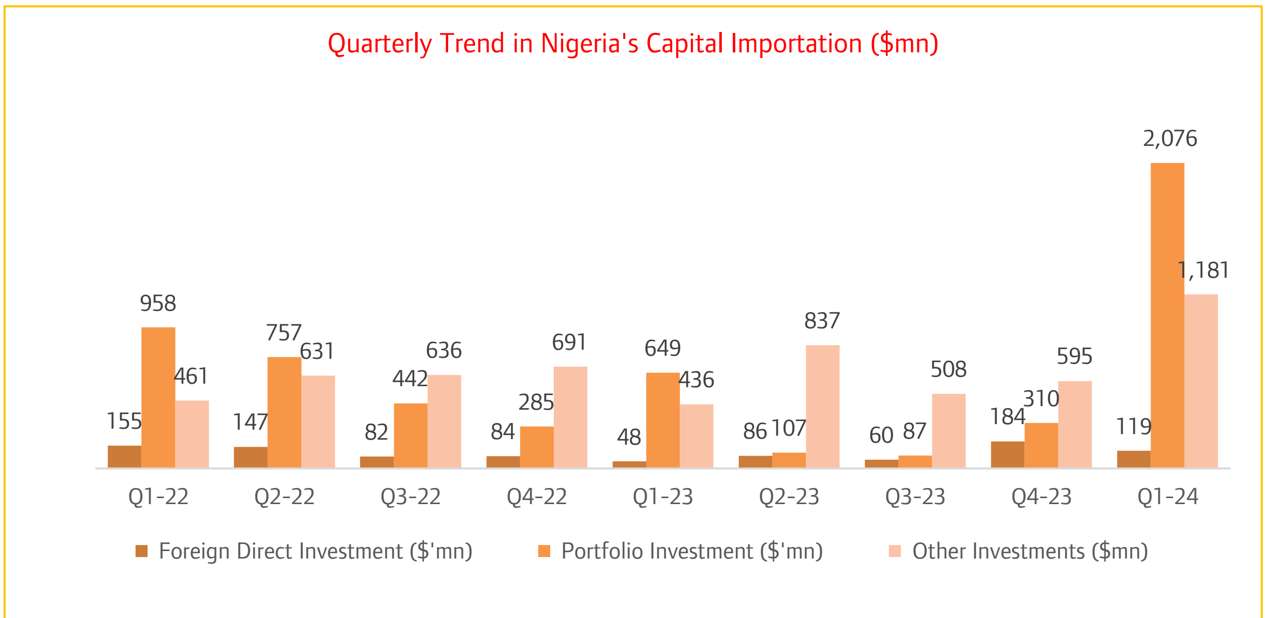
Analyst's Note on: Capital Importation Report – Q1 2024

Capital Flows to Nigeria Rebounds to $3.4bn in Q1'24 with Surprising Upsides ....

The latest National Bureau of Statistics report on capital importation into Nigeria showed a remarkable increase of 198.06% year on year, reaching $3.38 billion in the first quarter of 2024, up from $1.13 billion in the same period of 2023. This also indicates a 210.16% quarter on quarter rise from $1.09 billion in the last quarter of 2023. This is the highest inflow recorded since the pandemic era ($5.85 billion in Q1 2020) and can be attributed to improved investor sentiment and confidence, despite incoherent foreign exchange policies and the devaluation of the local currency.

Over the last sixteen quarters, capital inflows into Nigeria have struggled to return to the pre-pandemic quarterly average of $5 billion, raising concerns and prompting a closer examination of the factors contributing to the downturn in foreign investment. Key issues include policies on foreign exchange liquidity and other macroeconomic challenges that continue to impede the sustainable inflow of investments.

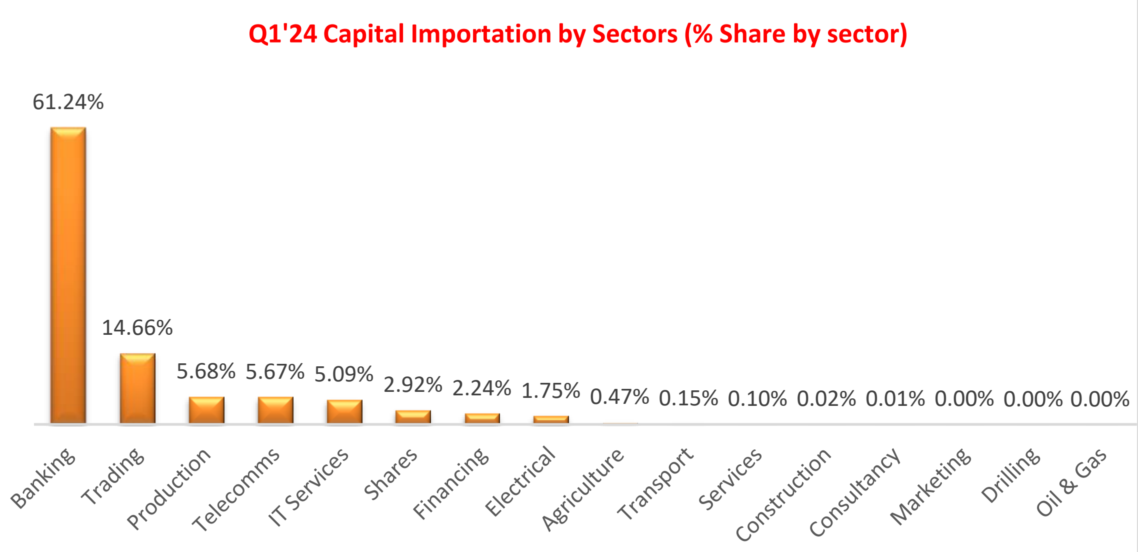


Source: NBS, Cowry Research

In our analysis of the report from the National Bureau of Statistics, Portfolio Investment ranked highest with $2.08 billion, accounting for 61.48% of the total capital inflow during the period. Investors took advantage of the high-interest rate environment, where money market instruments ($1.61 billion) and bonds ($420.8 million) became more attractive due to higher returns and a positive outlook for the fixed income market. Meanwhile, there was a 77.8% year on year decline in investment into equities, contrasting with a 355.7% quarter on quarter improvement to $49.4 million.

During the first quarter of 2024, the Central Bank of Nigeria's Monetary Policy Committee announced a measured increase in the benchmark interest rate by 600 basis points to 24.75% from 18.75% in 2023, in response to the prevailing inflationary environment. This decision was based on expectations for liquidity injections into the economy from policy developments and their potential impact on inflation. Consequently, the rising rates made fixed income and money market instruments more attractive to investors. Elsewhere, the equities market reached historic levels, gaining 39.8% due to robust corporate earnings, dividend declarations, government-led market reforms, and heightened interest from both domestic and foreign investors.

Furthermore, the "Other Investments" category ranked second among the broad categories with $1.18 billion worth of inflows, accounting for 35% of the total inflow. This was due to an impressive 66,806% year on year improvement in other claims and a 165.3% year on year rise in total loans for the period to $30.1 million. On the contrary, currency



Source: NBS, Cowry Research

deposits for the period nosedived by 100% year on year from $1.84 million, though there was a 98.6% increase from the prior quarter. Foreign direct investment during Q1 2024 saw a 150.4% year on year increase to $119.2 million but declined by 35.2% due to the total investment into equity ($119.17 million) and other capital ($10,000).

The top source of capital inflows was the United Kingdom with $1.81 billion, followed by South Africa ($582.3 million), Cayman Islands ($186.2 million), Mauritius ($179.6 million), and the United Arab Emirates ($101.8 million). Lagos remained the top destination for investment with $2.78 billion or 82.4% of the total inflow into the state, followed by Abuja with $593.6 million and Ekiti state with $100,000, as investors continued to avoid other sub-nationals due to limited investment prospects.

According to the Abuja-based statistics office, the Banking sector recorded the highest inflow with $2.07 billion, representing 61.24% of total capital imported in Q1 2024. This was followed by the Trading sector, valued at $494.93 million (14.66%), and the Production/Manufacturing sector with $191.92 million (5.68%). Conversely, the oil and gas and drilling sectors saw little to no investment, while the marketing, consultancy, and construction sectors received inflows valued at $60,000, $300,000, and $610,000 respectively.

We note the rebound in total capital inflow into Nigeria to pre-pandemic levels as a positive sign, indicating an improvement in investor confidence. This necessitates vigilant monitoring and potential policy adjustments. Nigeria's economic growth prospects and market potential during the period played a crucial role in attracting investors seeking profitable opportunities and expansion amidst sound fiscal and monetary policies and regulatory reforms.