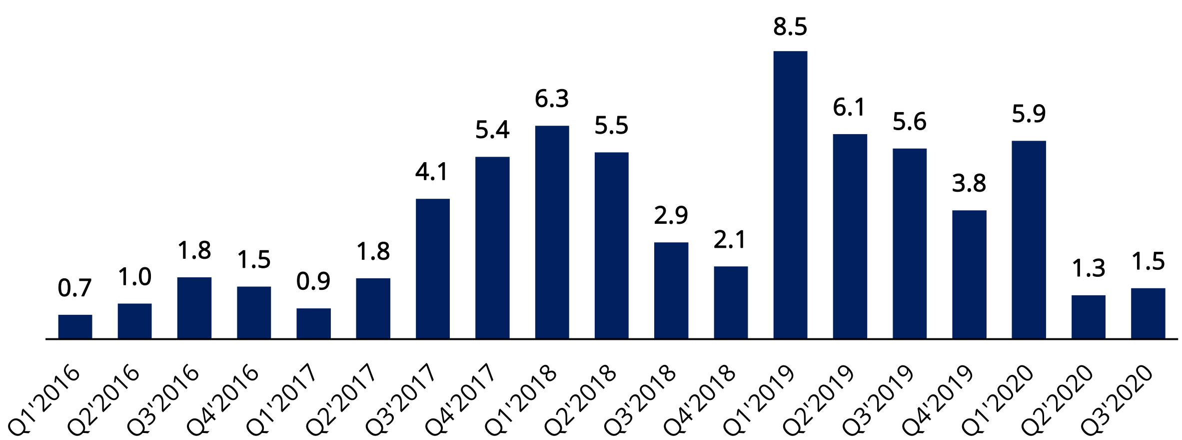
NESG Q3'2020 Capital Importation Alert

December 2020

Overall investment inflows into Nigeria plunged by 74% year-on-year in Q3'2020

According to the National Bureau of Statistics (NBS), foreign investment inflows fell sharply by 74.0% (year-on-year) to $1.5 billion in the third quarter of 2020 from $5.6 billion in the same period of 2019. This represents a continuous decline in Nigeria's foreign investment inflows. This drastic decline in foreign capital inflows could be attributed to Nigeria's poor economic performance accompanied by the impacts of the COVID-19 pandemic within the period. In Q3'2020, the Nigerian economy also contracted by -3.6% while real return on investments remained in the negative region due to a high inflation rate and single-digit T/bill yield. These events, coupled with the considerable uncertainty in the economic environment, served as a disincentive to foreign investors.

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



Data: NBS; Chart: NESG

A plunge in FPI drove the overall decline in foreign investment inflows

In the third quarter, the decline in total investment inflows was primarily driven by a sharp drop in foreign portfolio investments (FPI). Total FPI inflows in Q3'2020 dipped by 86.6% to $407.6 million. Correspondingly, the share of FPI in the overall foreign investment inflows plunged to 28% in Q3'2020 from 54% in Q3'2019. The massive decline in FPI relative to other investments could be attributed to poor investors' confidence caused by amplified FX risks, heightened inflation, among others.

Figure 2a: Composition of Investment inflows in Q3'2020

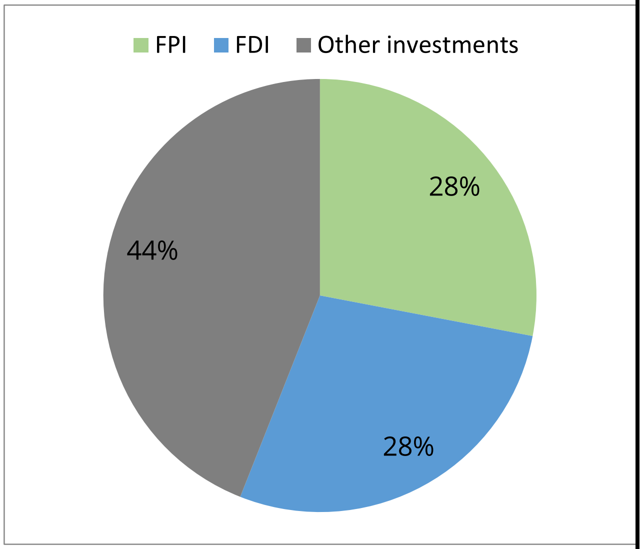
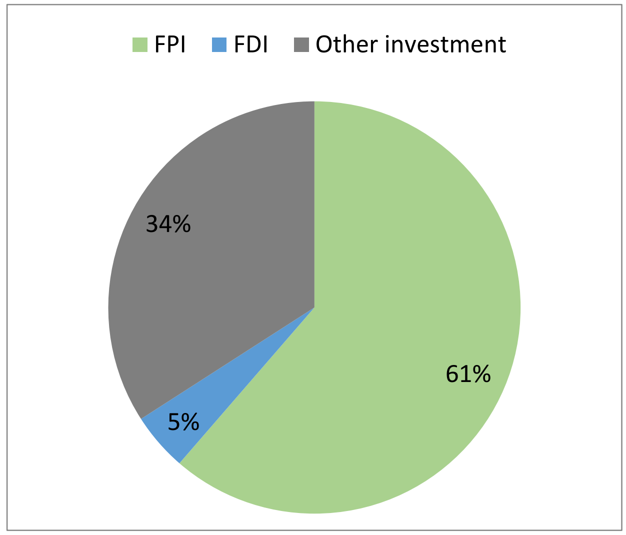


Figure 2b: Composition of Investment inflows in Q3'2019



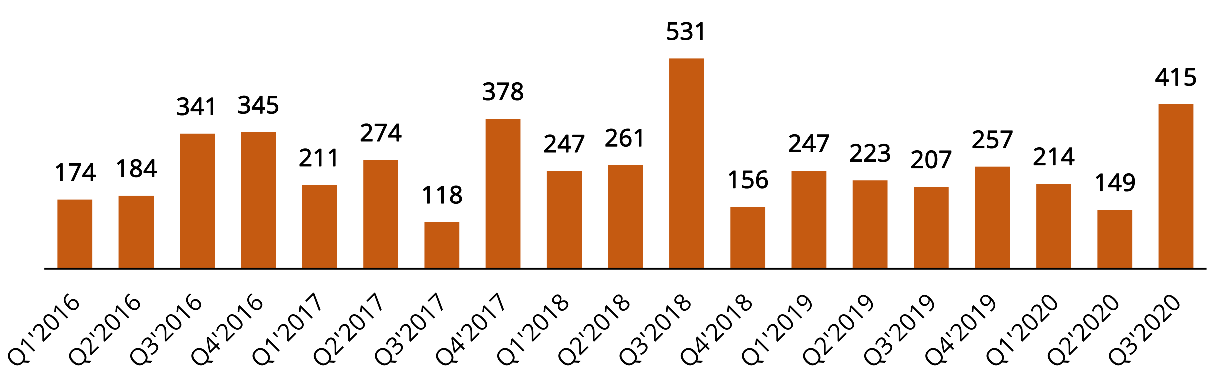
Data: NBS; Chart: NESG

Conversely, Foreign Direct Investment (FDI) witnessed a sharp rise in contribution to overall investment inflows. The share of FDI rose by 24.7 percentage points to 28.4% when compared with Q3'2019. The surge in the value of FDI inflows was primarily driven by re-opening of economic activities and significant inflows of capital investments into the production sector. The share of Other foreign investments also rose to 43.8% in Q3'2020 relative to 42.5% in Q3'2019.

FDI strengthens to $415 million in Q3'2020

Foreign Direct Investment (FDI) – which is a source of long term foreign investment flows – became stronger by 101% to $415 million in Q3'2020 when compared with its level in the corresponding period of 2019 ($207 million).

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

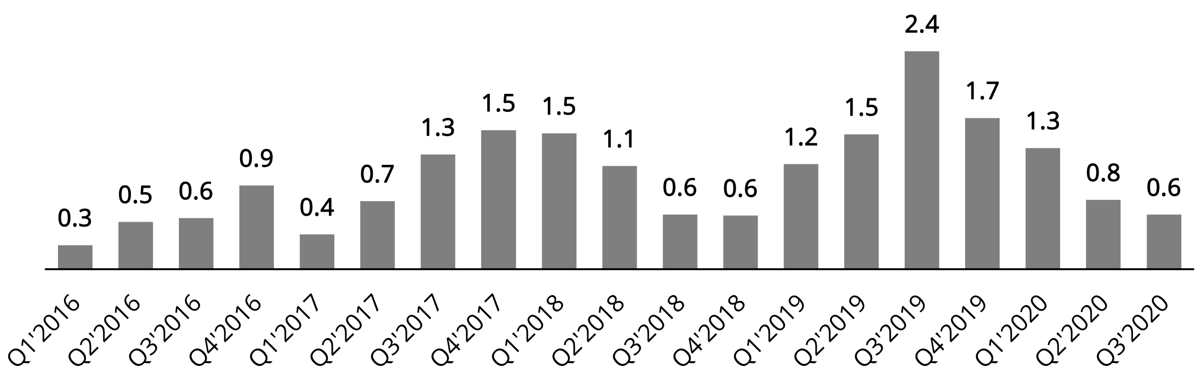


Data: NBS; Chart: NESG

"Other" Foreign Investment Inflows drastically fell by 73.3% in Q3'2020 (year-on-year)

Other foreign investments covering foreign loans, trade credits, currency deposits and other claims fell to $639 million in the period. This figure represents a 73.3% decline year-on-year relative to its level ($2.4billion) in the corresponding period of 2019.

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



Data: NBS; Chart: NESG

In terms of composition, Nigeria recorded foreign investment inflows only from foreign loans and other claims with no inflows from trade credit and currency deposit. Year on year, foreign loans and other claims decreased by 64.8% to $624million and 97.6% to $15.0 million respectively in Q3'2020. Interestingly, there was a surge in the share of foreign loans at 97.7% of other foreign investments.

Figure 5a: Composition of Other investment inflows in Q3'2020

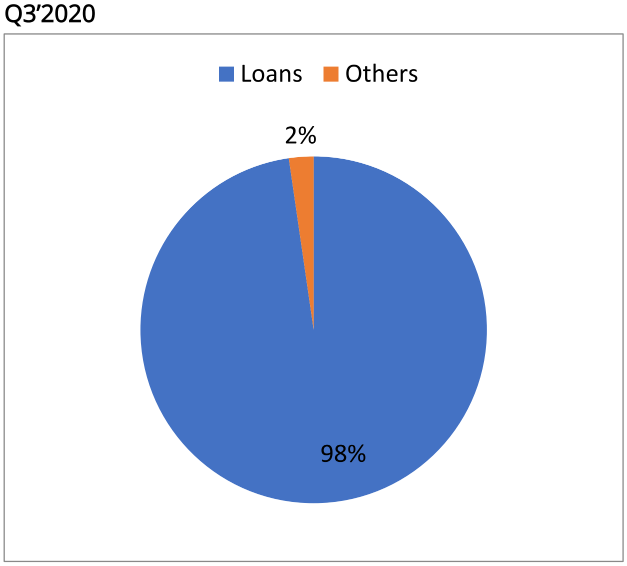
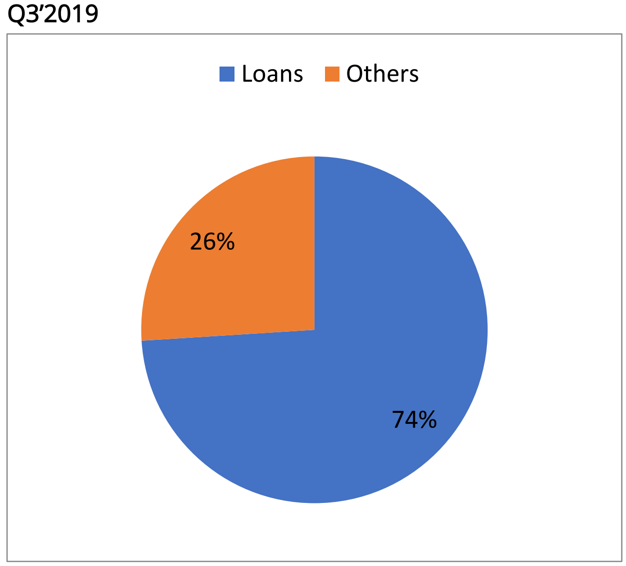


Figure 5b: Composition of Other investment inflows in Q3'2019



Data: NBS; Chart: NESG

The United Kingdom retained its lead as Nigeria's leading source of foreign investments

Despite the sharp decline in foreign investment inflows, the United Kingdom maintained its position as the largest source of foreign investments inflows into Nigeria. It accounted for 40.6% (equivalent to $594.65 million) of the total foreign investments in Q3'2020. Also, the United States kept its position among the top 5 in Q3'2020. However, the Republic of South Africa, Egypt, and Mauritius lost their places to Netherland, Ireland, and Singapore in Q3'2020 respectively. The Republic of South Africa also lost its consistency as the primary contributor of foreign investment inflow into Nigeria.

Figure 9a: Capital Importation by Origin (Share of Total) – Top 5 in Q3'2020

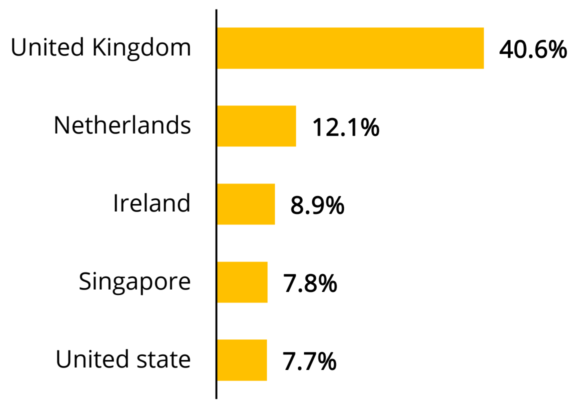
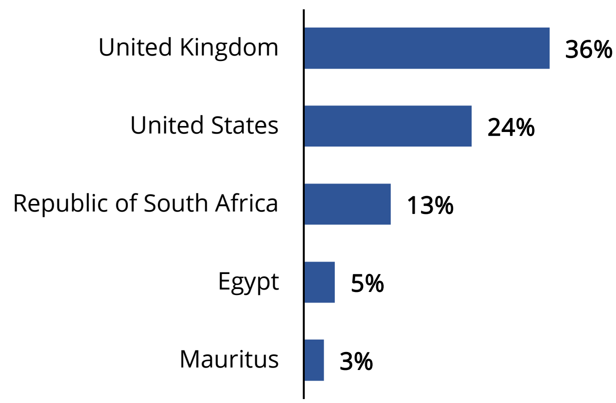


Figure 9b: Capital Importation by Origin (Share of Total) – Top 5 in Q3'2019



Data: NBS; Chart: NESG

Abia state joined the top major investment destinations in Nigeria

Lagos remained the most favourite destination for foreign investments into Nigeria. It accounted for 83% of the overall investment inflows (equivalent to $1.2 billion) in Q3'2020. FCT-Abuja also maintained its position as the second-largest investment destination at 13% (equivalent to $189.9 million). Abia state emerges as the third-largest foreign investment destination at 4% (equivalent to $55.5million of the overall investment inflows). The contributions of Niger, Ogun, Kano, and Kaduna were less than 1%.

Conclusion

- **Re-opening of the economy led to higher FDI.** The re-opening of the economy resulted in a quick recovery of production activities. Consequently, many suspended projects and production activities were revived. These events, among other factors, attracted foreign investors and led to an increase in FDI inflows in the period under review. Also, key reforms such as the reduction in right-of-way fees, harmonisation of taxes e.t.c by some states governments played a significant role in boosting FDI inflows.

- **FPI also plunged on heightened FX risk and negative real interest-rate environment.** The low yield environment, coupled with high FX risks and other factors, dampened foreign investors' confidence in Nigerian financial markets. Although the yield is low in developed economies, but there has to be a premium for them to come to developing like Nigeria. As a result, the crash of yield in the OMO market triggered a pull-out and pull-back reactions from foreign investors.

- **Need to increase the tempo of reforms to keep FDI inflows up.** There is a need for government, especially states governments, to hasten reforms required to ensure a conducive business environment. These reforms, in areas of taxation, cost and time needed for the procurement of license/permits e.t.c, would ease doing business and make Nigeria more attractive for FDI.

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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