February 19, 2024

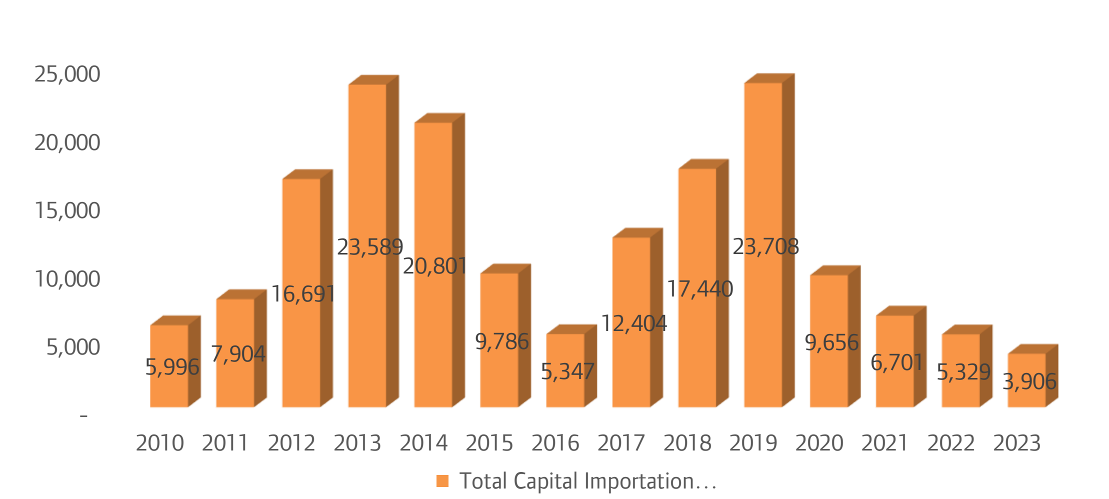
Analyst's Note on: Capital Importation Report – Q4 2023

Capital Flows to Nigeria on Precipitous Fall to $3.91 billion in 2023; Still Below Pre-Covid Levels….

According to the latest capital importation report published by the National Bureau of Statistics (NBS), Nigeria attracted a total of $3.91 billion worth of foreign capital amid the several policy summersaults and continued perennial issues clogging the investment landscape in Nigeria. The current inflow in 2023 is a 26.7% year-on-year decline from $5.33 billion in 2022, and marks the lowest inflow since 2007, standing as a major decline compared to the total inflow into the economy in 2010 ($5.99 billion), and the total inflow in 2013, 2014 and 2019 which printed at $23.6 billion, $20.8 billion and $23.7 billion respectively.

Capital inflow into Nigeria's economy sustained its annual declines to the lowest level since the pre-coronavirus (2019 backward). These can primarily be attributed to the macroeconomic concerns about inflation which printed at 24.5% in 2023, the high public debt at above $100 billion, and dependence on oil revenue which have deter some investors.

Total Capital Importation ($mn)



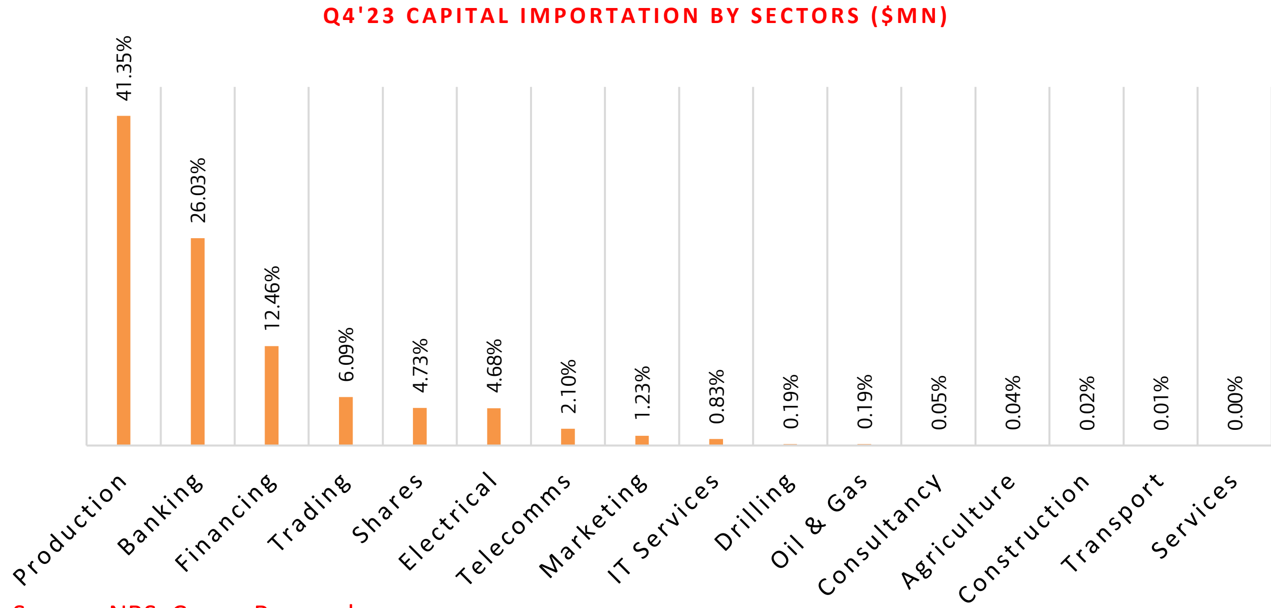
Source: NBS, Cowry Research

In recent times, Nigeria seem to be losing the attraction as the big bride to investors; resultantly, the limited access to foreign exchange and the existence of multiple exchange rate systems still create uncertainties for investors on profit and dividend repatriation. There is also the concerns around insecurity which remains one of many threats to foreign investors and in turn discouraging investment inflows.

A breakdown of the data in the NBS report showed that during the year, total foreign direct investment (FDI) inflow slipped by 19.4% year-on-year to $377 million in 2023 from $468 million. Meanwhile, data show that FDI inflow has been on a steady decline in the post pandemic years and was caused by the incoherent foreign exchange policies by the monetary authorities, leaving foreign investors to prowl for higher returns and a stable macroeconomic environment.

Also, foreign portfolio investment into Nigeria dwindled by 52.8% year on year to $1.15 billion from $2.44 billion in the previous year, and marks the lowest since 2016 ($1.83 billion) on the back of the exchange rate instability and the recession in the year. Then, other investments maintained steep declines to $2.38 billion from $2.42 billion in 2022.

Q4'23 CAPITAL IMPORTATION BY SECTORS ($MN)



Source: NBS, Cowry Research

On a quarterly performance, total capital inflow stood at $1.09 billion in the last quarter of 2023, slightly higher than $1.06 billion recording the same period of 2022. This points a rise by

2.6% year on year and 66.27% quarter on quarter from $654.6 million in Q3'23. Breaking down the total inflow by investment type, Other Investment ranked top accounting for 54.64% ($594.75 million) of total capital importation in Q4 2023 and was driven by loans during the period. Trailing was Portfolio Investment with 28.46% ($309.76 million) which comes on the back of investment into money market instruments ($231.8 million) bonds and equity at $67.2 million and $10.8 million and then the foreign direct investment (FDI) with 16.90% ($183.97 million) on the back of investment through equity.

On sectoral attraction, the production/manufacturing sector recorded the highest inflow with $450.11 million, representing 41.35% of total capital imported in Q4 2023, followed by the banking sector, valued at $283.30 million (26.03%), and financing with $135.59 million (12.46%). Also, during the reference period, foreign inflows originated from the United Kingdom with $267.24 million, and accounts for 4.55% share of the total. This was followed by Mauritius with $226.18 million (20.78%) and the Netherlands with US$149.93 million (13.77%).

Just as is well known that the ongoing security issues in some regions create risk perceptions for potential investors, these investors chide the region, leaving Lagos as the top destination for investment worth $771.7 million and accounts for 65.4% of the total inflows, and trailed by Abuja (FCT) with $370.80 million (34.07%) and Rivers state with $6.00 million (0.55%).

Capital importation inflow into Nigeria's economy has failed to rebound to the pre-pandemic annual average of above N5 billion, this decline signals significant fall across the three broad categories in the year and raises concerns, prompting closer examination into the factors contributing to this significant downturn in foreign investment into the economy. Also, the concerns have continued to hover around policies on foreign exchange liquidity as well as other macroeconomic challenges that can continued to hamper on the sustainable inflow of investments

Thus, we believe that the diversification of the economy away from oil dependence and focusing on sectors like agriculture, technology, and renewable energy could be long-term growth drivers. Also, when the government stands tall to address the foreign exchange liquidity challenges, implement reforms focused on improving the stability of the macroeconomy, and then enhancement of the regulatory environment for businesses and other multinationals are crucial to attract more foreign capital.