Financial Development and FDI in Nigeria: Investigating the Moderating Effect of Institutional Quality

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Abstract

This study investigates the impact of financial development, represented by Total Stock Market Capitalization (TSC), on Foreign Direct Investment (FDI) inflows in Nigeria, while examining the moderating role of institutional quality, indicated by Regulatory Quality (RQ), in this relationship.

Using data from the World Bank's World Development Indicators (1996-2023), the Fully Modified Ordinary Least Squares (FMOLS) estimation technique was employed, controlling for trade openness and the real effective exchange rate.

The study's findings revealed no statistically significant direct effect of TSC or RQ on FDI. Moreover, the moderating effect of regulatory quality on the relationship between financial development and FDI was also not statistically significant.

However, the findings emphasize that improved control of corruption and enhanced political stability are significant positive determinants of FDI inflows in Nigeria. Additionally, trade openness significantly promotes FDI, while exchange rate appreciation notably deters it.

The study concludes that attracting FDI to Nigeria largely depends on strengthening enforcement and regulation within the investment landscape, maintaining exchange rate stability, promoting trade openness, and implementing adequate institutional reforms.

Keywords: Financial Development, Foreign Direct Investment, Nigeria, Institutional Quality, Financial Institutions, Capital Markets.