



ABSTRACT

The paper examines the impact of foreign capital flows on capital market growth in Nigeria. Ordinary least square regression analysis was employed in the study. The Augmented Dickey-Fuller unit root test reveals that all the variables became stationary after first difference, while the Johansen cointegration test result revealed that a long run relationship exists between the variables. Findings from the regression estimates show that foreign portfolio investment, real exchange rate and degree of openness all have positive and statistically significant impact on Nigeria's capital market growth in the long run. A 1

IMPACT OF FOREIGN CAPITAL FLOWS ON CAPITAL MARKET GROWTH IN NIGERIA (1990-2022)

***YERIMA ISHAYA JABIL; & **AYUBA PHILEMON DANAN**

*Department of General Studies, Federal Polytechnic Kaltungo, Gombe State. **Department of Actuarial Science, Faculty of Management Sciences, University of Lagos.

Introduction

All over the world, capital market has played significant role in the growth and development of the economy. It has been identified as one of the drivers that ensure growth and development in an economy, as it is pertinent for capital realisation and long term growth (Osaze, 2021). Capital market plays a key role in financial intermediation in both developed and developing countries by mobilizing idle funds from surplus to deficit units in the economy. In good times, capital markets channel international capital flows/savings to the countries and regions of the world where they are most productive, while during crisis periods, they have the ability to disrupt the domestic financial systems of the most vulnerable countries and therefore constitute a key factor affecting global financial stability (Matthieu, Julia and Natacha, 2019). Capital market also mobilizes and channels funds to self-liquidating investments that are profitable in nature. Its liquidity role is unique amongst other functions it plays because, it provides liquidity by ensuring that firms raise funds through the sales of securities with relative ease and speed. Through this medium, the growth of the economy and investment can be influenced by the capital market. Thus, the overall development of an economy depends on how the capital market performs and attracts foreign capital flows into the country. The existence of a well-organized and liquid stock market is a potential incentive which facilitates the inflows of foreign capital from foreign investors. Levine (2020) observed that a market that is not well organized and devoid of liquid capital, serve as a disincentive as savers would not undertake long-term ventures that yield profits, and no investor would want their money tied up for a long period of time. Other incentives such as high performance of the capital market in terms of increased volume of market capitalization, turnover ratio and all share price index equally



percent increase in FPI, EXCR and DOP improves Nigeria's capital market growth by 0.003, 12 and 5.9 percent respectively. Foreign direct investment as a positive but statistically insignificant impact on Nigeria's capital market growth in the long run. The granger causality test reveals a unidirectional relationship between all the variables except for FPI and FDI that have a bi-directional relationship. The study thus concludes that foreign capital flows have along run positive impact on capital market growth in Nigeria. It is recommended among others that trade be further liberalised in order to allow free flow of foreign capital and that expansion of the capital market is necessary to attract more foreign capital.

Keywords: Foreign capital flows, capital market, economic growth, and foreign direct investment.

serve as factors capable of pulling capital flows into the capital market of an economy.

Since its popularization by Connor and Iscariot (2018), foreign capital flows have become so important because it is a medium where developing countries solve issues involving shortage of capital. More-so, the need for foreign capital to complement domestic resources has been welcomed as a catalyst of growth and development, since it is considered as the central element of the process of economic growth in developing countries opines that the transfer of capital between countries from where it is abundant to where it is limited will lead to enhancement of investment in the receiving country. For Kalim (2018), foreign investment in the receiving countries (developing countries) would benefit those countries by increasing the availability of capital and thereby having a positive impact over productivity and the general economic wellbeing of the host country.

In the last few years, Nigeria as a developing country had clamoured for foreign capital flows in the country. This is believed to facilitate economic growth and development, which will lead to industrialization of the economy in the long run (Adeleke, 2020). Observed that components of capital inflow include foreign direct investment (FDI), net portfolio equity investment or foreign portfolio investment (FPI) and other financial investments (OFI), and that of these components; FDI has had a more pronounced impact on the economy because it includes technological, managerial and marketing expertise. In recent times however, statistics have shown that foreign portfolio investment and other financial investments in the country have been on the increase.

Despite the enormous capital flows recorded in the Nigerian capital market, mixed feelings exist as scholars have conflicting views as regards the impact of foreign capital flows on the growth of the Nigerian Capital market. For example, Eniekezimene, (2019) examined the impact of foreign portfolio investment on capital market growth in Nigeria. Findings show that foreign portfolio investment has a positive impact on capital market growth in Nigeria. This result supports the findings by Ozurumba (2022), whose study shows that foreign portfolio investment has a positive and significant impact on stock market returns. Conversely, Ekeocha (2020) in his study finds that portfolio investment is negatively related to real exchange rate, market capitalization, trade, degree of openness and institutional quality in Nigeria. This mixed result generates questions such as: what causal relationship exists between foreign capital flows and capital market growth in Nigeria? Is there a significant long run impact of foreign direct investment on capital market growth in Nigeria? Does foreign portfolio investment have any significant long run impact on capital market growth in Nigeria? This study therefore examines whether foreign capital flows have any significant long run impact on the growth



of Capital Market in Nigeria. It also examines the direction of relationship that exists between foreign capital flows and capital market growth in Nigeria.

Literature Review

Conceptual Review

Foreign Capital Flow

Gani (2020) defined foreign capital flow as the movement of monetary resources for investment, commercial trade, or the running of a corporation across countries. The differences in interest rates between countries affects the capital flows, when a country has high real interest rates, it will experience capital inflows.

But in the views of Akawu (2021) foreign capital flow refers to the paid transfer of the right of the use of monetary capital between countries, foreign capital flows are traded primarily through international and domestic financial markets, such as borrowing money or investing.

Boki (2022) foreign capital flow refers to the movement of capital i.e money for investment, in out of countries, when money for investment goes from one country to another, is a capital flow, all capital flows comprise just money that is a consequences of investment flows. The foreign capital flow involve bond and stock markets and cross-border mergers and acquisitions are also in this category.

Capital Market

Goshit (2022) defined capital market as part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term investments. Capital market are where savings and investments are channeled between suppliers and those in need. Suppliers are people or institutions with capital to lend or invest and typically include banks and investors. While Isa (2021) sees capital market as an avenue where funds are exchanged between suppliers and those who seek capital for their own use capital markets are used to sell different financial instruments including equities and debt securities and the best known capital markets are the stock market and the bond markets.

But in the view of Dalis (2020) capital market is a financial market in which long-term debt (over a year) or equity-backed securities are bought and sold. Capital markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments, like financial regulators.

Economic Growth

Bamdy (2020) defined economic growth as an increase in the amount of goods and services produced per head of the population over a period of time. It describes how much an entity, such as a country, is increasing and improving the goods and service it produces.

But Kromtit (2022) sees economic growth as an increase in the production of economic goods and services in one period of time compared with a previous period and it can be measured in nominal or real (adjusted to remove inflation) terms. Traditionally, aggregate economic growth is measured in terms of Gross National Product (GNP) or Gross Domestic Product (GDP), although alternative metrics are sometimes used.

Dayso (2020) defined economic growth as an increase in real Gross Domestic Product, an increase in the value of National output, income and expenditure and the essential benefit is higher living standards, higher real incomes and the ability to devote more resources to areas like health care and education.



Theoretical Framework

Capital Market Theory

The capital market theory, being a foreign investment one was established by Boddewyn (1985). The theory ascertains that foreign investment inflow is a function of the rate of interest charged by the host country's financial institutions. It is a portfolio investment and capital market theory for attraction of foreign investment. The theory confirm factors that influence the capital inflow to consist of undervalued exchange rate for lower production cost, the non-existence of well-structured financial securities that encourages long term investment and assumption that foreign investors have limited knowledge about the host countries' securities and hence prefers foreign direct investment which allows control of host country's assets (Morgan & Katsikeas, 1997). However, the liberalization of the Nigeria capital market in the last three decades has invalidated these assumptions in Nigeria.

Dynamic macroeconomic Theory

The dynamic macroeconomic theory was put forward by Sanjaya (1976). The theory affirms that the timing of investments depends on the changes in the macroeconomic environment. The theory opines that volatility in macroeconomic environment factors including inflation, exchange rate, interest rate, money supply, openness and national productivity determines the flow of foreign investment to host countries.

Modern Portfolio Theory

The modern portfolio theory was propounded by Harry Markowitz in 1952. This was established in the paper "Portfolio Selection" by emphasizing that risk is an inherent part of higher reward. The theory deals with finance and investment. It is a mathematical framework use in assembling portfolio assets for maximum expected return for a given level of risk.

Empirical Review

Some scholars have tried to investigate the nexus between foreign capital flows and capital markets, and economic growth in Nigeria. However, there findings seem to be conflicting and have generated mixed feelings. Some of such findings are reported below:

Uwubamwen and Aigbovo (2018) empirically examine the relationship between capital flow determinants and economic development in Nigeria. The ordinary least square technique was used to assess the impact the independent variables on the dependent variable. Their finding reveals that capital inflow was significant and had a positive impact on economic development in Nigeria, while degree of openness though significant, but has a negative impact on economic development in Nigeria. They recommended amongst others, the liberalization of the financial sector in the country and massive investment in human capital development.

Eze and Okparaka (2017) examined the causal and long-run relationship between foreign capital inflow and domestic savings in Nigeria. The study employed annual time series data from 1970 to 2014. The granger causality test results indicate that there is an existence of unidirectional causality between foreign capital inflow and domestic savings in Nigeria, meaning that foreign capital flows causes domestic savings in Nigeria while domestic savings does not cause foreign capital inflow.

Adaramola and Obisesan, (2015) examined the impact of Foreign Direct Investment on Nigerian Capital Market Development. Using time series data and ordinary least square (OLS) regression, the result shows that foreign direct investment impact positively and significantly on Market capitalization.



Government and monetary authority were advised to introduce measures that will ensure the flow of Foreign Direct Investment into the economy.

Baghebo and Apere, (2014) examined the impact of Foreign Portfolio Investment on Economic Growth in Nigeria between 1986 -2011. A three stage methodological process was adopted; one was to check the stationary status of the variables using Augmented Dickey Fuller Unit Root test, which confirmed that the variables had unit root problems, the second was to check for the possibility of a long run relationship using Johansen co-integration test; the third was the parsimonious error correction result. The variables considered are foreign portfolio investment, inflation rate, market capitalization, and trade openness. It discovers that foreign portfolio investment; market capitalization and trade openness has a positive long-run relationship with real gross domestic product in Nigeria.

Zafar, Qureshi and Abbas (2013) studied the hypothesis that foreign direct investment influences the development of stock markets in Pakistan. Employing annual data from 1988 to 2008 the research derived strong positive association between stock market development and FDI and recommended that if foreign direct investment as a percentage GDP rises by 1% Market capitalization as percentage of GDP increases by 6.78%.

Jayachandran and Seilan (2010) investigated the causal relationship between trade, foreign direct investment (FDI) and economic growth of India over the period 1970-2007. Granger causality test used in time series analysis shows that there is a direction of causation amongst the variables examined. The direction of causation is from FDIs to growth rate and there is no direction of causation from growth rate to FDIs.

Methodology

This study employs the ex-rose facto research design. Data for this study was obtained from the 2018 annual statistical bulletin of the Central Bank of Nigeria. These data include Market capitalization (MCAP) as a proxy for capital market growth, foreign direct investment (FDI), foreign portfolio investment (FPI), degree of openness (DOP) and real exchange rate (EXCR). Degree of openness and real exchange rate are employed as control variables.

Method of Data Analysis

Regression analysis is used to estimate the impact of foreign direct investment, foreign portfolio investment, degree of openness and real exchange rate on market capitalization in Nigeria. Firstly, we tested for stationarity because it helps us to avoid the possibility of spurious parameters that could result when two or more non-stationary data series are regressed. According to Engle and Granger (1987), the regression of two non-stationary variables on each other produces spurious and inconsistent parameter estimates. Hence, Augmented Dickey-Fuller test is employed to ascertain if the variables are stationary.

Secondly, the cointegration test was conducted to ascertain whether or not there is a long-run cointegration between the dependent variable and the explanatory variables. This was achieved with the use of the Johansen cointegration test.

Thirdly, the Granger causality test was applied in order to establish if there is a causal relationship between the variables. The causality test enables us to determine whether a unidirectional or bi-directional relationship exists between foreign capital flows and capital market growth in Nigeria. Our choice of the Granger procedure is based on its popularity and efficacy in suggesting causality.



Model Specification

We made use of Ordinary Least Square (OLS) method to estimate the effect of foreign capital flows on capital market growth in Nigeria. The functional and parametric model is as stated below:

$$MCAP = f(FDI, FPI, DOP, EXCR) \text{-----} (5.1)$$

Equation 1 as stated above represents the functional relational relationship between market capitalization and foreign capital flow in Nigeria. Market capitalization is the dependent variable while foreign direct investment (FDI), foreign Portfolio Investment (FPI) which represents foreign capital flows, and real exchange rate and degree of openness which serve as control variables are employed as the explanatory variables.

Conventionally, in order to determine the empirical effects of explanatory variables on the explained variable, functional relationship are usually rewritten in econometric form. The econometric model is necessary because it gives room for the intercept which shows us the performance of the dependent variable when no variable is affecting it; the coefficient of the explanatory variable which shows the magnitude by which the dependent variable changes as a result of change in the explanatory variables, and error term, which represents other variables that affects the dependent variable, but were not captured in the model. The econometric model estimated is stated in equation 2 below:

$$MCAP_t = \beta_0 + \beta_1 FDI_t + \beta_2 FPI_t + \beta_3 DOP_t + \beta_4 EXCR_t + U_t \text{-----} (5.2)$$

Where:

- MCAP = Market Capitalization as a proxy for Capital market growth
- FDI = Foreign Direct Investment
- FPI = Foreign Portfolio Investment
- DOP = Degree of Openness
- EXCR = Real Exchange Rate
- U = Stochastic Disturbance or error term
- β_0 = Intercept of the equation
- $\beta_1 - \beta_4$ = The parameter estimates or coefficients of variables estimated.

MCAP is the dependent variable while FDI, FPI, DOP and EXCR are the independent or explanatory variables.

Results and Discussion

Table 1: Descriptive Statistics

	MCAP	FPI	FDI	EXR	DOP
Mean	7668.561	625.7100	566.2392	131.6097	0.114832
Median	5120.900	116.0400	610.3800	129.3565	0.088402
Maximum	21904.04	3834.530	1360.310	306.0802	0.468774
Minimum	66.30000	-12.06000	22.23000	21.88610	0.008723
Std. Dev.	7735.380	1038.028	436.1481	77.97948	0.117386
Skewness	0.507350	1.901766	0.259461	0.539553	1.332361
Kurtosis	1.737386	5.468516	1.675749	3.300756	4.358473
Jarque-Bera	2.733135	21.41711	2.107208	1.307212	9.318945
Probability	0.254981	0.000022	0.348679	0.520167	0.0009471
Sum	191714.0	15642.75	14155.98	3290.243	2.870805



Sum Sq. Dev.	1,44E+09	25860056	4565404.	145939.2	0.330706
Observations	25	25	25	25	25

Source: Authors Computation, 2023

Result from the descriptive statistics table above shows that the Nigerian capital market recorded positive market capitalisation during the period under investigation. The minimum market capitalisation recorded was 66.3 billion naira, with an average of 5120.9 billion naira and a maximum value of 21904 billion naira. Foreign portfolio investment recorded mean, median, maximum and minimum values of 625.7, 116.0, 3834.5 and -12.06 billion naira respectively. Foreign direct investment has a mean, median, maximum and minimum values of 566.2, 610.4, 1360.3 and 22.2 billion naira respectively, while real exchange rate recorded a mean, median, maximum and minimum values of 131.6, 129.3, 306 and 21.9 naira respectively in the period under review. The skewness statistics shows that all the variables are positively skewed. The values of the Jacque-Bera Statistics for each variable and their corresponding probability values show that the data that are employed for the purpose of analysis in this work are non-stationary or trendy. Hence we conducted a stationarity test to ascertain the stationarity status of the variables.

Unit Root Test

The Augmented Dickey-Fuller test is used in testing the null hypothesis that there is a unit root in a particular time series of interest. This is not the only tests available, but it represents widely used approach. The unit root test result is presented in Table 2 below. The lag length used in the ADF test is based on minimizing the Akaike Information Criterion (AIC), starting with a lag length of 2.

Table 2: Unit Root Test using Augmented Dickey-Fuller (ADF) Test

Variables	Augmented Dickey-Fuller Test			Lag	Order of int.	Remark
	@ level	@ 1 st Diff	5% C.V			
Log(MCAP)	-1.539953	-4.315776	-3.612199	2	1(1)	Stationary
FPI	-1.074259	-7.043802	-3.612199	2	1(1)	Stationary
Log(FDI)	-1.896794	-5.483019	-3.612199	2	1(1)	Stationary
Log(EXR)	-1.868736	-4.668104	-3.612199	2	1(1)	Stationary
Log(DOP)	-1.796048	-8.248257	-3.612199	2	1(1)	Stationary

Source: Author's computation using E view 16.0

The Augmented Dickey-Fuller unit root tests in Table 2 above shows that market capitalization (MCAP), foreign portfolio investment (FPI), foreign direct investment (FDI), real exchange rate (EXCR) and degree of openness (DOP) were non-stationary series at levels but became stationary at first difference. Having ascertained the stationarity status of the variables we proceed next to consider if there exists at least a linear combination of the variables with unit roots that is stationary using the Johansen full information maximum likelihood method.

Cointegration Analysis

We used the Johansen approach to test if there exists, at least a linear combination of the variables with unit roots that is stationary. The 1(1) variables are also included in the Vector Autoregressive (VAR)



model for the cointegration test. A constant is also included in the VAR model, but no trend. We present the result of the cointegration test in table 3 below.

Table 3: Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None*	0.835265	87.41905	69.81889	0.0011
At most 1	0.648437	45.94049	47.85613	0.0748
At most 2	0.383024	21.89705	29.79707	0.3042
At most 3	0.242273	10.78979	15.49471	0.2248
At most 4*	0.174437	4.408851	3.841466	0.0357

Source: Author's computation, 2023

Table 3: Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None*	0.835265	41.47856	33.87687	0.0051
At most 1	0.648437	24.04344	27.58434	0.1332
At most 2	0.383024	11.10726	21.13162	0.6366
At most 3	0.242273	6.380938	14.26460	0.5648
At most 4*	0.174437	4.408851	3.841466	0.0357

Source: Author's computation, 2023

From the Johansen tests, the trace and maximal Eigen statistics show the existence of two cointegrating relationships between variables of foreign capital flows and capital market growth in Nigeria at 5% level of significance. The conclusion drawn from this result is that there exists a unique long run relationship between Market Capitalization (MCAP), foreign portfolio investment (FPI), foreign direct investment (FDI), real exchange rate (EXCR) and degree of openness (DOP). Thus, we estimate the error correction mechanism (ECM) since the variables are stationary at level.

Table 4: The Error Correction Model (ECM)

Dependent Variable: Dlog (MCAP)

Method: Least Square

Sample (adjusted) 1990-2022

Included observations: 22 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.121770	0.107274	1.135139	0.2828
DLOG(MCAP(-1))	0.466053	0.305422	1.525933	0.1580
DLOG(MCAP(-2))	-0.109504	0.222876	-0.491322	0.3338
D(FPI)	3.39E-05	0.000011	2.106564	0.0355
D(FPI(-1))	-0.000139	0.000142	-0.975686	0.3522
D(FPI(-2))	-7.74E-05	0.000146	-0.528526	0.2087
DLOG(FDI)	0.095325	0.212325	0.448958	0.3630
DLOG(EXCR)	0.123908	0.025552	2.549356	0.0438



DLOG(EXCR(-2))	-0.140105	0.206568	-0.678254	0.1130
DLOG(DOP)	0.058949	0.020263	2.838982	0.0211
DLOG(DOP(-1))	0.103601	0.092851	1.115783	0.2906
ECM(-1)	-0.598107	0.195447	-3.060196	0.0120
R² = 0.6238, F-Statistic = 11.5073, Prob (F-statistic) = 0.0029, D.W. = 2.0428				

Source: Author's computation, 2023

The examination of the econometric models in the above shows that foreign capital flow variables (foreign portfolio investment, foreign direct investment), and exchange rate and degree of openness explains 62% of the total variations in the growth of market capitalization in Nigeria. This is indicated by the values of the coefficient of determination (R²) whose value is given as 0.623786. That implies that the result has a good fit and is statistically significant since the coefficient of determination is greater than 50 percent. In further analysis the F-values of 11.50732 reveals that the overall regression is statistically significant at 5% since the probability value of the f-statistic is 0.002949 which is less than 5%. Again, the Durbin-Watson statistics of 2.0427 indicated the absence of serial autocorrelation.

The coefficient of the error correction term is statistically significant and carries the expected negative sign at both 5% and 1% level of significance. However, the speed of adjustment is high, that is, approximately 60% of the adjustment to equilibrium of market capitalization is expected to occur in the long run. Further, this figure shows the average speed of adjustment of market capitalization movement to its long-run change in the equilibrium conditions. This result further indicates that ignoring error correction in non-stationary time series analysis would lead to misspecification of the underlying process to achieve growth of market capitalization in the Nigerian capital market. As shown in Table 4, the value of FPI significantly influences market capitalization in the long run with a strong inertia of 0.00003 units. This means that an increase in foreign portfolio investment in Nigeria will positively impact on the growth of market capitalization in the country. Furthermore, FDI positively affect the growth of market capitalization in Nigeria in the long run by 0.0953 units but is statistically insignificant at 5% level. This means that foreign direct investment has not been effective in the country in boasting the growth of market capitalization. On the other hand, real exchange rate positively impacted on the growth of market capitalization by 0.124 units and is statistically significant at 5% level of significance in the long run. Finally, degree of openness also positively affected the growth of market capitalization in Nigeria by 0.0589 units and is statistically significant at the 5% level of significance.

Conclusively, we submit that the result shows a causal relationship between the growth of market capitalization and its determinants (foreign capital flow variables) in Nigeria. The selected variables identified as the determinants of market capitalization, namely, foreign portfolio investment (FPI), foreign direct investment (FDI), real exchange rate (EXR) and degree of openness (DOP).

Granger Causality Test

The Granger causality test is carried out to know the direction of relationship between the variables

Table 5: Granger Causality Test Result

Pairwise Granger Causality Tests

Sample: 1990-2022

Null Hypothesis	Obs.	F-Statistic	Prob.	Decision
MCAP does not Granger Cause FPI	23	6.53452	0.0074	Reject
FDI does not Granger Cause MCAP	23	3.18564	0.0254	Reject



MCAP does not Granger Cause EXCR	23	4.77967	0.0216	Reject
FDI does not Granger Cause FPI	23	11.1721	0.0007	Reject
FPI does not Granger Cause FDI	23	6.33077	0.0083	Reject
EXR does not Granger Cause FPI	23	6.64726	0.0069	Reject

Source: Author’s computation using E-Views 16.0

From the table above it shows that market capitalization (MCAP) granger cause foreign portfolio investment (FPI) and real exchange rate (EXCR) in a uni-directional effect. Foreign direct investment (FDI) granger cause market capitalization (MCAP) and foreign portfolio investment (FPI), while foreign portfolio investment (FPI) granger cause foreign direct investment (FDI). Finally, real exchange rate (EXCR) granger cause foreign portfolio investment (FPI). The information above suggests that the relationship between the variables is unidirectional, except for foreign portfolio investment (FPI) and foreign direct investment (FDI) which have bi-directional relationship. The result above implies that increase in foreign capital flows will enhance the performance of the capital market in Nigeria. The result also reveals that opening the economy through trade would not attract foreign direct investment.

Conclusion and Policy Recommendations

his study examined the effect of foreign capital flows on capital market growth in Nigeria using annual data from 1990 –2022. It also examined the causal relationship between the variables. The Augmented Dickey-Fuller unit root test was conducted to ascertain the stationarity of the variables while the Johansen cointegration test was employed to establish whether there exists any cointegrating relationship between the variables. The result of the ADF and Johansen cointegration tests show respectively that the variables became stationary after first difference and that a unique long run relationship exists between market capitalisation (MCAP),foreign portfolio investment (FPI), foreign direct investment (FDI), real exchange rate (EXCR) and degree of openness (DOP).Results from the parsimonious error correction model show that the independent variables employed for the study explain 62% of the total variations in the growth of market capitalization in Nigeria. Foreign portfolio investment has a positive and statistically significant long run impact on Nigeria’s capital market growth at the 5% level of significance, while foreign direct investment has a positive but statistically insignificant impact on Nigeria’s capital market growth at the 5% level of significance. Real exchange rate and degree of openness both have positive and statistically significant impact on Nigeria’s capital market in the long run. A 1% increase in real exchange rate improves capital market growth by approximately 12% while a 1% increase in the degree of openness impacts positively on Nigeria’s capital market growth by approximately 5.9%. Result of the granger causality test indicates that all the variables have unidirectional relationship except for foreign portfolio investment (FPI) and foreign direct investment (FDI) which has bi-directional relationship. This implies that foreign direct investment causes foreign portfolio investment, and also, foreign portfolio investment causes foreign direct investment. Based on the empirical result we conclude that foreign capital flows have positive impacts on the growth of the Nigerian capitalmarket. Following this conclusion, the following recommendations are suggested:

1. Government should invest in and expand the Nigerian capital market in order to enable it attract more foreign portfolio investments.
2. The real exchange rate should be increased marginally as this would serve as incentive for foreign investors to invest their capital in the Nigerian capital market.



3. More trade liberalization should be allowed as this fosters the free flow or transfer of capital from developed countries with surplus capital into less developed countries that are capital deficient.

REFERENCES

- Adeleke, S.A. (2020). Promoting Investment in Africa. *African Development Review* 18(91) 42-56.
- Akawu, A. F. (2021). Foreign capital flow and investment in Nigeria. *Keffi Journal of Economics* 4(1) 91-103.
- Baghebo, E. S., & Apere, F. S. (2014). Impact of foreign Portfolio investment on economic growth in Nigeria *Journal of Advanced in Economics and Business* 6(2) 31-42.
- Bamdy, E. A. (2020). The impact of Economic growth on Nigerian Development. *University of Jos Press*.
- Boddewyn, U. A. (1985) Capital market theory. *Macmillan Publishers London*.
- Boki, L. J. (2022). Impact of foreign direct investment on economic development in Nigeria. *Journal of Arts and Social Science* 2(1) 44-59.
- Connor, S. U., & Iscarriot, S. E. (2018). Foreign Capital flows on developing countries. *International Journal of Finance*. 24(2) 109-121.
- Dalis, T. D. (2020). Capital market performance and economic growth. *International Journal of Management sciences* 24(3) 48-59.
- Daramola, S. Y. & Obisesan, E. W. (2015). The impact of foreign direct investment on Nigerian capital market development. *International Journal of science and technology* 24(2) 41-59.
- Dayso, Y. J. (2020). Foreign direct investment and economic growth in Nigeria. *Journal of Applied science* 24(3) 401-128.
- Ekeocha, S. E. (2020). Stock market performance and foreign capital flows. *Amity Journal of Finance* 3(2) 24-41.
- Eniekezimene, S. B. (2019). The impact of stock market development on economic growth in Nigeria. *Journal of Business and African Economy* 4(1) 70-88.
- Eze, A, & Okparaka, S. (2017). The Causal Relationship between foreign capital inflow and domestic investment in Nigeria. *Journal of Finance* 2(1) 22-39.
- Gani, M. I. (2020). Foreign capital flow and economic growth in Nigeria. *Journal of Management Service* 2(1) 33-49.
- Goshit, G. G. (2022). Capital market and Nigerian Economy. *Jos Journal of Economics* 5(2) 43-59.
- Isa, J. A. (2021). Capital market flows and economic growth in Nigeria. *Journal of political science and Administration* 3(1) 59-68.
- Kalim, C. T. (2018). The role of financial sector in the development of the Nigerian economy. A Paper presented at a workshop organized by the centre for African low and development studies.
- Kromtit, T. M. (2022). Dynamics of Economic growth in Nigeria. *University of Jos Press*.
- Levine, S. Y. (2020). Impact of foreign direct investment on Nigerian capital market development. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 5(1),103-108.
- Markowitz, H. (1952). Modern Portfolio Theory. *Macmillan Publishers London*.
- Mathieu, S. A., Julia, S. E & Natacha, U. E. (2019). Direct Foreign Investment and Economic Growth in Nigeria. *Journal of Management Science and Development Studies* 6(2) 18-34.
- Osaze, M. A. (2021). The role of foreign capital flow on Economic growth in Nigeria. *International Journal of Arts* 8(2) 41-56.
- Ozurumba, E. A (2022).The impact of foreign capital flows on money market growth in Nigeria. *International Journal of Economics and Financial Issues* 7(2) 21-39.
- Sanjaya, Y. J. (1976). Dynamic macroeconomic theory. *University of Chicago Press*.



TIMBOU-AFRICA ACADEMIC PUBLICATIONS
AUGUST, 2023 EDITIONS, INTERNATIONAL JOURNAL OF:
FINANCIAL RESEARCH & MGT. SCIENCE VOL. 14

Uwubamwen, A. E. and Aigbovo, O. (2018). Stock market development and economic growth in Nigeria. *West African Journal of Monetary and Economic Integration* 1(1) 21-39.

Zafar, W. E., Qureshi, E. W. & Abbas, Y. D. (2013). Foreign capital investment influence development on stock markets in Pakistan. *Asian Journal of economics and social sciences* 8(2) 44-59.