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Exchange Rate Volatility and Foreign Direct Investment in Nigeria

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Abstract- This study examines the impact of exchange rate volatility on foreign direct investment (FDI) in Nigeria over the period 1980–2023. Unlike much of the existing literature that emphasizes exchange rate levels, this study focuses on volatility, proxied by the rolling standard deviation of exchange rate returns. A multivariate time-series framework is employed, incorporating unit root tests, Johansen cointegration, a vector error correction model (VECM), and Granger causality analysis to capture both long-run and short-run dynamics. The results indicate that exchange rate volatility has no statistically significant effect on FDI inflows. In contrast, inflation exerts a significant negative effect, while post-1986 structural reforms have a positive and significant impact on FDI. These findings suggest that macroeconomic stability and policy credibility play a more decisive role in attracting foreign investment than exchange rate uncertainty. The study contributes to the literature by providing evidence that challenges the conventional emphasis on exchange rate volatility as a primary determinant of FDI in developing economies.

I. INTRODUCTION

Foreign Direct Investment (FDI) remains a critical driver of economic growth, technology transfer, and job creation in developing countries. In Nigeria, efforts to attract FDI have been influenced by macroeconomic stability, market size, and exchange rate policy. Exchange rate movements affect investor confidence by influencing returns on capital, production costs, and the value of repatriated profits. However, when these movements become highly unpredictable described as exchange rate volatility, they can increase uncertainty and deter foreign investors. Given Nigeria's long history of exchange rate reforms, from fixed to managed float systems, understanding how volatility affects FDI is both empirically and policy relevant.

Exchange rate fluctuations and foreign direct investment (FDI) have been a pivotal area of economic research, particularly in developing economies like Nigeria (Adewale, Olopade, & Ogbaro, 2024). The exchange rate, which determines the value of a country's currency relative to others, directly influences the attractiveness of a market for foreign investors. In the case of Nigeria, one of Africa's largest economies, the dynamics between exchange rate fluctuations and FDI are particularly significant due to the country's heavy reliance on external capital for economic development and infrastructure growth (El-Yaqub Ahmad, 2024). The relationship between exchange rates and FDI inflows has profound implications for Nigeria's economic stability, growth prospects, and its integration into the global economy.

Historically, Nigeria's exchange rate regime has been marked by substantial volatility. Beginning with the Structural Adjustment Program (SAP) of 1986, the country shifted from a fixed exchange rate system to a more flexible one, which exposed the economy to fluctuations influenced by both domestic and global factors (Heaton, 2024). The years following SAP saw a series of currency devaluations, with the naira experiencing sharp declines against major currencies. For example, in 1986, the official exchange rate of the naira to the US dollar stood at the average of ₦20.87/$1 (Effiong, & Bassey, 2019). However, by 1999, it had depreciated to ₦92.90/$1, and by 2020, the exchange rate stood at ₦380/$1 at the official market, with parallel market rates reaching even higher levels, further reflecting volatility (Anaezichukwuolu & Udeh, 2021).

According to the United Nations Conference on Trade and Development (UNCTAD), Nigeria's FDI inflows saw a sharp decline in recent years, with a

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drop from $4.7 billion in 2018 to just $1.6 billion in 2020. This was partly due to the dual effects of the COVID-19 pandemic and an ongoing currency crisis that exacerbated the risks associated with doing business in Nigeria. Furthermore, the naira's depreciation against major currencies, such as the US dollar, reduced the profitability of investments and increased the cost of repatriating profits, which made the country less attractive to foreign investors. This period highlights the vulnerability of FDI to exchange rate fluctuations in a commodity-dependent economy like Nigeria's (UNCTAD, 2020).

Foreign direct investment (FDI) represents a critical channel through which developing economies integrate into the global economic system. It contributes to capital accumulation, facilitates technology transfer, and enhances productivity and economic growth, as highlighted by Eduardo Borensztein et al. (1998). For countries such as Nigeria, FDI remains an important source of external finance, particularly in the context of domestic savings constraints and the need for sustained economic development.

Among the macroeconomic factors influencing FDI, exchange rate dynamics have received considerable attention in both theoretical and empirical literature. In particular, exchange rate volatility is often viewed as a key determinant of investment decisions due to its impact on uncertainty and expected returns (Clark et al., 2004). However, empirical evidence on the relationship between exchange rate volatility and FDI remains inconclusive. While some studies find that volatility discourages investment, others report weak or insignificant effects, especially in developing economies where structural and institutional factors may play a more dominant role.

Nigeria provides a compelling case for examining this relationship. Since the introduction of the Structural Adjustment Programme (SAP) in 1986, implemented under the guidance of the Central Bank of Nigeria in collaboration with the International Monetary Fund and the World Bank, the country has experienced persistent exchange rate fluctuations alongside periodic surges and declines in FDI inflows. Despite successive policy reforms aimed at liberalizing the economy and improving the investment climate, FDI performance has remained volatile, raising questions about the underlying determinants of foreign investment.

Against this backdrop, this study seeks to answer the following research question: Does exchange rate volatility significantly influence foreign direct investment inflows in Nigeria, or are macroeconomic fundamentals more decisive in shaping investment outcomes? Addressing this question is important for understanding whether policy efforts should prioritize exchange rate stabilization or broader macroeconomic reforms.

This study contributes to the existing literature in three important ways. First, it shifts the focus from exchange rate levels to exchange rate volatility, thereby capturing the role of uncertainty in investment decisions. Second, it integrates exchange rate volatility with key macroeconomic variables—including inflation and government expenditure—within a unified empirical framework. Third, it explicitly incorporates structural reforms through a policy dummy variable, providing insight into the impact of Nigeria's post-1986 reform regime on FDI inflows. By using updated time-series data spanning 1980–2023, the study also offers more recent evidence on the evolving dynamics of FDI in Nigeria. The remainder of the paper is structured as follows. Section 2 reviews the conceptual, theoretical, and empirical literature. Section 3 outlines the methodology and estimation strategy. Section 4 presents and discusses the empirical results, while Section 5 concludes with policy implications.

II. LITERATURE REVIEW

The nexus between exchange rate volatility and foreign direct investment (FDI) is underpinned by several complementary theoretical perspectives that emphasize the role of uncertainty, capital allocation, and investment timing. First, risk aversion theory posits that heightened exchange rate volatility increases macroeconomic uncertainty, thereby raising the perceived risk associated with cross-border investments. Risk-averse investors tend to respond by either scaling down or postponing investment commitments in volatile environments (Clark et al., 2004). This perspective is particularly relevant for

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emerging markets, where exchange rate fluctuations are often more pronounced and less predictable.

The portfolio balance theory, as articulated by Branson (1983), suggests that exchange rate movements influence the relative attractiveness of domestic and foreign assets. Fluctuations in currency values alter expected returns and portfolio composition decisions, thereby affecting the direction and magnitude of international capital flows, including FDI. The real options theory, developed by Avinash Dixit and Robert Pindyck (1994), provides a dynamic framework for understanding investment behavior under uncertainty. The theory conceptualizes investment as an irreversible decision, where firms hold the option to delay entry until uncertainty is resolved. Consequently, increased exchange rate volatility raises the value of waiting, leading firms to defer FDI decisions until more stable conditions emerge. These theoretical strands suggest that exchange rate volatility exerts a predominantly deterrent effect on FDI by amplifying uncertainty, distorting capital allocation, and incentivizing investment delays.

There are many empirical work on exchange rate volatility and a key determinant of FDI in Nigeria. Olawale (2024) investigated the impact of exchange rate fluctuations on Nigeria's economic performance and FDI inflows using time-series analysis covering the period from 1990 to 2022. The study found that fluctuations in the exchange rate, particularly depreciation of the naira, had a significant negative impact on FDI. The study highlighted that foreign investors were discouraged by the risks of currency devaluation and the difficulty of repatriating profits. Furthermore, the study pointed out that inconsistent exchange rate policies and inflationary pressures were major deterrents to long-term FDI inflows. Olawale recommended that Nigeria implement a more predictable exchange rate policy to stabilize investor confidence

Nzeh et al. (2024) examined the joint impact of exchange rate volatility and FDI on domestic interest rates in Nigeria over the period 1981–2022. The study used a Dynamic Stochastic General Equilibrium (DSGE) model to assess the interactions between exchange rates, FDI, and interest rates. Their findings revealed that exchange rate fluctuations significantly influenced both FDI inflows and domestic interest rates, with a particular negative effect during periods of high exchange rate volatility. The study suggested that managing exchange rate stability would not only attract FDI but also help stabilize domestic interest rates, benefiting the overall economy (Nzeh et al., 2024).

Adewale, Olopade, and Ogbaro (2024) examined the effect of exchange rate fluctuations on FDI in Nigeria using cointegration and error correction model. Their study, which focused on the period 1986 - 2020, found a significant negative correlation between exchange rate volatility and FDI. The researchers identified that currency depreciation in Nigeria, especially during oil price declines, has consistently discouraged foreign investment, primarily because of the risks associated with fluctuating currency values. They concluded that the Central Bank of Nigeria's monetary policies, including exchange rate interventions, played a significant role in influencing FDI inflows.

Akinola and Ojo (2024) conducted a study on the impact of exchange rate fluctuations on FDI in Nigeria, covering the period from 1995 to 2023. The authors employed the Panel Autoregressive Distributed Lag (P-ARDL) model for data analysis. The study found a significant negative relationship between exchange rate volatility and FDI in Nigeria, particularly during periods of drastic naira depreciation. Akinola and Ojo highlighted the critical role of oil price fluctuations in influencing exchange rate movements, which in turn affected FDI inflows. The study concluded that exchange rate policies aimed at reducing volatility would enhance Nigeria’s attractiveness to foreign investors, particularly in the manufacturing and service sectors

Godwin and Udeh (2021) assessed the impact of exchange rate fluctuations on FDI in Nigeria, with a focus on the period 2010 to 2020. Using regression analysis, the study found that exchange rate volatility, especially the widening gap between the official and parallel market rates, significantly hindered foreign investment. The research emphasized that exchange rate uncertainty had a more pronounced effect on foreign investments in the manufacturing and agriculture sectors, which are heavily reliant on stable exchange rates for cost management. Godwin and Udeh (2021) recommended that Nigeria implement a more consistent and transparent exchange rate policy to encourage sustained FDI inflows.

Obi (2020) focused on the long-term effects of exchange rate fluctuations on FDI in Nigeria from 2000 to 2019. The study used a cointegration test and error correction model (ECM) to analyze the data. The research found a statistically significant relationship between exchange rate fluctuations and FDI inflows, with a marked negative impact during times of severe naira depreciation. Obi concluded that the lack of currency predictability in Nigeria discouraged foreign investments, especially in non-oil sectors. The study recommended that Nigeria adopt exchange rate policies that reduce volatility to attract and retain foreign capital

Benson, Eya, and Yunusa (2019) conducted a study to investigate the relationship between exchange rate volatility and FDI in Nigeria for the period 2006 - 2018. The researchers employed the Autoregressive Distributed Lag (ARDL) model to account for both short-run and long-run effects. The study found a positive relationship between exchange rate volatility and FDI inflows, suggesting that exchange rate depreciation could potentially make Nigerian assets cheaper, thus attracting more foreign investments. However, the study also highlighted the importance of stable inflation and consistent economic policies for sustained FDI inflows. The results indicated that exchange rate stability, coupled with macroeconomic stability, is necessary for foreign investors to confidently enter the Nigerian market. Uzoma-Nwosu and Orekoya (2019) explored the effect of exchange rate volatility on FDI inflows in Nigeria from 1990 to 2016. The authors employed the Generalized Method of Moments (GMM) technique for data analysis, incorporating both domestic factors such as inflation and external factors like global oil price fluctuations. The study concluded that exchange rate volatility negatively affected FDI, especially in manufacturing and agriculture, where foreign investors are more sensitive to currency risks. Their findings emphasized the need for Nigeria to manage its currency fluctuations through robust economic policies to mitigate investment risks.

Asmae and Ahmed (2019) conducted a comparative study on the impact of exchange rate volatility on FDI in Nigeria and other emerging economies, including Morocco and Turkey, between 2000 and 2017. The study employed panel data regression models to examine how exchange rate volatility influenced FDI in these economies. Their results revealed that, although exchange rate volatility had a significant negative impact on FDI in all the three countries, Nigeria was particularly vulnerable due to its reliance on oil exports. The study suggested that managing exchange rate stability through policy reforms could improve Nigeria's attractiveness to foreign investors.

Zakari (2017) carried out a study to examine the impact of exchange rate fluctuations on FDI in Nigeria for the period 1990 - 2015. The study utilized Vector Autoregressive (VAR) model to analyze the relationship between exchange rate volatility, oil prices, and FDI. The findings revealed that exchange rate fluctuations have a significant negative impact on FDI, particularly due to Nigeria's heavy dependence on oil exports. The study further found that exchange rate instability led to increased risks for foreign investors, making Nigeria a less attractive destination for investment. The results suggested that exchange rate stability is crucial for attracting sustainable foreign capital into Nigeria's non-oil sectors.

Akinlo (2015) found mixed evidence, showing that volatility's impact depends on macroeconomic policy credibility. Recent works, including Asiedu (2020) and Olaniyi and Aluko (2022), stress the importance of consistent foreign exchange policies for sustaining investor confidence. This paper builds on these findings by explicitly modelling volatility and testing causality relationships using modern econometric methods.

Despite the extensive literature on FDI determinants, relatively few studies on Nigeria explicitly distinguish between exchange rate levels and exchange rate volatility. Most existing studies focus on exchange rate movements without adequately

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capturing the uncertainty associated with such fluctuations. This study addresses this gap by explicitly modeling exchange rate volatility using a rolling standard deviation approach and integrating it with key macroeconomic variables and structural reform indicators within a unified empirical framework.

The Model

The Asset Specificity Theory, proposed by Williamson (1985) was adopted in this paper as the theoretical framework. This theory suggests that foreign investors are more likely to invest in countries where the returns on their investments are protected from external risks, such as exchange rate fluctuations. The Augmented Dickey Fuller (ADF) unit root test was used for testing the order of integration of the variables. The Johansen cointegration test was used for capturing the long-run equilibrium relationship.

The error correction model was used in this study because of its ability to trace the speed of adjustment of the short-run dynamics of the variables and timing to long run convergence.

The functional form of the model was expressed as:

$$FDI = f(EXRVt, EXR, INF, GEX, D) \qquad (1)$$

Equation (1) was transformed to equation (2)

$$FDIt = \beta 0 + \beta 1\Delta\ EXRV + \beta 2\Delta EXR + \beta 3\Delta INF + \beta 4\Delta GEX\_t + \beta 5D\_t + \beta 6ECM + \mu t \qquad (2)$$

Where;
f = Functional Relationship
FDI = Foreign Direct Investment
EXRVt = Exchange Rate Variations
EXR = Exchange Rate
INF = Inflation Rate
GEX = Government Expenditures
D = Dummy Variable (Representing the Pre-and Post Reform)
D = 0 for the period before the reform 1980 – 1985
Δ denotes the first-order time difference (i.e. Δy, = yt - yt-1) and where is a sequence of independent and identically distributed random variables with mean zero and variance.

To improve estimation properties, the model was expressed in log-linear form:

$$\ln FDI_t = \beta_0 + \beta_1 EXRV_t + \beta_2 \ln EXR_t + \beta_3 INF_t + \beta_4 \ln GEX_t + \beta_5 DUMMY_t + \varepsilon_t$$

where: ln = log

Exchange rate volatility (EXRV_t) is proxied by the rolling standard deviation of the logarithmic returns of the nominal exchange rate over a specified window. Formally:

$$EXRV_t = \sqrt{\frac{1}{n-1}\sum_{i=1}^{n}(r_{t-i} - \bar{r})^2}$$

Where $r_t = \ln(EXR_t) - \ln(EXR_{t-1})$ represents exchange rate returns, and n denotes the rolling window size

This approach is widely used in the empirical literature due to its simplicity, transparency, and minimal data requirements. The data used in this paper were sourced from the Central Bank of Nigeria's statistical Bullentin 2024.

Results

Descriptive statistics was estimated to find the distribution of the data. The test examined the mean, the median, the maximum, the minimum, standard deviation and other distribution properties. The result of the descriptive statistics were presented in Table 1

Table 1: Summary of Descriptive Statistics

Variable	Mean	Std.Dev	Minimum	Maximum
FDI	2784.21	1345.56	890.00	6120.30
EXR	165.44	242.30	0.89	850.00
ERV	2.15	1.34	0.22	6.87
INF	18.60	10.30	5.00	76.80
GEX	312.50	102.40	112.30	510.60

The descriptive statistics indicate substantial variability across all key macroeconomic indicators over the study period. FDI inflows exhibit

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pronounced dispersion, reflecting the episodic nature of capital inflows into Nigeria, often influenced by global commodity cycles and domestic policy shifts. Exchange rate levels (EXR) and exchange rate volatility (ERV) display wide fluctuations, confirming the persistent instability of Nigeria's foreign exchange market. Inflation also shows considerable variation, reinforcing evidence of recurrent macroeconomic instability over the sample period. Overall, the observed variability across variables justifies the use of time-series econometric techniques capable of capturing both short-run dynamics and long-run equilibrium relationships.
Johansen Co-integration test was also carrried out and its results were presented with the aid of Table 2.

Table 2: Johansen Cointegration Test (Trace Test)

Hypothesis	Eigenvalue	Trace Statistic	Critical Value (5%)	Probability
None	0.772237	100.8691	69.81889	0.0000
At most 1	0.574121	60.92397	47.85613	0.0019
At most 2	0.505767	37.87676	29.79707	0.0047
At most 3	0.352194	18.84857	15.49471	0.0150
At most 4	0.231973	7.126121	3.841466	0.0076

The Johansen cointegration results indicate the existence of multiple long-run equilibrium relationships among the variables. Specifically, the trace statistics exceed the 5% critical values at all tested ranks, leading to rejection of the null hypothesis of no cointegration.

This confirms that FDI, exchange rate volatility, exchange rate level, inflation, government expenditure, and structural reforms move together in the long run, implying that a stable long-run relationship exists despite short-run fluctuations.

The result of the Vector Error Correction (VEC) model was shown in Table 3 to show the speed of adjustment (ECM-1)

Table 3: Error Correction Term

Variable	Coefficient	Std. Error	t-Statistic
ECM(-1)	-0.103135	0.05563	-1.85380

The error correction term was negative and this is consistent with theoretical expectations. This confirms the existence of a long-run equilibrium relationship among the variables.The coefficient implies that approximately 10.3% of short-run disequilibrium is corrected annually, suggesting a relatively slow speed of adjustment toward long-run equilibrium. This indicates that shocks to FDI and macroeconomic variables persist for several periods before convergence is restored.

Table 4.4: OLS Regression Results

Variable	Coefficient	Std. Error	Probability
Constant	3725.95	3729.81	0.218
ERV	-89.35	124.66	0.474
EXR	25.24	33.95	0.457
INF	-81.05	31.95	0.011**
GEX	-0.48	1.22	0.693
DUMMY	3900.27	1650.41	0.018**

(Significant at 5% level)

The results reveal that exchange rate volatility (ERV) has a negative but statistically insignificant effect on FDI inflows. This suggests that, within the Nigerian context, exchange rate uncertainty does not constitute a primary determinant of foreign investment decisions.

Similarly, the exchange rate level (EXR) is statistically insignificant, indicating that currency depreciation or appreciation alone does not significantly drive FDI inflows.

Inflation exerts a negative and statistically significant effect on FDI, confirming that macroeconomic instability discourages foreign investment. This finding is consistent with theoretical expectations and supports the argument that inflation signals weak economic fundamentals. Government expenditure is negative but insignificant, suggesting limited direct influence on FDI during the period under review. In contrast, the structural reform dummy variable is positive and statistically significant, indicating that

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post-1986 reforms significantly improved Nigeria's investment climate and enhanced FDI attractiveness.
The result of the Granger Causality test was presented with the aid of Table 5

Table 5: Granger Causality Test (Lag 2)

Null Hypothesis	F-Statistic	Probability	Conclusion
ERV → FDI	0.38479	0.6833	No causality
FDI → ERV	1.26782	0.2934	No causality

Extended Results (Lags 1–4)

Direction	F-Statistic	Probability
ERV → FDI	0.13	0.88
FDI → ERV	2.82	0.07*

(Weak significance at 10%)

Interpretation:
The Granger causality results indicate no strong evidence of causality between exchange rate volatility and FDI inflows. However, weak unidirectional causality from FDI to exchange rate volatility is observed at longer lags (10% significance level), suggesting limited feedback effects from investment flows to exchange rate dynamics. Overall, the results reinforce the absence of a dynamic causal relationship between exchange rate volatility and FDI in Nigeria

Breusch-Godfrey Test of Serial Correlation was carried out and its results were presented in Table 6

Table 6:Serial Correlation (Breusch-Godfrey Test)

Statistic	Value	Probability
F-statistic	4.9959	0.0188
Obs*R^2	9.6378	0.0081

The presence of serial correlation suggests potential model specification issues or omitted variables. This implies that while the core relationships are statistically meaningful, the model may not fully capture all dynamics influencing FDI.

Accordingly, results should be interpreted with caution, and future research may consider incorporating additional structural or external variables to improve model robustness.

The empirical results consistently indicate that exchange rate volatility does not exert a statistically significant influence on foreign direct investment in Nigeria. This finding challenges the conventional theoretical expectation that exchange rate uncertainty deters investment, and instead supports the view that multinational investors may be more concerned with broader macroeconomic fundamentals.

Inflation emerges as a key determinant of FDI, exerting a significant negative effect. This reinforces the importance of macroeconomic stability in shaping investor confidence and aligns with theoretical expectations from inflation-uncertainty literature. The positive and significant effect of structural reforms highlights the importance of policy credibility and economic liberalization in attracting foreign investment. This suggests that institutional and policy factors may play a more decisive role than exchange rate volatility in the Nigerian context. Overall, the findings support the broader conclusion that macroeconomic stability and policy consistency are more important determinants of FDI inflows than exchange rate fluctuations.

III. CONCLUSION

In conclusion, the study reveals that exchange rate fluctuations, exchange rate reforms, and their relationship with foreign direct investment (FDI) in Nigeria do not exhibit significant effects. Specifically, exchange rate fluctuations do not appear to influence FDI, nor is there any causality between the two. Additionally, exchange rate reforms have not had a notable impact on FDI inflows. These findings suggest that FDI in Nigeria is likely driven by factors beyond exchange rate movements, such as the country's market size, natural resources, political stability, and infrastructure. Therefore, policies aimed at improving the overall business environment and addressing structural challenges may be more effective in attracting FDI than focusing on exchange rate management alone.

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Based on the findings this paper concluides that of the study, the following recommendations are proffered. The government and Central Bank of Nigeria (CBN) should focus on sustaining low inflation and maintaining stable fiscal and monet-ary policies to build investor confiden In conclusion, the study reveals that exchange rate fluctuations, exchange rate reforms, and their relationship with foreign direct investment (FDI) in Nigeria do not exhibit significant effects. Specifically, exchange rate fluctuations do not appear to influence FDI, nor is there any causality between the two. Additionally, exchange rate reforms have not had a notable impact on FDI inflows. These findings suggest that FDI in Nigeria is likely driven by factors beyond exchange rate movements, such as the country's market size, natural resources, political stability, and infrastructure. Therefore, policies aimed at improving the overall business environment and addressing structural challenges may be more effective in attracting FDI than focusing on exchange rate management alone.

Based on the findings of this paper recommends that government and Central Bank of Nigeria (CBN) should focus on sustaining low inflation and maintaining stable fiscal and monet-ary policies to build investor confidence. The government should be intensified to improve infrastructure, strengthen institutions, ensure political stability, and simplify regulatory frameworks to make Nigeria more attractive to foreign investors. There os need

3. Maintain a Predictable Exchange Rate Policy: While volatility itself may not be the main issue, policy inconsistency and a wide gap between official and parallel market rates create uncertainty. The CBN should work towards a more transparent and unified exchange rate system

This study examined the impact of exchange rate volatility on foreign direct investment (FDI) in Nigeria over the period 1980–2023 within a multivariate time-series framework. Using a combination of Johansen cointegration analysis, a vector error correction model (VECM), and Granger causality tests, the study assessed both the long-run and short-run dynamics between FDI and key macroeconomic variables.

The empirical results indicate that exchange rate volatility does not exert a statistically significant effect on FDI inflows in Nigeria. This suggests that, contrary to conventional theoretical expectations, exchange rate uncertainty is not a primary determinant of foreign investment decisions in the Nigerian context. Instead, macroeconomic fundamentals play a more decisive role.

In particular, inflation is found to have a significant negative effect on FDI, highlighting the importance of price stability in attracting foreign capital. Furthermore, structural reforms introduced after 1986 are positively associated with FDI inflows, indicating that policy liberalization and improved economic governance have contributed to enhancing Nigeria's investment climate. Overall, the findings suggest that FDI inflows in Nigeria are driven more by macroeconomic stability and policy credibility than by exchange rate volatility.

The results of this study carry several important policy implications for sustaining and enhancing FDI inflows into Nigeria. Given the significant negative effect of inflation on FDI, monetary authorities; the Central Bank of Nigeria, should reinforce inflation-targeting mechanisms and improve coordination between monetary and fiscal policy to ensure price stability. The positive impact of structural reforms suggests that investors respond strongly to credible and stable policy environments. Sustained commitment to predictable macroeconomic policies will help reduce uncertainty and enhance investor confidence.

Beyond macroeconomic variables, weak institutions can undermine investment attractiveness. Enhancing regulatory transparency, reducing bureaucratic bottlenecks, and improving governance structures will further support FDI inflows.

Fourth, reducing structural rigidities in the economy remains important Structural constraints such as infrastructure deficits, energy shortages, and inefficiencies in the business environment continue to limit Nigeria's attractiveness as an investment destination. Addressing these bottlenecks will complement macroeconomic stabilization efforts.

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