FOREIGN PORTFOLIO INVESTMENT AND ECONOMIC GROWTH IN NIGERIA

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Abstract

The study investigated foreign portfolio investment and economic growth in Nigeria from 1998-2023. The study used ex-post facto research design and the secondary data were generated from the Central Bank of Nigeria Statistical Bulletin, 2023. The study employed trade openness, total portfolio investment and exchange rate as independent variable to measure foreign portfolio investment, whereas gross domestic product was adopted as the dependent variable to measure the growth. Relevant test of Augmented Dickey-Fuller was conducted to check for the stationarity of the data, and the ARDL bound test for cointegration was carried to obtain the long-run relationship of the variables. Hypotheses were formulated and tested using ordinary least square method with the aid of E-view statistical package version 9. Findings from the ARDL shot run model reveals that trade openness has a negative and insignificant effect on the growth (GDP) of the Nigerian economy. Total portfolio investment has a negative and insignificant effect on the growth (GDP) of the Nigerian economy. Exchange rate has a negative and insignificant effect on the growth (GDP) of the Nigerian economy. The study jointly concludes that foreign portfolio investment has a significant effect on the growth of the Nigerian economy. It was recommended that, Policymakers should design frameworks that incentivize stable, long-term foreign investments rather than short-term speculative inflows. Implement measures to stabilize the exchange rate, and diversify the economy to reduce dependency on foreign investment.

Keyword: Foreign portfolio investment, Trade openness, total portfolio investment and exchange rate

INTRODUCTION

Economic growth is a fundamental objective for any nation, especially developing countries like Nigeria. Economic growth is essential for improving the standard of living, reducing poverty, and fostering national development. It refers to the sustained increase in a country's productive capacity, typically measured by the rise in real Gross Domestic Product (GDP) over time. Nigeria, being one of Africa's largest economies, has experienced fluctuating growth rates over the years due to several factors, including dependence on crude oil, policy instability, and weak infrastructure. Despite these challenges, efforts to promote growth have emphasized diversification through capital accumulation, technological advancement, and increased investment flows (World Bank, 2021). Foreign Portfolio Investment (FPI), as a significant form of external financing, has been recognized as a crucial factor in enhancing economic growth by providing liquidity to financial markets and facilitating the development of various sectors, including manufacturing, services, and agriculture (Adeniyi et al., 2022).

The term "foreign portfolio investment" describes the practice of overseas investors purchasing equities, bonds, and other securities from a domestic market. More liquid and requiring no direct control over the entities invested in, FPI differs from Foreign Direct Investment (FDI), which entails management and control of firms. Major factors that affect foreign direct investment (FDI) inflows include total portfolio investment, trade openness, and currency rate stability. Trade openness is the extent to which an economy is connected to the global market via imports and exports, whereas total portfolio investment measures the overall

amount of foreign money in the form of securities in a country's financial market. However, the value of returns on overseas investments when translated back into the investor's native currency is determined by the exchange rate, which in turn impacts the relative attractiveness of investments (Obi et al., 2021).

In Nigeria, FPI has been instrumental in boosting capital market performance and, by extension, economic growth. The influx of foreign investments into the stock market has increased market liquidity and deepened financial markets, enabling domestic firms to raise funds for expansion and modernization (Okonjo-Iweala, 2021). Trade openness further facilitates the flow of foreign investments by allowing investors to access broader markets, thus enhancing economic efficiency and competitiveness. Additionally, a stable exchange rate regime provides foreign investors with confidence regarding the stability of their investments, reducing the risk of capital flight. However, while FPI can positively impact economic growth, it also introduces vulnerabilities, such as increased susceptibility to external shocks and the potential for sudden capital outflows in response to political or economic uncertainties (Adeniyi et al., 2022). Therefore, the impact of FPI on Nigeria's economic growth is complex and multifaceted, requiring sound macroeconomic management and regulatory frameworks to maximize its benefits and mitigate associated risks. Thus, this study seeks to explore the effects of Foreign Portfolio Investment on Nigeria's economic growth in Nigeria.

Statement of the Problem

Foreign portfolio investment (FPI) has been considered a key determinant of economic growth, especially in developing countries like Nigeria. However, the relationship between FPI and economic growth remains a topic of significant debate. On one hand, FPI provides an important source of external capital that can supplement domestic savings, support infrastructure development, and stimulate production. On the other hand, the volatility of FPI flows, which are often driven by speculative movements, can cause significant economic instability in the host country (Adofu & Adegoriola, 2020). Despite its potential to spur growth, foreign portfolio investment in Nigeria has been characterized by considerable fluctuations, leading to mixed results in terms of its contributions to economic growth (Ezeanyeji & Ifeako, 2019).

Existing studies on the relationship between FPI and economic growth in Nigeria have produced inconsistent findings. For instance, while Ezeanyeji and Ifeako (2019) observed that FPI positively impacts Nigeria’s economic growth, Adofu and Adegoriola (2020) found that FPI has a negative and insignificant effect. These contradictory outcomes could be attributed to several factors, including differences in the time periods studied, the methodologies employed, and the variables included in the analysis. Moreover, the instability of Nigeria’s macroeconomic environment, driven by exchange rate volatility and policy inconsistencies, might explain the erratic nature of FPI inflows and their varied impact on the economy (Iriobe, Obamuyi, & Abayomi, 2018). Furthermore, Ihensekhien (2019) suggested that the speed of adjustment for FPI inflows in responding to short-run economic disequilibrium is notably slow, indicating that FPI might not be an immediate catalyst for growth in the Nigerian context. The current study seeks to address the gaps and inconsistencies found in the literature by specifically focusing on the effect of FPI on economic growth in Nigeria, utilizing variables such as total portfolio investment, trade openness, and exchange rate while using real gross domestic product (GDP) as the growth proxy. Prior studies have largely treated FPI as a homogenous entity, without accounting for the roles played by external

factors like trade openness and exchange rate dynamics. By incorporating these additional variables, this study intends to provide a more nuanced understanding of how FPI interacts with Nigeria's broader economic framework.

Aim and Objectives of the Study

The aim of this study was to evaluate the effect of foreign portfolio investment on the growth of Nigeria economy. The specific objectives of the study are as follows:

1. To evaluate the effect of trade openness on the growth (GDP) of the Nigerian economy.
2. To ascertain the effect of total portfolio investment on the growth (GDP) of the Nigerian economy.
3. To determine the effect of exchange rate on foreign portfolio investment in Nigeria.

Research Question

1. To what extent does trade openness affect the growth (GDP) of the Nigerian economy?
2. What is the effect of total portfolio investment on the growth (GDP) of the Nigerian economy?
3. To what extent is the effect of exchange rate on the growth (GDP) of the Nigerian economy?

Hypotheses

Based on the objective and above stated question, the research hypotheses are thus formulated in a null form below;

Ho_1: Trade openness has no significant effect on the growth (GDP) of the Nigerian economy.

Ho_2: Total portfolio investment has no significant effect on the growth (GDP) of the Nigerian economy.

Ho_3: Exchange rate has no significant effect on the growth (GDP) of the Nigerian economy.

LITERATURE REVIEW

Conceptual Review

Foreign Portfolio Investment

Foreign portfolio investment (FPI) involves short-term capital flows and is considered more volatile compared to foreign direct investment (FDI), as it is sensitive to global financial market conditions and investor sentiment (Adofu & Adegoriola, 2020). Foreign portfolio investment (FPI) refers to the purchase of financial assets, such as stocks, bonds, or other securities, in a foreign country without gaining control over the companies or assets involvedFPI can serve as a means for investors to diversify their portfolios internationally and for developing economies to access foreign capital to spur growth. However, the associated risks, including capital flight and market volatility, can have adverse effects on the domestic economy if not properly managed (Muhammad et al., 2017). Policymakers often focus on creating stable macroeconomic environments to attract and sustain FPI inflows.

Dimensions of Foreign Portfolio Investment

a. Trade Openness

Trade openness refers to the degree to which a country permitsunrestricted trade with other countries, reflected in low tariffs, reduced trade barriers, and increased participation in international trade agreements (Iriobe et al., 2018). A high level of trade openness is often associated with a favorable investment climate, as it allows foreign portfolio investors to

access more diversified markets and export opportunities. Studies have shown that trade openness promotes FPI by ensuring that investors can move capital in and out of the country with fewer restrictions (Ezeanyeji&Ifeako, 2019). Therefore, trade openness is seen as a critical component for stimulating economic growth through foreign investment.

b. Exchange Rate

The exchange rate is another vital measure influencing FPI, as it affects both the returns on investment and the cost of capital in foreign markets. Exchange rate fluctuations can lead to currency risks, which can either encourage or deter foreign portfolio investors depending on the level of stability (Akinmulegun, 2018). A stable exchange rate tends to attract more FPI as it reduces uncertainty, making the investment environment more predictable (Adofu&Adegoriola, 2020). However, volatile exchange rates can lead to sudden reversals in capital flows, negatively impacting economic growth. Hence, exchange rate management is crucial for countries seeking to maximize the benefits of FPI.

c. Total Portfolio Investment

When investors across different markets put their money into stocks, bonds, and other securities, that's called total portfolio investment (TPI). This type of investment is typically characterized by short-term interests and focuses on capital gains rather than active control of the entities in which investments are made. In emerging economies, portfolio investment has become a crucial component of capital flows, as it provides liquidity to financial markets and offers a means for investors to diversify their portfolios (Cochrane, 2020). However, TPI is often sensitive to macroeconomic variables like exchange rates, inflation, and interest rates, which can lead to fluctuations in foreign portfolio inflows. In Nigeria, for example, the level of portfolio investment has been linked to both domestic economic policies and global financial conditions, influencing the performance of local stock markets (Ogunniyi, 2021). As a non-controlling form of investment, TPI is distinct from foreign direct investment (FDI), where investors seek to influence the management and operations of the invested firms. Despite its volatility, TPI plays a significant role in promoting economic development by facilitating capital accumulation and fostering greater market efficiency (Baker & Bloom, 2019).

Theoretical Framework

The Portfolio Theory

This study on the effect of foreign portfolio investment (FPI) on economic growth will be anchored on the Portfolio Theory. Developed by Harry Markowitz in the 1950s, Portfolio Theory posits that investors can construct optimal portfolios to maximize returns while minimizing risk through diversification (Markowitz, 1952).

In the context of FPI, this theory suggests that investors seek to allocate their investments across various assets in different countries to mitigate risks associated with local market fluctuations and economic instability. By investing in a diverse range of financial instruments, foreign investors aim to enhance their overall returns while spreading risk across different economic environments. This diversification can lead to increased capital inflows into emerging markets, fostering economic growth through enhanced liquidity in financial markets, improved access to capital, and greater economic stability (Osemene & Akinyomi, 2016).Moreover, as foreign portfolio investments flow into a country, they can facilitate domestic investments, stimulate economic activities, and contribute to overall economic development by providing capital for businesses and government projects (Ibiwoye & Adekoya, 2020). Thus, the Portfolio Theory serves as a foundational perspective to analyze how FPI can positively impact economic growth by promoting investment diversification and enhancing financial market efficiency.

Empirical Review

Adewunmi (2020) studied the relationship between foreign portfolio investment (FPI) and Nigerian economic growth from 1988 to 2017. The study employed OLS method of data anlsysis with the help of E-views. The results indicated that exchange rate positively influenced growth, while FPI and inflation had no significant impact on economic growth. The study recommended that the government should enact favorable trade and investment policies to encourage continuous FPI inflows.

Adofu and Adegoriola (2020) studied the relationship between foreign portfolio investment (FPI) and Nigerian economic growth from 1986 to 2018. The study applied the Autoregressive Distributed Lag (ARDL) model for analysis. The annual time series data from the Central Bank of Nigeria and the National Bureau of Statistics was adopted. The results showed that both the current value and the one-period lag of FPI had negative and insignificant impacts on the Gross Domestic Product (GDP). Unidirectional causality was found, flowing from GDP to FPI. The study concluded that the fluctuations in FPI suggest the need for economic reforms to boost investor confidence. The authors recommended that the government should improve infrastructure, provide better services, and relax regulations, such as profit repatriation, to support and attract investment.

Ezeanyeji and Ifeako (2019) studied the impact of foreign portfolio investment on Nigeria's economic growth from 1986 to 2017. Variables such as real GDP, net foreign portfolio investment, inflation rate, market capitalization, and trade openness were included. The Error Correction Mechanism (ECM) for data analysis was employed and the results indicated that foreign portfolio investment had a significant positive impact on economic growth. The study recommended that the government should formulate policies that foster long-term capital market growth, which would in turn enhance economic development.

Ihensekhien (2019) studied the impact of foreign private investment on the Nigerian economy, analyzing quarterly data from 1981Q1 to 2018Q4. The study employed unit root tests, cointegration tests, and error correction modeling. The findings revealed that all variables were cointegrated, and the ECM was statistically significant at the 5% level, with a slow adjustment to short-run disequilibrium. The results highlighted the importance of foreign private investment in driving economic development in less developed regions, particularly Sub-Saharan Africa. The study recommended better macroeconomic policies, strong property rights protection, financial sector reforms, and infrastructure development to attract foreign investment.

Akinmulegun (2018) studied the effect of capital market development on foreign portfolio investment in Nigeria from 1985 to 2016. Using the Vector Error Correction Mechanism (VECM) and Granger causality tests, the study revealed that market capitalization had a negative significant effect on foreign portfolio investment, while the All Share Index (ASI) had a positive relationship with it. The study recommended that the government should implement policies to sustain the capital market's positive role in attracting foreign portfolio investment to Nigeria.

Iriobe et al., (2018) assessed the effect of foreign portfolio equity investment on stock market performance in Nigeria from 2007 to 2017, using the ARDL model. The results indicated a significant positive relationship between foreign portfolio equity investment and stock market performance. Additionally, the study found disparities in sectoral FPI inflows across the Nigerian economy. The authors suggested that regulatory authorities should encourage more

firms to be listed on the Nigerian Stock Exchange to channel more investments, driving industrialization and economic development.

Muhammad et al. (2017) studied the relationship between stock market performance and foreign portfolio investment in China using quarterly data from 2007 to 2015. The study employed an ARDL model and found that stock market performance positively influenced foreign portfolio investment, while inflation had a negative impact. Furthermore, historical events such as the 2008 Asian financial crisis and the 2015 Shanghai Composite Stock Index crash were shown to significantly affect foreign portfolio investment.

Onyeisi et al. (2016) empirically assessed the impact of foreign portfolio investment inflows on stock market growth in Nigeria from 1986 to 2014, using cointegration, vector error correction mechanism, and Granger causality tests. The results revealed that FPI had a significant long-run impact on stock market growth. However, there was no evidence of causality between FPI and stock market performance. The authors recommended strengthening the Security and Exchange Commission (SEC) to encourage continuous FPI inflows into the Nigerian economy.

Osmond (2016) examined the effect of foreign portfolio investment on industrial growth in Nigeria from 1986 to 2013, using an Ordinary Least Square (OLS) estimation technique. The results demonstrated a statistically significant positive relationship between foreign portfolio investment, gross fixed capital formation, market capitalization, and industrial growth. The study recommended expanding market capitalization to boost industrial productivity in Nigeria.

Okafor et al. (2015) investigated the effects of foreign investments, disaggregated into foreign direct investment (FDI) and foreign portfolio investment (FPI), on economic growth in Nigeria from 1987 to 2012. Using OLS and Granger causality procedures, the study found that both FDI and FPI had significant positive impacts on economic growth, with FPI being the stronger contributor. The authors recommended that policies encouraging both FDI and FPI should be pursued to enhance economic growth.

Methodology

This study employed the ex post facto research design. Data for this study was collected from the Central Bank of Nigeria (CBN) Statistical Bulletin, 2023. Data collected and used for the variables form the basis of the study that covers 26-years (1998-2023).

Data Analyses and Techniques

The obtained data will be presented in tables and other tools of descriptive statistics. Based on this, the data collected for the purpose of this study will be analysed and interpreted using the multiple regression analysis and the result shall be used to test the hypothesis. The study will make use of regression and analysis using the secondary data collected. Hence, the ordinary least square (OLS) method will be used to estimate the parameters of the model by inputting the presented data into the relevant statistical package. The time series data will be checked for stationarity using the Augmented Dickey-Fuller Unit root test, and also further test of co-integration will done to ascertain the appropriate model for the regression analysis.

Model Specification

Multivariate linear regression models are used to test each of the null hypotheses proposed for this study. Based on the three formulated hypotheses, a model is adapted from the work of (Ezeoha and Cattaneo (2018). The model is stated as:

FPI = *f*(MCAP, TBC, EXR)

Where; FPI= Foreign Portfolio Investment

MCAP = Market Capitalisation

TBC = Total Bank Credit

EXR = Exchange Rate

However, this study modified this model by introducing Real Gross Domestic Product, trade openness and total foreign portfolio investment in place of foreign portfolio investment, market capitalization and total bank credit respectively. Thus, the model becomes;

RGDP = *f*(TROP, TFPI, EXR) ..... (1)

Econometrics model seek to explain economic relationship. It makes use of mathematical and statistical principle in analyzing economic principle.

Thus, equation (1) is explicitly transformed into econometric and operational form.

$RGDP = \beta_0+\beta_1 TROP+\beta_2 TFPI+\beta_3 EXR+\mu$..... (2)

The econometric model could be transform to log form.

$LogRGDP= \beta_0+Log\beta_1 TROP+Log\beta_2 TFPI+\beta_3 EXR + \mu$..... (3)

Where:

RGDP	=	Real Gross Domestic Product
TROP	=	Trade Openness
TFPI	=	Total Foreign Portfolio Investment
EXR	=	Exchange Rate

Data Analysis and Discussion of Results

Data Analysis

a. Descriptive Statistics

Table 4.1 shows the summary of descriptive analysis results for all the variables in the study in terms of the mean, the median, maximum, minimum, the standard deviation and the number of observations etc.

Table 1: Summary Descriptive Results

	LOGRGDP	LOGTROP	LOGTPI	LOGEXR
Mean	10.72701	3.762552	11.91903	4.997999
Median	10.81690	3.780547	12.42162	5.003142
Maximum	11.22116	4.230768	14.38351	5.882795
Minimum	10.01381	2.871868	6.457586	3.085852
Std. Dev.	0.417576	0.354939	2.041537	0.564526
Skewness	-0.463582	-0.901714	-1.437332	-1.338602
Kurtosis	1.800922	3.302651	4.472573	7.011258
Jarque-Bera	2.201696	3.204621	9.997490	22.28854
Probability	0.332589	0.201431	0.006746	0.000014
Sum	246.7213	86.53869	274.1378	114.9540
Sum Sq. Dev.	3.836128	2.771600	91.69318	7.011182
Observations	**26**	**26**	**26**	**26**

Source: Author's Computation, 2024

In table, it shows that the mean values of the log of RGDP, TROP, TPI and EXR are 10.72701; 3.762552; 11.91903; and 4.997999 respectively. It is observed from the table that trade openness had the lowest standard deviation of 0.354939, while total portfolio investment has the highest standard deviation of 2.041537.

b. Stationarity Test

Table 2: Augmented Dickey Fuller Unit Root Test

Variables	Unit Root Test @Levels			Unit Root Test @1st Difference			Order of Integration
	Trend and Intercept			Trend and Intercept			
	t-stat	Critical Value	Prob.	t-stat	Critical Value	Prob.	
LgRGDP	0.86060	-3.658446	0.9995	-3.935602	-3.658446	0.029*	I(I)
LgTROP	-2.21957	-3.644963	0.4556	-3.726543	-3.644963	0.052*	I(1)
LgTPI	-2.748972	-3.632896	0.2286	-4.232018	-3.644963	0.016*	I(1)
EXCHR	-8.009256	-3.632896	0.0000				I(0)

***Source: Author Computation from E-view output,* 2024**

Table 2 signifies the results of the Augmented Dickey Fuller (ADF) Unit Root Test and it showed that three of the series (RGDP, TROP & TPI) were not stationary at levels, but became at first differencing. However, we had one variable (EXCHR) that was stationary at level. Thus, as suggested by Pesaran and Shin (2004) in the case of mixed integration in the order of (I(0) and (I(1)) we proceed to conducting the Autoregressive Distributive Lag (ARDL) bound testing of co-integration to check for the longrun relationship of our variables.

c. Cointegration Test

Table 3: ARDL Bound Test for Cointegration

ARDL Bounds Test
Date: 06/09/24 Time: 02:01
Sample: 2002 2023
Included observations: 22
Null Hypothesis: No long-run relationships exist

Test Statistic	Value	K
F-statistic	8.376987	3
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.72	3.77
5%	3.23	4.35
2.5%	3.69	4.89
1%	4.29	5.61

Source: Eview Result

The table above shows our ARDL Bounds test for co-integration. It can be seen that the F-statistics value of 8.379687is higher than the upper critical value bounds I(1) of 4.35 and lower critical value bounds I(0) of 3.23 at 5% level of significance. This shows that along run relationship exists among the variables. Thus, the short run error correction model was estimated using ARDL regression technique.

Table 4: ARDL Shortrun Error Correction Model

Dependent Variable: D(LOGRGDP)
Method: Least Squares
Date: 06/09/24 Time: 02:12
Sample (adjusted): 2000 2023
Included observations: 24 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.053298	0.015852	3.362110	0.0043
D(LOGRGDP(-1))	0.179155	0.195248	0.917574	0.3734
D(LOGTROP)	-0.042004	0.030782	-1.364553	0.1925
D(LOGTPI)	-0.001890	0.006324	-0.298823	0.7692
D(LOGEXR)	-0.167017	0.085006	-1.964771	0.0682
ECM(-1)	-0.140632	0.041542	-3.385324	0.0041

R-squared	0.580599	Mean dependent var	0.054695
Adjusted R-squared	0.440799	S.D. dependent var	0.042900
S.E. of regression	0.032081	Akaike info criterion	-3.806165
Sum squared resid	0.015438	Schwarz criterion	-3.507730
Log likelihood	45.96473	Hannan-Quinn criter.	-3.741397
F-statistic	4.153060	Durbin-Watson stat	2.463663
Prob(F-statistic)	0.014401		

Source: E-view 9 Output

The results from the ARDL Short-run Error Correction Model (Table 4) indicate a significant relationship between foreign portfolio investment and economic growth, as measured by the change in real GDP (D(LOGRGDP)). The constant term (C) has a positive coefficient of 0.053298 and is statistically significant ($p = 0.0043$), suggesting a positive baseline growth rate. The lagged change in real GDP (D(LOGRGDP(-1))) shows a coefficient of 0.179155 but is not significant ($p = 0.3734$), indicating that past growth does not significantly influence current growth. The variable representing trade openness (D(LOGTROP)) has a negative coefficient of -0.042004 ($p = 0.1925$), implying that changes in trade openness may have an adverse short-term effect on GDP growth, although this effect is not statistically significant. The variable for total portfolio investment (D(LOGTPI)) shows a negative and non-significant impact (coefficient of -0.001890, $p = 0.7692$). In contrast, the exchange rate variable (D(LOGEXR)) displays a negative coefficient of -0.167017, approaching significance ($p = 0.0682$), suggesting that a stronger local currency may negatively impact GDP growth. The error correction term (ECM(-1)), significant at the 0.0041 level, indicates a strong long-term equilibrium relationship among the variables, with about 14.06% of the disequilibrium from the previous period being corrected in the current period. The model's R-squared value of 0.580599 implies that approximately 58.06% of the variation in real GDP growth can be explained by the model, while the F-statistic of 4.153060 ($p = 0.014401$) confirms the overall significance of the model, emphasizing the relevance of these predictors in the context of economic growth.

Residual Diagnostics Test

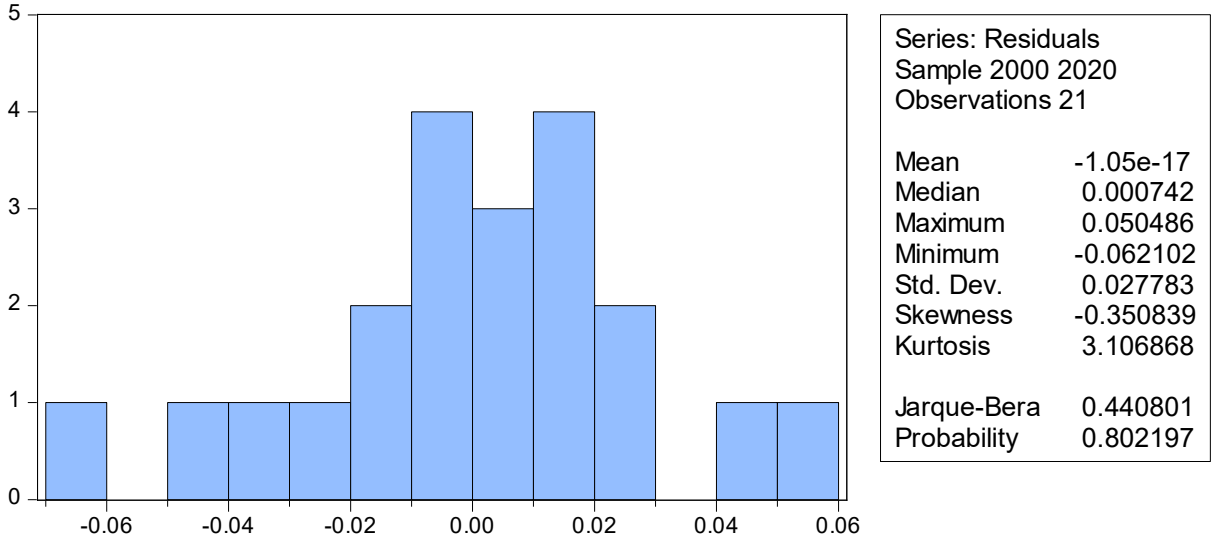

Fig 1: Histogram Normality Test

The result from the histogram normality test shows that our variables were normally distributed. This is due to fact our Jarque-Bera probability value of 0.802197 was above the 5% (0.05) significance level.

Table 5: Breusch-Godfrey Serial Correlation LM Test

F-statistic	1.832396	Prob. F(1,14)	0.1973
Obs*R-squared	2.430480	Prob. Chi-Square(1)	0.1190

Table 6 Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.665392	Prob. F(5,15)	0.6554
Obs*R-squared	3.812206	Prob. Chi-Square(5)	0.5768
Scaled explained SS	2.048932	Prob. Chi-Square(5)	0.8423

Source: Eview 9

With an F-statistic of 1.832396 and P-value of 0.1973>0.05 for the serial correlation test shows the absence of serial correlation in our model. This is also supported by the P-value of 0.6554>0.05 in our hetereskadasticity test.

d. Hypotheses Testing

The E-view highlighted the result that is significant with the output indicating significant at 5% level. Accept the alternate hypothesis if *p*-value ≤ 0.05. Otherwise, reject.

The hypotheses formulated in chapter 1 are tested below;

Hypothesis One

Ho_1: Trade openness has no significant effect on the growth (GDP) of the Nigerian economy.

From the table, it can be seen that trade openness has a t-stat value of -1.364553and a probability value of 0.1925>0.05 level of significance. This therefore says that a negative and insignificant relationship exists between the dependent and independent variables.

Decision: From the result we therefore accept the null hypothesis and reject the alternate, thus holding that trade openness has no significant effect on the growth (GDP) of the Nigerian economy.

Hypothesis Two:

Ho_2: Total portfolio investment has no significant effect on the growth (GDP) of the Nigerian economy.

From the table, it can be seen that total portfolio investment has a t-stat value of -0.298823and a probability value of 0.7692>0.05 level of significance. This holds that a negative and insignificant relationship exists between the dependent and independent variables.

Decision: From the result we therefore accept the null hypothesis and reject the alternate hypothesis which implies that, total portfolio investment hasno significant effect on the growth (GDP) of the Nigerian economy.

Hypothesis Three:

$H0_3$: Exchange rate has no significant effect on the growth (GDP) of the Nigerian economy.

From the table, it can be seen that exchange rate has a t-stat value of -1.964771and a probability value of 0.0682>0.05 level of significance. Hence we can argue that a negative and insignificant relationship exists between the dependent and independent variables.

Decision: From the result we therefore reject the alternate hypothesis and accept the null hypothesis, thus implying that, exchange rate has no significant effect on the growth (GDP) of the Nigerian economy.

Discussion of findings

The findings show that trade openness has a negative but statistically insignificant impact on economic growth, indicating that increasing trade openness does not immediately foster growth in the short term. This aligns with Moyo's (2018) assertion that excessive reliance on trade without strong domestic production can harm developing economies by exposing them to global market fluctuations. Similarly, total portfolio investment has an insignificant effect on GDP, echoing Amadi's (2017) observation that while foreign portfolio investment can contribute to long-term growth, its short-term impact is limited due to capital flight risks and volatile foreign investment flows. This suggests the need for policies that promote stable, long-term investments. Finally, the exchange rate exhibits a negative and marginally significant effect on economic growth, implying that exchange rate depreciation hinders growth, as it increases inflationary pressures and discourages foreign investment. This is consistent with Oladipo and Akinbobola (2019), emphasizing the importance of exchange rate stability for economic growth and foreign investment in Nigeria.

CONCLUSION AND RECOMMENDATION

Conclusion

The study examined the parameters of foreign portfolio investment on economic growth parameter of the GDP. On joint significance, there exists a significant effect of foreign portfolio variables on the economic growth of Nigeria. This thus is an indication that foreign portfolio investment plays a significant role in the growth process of the economy.

In conclusion, this empirical evidence shows that foreign portfolio investment has a significant effect on the growth of the Nigerian economy for the period reviewed.

Recommendations

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

1. **Strengthen Domestic Production to Maximize Trade Openness Benefits**: The government should focus on policies that enhance domestic manufacturing and production capabilities. This would help Nigeria to better leverage trade openness by reducing over-reliance on imports and minimizing exposure to global market shocks.
2. **Encourage Stable, Long-Term Foreign Portfolio Investment (FPI)**: Policymakers should design frameworks that incentivize stable, long-term foreign investments rather than short-term speculative inflows. This could include improving the business climate, enhancing regulatory frameworks, and offering incentives for foreign investors committed to long-term economic engagement.
3. **Implement Measures to Stabilize the Exchange Rate**: To attract foreign investments and promote economic growth, the Central Bank of Nigeria should implement measures that ensure exchange rate stability. This can be achieved through prudent monetary policies, foreign exchange market interventions, and strategies to control inflationary pressures.
4. **Diversify the Economy to Reduce Dependency on Foreign Investment**: Nigeria should aim to diversify its economy by investing in sectors like agriculture, technology, and manufacturing to reduce dependency on foreign portfolio investment, which can be volatile. This would strengthen the economy's resilience to external shocks.

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