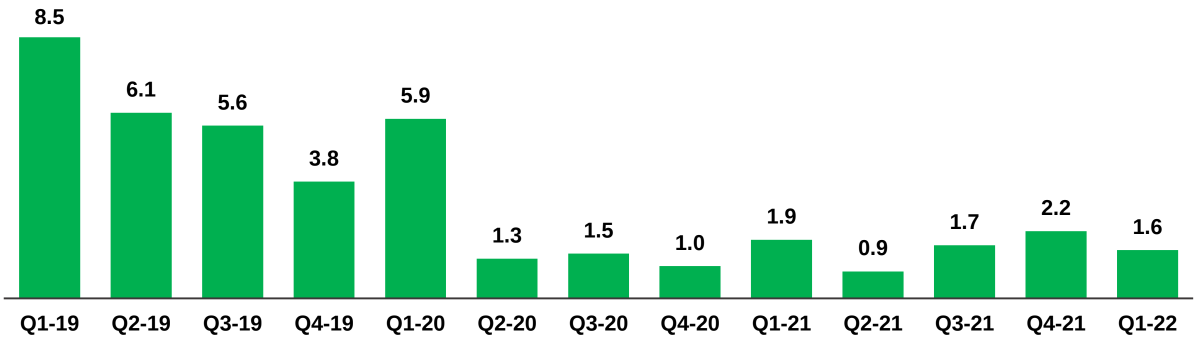
NESG 2022Q1 Capital Importation Alert

June 2022

Overall Investment inflows into Nigeria decelerated in 2022Q1

According to the National Bureau of Statistics (NBS), foreign investment inflows into Nigeria fell by 17.5% (year-on-year) to US$1.6 billion in the first quarter of 2022 from US$1.9 billion in the corresponding period of 2021. This also represents a decline of 28.1% (quarter-on-quarter) when compared with US$2.2 billion recorded in 2021Q4. Foreign investment inflows into Nigeria declined despite the waning economic impact of the COVID-19 pandemic and the uptick in global commodity prices in 2022Q1. This reflects the declining investors' confidence in the Nigerian economy as illiquidity in the foreign exchange market persists, real returns on investment remains negative and structural rigidity continues to constrain domestic crude oil production.

Figure 1: Foreign Investment Inflows (US$ billion)



Data: NBS; Chart: NESG Research

The decline in foreign investment inflows in 2022Q1 was mainly motivated by the decline in **Foreign Portfolio Investments (FPI)** and **Other foreign investments** in the quarter. Meanwhile, Nigeria's capital importation profile is biased towards FPI, which accounted for 61% of total inflows in 2022Q1, relative to a 51% share recorded in 2021Q1. Similarly, the share of **Foreign Direct Investment (FDI)** rose to 10% in 2022Q1 from 8% in 2021Q1. However, the share of Other foreign investments fell to 29% in 2022Q1 from 41% in 2021Q1.

Figure 2a: Composition of Investment inflows in 2022Q1 (Million)

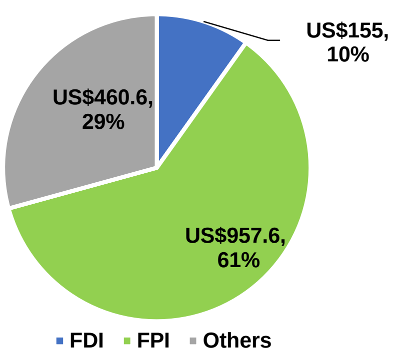
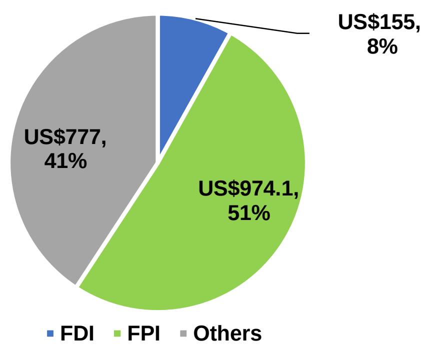


Figure 2b: Composition of Investment inflows in 2021Q1 (Million)

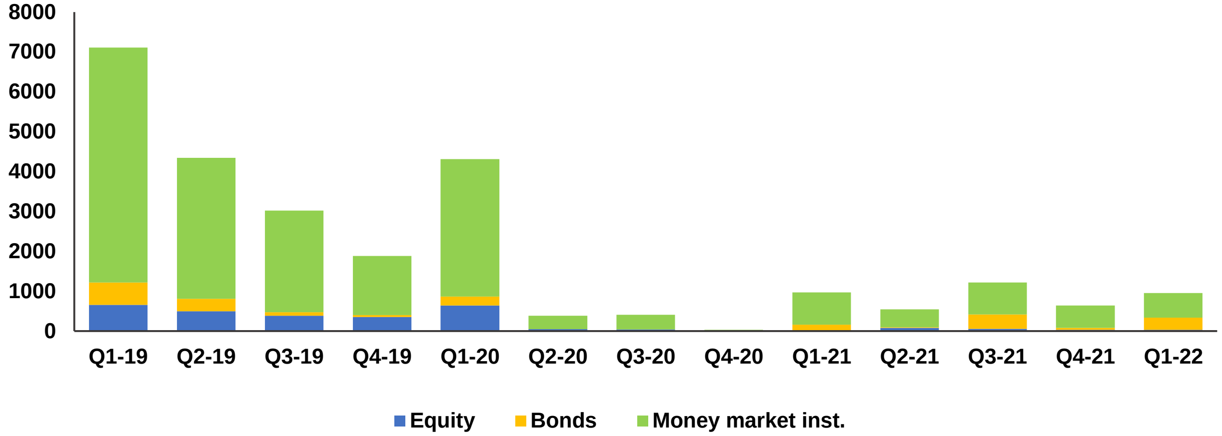


Data: NBS; Chart: NESG Research

FPI inflows fell on a year-on-year basis, whilst its quarter-on-quarter performance was impressive

Total FPI inflows in 2022Q1 stood at US$957.6 million, which is 1.7% below its level in 2021Q1. However, the current FPI inflows represent an increase of 49% when compared with US$642.9 million recorded in 2021Q4. A further breakdown of the FPI shows improved foreign participation in Nigeria's bond and money markets. However, the participation of foreign investors in the equity market remained subdued, despite the impressive corporate performance of most listed companies in 2022Q1.

Figure 3: Foreign Portfolio Investment inflows (US$ million)

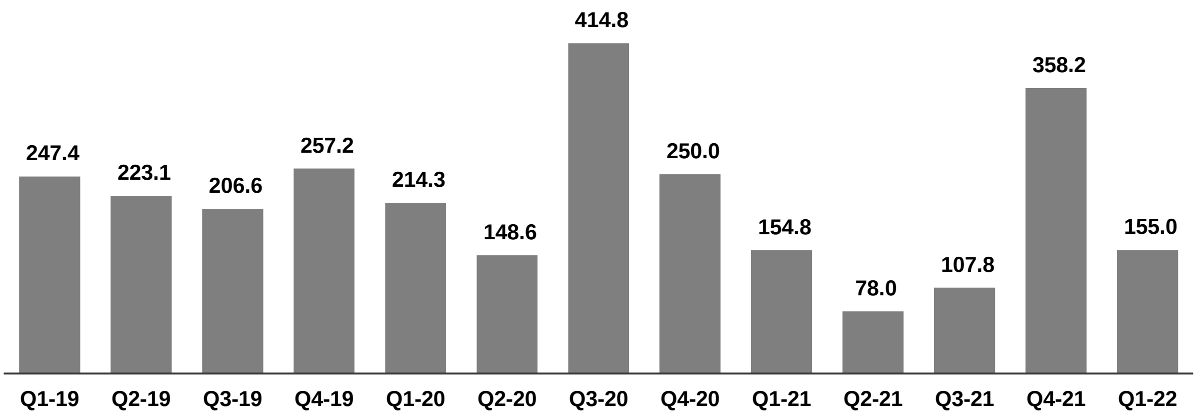


Data: NBS; Chart: NESG Research

The inflows of FDI, however, were relatively stable on a year on year basis

FDI inflows rose slightly to US$155 million in 2022Q1 from US$154.8 million in 2021Q1. On a quarterly basis, FDI inflows fell sharply by 56.7% when compared with their level in 2021Q4. This performance reflects the harsh business environment, making Nigeria less attractive to foreign direct investors.

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

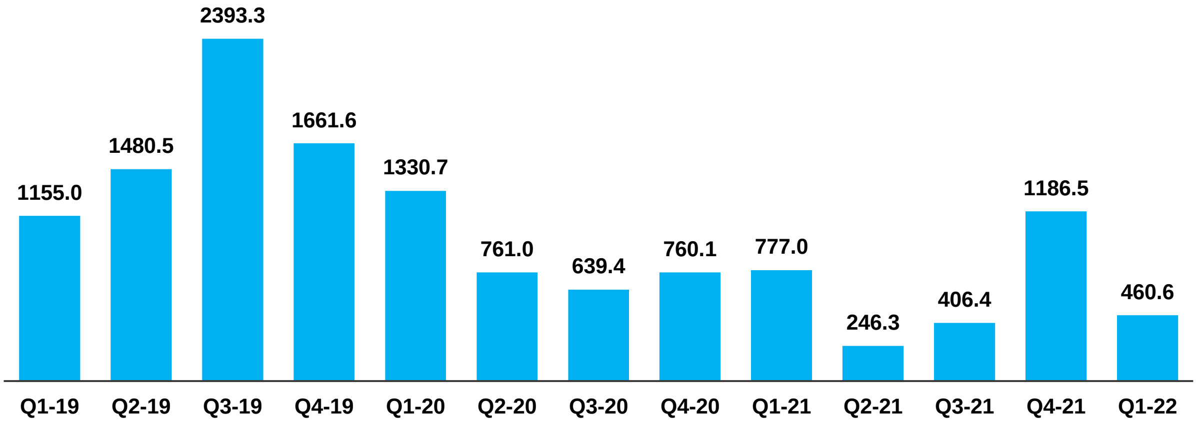


Data: NBS; Chart: NESG Research

"Other" Foreign Investments plunged by 40.7% (year-on-year) in 2022Q1

Similar to FPI, the value of "**Other**" categories of foreign investments - covering foreign loans, trade credits, currency deposits and other claims - fell sharply to US$460.6 million in 2022Q1 from US$777 million and US$1.2 billion in 2021Q1 and 2022Q4, respectively.

Figure 5: Other investment inflows (US$ million)



Data: NBS; Chart: NESG Research

In terms of composition, foreign loans accounted for the largest share at 93% of the **Other investment** inflows in 2022Q1. This is not unexpected as Nigeria issued Eurobonds worth US$1.25 billion in March 2022, making her the first African country to access the International Capital Market in the year.

Figure 6a: Composition of Other investment inflows in 2022Q1 (Million

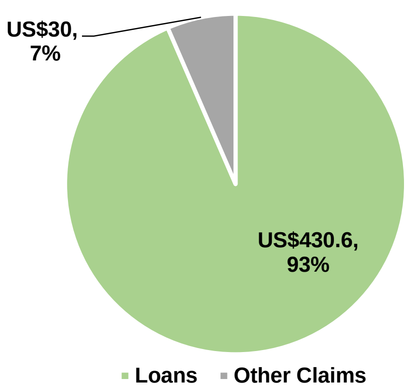
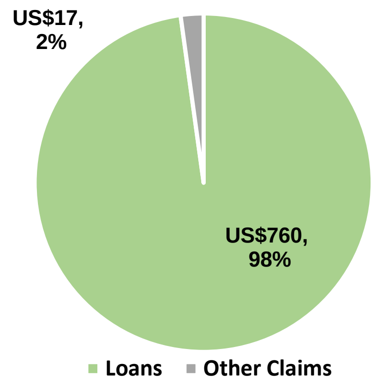


Figure 6b: Composition of Other investment inflows in 2021Q1 (Million)



Data: NBS; Chart: NESG Research

The United Kingdom remains Nigeria's major source of foreign investments

The United Kingdom maintained its position as the largest source of investment inflows into Nigeria, accounting for 64.9% of the total inflows (equivalent to US$1 billion) in 2022Q1. Countries including South Africa, the United States, Mauritius, and Singapore also featured among the top five investment sources, jointly accounting for 22% of the overall foreign investment inflows in 2022Q1. South Africa is the only African country that has consistently contributed significantly to foreign investment inflows into Nigeria.

Figure 7a: Capital Importation by Origin (% share of Total) – Top 5 in 2022Q1

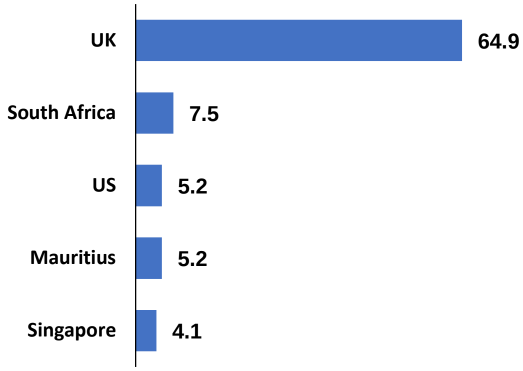
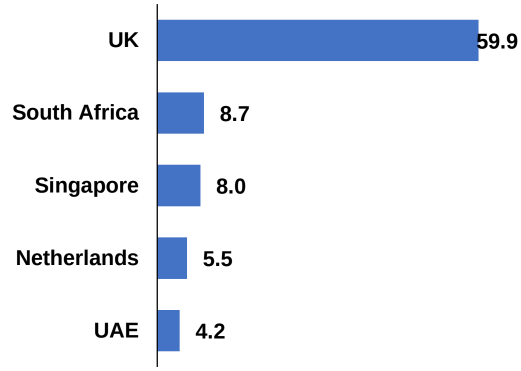


Figure 7b: Capital Importation by Origin (% share of Total) – Top 5 in 2021Q1



Data: NBS; Chart: NESG Research

Lagos and Abuja remain the major investment destinations in Nigeria

Accounting for a share of 71% in the overall investment inflows in 2022Q1 (equivalent to US$1.2 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 28% of the total investment inflows (equivalent to US$446.8 million).

Foreign affiliated banks largely facilitated foreign investment inflows in 2022Q1

In 2022Q1, 18 banks facilitated the inflow of foreign investments into Nigeria. About 83% of total foreign investment inflows were facilitated by foreign-affiliated commercial and merchant banks in 2022Q1. On the other hand, Nigerian-owned banks facilitated 27% of foreign investment inflows in the quarter.

Conclusion

- **FDI will be constrained by a combination of domestic and external risks.** Domestic factors, including political and policy uncertainties, and the growing pace of insecurity could discourage prospective foreign investors from closing out on their final investment decisions until the 2023 general elections are concluded. A key global risk to investment inflows into Nigeria is the protracted geopolitical tensions between Russia and Ukraine. With many giant multinational companies winding up their operations in Russia, Nigeria will be indirectly affected due to her huge exposure to investment inflows from the United Kingdom and the United States.

- **Monetary Policy Rate (MPR) hike is expected to reduce the rate of capital flight.** Nigeria's Monetary Policy Committee (MPC) recently joined other emerging markets by tightening its monetary policy as it raised the MPR by 150 basis points to 13% in May. While this hawkish stance could moderate the rate of capital outflows and tame inflationary pressures in the near term, it would slowdown the pace of the post-COVID-19 economic recovery process. However, unless there is a persistent increase in global oil prices and accretion to external reserves, the illiquidity of the FX market and FX rationing practice constitute downside risks to FPI inflows in 2022.

- **Little scope for securing non-concessional loans from multilateral institutions could put the country at the mercy of commercial debts.** The International Monetary Fund (IMF) has advised the Nigerian authorities to adopt market reforms, including the removal of subsidies and the liberalisation of the FX market. While the CBN has made moves to harmonise the multiple exchange rates, the premium between the parallel and official exchange rates keeps widening, currently at about N170/US$1. The government is not also committed to removing fuel subsidies as provided in the Petroleum Industry Act (PIA). Moreover, the failure of the Nigerian authorities to comply with these IMF conditionalities implies that the country will have to rely on costly non-concessional external borrowing such as Eurobonds. This suggests a further increase in Nigeria's debt servicing obligations in 2022.

About 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 directed at improving Nigeria's economic policies, institutions, and management.

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