Analyst's Note on: Capital Importation Report – Q2 2023

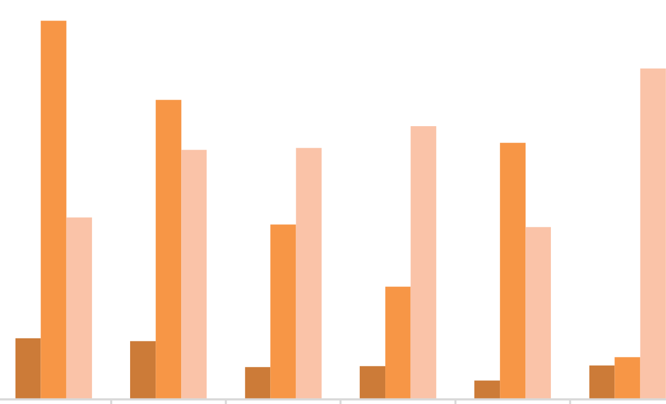
FX Woes, Perennial Issues Still Clogs Nigeria's Foreign Investment Pipelines…….

The latest capital importation report recently released by the National Bureau of Statistics (NBS) reveals a concerning trend in foreign investment within Nigeria. There has been a notable 32.90% year-on-year decline, with total capital importation dropping to $1.03 billion, down from $1.53 billion during the same period in 2022. This figure also fell short by 9.04% when compared to the previous quarter, which recorded $1.13 billion in investments. This is a significant cause for concern as it represents the lowest level since Q1 of 2016, indicating systemic issues and a lack of coherent policies that are obstructing the inflow of investment into the country.

Capital importation encompasses various financial inflows, including credit, deposits, and physical capital, and is tracked through banking transactions and Customs data. From an economic perspective, foreign capital, remittances from workers abroad, and domestic savings are pivotal sources of capital essential for long-term economic growth. Moreover, capital importation serves as an important barometer for assessing how offshore investors perceive the economic landscape of a nation.

Overtime, Nigeria has long grappled with macroeconomic challenges such as a weakening local currency, rising unemployment, inflation, and inadequate infrastructure. These persistent issues have dampened the enthusiasm of foreign investors and multinational corporations, discouraging them from making substantial investments across various sectors to drive economic growth.

Quarterly Capital Importation by Investment



	Q1-22	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23
Foreign Direct Investment ($'mn)	154.97	147.16	81.72	84.23	47.60	86.03
Portfolio Investment ($'mn)	957.58	757.32	442.08	285.26	649.28	106.85
Other Investments ($mn)	460.59	630.87	635.87	691.23	435.76	837.34

Notwithstanding, a closer examination of the report reveals that the category of "Other Investment," which includes loans, trade credits, and other investments, accounted for the lion's share at 81.28% ($837.34 million). This was largely influenced by a staggering 146,328% quarter-on-quarter increase in other claims, amounting to $65.81 million, and a 77.82% quarter-on-quarter surge in total loans, reaching $771.53 million. In contrast, trade credits and currency deposits saw minimal investment during this period.

Portfolio Investment, encompassing equity investments and debt securities, comprised 10.37% ($106.85 million) of the total, and it faced pressure due to a significant downturn in the money market (-89.6% q/q and -96.9% y/y) and bonds (-71.6% q/q and -73.5% y/y) investments, exacerbating the trend of hot money exiting the market. The equities market also suffered pessimism (-96.2% q/q and -33.0% y/y) and attracted only $8.5 million.

Foreign Direct Investment (FDI), accounting for 8.35% ($86.03 million) of total investments, saw an 80.7% quarter-on-quarter improvement but remained insufficient to drive positive year-on-year growth. Consequently, FDI, comprising 8.4% of the total, plummeted by 41.5% year-on-year, with sub-components such as Equity (-39.5%) and Other Capital (-99.7%) displaying weakness.

Within sectors, Manufacturing/Production emerged as the top recipient, attracting $605.4 million, which accounted for 58.7% of the total investment. This marked a significant increase compared to $256.1 million and $234.0 million in the first quarter of 2023 and the second quarter of 2022, respectively. Apart from financial services, other sectors experiencing positive inflows included Agriculture ($10.0 million), Trading ($46.6 million), and Telecoms ($25.8 million). Notably, non-financial activities represented 68.3% of the overall inflows, a substantial improvement from 54.8% in the first quarter and 37.1% in 2022. This indicates that financial flows may have been more severely impacted than physical capital importation amid the ongoing economic challenges.

Geographically, Ogun State witnessed an increase in capital inflows to $24.0 million, up from $2.1 million in the first quarter, and it recorded no inflows throughout 2022. Similarly, Akwa-Ibom enthralled with a 6.5x growth in capital imports, reaching $33.9 million compared to the first quarter, accounting for 79.6% of its entire 2022 inflow. In contrast, Abuja experienced a 52.6% decline in flows, while Lagos saw a modest 10.4% boost. These two regions accounted for a significant 94.4% of the country's total inflow, underscoring the challenges faced by sub-national economies and emphasizing the need to enhance the appeal of other states. In the second quarter of 2023, only 5 out of the 36 states and the Federal Capital Territory (FCT) managed to attract foreign investment flows, a clear indication of the concentration of investments.

The pipeline for capital flows remains fragmented due to persistent challenges on both the external and internal fronts. In the broader context of emerging and frontier markets, the tightening of monetary policies is driving risk-averse capital movements from developing regions to more stable ones. Presently, the Nigerian economy confronts several hurdles, including high inflation, a depreciating currency, and rising unemployment, creating a hostile environment for businesses and deterring foreign investors from committing their capital to the country.

Our analysis at Cowry Research suggests that the deteriorating macroeconomic indicators have eroded the optimism of foreign investors in Nigeria. However, we believe that tangible and concerted efforts by the federal government to strengthen bilateral and multilateral business relationships, coupled with market reforms, could inspire confidence if external factors align favorably before reform fatigue sets in. In the short term, media reports suggest that the $3.0 billion sought by NNPCL from Afrexim Bank in an emergency loan-for-crude deal could be directed toward improving FX liquidity, which could provide some relief to the current challenges.