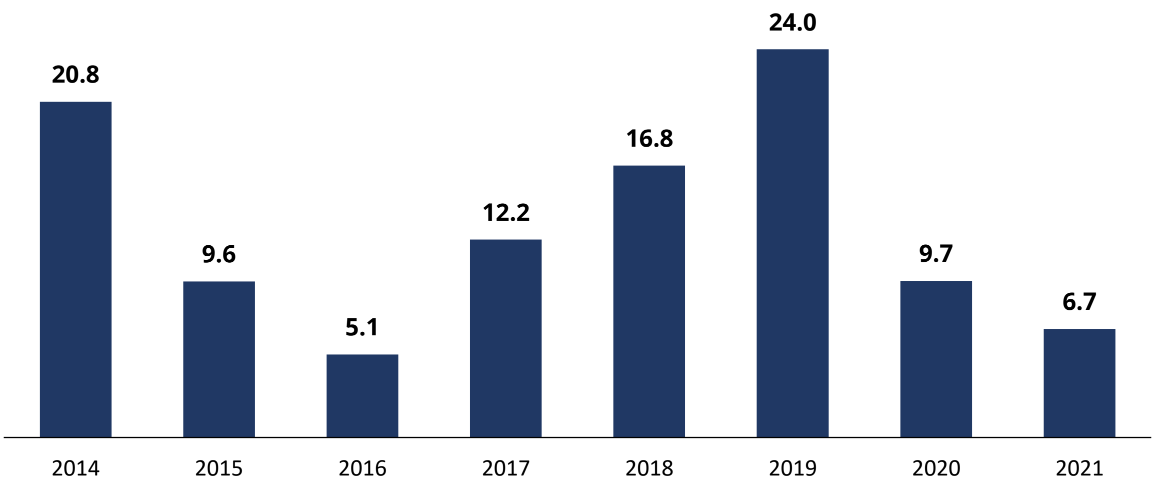
NESG 2021 Capital Importation Alert

March 2022

Overall investment inflows into Nigeria plunged by 45 percent in 2021

According to National Bureau of Statistics (NBS), foreign investment inflows fell to a 5-year low of US$6.7 billion in 2021 from US$9.7 billion in 2020. Despite the waning impact of the global pandemic, foreign investors showed less appetite for Nigeria's financial instruments in 2021. The illiquidity of the foreign exchange market and negative real returns on investment largely fuelled negative investors' sentiment.

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



Data: NBS; Chart: NESG Research

Fall in FPI weakened the overall foreign investment inflows

On a disaggregated basis, the decline in total investment inflows was largely driven by a sharp fall in **Foreign Portfolio Investments** (FPI) to US$3.4 billion in 2021 from US$5.1 billion in 2020. Correspondingly, the share of FPI in the overall foreign investment inflows dropped to 51 percent in 2021 from 53 percent in 2020. In 2021, the contribution of **Foreign Direct Investment** (FDI) to the overall foreign investment inflows fell slightly to 10 percent, whereas the share of **Other investments** was higher at 39 percent. This suggests that the uncertainty around repatriation of funds at maturity of investments largely elevated portfolio investors' risk aversion and doused their confidence in the Nigerian economy, despite the significant improvement in global crude oil prices in 2021.

Figure 2a: Composition of Investment inflows in 2021 (percent)

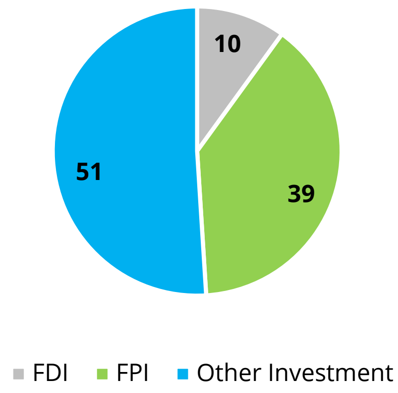
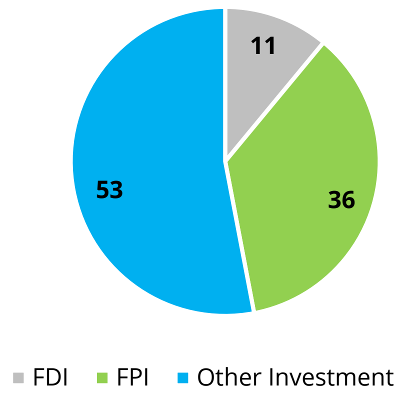


Figure 2b: Composition of Investment inflows in 2020 (percent)



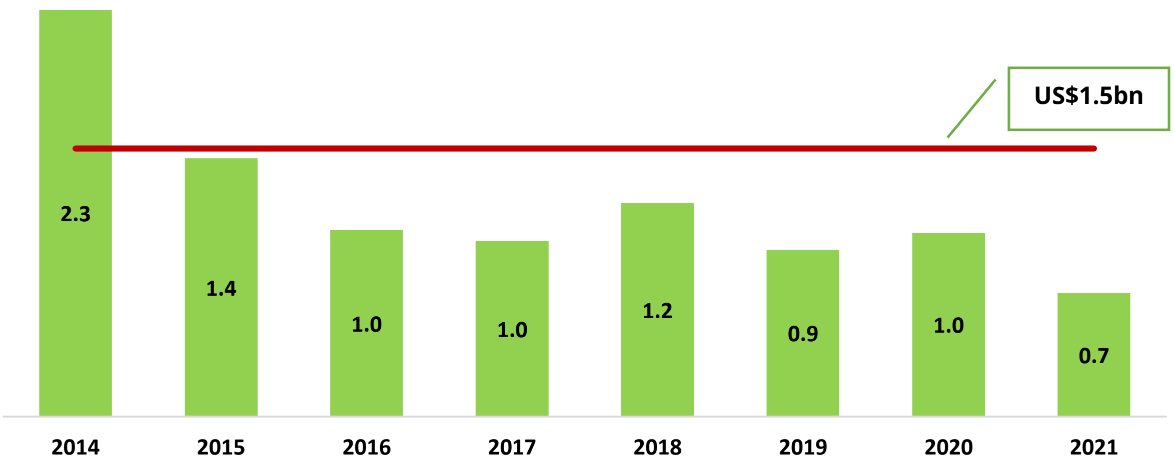
Data: NBS; Chart: NESG Research

FDI inflows fell by 30 percent in 2021

Foreign Direct Investment (FDI) – which is a relatively stable source of investment flows – stood at US$698.8 million in 2021, which is 30.1 percent below its level in 2020 (US$1 billion). It is worthy of note that FDI inflows fell sharply to US$77.9 million in the second quarter of 2021 from US$154.8 million in the first quarter of 2021. The decline in FDI mirrored the plunge in the monetary value of announced investments to US$1.7 billion in the second quarter of 2021 from US$8.4 billion in the previous quarter[1]. Meanwhile, FDI inflows have not exceeded the US$1.5 billion mark since 2015 (see Figure 3). Unless key structural challenges including policy inconsistency, foreign exchange controls and market illiquidity, as well as, infrastructure and logistic bottlenecks are addressed, Nigeria would not be able attract a sizable amount of global FDI going into 2022.

Figure 3: Trend of FDI Inflows (US$ billion)

[1]See, Nigerian Investment Promotion Commission's "Report of Investment Announcements in Nigeria from July to September 2021", retrievable via: https://www.nipc.gov.ng/

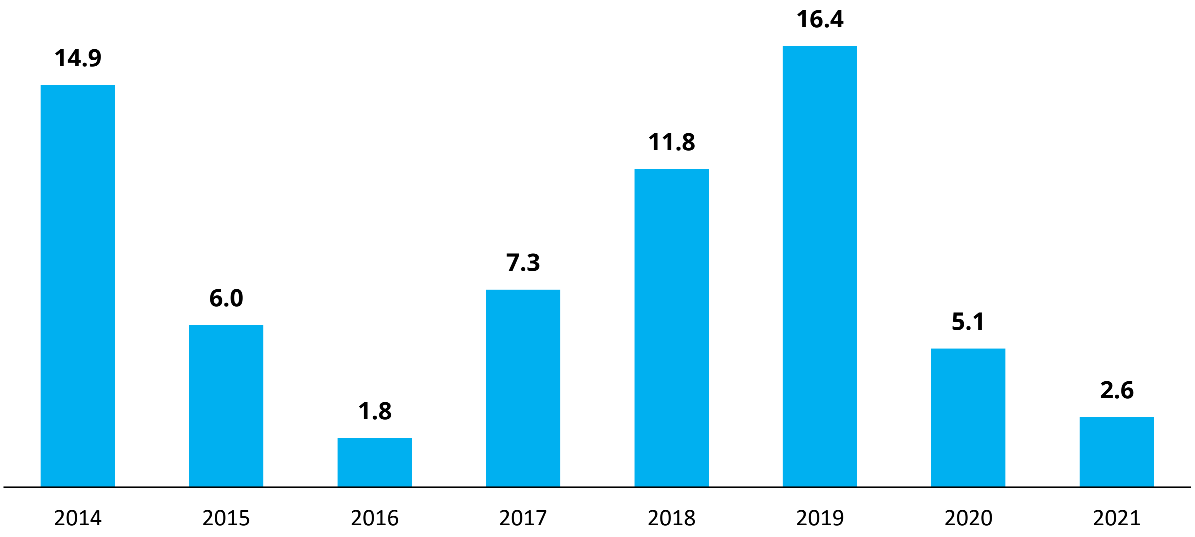


Data: NBS; Chart: NESG Research

"Other" Foreign Investment Inflows fell to a 5-year low of US$2.6 billion in 2021

Similar to FDI and FPI, the Value of Other categories of foreign investments - covering foreign loans, trade credits, currency deposits and other claims - fell to US$2.6 billion in 2021 from US$3.5 billion in 2020.

Figure 4: Trend of Other investment inflows (US$ billion)



Data: NBS; Chart: NESG Research

In terms of composition, foreign loans predominated Nigeria's other categories of foreign investment stood at 91 percent of the **Other investment** inflows in 2021. This is not unexpected as Nigeria issued Eurobonds worth US$4 billion and benefited from the IMF's Special Drawing Rights amounting to US$3.4 billion in 2021.

Figure 5a: Composition of Other investment inflows in 2021 (Percent)

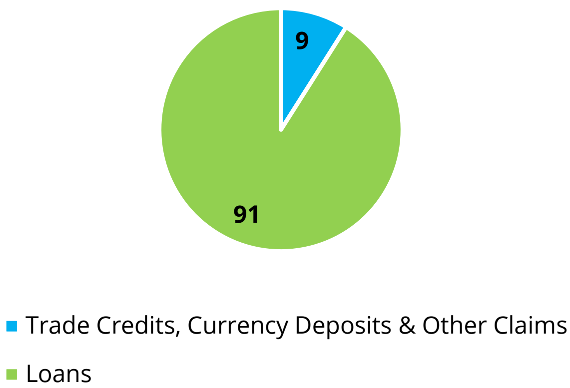
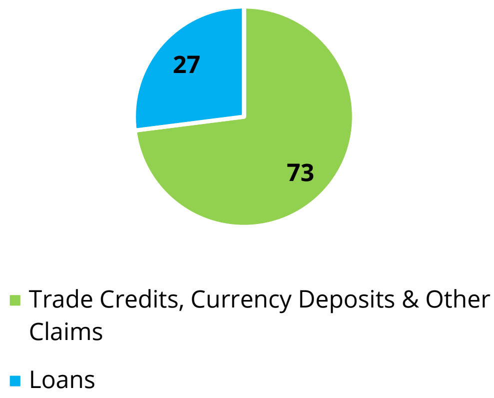


Figure 5b: Composition of Other investment inflows in 2020 (Percent)



Data: NBS; Chart: NESG Research

United Kingdom remains Nigeria's largest source of foreign investments

The United Kingdom maintained its position as the largest source of investments inflows into Nigeria accounting for 34 percent of the total inflows (equivalent to US$2.3 billion) in 2021. Countries including South Africa, Mauritius, the United States of America, and Singapore also featured among the top five investment sources, jointly accounting for 43 percent of the overall foreign investment inflows in 2021. South Africa is the only African country that has consistently contributed significantly to foreign investment inflows into Nigeria.

Figure 6a: Capital Importation by Origin (Percent share of Total) – Top 5 in 2021

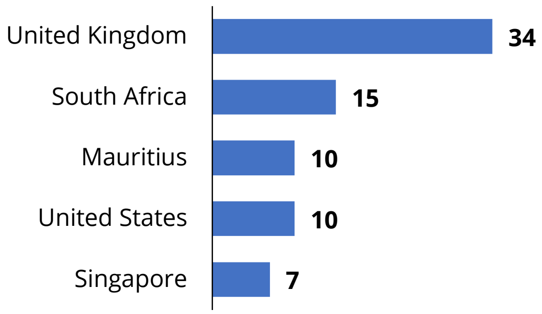
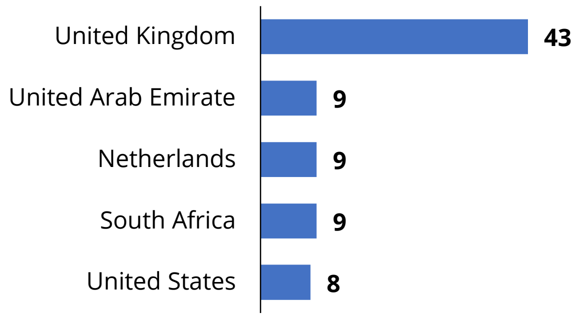


Figure 6b: Capital Importation by Origin (Percent share of Total) – Top 5 in 2020



Data: NBS; Chart: NESG Research

Lagos and Abuja remain the major investment destinations in Nigeria

Accounting for a share of 87 percent in overall investment inflows in 2021 (equivalent to US$5.8 billion), Nigeria's commercial epicentre – Lagos - maintained its position as the most attractive investment destination in Nigeria. Similarly, FCT-Abuja remained the second largest investment destination at 12 percent of the total investment inflows (equivalent to US$833.4 million).

Foreign affiliated banks largely facilitated foreign investment inflows in 2021

In 2021, 22 banks facilitated the inflow of foreign investments into Nigeria. About 73 percent of total foreign investment inflows were facilitated by foreign affiliated commercial and merchant banks in 2021. On the other hand, Nigerian-owned banks facilitated 27 percent of foreign investment inflows in 2021.

Conclusion

- **FDI will be constrained by the protracted impact of the Russia-Ukraine geopolitical tension.** The multiple sanctions being imposed on Russia by the West will induce global supply chain disruptions and engender a slowdown in economic activities across developed and emerging economies. With many giant multinational companies winding up their operations in Russia, Nigeria will feel the heat indirectly through her huge exposure to foreign investment inflows from the United Kingdom and the United States of America.

- **Foreign portfolio investors will continue to adopt flight-to-safety approach**. Against the backdrop of monetary policy tightening in advanced countries, emerging and developing economies are more likely to witness higher capital outflows. In addition, as the general elections in Nigeria are drawing near, foreign investors would factor in political and policy uncertainty in their investment decisions. These two factors will constrain substantial inflows of hot money or foreign portfolio investment in 2022.

- **Nigeria sustained appetite for foreign loans in 2022 will increase debt servicing burden.** Relative to FDI, the "Other investments" category is rapidly gaining momentum in the composition of Nigeria's capital importation profile, thanks to the country's increasing leverage on foreign loans. After raising another Eurobonds worth US$1.25 billion in March 2022, Nigeria became the first African country to access the International Capital Market in the year. The Eurobond proceeds are expected to be channeled to the execution of capital projects in the 2022 fiscal year. Nigeria's increasing exposure to highly expensive commercial loans (such as, Eurobonds) will push up debt servicing costs at a time when advanced economies are shifting towards monetary policy tightening.

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 to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

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