

STOCK MARKET DEVELOPMENT AND FOREIGN DIRECT INVESTMENT

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Abstract

This study examines the impact of stock market development on foreign direct investment inflow to Nigeria. Secondary data from 1981 to 2019 was used for the study. Data was analyzed using Granger causality and Augmented Dickey Fuller unit root test, Johansen co-integration test and Error correction model regression. The results of Granger causality revealed that while uni-directional causality was found running from each of stock market capitalization ratio and Turnover ratio respectively to Foreign direct investment inflow, Bi-directional causality was found between total value of stocks traded ratio and Foreign direct investment inflow. Error correction model regression revealed that stock market capitalization ratio, Turnover ratio and total value of stocks traded ratio respectively have a negative and statistically insignificant impact on Foreign direct investment inflow in Nigeria amongst other findings. The study recommends based on its findings that urgent and appropriately sequenced stock market reforms be undertaken so as to reverse the adverse effects of stock market development indicators on FDI inflow. Further increased financial openness of the Nigeria economy should be promoted as part of financial liberalization reforms so as to attract quality firms to the Nigeria stock exchange.

Keywords: Stock market, foreign direct investment, Turnover ratio, Trade Openness