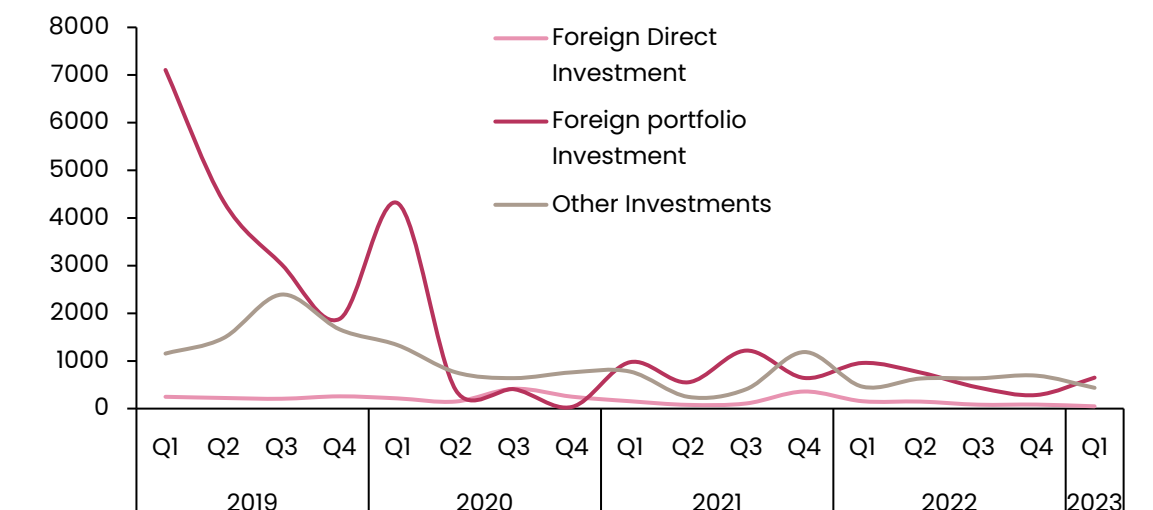




Capital Importation: Q1:2023 – Foreign Flows Continues to Wane

Recently, the National Bureau of Statistics released the Capital Importation data for Q1:2023. Total Capital imported into the economy decreased by 28.00% YoY¹ to USD1.13bn (vs USD1.57bn in Q1:2022). We credit the decline to the plunge in Portfolio Investment (-32.20% YoY to USD649.28mn) and Foreign Direct Investment (-69.28% YoY to USD47.60mn). However, on a QoQ² basis, it increased by 6.78%. This follows a significant jump in foreign flows from portfolio investment (+127.61% QoQ to USD649.28mn) compared to USD285.26mn in Q4:2022.

Figure 1: Capital Importation by Type of Investment



Source: NBS, ARM Research

Foreign Direct Investment – No Legroom for Growth

Foreign Direct Investment (FDI) plunged 68.28% YoY and 43.48% QoQ to USD47.60mn, signaling the thinning out of the investment interest in the economy. Foreign Direct Investment in Q1:2023 contributed 4.20% to the total capital imported, depicting investors' lack of appetite for long-term investments. This is unsurprising given the prolonged structural issues (alarming insecurity, huge infrastructure deficit, FX³

¹ Year-on-Year

² Quarter-on-Quarter

³ Foreign Exchange

illiquidity) pervading the Nigerian economy. We have previously emphasized that the issues plaguing this line would require a more deliberate policy thrust before we observe headway. Furthermore, the hawkish monetary policy approach adopted by central banks in advanced economies has discouraged investors from investing in frontier and emerging markets in favor of safer, higher yielding instruments. Not all is gloom, however, as interest by way of foreign capital flowed in through relatively short-term investments or Foreign Portfolio Inflows in Q1:2023, underpinning a wait-and-see investor approach.

Foreign Portfolio Inflow - Continues to Take the Lion Share

In Q1:2023, Foreign Portfolio Investment (FPI) declined by 32.20% YoY to USD649.28mn (vs. USD957.58mn in Q1:2022). This is expected, given the increased impetus to focus attention on advanced markets as it offered attractive rates, an offshoot of the incessant hike in monetary policy rate. On the other hand, on a QoQ basis, FPI surged 127.61%. The sharp increase was attributed to the surge in Equity investment (+4,472.02% to USD222.31mn) in the period. Also, FPI contributed 57.32% of the total capital imported in the quarter, supporting our view of investors' lack of appetite for long-term investments.

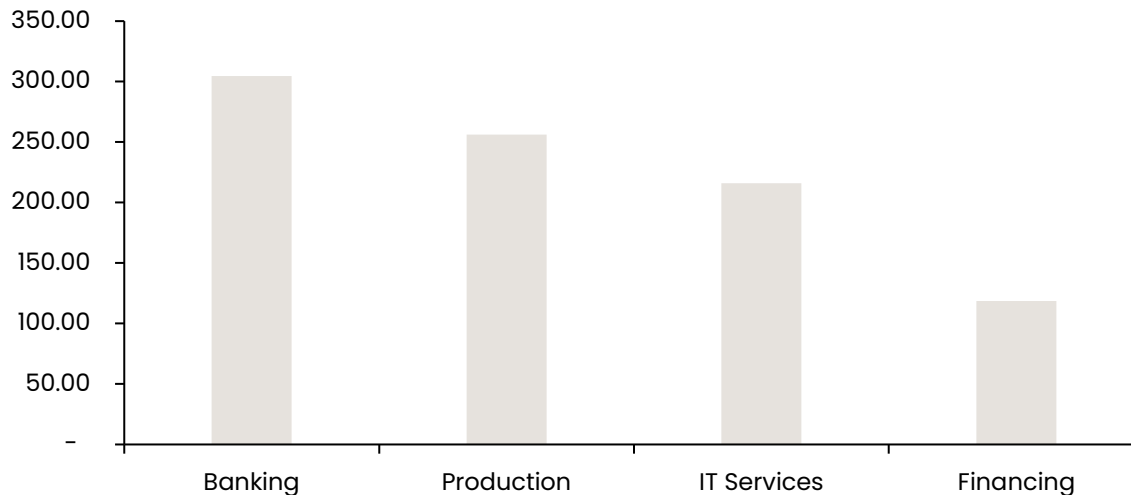
Other Investment – Same Old Pattern

Other Investment declined by 5.39% YoY and 36.96% QoQ to USD435.76mn. Loans, which typically dominates this investment line, declined by 34.82% YoY to USD433.87mn. It, however, increased marginally by 0.76% on a QoQ basis.

Sectoral Flow - Banking Sector Remains the Highest Destination

The banking sector contributed the most to the total capital imported in the quarter, accreting USD304.56 million. Overall, the sector contributed 26.89% to the total capital imported. The sector is closely followed by production, IT services and financing, which contributed 22.61%, 19.08%, and 10.48%, respectively. We believe the banks will continue to lead the way, further underscored by the recent FX unification policy which positioned banks as the major counterparty for FX transactions.

Figure 2: Capital Importation by Sector: Top Four Sectors



Source: NBS, ARM Research

Outlook: A New Dawn?

In the global market, it appears major central banks, particularly the U.S., may be approaching the climax of their hiking regimes, as inflation begins to peak. This bodes well for emerging markets, as return-seeking investors are likely to carefully consider portfolio reallocations ahead of a potential economic recovery. As stated in our [H2:2023 outlook report](#), we foresee a notable turn of events in H2:2023. We expect the liberalization of FX market operations to favor the economy, particularly FPI flows as we foresee investor's appetite for the equities market re-surface. We note similarities with a scenario that occurred in 2017, where government body language suggested pro-market policies. To put into perspective, on April 21st, 2017, the CBN introduced the Importers and Exporters (I&E) window, which was implemented to enhance liquidity, facilitate the timely execution and settlement of eligible foreign exchange (FX) transactions. This action contributed to the surge in FPI by 4.1x YoY from USD1.81bn in 2016FY to USD7.33bn in 2017FY. Additionally, we observe foreign participation in the equities market already embodies positive signs of advancement as of May 2023. Total foreign participation in May 2023 rose sharply by 338.72% MoM compared to April 2023. Overall, we expect improved FPI inflows and limited FDI growth in the economy during Q2:2023.