

DETERMINANT OF FOREIGN PORTFOLIO INVESTMENT IN NIGERIA

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**DEPARTMENT OF FINANCE
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BENIN CITY**

MARCH, 2025

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**A PROJECT WRITTEN IN THE DEPARTMENT OF FINANCE, FACULTY OF
MANAGEMENT SCIENCES, UNIVERSITY OF BENIN, IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
BACHELOR OF SCIENCE (B.SC) DEGREE IN FINANCE.**

MARCH, 2025

DECLARATION

I, **OMOSEFE EKUASE** hereby declare that:

This research work is based on a study undertaken by me in the Department of Finance,
University of Benin

This work has not been previously submitted elsewhere in partial fulfillment of a
Bachelor's degree in Finance (B.Sc. Finance)

All ideas and views are a product of my personal research efforts, and where the views of
others have been expressed, they were duly acknowledged.

OMOSEFE EKUASE

(B.Sc. Student/Researcher)

Date

CERTIFICATION

This is to certify that this research work, submitted by **OMOSEFE EKUASE** in the Department of Banking and Finance, Faculty of Management Sciences, University of Benin, Benin City, in partial fulfillment of the requirements for the award of a Bachelor's of Science (B.Sc) Degree in Finance is adequate in scope and quality.

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Date

DEDICATION

This work is dedicated to God Almighty for his love, mercy and grace towards my life and academic pursuit and also to my family for their love, prayers and support.

ACKNOWLEDGEMENTS

My profound gratitude goes to God Almighty for His grace and strength to do this research work and also seeing me through my years in the university.

My immense appreciation goes to my supervisor, Prof. S.O. Igbinosa for his invaluable guidance, constructive feedback, and unwavering support throughout this research journey. My Special thanks go to my Head of Department, Dr. O.G. Omorokunwa and my course Adviser, Dr. Isibor for all your good deeds may God continue to bless you Sir. And also to all the lecturers in the Department who imparted me and the non-academic staff of the Department.

My heartfelt gratitude goes to my parents, Mr and Mrs. Kingsley Ekuase for their financial and moral support and also to my siblings, Blessing Ekuase, Etinosa Ekuase, Emmanuel Ekuase and David Ekuase for their patience and financial support.

My sincere gratitude goes to my uncle, Mr. Osazee Ogbebor for your contribution and financial support during my undergraduate programme.

My heartfelt gratitude goes to my husband, Mr. Ebenezer Chukwuma for your encouragement and financial support.

I also want to say thank you to my spiritual mother, Pastor (Mrs) Vero Ogie for her prayers and moral support during my undergraduate programme.

To my fellow course mates and friends, Tracy Aikoriegie. Suliyat Oladiti, Blessed Uwadiale I say thank you all. And thanks to everyone who has contributed to the success of this project and also all through my years in school

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ABSTRACT

This study examined determinants of foreign portfolio investment in Nigeria. There is need for the present reforms going on in the Nigeria capital market to be sustained especially in the area of investor's portfolio, infrastructural development and accounting disclosure requirements. In the light of this a number of question arose as to whether there is significant relationship between gross domestic product, interest rate exchange rate, trade openness and foreign portfolio investment. Therefore the research design adopted for this work is the ex post facto research design. The population of this study consists of Nigeria macroeconomics and capital market system as represented by net foreign portfolio investment, Gross Domestic Product, exchange, interest rate and trade openness from 1994-2024. The findings revealed that Foreign portfolio investments (FPI) and gross domestic product (GDP) is positive and but not statistically significant. The relationship between foreign portfolio investment and foreign exchange rate is positive but not statistically significant. However, the relationship between interest rate (INTR) and Foreign portfolio investments (FPI) is positive and statistically significant. Expectedly high interest rate in a domestic economy serves as a major attraction to foreign investors to invest in the local economy. The study recommended among others that monetary policy should promote stable domestic interest as a priority objective to attract foreign portfolio investment.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Foreign portfolio investment (FPI) is an aspect of international capital flows comprising of transfer of financial assets: such as cash; stock or bonds across international borders in want of profit. It occurs when investors purchase non-controlling interests in foreign companies or buy foreign corporate or government bonds, short-term securities, or notes. Accordingly, just as trade flows result from individuals and countries seeking to maximize their well-being by exploiting their own comparative advantage, so too, are capital flows the result of individuals and countries seeking to make themselves better off, moving accumulated assets to wherever they are likely to be most productive (Makoni, 2020). This type of investment has become an increasingly significant part of the world economy over the past three decades and an important source or fund to support investment not only in developed but also developing countries.

A financial market is an institutional mechanism for raising capital for businesses, investments, and the effective allocation of those financial resources (Nwagu, 2023) The importance of the financial markets in any economy cannot be overemphasized, it has consistently provided a platform through which savings can be mobilized from the surplus sector to the deficit sector, creating easy cash flow, spreading risks, ensuring a

seamless flow of information in the market, and providing increased encouragement for company management (Tite, Ogundipe, Ogundipe and Akinde, 2022). An effective financial market facilitates growth and general improvement of the economy through this financial intermediation role. Capital inflows is required by businesses and government in order to bridge the savings-investment gap and propel economic growth and development in Nigeria and other emerging nations. (Adom and Elbahnasawy, 2014). Capital is imported for this purpose in the form of Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and other investments such as trade credits, loans, currency deposits, and other claims (CBN, 2021).

Foreign portfolio investment (FPI) is a form of international capital flow that occurs when foreigners buy securities on international financial markets to obtain interest, dividend income, capital appreciation or for diversification purposes. It involves the purchase of stocks, government or corporate bonds, mutual funds, exchange traded funds, derivatives and money market instruments traded in the host country. The need by foreign firms, governments, and individuals to explore their comparative advantage has necessitated international capital flows. Therefore, foreigners seeking to maximize their earnings, move their accumulated foreign assets to countries where they will be more productive. (Ekeocha, Ekeocha, Oduh and Onyema, 2012). On the other hand, foreign direct investment are the physical investments and purchases made by a company in a foreign country, typically by opening plants and buying buildings, machines, factories and other equipment in the foreign country. These type of investments find a far greater

deal of favour, as they are considered long term investments and help bolster the foreign country's economy (Nwosa and Adeleke, 2017).

In Nigeria, studies related to FPI determinants have been executed. Okeet *al* (2020) found that market capitalization, domestic interest rate, real exchange rate, US gross savings and US inflation rate have a positive effect on FPI; Nzete and Akintunde (2019) found that volatility in FPI is associated with interest rate, currency depreciation, FDI, inflation and GDP growth rate; Araoye (2021) found that market capitalization and real GDP have significant positive impact on FPI; Akinmulegun (2018) found that market capitalization has negative significant effect on FPI while all share index has positive relationship with FPI; Idowu (2015) found that governance in terms of internal conflicts and corruption have a significant negative effect on FPI inflows. The reviewed literature has focused on the determinants of FPI as a whole without looking at the different components of FPI and how these determinants affect each of them. Thus, this study is geared towards assessing the dominant determinants of foreign portfolio investment in equity, foreign portfolio investment in bonds, foreign portfolio investment in money market instruments and net foreign portfolio investment especially in the Nigerian financial markets.

Even though Prasand, Rejan and Subramanian (2007) document a recent phenomenon of “uphill” flows of capital from non-industrial to industrial countries and analyze whether the industrial countries and analyze whether the pattern of capital flows has hurt growth non- industrial economies that export capital, there has equally been a

dramatic increase in the magnitude of international flows of portfolio investment, especially from countries in the North to emerging market economies across the south including Nigeria since the 80s. this has been to be motivated by low yields in industrial countries together with impressive economic growth and attractive returns in developing economies (Siamwalla, Vajragupta, and Vichyanond, 1999). Again, the demand for longer-term finance by the private sectors and the willingness on the part of developing country governments to provide the legal and regulatory frameworks are fostering instruments, institutions, and especially FPI into the capital markets. However, these massive international flows of portfolio investment to emerging markets have sparked debate about the benefits and demerit as well as its determinants.

1.2 STATEMENT OF THE RESEARCH PROBLEM

While a good number of benefits and demerits and demerits associated with international flows of portfolio investment to emerging market economies are well documented in the interactive (Adebisi, and Arikpo, 2017, Adofu, and Adegoriola, 2020, Agu, Ogu, C., and Ezeanyej, 2019), a wide range of factors have been adduced to have prompted the increase in private capital flows to developing countries. Opinions however differ as to the relative contribution of “Push” factors reflecting changes in developed country markets (Akinmulegun, 2018) and “Puli” Factors arising from changes in developing countries (Araoye, 2021). That notwithstanding, recent empirical studies have tried to ascertain the determinants of FPL as well as its impacts on the economy.

Following literature there are the economic determinants comprising of macroeconomic factors, such as gross domestic product (GDP) growth, exchange rate stability, interest rate, capital liquidity, and the international trade in goods. Again, policy and regulatory determinants of the host national governments are also key criteria necessitating foreign Portfolio investment flows to emerging market economies (Gini, and Akokaïke, 2021).

1. How does gross domestic product impact foreign portfolio investment?
2. What is the relationship between interest rate and foreign portfolio investment?
3. What is the relationship between exchange rate and foreign portfolio investment?
4. How does trade openness affect foreign portfolio investment?

1.3 OBJECTIVES OF THE STUDY

The broad objective of this study is to examine the determinant of foreign portfolio investment in Nigeria.

The specific objectives have been stated below to:

1. Determine the relationship between gross domestic product and foreign portfolio investment.
2. Verify the relationship between interest rate and foreign portfolio investment.
3. Determine the relationship investment exchange rate and foreign portfolio investment.
4. Find out the relationship between trade openness and foreign portfolio investment.

1.4 RESEARCH HYPOTHESIS

In the light of the objectives of the study, the hypothesis below are formulated:

1. There is no significant relationship between gross domestic product and foreign portfolio investment.
2. Interest rate has no significant relationship with foreign portfolio investment.
3. There is no significant relationship between exchange rate and foreign portfolio investment
4. Trade openness has no significant relationship with foreign portfolio investment.

1.5 SCOPE OF THE STUDY

In the light of the stated objectives the focus of this study is on the determinant of foreign portfolio investment in Nigeria. As such, this study is restricted to the Nigeria economy. In terms of time series, a period of thirty years is used i.e 1994 to 2024 using some microeconomic variables as means of assessing the determinant of foreign portfolio investment in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

It is expected that this study would consolidate existing literature on the issues surrounding the relationship between the determinants of foreign portfolio investment in Nigeria. The study would also facilitate the examination of the effect of the determinants of foreign portfolio investment and thus boosting the empirical evidence from Nigeria. Furthermore given the empirical nature of the study, the outcome of this study would aid policy makers and regulatory bodies and policy stimulation with respect to the selected variables examined in the study.

The result of the study would be benefits in examining the analysts, and corporate organizations in examining the effectiveness of foreign portfolio investment in Nigeria. It will also be useful in stimulating public discourse given the dearth of empirical researchers in this areas from emerging economies like Nigeria. Finally, it would also add to the available literature on the areas of study while also providing a platform for other researchers who may want to further the study.

1.8 LIMITATIONS OF THE STUDY

This research work cannot hope to clear up all issues relating to the determinants of foreign portfolio investment in Nigeria; as it is subject to a number of limitations. These limitations are:

1. On methodological weaknesses the results of the study.
2. Data and non-availability question that weakens the result of the study.

1.9 DEFINITION OF TERMS

Foreign portfolio investment: Portfolio investment is generally any foreign investment that is not direct investment. It is the purchase of portfolio capital, which involves transactions that are done across natural borders and currencies.

Capital Flows: The movement of investment capital from one country to another.

Investment: Use of resources intended to increase future production output on income.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This research work is intended to make a significant contribution to already existing knowledge (research work carried out by others on the topic). In this chapter, all relevant literature related to the subject matter of this research work will be identified and examined subject to the limitations of this study.

2.2 CAPITAL FLOWS TO NIGERIA: NATURE AND TRENDS

Foreign portfolio investment, though a recent phenomenon in Nigeria compared to foreign direct investment, overseas development assistance (ODA) and bank loans, where on the increase since the mid-80s. The relative importance of portfolio investment to a small emerging market like Nigeria has been attributed to the effective role played by the Nigerian capital market in the recent past. This includes the deregulation of the capital market in 1993 which made the federal government to internationalize the market in 1995 with the abrogation of laws that constrained foreign participation in Nigeria capital market. Following the abrogation of the exchange control Act 1962, foreigners can participate in the Nigerian capital market both as operators and investors. Accordingly with the internationalization of the Nigerian stock exchange, which was part of the financial

liberalization policy in Nigeria in the mid-2000, there were increase inflow of foreign portfolio investment into the Nigeria economy through the capita market (CBN, 2021).

Before 1986 capital flows Nigeria were mainly foreign direct investment, OOA and bank loans. However, from 1986, there was a change in the composition of private capital flows to Nigeria. Foreign portfolio investment took the centre stage and its share of private capital flows to Nigeria were on the increase while at the same time official flows (OOA) and bank, loans were declining in real terms. FPI (bond and equity) increased dramatically over the last twenty years that by the end of 2005 it surpassed every other type of capital inflows into Nigeria. It should be noted that institutional investors have also become very important. Not only have they increased their share of companies listed on the stock markets, they have also started to invest more in other emerging and developed markets (AFDB/BECD, 2007). However with the global financial and economic crisis that stated in 2009, the FPI flow into Nigeria decreased significantly.

Even though FPI is generally considered more passive or speculative in nature than direct investment in equity capital and by contrast highly sensitive to changes in it's determinants and may be withdrawn from the market at short notice, it is still very important in the investment climate of Nigeria considering the saving investment gap as recorded in the national economic empowerment and development strategy. (NEEDS) and in the vision 20: 2020.

There is no gainsaying the fact that finance is the life wire of every business organization and the capital market provides a mechanism for the mobilization of long term financial resources through dealings on financial securities in form of stocks and bonds. The market provides the needed funds for corporations, which impact positively on income, employment and therefore, increase an economy's ability to transfer its savings to its national productive activities (Al-Smadi, 2018). The market protects domestic capital by preventing the outflow of domestic capitals in search of acceptable investment opportunities (Yartey 2008). Thus, according the capital market unique role especially in developing countries where rate of savings are low with its attendant inadequate financial resources needed to support economic growth.

Determinants of Foreign Portfolio Investments in an Emerging Economy: Evidence from Nigeria Capital is a vital ingredient for economic growth, but since most countries cannot meet their total capital requirements from internal sources alone, they rely on foreign investors for the supply of capital. According to Idowu (2015), no country can stand as an island which requires no capital from other countries of the world. Developed, developing and under-developed countries do strategize for more capital importation into their countries to stimulate investment, generate employment, improve production and bridge the gap between savings and investments. In recent years, international capital flows, especially portfolio investment flows have increased rapidly along with advances in globalization, financial deregulation, and advancement in information technology in the world economy (Omorokunwa and Ikponmwosa, 2014). In

2018, the United Nations Conference on Trade and Development (UNCTAD, 2018) reported that global foreign investment flows jumped by 38 percent to \$1.76 trillion in 2017, an increase of 7 percent over the previous year. This is as a result of the upturn in foreign investment flow to North Africa and low price of commodity goods from the West and Central Africa region.

Seaman (2013) identified two forms of foreign capital flows which are public and private investment flows. Private investment flows comprise foreign direct investment and foreign portfolio investments. Foreign portfolio investments is an investment by a resident entity in one country in the equity and debt securities of an enterprise in another country, which seeks primarily capital gains and does not necessarily reflect a significant and lasting interest in the enterprise. This category includes investment in bonds, stocks, money market instruments and financial derivatives other than those included under direct investment, or in other words, investments which are both below the ten percent rule and do not involve affiliates (Osemene and Arotiba, 2018).

Nevertheless, the decision of foreign investors to invest in foreign countries depends on different factors. On this front, distinction is usually made between country-specific factors (pull-factors) in the host country (such as economic fundamentals and investment opportunities) and push factors reflecting conditions in the international financial market (such as World GDP, World Interest Rates, etc) (Mercado and Park, 2011). Hence, there are numerous macroeconomic variables which affect foreign portfolio investments. It is on literature that these variables are not limited to market size,

interest rates, exchange rates, inflation rates, economic growth, government finance (balance of payments), tax rates on interest or dividends, country risk, credit rating of securities, openness, transaction cost, rate of return on stock market and disclosure of information. These macroeconomic variables are indicators or the main signposts signaling the current trend in an economy at given time. They reflect the economic status of a country at every given time and they tell to a very large extent if foreign investors will be attracted to invest in the securities of a host country.

Given the place of foreign portfolio investment in the economic growth and development of a country, most developing countries have begun to liberalize their capital markets and eliminate restrictions between financial markets around the world, which led to opening domestic capital markets to foreign investors. Liberalization of capital market in emerging market gives international investors advantages of high return and the opportunity of international diversification. It also reduces the cost of equity capital, increases the liquidity for the market, and reduces the risk sharing between foreign and domestic investors (Pala and Orgun, 2015).

Based on the foregoing, there is no doubt that the Nigerian government has made concerted efforts to attract foreign investments. These consist of tax concessions, tariff concessions, non-tax financial incentives, and key infrastructural development projects. In spite of these incentives put in place to ensure that foreign investors are fully attracted into the country, the inflow of foreign portfolio investments has been on a decline. This position was not helped by the last global financial and economic crisis of 2007 – 2009

that prompted foreigners to dump their securities in the Nigerian capital market (Nigeria Stock Exchange). Thus, the need for this paper.

2.2.1 Review of Related Literature

Investment is an important variable in the economic development of developed, underdeveloped, and developing countries. Over the years, investment in developing economies has steadily increased and as such a continued analysis of its determinants in these economies cannot be overemphasized. Apart from being a “sine qua non” for growth and development, investment has also been known to be an important booster of standard of living/per capita income among others.

Determinants of Foreign Portfolio Investments in an Emerging Economy: Evidence from Nigeria Investment is classified into public investment and private investment. Public or public sector investments include government expenditures in the area of administration, social and community services, economic services and transfers. While private sector investments include private domestic investments and foreign investments which are subdivided further into foreign direct investments and foreign portfolio investments. Although, there are also public foreign investments in existence. Private foreign investments are further divided into direct and indirect investments. Indirect private investment, which is the major focus of this paper, is otherwise known as foreign portfolio investment. This form of investment which is also known as “rentier” investment consists mainly of the holding of transferable securities (insured or

guaranteed by the government of the capital – importing country) and shares or debentures by the nationals of some other countries (Baghebo and Apere, 2014).

Foreign portfolio investment as such involves the making and holding of a hands-off (or passive) investment of securities, done with the expectation of earning a return. In this form of investment, holding also includes bonds or other debt issued by these companies or foreign governments, mutual funds, or exchange traded funds (ETFs) that invest in assets abroad or overseas. In the words of Chonnikarn (2010), portfolio investment is a grouping of assets such as stocks, bonds and cash equivalents, which are held directly by an investor or managed by financial professionals. That is, it is the entry of funds into a country where foreigners deposit money in a country's bank or make purchases in the country's stock and bond markets, sometimes for speculation. Here, such holdings of securities do not amount to a right to control the company. The shareholders are entitled to the dividend only. According to Abayomi and Olaraonke (2015), a variant of this is the multilateral indirect investment whereby nationals of a country buy the bonds of the World Bank floated or financing a particular project in some less developed countries (LDCs).

Foreign portfolio of investments can be made by individuals, companies, or even governments in international countries; and they can be relatively liquid (when compared with FDI – Foreign Direct Investment) depending on the volatility of the market that the investment takes place in. It is a way for investors to diversify their portfolio with an international advantage. On a macro-economic scale, foreign portfolio investment shows

up in a country's capital account. It is also part of the balance of payments which measures the amount of money flowing in and out of a country over a given time period (Ekeocha, 2018).

2.2.2 Factors Influencing the Inflow and Outflow of Foreign Portfolio Investments (FPIs)

According to Ducca (2012), capital inflow and outflow are very important nowadays and the geographical component is very vital for the international flow of capital. Capital inflows depend on transaction cost and market size of host country. International Monetary Fund (2016) stated that transaction cost, asymmetric information and market size are the vital determinants of capital flow in a country. These major determinants are the driving factors of portfolio investment. Ducca (2012) further opined that the major factors affecting capital inflows are GDP growth rate, market efficiency, and higher returns expectation. These factors play an important role in attracting foreign investments. All these factors raise the macroeconomic level of a country by attracting foreign investments which helps the said country to rectify the deficit of the current account of the country. These lead an economy towards growth. On the other hand, the volatility of this kind of investment can cause economic crisis. Thus, foreign portfolio investment is very beneficial to a host country but same cannot hold true for a country whose citizens are investing outside as a result of its disastrous effects.

Ahmad, Draz and Yang (2015) went a step further by stating that the main determinants of foreign portfolio investments are GDP growth, market size and efficiency,

and high expectation of returns. According to them, these factors play a vital role in the movement of foreign portfolio investments. If these factors are stable in a country, such countries get smooth and stable capital inflows from all over the world. Wagas, Hashmi and Nazir (2015) however submitted that foreign portfolio investment mainly depends on the macroeconomic factors of the host country. They studied the relationship between macroeconomic factors and foreign portfolio investments volatility in China, Pakistan, India and Sri Lanka. The study showed a significant impact of macroeconomic factors on foreign portfolio investment volatility. Hence, stable macroeconomic condition of a country attracts more foreign portfolio investors to invest in such a country and volatility of foreign portfolio investment is very less due to stable economic conditions of the host country.

2.2.3 Determinants of Foreign Portfolio Investments in an Emerging Economy: Evidence from Nigeria

Gumus, Duru and Gungor (2013) stated that there are numerous macroeconomic variables which affect foreign portfolio investment. These variables according to them are: market size, interest rates, exchange rates, inflation rates, economic growth, government finance (Balance of Payment), tax rates on interest or dividends, country risk, credit rating of securities, openness, transaction cost, rate of return on stock market and disclosure of information.

However, the determinants covered in this study were - market capitalization, all share index, foreign exchange rates, economic growth, interest rates and inflation rates.

a. Stock Market Capitalization

Market capitalization, which is otherwise known as ‘market cap’, refers to the total value of all a company’s share of stocks. In other words, it is the total market value of a company’s outstanding shares. Thus, market capitalization is the market value of a publicly traded company’s outstanding shares (Chen, 2018). Since it represents the market value of a company, it is computed based on the current market price of shares and the total number of outstanding share. It then follows that this is a financial term that indicates the size of a firm. Using market capitalization to show the size of a company is important because company size is a basic determinant of various characteristics in which investors are interested. Okorie (2012) added that market capitalization is equal to share price multiplied by number of shares outstanding. As outstanding stock is bought and sold in public markets, capitalization is used as an indicator of public opinion of a company’s net worth and is a determining factor in some forms of stock valuation.

Market capitalization reflects only the equity value of a company. It is used in addition by the investment community in ranking the size of companies, as opposed to sales or asset figures. More importantly, it is used in ranking the relative size of stock exchanges, being a measure of the sum of the market capitalizations of all companies listed on each stock exchange. In performing such rankings, the market capitalizations are calculated at some significant data, such as June 30 or December 31 (Nwosa and Adeleke, 2017). The total capitalization of stock markets or economic regions may be compared with other economic indicators. Hence, it is major macroeconomic indicator that signals

the status and well-being of an economy at any given time. As such, it determines the volume of FPI a country can attract at any time period.

b. All Share Index

All-Share index is a major stock market indicator that is seen as a series of numbers which shows the changing average value of the share prices of all companies on a stock exchange, and which is used as a measure of how well a market is performing (Amenc, Gettz and Sourd, 2016). This index also tracks the general movement of all listed equities on an exchange, including those listed on alternative securities market. According to Arnott, Hsu and Moore (2015), a market index is a quick measure to judge the overall direction of the market and the scope of its movements. In other words, a market index is a statistical parameter that reflects the composite value of a market characteristic. An index can be reflective of the entire market like the NSE (Nigeria Stock Exchange) all-share index – or just for a section.

The NSE All-share index is a total market (broad base) index, reflecting a total picture of the behaviours of the common share quoted on the NSE. It is calculated on a daily basis, showing how the prices have moved. It started in January 1984, the base year, with a value of 100 and has now risen beyond the 6,000 mark (Abdulraman, 2019). The NSE All – Share index captures only ordinary shares.

Broadly, a stock index or stock market index is a measurement of a section of the stock market which is computed from the prices of selected stocks (typically a weighted average). It is as such a tool used by investors and financial managers to describe a

market and to compare its return on specific investments (Chen, 2018). Thus, an All-share index is a national index which represents the performance of the stock market of a given nation and by extension, reflects investors sentiment on the state of a nation's sentiment on the state of a nation's economy. The most regularly quoted market indices are national indices composed of the stocks of large companies listed on a nation's largest stock exchanges such as the American S&P 500, the Japanese Nikkei 225, the Indian NIFTY 50, and the British FTSE 100 (Arnott, Hsu and Moore, 2015). Other indices may be regional, such as the FTSE Developed Europe Index or the FTSE Developed Asia Pacific Index.

In a nutshell, the All-share price index is one of the principal indices of a country's stock exchange. It as such measures the movement of share prices of all listed companies. It is based on market capitalization weighting of shares is conducted in proportion to the issued ordinary capital of listed companies, valued at current market prices.

c. Foreign Exchange Rates

Foreign exchange refers to the means of payment or instrument of short term credits for various countries with different monetary units, regarded from the point of view of their purchase, sale or that of their holding as reserves (Anyanwu, 2015). Essentially, it is the means of payment to a foreign country when regarded from the point of view of their sale or purchase against nationally currency.

Such foreign money includes notes, cheques, bills of exchange, bank balances and deposits in foreign currencies. It is also used to refer to the process or system through which money of one country is converted into money of another country. The sources of foreign exchange include exports of goods and services, non-official borrowing abroad as well as foreign aid and private foreign investment.

Foreign exchange rate, as such, refers to the price of one currency in terms of another currency. That is, it is the number of units of one currency that will be exchanged for one unit or a given number of units of another currency. Thus, it is the price of the currency of one country expressed in terms of the currency of another. A currency has as many exchange rates as there are currencies with which it is exchanged (Nwagwu, 2015). For instance, the Nigerian naira has an exchange rate against U.S dollars, Pounds Sterling, Japanese Yen, Deutsche Marks, French Francs, etc. hence it is an economic indicator.

Exchange rate, as an economic indicator, plays an increasingly significant role in an economy, as it directly affects domestic price level, profitability of traded goods and services, allocation of resources and investment decisions both domestic and foreign (Adekaiye, 2014). Fagbemi (2006) added that foreign exchange rate is a veritable instrument of economic management and therefore, it is an important macroeconomic indicator used in assessing the overall performance of an economy. Douglas and Jike (2015) noted that movements in exchange rate are known to have ripple effect on other macroeconomic variables such as interest rate, inflation rate, unemployment rate, terms of trade, and so on. All these factors underscore the importance of exchange rate to the

economic well-being of every country (economy) that deals on the international trade of goods and services.

d. Economic Growth

Over time, economic growth has been a major macroeconomic indicator. It tells the economic status of a country. Level of economic growth of a country tells how a country can be classified as underdeveloped, developing or developed. As such, Dividedi (2008) defines economic growth as percentage increase in the total output of a country on year to year basis. He added that economic growth in the real sense of the term means a sustained increase in per capita national output or net national product over a long period of time. It follows then that the rate of increase in total output must be greater than the rate of population growth. Aku (2016) added another qualification for economic growth. He opined that the national output should be composed of such goods and services which satisfy the maximum wants of the maximum number of people. Besides, for economic growth to be genuine, the increase in output must be sustained over a long period. Short-run increase followed by a similar decrease in the output does not mean economic growth. Also, seasoned, occasional and cyclical increases in output do not satisfy the conditions of sustained economic growth.

However, real GDP (Gross Domestic Product) was used in this work as a proxy for economic growth. GDP shows or measures the total money value of all final goods and services produced within the geographical boundaries of an economy whether the factor inputs are by citizens or not within a particular time period which is usually a year

(Nwaru, 2004). In other words, GDP as an economic indicator is measured in monetary terms, it measures only the final goods and services in an economy and the items to be measured must be produced during the accounting period i.e. those under work-in-progress (production) are not measured until production is complete. Hence, real GDP is the GDP that is not encumbered by inflation. In other words, that GDP that is not affected by inflation is termed real GDP (Semboja, Likwelile and Rutasitara, 2009).

While economic growth is one of the major determinants of the volume of foreign portfolio investment inflow into a country, Divivedi (2008) stated that there are five most important determinants of economic growth, viz; human resources and their qualities, natural resources, capital formation, technological development, and political/social factors.

e. Inflation Rates

Inflation as a major economic problem represents one of the major threats to investors. When inflation rates start to rise, investors get really nervous in expectation of the potentially negative consequences.

f. Interest Rates

Portfolio flows to developing countries are extremely sensitive to interest differentials. Many tend to flow to countries with high interest rates because of the differences between the current interest rates in the international market. In Nigeria for instance, interest rates are kept at very high level. So, the country attracts meaningful capital flows (Idowu, 2015).

2.2.4 General Measures adopted to Encourage Foreign Portfolio Investments

As reviewed so far, it is evidence that there are measures that can be put in place to attract foreign portfolio investment into a host country, particularly a less developed country (LDC). However, the following general measures were given by Ngize (2015):

- (a) Political stability and internal security must exist and assured;
- (b) Government of less developed countries (LDCs) should provide information to foreign enterprises with respect to the scope of investment opportunities,
- (c) LDCs governments should provide adequate basic facilities (power and other public utilities, transport, etc) to lower production costs of foreign enterprises.
- (d) LDCs governments have to provide sufficient facilities for transferring profits, dividends interest and principal, taking due cognizance of their balance of payments positions over a reasonable period of time;
- (e) Some government's grant exemptions from custom duties on equipment, plant and raw material as well as providing information and advice on legal matters, labour recruitment, site selection, etc;
- (f) Joint ventures help to remove the prejudices existing against foreign capital in less developed countries and hence remove the risk of expropriation;
- (g) Some less developed countries governments give an undertaking not to nationalize foreign owned enterprises to ensure capitalists' security of capital;

(h) Some other governments grant tax incentives in the form of tax holidays, tax rebates, increased depreciation allowances, etc.

2.2.5 Brief Profile of Foreign Portfolio Investments in Nigeria

In Nigeria, there was no record of any foreign portfolio investment prior to 1956 (Eniekezimene, 2013). According to Obadan (2014), this was mainly as a result of the non-internalization of the country's money and capital markets as well as the non-disclosure of information on portfolio investment in foreign capital or money market. Ekeocha (2018) reported that a total of N151.6 million foreign capital inflows were recorded in 1986. From that little inflow recorded in 1986, each successive administration has made deliberate efforts to bridge the gap between savings and investments in Nigeria. Eniekezimene (2013) observed that since the return to democracy in 1999 which marked the beginning of a political stability, liberalization of the economy and the reforms in the capital market, there has been an improvement in foreign portfolio investment in Nigeria. Foreign portfolio investment in Nigeria rose to N703.6 billion in 2007, its highest since 1986 when it was first reported. Foreign portfolio investment in Nigeria experienced a decline to \$1,009.13 million in the third quarter of 2015, \$920.32 million in the third quarter of 2016 and a further decline to \$284.22 million in the last quarter in 2016 (National Bureau of Statistics, 2017). However, Nigeria's foreign portfolio investment increased to an all-time high of \$7.148 billion in March 2019 (CEICData.com). Thus, the movement of foreign portfolio investment in Nigeria has been up and down since 1986 when it was officially reported by CBN – Central Bank of Nigeria.

In order to promote both indigenous and foreign investments in some industrial sub-sectors, the Nigerian government vigorously pursued the establishment of some key and basic industrial projects like the two iron and steel plants (at Aladja and Ajaokuta), steel rolling mills, petrochemical projects and paper mills, etc. The government also pursued, as a matter of priority, the maintenance and expansion of existing infrastructural facilities like roads, railways, sea and airports, water and telecommunication network (Adekaiye, 2014).

Non-tax financial incentives were another measure employed by the government to encourage foreign portfolio investment into Nigeria. Accordingly, for companies whose shares are quoted on the Nigerian Stock Exchange, the government permitted the issuance of “non-voting equity shares” to enable them attract capital from foreign investors. A decree formalized this incentive which authorized companies quoted on the NSE to issue non-voting shares for sale on the Exchange. The shares were subscribed to by persons irrespective of nationality and place of residence. The aim was to provide investment including existing foreign partners and individuals. Payments for the shares meant to be made in convertible foreign currency and the shares are qualified for both dividend and capital repatriation (Ngize, 2015).

Tax concessions have also been a major incentive employed to encourage foreign portfolio investment into the country. From 1987 individuals and/or companies deriving dividends from the country are entitled to tax-free dividends for a period of 3 years if:

(a) The company paying the dividend is incorporated in Nigeria;

(b) The equity participation was imported into the country between January 1, 1987 and December 31, 1992; and

(c) The recipient's equity in the company constitutes at least 10 percent of the share capital of the company.

In addition to (a) – (c) above, if the company paying the dividend is engaged in agricultural production within Nigeria or the production of petrochemicals or Liquefied Natural Gas, the tax free period shall be 5 years (Anyanwu, 2015).

2.3 THEORETICAL REVIEW ON FOREIGN PORTFOLIO INVESTMENT

A wide range of factors have been adduced to be responsible for the increase in international flow of portfolio. Investment Siamwalla et al (1999) opine the relatively low yields in industrial countries together with impressive economic growth and motivated western investors to relocate their funds to money and capital markets to developing countries. He posits that the increase in international flow of portfolio investment corresponded well with the trend towards trade globalization, international financial linkage, and expansion of production bases overseas.

Babajide et al. (2018) opines that since the mid-1980s, there has been a dramatic increase in the magnitude of international flows of portfolio economies across the South. He posits that north-south portfolio investment, PI flows have been heralded as a relatively safe, efficient means of transferring capital to those countries where it is needed most. But this view has been challenged by the series of financial crises across the south,

from Mexico in 1994 to south-east Asia in 1997-98 thus, many economists have argued that these crises are anomalous, reflecting exceptional circumstances. A closer look however reveals that the in regulated international flow of PT, especially into emerging market economies, is fraught with deep structural problems.

Errunza (2005) posits that the reform of local capital markets and relaxation of capital controls to attract foreign portfolio investments (FPIs) has become an integral part of development strategy. The proximity of market openings and large, sudden shifts in international capital flows gave credence to the notion that the liberalization was the primary culprit that participated the Asian crisis. Hence, he recesses the benefits and cost of FPIs from the prospective of the various FPI contribution and presents empirical evidence regarding the relationship between FPIs and market development degree of capital market integration, cost of capital cross-market correlation and market volatility. It is clear that the evidence on the benefits of FPIs is strong whereas the policy concerns regarding resource mobilization market co-movement contagion, and volatility are largely unwarranted he proffers some policy suggestions on precondition for capital market openings, market regulation. Capital market in the world stock market capitalization are four statistically significant of FPI. The first variable has a negative coefficient while the last three variables possess positive coefficients foreign direct investment, total foreign trade and current account deficit variables are found to be statistically significant regarding the impact of FPI on the national economies, it is found that the index of economic activities and inflation rate show an upward trend. Volatility

in portfolio flows has not increased overtime. Ratio of foreign debt and debt-servicing to GDP has declined. But the rule of thumb regarding the issue of sustainability of FPI suggest that India and Indonesia have crossed the upper bounds of permissible debt ratios.

Gini, et al (2021) examine the investment allocation choices of activity managed U.S mutual funds in emerging markets after the Asian financial crisis. They analyze both country- and firm-level governance and disclosure policies that influence these investment allocation decisions. At the country-level, they find that U.S. funds invest more in open emerging market with stronger shareholder rights, legal frameworks and accounting standards. After controlling for country characteristics, U.S. funds are found to invest more in firms that adopt policies resulting in greater transparency and accounting disclosures in addition to characteristics such as size, visibility, and high analyst following. The impact of stronger disclosure and transparency is most pronounced in countries with weaker investor protection. Their results suggest that steps can be taken both at the country and the firm level to create an environment conducive to foreign institutional investment.

Rai and Bhanumurthy (2007) try to examine the determinants of foreign institutional investments (FII) in India, which have crossed almost US \$ 12 billion by the end of 2002. Given the huge volume of these flows and its impact on the other domestic financial markets understanding the behaviour of these flows becomes very important at the capital account. In this study, by using monthly data, we found that FII inflow

depends on stock market returns, inflation rate (both domestic and foreign) and ex-ante risk. In terms of magnitude, the impact of stock market returns and the ex-ante risk turned out to be major determinants of FII inflow. This study did not find any causation running from FII inflow to stock returns as it was found by some studies stabilizing the stock market volatility and minimizing the ex-ante risk would help in attracting more FII inflow that has positive impact on the real economy.

Lee (2007) posits that in the last several years there has been a substantial theoretical advancement in our understanding of the factors determining international portfolio capital movements from the mechanistic flow theory, progress has been made to the portfolio-adjustment theory which rests on a firmer microeconomic foundation. However, because of the multifarious function of the United States in the world economy the portfolio-adjustment theory is not quite adequate in explaining the foreign portfolio investments in the United States. There are other motives such as maintain working balance and compensatory balances in addition to the expected utility maximization. In some studies, adhoc assumptions are introduced to account for these motives for holding U.S. liabilities. Given some statistically successful results, there is much to be desired in this simple portfolio approach modified with ad hoc assumptions. Despite the theoretical weakness Lee asserts that there would have been more empirical research in this area if data on wealth for foreign countries were available. Furthermore, the few existing studies were carried out by doing away with the wealth variable without any convincing justification. Given the constraint of data a more persuasive argument will have to be

presented in favour of deleting the wealth variable or using an alternative variable. It seems that a proper use of estimates of permanent income, which can be approximated empirically, may be successful in empirical estimation of capital flows.

The preponderance of empirical studies that have explored quantitatively the determinants of foreign direct investment have concentrated more on economic than other factors. In particular, each of the authors, in his regression equations included those determinants he or she considered personally appealing. In what follows, we survey some of their empirical investigations.

A leading proponent of the economic approach to the determinants of foreign direct investment is found in (Kabuga, 2020). On the strength of studies by scholars based on international production, he identified three sets of influences on foreign direct investment to include the following;

- i. Market factors such as the size and growth of the market measured by the gross national product (GNP) of the recipient country;
- ii. Cost factors such as the availability of labour, low labour costs and inflation;
and
- iii. The investment climate as measured by the degree of foreign indebtedness and the state of the balance of payments.

In another theory of international direct investment based on the theories of industrial organization of location of a firm nonetheless, the treatise of this later study does not directly concern the subject in hand (Odionye et al, 2023)

Hussain, et a., (2022) clarifies the determinants of foreign direct investments using two political factors of political stability and the threat of nationalization, in conjunction with a variety of economic factors such as investment incentives, the size and growth of the recipient's market, its degree of economic development proxied by infrastructure market distance and economic stability in terms of inflation, growth and balance of payments. In his extensive survey of the literature on the determinants of foreign direct investment he finds mixed evidence with respect to the impact of political instability.

Idowu, (2015), Lays emphasis, to some extent, on political factors too. He tested the dual hypotheses that economic considerations are the prime determinants of foreign investment flows and that political variables are of secondary importance. His model uses a step-by-step regression for 25 developing countries from three continents: African, Asia and Latin America to establish that economic variables are more important than the political ones.

All the above studies except, Adeyinka et.al (2022), were pre-occupied with the determinants of foreign direct investment in developing in developing countries. A respectable number of studies have also been conducted for developed countries

particularly for the United States and the European community (Kpoghul, 2019, Makoni, 2017, Makoni, 2020). The authors established similar findings.

2.4 DETERMINANTS OF FOREIGN PORTFOLIO INVESTMENT IN NIGERIA

(4) Black home in Nigeria, significant scholarly effort has gone into the study of the role of foreign direct investment in the Nigeria economy. For instance, Dabwor et al., (2019) provides an excellent documentation of works conducted under the umbrella of Nigerian economic society (NES). What follows draw substantially from this brilliant summary as reported in (Alabi et al., 2019).

The preoccupation of (Oyerinde, 2019) is on the linkages generated by foreign investment and their impact on Nigeria's economic development. Specifically, he contends that foreign investment induces the inflow of capital, technical know-how and managerial capacity which interactively will accelerate the pace of economic development, while attenuating the pains and uncertainties that come with it. Furthermore, he observes that foreign direct investment could be counter-productive if the linkages they spur are neither need for affordable by the host country.

Conclusively, he suggests that a good test of the impact of such investment on Nigeria's economic development. While EDI could accelerate growth through the infusion of new techniques and managerial efficiency she however wants that it could

worsen the balance of payments position. She stopped short though, of elaborating the channels through which this can be actualized. Foremost, Makoni, (2020) has alluded to this negative fell-out of FDI when he argues that foreign aid in the form of direct investment and portfolio investment generally imposes a burden of repayment in form of capital outflows on the recipient country.

Ilzetzki et al., (2020) conclude, using indices of dependence and development as mirror of Nigeria's economic performance, that direct foreign private investment (DEPI) engenders both economic dependence and economic development. In his view, DEPI continuously causes and catalyses a level of development that would have been impossible without such investment albeit at the cost of economic dependence.

Blanchard, (2017) explores the role of foreign capital inflow in the development processes of underdeveloped countries via its impact on savings. He reaches however, no unambiguous conclusion, contending that the effect of foreign investment on saving depends on the savings hypothesis used.

Additionally, Engel, (2014) examines the relationship between oil exports, foreign borrowing and direct foreign investment in Nigeria, on the one hand and the impact of these on sectoral performance, on the other hand. They surmise that foreign borrowing and FDI impacted negatively on overall GDP but positively on three main sectors (Manufacturing, transport and communication, and finance and insurance).

Elsewhere Mankiw, (2021) investigates the impact of direct foreign capital on domestic investment to ascertain its overall contribution to the enhancement of the domestic savings is by far more relevant in determining investment growth than foreign capital inflows in Nigeria. At best the latter complements the former. This view has also been confirmed by the works of both Uremadu, (2006) and Adegbite and Owuaullah (2007).

Evidently, from the Nigerian studies reviewed so far, there seems to be a dearth of research explicitly devoted to the impact of foreign private investment neither on capital formation nor on the determinants of foreign private investment in the Nigerian scene proper thereby re-enforcing the need for this current effort.

With respect to the foreign studies surveyed earlier, it is apparent that in general empirical exploration of the determinants of foreign direct investment has not been definitive on what are the main factors. In particular, it is largely inexplicit what role the economic factors play relative to political factors. Curiously, the less than satisfactory state of research on this theme can be traced to issues of content and of statistical methodology. In relation to content, the studies show wide variance of economic and political factors used as arguments. And no convincing reason rooted in the theory is advanced for the conclusion or exclusion of particular variables (Chete, 1998). Thus, a drawback in most of these works is that their empirical estimation and the variables used as causal factors are not guided by theoretical considerations but mere ad-hocery as postulated in (Chete, 1998).

2.5 REVIEW OF INVESTMENT THEORIES

Keynes (1936), pioneers the discovery of an independent investment in the economy, in contrast to, the widespread belief (that is, the Wicksellian loan market) that all available saving is automatically invested so far as the interest rate is attractive. Keynes' main contention was that investment is a function of the prospective marginal efficiency of capital relative to some interest rate which reflects the shadow cost of the invested funds. According to Keynes (1936), because of incomplete and uncertain information about private investment volatility in the future, potential investors would depend on their "animal spirits" in making their investment decisions rather than a retinal calculation of an inherently intermediate distant future (Chete, 1998).

Investment theories that followed the tradition of the Harod Domar growth models emerged in the 1950s and 1960s. This was the precursor to the familiar accelerator theory. This theory posits investment as a linear function of changes in output derived from a fixed proportion of production technology. Thus, given an incremental capital- output ratio, it is easy to compute the investment requirements need to achieve a give output growth target. In his model, profitability expectation and cost of capital considerations are ignored in the determination of investment.

The neo classical approach to investment was next in line mainly spurred by the desire to obviate the shortcomings of the Harod Domar formulation, particularly in its simplistic assumptions, this approach introduces factor substitution in the derivation of

the demand for capital from the firms cost minimization problems. Consequently, the desired capital stock is shown to depend on the rental cost of capital (which, in turn, depends on the prices of capital goods, the real interest rate and the depreciation rate) and the level of output. This approach too has been attacked on account of inconsistency of the assumptions of perfect competitions and exogenous output, the inappropriateness of static expectations and the introduction of delivery lags in an ad hoc manner.

Tobin's "Q" theory of investment of 1969 is an attenuate formulation of the investment function. The theory postulates that the ratio of the market value of the existing stock of capital to its replacement cost (otherwise termed Q ratio) is the force driving investment. Tobin, subsequently elaborated two reasons why Q may differ from unity which include delivery lags and increasing marginal costs of investment.

Abell (1981) and Hayashi (1982), both, in separate studies, attempt a reconciliation of the Neo-classical and Q approaches to investment. By showing that the latter follows from the firm's optimal capital accumulation problems under adjustment costs, they proved that what drives investment is marginal Q that is, the ratio between the increase in the value of the firm due to the installation of an additional unit of capital and its replacement costs. However, marginal Q may not be observable as it will generally diverge from the observed average Q (which essentially is the market value of existing capital in terms of new capital), except under competitive equilibrium and constant returns to scale. Both will also diverge if firms confront quantity constraints in real asset

or financial markets. In such a situation, average Q will at best, provide some and not all of the information required to make investment decisions.

This disequilibrium approach to investment is associated with main value (1980, 1982) and Sneessens (1987). In this respect, investment is a function of both profitability and output demand considerations. Malinvaud (1982), splits investment decision into stages: The decision to expand the level of productive capacity, and the decision about the capital intensity of that additional capacity. The later depends on profitability variables like the relative cost of capital and labour by contrast, the capacity decision relates to the degree of capacity utilization in the economy as an indicator of demand conditions

In Sneessens (1987), not investment is a positive function of the gap between actual and long-run equilibrium capacities. This, inturn, is a reflection of differences between actual an equilibrium rates of capacity utilization and between actual and equilibrium mark-up rates. Therefore, investment depends on both profitability (discrepancies between actual and equilibrium mark-up rates) and on sales constraints (discrepancies in rate of capacity utilization). By implication, investment decision may be reached in a setting in which some firms confront current and expected future sales constraints, a crucial departure from both the neo-classical (Jorgenson) and the Q Tobin) models.

There exists an expanding literature on the effects of financial constraints on investment, for example, as seen in (Fazzar, Hubbard and Peterson, 1988a, 1988b, Caloris and Hubbard, 1989; Mayer, 1989 and Mackie and Mason, 1989). The central argument here is that internal finance (retained earnings) and external finance (bonds, equity or bank credit) are not perfect substitutes. The discrepancy in the cost of different sources of financing is due to asymmetric information where a banker in the capital market cannot evaluate accurately the quality of firm's investment opportunities, thereby leading to the existence of an opportunity cost of internal finance generated from cash flows and retained earnings. According to this view, investment will be very sensitive to financial factors such as the availability of internal finance or the access to capital markets (Chete, 1998).

Finally, another feature of investment in developing countries of sub-Saharan Africa (SSA) is the high import content of capital goods. This buttresses the contention in the two-gap model (Mugableh, and Oudat, 2018, Ngwenya, 2019, Ngwenya, 2019), that the lack of foreign exchange may constitute a major constraint to sustain high rates of investment and growth in developing economies. Therefore, in countries like Nigeria where domestic and foreign capital goods are highly complementary, the lack of foreign resources to import machinery and equipment will always constitute an impediment to growth, a determinant factor in capital formation among developing countries of Africa.

2.6 EMPIRICAL EVIDENCE

Several studies have recently macroeconomic variables to foreign portfolio investment. In the same vein, Ahmed and Kelikahili (2022) determined rising interest rates promoted greater inflow of foreign portfolio investments into Nigeria's fixed income securities. However, Asiedu (2020) found interest rate differential between Nigeria and investing countries discouraged equity portfolio investments in Nigeria.

For instance, a study by Olubiya (2021) found that depreciation of the naira positively impacted foreign portfolio investments in Nigeria in the short run. Meanwhile, Babatunde (2017) determined exchange rate volatility had an insignificant negative relationship with equity portfolio flows.

Equally, Umar and Abdulhakeem (2021) concluded that inflation rate volatility discouraged flow of foreign portfolio investments into Nigeria. Conversely, a study by Okonkwo (2021) found no significant long run impact of inflation on portfolio investments in Nigerian equity and money markets.

Empirical evidence from Ojeme and Louis (2021) showed GDP growth rate had a significant positive impact in driving portfolio investments into the Nigerian stock market.

Similarly, Babajide et al. (2018) found strong GDP was a key determinant of foreign investments into Nigerian money and equity markets. According to Osuji (2015), growth in Nigeria's external reserves encouraged higher foreign portfolio investments by assuring investors about availability of foreign currencies. But Ayadi (2016) found lagged reserves had an insignificant impact on portfolio flows into Nigeria's bond and equity markets.

The study by Elijah (2006) employed an econometric model to regress FDI on exogenous variables that include human capital, real exchange rate, annual inflation and openness of the Kenya economy. The author found that economic openness and human capital affect FDI inflows positively in the short-run. But inflation and real exchange were negatively related to FDI inflows in the short-run and long-run respectively. A similar econometric model of FDI was used by Fuat and Ekrem (2002) to examine location related factors that influence FDI inflows into the Turkish economy. They discovered that the size of the host country's market, infrastructure (proxied by share of transportation, energy and communication expenditures in GDP) and the openness of the economy (as measured by the ratio of exports to imports) are positively related to FDI inflows. The results further revealed that both exchange rate instability and economic instability (measured by interest rate) have negative effects on FDI.

Aqeel and Nishat (2005) empirically identified the variables of FDI growth in Pakistan for the period of 1961 to 2003. They used co-integration along with error correction techniques for identifying factors which influence level of FDI. The results had shown that corporate tax rate, import tariffs, exchange rate, devaluation of rupee and liberalization measures had positive and significant relationship with FDI. Similarly, Zaman et al. (2006) empirically investigated the economic determinants of FDI in Pakistan for the period from 1971-2003. He found that unit labour cost, inflation, market size, and trade balance revealed their significant impact, while service sector showed its insignificant contribution towards FDI.

Anyanwu (2009) in his study on the determinant of FDI inflows to Africa concluded that there is a positive relationship between market size and FDI inflows, openness to trade has a positive impact on FDI inflows, higher financial development has negative effect on FDI inflows, high government consumption expenditure attracts FDI inflows to Africa, higher FDI goes where international remittances also goes in Africa, agglomeration has a strong positive impact on FDI inflows to Africa, natural resource endowment and exploitation (especially for oil) attracts huge FDI into Africa, East and Southern African sub-regions appear positively disposed to obtain higher levels of inward FDI. Rojid et al. (2005) notes that natural resources, market size, labour cost, human capital, corporate tax and political instability are significant factors in attracting FDI to Africa. Meanwhile, Asiedu (2006), using a panel data for 22 countries in Sub-Saharan Africa (SSA) over the period 1984-2000, find that countries that are endowed with natural resources or have large markets attract more FDI. In addition, good infrastructure, an educated labor force, macroeconomic stability, openness to FDI, an efficient legal system, less corruption and political stability promote inward FDI.

In Nigeria, a large number of empirical works have been carried out on FDI determinants. Using time series econometric technique on annual data of Nigeria, Soumyananda (2009) examined the effect of the country's natural resource export, along with openness, market size and macroeconomic risk variables like inflation and foreign exchange rate on FDI inflow during 1970-2006. The study supports earlier literature except market size in case of Nigeria. Generally, the market size is considered as the

major determining factor for FDI. It might be true for other country but not in Nigeria during 1970-2006. The study suggests that the endowment of natural resources, macroeconomic risk factors and policy variable like openness are significant determinants of FDI inflow to Nigeria. The findings suggest that the bulk of FDI inflow to Nigeria can be explained by resource-seeking FDI.

Consequently, Akenbor and Tennyson (2014) empirically analyzed the impact of natural assets, market size, infrastructure, human capital, investment policies, population health, reliability of legal system, corruption, and political risk on FDI in Nigeria during the period of 1999-2012, and also to determine the factor with the strongest and weakest impact. It was gathered in the study that market size, natural assets, infrastructure, domestic credit, exchange rate, legal system and population health of the country have a positive relationship with FDI; while corruption, human capital development, political risk and trade openness have a negative relationship with FDI.

Donwa, Mgbame and Ezeani (2015) examined the determinants of FDI flows into oil and gas sector in Nigeria. The study adopted a desk based library method where the knowledge gained from various literature as well as empirical studies reviewed form the basis for conclusion and recommendations. They concluded that the major determinants of Foreign Direct Investment flows into oil and gas sector in Nigeria are Domestic Market size, Trade openness, Inflation, Exchange rate and economic policies and

necessary measures should be provided to combat inflation and exchange rate variability as these factors discourages FDI flow and in turn affects economic growth.

Keith (2005) researched on FDI and telecommunication in India, he established that market size, level of support of infrastructure, education level of work force, economy's level of openness and poor governance in form of high levels of government debt are the most important factors that will determine inflow of FDI into Indian telecommunication sector. He established that Foreign direct investment in the Indian telecommunications sector would likely increase further if limits on investment were removed, regulations were clarified and the physical infrastructure was improved. Meanwhile, Sandeep and Surender (2013) did a similar study and chose increase in trade, employment and skill level, technology diffusion and knowledge transfer and linkages and spillover of domestic firm to be the determinant factors. They find that a stable, transparent and non-discriminatory regulatory system is the best way to attract more foreign investment in India.

In the study of FDI flow into Pakistan telecommunication sector, Qaiser (2010) identified political stability, fluctuation in GDP and rules and regulations. He found that there is negative association between political risk instability in Pakistan and inflow of FDI and a positive correlation between inflow of FDI and fluctuation in economic growth. Whereas Shumaila et al. (2006) considered market size, competition, literacy rate, foreign

trade and per capita income and concluded that all these factors are positively related to FDI.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter deals with the various models employed in both collection and analysis of data used in this study. Research methodology reviews the method, procedures, or even modalities by which the research work hopes to accomplish its objectives. It involves the appraisal of the design of the study, explaining the various methods employed in the collection as well as the analysis of data.

3.2 RESEARCH DESIGN

Research design is the structure and strategy for investigating the relationship between the variables of the study. The research design adopted for this work is the experimental research design. The reason is that experimental research combines the theoretical consideration with empirical observation. It enables us therefore to observe the effects of explanatory variable on the dependent variables.

2.3 SOURCES OF DATA COLLECTION

Secondary data were used for this study. The data were obtained from the publications of the Central Bank of Nigeria, Journals and newspapers. The data

collected are: foreign portfolio, investment, exchange rate, interest rate and degree of trade openness.

3.4 POPULATION OF THE STUDY

The population of a study is the group of elements, people, items, data or other variables with the same characteristics and interest that the research studied (Obazee and Abraham 2003).

The population of this study consists of Nigeria macroeconomics as represented by net foreign portfolio investment, Gross Domestic Product, exchange, interest rate and trade degree of openness from 1980-2024.

3.5 MODEL SPECIFICATION

The functional form of the model specified for this study is given as:

$$FPI = \beta_0 + \beta_1 GDP + \beta_2 EXR + \beta_3 INTR + \beta_4 TDO + UT.$$

Where:

FPI = Net Foreign Portfolio Investment

GDP = Gross Domestic Product

EXR = Exchange rate

TDO = Trade Degree of openness

3.6 METHOD OF DATA ANALYSIS

Data collected will be analyzed statistically in this study, hence ordinary least squares regression techniques and other statistical test will be used to analyze the data.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 INTRODUCTION

This chapter presents the secondary data on the determinants of foreign portfolio investments in Nigeria, conducts the ordinary least squares (OLS) multiple regression estimation, interprets the results and discusses the findings.

4.2 DATA ANALYSIS AND INTERPRETATIONS

The study investigates the determinants of foreign portfolio investments in Nigeria. Specifically, it evaluates the relationships between foreign portfolio investments (FPI) and gross domestic product (GDP), exchange rate (EXRT) and interest rate (INTR) as independent variables.

To reduce the impact of large numbers and make the coefficients of the independent variables elasticity values with respect to the dependent variable, we took the natural logarithms of the following variables - FPI and GDP and took natural logarithmic forms as follows: $\log FPI$ and $\log GDP$ respectively. The regressant, $\log$ of foreign portfolio investments was regressed on the regressors – $\log$ of gross domestic product ($\log GDP$), exchange rate (EXRT) and interest rate (INTR).

Using EViews 10.0 econometric package, the ordinary least squares (OLS) regression equation for a time series data of 31-year range, 1994 to 2024 indicated the

absence of autocorrelation with DW= 1.95. Details of regression analysis results are contained in table 4.1 below.

DETERMINANTS OF FOREIGN PORTFOLIO INVESTMENTS IN NIGERIA

Dependent Variable logFPI	Independent Variables	Coefficient	t-Statistic	Probability
	C	5.4993	1.5544	0.1317
	logGDP	0.4115	1.6239	0.1160
	EXRT	- 0.0045	0.6237	0.5381
	INTR	0.0620	2.0616	0.0490*
R ²	0.79			
Adjusted R ²	0.72			
F-statistic	103.73		Prob. (F-stat)	0.0000
Durbin-Watson	1.95			

Source: Data Analysis report by Researcher, March, 2025.

* indicates statistical significance at 5% level.

The regression equation becomes:

$$\log\text{FPT} = 5.4993 + 0.4115\log\text{GDP} - 0.0045\text{EXRT} + 0.0620\text{INTR} + v;$$

(1.62) (0.62) (2.06)

Thus, the model represents a good fit with F-statistic of 103.73 greater than 2.0 and significant at 1% (Prob F-stat is 0.0000). The R^2 statistic is 0.79 while adjusted R^2 is 0.72, an indication that about 72% of changes in the dependent variable can be accounted for by changes in the independent variables and the error term of the model. There is also the absence of autocorrelation in data set as Durbin Watson statistic is 1.95 (approx. 2.0). These are indications that the ordinary least square regression results meet both diagnostic and statistical criteria. Therefore, the results of the OLS regression are reliable and the influence of the explanatory variables on the dependent variable is significant. The model can be useful for policy direction.

4.3 INTERPRETATION OF RESULTS

Foreign portfolio investments (FPI) are positively related to gross domestic product (GDP) in conformity with apriori expectation. However, the relationship between both is not statistically significant at 5% level (prob. Value is 0.1160).

On the other hand, the relationship between Foreign portfolio investments (FPI) and exchange rate (EXRT) is negative contrary to apriori expectation. This relationship, however, is not statistically significant at the 5% level (prob. Value is 0.5381). Meanwhile, the relationship between Foreign portfolio investments (FPI) and interest rate

(INTR) is positive, in accordance with theory. And this relationship is statistically significant at 5% level (t-stat is 2.06 and p-value is 0.0490).

The above analyses show that the relationship between Foreign portfolio investments (FPI) and gross domestic product (GDP) is positive and but statistically not significant. This is a clear indication that gross domestic product (GDP) is not a major determinant of foreign portfolio investment inflows to the economy within the period of study, 1994 to 2025. However, the relationship between foreign portfolio investment (FPI) and exchange rate (EXRT) is negative but not statistically significant. Undoubtedly, this is also an indication that exchange rate negatively impact foreign portfolio investments within the study period, such impact is not statistically significant. However, interest rate (INTR) is positively and significantly related to foreign portfolio investments (FPI) indicating that domestic interest rate is an important determinant of foreign portfolio investments flows within the period of study.

In summary, interest rate (INTR) had positive and significant impact on Foreign portfolio investments (FPI) within the period of study (1994-2024). This is an indication that domestic interest rate is the single most important determinant of foreign portfolio investments to Nigeria in the period 1994 to 2023.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

This study examines the determinants of foreign portfolio investments in Nigeria by means of the ordinary least squares technique for the period 1994 to 2023. The study finds that:

1. Foreign portfolio investments (FPI) and gross domestic product (GDP) is positive and but not statistically significant.
2. Foreign portfolio investments (FPI) and exchange rate (EXRT) is negative, and the relationship is not statistically significant.
3. The relationship between interest rate (INTR) and Foreign portfolio investments (FPI) is positive and statistically significant. Expectedly high interest rate in a domestic economy serves as a major attraction to foreign investors to invest in the local economy. With high interest rate, the capital market must provide attractive return to capital market participants to retain their participation and commitment. Invariably, high interest rate should lead to high return on investments in the capital market, otherwise foreign portfolio investors may consider leaving the market.

5.2 CONCLUSION

This study concludes that interest rate has positive and significant effect on foreign portfolio investments. This is an indication that domestic interest rate was the single most important determinant of foreign portfolio investments to Nigeria in the period 1994 to 2023.

5.3 RECOMMENDATIONS

Based on the findings of this study, the following policy recommendations are made:

For the Nigerian capital market to develop, financial policy options should continue to promote and encourage foreign portfolio investments as well as foreign direct investments.

Also, monetary policy measures that promote stable domestic interest rate should be the priority objective of financial and national economic managers.

Financial policies should continue to target massive inflow of foreign portfolio investments while attracting foreign direct investments.

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APPENDIX 1:

Eviews 10.0 Regression output of the determinants of foreign portfolio investments in Nigeria

Dependent Variable: LOGFPI				
Method: Least Squares				
Date: 03/05/25 Time: 10:31				
Sample: 1 31				
Included observations: 31				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.499276	3.537822	1.554424	0.1317
LOGGDP	0.411470	0.253381	1.623918	0.1160
EXRT	-0.004519	0.007247	-0.623662	0.5381
INTR	0.061964	0.030056	2.061609	0.0490
R-squared	0.792761	Mean dependent var		12.80898
Adjusted R-squared	0.721417	S.D. dependent var		1.234865
S.E. of regression	1.094665	Akaike info criterion		3.138687
Sum squared resid	32.35385	Schwarz criterion		3.323718
Log likelihood	-44.64965	Hannan-Quinn criter.		3.199003
F-statistic	103.72557	Durbin-Watson stat		1.947056
Prob(F-statistic)	0.000000			

S

Data

Year	FDI	GDP	INTR	EXRT	OPEN
1980	2198.9	49,932.32	3.1	0.52	3.99
1981	2943.1	47,619.66	4.18	0.61	4.1
1982	3620.1	49,069.28	5.88	0.67	46.9
1983	3757.9	53,107.38	7.74	0.72	47.29
1984	5382.5	59,622.53	7.45	0.76	36.74
1985	5949.5	67,908.55	8.69	0.89	20.13
1986	6418.3	69,146.99	9.38	2.02	26.04
1987	66804	105,222.84	9.42	1.02	26.59
1988	9313.6	139,085.30	13.29	4.54	20.74
1989	9993.6	216.797.54	13.25	7.39	44.47
1990	11339.2	267,549.99	15.5	8.04	36.91
1991	10899.6	312,139.74	20.89	9.91	40.34
1992	10436.1	532,613.83	14.92	17.3	57.23
1993	12243.5	683,869.79	18.04	22.05	61.09
1994	20512.7	899,863.22	23.09	21.89	57.23
1995	66787	1,933,211.55	13.09	21.89	61.83
1996	7071460	2,702,719.13	13.53	21.89	40.8
1997	119391.6	2,801,972.58	13.06	21.89	88.16

1998	122600.9	2,708,430.86	7.17	21.89	69.24
1990	128331.9	3,194,014.97	10.11	92.69	74.94
2000	1524109	4,582,127.29	12.82	102.11	58.4
2001	154190.4	4,725,086.00	11.7	111.94	61.91
2002	157508.6	6,912,381.25	15.75	120.97	61.53
2003	161441.6	8,487,066.91	16.7	129.36	62.49
2004	166631.6	11,411,066.91	14.31	133.5	55.57
2005	178478.6	14,572,239.12	13.71	132.15	79.93
2006	249220.6	18,564,594.73	10.53	128.65	74.08
2007	269844.7	20,657,325.00	9.99	128.83	79.26
2008	302873.3	24,296,329.29	10.29	118.57	45.4
2009	36400.85	24,794,238.66	11.87	148.88	60.52
2010	397395.2	29,108,020.00	13.3	147.1	61.2
2011	410275.34	34,757,488.27	14.7	100.519	66.5
2012	445800.94	35,245,312.67	15.3	110.5188	65.7
2013	499077.42	36,596,042,12	15.63	117.4013	60.2
2014	561875.1	37,895,992,93	16.19	124.4572	59.5
2015	579103.39	37,925,15.83	17.31	119.0937	55.4

2016	626185.73	36,388,162.99	16.58	110.2185	54.1
2017	651128.9	35,765,971.58	18.49	100.7989	52.8
2018	721904.04	35,554,813.13	19.63	109.1305	50.4
2019	825890.22	35,461,14.17	20.54	123.0663	49.6
2020	925832.92	33,985,227.96	24.82	117.4537	48.2
2021	982589.56	34,387,214.83	28.23	120.4533	47.9
2022	992529.78	34,670,323.56	32.78	121.6751	48.5
2023	1982589.56	35,592,742.82	33.67	122.8724	46.6
2024	2282589.18	36,899,942.98	34.23	125.2357	45.8