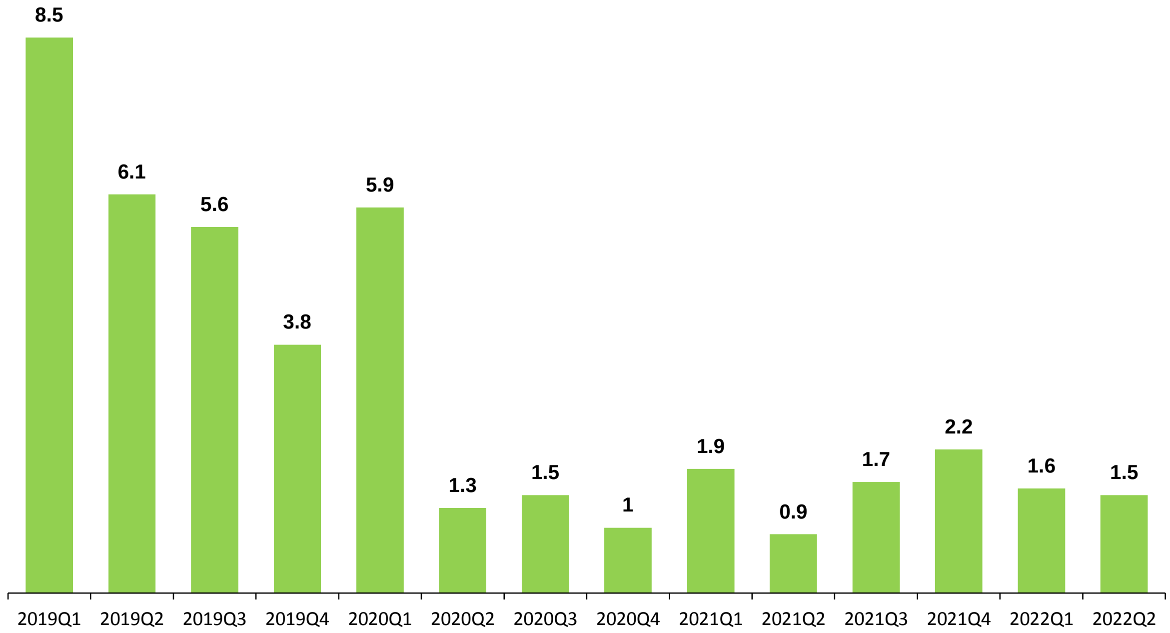
NESG 2022Q2 Capital Importation Alert

September 2022

Overall Investment inflows into Nigeria jumped by 71 percent in 2022Q2

According to the National Bureau of Statistics (NBS), foreign investment inflows into Nigeria rose sharply by 71.3 percent (year-on-year) to US$1.5 billion in the second quarter of 2022 from US$875.6 million in the corresponding period of 2021 (see **Figure 1**). However, the overall investment inflows dropped by 6.3 percent (quarter-on-quarter) relative to US$1.6 billion recorded in the first quarter of 2022. In the first half of 2022 (H1'2022), foreign investment inflows stood at US$3.1 billion, representing a 10.7 percent increase when compared with US$2.8 billion recorded in the first half of 2021 (H1'2021).

Figure 1: Trend of Foreign Investment Inflows (US$ billion)



Data: NBS; Chart: NESG Research

The improvement in foreign investment inflows in 2022Q2 was driven by increases in all its components, including foreign portfolio investment (FPI), foreign direct investment (FDI) and the "other investments" category (OIC). Meanwhile, Nigeria's capital importation profile shifted towards OIC from FPI, with the former and the latter accounting, respectively, for 41 percent and 49 percent of the total foreign investment inflows in 2022Q2, compared with 28 percent and 63 percent, respectively, in 2021Q2 (see **Figures 2a and 2b**). In addition, the share of FDI inflows rose slightly to 10 percent in 2022Q2 from 9 percent in 2022Q1.

Figure 2a: Foreign Investment Components in 2022Q2 (percent)

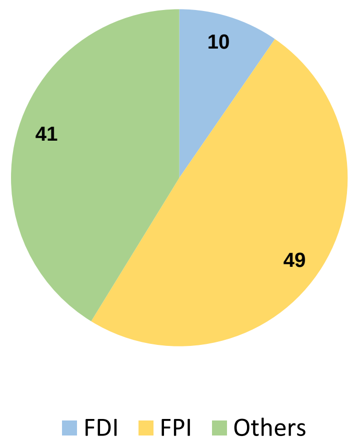
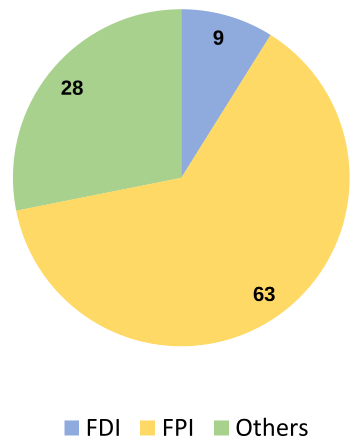


Figure 2b: Foreign investment components in 2021Q2 (percent)

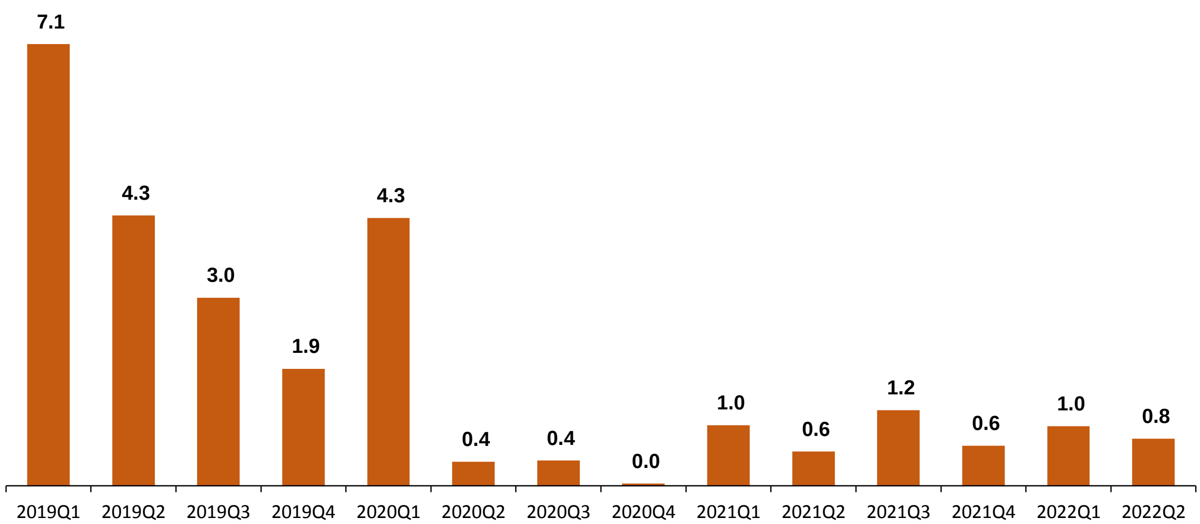


Data: NBS; Chart: NESG Research

FPI inflows spiked by 74 percent year-on-year in 2022Q2

Total FPI inflows in 2022Q2 stood at US$757.3 million, 37.3 percent above its level in 2021Q2 (US$551.4 million). However, the current FPI inflows represent a decline of 20.9 percent when compared with US$957.6 million recorded in 2022Q1 (see **Figure 3**). FPI inflows stood at US$1.7 billion in H1'2022, 13.3 percent higher than their level in H1'2021 (US$1.5 billion). A further breakdown of the FPI shows improved foreign participation in Nigeria's bond market. However, the involvement of foreign investors in the equity and money markets was low in the quarter. According to the Nigerian Stock Exchange, foreign participation in the Bourse fell to 18 percent in 2022Q2 from 11 percent in 2021Q2.

Figure 3: Trend of Foreign Portfolio Investment inflows (US$ billion)

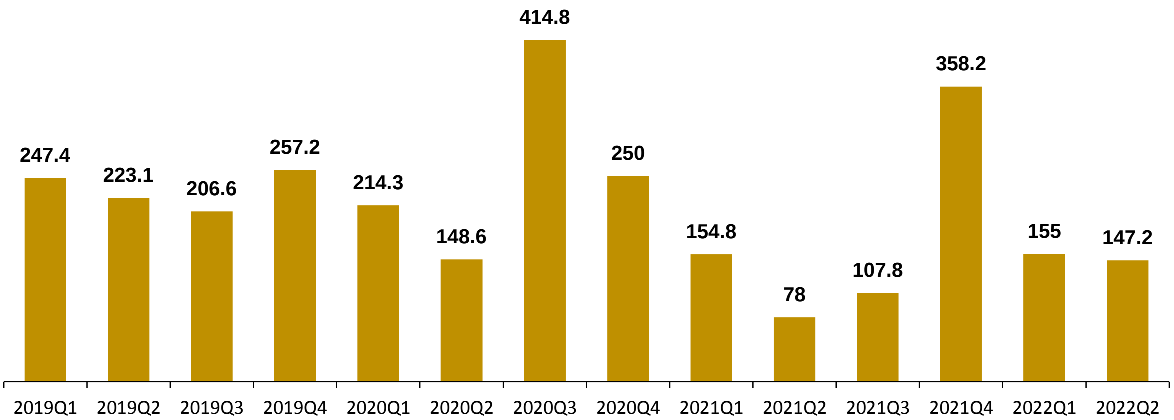


Data: NBS; Chart: NESG Research

The inflows of FDI surged by 88.7 percent in 2022Q2

FDI inflows – which are relatively stable – rose sharply to US$147.2 million in 2022Q2 from US$78 million in 2021Q2 (see **Figure 4**). On a quarterly basis, FDI inflows fell by 5 percent compared with their level in 2022Q1 (US$155 million). However, in H1'2022, FDI receipts stood at US$302.1 million, 29.8 percent above their level in H1'2021 (US$232.7 million). Notwithstanding, Nigeria's investment climate remained unfavourable to foreign direct investors concerned about fund repatriation and returns on investment.

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

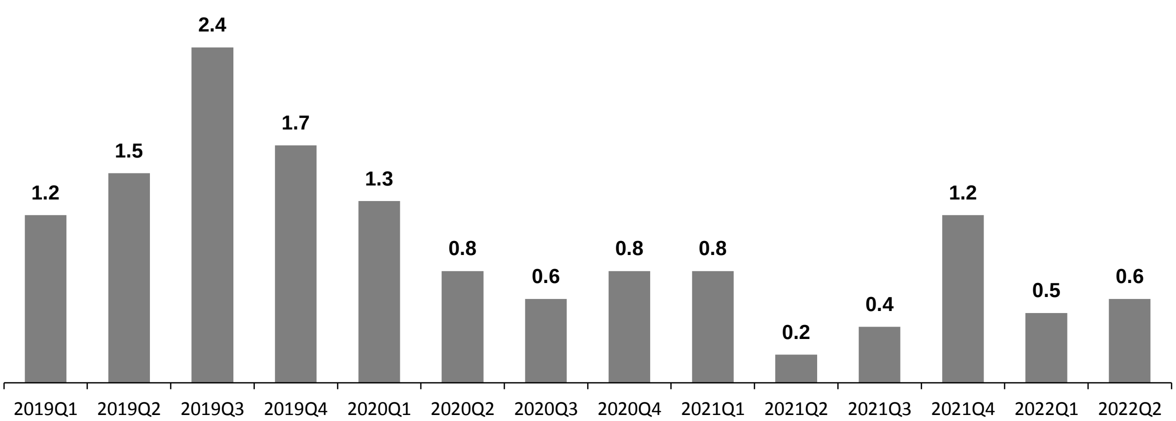


Data: NBS; Chart: NESG Research

"Other" Foreign Investments jumped by 156.2 percent (year-on-year) in 2022Q2

Similarly, the value of other foreign investments - covering foreign loans, trade credits, currency deposits and other claims - spiked to US$630.9 million in 2022Q2 from US$246.3 million and US$460.6 million in 2021Q2 and 2022Q1, respectively (see **Figure 5**). In H1'2022, the value of other investments stood at US$1.1 billion, 10 percent above its level in H1'2021 (US$1 billion). In terms of composition, the value of foreign loans accounted for the largest share at 94 percent of the **other investment** inflows in 2022Q2 (equivalent to US$595.9 million), which is more than double its level in 2021Q2 (US$209.8 million).

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



Data: NBS; Chart: NESG Research

The 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 64 percent of the total inflows (equivalent to US$1 billion) in 2022Q2 (see **Figure 6a**). Countries including Singapore, South Africa, United Arab Emirates and the United States also featured among the top five investment sources, jointly accounting for about 36 percent of the overall investment inflows in the quarter. The Netherlands lost its position to the United Arab Emirates in 2022Q2 (see **Figure 6b**). In addition, South Africa is the only African country that has consistently contributed to foreign investment inflows into Nigeria.

Figure 6a: Capital Importation by Origin (percentage of Total inflows) – Top 5 in 2022Q2

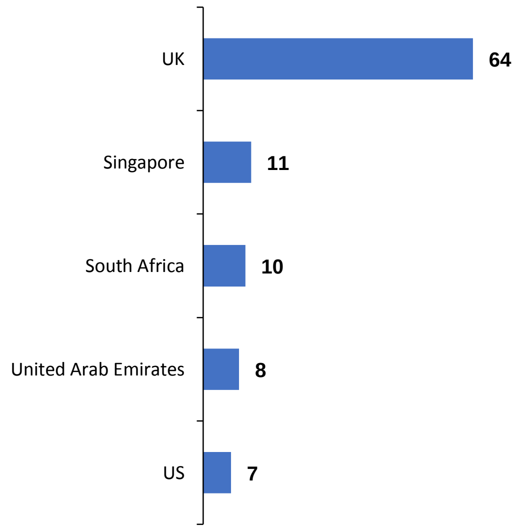
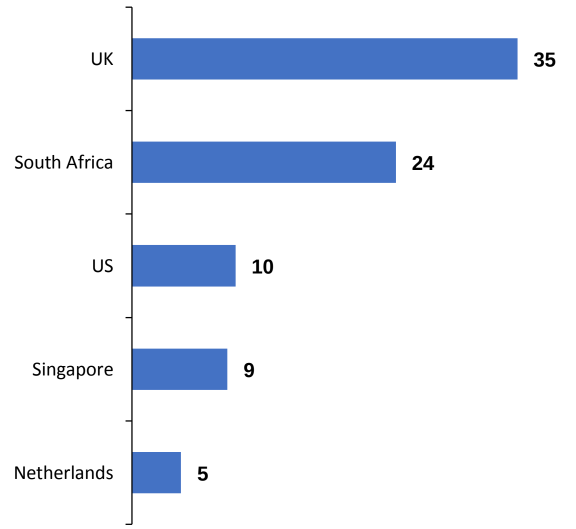


Figure 6b: Capital Importation by Origin (percentage of Total inflows) – Top 5 in 2021Q2



Data: NBS; Chart: NESG Research

Lagos and Abuja remained the major hotspots for foreign investment inflows into Nigeria

Accounting for a share of 69 percent in the overall investment inflows in 2022Q2 (equivalent to US$1.1 billion), Nigeria's commercial epicentre – Lagos - maintained its position as the most attractive investment destination in the country. Similarly, FCT-Abuja remained the second largest investment destination, facilitating about 30 percent of the total investment inflows (equivalent to US$454 million).

Foreign affiliated banks remained the largest facilitators of investment inflows

In 2022Q2, 18 banks facilitated the inflow of foreign investments into Nigeria. About 65 percent of these inflows were facilitated by foreign-affiliated commercial and merchant banks. Nigerian-owned banks, on the other hand, facilitated 35 percent of the overall investment inflows in the quarter.

Concluding Remarks

- **Stiff capital controls could depress FDI inflows into Nigeria for the rest of the year 2022.** The foreign exchange crunch has not enabled foreign-owned airlines to repatriate about US$600 million to their countries of origin. For instance, the United Arab Emirates airline has decided to suspend its operations in Nigeria effective from September 1, 2022. It is also projected that about US$1 billion belonging to foreign airlines could become trapped in Nigeria by the end of 2022. If this precarious situation remains unchecked, FDI inflows into Nigeria's aviation sector could decline drastically in subsequent quarters.

- **Global monetary policy tightening in advanced countries puts emerging economies at risk of foreign capital outflows unless the latter also maintains a hawkish stance.** For instance, JP Morgan's Emerging Market Bond Global Diversified Index fell by 14.7 percent in the first half of 2022. During this period, the emerging markets recorded a net outflow of foreign portfolio investments worth US$18.7 billion. Similarly, the Nigerian Stock Exchange witnessed a net FPI outflow of US$11.48 billion in the first half of 2022, despite the 150 basis points hike in the monetary policy rate (MPR) during this period.

- **The hawkish stance worldwide suggests that yields on Eurobonds need to be high enough to improve and retain investors' confidence in Nigeria's Eurobond issuance.** For instance, the yields on Eurobonds across tenors averaged 12.8 percent as of June 2022, relative to an average yield of 5.7 percent as of June 2021. This implies that Nigeria's debt servicing on external borrowing would be huge by the end of 2022, putting the country at a high risk of debt distress.

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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