FUDMA Journal of Accounting and Finance Research, 4(2). eISSN: 2992-4693
pISSN: 2992-2704

Financial Market Development and Foreign Direct Investment in Nigeria, 1986-2023

Sani Samaila Ali[1]; Zainab Husseini Abdul[2]; Ibrahim Mohammed[3] and Irom Agabi Ishaku[4]*

[1]*Department of Business Administration, Yobe State University, Damaturu, Nigeria*
[2]*Department of Banking and Finance, Nasarawa State University, Keffi, Nigeria*
[3]*Department of Banking and Finance, Ahmadu Bello University, Zaria, Nigeria*
[4]*Department of Finance, Federal University Wukari, 200 Katsina-Ala Road, P.M.B.1020, Wukari, Taraba State, Nigeria*
Corresponding author: agabiirom@fuwukari.edu.ng
https://doi.org/10.33003/fujafr-2026.v4i2.334.410-421

Abstract

Purpose: Foreign direct investment (FDI) has been deteriorated and persistently being volatile in Nigeria recently, these may be due to weakness in the financial system. Accordingly, this study investigated the impact of financial market development on foreign direct investment in Nigeria for the period, 1986-2023. Specifically, it seeks to evaluates whether improvements in key financial market indicators such as financial market access, depth and efficiency have significantly contributed in attracting and sustaining foreign direct investment inflows in Nigeria over the studied period.

Methodology: The Study adopted autoregressive distributed lag (ARDL) model

Results and Conclusion: The study found that financial market access positively influences FDI in Nigeria, being significant in the short run but turned to be insignificant in the long run. Financial market efficiency revealed a positive and significant influence on the FDI both in short and long runs, whereas financial market depth exerted positive and negative insignificant influences on FDI respectively. The study therefore concludes that while financial market depth has no significant impact on the FDI, financial market and efficiency significantly influenced foreign direct investment in Nigeria.

Implication of findings: The findings of the study suggest the financial market access and efficiency are central in attracting FDI in Nigeria, while financial market depth has no significant impact. Hence, policymakers should prioritize improving market accessibility, efficiency, and transparency to enhance sustained FDI inflow in Nigeria.

Keywords: Financial market development, financial market access, financial market depth financial market efficiency, and FDI.

1. Introduction

For many decades, both developed and emerging economies have demonstrated a strong interest in attracting foreign capital, recognising its potential to enhance productivity, facilitate technology transfer, and provide access to global markets (UNCTAD, 2023; Mohsen et al., 2020). Within the spectrum of foreign inflows, foreign direct investment (FDI) stands out as a crucial component, serving as a primary avenue for raising the capital necessary for the productivity and growth of economies worldwide. The channels through which FDI spurs growth are well-documented and include the transfer of technology, which promotes worker productivity, the provision of job opportunities for the host country, and the stimulation of increased exports alongside access to new international markets (Omran & Bolbol, 2003). However, the degree to which FDI effectively supports economic growth is not automatic; it is contingent upon specific conditions present in the host countries. Among the most important of these enabling conditions are sound macroeconomic management, adequate infrastructure, a threshold level of human capital, trade openness, and, increasingly, a developed financial sector (Omran & Bolbol, 2003).

Financial development, is itself a critical driver of economic activity. Financial markets possess the unique ability to pool domestic savings and foreign capital to finance both investment and consumption, while simultaneously enabling efficient risk-sharing among economic agents (Bank, 2020). A well-developed financial sector plays a pivotal role in facilitating broader economic activities by efficiently mobilising savings, allocating capital to its most productive uses, managing risks, and providing essential payment services (Levine, 2005). Moreover, Etudaiye and Aliyu (2026) also asserted that "efficient and robust financial markets facilitate resource allocation, promote investments in human capital, and reduce financial barriers in markets". Thus, the interplay between these two forces is significant, as researchers have emphasised that "countries with well-developed financial markets gain significantly from FDI" (Alfaro et al., 2010). Conversely, inadequate development in either the financial market or the banking sector can severely hinder a country's ability to attract and benefit from foreign capital, including both direct and portfolio investments (Islam et al., 2020).

In the Nigerian context, financial market development is a multidimensional process that encompasses the aggregate of its depth, access, and efficiency. The depth of the financial market refers to the liquidity and magnitude of the capital market, including the stock and bond markets (Islam & Alhamad, 2022). Since the establishment of the Nigerian Stock Exchange, now part of the Nigerian Exchange Group (NGX), market capitalisation has grown over the years with the listings of large corporations and government bonds (Islam & Alhamad, 2022). Nevertheless, the market is not as deep as those of fellow emerging economies (South Africa, Egypt and Malaysia etc.), suffering from a lack of variety in financial instruments and limited participation from retail investors (Yiadom et al., 2023). The corporate bond market is particularly poorly developed, which constrains long-term business financing (Mustapha, 2023). This lack of depth has implications for FDI, as a deeper financial market provides foreign investors with greater opportunities to diversify their portfolios and ensures a viable exit strategy, thereby making the host economy more attractive (Bekele & Degu, 2023).

Closely related to depth is the concept of financial market access, which in Nigeria evaluates the ease with which investors and companies can participate in and invest in the capital markets (Ajide & Ojeyinka, 2022). Currently, institutional investors and large corporations tend to dominate, while the involvement of retail investors remains relatively low due to inadequate awareness, high transaction fees, and regulatory burdens (Habiba & Xinbang, 2022). Despite initiatives by the Securities and Exchange Commission (SEC) and the NGX to liberalise investment mechanisms and improve financial literacy, success in expanding the retail investor base has been limited (Islam & Alhamad, 2022). Improved market access is essential for attracting FDI, as it ensures that foreign investors can enter and exit their investments with ease, and that local companies have better prospects for raising capital for expansion, thereby enhancing the overall appeal of the economy to multinational enterprises. The third dimension, efficiency, assesses the effectiveness of the capital market in supporting price discovery and resource allocation without friction. While advancements in trading technology and regulatory systems have been made, factors such as poor liquidity in secondary markets, settlement delays, and information asymmetry continue to impede optimal market operation, despite efforts like the introduction of automated trading systems and global best practices in regulation (Yiadom et al., 2023).

Given this context, it is notable that FDI flows into Nigeria have recently become volatile and are on a declining trajectory, a trend that is not unconnected to the prevailing conditions of the country's financial system. A considerable number of studies have been conducted on the relationship between financial market development and FDI in Nigeria. However, contrary to theoretical expectations and economic intuition, most of these studies have reported a negative and insignificant relationship between the two variables (Nwosa & Emma-Ebere, 2017; Chinedu, 2021). This puzzling outcome may be attributed to a

critical methodological flaw, the poor choice of measurement indicators, which fail to holistically capture the nuanced and multidimensional nature of financial market development in Nigeria.

It is against this backdrop that this study investigated the impact of financial market development on foreign direct investment in Nigeria from 1986 to 2023. By employing a disaggregated measure of financial market development that considers the distinct dimensions of depth, access, and efficiency of the financial market as recommended by the International Monetary Fund (IMF). Thus, this research sought to provide a better understanding of the specific channels through which financial market influences foreign direct investment in Nigeria.

2. Literature review

Financial Market Depth and Foreign Direct Investments

The literatures on financial market depth indicates a generally positive but highly conditional relationship with economic growth and foreign direct investment. For instance, Mabube (2024) found that financial market depth positively affects economic growth in major emerging economies including Brazil, India, Indonesia, Malaysia, Mexico, and South Africa, over the period from 1996 to 2022, and were strengthened by the effect of trade and financial openness with limited conclusions drawn because the study did not include a causality test. Using more rigorous panel cointegration and VECM methods, Neghmish et al. (2025) confirmed a long-run positive relationship in Gulf Cooperation Council (GCC) countries from 2000 to 2019, but the short-run relationships were found to be weak and inconsistent; a Granger causality test did not show any clear causality direction. For the FDI aspect, Maduka et al. (2014) discovered that financial deepening in Nigeria does not attract foreign investments nor benefit from them, suggesting a basic disconnect between the development of the financial sector and foreign investment inflows when institutions are weak. The findings across the three studies all lead to the same conclusion; namely, that financial market depth does not sufficiently drive economic growth and FDI variables but rather has to be channeled via institutional quality, openness and structural features of the host economy. Following the inconsistency of findings with theory and intuition, null hypothesis was therefore formulated.

$H0_1$. Financial markets depth has no significant impact on foreign direct investment in Nigeria

Financial Market Access and Foreign Direct Investments

Studies on financial market access and foreign direct investment across diverse country contexts and methodological approaches present mixed evidences. In Nigeria, Chinedu (2021) identified positive relationship between credit to private sector, market capitalisation and FDI inflows but these were not significant due to the structural informality of the economy which weakens the transmission between private credit, market capitalisation and FDI inflows. In contrast, Hajilee and Al Nasser (2015) found more positive results in 14 Latin American economies. The finding revealed that the financial market development and FDI nexus is valid in both the short- run and long-run in most of the studied countries. In terms of causality analysis, FDI leads to financial market development in the same direction in long-run, while financial market development in the short-run leads to FDI in the opposite direction implying that stock market development is unidirectional and FDI is bidirectional. Donaubauer et al. (2019) showed that financial market development in both the source and host countries independently enhances bilateral FDI flows, using gravity-model estimation, and that for the developing host countries, deep financial markets in the source countries are a substitute for shallow domestic markets. This means that well-established financial markets in the source country can partly compensate underdeveloped markets in the receiving country. Across all the three literatures as a whole, validates the impact of financial market access on FDI, with its effects being crucially dependent on country-specific factors, the

dimension of financial access measured, and bilateral financial market characteristics between partner countries. This disparity in findings necessitate the formulation of a null hypothesis as:

$H0_2$. Financial markets access has no significant impact on foreign direct investment in Nigeria

Financial Market Efficiency and Foreign Direct Investments

Literature on financial market efficiency and foreign direct investment demonstrates a consistent but nuanced insight into the nexus between capital market performance and investment decisions, with the link varying in strength and policy implications across contexts. Chawdhury and Ahmed (2024) identified that Bangladesh's capital market is capitalised with a high level of capitalisation and liquidity at a reasonable level, thus indicating that the capital market has huge growth potential, but due to the limited period of the study, the findings were limited to capital market in Bangladesh which is still in its initial stage of development. In Nigeria, Agbada (2020) found that financial depth and access significantly and strongly related to market capitalization, while financial efficiency was positively related but found to have a moderate influence; was then concluded that, financial efficiency does not firmly support a policy. This is especially significant since efficiency is the theoretical basis which foreign capital attracted and optimally allocated by financial markets. The financial market efficiency and FDI nexus was supported by Yavas and Malladi (2020), who showed that the returns and volatilities of the equity market significantly affect the location of greenfield investments as well as the execution of mergers and acquisitions by multinational enterprises, thereby substantiating that capital market signals foreign investment decision-making. Collectively, the threes studies suggest that financial market efficiency does affect FDI, although the influence is moderated by a number of factors, such as maturity of the financial market, type of financial market efficiency being examined, and type of foreign investment. Consequently, this stirred the need to formulate a null hypothesis as:

$H0_3$. Financial markets efficiency has no significant impact on foreign direct investment in Nigeria

Theoretical Framework

The Supply-Leading Hypothesis

The supply-leading hypothesis, a theory founded by Schumpeter (1911) which postulates that the development of the financial sector is a prerequisite for economic growth. The supply-leading hypothesis entails two prominent functions: to channel financial resources from low-growth sectors to high-growth sectors and to facilitate and promote an entrepreneurial response in the high-growth sectors (Patrick, 1966). This reveals the need to establish functional financial markets and institutions before there is demand for them. Consequently, the efficiency and development of domestic financial institutions such as banks and financial markets play crucial roles in economic stability that attracts foreign investors to an economy.

The Absorptive Capacity Theory

The study is anchored on Absorptive Capacity Theory and was developed by Wesley M. Cohen and Daniel A. Levinthal in 1990 in their article "Absorptive Capacity: A New Perspective on Learning and Innovation". The theory argues that the advantages of foreign direct investment (FDI) rely on the country's capacity to absorb, make use and transform external resources, technology and knowledge into creative outcomes. It implies that a developed financial market would help to increase the absorptive capacity of a country to attract more FDI inflows in the process of financial market development. The financial markets can ensure the efficient allocation of capital, limit information asymmetric, enhance financial liquidity, and enable firms to attract financing from foreign investors enabling them to accept new technologies and managerial methods. This makes countries with deeper, easily accessible and more

efficient financial markets more attractive and more beneficial to FDI. In contrast, poor financial markets provide limited access to financial resources and limit the ability to make efficient use of foreign capital, thus lowering the developmental effect of FDI. An increase in financial markets depth, access and efficiency in Nigeria has the potential to boost absorptive capacity and investor confidence, draw more FDI and improve the contribution of the markets to sustainable economic growth and development.

3. Methodology

To investigate the impact of financial market development on foreign direct investment in Nigeria, the study adopts *ex-post facto* research design owing to the inability of the researchers to tamper with the pre-existing data and variables used in the study (Onwumere, 2020 cited in Agabi et al, 2025). Using financial market access (FMA), financial market depth (FMD); and financial market efficiency (FME) as proxies for the influencing variables with exchange rate (EXCR) as control variable against dependent variable - foreign direct investment (FDI), the dataset of the study for the period, 1986-2023 were sourced from World Development Indicators and International Monetary Fund (Cihak et al., 2012; Svirydzenta, 2016). The choice of the period was built on the availability of data and some major economic reforms that took place within the period under study, notably were Structural Adjustment Programme in 1986, transition of Nigeria's government from military era to democratic era in 1999, global financial crises in 2008 and Covid -19 in 2019, among others.

Table 1: Operational Variables

Variable	Measurement	Symbol	Source
Foreign Direct Investment	FDI net inflows as % GDP	FDI	WDI
Financial Market Development	Financial Market Access	FMA	IMF
	Financial Market Depth	FMD	IMF
	Financial Market Efficiency	FME	IMF
Control Variable	Exchange Rate	EXCR	WDI

Source: Authors' Compilation, 2026.

In Table 1 above, foreign direct investment as the dependent variable is measured by the net inflows of FDI as percentage of gross domestic product in Nigeria, while the independent variable focuses on four key aspects of a healthy financial system: depth, access, efficiency, and stability. These four areas are then measured for the two main components of the financial sector: financial institutions (like banks) and financial markets (like stock exchanges) (Cihak et al., 2012; Svirydzenta, 2016). The exchange rate used as control variable is the nominal effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or index of costs as according to International Financial Statistics database, International Monetary Fund (IMF).

Model Specification

In specifying its models, the study employed theoretical and empirical approaches. Theoretically, the study adapts the theory of The Absorptive Capacity Theory, a theory founded by Cohen & Levinthal, (1990). Empirically, it adapts the model of Nwosa and Emma-Ebere, (2017) who investigated the nexus between financial market development and foreign direct investment in Nigeria for the period of 1980-2015, where they used *FDI* as a measure of foreign direct investment, while *FMD, INF, OPNX,* and *EXR* were used as measures for financial market development, inflation rate, trade openness, and exchange rate respectively. The used a simple empirical model as:

$FDI = f(FMD, INF, OPNX, EXR)$ ……. (1)

However, in line with the stated model, modifications were made with the decomposition of financial market development into financial market access (FMA), financial market depth (FMD), and financial market efficiency (FME) as the main measures of financial market development, having exchange rate (EXCR) as control variable to strengthen the model. While the dependent variable of the model remained unchanged. Still, the modifications of the independent variable were based on the importance of analyzing the impact of the decomposed financial market development on foreign direct investment (net inflows as %GDP). Having modified Nwosa and Emma-Ebere (2017) model, the study's empirical model is stated as:

FDI = *f* (FMA, FMD, FME, EXCR) …… (2)

Autoregressive Distributed Lag Approach

The study adopted ARDL model by Pesaran and Shin (1999), and Pesaran et al (2001) to investigate the impact of financial market development on foreign direct investment in Nigeria, having known the capacity of the model to accommodate both non-stationary time series and times series with the mixture of order of integration based on the assumptions of ordinary least square model. In overcoming volumes of econometrics problems such as misspecification of model, autocorrelation among others, ARDL model can exhaust sufficient numbers of lags in data generating process and modelling framework, (Pesaran and Shin, 1999). ARDL could further provides unbiased estimation results and equally estimate both short and long runs cointegration relationship (Pesaran et al., 2001; Qamruzzaman & Wei, 2018). Consequently, the study's ARDL model is presented as:

$$FDI_t = \pi_o + \sum_{j=1}^{p} \delta_1 FDI_{t-i} + \sum_{i=0}^{q} \delta_2 FMA_{t-i} + \sum_{i=0}^{q} \delta_3 FMD_{t-i} + \sum_{i=0}^{q} \delta_4 FME_{t-i} + \sum_{i=0}^{q} \delta_5 EXCR_{t-i} + \beta_1 FMA_{t-i} + \beta_2 FMD_{t-i} + \beta_3 FME_{t-i} + \beta_4 EXCR_{t-i} + \mu_t \quad \ldots (3)$$

Where π_o means the intercept, δ_1 - δ_5 β are the coefficients of the short run explanatory variables, β_1 – β_4 are coefficients of the long run explanatory variables, while μ is the stochastic error term. On the basis of a priori expectation, all the explanatory variables including the control variable are expected to have positive impact on the dependent variable.

4. Results and discussion

This section mainly analysed and discussed the findings of the results of the various statistical tests conducted.

The descriptive statistics in Table 2 above shows that exchange rate (EXCR) and foreign direct investment (FDI) displayed high volatility with positive skewness, which demonstrates unbalance macroeconomic conditions with nonfrequent movements, specifically, sharp depreciations of EXCR and occasional inflows of FDI. Again, FDI mildly platykurtic in terms of kurtosis indicating consistency with its narrow range and symmetric distribution. In contrast, the indicators of financial market development (FMA, FMD, and FME) are more stable in terms of dispersion, indicating less fluctuation over time. Nevertheless, FME shows a strong positive skewness and a very high kurtosis, indicating existence of extreme outliers. Furthermore, the normality tests attest that while EXCR and FMD are nearly normally distributed, FDI, FMA, and particularly FME significantly deviated from the normality. These outcomes imply that; there are instability and abnormality in macroeconomics variables.

Table 2: Descriptive Statistics and Correlation Matrix

	EXCR	*FDI*	*FMA*	*FMD*	*FME*
Mean	146.8533	1.370561	0.441125	0.045333	0.075799
Median	128.6517	1.196726	0.483695	0.044695	0.049047
Maximum	457.4770	4.282088	0.506811	0.108727	0.429379
Minimum	1.754523	0.137154	0.252287	0.014751	-0.00211
Std. Dev.	134.3260	0.904846	0.083445	0.023466	0.079050
Skewness	0.877663	0.888242	-1.18125	0.358169	2.616133
Kurtosis	2.748834	3.986990	2.832009	2.547873	11.69694
Observations	39	39	39	39	39
Correlation Matrix					
EXCR	1	-0.223269	0.575703	0.648554	0.045979
		0.1719	0.0001	0.0000	0.7811
FDI		1	-0.151002	-0.324882	0.263521
			0.3588	0.0436	0.1050
FMA			1	0.516333	0.450987
				0.0008	0.0040
FMD				1	0.378904
					0.0174
FME					1

Source: Authors' Computation, 2026 (Eviews Version 9)

The correlation matrix still in Table 2, revealed that EXCR displays strong positive relationship with FMA but weak and insignificant with FDI. The FDI shows a negative and significant nexus to FMD, however, the its links with other variables are insignificant. All the financial market indicators (FMA, FMD, and FME) shown strong interrelatedness.

Table 3: Stationarity Test Results

		PP			ADF	
Variables	**T-Stat**	**Probability**	**Order of Integration**	**T-Stat**	**Probability**	**Order of Integration**
EXCR	-3.408873	0.0012***	I(1)	-3.408873	0.0012***	I(1)
FDI	-4.376694	0.0067**	I(0)	-4.329252	0.0076**	I(0)
FMA	-5.552184	0.0000***	I(1)	-5.554514	0.0000***	I(1)
FMD	-6.551935	0.0000***	I(1)	-6.546025	0.0000***	I(1)
FME	-7.144580	0.0000***	I(1)	-6.548744	0.0000***	I(1)

Source: Authors' Computation, 2026 (Eviews Version 9)
Note: ****, **, and * represent the level of significant at 1%, 5%, and 10% respectively.*

Table 4: ARDL Bound Test Results.

Dependent Variable	F-Statistics	Outcome	Decision
FDI	8.720258	Long Run	Estimate Error Correction Model (ECM)

Authors' Computation, 2026 (Eviews Version 9)
Note: *Lower bound I (0) = 4.4 and upper bound I (1) = 5.72, lower bound I (0) = 3.47 and upper bound I (1) = 4.57, and lower bound I (0) =3.03 and upper bound I (1) = 4.06 at 1%, 5%, and 10% respectively.*

The unit root tests of Philip-Peron in table 3 above revealed that all variables under study were integrated at order one-I(1) except FDI that was integrated at level-I(0). These were confirmed by Augmented

Dickey-Fuller unit root tests still in table 3. The blend of the studied variables having I(0) and I(1) met the underlining assumptions of Autoregressive distributed lag (ARDL) model.

The cointegration bound test in table 4 above shows that there exists a long run relationship since the F-statistics possessed 8.720258 which is far above the upper bound I(1) value of 4.57 at 5 percent level of significant. This indicates that financial market development and foreign direct investment have a long run movement together.

Table 5: ARDL Cointegration Estimation.

Variable	Coefficient	Std. Error	t-Statistics	Probability
Short Run Estimate				
D(FMA)	11.668685	5.202367	-2.242957	0.0348
D(FMA(-1))	-9.830197	7.565544	-1.299338	0.2067
D(FMA(-2))	1.472166	5.577133	0.263965	0.7942
D(FMD)	5.680317	10.752043	0.528301	0.6024
D(FMD(-1))	13.963139	12.150690	1.149164	0.2623
D(FME)	0.690789	3.894878	0.177358	0.8608
FME(-1)	8.782038	3.553324	2.471499	0.0213
D(EXCR)	0.007851	0.003776	2.079153	0.0489
D(@TREND())	-0.140448	0.051210	-2.742573	0.0116
CointEq(-1)	-1.131148	0.178642	-6.331933	0.0000
Long Run Estimate				
FMA	0.871972	2.845789	0.306408	0.7621
FMD	-11.822208	13.176049	-0.897250	0.3789
FME	8.374527	2.981772	2.808574	0.0100
EXCR	0.006941	0.003414	2.032965	0.0538
C	2.384089	1.002426	2.378320	0.0261
@TREND	-0.124164	0.048094	-2.581695	0.0167

Source: Authors' Computation, 2026 (Eviews 9)

Following the estimation outcomes of the ARDL in Table 5 above, the short -run dynamics shows that financial market access (FMA) has a positive and significant impact on foreign direct investment (FDI) in Nigeria at 5% level of significant *(β= 11.668685, P<0.05),* financial market efficiency (FME) exhibited positive and significant impact on foreign direct investment FDI in Nigeria at 5% level significant *(β= 8.782038, P<0.05),* while financial market depth (FMD) shows positive but insignificant impact on foreign direct investment (FDI) in Nigeria for the study period at 5% level of significant *(β= 8.782038, ns).*

Evidence from the long run dynamics still in Table 5, showed that, while financial market efficiency (FME) consistently exhibited positive and significant impact on foreign direct investment (FDI) at 5% level of significant with *(β= 8.374527, P<0.05),* financial market access (FMA) and financial market depth (FMD) revealed positive and negative but insignificant impacts on foreign direct investment in Nigeria respectively with *(β= 0.871972, ns), and (β= -11.822208, ns).*

Found again in Table 5, shows the estimated error correction form CointEq (-1) in consonant with the long run is negative at 5% level of significant. This revealed that financial market development and foreign direct investment are co-integrated, and the errors in the financial market development bare corrected within the year at a convergence speed of -1.131148

Table 6: Summary of Findings

Variable	FDI	
	SR	**LR**
FMA	Sig (+)	NS
FMD	NS	NS
FME	Sig (+)	Sig (+)

Source: *Authors' Computation, 2026 (Eviews 9)*

Note:

SR represents the short run, while LR represents the long run.
Sig represents significant; while NS represents not significant.

Table 7: Diagnostic Test Results

Specification	Stat(P-values)	Conclusion
DW (Autocorrelation)	1.514731	No Autocorrelation
Bruesch-Godfrey (Serial Correlation)	2.767762 (0.0857)	No Serial Correlation
Bruesch-Pagan (heteroscedasticity)	0.632207 (0.5861)	No Heteroscedasticity
Ramsey RESET Test	1.761218 (0.0921)	No Model Specification
R^2	0.702739	The Model is statistically fit
F-statistics	4.531082 (0.000931)	

Source: Authors' Computation, 2026 (Eviews 9)

In determining the validity, reliability and sustainability of the model, some diagnostic tests were done and presented in Table 7 above, in order to deal with some econometric problems. For first-order autocorrelation, Durbin-Watson (19850, 1951) was conducted and it revealed there is no suspicion of first-order autocorrelation, while in checking for higher-order autocorrelation, the results of Bruesch (1978) and Godfrey (1978) showed that there is no suspicion of higher-order autocorrelation which met the assumptions of the model. In addition, Bruesch and Pagan (1979) for heteroscedasticity revealed that there is no heteroscedasticity and it also satisfied the assumptions of the model; the model also proved to be free from Regressive Specification Error Test (RESET) while the R-square and F- statistics showed the goodness of fit of the model.

Discussion of Findings

This study investigated the impact of financial market development on foreign direct investment in Nigeria for the period 1986-2023. Particularly, it examines the impact of financial market access; financial market depth; and financial market efficiency on foreign direct investment in Nigeria for the studied period. The empirical findings revealed that financial market access has a positive and significant impact on foreign direct investment in Nigeria in at 5% level of significant *(β= 11.668685, P<0.05) in the* short run, indicates that a unit increase in financial market access is associated with approximately 11.67 unit increase in foreign direct investment inflows in Nigeria with other variables held constant, while in the long run, it showed a positive but insignificant impact on foreign direct investment in Nigeria at 5% level of significant *(β = 0.872, P>0.05)* within the investigated period. This implies that a unit improvement in the short-run does not translate into durable long-run structural relationship. That is, the increase in financial market access may generate immediate positive effect that in a short-term attracts FDI inflows, this effect diminishes greatly overtime and fails to constitute a binding long-term determinant of foreign direct investment in Nigeria. These findings agreed with the supply-leading hypothesis, a theory founded by Schumpeter (1911) adapted by this as well as the works of Maduka et al (2014) in Nigeria; Hajilee and Al Nasser (2015) in Latin American countries in the short run. These imply that financial market access attracts foreign direct investment to Nigeria in short run.

The results of the study's empirical investigation also revealed that financial market efficiency has a positive and significant impacts on foreign direct investment in Nigeria at 5% level of significant *(β = 8.782, $p < 0.05$).* This implies that a unit increase in financial market efficiency explains approximately 8.78 unit rise in FDI inflows in the short-run. In the long-run, it maintains its positive and statistically significant impact on FDI inflows in Nigeria at 5% level of significant ($\beta = 8.375$, $p < 0.05$), reaffirming financial market efficiency role as the most robust and constant driver of foreign investment attraction among the financial market indicators investigated. This further indicates that a unit improvement in financial market efficiency is connected with approximately 8.38 units increase in FDI inflows. The tenacity of this relationship across both short and long runs underscores the importance of institutional efficiency in influencing the long-term investment climate. These findings also agreed with the supply-leading hypothesis, a theory of Schumpeter (1911) as well as the studies of Donaubaur et al (2019); Maduka et al (2014) in Nigeria; Hajilee and Al Nasser (2015).

In contrast, the results of the study also showed that financial market depth has a positive and statistically insignificant impact on foreign direct investment in Nigeria at 5% level of significant *($\beta = 8.782$, $p > 0.05$)* in short-run within the investigated period. For the fact that the positive relationship is theoretically consistent, it suggests that the depth of the financial market can be reflected in the volume of financial instruments, credit to the private sector, and market liquidity which could potentially attract FDI. The statistical insignificant implies that this effect is insufficiently in the short-run. In the long-run, a negative and statistically insignificant in influencing the foreign direct investment in Nigeria at 5% level of significant *($\beta = -11.822$, $p > 0.05$)*. The reversal from positive relationship in the short run to the negative in the long-run is notable though with the absence of statistically significant. This implies that the adverse effects could reflects the periods of excessive credit growth or financial sector instability that go with certain financial deepening reforms that could potentially discouraging rather than attracting FDI in the long-run.

5. Conclusion

This study empirically investigated the impact of financial market development on foreign direct investment in Nigeria for the period, 1986-2023. Specifically, it examines the impact of financial market access; financial market depth; and financial market efficiency on foreign direct investment in Nigeria for the study period. Utilizing ARDL model, it was firstly observed that financial market access exhibited a positive and significant impact on FDI in a short run while in long run, it has positive but insignificant impact. Therefore, the study recommended that policymakers should strengthen financial market access by promoting inclusive financial systems that broaden participation through digital financial services, mobile banking, and reduced entry barriers. This will sustain the short-run gains in attracting foreign direct investment (FDI) and potentially translate them into long-term significance.

Secondly, it was observed that financial market efficiency displayed a positive and significant impact on foreign direct investment in Nigeria both in short run and long run within the investigated period. The study also recommends that, there is a need to enhance financial market efficiency by improving regulatory quality, transparency, and institutional frameworks. Strengthening market supervision, reducing information asymmetry, and ensuring faster transaction processes will further boost investor confidence and sustain FDI inflows in both the short and long run.

Finally, financial market depth exhibited positive and negative insignificant impact on foreign direct investment in Nigeria in short run and long run respectively within the investigated period. It is also recommended that, although financial market depth was found to be insignificant, efforts should still be

made to deepen the financial system through increased liquidity, diversification of financial instruments, and development of capital markets. This may improve its future relevance in attracting FDI when complemented with strong institutions.

Reference

Agbada, A. O. (2020). Appraising Financial Development Indicators and Capital Market Performance. *Finance and Economics Review, 2*(1), 45–62. https://doi.org/10.38157/finance-economics-review.v2i1.79

Ajide, F. M., & Ojeyinka, T. A. (2022). Financial development and entrepreneurship: insights from Africa. *Journal of Financial Regulation and Compliance*, 30(5), 596-617.

Alfaro, L., Chanda, A., Kalemli-Ozcan, S., & Sayek, S. (2010). Does foreign direct investment promote growth? Exploring the role of financial markets on linkages. *Journal of Development Economics, 91*(2), 242-256. https://doi.org/10.1016/j.jdeveco.2009.09.004.

Bank, S. A. R. (2020). Financial market development, monetary policy and financial stability in emerging market economies. *BIS Papers chapters*, *113*, 293-305.

Bekele, T. D., & Degu, A. A. (2023). The effect of financial sector development on economic growth of selected sub-Saharan Africa countries. *International Journal of financial economics*, 1-9.

Breusch, T. S. & Pagan, A. R. (1979). A simple test for heteroscedasticity and random coefficient variation. *Econometrica, 47*(5), 1287–1294. https://doi.org/10.2307/1911963

Breusch, T.S. (1978). Testing for autocorrelation in dynamic linear models. *Australian Economic Papers, 17*(31) https://doi.org/10.1111/j.14678454.1978.tb00635.x

Chinedu, P. A. (2021). Financial development: An empirical study of foreign direct investment in Nigeria. *Journal of Accounting and Financial Management, 9(3), 150-160.*

Chowdhury, R. A. M., & Ahmed, F. (2024). Capital Market Efficiency and Economic Growth: Evidence from Bangladesh. *European Journal of Development studies, 4*(2), 343.

Čihák, M., Demirgüç-Kunt, A., Feyen, E., & Levine, R. (2012). *Benchmarking financial systems around the world.* World Bank policy research working paper, (6175).

Cohen, W. M., & Levinthal, D. A. (1990). *Absorptive Capacity: A New Perspective on Learning and Innovation*. *Administrative Science Quarterly*, 35(1), 128–152.

Donaubaur, J, Neubauer, E., & Nunnenkamp, P. (2019). Financial market development in host and source countries and their effects on bilateral foreign direct investment. *The World Economy,* 43(3), 534-556. https://doi.org/10.1111/twec.12884

Durbin, J. & Watson, G. S. (1950). Testing for serial correlation in least squares regression, I. *Biometrika, 37*(3–4), 409–428. doi:10.1093/biomet/37.3-4.409. JSTOR 2332391.

Durbin, J.; Watson, G. S. (1951). Testing for serial correlation in least squares regression, II. *Biometrika 38(*1–2): 159–179. doi:10.1093/biomet/38.1-2.159. JSTOR 2332325.

Etudaiye-Muhtar, O. F., & Aliyu, A, A. (2026). Financial development, remittances and access to education in Nigeria. *FUDMA Journal of Accounting and Finance Research,* 4(1), 1-15. https://doi.org/10.33003/fujafr-2026.v4i1.272.1-15.

Godfrey, L.G. (1978). Testing against general autoregressive and moving average error models with the regressors include lagged dependent variables. *Econometrica, 46*(6), 12931301. https://doi.org/10.2307/1913829

Habiba, U., & Xinbang, C. (2022). The impact of financial development on CO2 emissions: new evidence from developed and emerging countries. *Environmental Science and Pollution Research*, *29*(21), 31453-31466.

Hajilee, M. & Al Nasser, O. M. (2015). The relationship between financial market development and foreign direct investment in Latin America countries. *Journal of Developing Areas,* 49(2) 27-45

Islam, M. A., Khan, M .A., Popp, J., Sroka, W. and Olah, J. (2020). Financial development and foreign direct investment—the moderating role of quality institutions. *Sustainability*, 1(2), 1-22.

Islam, M. S., & Alhamad, I. A. (2022). Impact of financial development and institutional quality on remittance-growth nexus: evidence from the topmost remittance-earning economies. *Heliyon, 8*(12).

Levine, R. (2005). *Finance and growth: Theory and evidence.* Handbook of Economic Growth, 1, 865-934.

Mabube, M. (2024). The effect of financial market depth on economic growth in developing countries with large financial sectors. *Social Science Studies, 4*(2), 66-81.

Maduka, A., Mgbemena, E., & Ugwunna, O. (2014). A study on financial development and FDI in Nigeria, *EPRA International Journal of Economic and Business Review*, 2, 1-10.

Mohsen, G. K., Shamsedden, H., Karim, E. J. & Ali, A. (2020) Effect of financial development on foreign direct investment. *Iranian Economic Review*, 24(4), 885-906.

Mustapha, R. A. (2023). Determinants of Financial Depth in Nigeria: A Disaggregated Analysis (Doctoral dissertation, Kwara State University (Nigeria).

Neghmish, K. A., Salih, F. A., & Abdullah, S. M. (2025). The impact of financial markets depth on economic growth in GCC countries. *International Journal of Humanities Education, 13* (1), 926-941.

Nwosa, P. I., & Emma-Ebere, O. I. (2017). The impact of financial development on foreign direct investment in Nigeria. *Journal of Management and Social Sciences, 6*(1),182-197.

Omran, M., & Bolbol, A. (2003). Foreign direct investment, financial development, and economic growth: Evidence from the Arab countries. *Review of Middle East Economics and Finance*, *1*(3), 231-249.

Onwumere, J.U.J. (2021). Business Economics and Social Studies Research Methods (4th edition). Immaculate Publication: Vougasen Limited Enugu.

Patrick, H. T. (1966). Financial development and economic growth in underdeveloped countries. *Economic development and Cultural change*, *14*(2), 174-189.

Pesaran, M. H. Shin, Y. and Smith, R. P. (2001). "Bounds testing approaches to the analysis of level relationship". *Journal of Applied Econometrics*, 16, 289-326. https://doi.org/10.1002/jae.616

Pesaran, M. H., Y. Shin, and R. P. Smith (1999). "Pooled mean group estimation of dynamic heterogeneous panels". *Journal of the American Statistical Association*, 94, 621-634.

Qamruzzaman, M. and Jianguo, W. (2018). "Nexus between financial innovation and economic growth in South Asia: evidence from ARDL and nonlinear ARDL approaches". *Financial Innovation, 4*(1). doi:10.1186/s40854-018-0103-3

Svirydzenka, K. (2016). Introducing a new broad-based index of financial development. *International Monetary Fund*.

UNCTAD. (2023). World Investment Report 2023: Investing in Sustainable Energy for All. Retrieved from: https://unctad.org

Yavas, B. F., & Malladi, K. R. (2020). Foreign direct investment and financial markets influences: Results from the United States. *The North American Journal of Economics and Finance*, *53*. https://doi.org/10.1016/j.najef.2020.101182

Yiadom, B. E., Mensah, L., &. Bokpin, G. A. (2023). Environmental risk and foreign direct investment: the role of financial sector development. *Environmental Challenges,* 9. https://doi.org/10.1016/j.envc.2022.100611