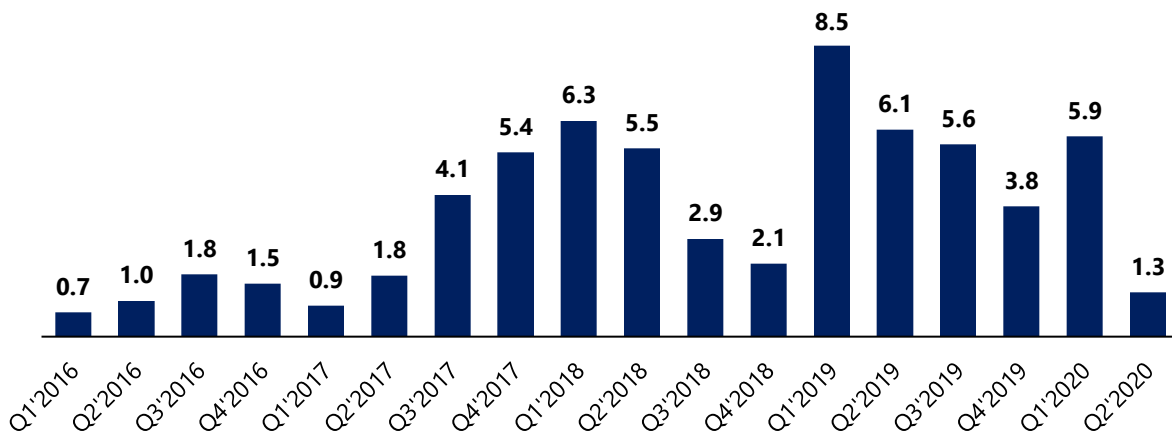


Overall investment inflows into Nigeria plunged by 78.6% year-on-year in Q2'2020

According to the National Bureau of Statistics (NBS), foreign investment inflows fell sharply by 78.6% (year-on-year) to \$1.3 billion in the second quarter of 2020 from \$6.1 billion in the same period of 2019. This represents the highest year-on-year decline in the recent history of Nigeria's foreign investment inflows. In the first half of 2020, the overall investment inflows dipped by 50.9% to \$7.1 billion from \$14.6 billion in 2019. This drastic decline in foreign capital inflows could be attributed to Nigeria's poor economic performance accentuated by the impacts of the COVID-19 pandemic within the period. In Q2'2020, the Nigerian economy contracted sharply by -6.1% while return on investments slid into negative due to high inflation rate and single digit T/bill yield. These events, coupled with the huge uncertainty, primarily served as a disincentive to foreign investors.

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



Data: NBS; Chart: NESG

The overall decline in foreign investment inflows was driven by a plunge in FPI

In the second quarter, the decline in total investment inflows was primarily driven by a sharp drop in foreign portfolio investments (FPI). Total FPI inflows in Q2'2020 dipped by 91.1% to \$385.3 million in Q2'2019. Correspondingly, the share of FPI in the overall foreign investment inflows plunged to 30% in Q2'2020 from 72% in Q2'2019. Conversely, both Foreign Direct Investment (FDI) and other investments witnessed a sharp rise in their contributions to overall investment inflows at 11% and 59% in Q2'2020 respectively, relative to their respective shares in the corresponding period of 2019. The massive decline in FPI relative to other investment inflows (FDI and Other Investment) could be attributed to its vulnerability to sudden capital outflows. This is especially the case due to the negative real interest rate as well as the uncertainties occasioned by the outbreak of COVID-19.

Figure 2a: Composition of Investment inflows in Q2'2020

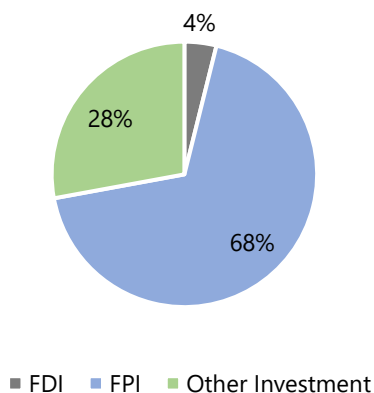
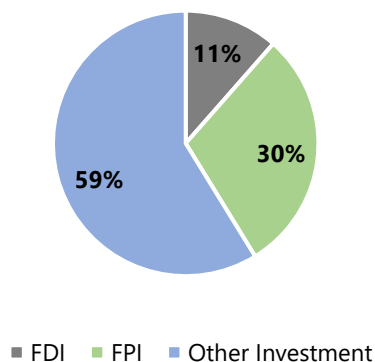


Figure 2b: Composition of Investment inflows in Q2'2019

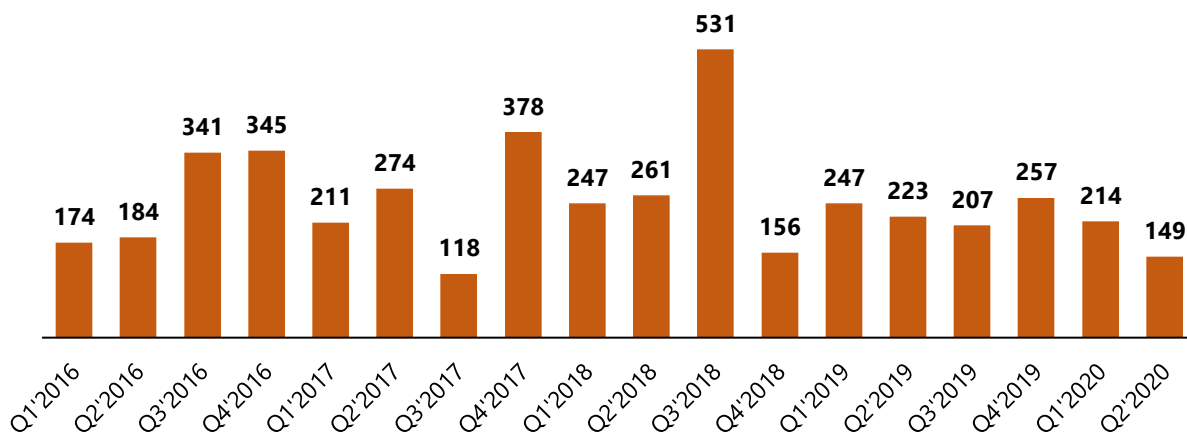


Data: NBS; Chart: NESG

FDI weakened further to \$148.6 million in Q2'2020

Foreign Direct Investment (FDI) – which is a relatively stable source of investment flows – fell further by 33.4% to \$148.6 million in Q2'2020 when compared with its level in the corresponding period of 2019 (\$223.1 million). This is the highest decline experienced in recent years. FDI inflows were adversely affected by disruptions in global supply chains arising from the coronavirus-induced lockdowns and business closures. Aside from the impacts of COVID-19, FDI inflows into Nigeria have been constrained by age-long structural challenges including policy inconsistency, forex challenges, huge infrastructural deficit and harsh business operating environment.

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

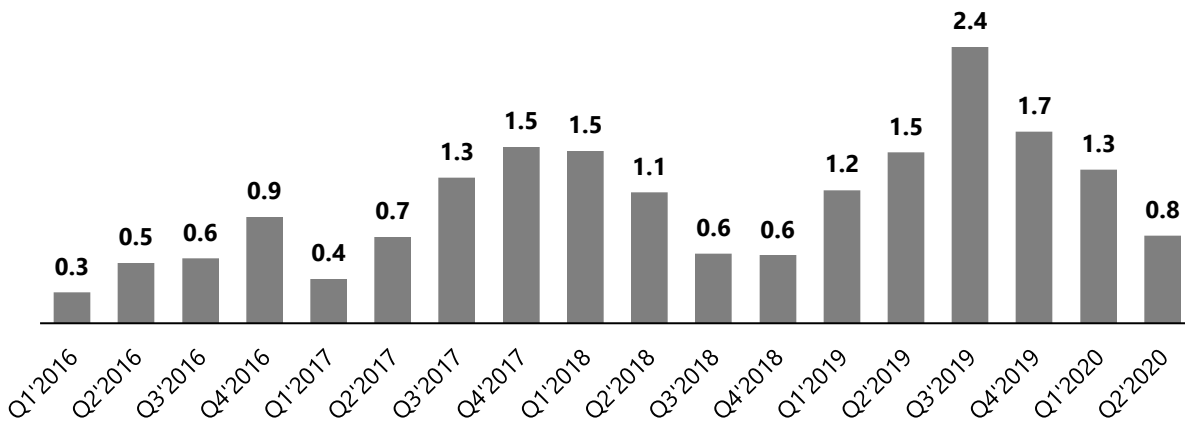


Data: NBS; Chart: NESG

“Other” Foreign Investment Inflows strengthened by 8% in Q1'2020 (year-on-year)

Other foreign investments covering foreign loans, trade credits, currency deposits and other claims fell to N761 million. This figure represents a 48.6% decline year-on-year relative to its level (\$1.5 billion) 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, investment inflows from foreign loans and other claims declined by 32% to \$726 million in Q2'2020. Interestingly, there was a sharp rise in the share of foreign loans to 95%, while the contribution of other foreign investment categories (trade credit, currency deposit and other claims) dipped to 5% (equivalent to \$35 million).

Figure 5a: Composition of Other investment inflows in Q2'2020

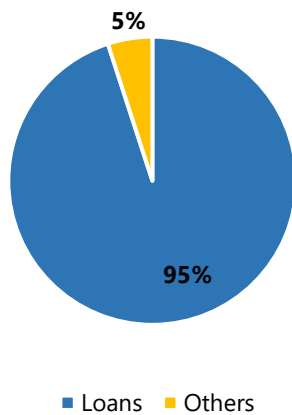
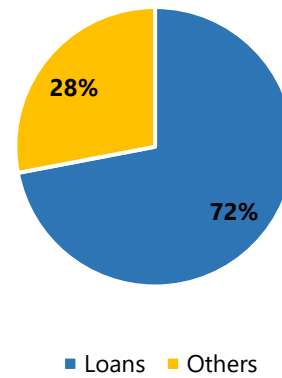


Figure 5b: Composition of Other investment inflows in Q2'2019



Data: NBS; Chart: NESG

United Kingdom remained Nigeria's largest source of foreign investments

Despite the sharp decline in foreign investment inflows, the United Kingdom maintained its position as the largest source of investments inflows into Nigeria at 33% of the total (equivalent to \$428.8 million) in Q2'2020. While South Africa and the United Arab Emirates remained among the top five investment sources in both Q2'2019 and Q2'2020, the United States and Belgium lost their positions to the Netherlands and Singapore in Q2'2020. South Africa remained the only African county that has consistently contributed significantly to foreign investment inflows into Nigeria.

Figure 9a: Capital Importation by Origin (Share of Total) – Top 5 in Q2'2020

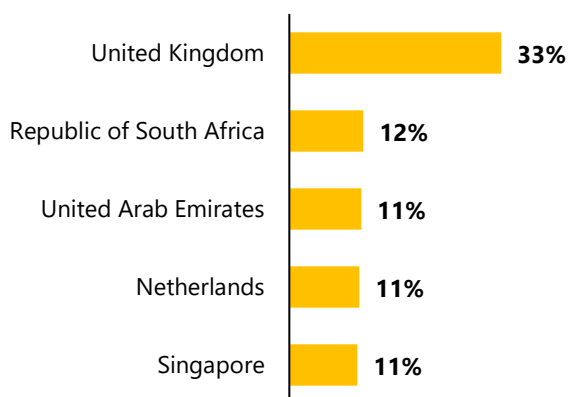
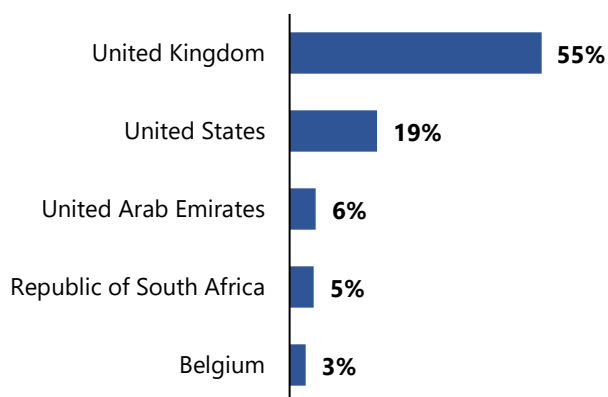


Figure 9b: Capital Importation by Origin (Share of Total) – Top 5 in Q2'2019



Data: NBS; Chart: NESG

Lagos and Abuja remains major investment destinations in Nigeria

Lagos maintained its position as the most favourite destination for foreign investments into Nigeria. It accounted for 87% of the overall investment inflows (equivalent to \$1.1 billion) in Q2'2020. FCT-Abuja also remained the second largest investment destination at 11% (equivalent to \$145.3 million) while the remaining 2% share (equivalent to \$19.2 million) was attributed to four states - Ogun, Niger, Anambra and Kano.

Conclusion

- **The sharp decline in foreign investment is a manifestation of the severe impacts of the COVID-19 pandemic on global supply chains.** With the sudden outbreak and spread of the coronavirus, investment decisions have been deferred due to uncertainties. This declining trend in investment inflows is likely to persist as several countries implement another round of lockdown measures. UNCTAD has projected that global FDI would decline by 40% in 2020. In addition, a few multinational companies in Nigeria, such as South Africa's Shoprite and Chevron, are currently considering divesting from the country. If this plan scales through, FDI inflows into Nigeria will be severely affected.
- **FPI suffers decline as investors' confidence dampens.** The challenging global economic space created by the spread of coronavirus punctured investors' confidence in the Nigerian economy. This is coupled with the tight forex management approach which is made severe by a declining external reserve. Portfolio investors are, therefore, cautious in their investment decisions as they are more concerned about the repatriation of their funds. In light of this, we expect FPI inflows to remain subdued pending the recovery of global oil prices and a consequent improvement in external reserves.
- **Foreign loans hold the position of the major source of foreign investment inflows.** The devastating impact of COVID-19 is constraining government revenue and warrants spending on palliative measures. Consequently, foreign loans segment of the foreign investment inflows will continue to gain traction. This is reflected in the quarter-on-quarter increase in inflows of foreign loans, relative to other categories of foreign investment inflows that recorded a decline. To the extent that global commodities and financial market conditions remain tightened going forward, we expect the Nigerian government to rely mainly on multilateral loans to shore up the external reserves and to meet its fiscal obligations.

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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