

Nigeria's Capital Importation

Q1 2025

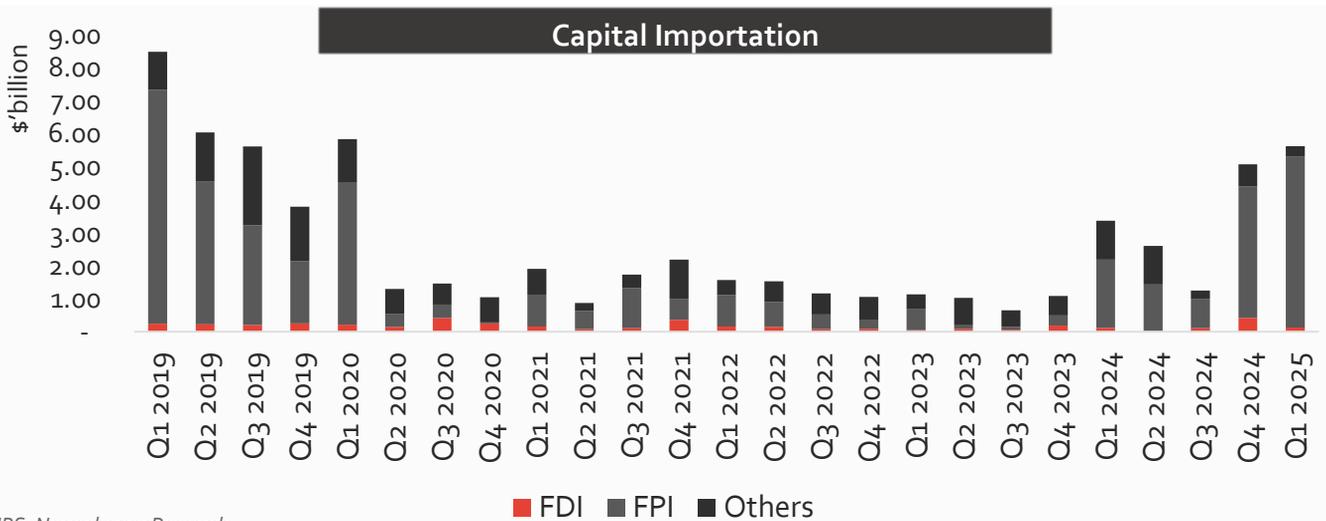


Nigeria's Capital Importation soars by 67.1% in Q1 2025, YoY

Capital importation into Nigeria showed a strong increase in the first quarter of 2025, reaching a total of \$5.6 billion, the highest inflow recorded since Q1 2020 (\$5.9 billion). This represents a significant year-on-year growth of 67.1% and a quarter-on-quarter increase of 10.9%.

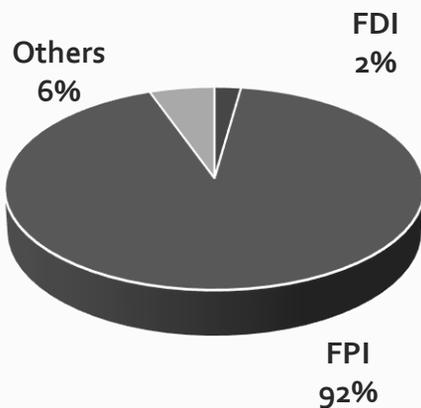
Analysis by investment category show that inflows was dominated by Foreign Portfolio Investment (FPI), this has been the trend since Q1 2024. For the period under review, FPI made up about 92.3% of the total, followed by other investments and Foreign Direct Investment (FDI) which contributed 5.5% and 2.2% respectively.

On a year-on-year basis, both FPI and FDIs saw notable growth in the review period, with FDI increasing by 5.9%, while FPI surged by 150%. On the flip side, other investments, which is typically made up of loans, declined by 73% compared to the comparable period of 2024.



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Capital Importation by Type



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The dominance of FPI during the period was primarily fuelled by strong interest in local money market instruments, driven by attractive yields on Nigerian Treasury Bills (T-bills) and Open Market Operations (OMO) instruments, which averaged 21.86% and 25.37% respectively.

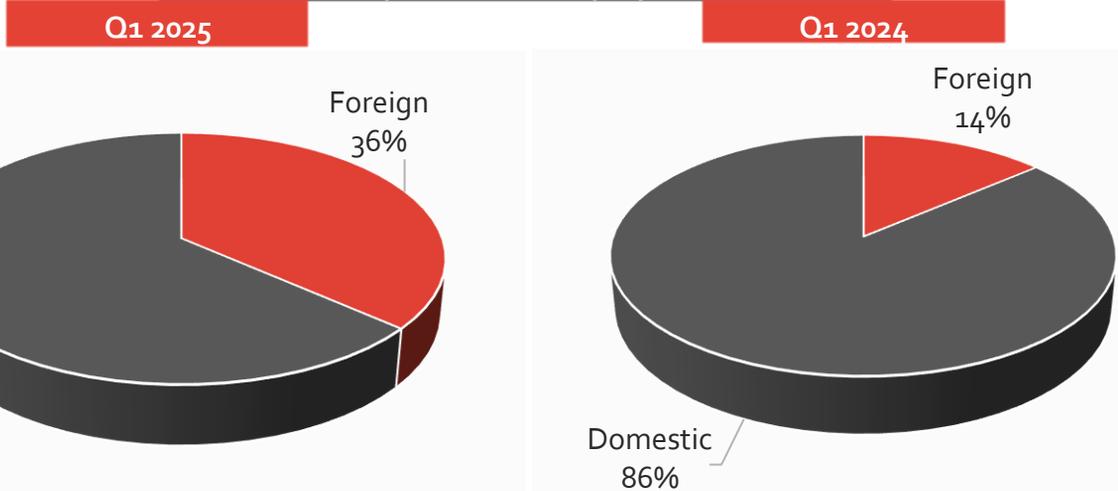
These elevated yields were a direct result of the Monetary Policy Committee's (MPC) tight monetary stance aimed at curbing inflationary pressures and stabilizing the exchange rate.

While the high returns served as a key incentive for foreign investors, the relative stability of the local currency further supported capital inflows into short-term instruments.

Although comparatively smaller, investments in bonds and equities also contributed to total portfolio inflows, amounting to \$877.4 million and \$117.3 million respectively.

Additionally, data from the Nigerian Exchange (NGX) showed a significant uptick in foreign participation in the equity market, rising from 13.8% in Q1 2024 to 36.5% in Q1 2025. Meanwhile, the average yield in the bond secondary market stood at 19.2%, offering another avenue for yield-seeking investors.

Participation in the Equity Market



NGX, Norrenberger Research

The banking sector emerged as the leading recipient of capital importation, accounting for 55.4% of total inflows during the period. This was followed by the financing sector, which attracted a significant 37.2% share. Among individual financial institutions, Standard Chartered Bank Nigeria Ltd received the largest portion of imported capital, ahead of Stanbic IBTC Bank Plc and Citibank Nigeria Limited.

In terms of source countries, the United Kingdom remained the dominant contributor, accounting for 65.3% of total inflows, followed by South Africa and Mauritius. Notably, for the first time since Q1 2018, the Federal Capital Territory (Abuja) surpassed Lagos as the top destination for capital, receiving 54.1% of total inflows, compared to 45.4% recorded by Lagos.

Bottom Line

The observed capital importation patterns in Nigeria during the first quarter of 2025 demonstrate a structural imbalance that has persisted over the years. This phenomenon is characterized by a significant disproportionality between short-term FPIs and more enduring FDIs. The continued dominance of portfolio inflows, which are often responsive to short-term interest rate differentials and speculative opportunities, reflects a cautious stance among foreign investors. This hesitancy to commit long-term funds can be attributed to several macroeconomic and institutional factors, including:

- **Regulatory/Political Uncertainty:** A perception of inconsistent or unpredictable government policies and a complex regulatory environment can deter investors who require a stable framework for long-term planning and operations.
- **Structural Challenges:** Foundational issues such as infrastructure deficits, security concerns, and a less-than-enabling business environment act as significant barriers to the kind of large-scale, long-term capital commitments typical of FDI.

While the increased portfolio inflows in Q1 2025 offer a short-term benefit by bolstering foreign exchange reserves, their volatile nature exposes the economy to the risk of sudden capital flight. A high ratio of FPI to FDI is widely considered a vulnerability for developing economies. As such, analysts and policymakers have consistently emphasized the need to attract more stable FDI to achieve sustainable economic development.



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