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Effects of Financial Development on Aggregated Foreign Investment Flows in Nigeria: ARDL Approach

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Abstract

Purpose: This study examines the effects of financial development on aggregated foreign investment flows in Nigeria over the period Q1 2012 to Q4 2024, with the aim of assessing both the long-run and short-run relationships between key dimensions of financial sector development and foreign investment inflows.

Methodology: The study adopts a causal and descriptive research approach based on an ex-post facto design. Quarterly time-series data were employed, and the Autoregressive Distributed Lag (ARDL) model was used to analyse the long-run and short-run dynamics between financial development indicators—financial depth, financial inclusion, financial stability, and financial efficiency (independent variables)—and aggregate foreign investment flows (dependent variable).

Findings: The results reveal that financial depth, financial efficiency, and financial inclusion exert a positive and statistically significant influence on foreign investment flows in Nigeria. Among these, financial efficiency demonstrates the strongest positive impact, largely attributed to Nigeria's expanding fintech revolution. In contrast, financial stability exhibits a negative and significant long-run relationship with foreign investment, indicating that some foreign investors may prefer relatively volatile markets in pursuit of higher returns. Although financial inclusion positively affects foreign investment, its magnitude remains weak due to insufficient depth and limited active usage, especially in rural areas.

Unique Contribution to Theory, Practice and Policy: The study contributes to theory by highlighting the differentiated effects of financial development components on foreign investment, particularly the counterintuitive role of financial stability in emerging markets. Practically, it underscores the importance of financial efficiency and fintech innovation in attracting foreign capital. From a policy perspective, the study recommends that Nigeria deepen financial markets, sustain and regulate the fintech ecosystem, and reassess financial stability frameworks to balance risk management with investment attractiveness. Additionally, policymakers should shift focus from merely expanding financial access to enhancing active and productive use of financial services, especially in underserved rural areas, to attract more substantial and sustainable foreign investment inflows.

Keywords: *Financial Development; Aggregate Foreign Investment; Financial Depth; Financial Efficiency; Financial Inclusion; Financial Stability.*

1.0 Introduction

Foreign investment, especially foreign direct investment (FDI), is important for economic growth in developing countries. FDI provides essential capital, technology, and skills, and is seen as a key factor for industrialisation, job creation, and poverty reduction (Orji & Akobundu, 2025). Nigeria, Africa's largest economy, has been trying to attract significant foreign capital to diversify its oil-dependent economy and achieve sustainable development. However, even with large inflows of foreign investment, its impact on the real sector is still disputed (Nwachukwu & Enuenwemba, 2023).

The capacity of a host nation to draw in and efficiently utilise foreign investment is often linked to the robustness of its financial system. A well-established financial sector is believed to offer essential support for channeling foreign capital into productive areas, easing transactions, and bridging information gaps for foreign investors (Agu et al., 2025). Although economic theory generally endorses this connection, empirical evidence, especially in Nigeria, is varied and occasionally conflicting. For instance, some research indicates that while FDI directly enhances economic growth, it adversely impacts financial development, suggesting a complex relationship (Ajayi et al., 2023). Other studies emphasize the necessity of a certain level of financial development, below which FDI does not foster growth (Egbetunde & Abayomi, 2024).

Between 2012 and 2024, the correlation between financial development (FD) and foreign investment (FI) in Nigeria was notably weak. Although FD exhibited consistent growth, increasing from 9.83 to 18.30, the Foreign Investment (FI) variables namely, foreign direct investment (FDI), foreign portfolio investment (FPI), and aggregate foreign investment (AFI) were predominantly negative and erratic (Patrick, 2025). FDI experienced a decline from a peak of 1.73 in 2012 to a nadir of -0.096 in 2022, indicating a persistent reduction in inflows. FPI was particularly volatile, with capital outflows surpassing inflows, reflecting a lack of investor confidence. AFI was largely negative, signifying an overall net outflow of foreign capital. These trends suggest that factors such as economic instability and high inflation exerted a more substantial influence on the attraction of foreign capital than the advancements in financial development during this period (Usman et al., 2025).

There exists a significant gap in research concerning the in-depth examination of the components of financial development and their distinct impacts on various forms of foreign investment in Nigeria. Numerous studies have explored the overall relationship between financial development, using metrics like private sector credit, and aggregate foreign investment, as seen in works by Nwachukwu and Enuenwemba (2023); Egbetunde and Abayomi (2024); Oniore (2014); Usman et al., (2025) and Adeleke, Olowe, and Fasesin (2014). However, these studies frequently neglect to consider the different dimensions of financial development, such as depth, efficiency, and stability, or the diverse types of capital flows, like FDI compared to foreign portfolio investment. Some research has yielded inconsistent or unexpected results, further

emphasizing the necessity for a more comprehensive approach, as noted by Agu et al. (2025); Ajayi et al. (2023); Egberi and Monye (2020) and Patrick (2025). This oversight impedes a clear understanding of which elements of Nigeria's financial system are most appealing to foreign investors.

This research aims to fill this knowledge gap by examining how financial development and foreign investment are connected in Nigeria. The primary objective is to look at how different aspects of the financial system - like how deep, efficient, stable, and accessible it is - specifically impact the overall flow of foreign investment into Nigeria. The study will provide a thorough picture of what role the financial sector plays, helping policymakers understand exactly which parts of the financial system need improving to better draw in and make use of foreign investment.

2.0 Literature Review

An examination of the extant literature reveals considerable scholarly discourse and an evident lacuna in research within the Nigerian setting. Whilst a broadly positive correlation is frequently posited, the precise mechanisms through which financial development affects foreign investment remain ambiguous.

Oniore (2014) investigated the influence of financial deepening upon foreign direct investment, establishing a notable correlation. Nevertheless, this research concentrated upon "deepening" as a broad indicator, thereby neglecting other critical dimensions such as efficiency and stability. In a similar vein, Adeleke, Olowe, and Fasesin (2014) identified a substantial association employing general proxies, which fail to encompass the multifaceted nature of financial sector advancement.

When studies try to break things down, their findings can be contradictory. This highlights the need for more detailed research. Egberi and Monye (2020) examined the effect of foreign portfolio investments on Nigeria's financial sector performance. This leaves a gap in understanding how specific financial sector features, such as market efficiency, influence foreign investment decisions.

The main research gap is the lack of a detailed analysis of the financial development and foreign investment connection. Without separating the different parts of financial development, it is impossible to provide clear policy recommendations. For instance, a government might focus resources on increasing financial depth when foreign investors may care more about the speed and reliability of transactions (efficiency).

Financial Development

Financial development refers to improving the quantity, quality, and efficiency of financial institutions and markets within an economy (Sahay et al. 2015). According to World Bank, (2024) it involves a shift from an underdeveloped, credit-restricted system to one that is more

sophisticated and effectively mobilizes savings and allocates capital. In this study, financial development includes four main dimensions

Financial depth refers to the size of the financial system compared to the economy; it is measured by metrics like the ratio of private sector credit to GDP and stock market capitalization to GDP. A deeper financial system provides more capital for foreign firms to grow, creating a positive link. Financial efficiency relates to the cost and speed of financial intermediation. It measures how well the financial system turns savings into investment. Lower interest rate spreads and reduced transaction costs show a more efficient system, making it more appealing to foreign investors (Usman et al., 2025).

Financial stability refers to the health and resilience of the financial system. It is measured by indicators such as the non-performing loan ratio and capital adequacy ratio (World Bank, 2024). A stable financial system lowers the risk for foreign investors, who are less likely to withdraw their capital during a crisis. Financial inclusion indicates the level of access to and use of formal financial services by the population. It is measured by the number of bank accounts per 1,000 adults. A higher level of financial inclusion signals a broader domestic market for foreign products and services, attracting more foreign investment.

Foreign Investment Flows

Foreign investment involves the cross-border movement of capital with the aim of making a profit (IMF, 2003; OECD, 2008). It is generally divided into two main types, foreign direct investment (FDI) is a long-term investment where an investor establishes or acquires a significant stake (usually 10% or more of voting shares) in a foreign company. FDI tends to be stable and brings technology and managerial skills and foreign portfolio investment (FPI) is a short-term, speculative investment where an investor purchases foreign financial assets like stocks or bonds without gaining management control (IMF, 2003). FPI is very volatile and sensitive to market changes.

Aggregate Foreign Investment

Aggregate foreign investment refers to the total capital inflows from foreign countries into a host country, encompassing both long-term and short-term investments (Usman et al., 2025). This approach combines Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) to create a complete measure for assessing a country's attractiveness to international capital markets. By bringing together FDI and FPI data, this framework provides a thorough evaluation of cross-border capital movements. For example, a country might see a drop in FDI due to government instability, but it could still attract significant FPI if its stock markets are performing well. Examining both of these factors helps us better understand a nation's financial integration into the global economy. This combination is crucial for government officials when looking at the overall impact of foreign investment on the balance of payments, currency exchange systems, and general economic stability (Ching & Lee, 2023; World Bank, 2024; Usman et al., 2025).

2.1 Theoretical Framework

The theoretical basis for examining the effect of financial development on Nigeria's foreign investment flows is financial intermediation theory. This theory is suitable because it describes how a country's financial structure can influence investment. Edward S. Shaw 1950 and John G. Gurley 1960 first introduced the financial intermediation theory in the 1960s. The theory states that a strong financial system plays several important roles. It helps gather resources via banks and stock markets and combines scattered savings into a larger fund. This system is essential for both distributing capital and promoting economic growth.

Better financial systems are more effective at evaluating potential investment opportunities and directing capital to the best uses. For both domestic and foreign investors, this narrows information gaps and cuts transaction costs. A more efficient financial system reduces the chance of choosing a bad project and lowers the costs related to finding and funding good options for foreign investors looking into Nigeria. Improved financial markets provide several risk management tools, such as diversified portfolios and derivatives. Foreign investors, who often face political instability and currency changes, find this especially appealing. A country becomes a more attractive place for investment if it can guard against these risks.

Using this approach to examine Nigeria reveals several mechanisms. For example, the Egbetunde and Abayomi (2024) study found that, over time, financial growth in Nigeria significantly boosts foreign direct investment. The financial intermediation theory explains that a stronger financial sector creates a better environment for foreign capital by gathering savings, reducing information costs, and offering risk management tools. Improvements in this area can be an effective way to attract the investment needed for economic growth in a developing country like Nigeria, which has emerging financial markets.

2.2 Empirical Review

Paulin et al. (2025) looked at the link between financial inclusion and foreign direct investment (FDI) in 32 Sub-Saharan African nations from 2005 to 2020. The study found that financial inclusion positively and significantly affected FDI inflows when using GMM, ARDL, and PCSE methods. This highlights the importance of attracting investment and supporting regional economic growth.

From 2009 to 2021, Fundji (2024) explored the connection between financial inclusion and economic growth in East, West, and Southern African countries. No matter the income level, the analysis showed that financial inclusion strongly and positively influenced economic growth in all countries using the FMOLS method. This proves that financial inclusion effectively drives regional economic prosperity.

Abor et al. (2024) used data of 90 countries from the years 2004-2017 to examine the contribution of foreign direct investment (FDI) to financial inclusion. The study, using an

instrumental variable (IV) technique, established that foreign direct investment (FDI) had a great improvement on financial inclusion, particularly in developing nations. The study also demonstrated the importance of robust financial infrastructure by showing how effective financial markets and institutions enhance the positive contribution of FDI to financial inclusion.

Foreign direct investment inflows to Nigeria were researched to understand the impact of financial development and monetary policy by Egbetunde and Abayomi (2024). The ARDL approach showed that while there is a significant short-run adverse effect on FDI, both financial development and monetary policy have a significant long-run positive impact. This study highlights the importance of both policy areas in attracting FDI to Nigeria.

Iddrisu et al. (2024) explored the interlinkages between financial development, globalization, and FDI in 49 African countries from 1997 to 2020. Employing two-stage least squares, the results revealed that financial development and globalization boost FDI. Decomposition, however, established only financial market development (FMD) boosted FDI. The study additionally revealed a positive interlinkage between globalization and financial development, specifically political and economic globalization.

Batool et al. (2024) examined the contribution of FDI to financial development in Pakistan during the period 2001-2020. In the research, it was found that population growth and FDI positively affected financial development, whereas inflation adversely affected it. The ARDL approach was used in the research. Although the research is conducted in Pakistan, thereby limited to direct application in Nigeria, it nevertheless utilizes relevant financial variables.

Musyoka and Ocharo (2018) analyzed the effect of real interest rates, exchange rates, inflation, and competitiveness on FDI in Kenya from 1970 to 2016. Using the OLS regression, they found that real interest rates and exchange rates significantly negatively affected FDI. Competitiveness positively affected FDI, but inflation had no effect. These findings confirm that policy preference and exchange rate policy, combined with a competitive business environment, are a prerequisite for the facilitation of FDI inflows into Kenya.

Ylander and Palmgren (2015) studied the impact of FDI on market efficiency in six African stock markets. They first found that there was no statistical relationship between FDI and market efficiency across all the countries. A more careful analysis, however, showed that FDI positively impacted market efficiency in Kenya, Mauritius, Morocco, and Tunisia. The research suggests that African countries should explore easing policies for multinational firms to attract FDI and maybe improve market efficiency.

3.0 Methodology

The research is a causal and descriptive study that investigated the long-run and short-run relationship between financial development and foreign investment flows. The study adopted an ex-post facto design, as it analysed pre-existing data from various sources. This approach is ideal

for establishing causal relationships between non-experimental variables. The study covered the period from Q1 2012 to Q4 2024 and relied on existing historical data on financial sector development indicators (financial depth, inclusion, stability, and efficiency) which served as independent variables, while aggregate foreign investment flows (FDI and FPI) served as dependent variables over the specified period. Additionally, control variables in the analysis included inflation (INF), exchange rates (Exr), and Gross Domestic Product (GDP).

These broad variables ensured that the study captured the multifaceted impact of financial development on aggregate foreign investment dynamics. Data were collected from Nigerian and international sources, including the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), Nigerian Stock Exchange (NSE), International Monetary Fund (IMF), and the World Bank, for the period covering 2012 Q1 to 2024 Q4. The decision to use quarterly data stems from the need for higher-frequency observations, which allowed for a more granular and detailed understanding of the effects of financial development on foreign investments.

This study modified the earlier models of Egbetunde and Abayomi (2024), Desbordes and Wei (2017) and Arawomo and Apanisile (2018) to become:

$$\sum AFI_{i,t} = f\left(\sum FDV_{i,t}\right) \qquad 3.1$$

Where, $\sum AFI_{i,t}$ is aggregate foreign investments [FDI + FPI], $\sum FDV_{i,t}$ is financial development (i.e., financial depth, financial inclusion, financial stability and financial efficiency), all at time t. The mathematical models can be presented as:

$$\sum AFI_{i,t} = f(FD, FI, FS, FE) \qquad 3.2$$

Where,

$\sum AFI_{i,t}$ is aggregate foreign direct investment, the sum of foreign portfolio investment (FPI) and foreign direct investment (FDI), FD is financial depth proxied by credit to the private sector/GDP, FI is financial inclusion proxied by index of persons with bank accounts, FS is financial stability proxied by nonperforming loans to total loan ratio, FE is financial efficiency proxied by interest rate spreads. By expansion, the financial development variables will be separated to give us:

$$\sum \Delta AFI_{i,t} = \alpha_0 + \alpha_1 FD_{t-i} + \alpha_2 FI_{t-i} + \alpha_3 FS_{t-i} + \alpha_4 FE_{t-i} + \mu_t \qquad 3.3$$

Therefore, equations 3.3 become the operational models of this study. The Autoregressive Distributed Lag (ARDL) modeling technique is well-suited for examining the Effects of Financial Sector Development on Foreign Investments in Nigeria because it can handle variables with mixed integration orders, whether they are stationary at levels (I(0)) or first differences

(I(1)). This is especially important for the study because variables in the financial sector often have different integration properties.

$$\Delta AFI_t = \alpha_0 + \alpha_1 FDI_{i,t-i} + \alpha_2 FD_{t-i} + \alpha_3 FI_{t-i} + \alpha_4 FS_{t-i} + \alpha_5 FE_{t-i} + \beta_i \sum_{i=1}^{a} \Delta FDI_{t-i} + \partial_j \sum_{i=0}^{b_1} \Delta FD_{t-j} + \varphi_k \sum_{i=0}^{b_2} \Delta FI_{t-k} + \theta_l \sum_{i=0}^{b_3} \Delta FS_{t-l} + \omega_m \sum_{i=0}^{b_4} \Delta FE_{t-m} + \mu_t \quad 3.4$$

Whereas α1, α2, α3, α4, and α5 are the long-run coefficients, the optimum lag lengths, and the white noise error term, the terms associated with the summation signs in the models above (i.e., βi, ∂j, φk, θl, ωm, and πn) indicate the short-run dynamic coefficients. The Akaike information criterion (AIC) is used in this study to identify the proper lag order of each series of the ARDL model.

4.0 Data Presentation

Table 4.1: Result of the Descriptive Statistics

	AFI	FI	FD	FE	FS	GDP	EXR	INF
Mean	-0.304862	1124.344	12.53143	7.661801	6.587484	2.595737	305.7617	13.93107
Max	1.392807	2126.088	20.20753	9.486627	15.04122	6.973681	769.7153	27.69625
Min	-2.353055	635.6615	9.828566	6.130715	2.760729	-2.179304	152.8522	7.754089
Std. Dev.	0.946045	474.7410	2.111224	1.054292	4.031187	2.585861	140.6209	4.797624
Observations	52	52	52	52	52	52	52	52

Source: Author's Computation E-Views 10.0

The descriptive statistics in Table 4.1 show a mixed pattern for Nigeria's foreign investment from 2005 to 2020. Aggregate Foreign Investment (AFI) had negative means of -0.97 and -0.30, indicating net outflows. The standard deviation for Foreign Direct Investment (FDI) was 0.41. In contrast, Foreign Portfolio Investment (FPI) had a standard deviation of 1.15 and AFI had 0.95, showing higher volatility.

For the financial sector variables, the mean values were 1124.34 for financial inclusion (FI), 12.53 for financial depth (FD), 7.66 for financial efficiency (FE), and 6.59 for financial stability (FS). The standard deviation for FS was notably high at 4.03, indicating significant fluctuations. Among the macroeconomic variables, the mean growth rate of Gross Domestic Product (GDP) was 2.60. The exchange rate (EXR) and inflation (INF) showed notable volatility, with standard deviations of 140.62 and 4.80, respectively, in relation to their means. This highlights considerable instability in these key economic indicators throughout the study period.

Unit Root Analysis

The ADF test, which analyzes the unit root of the variables, produced the results shown in Table 4.2. Based on the results shown in Table 4.2, the unit root test, also known as the stationarity test, is utilized to determine whether the study variables are stationary or not.

Table 4.2: Unit Root Test

Variables	ADF	5% Critical Level	Order of Integration
ln(AFI)	-3.445207	-2.933158	I(0)
Dln(FI)	-3.707211	-3.515523	I(1)
Dln(FE)	-4.177677	-3.529758	I(1)
Dln(FS)	-2.155364	-1.948495	I(1)
Dln(EXr)	-4.548795	-3.515523	I(1)
Dln(GDP)	-4.102162	-3.529758	I(1)
Dln(INF)	-2.122191	-1.948140	I(1)

Source: Author's Computation E-Views 10

All the variables in this study are tested for stationarity using the Augmented Dickey-Fuller (ADF) test. From the results, the general level of foreign investment (AFI) is stationary at its current level. They are thus integrated of order zero, or I(0). However, the other variables are of order one, or I(1), since they must be first-differenced in order to be rendered stationary because they are non-stationary at levels. All of these first-differenced variables had a unit root in their underlying, un-differenced data series, which indicated that the null hypothesis was rejected. A long-run relationship may exist between the I(0) and I(1) variables if both are present. The study uses the Autoregressive Distributed Lag Bound Co-Integration Test in establishing this long-run relationship.

Table 4.3: ARDL Bounds Test for Cointegration

ARDL Bounds Test F-Statistic	**Critical Value Bounds @ 5%**		
	4.71	Lower Bound I(0)	Upper Bound I(1)
	5%	**2.17**	**3.2**

Sources: Author's Computation E-Views 9.0

The bounds test results showed that the estimated F-statistic value of 4.71 is higher than the upper bound at 5% levels, indicating the existence of a cointegration and the presence of long-run relationship. In other to achieve established the effect of financial sector development on foreign investments in Nigeria, the ARDL estimation techniques were adopted and presented in table 4.4.

Table 4.4: Short-Run and Long-Run ARDL Model

Short-Run Estimate				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-17.47096	5.519709	-3.165196	0.0194
AFI(-1)*	-3.986773	0.588961	-6.769163	0.0005
FI(-1)	0.006394	0.001431	4.467263	0.0042
FD(-1)	1.039970	0.295531	3.518992	0.0125
FE(-1)	1.610230	0.267303	6.023979	0.0009
FS(-1)	-0.299549	0.069103	-4.334809	0.0049
GDP(-1)	-1.152425	0.261895	-4.400332	0.0046
EXR(-1)	-0.012682	0.006004	-2.112179	0.0791
D(INF)	-0.918957	0.324992	-2.827629	0.0301
Long Run Coefficients Estimate				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
FI	0.001604	0.000392	4.094072	0.0064
FD	0.260855	0.077601	3.361478	0.0152
FE	0.403893	0.101680	3.972196	0.0073
FS	-0.075136	0.014293	-5.256986	0.0019
GDP	-0.289062	0.057340	-5.041223	0.0024
EXR	-0.003181	0.001674	-1.900819	0.1060
INF	-0.010647	0.034642	-0.307349	0.7690
C	-4.382231	1.681152	-2.606683	0.0403

Source: Author's Computation 2025

The findings of ARDL model are such that although there are various determinants of foreign investment in the short run in Nigeria, long-run impacts are ambiguous. Financial stability, GDP, inflation, financial inclusion, financial depth, and financial efficiency significantly influence foreign investment as a whole in the short run. The P-value less than 0.05 at the 5% level of significance is in support of the same.

In the long run, a more developed and efficient financial sector, including financial inclusion, financial depth (FD), and financial efficiency (FE), positively affects the attraction of aggregated foreign investment (AFI) in Nigeria, given that their respective P-value are less than 0.05 at 5% level of significant. However, financial stability and GDP have a negative long-term effect. The exchange rate and inflation do not significantly impact the long run. The findings indicate that policies focused on improving the financial system are essential for attracting long-term aggregate foreign investment. The positive and significant long-term effects of financial inclusion, financial depth, and financial efficiency show that expanding access to formal financial services for the population can create a larger pool of domestic savings and a more stable base of financial activity. This signals a healthier market to foreign investors. This findings align with the work of (Fundji, 2024; Abor et al., 2024) which shows that financial inclusion drives economic growth and investment in developing economies.

Additionally, the positive impact of financial development and efficiency highlights the need for a strong financial sector that can effectively connect capital supply and demand. This matches the financial intermediation theory, which suggests that an efficient financial system lowers transaction costs and information gaps for investors. This makes a country more attractive for foreign capital (Gurley & Shaw, 1960). Iddrisu et al. (2024) support this view, emphasizing that financial market development, rather than just institutional development, is what really attracts FDI in Africa.

On the other hand, the negative long-term relationship between financial stability and foreign investment is a surprising but important finding. This may suggest that Nigeria's strategy for financial stability, including strict capital controls or a rigid regulatory environment, could deter long-term investors who prefer a flexible and open market. This goes against the expectation that stability should encourage investment. It implies that a more balanced approach is necessary, one that maintains stability while allowing for market openness.

Post Estimation Normality Test

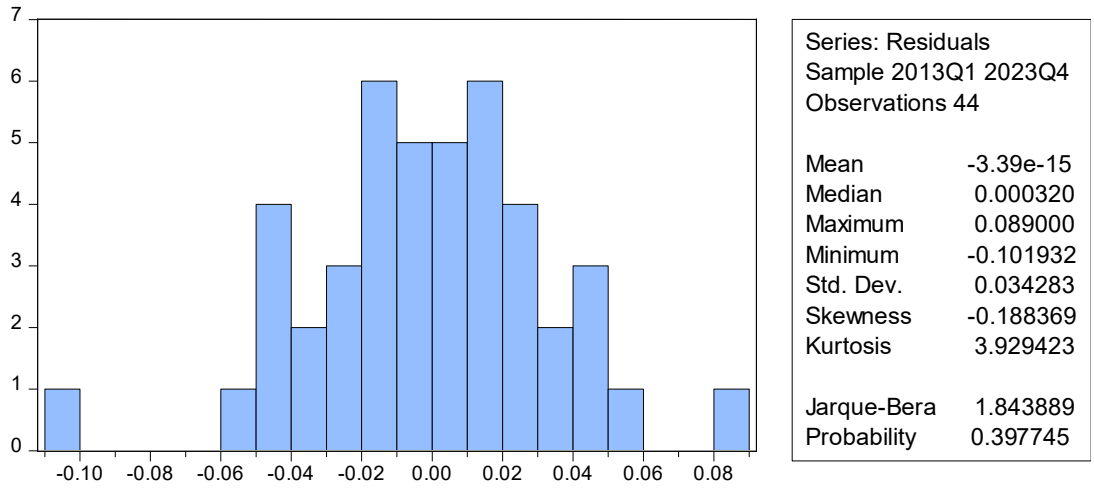

Figure 4.2 Normality Test for ARDL

Author's Computation 2025

The normality test is performed on the residuals (the differences between the actual and predicted values of a model) to check if they follow a normal distribution. The key test of statistic for this is the Jarque-Bera test, which evaluates the residuals' skewness and kurtosis against that of a normal distribution. Jarque-Bera statistic value is 1.84 with a p-value of 0.39. Since the probability value is greater than the conventional significance level of 0.05, we fail to reject the null hypothesis that the residuals are normally distributed.

5.0 Conclusion

The study examines the impact of financial development on foreign sector investment in Nigeria from Q1 2012 to Q4 2024 using the ARDL approach. The findings indicate that financial depth, financial efficiency, and financial inclusion have a positive and significant effect on aggregate foreign investment, with financial depth and efficiency exerting strong short- and long-run influences, largely driven by Nigeria's fintech expansion. Conversely, financial stability shows a negative relationship with foreign investment insignificant in the short run but significant in the long run suggesting that some investors may prefer relatively volatile markets in search of higher returns. Although financial inclusion is positively related to foreign investment, its effect remains weak due to limited depth, constraining its ability to attract substantial foreign capital.

Recommendations

Based on the empirical findings, the study recommends that Nigeria pursue comprehensive financial sector reforms aimed at deepening and modernising financial markets to enhance their capacity to attract foreign investment. In particular, policymakers should strengthen capital markets, improve market liquidity, and sustain the fintech revolution through supportive regulatory frameworks that encourage innovation while safeguarding financial integrity. Enhancing digital financial services and payment infrastructures will further improve financial efficiency, which the study identifies as a key driver of foreign investment inflows.

In addition, the study recommends a careful re-evaluation of financial stability policies to ensure an appropriate balance between regulatory control and market openness. While macroprudential regulations are essential for risk management, overly restrictive stability measures may reduce market dynamism and deter foreign investors seeking competitive returns. Furthermore, the study emphasises the need to reorient financial inclusion policies away from a narrow focus on access toward promoting active and productive usage of financial services. This is particularly important in rural and underserved areas, where limited depth and utilisation constrain the ability of financial inclusion to translate into meaningful foreign capital inflows. Policies that support financial literacy, digital adoption, and inclusive financial products are therefore critical for leveraging financial inclusion as a sustainable channel for attracting foreign investment.

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