



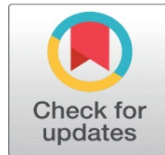
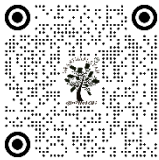
# MACROECONOMIC VARIABLES AS IMPETUS OF FOREIGN PORTFOLIO INVESTMENT IN NIGERIA

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## ABSTRACT

Nigeria has experienced fluctuating levels of foreign portfolio investment (FPI), raising concerns about the macroeconomic factors that influence its inflow and sustainability. This study investigates the impact of exchange rate, gross domestic product (GDP), and stock market returns on FPI in Nigeria, using quarterly time series data from 2000 to 2024. The study employs the Autoregressive Distributed Lag (ARDL) model to estimate both short-run and long-run relationships. In the long run, exchange rate ( $\beta = 0.312$ ,  $p = 0.001$ ), GDP ( $\beta = 0.144$ ,  $p = 0.017$ ), and stock market returns ( $\beta = 0.098$ ,  $p = 0.000$ ) were all found to have significant positive effects on FPI. In the short run, exchange rate ( $\beta = 0.125$ ,  $p = 0.034$ ), GDP ( $\beta = 0.089$ ,  $p = 0.033$ ), and stock market returns ( $\beta = 0.057$ ,  $p = 0.001$ ) remained significant, while the error correction term (ECM =  $-0.621$ ,  $p < 0.001$ ) indicated a strong speed of adjustment toward long-run equilibrium. The study concludes that sound macroeconomic fundamentals are essential for sustaining FPI. It recommends exchange rate stabilization through credible policy measures, growth-enhancing reforms to support GDP expansion, and increased transparency and efficiency in the capital market to boost investor confidence and attract long-term portfolio flows.

**Keywords:** Foreign Portfolio Investment, Exchange Rate, GDP, Stock Market Returns, ARDL Model

## 1. INTRODUCTION

Foreign portfolio investment (FPI) plays a pivotal role in facilitating capital flows to emerging markets, offering an important source of external finance for countries with limited domestic savings (Duruechi, 2020). Generally, FPI is defined as short-term investment in financial asset such as equities, bonds and money market instruments that does not generate ownership or control. Unlike foreign direct investment (FDI), which is long-term and long-term, FPI is more vulnerable and unstable to the changes in the macroeconomic environment (Onye & Okeke, 2022). Nigeria is an example of the emerging economies that have been actively seeking FPI with broader efforts to improve their capital market,

augment financial liquidity, and maintain economic growth (Etale and Sawyerr, 2020; Nwadike et al., 2023). However, portfolio investments are highly vulnerable to international and national uncertainty because of the fluidity of portfolio investments. Therefore, abrupt changes in capitals can affect the financial markets and destabilize the macroeconomy and it is important to comprehend the determinants and dynamics of FPI. K (2026)

Macroeconomic fundamentals are central to explaining the behaviour of FPI in emerging markets. According to the empirical literature, such factors as the change of the exchange rate, the growth of gross domestic product (GDP) and the work of stock markets play an important role in determining the amount and trend of FPI (Ahmed and Suleiman, 2021; Tyoga et al., 2024). Constant state of exchange rate lowers the risk of currency, hence the foreign investors are guaranteed of the worth of their returns in domestic currency units. Contrarily, exchange rate volatility creates an element of uncertainty and may put people off investment unless the perceived returns compensate the perceived risk (Duruechi, 2020). GDP growth is an indicator of economic strengths and growth, and foreign investors would seek to exploit the increased consumption and production. Similarly, strong stock market performance corresponds to investor confidence, market efficiency, and the possibility of high returns, which are significant considerations in the portfolio investment (Makoni, 2023). These macroeconomic indicators, taken together, form a critical information set that shapes investor perception and behaviour in frontier and emerging economies.

Empirical research on the Nigerian experience has been found to give disproportionate attention to FDI at the expense of the particular attributes and policy implications of FPI. The use of FPI where it is analysed is often in isolation of other macroeconomic variables or restricted to short periods, which may result in generalisable conclusions being hard to draw. As an example, other studies, like Makoni (2023) and Duruechi (2020), report opposite results on the connection between exchange rate stability and FPI, the first one diagnosing stability with an investment magnet and the second claiming that volatility may give an opportunity to invest to risk-takers with arbitrage. Equally, there is no conclusive effect of GDP growth and stock returns on FPI in the literature partly because of variation in data coverage, estimation methods and the dynamic policy environment. The identified inconsistencies suggest a more integrated, context-specific, and longitudinal analysis that can be employed to look at the complexities of interaction between macroeconomic environment in Nigeria and foreign investment flows.

The proposed study will help fill these gaps since it will evaluate how exchange rates, GDP, and stock market returns influence FPI in Nigeria during the past 25 years, i.e. 2000-2024. The era is a mix of economic regimes, that involve oil price shocks, global financial shocks, pandemic shocks and new policy shifts such as the unification of exchange rates and capital market reforms. Autoregressive distributed lag (ARDL) model is used to explain both short run variation and long run equilibrium relationships and provides a finer detail of the impact of macroeconomic fundamentals on FPI. Four quarterly data supports the analysis and increase the accuracy of the analysis, thus, the possibility to investigate the behaviour of investment, in relation to macroeconomic changes in a more detailed manner.

It is hoped that the results of this study will produce significant insights to various stakeholders. More knowledge of FPI determinants can highlight the strategies that can be used to stabilise capital flows, enhance investor confidence, and enhance macroeconomic management, to the policymakers. For investors, the study offers evidence-based guidance on risk assessment, portfolio diversification, and market timing in Nigeria's evolving financial landscape. Specifically, the study sought to achieve the following;

- 1) evaluate the impact of exchange rate on foreign portfolio investment (FPI) in Nigeria.
- 2) examine the influence of gross domestic product (GDP) on FPI.
- 3) assess the relationship between stock market returns and FPI inflows.

## 2. LITERATURE REVIEW

### 2.1. CONCEPTUAL CLARIFICATIONS

Foreign portfolio investment decisions are significantly shaped by key macroeconomic indicators, particularly exchange rate movements, gross domestic product (GDP) growth, and stock market returns (Ahmed & Kelikahili, 2022). These indicators provide the information on the stability of the economy of a country, its growth potential, and relative risk or returns on investments. Foreign investors particularly are highly concerned with the exchange rate because it determines the true value of returns when the investor repatriates (Etale and Sawyerr, 2020). A fluctuating exchange rate environment increases the level of uncertainty and can discourage foreign portfolio flows because of fear of economic loss as a result of currency devaluation (Nwadike et al., 2023; Uzoma-Nwosu and Orekoya, 2019). On the

contrary, a stable exchange rate regime boosts investor confidence because it reduces the currency risk. The case of Nigeria, especially after the introduction of Structural Adjustment Programme (SAP) in the year 1986, shows that exchange rate liberalisation without proper stabilization mechanisms may in the long run cause volatility, thus affecting the dynamics of FPI (Adenekan et al., 2019).

GDP on the other hand is a key indicator in measuring the performance of the economy. It indicates the overall worth of goods and services produced in a given nation at a certain time and can be commonly employed to determine the economic activity and investment prospects. An increase in GDP implies larger market size, enhanced productivity and better economic fundamentals, and these factors will be appealing to foreign investors (Karimo, 2020). The continued growth of GDP is considered one of the primary pull factors of FDI and FPI in the Nigerian context, which will signify an increased number of economic opportunities and a better investment environment (Ahmed and Kelikahili, 2022). Conversely, economic contraction, political instability, or structural weaknesses may deter portfolio flows by raising investor concerns over future profitability and risk exposure. Thus, GDP trends serve as a signal to portfolio investors regarding the underlying health and resilience of the host economy.

Stock market returns also play a crucial role in attracting FPI, especially in markets where foreign investors have access to equities, bonds, and mutual funds. Stock returns, generally measured by capital appreciation and dividend yield, serve as a proxy for market performance and investor sentiment (Etale & Sawyerr, 2020). In efficient markets, rising returns indicate profitability, strong corporate performance, and favorable market conditions, which collectively attract foreign capital. As the case of Nigeria indicate, the returns of stock markets are strictly associated with the inflows of foreign investment, especially when the markets are characterized by liquidity, transparency, and strong regulation control (Cagan, 2024; Odean et al., 2020). However, the volatility brought about by the vulnerability of the stock market to external shocks such as commodity prices and currency devaluations can influence investor behaviours. The correlation of stock returns with other macroeconomic variables gives a more coherent explanation of their contribution to attracting FPI.

## 2.2. THEORETICAL FRAMEWORK

The theoretical underpinnings of this study draw primarily from modern investment theories, particularly the Portfolio Theory and the Efficient Market Hypothesis (EMH). According to Portfolio Theory, developed by Harry Markowitz, investors aim to maximize returns while minimizing risk through diversification. This theory assumes that foreign investors will distribute the capital in international markets in order to maximize the risk-return profile. The macroeconomic variables that play a critical role in this process are exchange rates, GDP, stock returns because they have a direct impact on the anticipated returns and the risk of investment. When considering the situation in Nigeria, foreign investors evaluate the variables to conclude on whether the anticipated return will be worth the country-specific risks (Tyoga et al., 2024). This is because a depreciating exchange rate such as that experienced by the Japanese can be counter balanced by an increase in stock market returns or a high rate of GDP growth thus leading to a speculative influx of portfolio investment.

The closely related theory is the Efficient Market Hypothesis, which is a theory saying that financial markets can and do process as much information that they have as quickly and efficiently as possible into the prices of assets. By this perspective, investors are not always able to beat the market; the prices already incorporate some underlying factors such as the macroeconomic conditions (Fama, 1970). To an investor in a foreign portfolio, this is an indication that the exchange rate dynamics, GDP, and stock returns have already been factored into the valuation of the assets and therefore steer his or her capital allocation choice (Duruechi, 2020). But in emerging economies such as Nigeria where markets tend to be characterised by inefficiencies, information asymmetry and regulatory loopholes, non-conformity to EMH is widespread. In this regard, investors can aim to take advantage of a mispricing or arbitrage of the situation, and macroeconomic indicators become even more applicable in predicting investment results in the short and long term (Barberis et al., 2021).

Also, the Pull-Push Theory of capital flows gives an idea of the factors initiating FPI. In-country factors are referred to as pull factors, e.g. economic development of the host country, political stability, and favorable regulatory conditions. Push factors on the other hand are externalities in the global economy like interest rate differentials, the world risk appetite and advanced economies performance. This theory highlights the two-fold effect of domestic macroeconomic factors (including the exchange rate regime in Nigeria or the GDP growth path) and global economic factors in

determining FPI flows (Duruechi, 2020). It follows that a full picture of FPI cannot be obtained by merely looking at domestic indicators but must be placed in the context of the world financial forces.

### 2.3. EMPIRICAL STUDIES REVIEW

Empirical investigations into the determinants of FPI in Nigeria and similar economies have yielded varied findings, reflecting differences in methodologies, time periods, and variables considered. Ayinde et al. (2024), in their turn, determined exchange rate, inflation, and interest rates as the macroeconomic variables that impact the foreign capital flows in Nigeria. They found that exchange rate instability tends to deter FPI and that comparatively high domestic interest rates may invite short speculative investment. On the same note, Osuma et al. (2024) observed that investor sentiment is also determined by foreign reserves and oil prices, but these variables fluctuate with time. Although these studies have helped in the dynamics of FPI, most of them have not been able to separate FPI with other capital inflows like FDI hence, conflation of concepts and limited policy usefulness.

Recent work has started to independently isolate the behaviour of FPI with respect to certain macroeconomic variables. Makoni (2023) points out that FPI is a volatile metric as a defining feature and its dynamics are quicker than FDI to short-term macroeconomic events like exchange Rates, or abrupt shifts in interest rates. Tyoga et al. (2024) took this discussion a step further to show that exchange rate has a negative and statistically significant impact on FPI and FDI in Nigeria, whereas GDP and stock market returns are positively and significantly correlated with foreign capital inflows. These results can be aligned with the thesis that permanent macroeconomic fundamentals are essential in attraction and retention of foreign portfolio investments especially in emerging markets that are volatile.

International comparisons also support the applicability of the macroeconomic indicators in determining the FPI flows. The literature provides evidence of the role of GDP growth and development of financial markets in enticing foreign portfolio investors in Sub-Saharan Africa and Asia. An example is that Gautam, Chadha, and Malik (2020) discovered that the growth of GDP and the strengthening of regulatory conditions in various Asian economies led to a substantial increase in FPI inflows. Similarly, Eregha (2020) noted that African nations that had stable currencies, well developed capital markets, and proper macroeconomic management would have more FPI. Such observations indicate that macroeconomic instability of Nigeria, especially exchange rate management still remains a liability to its appeal to portfolio investors despite the favourable developments in GDP and stock gains.

Although the literature has increased, there is still a lack of research studies that will take a long term, holistic, view of the relationship among exchange rate, GDP, stock market performance and FPI in Nigeria. Most of the current literature is either out of date or confined to short-term analyses and they do not reflect the structural changes and policy reforms that have taken place during the last twenty years. The current study seeks to bridge this gap by employing quarterly time series data from 2000 to 2024 and using an ARDL modeling approach to assess both short- and long-run dynamics. This methodological approach allows for greater analytical depth and a clearer understanding of the causal relationships among the variables, thereby offering actionable insights for investors and policymakers alike (Tyoga et al., 2024).

### 3. METHODOLOGY

This study employs quarterly time series data from 2000 to 2024 to investigate the impact of macroeconomic variables on foreign portfolio investment (FPI) in Nigeria. The data were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin and the Nigerian Exchange Group (NGX). The data on exchange rate and gross domestic product (GDP) were acquired through CBN whereas the data on stock market returns were acquired through Nigerian All Share Index (ASI) sustained by NGX. The 25-year window encompasses the different economic cycles such as oil price shocks, financial crises, and policy reforms, and it is therefore appropriate in analyzing both the short-term and long-run investment behaviour (Adenekan, Sanni, and Itoda, 2019; CBN Bulletin, 2021).

To measure the relationship between FPI and the chosen macroeconomic indicators the study utilises the Autoregressive Distributed Lag (ARDL) model. ARDL is especially suitable where the variables are integrated at various degrees  $I(0)$   $I(1)$ , but not  $I(2)$ . It enables the estimation of both long run equilibrium relationships and short run dynamics within a single framework (Pesaran, Shin and Smith, 2001). There was a post-test on unit root tests employing the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests to ascertain the level of stationarity of the variables

(Duruechi, 2020). The ARDL model is especially relevant for moderate sample sizes, such as the 100 quarterly observations in this study, and accommodates different lag lengths for each variable (Gautam, Chadha & Malik, 2020).

The dependent variable is foreign portfolio investment, representing total net inflows into Nigerian capital markets. The explanatory variables include exchange rate (naira per US dollar), GDP (real output in naira), and stock market returns (percentage change in ASI). Exchange rate is expected to exert a negative effect due to currency risk (Uzoma-Nwosu & Orekoya, 2019), while GDP and stock returns are expected to positively influence FPI by signaling economic growth and market profitability (Ahmed & Kelikahili, 2022; Cagan, 2024).

To ensure model robustness, diagnostic tests such as the Breusch-Godfrey test for serial correlation, the Breusch-Pagan-Godfrey test for heteroskedasticity, and the Jarque-Bera test for normality were conducted. Model stability was assessed using the CUSUM and CUSUMSQ tests (Mouakeni & Zidane, 2020). The ARDL bounds test was applied to determine the existence of cointegration, and an error correction model (ECM) was estimated where appropriate.

The study adopts a significance level of 0.05% for hypothesis testing, following the decision rule that a P-value less than 0.05 indicates the rejection of the null hypothesis, signifying a statistically significant impact of independent variables on the dependent variable. In this study, the focus is on econometric methods for data analysis in economics, with a particular emphasis on the Autoregressive Distribution Lag (ARDL) technique for time series analysis. The choice of ARDL is justified based on its robustness and consistency in handling cointegration and estimating parameters for both long-run and short-run effectiveness. Notably, researchers like Bicudo and Azu (2018) have advocated for the use of ARDL due to its advantages. The study emphasizes the limitations of conventional co-integration and Ordinary Least Square (OLS) methods, highlighting biasness in certain cases. The model builds on the work of Obi et al. (2021), who examined the impact of macroeconomic variables on foreign portfolio investment volatility in Nigeria. While their model included interest rate, inflation, and money supply, this study modifies the specification by excluding those variables and introducing stock market returns to align with the research objectives.

The baseline model of Obi et al. (2021) was expressed as:

$$FPI = f(GDP, EXCR, ITR, IF, MS) \dots\dots\dots (3.1)$$

The study modified the model into the model in equation 3.1  $y_i = \beta_0 + \beta_1 \times i_1 + \beta_2 \times i_2 + \dots + \beta_k \times i_k + e$  where, for  $i=n$  observations:  $y_i$  = dependent variable  $\times_i$  = Explanatory variable  $\beta_0 = y$  -intercept (constant term)  $\beta_p$  = Slope coefficient for each explanatory variable  $e$  = The models error term.

$$FPI=f(\text{Macroeconomic Variables}) \dots\dots\dots 1$$

$$FPI=f(\text{EXH, GDP, SMR}) \dots\dots\dots 2$$

$$FPI = \beta_0 + \beta_1 EXH + \beta_2 GDP + \beta_3 SMR + e \dots\dots\dots 3$$

$$FPI = \beta_0 + \beta_1 EXH_t + \beta_2 GDP_t + \beta_3 SMR_t + e_t \dots\dots\dots 4$$

Hence, Foreign Portfolio Investment (FPI)=  $\beta_0$  +Exchange Rate (EXH) + Gross Domestic Product (GDP)+ Stock Market Returns (SMR) Where: FPI= is the foreign portfolio investment EXH= is the exchange rate GDP= Gross Domestic Product (GDP), Stock Market Returns (SMR) E= is the error term. t. = time series data.

### 4. RESULTS AND DISCUSSION

Table 1

Table 1 Descriptive Statistics of Variables							
Variable	Mean	Median	Minimum	Maximum	Std. Deviation	Skewness	Kurtosis
FDI (\$m)	949.46	770.42	-558.45	3084.9	721.01	0.64	0.21
FPI (\$m)	1002.22	633.41	-6105.13	9111.15	2271.88	0.48	2.93
Exch. Rate	273.02	157.3	100.93	1601.53	289.31	3.28	11.31
Real GDP (N)	1,24,09,430.32	1,49,58,190.00	2500	2,26,10,390.00	68,78,083.49	-0.91	-0.5
All Share Index	98,791.37	83,177.78	17,674.80	3,07,844.80	57,584.84	1.71	3.94

Table 1 presents the descriptive statistics for all the variables used in the analysis. Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) show considerable variation, with mean values of \$949.46 million and \$1,002.22

million respectively. Notably, both variables recorded negative minimum values, suggesting episodes of net capital outflows during the study period. FPI, in particular, displayed significant volatility with a large standard deviation of \$2,271.88 million. Exchange rate exhibited a high mean of 273.02, with extreme values ranging from 100.93 to 1,601.53, reflecting Nigeria's multiple currency regime transitions and significant depreciation over the years. Its high skewness (3.28) and kurtosis (11.31) indicate a non-normal and heavy-tailed distribution. Real GDP, measured in naira, had a mean of ₦12.4 trillion and a substantial spread, showing the broad changes in economic output over the 25-year period. The All Share Index also varied widely, with a mean of 98,791.37 and a maximum of 307,844.80, suggesting periods of rapid stock market growth. Overall, these statistics confirm the presence of significant dispersion and asymmetry in the data, warranting robust econometric modelling.

**Table 2**

<b>Table 2 Regression Results (ARDL – Long Run Coefficients)</b>				
<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>p-Value</b>
EXR	0.312	0.091	3.43	0.001
GDP	0.144	0.059	2.44	0.017
SMR	0.098	0.025	3.92	0
C	-1520.678	534.218	-2.85	0.006

Dependent Variable: Foreign Portfolio Investment (FPI)

Independent Variables: Exchange Rate (EXR), Gross Domestic Product (GDP), Stock Market Returns (SMR)

Table 2 presents the estimated long-run coefficients from the ARDL model assessing the impact of key macroeconomic indicators on FPI. All three independent variables are statistically significant and positively associated with FPI. Exchange rate (EXR) has the largest positive coefficient (0.312,  $p = 0.001$ ), suggesting that depreciation in the naira may enhance FPI inflows, likely due to the relative attractiveness of Nigerian assets to foreign investors. GDP (0.144,  $p = 0.017$ ) also exerts a positive and statistically significant effect, consistent with the view that economic expansion supports investor confidence. Stock market returns (SMR) have a coefficient of 0.098 ( $p = 0.000$ ), indicating that a thriving capital market strongly encourages portfolio inflows. The constant term is negative and significant, implying the existence of structural constraints or capital outflow pressures when macroeconomic fundamentals are unfavourable. These results collectively affirm that Nigeria's macroeconomic indicators significantly shape long-term FPI dynamics.

**Table 3**

<b>Table 3 Short-Run Error Correction Representation</b>				
<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>p-Value</b>
D(EXR)	0.125	0.058	2.16	0.034
D(GDP)	0.089	0.041	2.17	0.033
D(SMR)	0.057	0.016	3.56	0.001
ECM(-1)	-0.621	0.078	-7.96	0

Table 3 outlines the short-run estimates and error correction mechanism. The error correction term (ECM(-1)) is negative and highly significant (-0.621,  $p < 0.001$ ), confirming the existence of a long-run equilibrium and indicating that 62.1% of any short-term disequilibrium in FPI adjusts each quarter. This rapid adjustment reinforces the stability of the long-run relationship established in Table 2. In the short run, exchange rate (0.125,  $p = 0.034$ ), GDP (0.089,  $p = 0.033$ ), and SMR (0.057,  $p = 0.001$ ) all have significant positive effects on FPI. These results imply that favourable macroeconomic movements not only drive long-run capital inflows but also exert immediate influence on portfolio investment decisions. The strong statistical significance of SMR again highlights the critical role of the Nigerian capital market in attracting short-term foreign investment.

**Table 4**

<b>Table 4 Model Diagnostics</b>	
<b>Statistic</b>	<b>Value</b>
R-squared	0.743
Adjusted R-squared	0.726
F-statistic	44.63
Prob(F-statistic)	0
Durbin-Watson stat	2.04

Table 4 reports the diagnostic statistics for the Model. The R-squared of 0.743 and adjusted R-squared of 0.726 indicate that approximately 72.6% of the variation in FPI is explained by the independent variables, exchange rate, GDP, and stock market returns. The high F-statistic (44.63) and its significance ( $p = 0.000$ ) confirm that the model is statistically sound and that the explanatory variables jointly have a strong impact on FPI. The Durbin-Watson statistic of 2.04 suggests the absence of serious autocorrelation in the residuals, supporting the assumption of independent errors. Collectively, these diagnostics validate the reliability of the ARDL model and reinforce the robustness of the empirical findings presented in the preceding tables.

## 5. DISCUSSION

The regression outcome provided a good empirical evidence to the thesis that macroeconomic fundamentals are imperative in determining the foreign portfolio investment (FPI) flows in Nigeria. Exchange rate, gross domestic product (GDP) and stock market returns were all identified as having statistically significant and positive long-run relationship with FPI. This aligns with the previous literature like Makoni (2023) and Etale and Sawyerr (2020), that has documented that macroeconomic stability especially in the exchange rate and economic growth has a significant impact on the assets being transferred into developing economies in the portfolio. The result that exchange rate has the strongest long-run effect on FPI aligns with findings by Uzoma-Nwosu and Orekoya (2019), who noted that currency depreciation often increases the competitiveness of domestic assets and may attract speculative inflows seeking higher yields, especially in environments where foreign exchange risks are manageable.

The positive and significant relationship between GDP and FPI also echoes the findings of Ahmed and Kelikahili (2022), who established that sustained economic growth acts as a pull factor for foreign investors. A growing GDP signals broader market opportunities, rising consumer demand, and improved economic fundamentals, all of which appeal to international investors looking for stable returns. Similarly, Karimo (2020) noted that in the Nigerian context, rising GDP figures often serve as a signal of macroeconomic recovery and policy consistency, especially in periods following fiscal or monetary reforms. The result in this study therefore reinforces the understanding that GDP is not just a background economic indicator but a key determinant of FPI, especially over the long term.

Stock market returns also show a significant positive impact on FPI, which aligns with the empirical findings of Odean et al. (2020) and Cagan (2024). These studies pointed out that large stock market returns and enhanced equity market performance play a vital role in attracting foreign investors who strongly depend on financial markets to make returns. The importance of stock returns in the short and long term as evident in this research adds more evidence to the importance of financial markets performance as an indicator of economic prosperity and institutional soundness. In addition, the results also confirm the argument presented by Barberis et al. (2021) that the timing and amount of portfolio flows in emerging economies are also heavily dependent on investor sentiment and market optimism, which is often manifested in the form of increasing stock indices.

So, the findings of this paper are widely aligned to the literature both in the case of the Nigerian market and in the comparison review in other emerging markets. The correspondence of the empirical results with the theoretical findings supports the belief in the power of the adopted ARDL model. It also confirms that the capacity of Nigeria to attract FPI is largely determined by its exchange rate policy, economic growth path and performance of its capital market. These findings not only validate existing studies but also extend them by confirming that these macroeconomic variables maintain their influence over a longer time horizon, thus offering important insights for policymakers and financial market stakeholders.

## 6. CONCLUSION

This study examined the long-run and short-run impact of key macroeconomic variables, exchange rate, gross domestic product (GDP), and stock market returns, on foreign portfolio investment (FPI) in Nigeria using quarterly data from 2000 to 2024. The autoregressive distributed lag (ARDL) model results indicated that FPI influences all three variables significantly and favourably both in long run and short run. In particular, exchange rate appeared as the most powerful determinant, which means that the dynamics of currency are an important factor that should be taken into account by foreign investors. The statistically significant positive relations between FPI and GDP and stock market returns also indicated that the economic performance and the capital market conditions were of relevance in attracting portfolio inflows. These findings are in support of the role of macroeconomic fundamentals in the determination of investment behaviour within the financial system of Nigeria.

Considering the high impact of the exchange rate on FPI, exchange rate stabilization in Nigeria should be done by establishing credible, transparent and consistent foreign exchange policy. Monetary authorities must not engage in sudden and non-transparent currency manipulations that tend to increase the uncertainty of investors and cause them to fly to other countries. Volatility can be reduced by a managed float system which is backed by the sufficient foreign reserves and frequent market interventions. Moreover, unifying the multiple exchange rate windows into a single, market-reflective rate would enhance investor confidence and promote clarity in currency valuation, thus improving the predictability of returns on foreign investments.

To sustain GDP growth and enhance stock market credibility, the government must deepen structural reforms that support productive sectors of the economy. It needs to invest in infrastructure, energy and technology so as to propel a broad based growth. Besides, macroeconomic stability, pegged on effective fiscal and monetary policies, should be ensured in order to curb the inflationary pressures and facilitate investment. Regulatory bodies on the capital market front, which include the Securities and Exchange Commission (SEC) and the Nigerian Exchange Group (NGX), have to intensify on transparency, disclosure by instilling financial literacy to enhance investor confidence. The market depth and performance can also be enhanced by the policies which encourage more deep-rooted participation in the market through fintech integration and increasing the retail investor base.

The implication of these findings is obvious; it is evident that a stable macroeconomic environment is important to attract and retain foreign portfolio investment in Nigeria. Although short-term capital may be useful in terms of liquidity and market development, its volatility demands that Nigeria should pursue policies that anchor FPI in the wider context of long-term financial stability. Policy coherence, institutional credibility, and investor-oriented reforms are critical to ensuring that Nigeria remains a viable destination for foreign capital, not just during periods of high returns but as a consistent and resilient investment market over time.

## CONFLICT OF INTERESTS

None.

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None.

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