

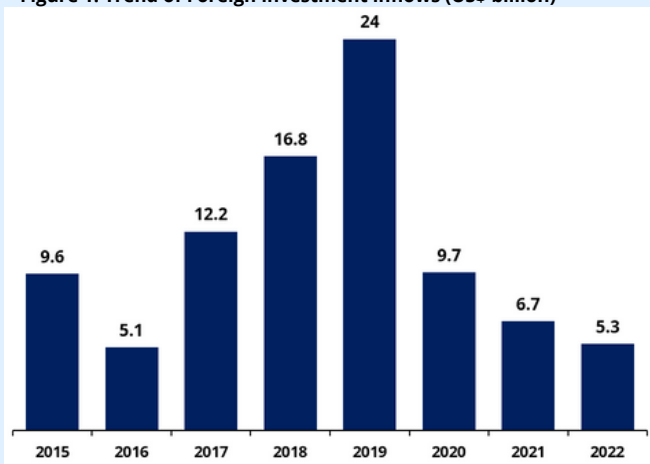
NESG 2022 CAPITAL IMPORTATION ALERT

April 2023

Overall investment inflows into Nigeria dipped by 20 percent in 2022

According to the National Bureau of Statistics (NBS), foreign investment inflows fell to US\$5.3 billion in 2022 from US\$6.7 billion in 2021 (see **Figure 1**). This represents the third consecutive annual decline in the overall investment inflows, reflecting the waning investors' confidence in the Nigerian economy.

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

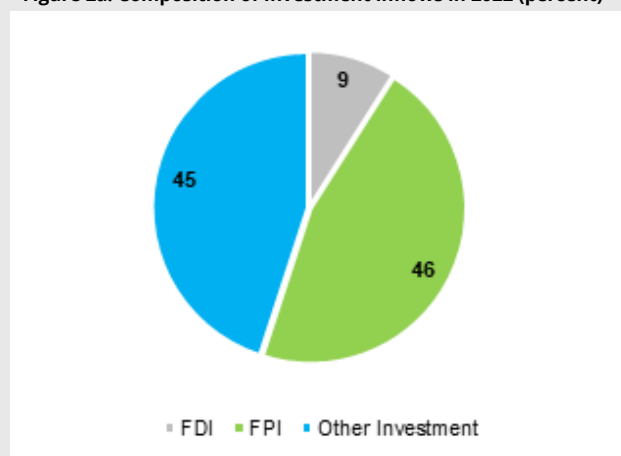


Data: NBS; Chart: NESG Research

A decline in all components fuelled the drop in overall foreign investment inflows. The decline in foreign investment inflows in 2022 was driven by a fall in the nominal values of the three (3) components of capital importation: **Foreign Portfolio Investment (FPI)**, **Foreign Direct Investment (FDI)** and **"Other" investment**. Nonetheless, the disaggregation of capital importation remains biased towards FPI, which accounted for 45 percent of total inflows in 2022, down from a 51 percent share recorded in 2021 (see **Figures 2a and 2b**). Also, the share of FDI fell to 9 percent in 2022 from 10 percent in 2021.

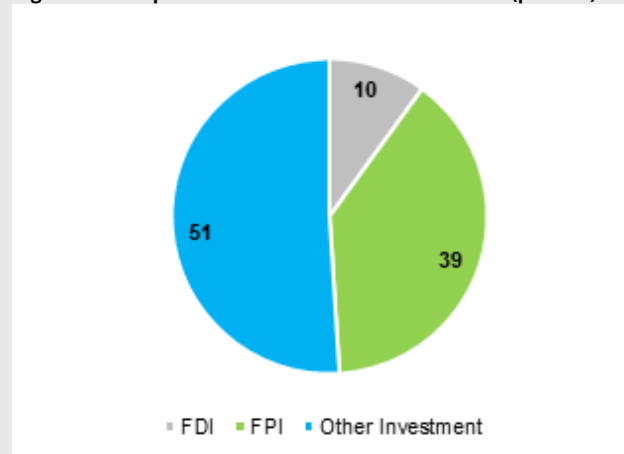
However, the share of "Other" investment rose from 39 percent in 2021 to 46 percent in 2022.

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



Data: NBS; Chart: NESG Research

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

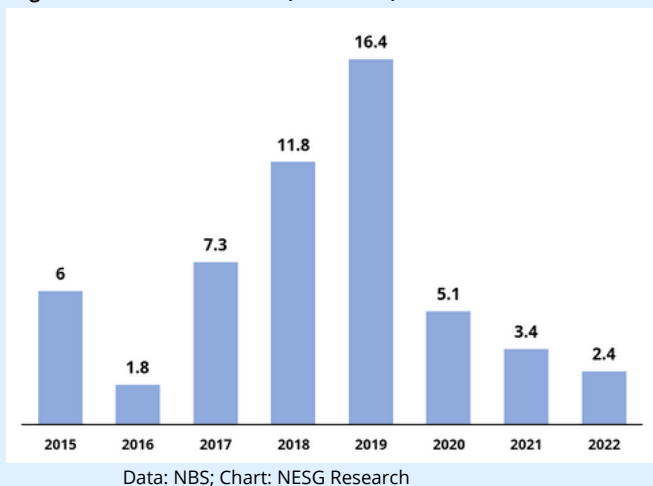


Data: NBS; Chart: NESG Research

FPI inflows fell to a 6-year low of US\$2.4 billion in 2022. Total FPI inflows in 2022 stood at US\$2.4 billion, which is 29.4 percent below its level in 2021 (US\$3.4 billion) (see **Figure 3**). A further breakdown of the FPI shows subdued uptake of equities and money market instruments among foreign investors.

According to the Nigerian Stock Exchange, the participation of foreign investors in the equities market fell from 23 percent in 2021 to 16 percent in 2022[1]. The persistent decline in FPI reflects investors' apprehension arising from the US dollar shortage, negative real returns on investment, and challenges in repatriating funds abroad.

Figure 3: Trend of FPI Inflows (US\$ billion)

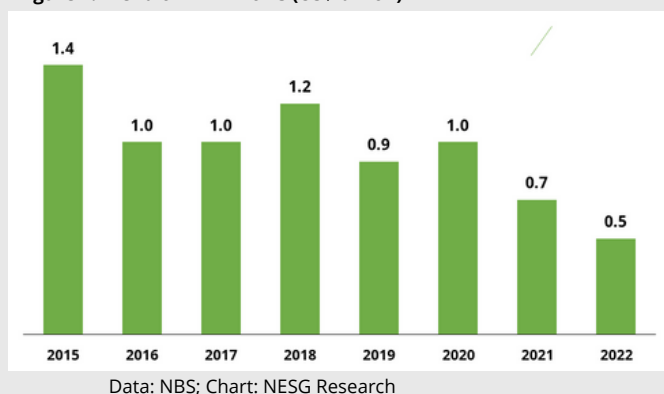


[1] see, https://doclib.ngxgroup.com/market_data-site/other-market-information-site/FPI%20Report/

FDI inflows dropped by one-third in 2022.

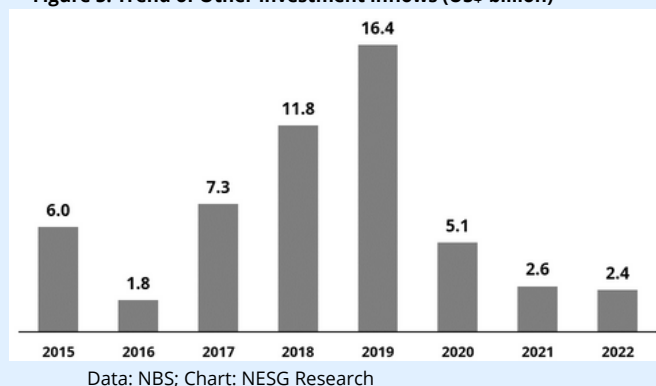
Foreign Direct Investment (FDI) – a relatively stable source of investment flows – stood at US\$468.1 million in 2022, which is 33 percent below its level in 2021 (US\$698.8 million). This represents the third consecutive annual decline in FDI inflows (see **Figure 4**), primarily attributed to enduring challenges, including policy inconsistency, stringent foreign exchange controls, infrastructure deficit and logistic bottlenecks.

Figure 4: Trend of FDI Inflows (US\$ billion)



“Other” Foreign Investment Inflows fell the slightest in 2022. Similarly, the value of Other categories of foreign investments - covering foreign loans, trade credits, currency deposits and other claims - declined to US\$2.4 billion in 2022 from US\$2.6 billion in 2021 (see **Figure 5**).

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



In terms of composition, foreign loans predominated Nigeria's other categories of foreign investment at over 90 percent of the Other investment inflows in 2022, same as in 2021 (see **Figures 6a and 6b**). This is not unexpected as the Federal government raised US\$4 billion in Eurobonds on the Nigerian Stock Exchange in the first five months of 2022 [2].

Figure 6a: Composition of Other investment inflows in 2022 (Percent)

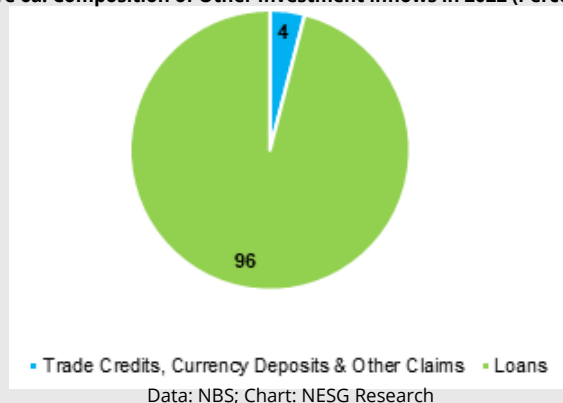
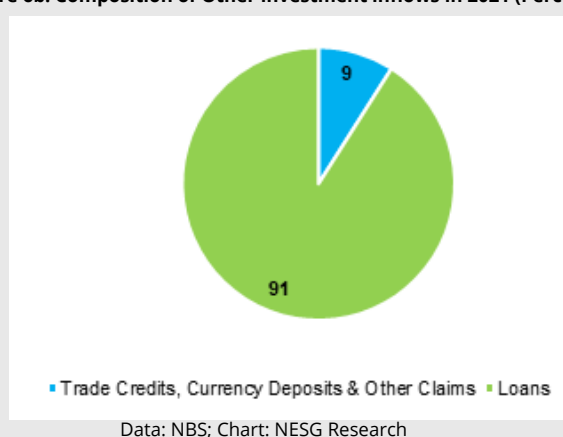


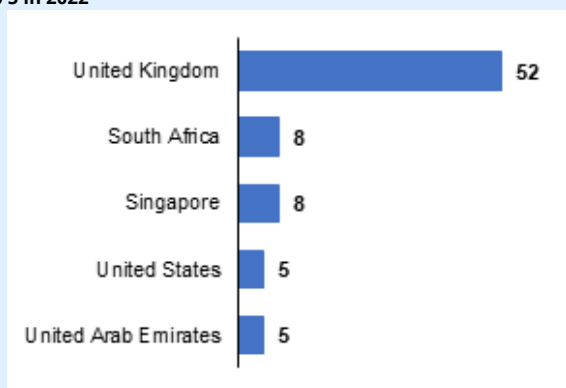
Figure 6b: Composition of Other investment inflows in 2021 (Percent)



[2] see, https://doclib.ngxgroup.com/market_data-site/other-market-information-site/FPI%20Report/

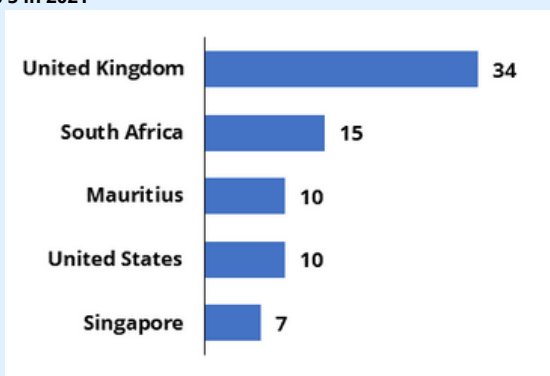
United Kingdom remains Nigeria's largest source of foreign investments. The United Kingdom maintained its position as the largest source of investment inflows into Nigeria, accounting for 52 percent of the total inflows (equivalent to US\$2.8 billion) in 2022 (see **Figure 7a**). Countries including Singapore, South Africa, United Arab Emirates, and the United States also featured among the top five (5) investment sources, accounting for a combined share of 26 percent in 2022. South Africa is the only African country that has consistently contributed significantly to foreign investment inflows into Nigeria (see **Figures 7a and 7b**)

Figure 7a: Capital Importation by Origin (Percent share of Total) - Top 5 in 2022



Data: NBS; Chart: NESG Research

Figure 7b: Capital Importation by Origin (Percent share of Total) - Top 5 in 2021



Data: NBS; Chart: NESG Research

Lagos and Abuja are the major investment hotspots in Nigeria. Accounting for a share of 68 percent in overall investment inflows in 2022 (US\$3.6 billion), Nigeria's commercial epicentre – Lagos – maintained its position as the most attractive investment destination. Similarly, FCT-Abuja remained the second largest investment destination at 31 percent of the total investment inflows (US\$1.6 billion) in 2022. Moreover, nine (9) states, led by Akwa Ibom, accounted for the remaining 1 percent share (US\$85.9 million).

Foreign-affiliated banks largely facilitated foreign investment inflows in 2022. In 2022, twenty-two (22) banks facilitated the inflow of foreign investments into Nigeria. About 71 percent of the total inflows (US\$3.8 billion) were facilitated by four (4) foreign-affiliated banks, while Nigerian-owned banks facilitated the remaining 29 percent share (US\$1.5 billion) in the year.

CONCLUDING REMARKS

- * Failure to relax restrictions on fund repatriation coupled with a local currency crunch could depress FDI inflows into Nigeria in 2023.** The continuation of the Central Bank of Nigeria's foreign exchange rationing strategy in 2022 trapped about US\$662 million belonging to foreign airlines in Nigeria. Consequently, foreign investment inflows into the Transport sector remain subdued, plunging from US\$18.9 million in 2020 to US\$0.5 million and US\$1.3 million in 2021 and 2022, respectively. Meanwhile, deepening foreign exchange scarcity and the persistent Naira crunch could motivate a further decline in market-seeking FDI inflows in 2023.
- * Due to investment uncertainties, foreign portfolio investors will adopt a conservative approach towards investing.** Foreign portfolio investors are more likely to observe some restraints in committing to investments ahead of the political transition on May 29 2023, and as opposition party candidates seek redress in the law court. However, the pace of capital outflows in 2023 could be moderated by persistent domestic monetary tightening and elevated global oil prices.
- * Global financial tightening could reduce the country's leverage on foreign commercial loans in 2023.** Considering that a hawkish monetary stance motivates a rise in the cost of servicing external debts, the Nigerian government is likely to scale back its issuance of high interest-bearing Eurobonds. This would, however, be replaced by concessional financing provided by multilateral institutions. Recently, Nigeria secured US\$800 million from the World Bank to provide palliative support to the poor and vulnerable groups, following the discontinuation of the fuel subsidy regime from July 2023.

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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