
IMPACT OF FOREIGN DIRECT INVESTMENT (FDI) ON ECONOMIC GROWTH IN NIGERIA: 1999 - 2022

BY

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Abstract

This study examined the influence of foreign direct investment (FDI) on the economic growth of Nigeria by utilizing secondary data spanning the period from 1990 to 2022. The data were obtained from the World Development Indicator publications of 2022. The variables under investigation include the gross domestic product growth rate (GDPGR), foreign direct investment (FDI), foreign portfolio investment (FPI), exchange rate (EXCHR), and inflation (INF). The Augmented Dickey-Fuller (ADF) test was employed to assess the stationarity of the variables. The result revealed that economic growth and foreign portfolio investment (FPI) were stationary at level, while the other variables became stationary after the first difference. The model was estimated using the Autoregressive Distributed Lag (ARDL) approach. The results from ARDL indicate that both foreign direct investment and foreign portfolio investment have positive but statistically insignificant effects on economic growth, whereas exchange rate and inflation have negative and statistically significant impacts on economic growth. The study recommends that policymakers should develop strategies to attract and retain foreign investments by creating favourable regulatory environments for both FDI and foreign portfolio investment. Furthermore, implementing measures to effectively manage and stabilise exchange rates and control inflation can significantly contribute to promoting sustainable economic growth.

Keywords: Foreign Direct Investment, Economic Growth, Inflation, Foreign Portfolio Investment Exchange Rate, ARDL, ADF

1. Introduction

Foreign direct investment (FDI) is generally considered as a key driver of global economic integration as FDI inflows are often seen as important catalysts for economic growth in the developing countries (Ali & Hussain, 2017). Foreign Direct Investment (FDI) plays a significant role in generating foreign reserves in many developing nations through investments, economic ventures, and foreign assistance provided by more established economies. FDI is widely recognised as a significant and beneficial means of acquiring financial resources and promoting capital creation. Additionally, FDI plays a crucial role in facilitating the transfer of technology and knowledge, while also serving as an effective platform for international trade between nations. The spillover effect facilitates the dissemination of discoveries and inventions to recipient countries, including Nigeria. It is believed that the imperative for economies to achieve sustainable and equitable development necessitates a significant emphasis on cross-border commerce (UNCTAD, 2019).

The impact of foreign direct investment (FDI) on economic growth has been extensively discussed and analysed in scholarly literature. Several academic studies have presented differing perspectives on the impact of foreign direct investment (FDI) on economic growth. Adegbite and Ayadi (2011) as well as Ali and Hussain (2017) argue that FDI has a beneficial contribution to the growth of the economy. Conversely, Louzi and Abadi (2011) contend that FDI only has a modest and insignificant impact. However, it is crucial to acknowledge the significance of foreign direct investment (FDI) in any global economy. Nigeria ranks as the third recipient of Foreign Direct Investment (FDI) in Africa, following Egypt and Ethiopia. According to the United Nations Conference on Trade and Development (UNCTAD, 2018), among the nations engaged in investment activities within Nigeria are the United States of America, the United Kingdom, China, the Netherlands, and France.

According to the United Nations Conference on Trade and Development (UNCTAD, 2018), Nigeria had a decline in foreign direct investment (FDI) inflow from approximately USD 3.5 billion in 2017 to around USD 1.9 billion in 2018. This fall could be attributed to factors such as political instability, lack of transparency, pervasive corruption, and inadequate infrastructure. According to Oyegoke and Aras (2021), during the third quarter of 2019, the Foreign Direct Investment (FDI) accounted for a mere 3.37% (USD 200.08 million) of the overall capital inflow for that specific time.

In conventional practise, Foreign Direct Investment (FDI) is intended to enhance the economies of recipient nations, hence fostering economic growth and development. Consequently, many developing countries endeavour to attract international investors with the expectation of bolstering their economy through an expansion of their foreign investment portfolio. Nevertheless, the majority of empirical studies examining the effects of foreign direct investment (FDI) on economic growth present contrasting findings, so giving rise to a contentious debate.

Based on the extant body of research, several empirical findings have indicated a negative correlation between foreign direct investment (FDI) and economic growth. Conversely, alternative perspectives have posited that an increase in FDI leads to enhanced output productivity, hence establishing a positive association between the aforementioned variables (John, 2016). Hence, this research makes a valuable contribution to the extant body of literature by examining the impact of foreign direct investment (FDI) on the economic growth of Nigeria.

The subsequent sections of this paper are organised as follows: section two comprises a comprehensive review of the relevant literature and a theoretical framework, section three outlines the methodology followed in this study, section four presents the data analysis and discussion, and section five concludes with recommendations.

2. Literature Review

2.1 Conceptual Review

2.1.1 Foreign Direct Investment

Foreign direct investment (FDI) pertains to the act of an investor, be it a corporate entity or a person, making an investment in a foreign country that is distinct from their own place of origin. This investment can take the form of establishing a firm or acquiring assets within the foreign country. According to John (2016), foreign direct investment is regarded as a mechanism by which technology and capital are transferred from one nation, whether developed or developing, to another nation. According to Farrell (2008), foreign direct investment encompasses the amalgamation of technology, capital, management, and entrepreneurship that a company employs to conduct its operations and deliver goods and services in a foreign market.

Various classifications have been made of foreign direct investment (FDI) in the literature. For instance, FDI has been described as investment made so as to acquire a lasting management interest (for instance, 10% of voting stocks) and at least 10% of equity shares in an enterprise operating in another country other than that of investors' country (Mwillima, 2008; World Bank, 1996). Foreign direct investment (FDI) has also been defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate) (UNCTAD, 2008).

FDI (Foreign direct investment) refers to investments made by an individual or company in one nation for profitability in another nation, either through acquisition of business assets or establishment of business operations in that country, including controlling interests or ownership of a foreign firm (Wilson, 2017). In the view of Graham's (1995), foreign direct investment is defined as an increase in the book value of the net worth of investment of one country, held by the investor of another country where the investments are under the managerial control of the investor. An investment is an FDI if non-resident entities or individuals hold 10% or more of the equity share in a resident entity, together with all levels of investments of even less than 10 percent of shareholding (Farkas, 2012). Businesses that make up Foreign Direct Investment are often referred to as multinational enterprises (MNEs).

2.1.2 Economic growth

Economic Growth is generally taken to mean the process whereby the country's real national and per capita income increases over a sustained period of time. It means constantly increasing volume of production in a country, or an increase in the gross domestic product as the main quantitative indicators of production for a period of one year (Ivic, 2015). On her part, Haller (2012) sees economic growth as the process of increasing the sizes of national economies, the macro-economic indications, especially the GDP per capita, in an ascendant but not necessarily linear direction, with positive effects on the economic sector. She stated further that economic growth is a complex, long-run phenomenon, subjected to constraints like: excessive rise of population, limited resources, inadequate infrastructure, inefficient

utilisation of resources, excessive governmental intervention, institutional and cultural models that may make the increase in GDP difficult, etc.

Economic growth is obtained by an efficient use of the available resources and by increasing the capacity of production of a country. It facilitates the redistribution of incomes between population and society. The cumulative effects, the small differences of the increase rates, become big for periods of one decade or more.

2.2 Theoretical Framework

The study's theoretical foundation is based on the endogenous growth theory, namely the AK model. The underlying assumption of this model posits that individuals, as they amass capital, engage in a process of learning by doing, which in turn leads to the development of technological advancements. These advancements have the effect of increasing the marginal product of capital, so counteracting the tendency for the marginal product to decline in the absence of technological changes. During the 1980s, it became increasingly evident that the conventional neo-classical exogenous growth models were inadequate for analysing long-term economic growth. These models projected economies devoid of technological advancements and predicted eventual convergence to a steady state characterised by zero per capita growth. The underlying cause for this phenomenon might be attributed to the concept of diminishing returns of capital. The primary characteristic of the AK endogenous growth model is the lack of diminishing returns to capital. The AK model employs a linear framework in which the output is determined by a linear function of capital, as expressed by the following equation

$$Y = AK \text{-----} (2.1)$$

where

Y = total production in the economy

K = capital

The relationship between foreign direct investment (FDI) and economic growth has been extensively discussed in the current body of literature. While it is widely debated, there is a prevailing argument that foreign direct investment (FDI) has a favourable impact on economic growth.

However, the significance of capital as an essential aspect in investment and company cannot be overstated. In less developed countries (LDCs) with limited capital accumulations, alternative strategies are employed to acquire wealth. These include the promotion of foreign direct investment and trade openness to attract remittances. Consequently, these measures contribute to the growth of per capita income by fostering increased capital formation, productivity, employment levels, skill acquisition, and technological know-how, among other factors.

The relationship between foreign direct investment inflow and economic growth can be observed in the context of its impact on the productivity of domestic labour and capital. This impact is facilitated by the transfer of foreign technology, which is often considered superior. The analytical framework employed in this study is thus aligned with Romer's seminal work in 1986. The significance of foreign direct investment (FDI) can be observed in its ability to address the capital disparity highlighted by Romer (1993) as the primary obstacle encountered by developing nations in their pursuit to narrow the gap with more advanced economies. The disparity observed is mostly rooted in the discrepancy of knowledge or human capital, rather than the disparity in physical capital.

2.3 Empirical Review

Foreign

Tang, Selvanathan and Selvanathan (2008) investigated the causal link between foreign direct investment (FDI), domestic investment and economic growth in China for the period 1988-2003. Multivariate VAR system with error correction model (ECM) and the innovation accounting (variance decomposition and impulse response function analysis) techniques were utilised. The results showed that while there is a bi-directional causality between domestic investment and economic growth, there is only a single-directional causality from FDI to domestic investment and to economic growth. Rather than crowding out domestic investment, FDI is found to be complementary with domestic investment. Thus, FDI has not only assisted in overcoming shortage of capital, it has also stimulated economic growth through complementing domestic investment in China.

Mahmood and Chaudhary (2012) conducted a study on how FDI affected poverty in Pakistan from 1973 to 2003. They employed Autoregressive Distributed Lag (ARDL) model to submit that FDI and poverty deduction had an inverse relationship in the country. The study aimed to find out the contribution of foreign direct investment in poverty reduction in Pakistan. The study took foreign direct investment, government expenditure on health and education and economic growth rate as independent variables and head-count ration as dependent variable. ADF, PP, Ng-Perron and Zivot-Andrews Unit root tests were used to find the unit root problem. The study found that foreign direct investment, government expenditure on health and education and economic growth rate have negative and significant impact on poverty. So, foreign direct investment is helping in reducing the poverty level in Pakistan.

Gohou and Soumare (2012) examined the relationship between FDI and poverty reduction in African countries. The authors used data for 52 countries over the period 1990–2007 and the dependent variables were human development index (HDI) and real GDP per capita. The results of Granger causality tests showed that there is bi-directional causality between FDI and per capita GDP and uni-directional causality from FDI to HDI. Panel regressions showed that FDI significantly enhances HDI and per capita GDP. When split into regions, FDI's impact on welfare differs, and the authors concluded that the poorer and less developed the host country, the greater the impact of FDI on poverty reduction

Adam & Tweneboah (2009) conducted an independent study on the FDI and stock market development in Ghana and concluded that FDI had a positive impact on the development of the Ghanaian economy and the stock market. The examination included data of market capitalisation as a proportion of the Local GDP and Ghana cedi and Dollar exchange and the net FDI influx of the quarters between the years 1991 to 2006. With the use of multivariate co-integration analysis and the Vector Error Correction Model, the study revealed that the relationship between FDI and the Ghanaian stock market will be beneficial in the long run for the country

Nigeria

Olasehinde and Ajayi (2022) examined the relationship between foreign direct investment (FDI) and economic growth (GDP) in Nigeria between 1981 and 2020, using Autoregressive Distributed Lag Bound technique (ARDL). From the findings, there existed a long-run significant relationship among the variables employed. Foreign direct investment (FDI) and real exchange rates (REXCR) showed positive significant short, and long-run impacts on economic growth (GDP), while interest rates and trade openness have insignificant short and long-run impacts on the economic growth. They recommended that government should

introduce new approach to foreign direct investment by supporting with zero-interest loan and credit facilities for it to have better significant impacts on economic growth both in the short and long-run. Real Exchange rates (REXCR) should be properly controlled by monetary authorities for economic stability to maintain its significant impacts in future on Nigerian economy.

In a landmark study, Fowowe and Shuaibu (2014) conducted an empirical study into how FDI inflows affected poverty in Africa between 1981 and 2011 using Generalized Methods of Moments (GMM) as technique of estimation. Their findings showed that FDI inflows have significantly contributed to poverty reduction in African countries. The results also showed that better institutional quality and human capital development are associated with reducing poverty. Furthermore, interacting FDI with financial development was found to significantly reduce poverty, thus providing support to the hypothesis that better functioning financial systems enhance the efficiency of FDI in reducing poverty.

Ugochukwu, Amah, & Onoh (2013) investigated the empirical relationship between Foreign Direct Investment and economic growth in Nigeria for the period 1981-2009 using an annual data from Central Bank of Nigeria statistical bulletin. Utilising a growth model via the Ordinary Least Square method with Gross Fixed Capital Formation (GFCF), Interest Rate and exchange rate as variables. The result of the OLS techniques indicates that FDI has a positive and insignificant impact on the growth of Nigerian economy for the period under study. GFCF which was used as a proxy for domestic investment has a positive and significant impact on economic growth. Therefore, government should provide an enabling environment that will encourage foreign investors to invest in Nigeria economy by addressing the security challenges in the country, providing investment friendly environment by improved regulatory framework as well as encourage domestic investment.

Onakoya (2012) attempted to investigate the impact of Foreign Direct Investment (FDI) on economic growth in Nigeria. The research developed a structural macroeconometric model consisting of four blocks made up of supply, private demand, government and external sectors. The model deploys 18 simultaneous equations and 100 variables to capture the required proxies. The finding revealed that FDI has a significant impact on output of the economy but that the growth effects of FDI differ across sectors. The paper recommends sector specific policies, enhanced trade openness, import substitution development strategy incentives to existing investors, and potential overseas investors so as to enhance the development of the country.

Ehigiamusoe and Lean (2019) examined the impact of foreign capital inflows on economic growth in Nigeria for the period 1980–2015. It employed Autoregressive Distributed Lagged (ARDL)-bounds test, and found a cointegration relationship between foreign capital inflows and growth. Specifically, foreign portfolio investment had positive impact on growth, while the impact of foreign loans was negative. Nevertheless, foreign direct investment and foreign aid has insignificant impact on growth, suggesting that Nigeria cannot rely on foreign direct investment and foreign aid as vehicles to stimulate growth. Rather, an increase in foreign portfolio investment or reduction in foreign loans would have beneficial effects on the economy.

3.0 Methodological Approach and Data

The study adopted an ex-post facto research design to explain the relationship between foreign direct investment and economic growth in Nigeria. According to Kerlinger (1964), ex post facto research refers to research in which the independent variable or variables have already occurred and in which the researchers start with the observation of a dependent

variable or variables. Ex-post facto research design was appropriate for this study as it examined how an independent variable affects a dependent variable. The use of an ex-post facto research design in the study investigating the relationship between foreign direct investment and economic growth indicates a retrospective or observational approach to understanding the relationship between these variables. The study finds it appropriate to employ the Autoregressive Distributed Lag Model (ARDL) technique. This study follows the routine procedures involved in time-series analysis ranging from unit root test, and post-estimation tests. These steps and data issues are discussed in turn following model specifications.

3.1 Model Specification

In order to achieve the objective of this study, we adapted the model of John (2016) who investigated the effect of foreign direct investment on economic growth in Nigeria.

$$\text{GDP} = f(\text{FDI}, \text{EXR}) \quad \text{-----3.1}$$

where:

GDP = Gross Domestic Product

FDI = Foreign Direct Investments

EXR = Exchange Rate

The above model was modified by including foreign portfolio investment and inflation as part of independent variables and the time covered. The model is thus presented as:

$$\text{GDPGR} = f(\text{FDI}, \text{FPI}, \text{EXCHR}, \text{INF}) \quad \text{-----3.2}$$

where:

GDPGR = Gross Domestic Product Growth Rate

FDI = Foreign Direct Investment

FPI = Foreign Portfolio Investment

EXCHR = Exchange Rate

INF = Inflation

$$\text{GDPGR}_t = \alpha + \beta_1 \text{FDI} + \beta_2 \text{PI} + \beta_3 \text{EXCHR} + \beta_4 \text{INF} \mu_t \quad \text{..... 3.3}$$

Where:

α = intercept,

$\beta_1, \beta_2, \beta_3$ and β_4 = slope parameters,

μ_t = Error term

3.2 Data Scope and Sources

The study employed annual data series to examine the nexus between foreign direct investment and economic growth from 1990 to 2022. The data on the economic growth rate, foreign direct investment, foreign portfolio investment, inflation and exchange rate from 1990 to 2022 were sourced from the World Bank indicators (2022 version).

3.3. Estimation Techniques

The study chose the ARDL approach because it enables the investigation of both short-run and long-run dynamics among the variables in a single equation framework without requiring the variables to be of the same order of integration. The ARDL model is advantageous in small sample sizes and can be applied irrespective of whether the underlying variables are purely I(0), purely I(1), or mutually co-integrated. Unlike traditional co-integration

techniques, ARDL avoids the problems associated with non-stationarity and provides unbiased long-run estimates and valid t-statistics.

4. Analysis of Results

The results presented in this section are based on all the tests performed in the previous section. All results analysed in this chapter were obtained from E-views 11.0 software statistical package.

4.1 Descriptive Analysis

Table 4.1: Descriptive Statistics

	GDPGR	EXCHR	FDI	PI	INF
Mean	4.283269	146.6452	1.586153	-1.63E+09	19.98091
Median	4.230061	129.3600	1.450318	-1.80E+08	14.00000
Maximum	15.32916	425.0000	5.790847	3.69E+09	72.80000
Minimum	-2.035119	8.040000	0.183822	-1.50E+10	5.400000
Std. Dev.	3.959590	116.5423	1.203617	3.78E+09	16.75572
Skewness	0.467714	0.836473	1.841034	-1.996618	1.745142
Kurtosis	3.387362	2.928569	6.855408	7.106804	5.114095
Jarque-Bera	1.409477	3.855297	39.07997	43.74902	22.89579
Probability	0.494238	0.145490	0.000000	0.000000	0.000011
Sum	141.3479	4839.290	52.34304	-5.22E+10	659.3700
Sum Sq. Dev.	501.7074	434627.1	46.35822	4.44E+20	8984.130
Observations	33	33	33	33	33

Source: Computed by the author using E-Views 11.0

Table 4.1 presents the summary statistics of the individual variables under consideration which includes gross domestic product growth rate (GDPGR), exchange rate, foreign direct investment (FDI), portfolio investment and inflation (INF). Each variable of interest contained 33 observations. Exchange rate has the highest mean value, followed by inflation, gross domestic product growth rate, foreign portfolio investment and foreign direct investment respectively. All the variables appeared to be mesokurtic in nature as their kurtosis values are greater than three (3), except exchange rate whose kurtosis value is less than 3. Also, the probability of Jarque-Bera test shows that gross domestic product growth rate and exchange rate are normally distributed because of the high probability values which is greater than 1%, 5% and 10% respectively. Foreign direct investment, portfolio investment and inflation are not normally distributed because of their low probability values. The skewness test shows that all the variables are not skewed given that their value is greater than 0.5, except gross domestic product growth rate.

4.2. Unit Root Result

Table 4.2 : Unit Root Test

Variables	ADF-Statistic	Critical value 5%	Order of integration	Interpretation
GDPGR	-3.681091	-2.957110	I(0)	Stationary at level
FDI	-6.075465	-2.960411	I(1)	Stationary at first difference
FPI	-3.761582	-2.960411	I(0)	Stationary at Level
INF	-5.062556	-2.960411	I(1)	Stationary at first difference
EXCH	-3.920330	-2.960411	I(1)	Stationary at first difference

Source: Author's computation from E-views 11

Table 4.2 presents the result of the Augmented Dickey-Fuller unit root test. It can be observed that all the variables utilised in the study, namely, exchange rate, foreign direct investment, and inflation are stationary at first difference except economic growth rate and portfolio investment that are stationary at level. Hence, they are said to be integrated of order zero and one, that is, I(0) and I(1). Theoretically, when all variables are integrated of order zero, it is expected to conduct cointegration test. However, given the ARDL approach adopted by this study, the validity of this theoretical expectation is validated by conducting a cointegration test in what follows.

4.3 ARDL Bounds Test Approach to Cointegration

Table 4.3: Result of Bounds Cointegration Test

F-statistic	5.861098	
Critical Values		
Significance levels	I0 Bound	I1 Bound
10%	2.37	3.2
5%	2.79	3.67
2.5%	3.15	4.08
1%	3.65	4.66

Source: Author's Computation using E-view 11.0

The result of Bounds integration test is reported in Table 4.3. Since the F-statistic is greater than the I(1) critical bound at 1%, 2.5%, 5% and 10% level of significance, the null hypothesis of no integration is rejected. The conclusion can therefore be made that there exists in actual fact a long-run relationship between dependent and independent variables.

4.4 Estimated ARDL Long Run and Short Run Model

The ARDL long run and short run estimation of the relationship between economic growth rate, foreign direct investment, foreign portfolio investment, exchange rate and inflation, is presented in table 4.4 using the ARDL Approach. Those lags that are mostly statistically significant are reported in this table

Table 4.4: Estimated Long Run & Short Run Coefficient using the ARDL Approach

<i>Long-run estimates</i>	
Dependent variable: GDPGR	
Independent variables	coefficient and probability
<i>EXCHR</i>	-0.014130*(0.0591)
<i>FDI</i>	0.306888 (0.6310)
<i>FPI</i>	2.025211 (0.9237)
<i>INF</i>	0.190444*** (0.0004)
<i>C</i>	10.59079*** (0.0002)
<i>Short-run estimates</i>	
$\Delta EXCHR$	-0.133798*** (0.0004)
ΔFPI	0.002188 (0.9584)
ΔINF	-0.132047* (0.0103)
$ECT(-1)$	-1.216231*** (0.0006)
Post-Estimation Test	
Adjusted R^2	0.531261
F-stat	0.044065 [0.9570]
Ramsey RESET linearity test	3.452205 [0.0928]
Jarque-Bera normality test	0.936 [0.626]
Breusch-Godfrey serial correlation LM test	0.260946 [0.7760]
ARCH-LM heteroscedasticity test	1.237056 [0.3393]

Note: ***, **, * indicate the statistical significance of coefficients at 1%, 5% and 10% respectively; the values in parentheses and block brackets and the probabilities; RESET implies Regression Error Specification Test; ARCH-LM means Autocorrelation Conditional Heteroscedasticity Lagrangian Multiplier.

Source: Author's Computation from E-views 11.0

4.5 Discussion of Results

Table 4.4 presents both short-run and long-run autoregressive distributed lag (ARDL) estimates of the impact of foreign direct investment (FDI) and other macroeconomic variables on Nigeria's economic growth. The dependent variable is the GDP growth rate, while the independent variables are exchange rate (EXCHR), foreign direct investment (FDI), foreign portfolio investment (FPI), and inflation (INF).

In the long-run estimates, the exchange rate (EXCHR) has a negative and significant impact on economic growth, with a coefficient of -0.014130 and a p-value of 0.0591, suggesting that depreciation in the exchange rate may hurt economic growth. Conversely, inflation (INF) has a positive and significant effect on economic growth, with a coefficient of 0.190444 and a p-value of 0.0004, indicating that moderate inflation could be associated with economic growth. However, foreign direct investment (FDI) and foreign portfolio investment (FPI) show positive coefficients but are not statistically significant.

In the short-run estimates, the change in the exchange rate ($\Delta EXCHR$) continues to exhibit a negative and highly significant effect on economic growth, with a coefficient of -0.133798 and a p-value of 0.0004. The change in inflation (ΔINF) also shows a significant negative impact with a coefficient of -0.132047 and a p-value of 0.0103. However, the change in foreign portfolio investment (ΔFPI) is positive but not significant.

The error correction term (ECT) is highly significant and negative, with a coefficient of -1.216231 and a p-value of 0.0006. This indicates a strong adjustment back to long-run

equilibrium after any short-run shocks, with about 122% of the disequilibrium being corrected in the following period.

The post-estimation tests confirm the robustness of the model, as indicated by the adjusted R^2 of 0.531261, the insignificance of the F-statistic, and the passing of various diagnostic tests such as the Ramsey RESET test, Jarque-Bera normality test, Breusch-Godfrey serial correlation LM test, and ARCH-LM heteroscedasticity test.

5. Conclusion and Policy Implications of the Findings

5.1 Conclusion

This study examined the impact of various macroeconomic factors, including foreign direct investment (FDI), foreign portfolio investment (FPI), exchange rate (EXCHR), and inflation (INF), on Nigeria's economic growth using the Autoregressive Distributed Lag (ARDL) model. The results revealed that exchange rate fluctuations and inflation have significant impacts on economic growth. Specifically, the exchange rate has a negative effect, while inflation positively influences economic growth in the long run. Despite the positive coefficients of FDI and FPI, their impacts were not statistically significant, indicating that these forms of investments may not be the primary drivers of economic growth in the current context. The error correction term showed a strong ability to restore long-run equilibrium after short-term shocks, highlighting the model's robustness.

5.2 Policy Implications and recommendations

The findings from this study have several important policy implications for Nigeria's economic management. Firstly, the negative impact of the exchange rate on economic growth underscores the need for policies that will stabilise the currency. Policymakers should consider implementing measures to mitigate exchange rate volatility, such as diversifying the economy and reducing dependence on imports. The positive relationship between inflation and economic growth suggests that moderate inflation could be beneficial, but it is essential to keep inflation within manageable limits to avoid adverse effects on the economy. Given the insignificance of FDI and FPI in driving economic growth, there is a need to create a more conducive environment that could enhance the effectiveness of these investments. This may involve improving the ease of doing business, ensuring political stability, and enhancing infrastructure. The government should also focus on fostering investor confidence by maintaining a stable macroeconomic environment and strengthening the legal and regulatory frameworks governing investments.

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