MPR: 18.00% Feb'23 Inflation: 21.91%

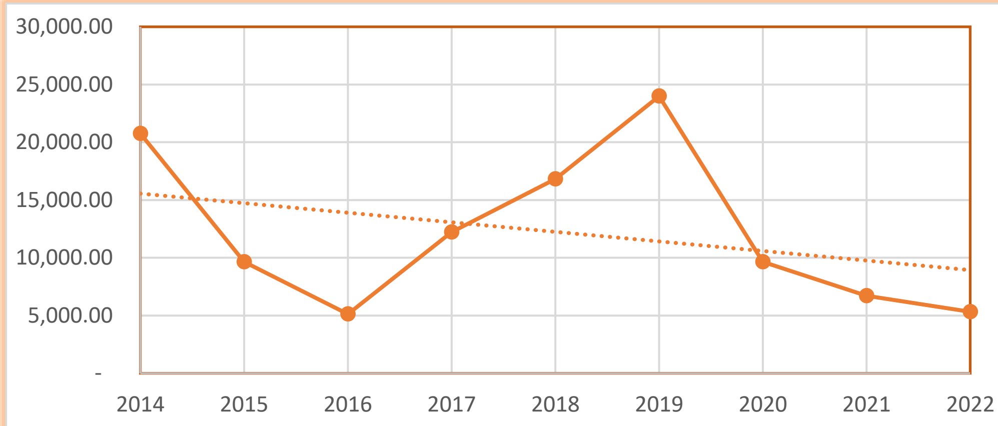
FY'22 Real GDP Growth: 3.11%

Capital Importation Update: March 2023

Nigeria's Capital Inflow Plunges to a 6-year Low of $5.33bn due to Tight Financial Conditions, Devaluations

The recent capital importation report by the National Bureau of Statistics (NBS) has revealed that the total capital inflow into Nigeria declined by 20.5% year on year to $5.33 billion in 2022 from $6.70 billion in the prior year. We attribute this decrease to the continued tightening of the global financial condition as well as the capital control measures taken by several economies in a bid to attract further capital inflows into their economies despite the United States' banking stress fiasco.

The plunge in total capital inflow can further be attributed to the severe dollar shortage in the country, which has deterred foreign companies from expanding in the largest economy in Africa due to the rate of insecurity and violence, which is a phenomenon that has continued to be on the rise in recent years. Also, there are the continued talks around the Naira's devaluation, which is primarily centered on incoherent foreign exchange policies by the monetary authority in Nigeria as well as dwindling infrastructure, among other factors.



Source: NBS, Cowry Research

From our analysis of the data, the decline translates to the lowest amount received in terms of total capital inflow since 2016 ($5.12 billion) and also the lowest since the pre-Covid era ($23.99 billion: 2019), with the majority of the inflow coming from portfolio investment, which printed at $2.44 billion, and the least inflow during the year emanating from foreign direct investments at $468 million.

Over the years, Nigeria's largest source of capital importation has been through foreign portfolio investment. This source has always been driven by investments in money market instruments, which contribute around 58% ($1.41 billion) of the total capital inflow through the FPI, which decreased by 46.3% year on year from $2.61 billion in 2021. However, the largest source of investment inflow into Nigeria is through loans, which account for more than 95% ($2.31 billion) of the total inflow through other investments. Meanwhile, investment inflow through loans declined by a paltry 2.8% year on year from $2.38 billion last year; and then, total foreign direct investment (FDI) into Nigeria plunged to $468 million in 2022, down over $230 million from the 2021 figures. This is around 10% of the total FDI in 2008 ($4.8 billion) and was precipitated by the severe shortage of the dollar currency in Nigeria.

Disaggregated by sector, the banking and production sectors received the highest capital inflow during the year at $2.09 billion and $948 million, respectively. This was followed by the financial and share sectors, which printed at $791 million and $469 million, respectively. On the contrary, the consulting and brewing sectors seem to maintain their positions as bleak hubs for investors to flee. Thus, a paltry $12,00 and $55,000 were received by the sectors in 2022 and were trailed by the transport ($1.32 million), hotel ($1.63 million), and drilling ($1.76 million) sectors.

On the basis of quarterly analysis, total capital importation stood at $1.06 billion in the fourth quarter of 2022, falling by 51.5% year on year from $2.19 billion in the corresponding period of 2021. The figure also fell by 8.53% quarter over quarter from $1.16 billion in Q3 of 2022. In the quarter, the largest inflow of capital importation was received from other investments, which accounted for 65.17% ($691.23 million) of total capital imported in Q4 2022. This was followed by portfolio investment with 26.89% ($285.26 million) and foreign direct investment (FDI) with 7.94% ($84.23 million).

Overall, the decline in capital inflow in Nigeria is a major concern for the economy, particularly as it could have negative effects on the exchange rate and investment climate. The Nigerian government needs to implement measures to improve the business environment, address security concerns, and ensure coherence in foreign exchange policies to attract foreign investments and improve the country's economic outlook.