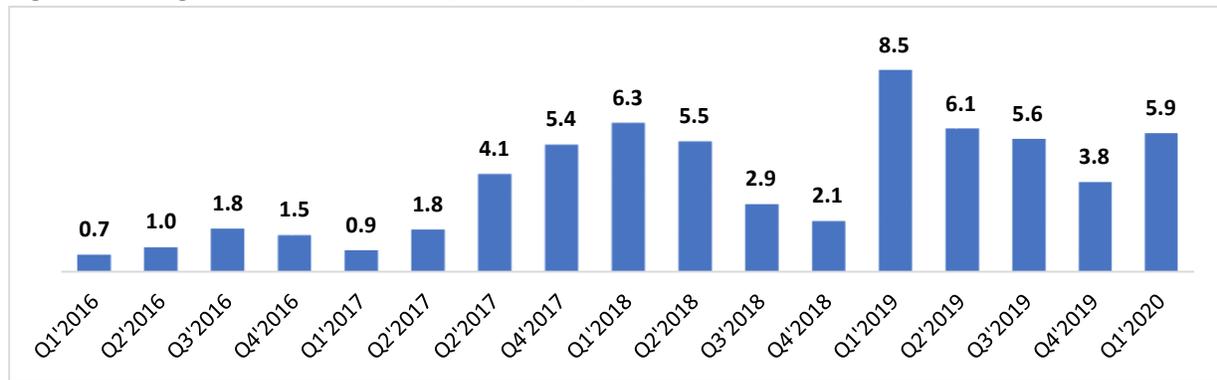


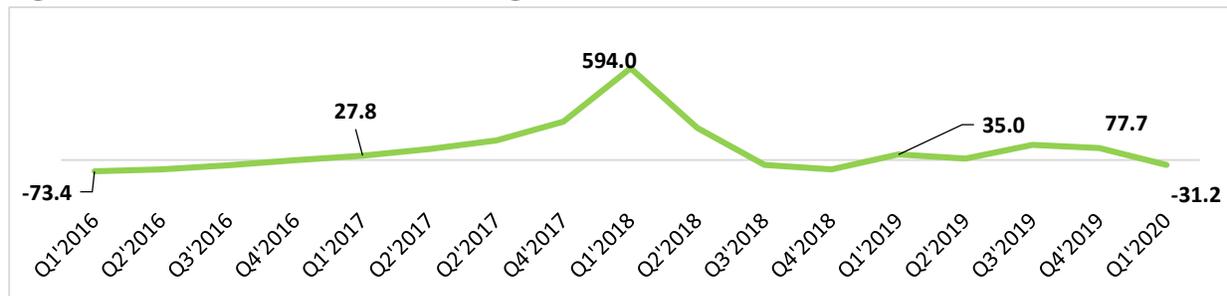
## Overall investment inflows into Nigeria dipped by 31.2% year-on-year in Q1'2020

According to National Bureau of Statistics (NBS), foreign investment inflows for Q1'2020 fell sharply by 31.2% to \$5.9 billion from \$8.5 billion in the corresponding quarter of 2019 (Q1'2019). The year-on-year decline in investment inflows is the first since the last recession in 2016. This could be attributed to weaker domestic economic fundamentals - slower economic growth (stood at 1.9% in Q1'2020), rising inflation (averaged 12.2% in Q1'2020), declining global oil prices (down 66.9% to close the quarter at \$22.8/barrel), as well as, dwindling external reserves in Q1'2020 (stood at \$33.5 billion) - relative to the respective performances in Q1'2019. The slowdown in total foreign investment inflows was also escalated by the rapid spread of COVID-19 across the world.

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



**Figure 2: Year-on-Year Growth of foreign investment inflows since recession in 2016 (%)**

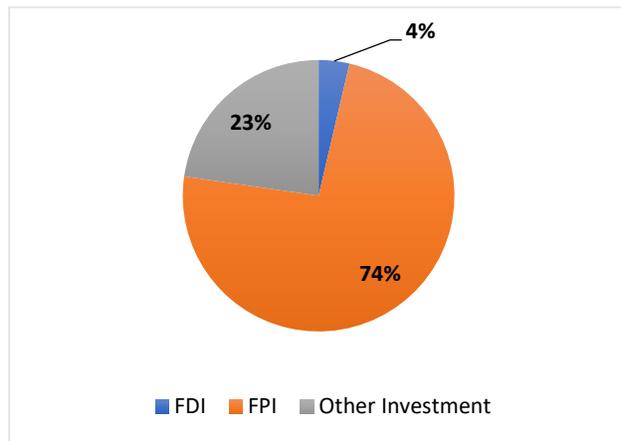


Data: NBS; Chart: NESG

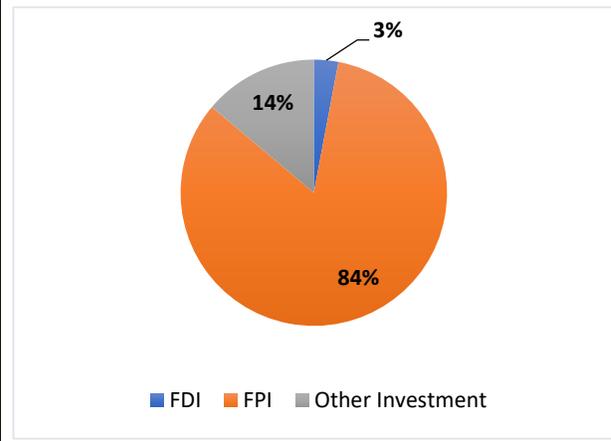
**Overall foreign investment inflows negatively impacted by a larger drop in FPI (year-on-year)**

On a disaggregated basis, the year-on-year decline in total investment inflows was largely driven by drop in foreign portfolio investments (FPI). The share of FPI in the overall foreign investment inflows weakened to 74% in Q1'2020 from 84% in Q1'2019. However, both Foreign Direct Investment (FDI) and other investments witnessed a rise in their respective contributions to overall investment inflows to 4% and 23% in Q1'2020, relative to their respective shares in the corresponding quarter of 2019. It is worthy of note that there was a decline in the year-on-growth of FDI and FPI inflows in Q1'2020. This is an indication that private investment inflows were more vulnerable to the sudden spread of COVID-19 into Nigeria since February 2020.

**Figure 3a: Composition of Investment inflows in Q1'2020**



**Figure 3b: Composition of Investment inflows in Q1'2019**

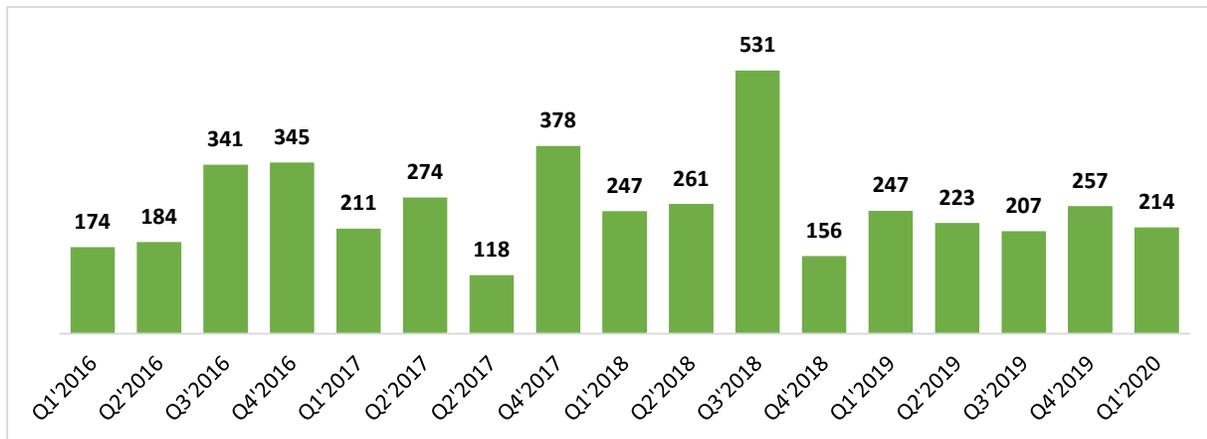


**Data: NBS; Chart: NESG**

### FDI fell to \$214 million in Q1'2020 – Weakest Q1 inflows since 2017

Foreign Direct Investment (FDI) – which is a relatively stable source of investment flows – was down by 13.4% to \$214 million in Q1'2020 when compared with its level in the corresponding quarter of 2019 (\$247 million). This is in spite of the increase in the share of FDI in the overall investment inflows to 4% in Q1'2020. The FDI receipts in the quarter is also the weakest Q1 level of investment inflows since 2017. Aside from short-term risks such as the current global health crisis, FDI inflows into Nigeria have continuously been hindered by policy inconsistency – deepening capital controls as proceeds from crude oil exports remain on the downside. Lack of strong political will to address the country's huge infrastructural deficit is another key factor. Despite the improvement in the operating environment of business in Nigeria (The country rose by 15 places to 131<sup>st</sup> out of 180 countries on the World Bank's Doing Business Ranking in 2020), FDI inflows into Nigeria were largely constrained by the aforementioned key structural factors.

**Figure 4: Trend of FDI inflows since 2016 (US\$ million)**

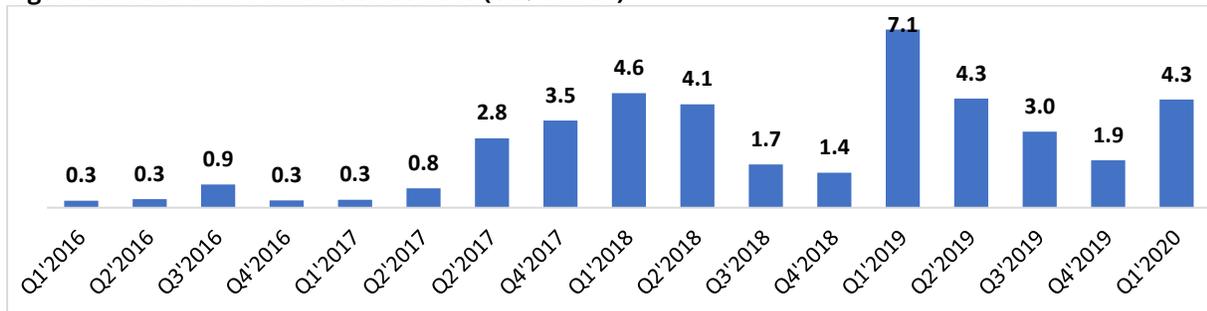


**Data: NBS; Chart: NESG**

### FPI inflows nosedived on lower foreign participation in Nigeria's Money Market

Foreign portfolio investment (FPI) – which is highly vulnerable to capital flow reversals – stood at \$4.3 billion in Q1'2020. This is 39.4% below its level in the corresponding quarter of 2019 (\$7.1 billion). The fall in FPI inflows could be attributed to the rapid deterioration of investors' confidence in the Nigerian economy. The country's declining external reserves position have made foreign portfolio investors more concerned about the repatriation of their funds than the yields on investment.

**Figure 5: Trend of FPI inflows since 2016 (US\$ billion)**

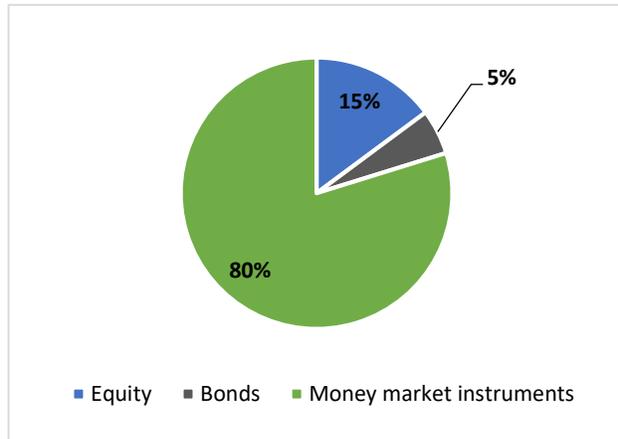


**Data: NBS; Chart: NESG**

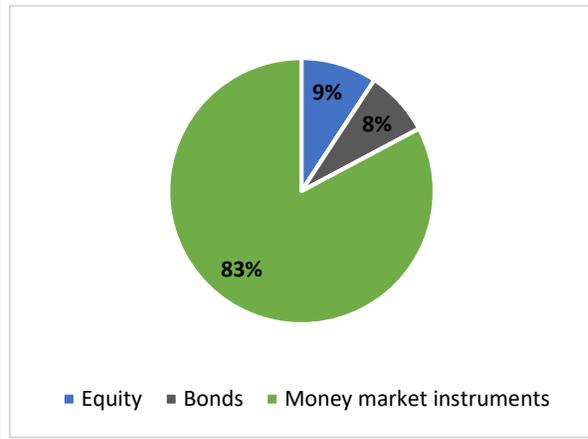
Similarly, there was a sharp decline in investments in Nigeria's money market instruments – T/bills and OMO bills, in the quarter. The share of money market instruments in the overall FPI inflows fell to 80% (\$3.4 billion) in Q1'2020 from 83% (\$5.9 billion) in Q1'2019. Foreign investment in Nigeria's bond in Q1'2020 stood at 5% of total FPI inflows, lower than its contribution in the corresponding quarter of 2019 (8%). The decline in yields on T/bills and government bonds at the secondary market largely doused the interests of foreign investors in Nigeria's fixed income securities. This was a direct fall-out from the CBN's policy restricting local corporates and retail investors from participating in OMO market; a policy action that has caused a crash in yields on T/bills and government bonds to single digits. However, the equity component of FPI witnessed a rise in its share of total portfolio investments to 15% in Q1'2020 from 9% in Q1'2019. This was in spite of a sharp drop in foreign

participation in Nigeria’s equities market to 40% in Q1’2020 from 53% in the corresponding period of 2019 (NSE, 2020).

**Figure 6a: Composition of FPI inflows in Q1’2020**



**Figure 6b: Composition of FPI inflows in Q1’2019**

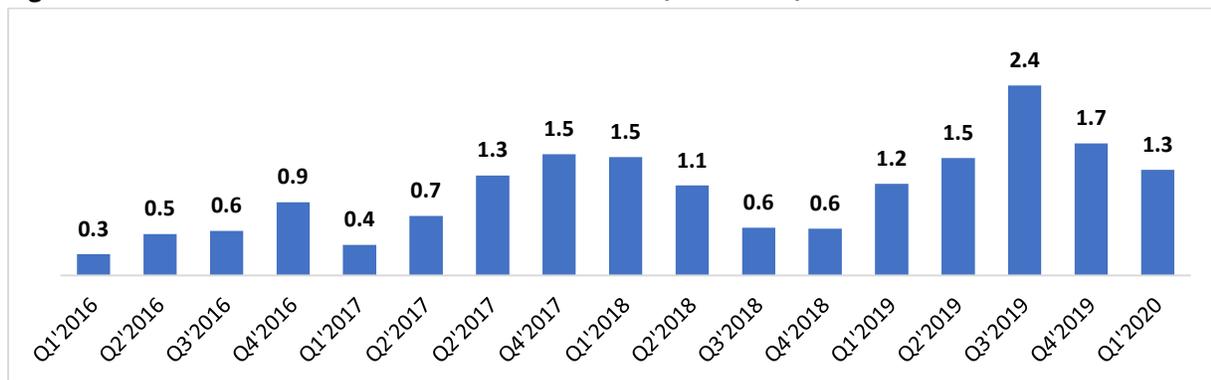


**Data: NBS; Chart: NESG**

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

Investment inflows into Nigeria from “other” foreign investment instruments – foreign loans, trade credits, currency deposits and other claims - stood at \$1.3 billion in Q1’2020. This represents an 8.3% increase compared with other investment inflows in the corresponding quarter of 2019 (\$1.2 billion).

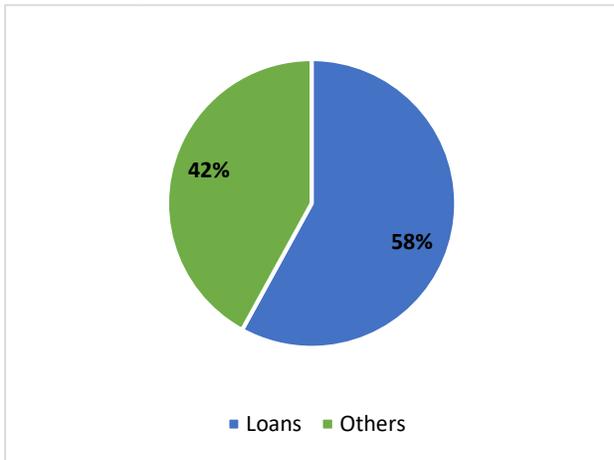
**Figure 7: Trend of Other investment inflows since 2016 (US\$ billion)**



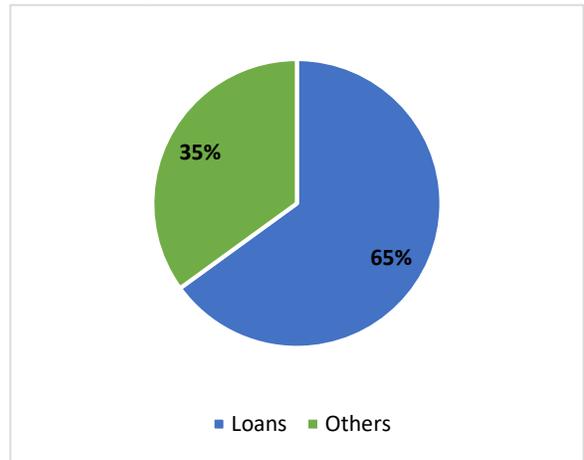
**Data: NBS; Chart: NESG**

In terms of composition, other foreign investment inflows were relatively dominated by foreign loans. This component accounted for 58% of the total in Q1’2020, much lower than its contribution the corresponding quarter of 2019 (65%). This could be largely attributed to the devastating impact of coronavirus prevalence on the economies of major creditor countries. Meanwhile, a number of developing countries have approached the International Monetary Fund (IMF) for concessional loans. Specifically, the Nigerian economy has recently secured a \$3.4 billion loan under the IMF’s Rapid Financing Instrument (RFI) program.

**Figure 8a: Composition of Other investment inflows in Q1'2020**



**Figure 8b: Composition of Other investment inflows in Q1'2019**



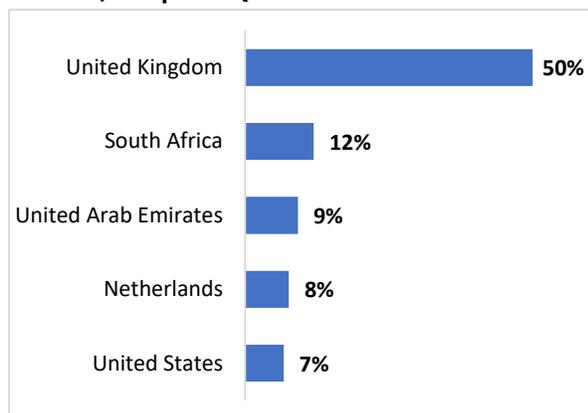
**Data: NBS; Chart: NESG**

However, the remaining components of “other” foreign investment inflows - trade credits, currency deposits and other claims – witnessed an improvement in their combined share to 42% in Q1'2020 from a total contribution of 35% in the corresponding period of 2019 (Q1'2019). This could be attributed to a 93% rise in the country's other foreign investment claims to \$770 million in Q1'2020 from a year earlier (Q1'2019).

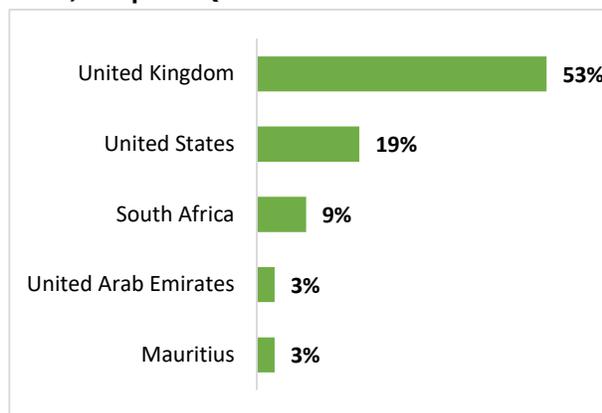
### **United Kingdom remained Nigeria's largest source of foreign investments**

The United Kingdom maintained its position as Nigeria's largest source of foreign investments at 50% of the total in Q1'2020 (\$2.9 billion). Overall, the traditional investment source countries – UK, US, UAE and South Africa – accounted for 86% of total investment inflows in Q1'2020, relative to their combined share of 84% in Q1'2020. Meanwhile, there was a stark alteration in the positions of some investment source countries. For instance, South Africa – which accounted for 12% of the overall investment inflows into Nigeria in Q1'2020 - outpaced the US as the second largest contributor. In addition, South Africa is the only African country that consistently featured among the top 5 countries where foreign investment inflows into Nigeria emanated in Q1'2019 and Q1'2020.

**Figure 9a: Capital Importation by Origin (Share of Total) – Top 5 in Q1'2020**



**Figure 9b: Capital Importation by Origin (Share of Total) – Top 5 in Q1'2019**



**Data: NBS; Chart: NESG**

### Lagos and Abuja maintained major investment destinations in Nigeria

Lagos remained the largest point of attraction to foreign investors, as the state played host to 87.7% of total investment inflows in Q1'2020. In the quarter, FCT-Abuja also maintained its position as Nigeria's second largest investment destination, as it attracted 12.1% of total investment inflows (\$706.8 million). The remaining six investment destinations harboured 0.2% of the overall investment inflows. Specifically, Akwa-Ibom - one of the country's major oil producing states - attracted a meagre \$240,000 in the quarter. This reflects the unimpressive participation of foreign investors in Nigeria's oil and gas sector, which attracted only 0.2% of total investment inflows in Q1'2020.

### Commercial banks dominated the facilitation of foreign investment inflows

A total of 19 banks facilitated foreign investment inflows into Nigeria in Q1'2020. Of this total, 4 commercial banks hosted 75% of total investment inflows in the quarter. Other 15 financial institutions including merchant banks and financial holding companies facilitated the remaining 25% of total capital importation in Q1'2020.

### Conclusion

- **The growth in FDI inflows to plunge due to breakdown in global supply chains.** It is not contestable that the rapid spread of COVID-19 across global economies has prompted the suspension of final investment decisions (FID) of individual and institutional investors until normalcy is restored. With the persistent disruptions to global supply chains, we expect the year-on-year growth in FDI to decline further in subsequent quarters.
- **FPI inflows to maintain a downward trend as investors adopts a flight to safety.** With the continued predominance of FPI inflows in Nigeria's capital importation profile, the economy remains susceptible to incessant capital reversals. The Central Bank of Nigeria (CBN) has recently started rationing forex among end-users and investors, and this is expected to continue pending the recovery of global crude oil prices. Since foreign investors

are concerned about the heightening risks associated with the repatriation of their funds, we expect FPI inflows to plunge in coming quarters going forward. However, the recovery of global crude oil prices might moderate the downward trend. Nonetheless, the expected decline in FPI inflows would translate to lower overall foreign investment inflows in FY'2020.

- **Foreign loans from multilateral sources to reverse its declining trend in coming quarters.** The devastating impact of the current global health crisis would warrant huge government spending aimed at containing the spread of COVID-19 across the country. As many creditor countries are still fighting their ways out of the deadly epidemic, the expected reduction in bilateral loans would leave Nigeria with the lone option of seeking concessional loans from multilateral institutions, such as IMF, World Bank and African Development Bank (AfDB). The credit facilities, when successfully secured, would help to compensate for the shortfall in forex earnings from crude oil sales. It would also allow the Nigerian government to finance the country's widening budget deficit in the approved 2020 budget. It was recently revised upwards to N5.2 trillion from an initial estimate of N2.2 trillion.

## 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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